

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 March 31, 2019

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

Commission File Number: 000-25909

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

Nevada

(State or other jurisdiction of
incorporation or organization)

86-0931332

(I.R.S. Employer
Identification Number)

985 Poinsettia Avenue, Suite A, Vista, California

(Address of principal executive offices)

92081

(Zip Code)

877-505-3589

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Emerging growth company

Accelerated filer

Smaller reporting 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

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

Class

Common Stock, \$0.001 par value

Outstanding as of May 10, 2019

51,000,868

FLUX POWER HOLDINGS, INC.
FORM 10-Q
For the Quarterly Period Ended March 31, 2019
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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 entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. These risks and uncertainties include, but are not limited to, the factors described in the section captioned “Risk Factors” below. In some cases, you can identify forward-looking statements by terms such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “would,” and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. These forward-looking statements include, among other things, statements relating to:

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

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

Use of Certain Defined Terms

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

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

PART I - Financial Information

Item 1. Financial Statements

**FLUX POWER HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS**

	<u>March 31, 2019</u> <u>(Unaudited)</u>	<u>June 30, 2018</u>
ASSETS		
Current assets:		
Cash	\$ 900,000	\$ 2,706,000
Accounts receivable	997,000	946,000
Inventories	3,618,000	1,512,000
Other current assets	<u>141,000</u>	<u>92,000</u>
Total current assets	5,656,000	5,256,000
Other assets		
Property, plant and equipment, net	<u>242,000</u>	<u>87,000</u>
Total assets	<u>\$ 5,924,000</u>	<u>\$ 5,369,000</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 1,614,000	\$ 417,000
Accrued expenses	712,000	391,000
Line of credit - related party	3,405,000	10,380,000
Convertible promissory note - related party	-	500,000
Capital lease payable	29,000	-
Accrued interest	<u>384,000</u>	<u>1,014,000</u>
Total current liabilities	6,144,000	12,702,000
Long term liabilities:		
Capital lease payable	36,000	
Customer deposits from related party	<u>89,000</u>	<u>102,000</u>
Total liabilities	<u>6,269,000</u>	<u>12,804,000</u>
Commitments and contingencies (Note 8)		
Stockholders' deficit:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; none issued and outstanding	-	-
Common stock, \$0.001 par value; 300,000,000 shares authorized; 51,000,000 and 31,061,000 shares issued and outstanding at March 31, 2019 and June 30, 2018, respectively	51,000	31,000
Additional paid-in capital	35,405,000	19,196,000
Accumulated deficit	<u>(35,801,000)</u>	<u>(26,662,000)</u>
Total stockholders' deficit	<u>(345,000)</u>	<u>(7,435,000)</u>
Total liabilities and stockholders' deficit	<u>\$ 5,924,000</u>	<u>\$ 5,369,000</u>

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 March 31,		Nine months ended March 31,	
	2019	2018	2019	2018
Net revenue	\$ 1,751,000	\$ 1,666,000	\$ 6,297,000	\$ 3,020,000
Cost of sales	1,690,000	1,816,000	5,968,000	3,728,000
Gross profit (loss)	61,000	(150,000)	329,000	(708,000)
Operating expenses:				
Selling and administrative expenses	2,421,000	909,000	5,518,000	2,378,000
Research and development	1,364,000	483,000	2,892,000	1,441,000
Total operating expenses	3,785,000	1,392,000	8,410,000	3,819,000
Operating loss	(3,724,000)	(1,542,000)	(8,081,000)	(4,527,000)
Other income (expense):				
Interest expense	(90,000)	(211,000)	(1,058,000)	(512,000)
Net loss	\$ (3,814,000)	\$ (1,753,000)	\$ (9,139,000)	\$ (5,039,000)
Net loss per share - basic and diluted	\$ (0.08)	\$ (0.07)	\$ (0.22)	\$ (0.20)
Weighted average number of common shares outstanding - basic and diluted	50,769,673	25,112,349	41,054,334	25,142,039

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

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

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Capital Stock Amount</u>			
Balance at June 30, 2018	<u>31,060,000</u>	<u>31,000</u>	<u>\$ 19,196,000</u>	<u>(26,662,000)</u>	<u>(7,435,000)</u>
Issuance of common stock - services	39,000	-	152,000	-	152,000
Warrant exchange for common stock	12,000	-	-	-	-
Stock based compensation	-	-	164,000	-	164,000
Net loss	-	-	-	(2,401,000)	(2,401,000)
Balance at September 30, 2018	<u>31,111,000</u>	<u>31,000</u>	<u>19,512,000</u>	<u>(29,063,000)</u>	<u>(9,520,000)</u>
Issuance of common stock - services	38,000	-	56,000	-	56,000
Issuance of common stock - conversion of related party debt to equity	15,797,000	16,000	10,069,000	-	10,085,000
Warrant exchange for common stock	24,000	-	-	-	-
Issuance of common stock - private placement transactions, net	3,359,000	3,000	3,692,000	-	3,695,000
Stock based compensation	-	-	243,000	-	243,000
Net loss	-	-	-	(2,924,000)	(2,924,000)
Balance at December 31, 2018	<u>50,329,000</u>	<u>50,000</u>	<u>33,572,000</u>	<u>(31,987,000)</u>	<u>1,635,000</u>
Issuance of common stock - services	38,000	-	51,000	-	51,000
Issuance of common stock - private placement transactions, net	633,000	1,000	696,000	-	697,000
Stock based compensation	-	-	1,086,000	-	1,086,000
Net loss	-	-	-	(3,814,000)	(3,814,000)
Balance at March 31, 2019	<u>51,000,000</u>	<u>51,000</u>	<u>35,405,000</u>	<u>(35,801,000)</u>	<u>(345,000)</u>
	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Capital Stock Amount</u>			
Balance at June 30, 2017	<u>25,086,000</u>	<u>25,000</u>	<u>14,923,000</u>	<u>(19,697,000)</u>	<u>(4,749,000)</u>
Issuance of common stock - services	23,000	-	12,000	-	12,000
Stock based compensation	-	-	11,000	-	11,000
Net loss	-	-	-	(1,446,000)	(1,446,000)
Balance at September 30, 2017	<u>25,109,000</u>	<u>25,000</u>	<u>14,946,000</u>	<u>(21,143,000)</u>	<u>(6,172,000)</u>
Stock based compensation	-	-	153,000	-	154,000
Net loss	-	-	-	(1,839,000)	(1,839,000)
Balance at December 31, 2017	<u>25,109,000</u>	<u>25,000</u>	<u>15,100,000</u>	<u>(22,982,000)</u>	<u>(7,857,000)</u>
Issuance of common stock - services	47,000	-	23,000	-	23,000
Issuance of common stock - private placement transactions, net	286,000	-	200,000	-	200,000
Stock based compensation	-	-	44,000	-	44,000
Net loss	-	-	-	(1,753,000)	(1,753,000)
Balance at March 31, 2018	<u>25,442,000</u>	<u>25,000</u>	<u>15,367,000</u>	<u>(24,735,000)</u>	<u>(9,343,000)</u>

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

	Nine Months Ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net loss	\$ (9,139,000)	\$ (5,039,000)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	54,000	41,000
Stock-based compensation	1,492,000	209,000
Stock issuance for services	259,000	35,000
Changes in operating assets and liabilities:		
Accounts receivable	(51,000)	(892,000)
Inventories	(2,106,000)	135,000
Other current assets	(49,000)	47,000
Accounts payable	1,197,000	261,000
Accrued expenses	321,000	3,000
Accrued interest	980,000	535,000
Customer deposits	(13,000)	(14,000)
Net cash used in operating activities	<u>(7,055,000)</u>	<u>(4,679,000)</u>
Cash flows from investing activities		
Purchases of equipment	(144,000)	(59,000)
Net cash used in investing activities	<u>(144,000)</u>	<u>(59,000)</u>
Cash flows from financing activities:		
Proceeds from the sale of common stock	4,393,000	200,000
Repayment of line of credit - related party debt	(2,500,000)	-
Proceeds from line of credit – related party	3,500,000	4,545,000
Net cash provided by financing activities	<u>5,393,000</u>	<u>4,745,000</u>
Net change in cash	(1,806,000)	7,000
Cash, beginning of period	<u>2,706,000</u>	<u>121,000</u>
Cash, end of period	<u>\$ 900,000</u>	<u>\$ 128,000</u>
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Common stock issued for conversion of related party debt	<u>\$ 8,475,000</u>	<u>\$ -</u>
Common stock issued for conversion of accrued interest	<u>\$ 1,610,000</u>	<u>\$ -</u>
Stock issuance for services	<u>\$ 259,000</u>	<u>\$ 35,000</u>
Equipment purchase through capital lease	<u>\$ 65,000</u>	<u>\$ -</u>

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

FLUX POWER HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2019
(Unaudited)

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, 2018 filed with the SEC on September 26, 2018. 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, 2018 has been derived from the audited balance sheet at June 30, 2018 contained in such Form 10-K.

Nature of Business

Flux Power Holdings, Inc. designs, develops and sells rechargeable advanced lithium-ion batteries for industrial equipment. As used herein, the terms “we”, “us”, “our”, “Flux” and “Company” refer to Flux Power Holdings, Inc. and our wholly owned subsidiary, Flux Power, Inc. (“Flux Power”), unless otherwise indicated. We have structured our business around our core technology, “The Battery Management System” (“BMS”) and the development of a scalable product line that can accommodate a variety of applications. Our BMS provides four critical functions to our battery systems: cell balancing, monitoring, error reporting and over discharge prevention. The modular and scalable nature of our flagship battery pack, the LiFT Pack, utilized in Class 3 walkie pallet jacks, has provided for a natural transition into the production of battery packs used in other types of forklifts such as the Class 1 ride-on trucks, Class 2 narrow aisle trucks and order pickers and Class 3 end riders, as well as, ground support equipment (“GSE”). Using our proprietary management technology, we are able to offer complete integrated energy storage solutions or custom modular standalone systems to our customers. We have also developed a suite of complementary technologies and products that accompany our core products. Sales have been primarily to customers located throughout the United States.

NOTE 2 – LIQUIDITY AND GOING CONCERN

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred an accumulated deficit of \$35,801,000 through March 31, 2019 and had a net loss of \$3,814,000 and \$9,139,000 for the three and nine month ended March 31, 2019, respectively. To date, our revenues and operating cash flows have not been sufficient to sustain our operations and we have relied on debt and equity financing to fund our operations. These factors raise substantial doubt about our ability to continue as a going concern for the twelve months following the filing date of our Quarterly Report on Form 10-Q, May 10, 2019. Our ability to continue as a going concern is dependent upon our ability to raise additional capital on a timely basis until such time as revenues and related cash flows are sufficient to fund our operations.

Management has undertaken steps to improve operations with the goal of sustaining our operations. These steps include (a) developing additional products to serve the Class 1 and Class 2 industrial equipment markets; (b) expand our sales efforts; and (c) improve gross margins. In that regard, we have increased our research and development efforts to focus on completing the development of energy storage solutions that can be used on larger forklifts and have implemented additional marketing efforts. Those efforts have resulted in ongoing evaluations of battery packs on larger forklifts and ground support equipment (“GSE”) along with commercial sales of GSE packs, End Rider packs, Class 2 packs and Class 1 packs.

We have evaluated our expected cash requirements over the next twelve months, which include, but are not limited to, investments in additional sales, marketing, and product development resources, capital expenditures, and working capital requirements and have determined that our existing cash resources are not sufficient to meet our anticipated needs during the next twelve months, and that additional financing is required to support current operations. Based on our current and planned levels of expenditure, we estimate that total financing proceeds of approximately \$13,100,000 will be required to fund current and planned operations for the twelve months following the filing date of this Quarterly Report on Form 10-Q. In addition, we anticipate that further additional financing may be required to fund our business plan subsequent to that date, until such time as revenues and related cash flows become sufficient to support our operating costs.

We intend to continue to seek capital through the sale of equity securities through private or public placements and debt placements.

Although management believes that the additional required funding will be obtained, there is no guarantee we will be able to obtain the additional required funds on a timely basis or that funds will be available on terms acceptable to us. If such funds are not available when required, management will be required to curtail its investments in additional sales, marketing, and product development resources, and capital expenditures, which may have a material adverse effect on our future cash flows and results of operations, and our ability to continue operating as a going concern. The accompanying financial statements do not include any adjustments that would be necessary should we be unable to continue as a going concern and, therefore, be required to liquidate our assets and discharge our liabilities in other than the normal course of business and at amounts that may differ from those reflected in the accompanying condensed consolidated financial statements.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 3, "Summary of Significant Accounting Policies," in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2018. There have been no material changes in these policies or their application.

Reclassifications

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

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 March 31, 2019 and 2018, basic and diluted weighted-average common shares outstanding were 50,769,673 and 25,112,349, respectively. For the nine months ended March 31, 2019 and 2018, basic and diluted weighted-average common shares outstanding were 41,054,334 and 25,142,039, respectively. The Company incurred a net loss for the three and nine months ended March 31, 2019 and 2018, and therefore, basic and diluted loss per share for the periods are the same because the inclusion of potential common equivalent shares were excluded from diluted weighted-average common shares outstanding during the period, as the inclusion of such shares would be anti-dilutive. The total potentially dilutive common shares outstanding at March 31, 2019 and 2018, excluded from diluted weighted-average common shares outstanding, which include common shares underlying outstanding convertible debt, stock options and warrants, were 5,923,106 and 17,987,632, respectively.

Income Taxes

We follow the liability method of accounting for income taxes under which deferred tax assets and liabilities are recognized for the future tax consequences of (i) temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements and (ii) operating loss and tax credit carry-forwards for tax purposes. Deferred tax assets are reduced by a valuation allowance when, based upon management's estimates, it is more likely than not that a portion of the deferred tax assets will not be realized in a future period. We recognized a full valuation allowance as of March 31, 2019 and June 30, 2018 and have not recognized any tax provision or benefit for any of the periods presented. We review our tax positions quarterly for tax uncertainties. We did not have any uncertain tax positions as of March 31, 2019 or June 30, 2018.

In December 2017, the United States ("U.S.") enacted the Tax Cuts and Jobs Act (the "2017 Act"), which changes existing U.S. tax law and includes various provisions that are expected to affect companies. Among other things, the 2017 Act reduces the top U.S. corporate income tax rate from 35.0% to 21.0%, and makes changes to certain other business-related exclusions, deductions and credits. The Company has assessed the impact of the tax bill on the financial statements as of June 30, 2018 and has determined it to be immaterial. Due to the Company's full valuation allowance, the tax effects of any changes are not expected to have a material impact on our consolidated financial statements.

NOTE 4 - RELATED PARTY DEBT AGREEMENTS

Esenjay Credit Facilities

Between October 2011 and September 2012, the Company entered into three debt agreements with Esenjay Investments, LLC ("Esenjay"). Esenjay is deemed to be a related party as Mr. Michael Johnson, the beneficial owner and director of Esenjay, is a current member of our board of directors and a major shareholder of the Company (owning approximately 61.3% of our outstanding common shares as of March 31, 2019). The three debt agreements consisted of a Bridge Loan Promissory Note, a Secondary Revolving Promissory Note and an Unrestricted Line of Credit (collectively, the "Loan Agreements"). On December 31, 2015, the Bridge Loan Promissory Note and the Secondary Revolving Promissory Note expired, leaving the Unrestricted Line of Credit available for future draws.

The Unrestricted Line of Credit had a maximum borrowing amount of \$10,000,000, was convertible at a rate of \$0.60 per share, bore interest at 8% per annum and was converted to the company's common stock on October 31, 2018 prior to maturity on January 31, 2019.

On March 22, 2018, Flux Power entered into a credit facility agreement with Esenjay with a maximum borrowing amount of \$5,000,000. Proceeds from the credit facility are to be used to purchase inventory and related operational expenses and accrue interest at a rate of 15% per annum (the "Inventory Line of Credit"). The outstanding balance of the Inventory Line of Credit and all accrued interest is due and payable on March 31, 2019. Funds received from Esenjay since December 5, 2017 were transferred to the Inventory Line of Credit resulting in \$1,755,000 outstanding as of March 31, 2018 and \$3,245,000 available for future draws.

On October 31, 2018, the Company entered into an Early Note Conversion Agreement (the "Early Note Conversion Agreement") with Esenjay, pursuant to which Esenjay agreed to immediately exercise its conversion rights under the Unrestricted and Open Line of Credit, dated September 24, 2012 to convert the outstanding principal amount of \$7,975,000 plus accrued and unpaid interest of \$1,041,280 for 15,027,134 shares of the Company's common stock. The Company followed FASB ASC Topic No.470, *Debt* to record the early conversion of debt to equity. The Early Note Conversion Agreement had an induced conversion which included issuance of 268,018 additional shares of common stock and recorded as interest expense at the stock's fair value of \$466,351 at October 31, 2018.

During the three and nine months ended March 31, 2019, the Company recorded approximately \$90,000 and \$1,058,000, respectively of interest expense in the accompanying condensed consolidated statements of operations related to the Unrestricted Line of Credit and Inventory Line of Credit. Advances under both the Unrestricted Line of Credit and Inventory Line of Credit are made solely at the discretion of Esenjay and are secured by substantially all of Flux's tangible and intangible assets.

Shareholder Convertible Promissory Note

On April 27, 2017, we formalized an oral agreement for advances totaling \$500,000, received from a shareholder (“Shareholder”) into a written Convertible Promissory Note (the “Convertible Note”). Borrowings under the Convertible Note accrue interest at 12% per annum, with all unpaid principal and accrued interest due and payable on October 27, 2018. In addition, at the election of Shareholder, all or any portion of the outstanding principal, accrued but unpaid interest and/or late charges under the Convertible Note may be converted into shares of the Company’s common stock at a conversion price of \$1.20 per share; provided, however, the Shareholder shall not have the right to convert any portion of the Convertible Note to the extent that the Shareholder would beneficially own in excess of 5% of the total number of shares of common stock outstanding immediately after giving effect to the issuance of shares of common stock issuable upon conversion of the Convertible Note.

On October 25, 2018, the Company and the Shareholder entered into an amendment to the Convertible Promissory Note. The amendment (i) extended the maturity date of the Convertible Note from October 27, 2018 to February 1, 2019 and (ii) allowed for the automatic conversion of the Convertible Note immediately following the full conversion of the line of credit granted by Esenjay to the Company under the Esenjay Loan into shares of Common Stock of the Company. As a result of the conversion of the Esenjay Loan on October 31, 2018, the Shareholder Convertible Note of \$500,000 plus accrued interest of \$102,510 automatically converted into 502,091 shares of common stock.

Shareholder Short Term Lines of Credit

On October 26, 2018, the Company entered into a credit facility agreement with Cleveland Capital, L.P., a Delaware limited partnership (“Cleveland”), our minority shareholder, pursuant to which Cleveland agreed to make available to Flux a line of credit (“Cleveland LOC”) in a maximum principal amount at any time outstanding of up to Two Million Dollars (\$2,000,000) with a maturity date of December 31, 2018. The Cleveland LOC has an origination fee in the amount of Twenty Thousand Dollars (\$20,000), which represents one percent (1%) of the Cleveland LOC, and carries a simple interest of twelve percent (12%) per annum. Interest is calculated on the basis of the actual daily balances outstanding under the Cleveland LOC. The Cleveland LOC was paid back December 27, 2018.

On October 31, 2018, Flux entered into a credit facility agreement with a shareholder, (“Investor”), pursuant to which Investor agreed to make available to Flux a line of credit (“Investor LOC”) in a maximum principal amount at any time outstanding of up to Five Hundred Thousand Dollars (\$500,000) with a maturity date of December 31, 2018. The Investor LOC had an origination fee in the amount of Five Thousand Dollars (\$5,000), which represents one percent (1%) of the Investor LOC, and carries a simple interest of twelve percent (12%) per annum. Interest is calculated on the basis of the actual daily balances outstanding under the Investor LOC. The Investor LOC was paid back December 28, 2018.

Amended Credit Facility

On March 28, 2019, the Company, entered into an amended and restated credit facility agreement (“Amended and Restated Credit Facility Agreement”) with Esenjay Investments, LLC, (“Esenjay”) and, Cleveland Capital, L.P., a Delaware limited partnership and a minority stockholder of the Registrant (“Cleveland” and Esenjay, together with additional parties that may join as a lender, the “Lenders”) to amend and restate the terms of the Credit Facility Agreement dated March 22, 2018 between the Company and Esenjay (the “Original Agreement”) in its entirety.

The Original Agreement was amended, among other things, to (i) increase the maximum principal amount available under line of credit from \$5,000,000 to \$7,000,000 (“LOC”), (ii) add Cleveland as additional lender to the LOC pursuant to which each lender has a right to advance a pro rata amount of the principal amount available under the LOC, (iii) extend the maturity date from March 31, 2019 to December 31, 2019, and (iv) to provide for additional parties to become a “Lender” under the Amended and Restated Credit Facility Agreement. In connection with the LOC, on March 28, 2019 the Company issued a secured promissory note to Cleveland (the “Cleveland Note”), and an amended and restated secured promissory note to Esenjay which amended and superseded the secured promissory note dated March 22, 2018 (“Esenjay Note” and together with the Cleveland Note, the “Notes”). The Notes were issued for the principal amount of \$7,000,000 or such lesser principal amount advanced by the respective Lender under the Amended and Restated Credit Facility Agreement (the “Principal Amount”). The Notes bear an interest of fifteen percent (15%) per annum and a maturity date of December 31, 2019. The outstanding balance as of March 31, 2019 was \$3,405,000.

To secure the obligations under the Notes, the Company entered into an amended and restated credit facility agreement dated March 28, 2019 with the Lenders (the "Amended Security Agreement"). The Amended Security Agreement amends and restates the Guaranty and Security Agreement dated March 22, 2018 by and between Cleveland as a secured party to the agreement and appointing Esenjay as collateral agent.

NOTE 5 - STOCKHOLDERS' DEFICIT

Private Placement of Common Stock

In December 2018, our Board of Directors approved the private placement of up to 4,545,455 shares of our common stock to select accredited investors for a total amount of \$5,000,000, or \$1.10 per share of common stock with the right of the Board to increase the offering amount to \$7,000,000 (the "Offering"). On December 26, 2018, we completed an initial closing of the Offering, pursuant to which we sold an aggregate of 3,359,100 shares of common stock, at \$1.10 per share, for an aggregate purchase price of \$3,695,010 in cash. A portion of the proceeds from the Offering was used to repay in full approximately \$2.6 million in borrowings and accrued interest under two short-term credit facilities provided by Cleveland Capital, L.P. and a shareholder. The shares offered and sold in the Offering have not been registered under the Securities Act of 1933, as amended ("Securities Act"), and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act. The shares were offered and sold to the accredited investors in reliance upon exemptions from registration pursuant to Rule 506(c) of Regulation D promulgated under Section 4(a)(2) under the Securities Act.

On January 29, 2019, the Company conducted its final closing (the "Final Closing") to its round of private placement to accredited investors that initially closed on December 26, 2018 ("Initial Closing"). Following the Initial Closing to the Final Closing, the Company sold an additional 633,464 shares of its Common Stock ("Shares"), at \$1.10 per share, for an aggregate purchase price of \$696,810 to two accredited investors. In the aggregate, the Company issued 3,992,564 for an aggregate gross proceeds of approximately \$4.39 million. The Shares were issued on identical terms to those previously reported for the Initial Closing on the Company's Form 8-K filed with the Securities and Exchange Commission ("SEC") on December 28, 2018. The Company relied on the exemption from registration pursuant to Rule 506(c) of Regulation D promulgated under Section 4(a)(2) under the Securities Act of 1933, as amended.

Advisory Agreements

Catalyst Global LLC. Effective April 1, 2018, we entered into a renewal contract (the "2018 Renewal") with Catalyst Global LLC to provide investor relations services for 12 months in exchange for monthly fees of \$4,500 per month and 34,840 shares of restricted common stock per quarter. The initial tranche of 8,710 shares was valued at \$1.70 or \$14,807 when issued on June 21, 2018, the second tranche of 8,710 shares was valued at \$2.01 or \$17,507 when issued September 28, 2018, the third tranche of 8,710 shares was valued at \$1.75 per share or \$15,243 when issued on December 31, 2018, and the fourth tranche of 8,710 shares was valued at \$1.31 per share or \$11,410 when issued on March 27, 2019. The 2018 Renewal is cancelable upon 60 days written notice.

Shenzhen Reach Investment Development Co. ("SRID"). On March 14, 2018, we entered into a consulting agreement with SRID to assist us with identifying strategic partners, suppliers and manufacturers in China for a term of 12 months. Included with the services is a two-week trip to China to meet with potential manufacturers, which took place in April 2018. In consideration for the services, we agreed to issue to SRID, up to 174,674 shares of restricted common stock valued at approximately \$80,000 over the course of the 12-month term. As of March 31, 2019, 174,674 shares have been issued.

Warrant Activity

Warrant detail for the nine months ended March 31, 2019 is reflected below:

	Number of Warrants	Weighted Average Exercise Price Per Warrant	Remaining Contract Term (# years)
Warrants outstanding and exercisable at June 30, 2018	1,740,790	\$ 2.03	0.74
Warrants issued	-	\$ -	-
Warrants forfeited	(1,657,457)	\$ 2.03	-
Warrants outstanding and exercisable at March 31, 2019	<u>83,333</u>	\$ 2.00	0.50

Stock-based Compensation

On November 26, 2014, our board of directors approved our 2014 Equity Incentive Plan (the “2014 Plan”), which was approved by our shareholders on February 17, 2015. The 2014 Plan offers selected employees, directors, and consultants the opportunity to acquire our common stock, and serves to encourage such persons to remain employed by us and to attract new employees. The 2014 Plan allows for the award of stock and options, up to 10,000,000 shares of our common stock.

On October 26, 2017, we granted 1,880,000 incentive stock options (“ISO”) of the Company’s common stock, with an estimated grant-date fair value of \$769,000, to 20 Company employees. The ISOs vest 25% on the grant date and then 6% per quarter for the following twelve quarters with all options expiring ten years from the date of grant. In addition, the Company issued 90,000 non-qualified stock options (“NQSO”) of the Company’s common stock, with an estimated grant-date fair value of \$37,000, to three members of its Board of Directors. The NQSOs vest 12.5% per quarter over a two-year period and expire ten years from the date of grant.

Between March 15, 2019 and March 18, 2019, we granted 1,975,000 incentive stock options (“ISO”) of the Company’s common stock, with an estimated grant-date fair value of \$2,686,000, to 34 Company employees. The ISOs vest 25% on the grant date and then 6% per quarter for the following twelve quarters with all options expiring ten years from the date of grant. In addition, the Company issued 90,000 non-qualified stock options (“NQSO”) of the Company’s common stock, with an estimated grant-date fair value of \$122,000, to three members of its Board of Directors. The NQSOs vest 25% on the grant date and then 6% per quarter for the following twelve quarters with all options expiring ten years from the date of grant.

Activity in stock options during the nine months ended March 31, 2019, 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, 2018	3,544,473	\$ 0.83	
Granted	2,478,960	1.44	
Exercised	-		
Forfeited and cancelled	(183,660)	0.46	
Outstanding at March 31, 2019	<u>5,839,773</u>	\$ 1.10	8.78
Exercisable at March 31, 2019	<u>2,669,193</u>	\$ 0.96	7.98

Activity in stock options during the nine months ended March 31, 2018 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, 2017	716,277	\$ 1.10	
Granted	1,970,000	0.46	
Exercised	-		
Forfeited and cancelled	(66,910)	\$ 0.62	
Outstanding at March 31, 2018	<u>2,619,367</u>	\$ 0.61	8.16
Exercisable at March 31, 2018	<u>1,228,654</u>	\$ 0.77	7.75

Stock-based compensation expense recognized in our condensed consolidated statements of operations for the three and nine months ended March 31, 2019 and 2018, includes compensation expense for stock-based options and awards granted based on the grant date fair value. For options and awards granted, expenses are amortized under the straight-line method over the expected vesting period. Stock-based compensation expense recognized in the condensed consolidated statements of operations has been reduced for estimated forfeitures of options that are subject to vesting. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Our average stock price during the nine months ended March 31, 2019 was \$1.82, and as a result the intrinsic value of the exercisable options at March 31, 2019 was approximately \$4,858,000.

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

	For the Three Months Ended March 31		For the Nine Months Ended March 31,	
	2019	2018	2019	2018
Research and development	\$ 225,000	\$ 16,000	\$ 256,000	\$ 80,000
General and administration	861,000	29,000	1,236,000	129,000
Total stock-based compensation expense	\$ 1,086,000	\$ 45,000	\$ 1,492,000	\$ 209,000

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:

Nine months ended March 31,	2019	2018
Expected volatility	111%	100%
Risk free interest rate	2.10%	1.76%
Forfeiture rate	20.0%	23.0%
Dividend yield	0%	0%
Expected term (years)	5	5

The remaining amount of unrecognized stock-based compensation expense at March 31, 2019 relating to outstanding stock options, is approximately \$2,595,000, which is expected to be recognized over the weighted average period of 2.11 years.

NOTE 6 - OTHER RELATED PARTY TRANSACTIONS

Transactions with Epic Boats

The Company subleases office and manufacturing space to Epic Boats (an entity founded and controlled by Chris Anthony, our founder and board member), in our facility in Vista, California pursuant to a month-to-month sublease agreement. Pursuant to this agreement, Epic Boats pays Flux Power 10% of facility costs through the end of our lease agreement.

The Company received \$5,000 and \$15,000, respectively during the three months and nine months ended March 31, 2019, from Epic Boats under the sublease rental agreement which is recorded as a reduction to rent expense and the customer deposits discussed below.

As of March 31, 2019 and June 30, 2018, customer deposits totaling approximately \$89,000 and \$102,000, respectively, were recorded in the accompanying condensed consolidated balance sheets. There were no receivables outstanding from Epic Boats as of March 31, 2019 and June 30, 2018.

Consulting Agreement

On February 15, 2018, we entered into an oral agreement with Chris Anthony, as an independent contractor, to assist us with evaluating potential suppliers of parts and/or sub-assembly manufacturers of our LiFT Packs. For his services, we agreed to pay him \$5,000 per month plus expenses. Either party may terminate this arrangement with or without cause upon notice to the other party. We believe that the fees for such services are reasonable and comparable to those charged by other firms for services rendered.

NOTE 7 - CONCENTRATIONS

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and unsecured trade accounts receivable. The Company maintains cash balances at a financial institution in San Diego, California. Our cash balance at this institution is secured by the Federal Deposit Insurance Corporation up to \$250,000. 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

We had certain customers whose revenue individually represented 10% or more of our total revenue, or whose accounts receivable balances individually represented 10% or more of our total accounts receivable, as follows:

During the three months ended March 31, 2019, we had two major customers that each represented more than 10% of our revenues on an individual basis, or approximately 59% in the aggregate. During the nine months ended March 31, 2019, we had four major customers that each represented more than 10% of our revenues on an individual basis, or approximately 80% in the aggregate.

During the three months ended March 31, 2018, we had two major customers that each represented more than 10% of our revenues on an individual basis, or approximately 92% in the aggregate. During the nine months ended March 31, 2018, we had two major customers that each represented more than 10% of our revenues on an individual basis, or approximately 85% in the aggregate.

Suppliers/Vendor Concentrations

We obtain many of the components and supplies included in our products from a small group of suppliers. During the three and nine months ended March 31, 2019 we had three suppliers who accounted for more than 10% of our total inventory purchases on an individual basis or approximately 67% and 63%, respectively, in the aggregate.

During the three and nine months ended March 31, 2018 we had four suppliers who accounted for more than 10% of our total inventory purchases on an individual basis or approximately 65% and 57%, respectively, in the aggregate.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

From time to time, we may be involved in routine legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of our business. The ultimate amount of liability, if any, for any claims of any type (either alone or in the aggregate) may materially and adversely affect our financial condition, results of operations and liquidity. In addition, the ultimate outcome of any litigation is uncertain. Any outcome, whether favorable or unfavorable, may materially and adversely affect us due to legal costs and expenses, diversion of management attention and other factors. We expense legal costs in the period incurred. We cannot assure you that contingencies of a legal nature or contingencies having legal aspects will not be asserted against us in the future, and these matters could relate to prior, current or future transactions or events. As of March 31, 2019, we are not a party to any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on our business, financial condition or operating results.

NOTE 9 - SUBSEQUENT EVENTS

On April 25, 2019 we signed a 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, commencing on or about August 2019. The lease contains an option to extend the term for two periods of twenty-four months, and the right of first refusal to lease an additional approximate 15,300 square feet. The monthly rental rate is \$42,400 for the first 12 months, escalating at 3% each year.

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

This information should be read in conjunction with the unaudited interim condensed consolidated financial statements and the notes thereto included in this Quarterly Report on Form 10-Q, and the audited financial statements and notes thereto and Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended June 30, 2018.

Overview

We design, develop and sell rechargeable advanced lithium-ion batteries for industrial uses, including our first-ever UL 2271 Listed lithium-ion "LiFT Pack" forklift batteries. We have developed an innovative high-power battery cell management system ("BMS") and have structured our business around this core technology. Our proprietary BMS provides three critical functions to our battery systems:

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

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

We currently focus our business on lift equipment. Lift equipment commonly called a forklift truck (also called a lift truck, a fork truck, or a forklift) is a powered industrial truck used to lift and transport materials. The modern forklift was developed in the 1960s by various companies including the transmission manufacturing company Clark and the hoist company Yale & Towne Manufacturing. The forklift has since become an indispensable piece of equipment in manufacturing and warehousing operations. Lift equipment is produced in a range of power capacities from smaller lift type equipment such as a Walkie (ie., pallet jack) to a ride-on forklift. A segment of forklifts, particularly larger forklifts, use propane with an internal combustion engine for power. This segment has been experiencing a secular decline, with a shift to electric powered forklifts. The larger fleets of forklifts more typically use battery powered forklifts. Lift equipment vehicles are not new technology and don't require new testing, which can cause delays in product placement. The existing lift equipment market primarily uses lead-acid batteries, which is a legacy technology and can lead to customer dissatisfaction with life cycles, performance, and additional maintenance costs. We believe the replacement of lead-acid batteries with lithium cells dramatically extends run time and the battery system life, lowering the overall cost of ownership to a level which makes lithium very competitive with lead-acid in numerous applications.

In January 2016, we obtained certification from Underwriters Laboratories ("UL"), a global safety science organization, on our LiFT Packs for forklift use. This UL 2271 Listing demonstrates the quality, safety and reliability of our LiFT Pack line for customers, distributors, dealers and OEM partners. We believe we have emerged from this effort with a product of substantially enhanced design, durability, performance and value. Additionally, during September 2017, we completed our initial ISO 9001 audit and have since been approved for certification. We received our ISO 9001 certificate in November 2017. Obtaining the ISO 9001 certification further demonstrates our strong customer focus, the motivation and involvement of top management and our commitment to consistently providing high quality products and services to our customers.

During 2018, we commercially developed, field tested, and sold packs for use in Class 3 end riders, Class 2 forklifts, Class 1 counterbalance forklifts, and aviation ground support equipment ("GSE"). We now have a complete line of packs to meet the needs of the lift equipment industry and are positioned to accelerate our sales significantly.

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 March 31, 2019 (“Q3 2019”) and March 31, 2018 (“Q3 2018”).

	Three Months Ended March 31,			
	2019		2018	
	\$	% of Revenues	\$	% of Revenues
Net revenue	\$ 1,751,000	100%	\$ 1,666,000	100%
Cost of sales	1,690,000	97%	1,816,000	109%
Gross income (loss)	61,000	3%	(150,000)	-9%
Operating expenses:				
Selling and administrative expenses	2,421,000	138%	909,000	55%
Research and development	1,364,000	78%	483,000	29%
Total operating expenses	3,785,000	216%	1,392,000	84%
Operating loss	(3,724,000)	-213%	(1,542,000)	-93%
Other income (expense):				
Interest expense, net	(90,000)	-5%	(211,000)	-13%
Net loss	<u>\$ (3,814,000)</u>	<u>-218%</u>	<u>\$ (1,753,000)</u>	<u>-105%</u>

Revenues

Revenues for Q3 2019, increased by \$85,000 or 5%, compared to Q3 2018. During Q3 2019 we sold approximately 418 packs from all classes including walkie, end rider, Class 2, Class 1, and GSE compared to approximately 530 LiFT Packs in Q3 2018. The completion of a full offering of batteries and the focus of the sales and management team has driven the new orders. The battery packs for the classes other than the walkie class range in price from approximately \$8,500 to \$31,000 per pack and drive higher revenue per pack.

Cost of Sales

Cost of sales for Q3 2019, decreased \$126,000, or 7%, compared to Q3 2018. The Company’s development efforts and improvements to all of the battery packs have resulted in reductions in inventory costs, improved workforce efficiencies, and reduced warranty expense which have all contributed to an improvement in the gross margin percentage by 12% in Q3 2019 compared to Q3 2018. We expect continued improvements to the gross margin percentage as the sales volumes increase, assembly productivity improves, and cost reductions are achieved.

Selling and Administrative Expenses

Selling and administrative expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, public company costs, consulting costs, professional fees and other expenses. Such expenses for Q3 2019 increased \$1,530,000 or 172%, compared to Q3 2018. This increase is primarily due to a significant increase in stock based compensation related to new option grants.

Research and Development Expense

Research and development expenses for Q3 2019 increased \$881,000 or 182%, compared to Q3 2018. Such expenses consist primarily of materials, supplies, salaries and personnel related expenses, stock-based compensation expense, and other expenses associated with the continued development of our full line of products for LiFT Pack and GSE. During Q3 2019, we have continued to focus our efforts in developing lithium-ion battery packs for Class 1 and Class 2 forklifts. We initiated the UL certification process on both our Class 1 pack and new BMS in January 2019. The impact of these efforts is expected to continue to be seen throughout the remainder of fiscal 2019. We anticipate research and development expenses continuing to be a sizeable portion of our expenses as we continue to develop new and improved products to our product line.

Interest Expense

Interest expense for Q3 2019 increased \$121,000 or 57% and consists of interest expense related to our outstanding lines of credit and convertible promissory note (see Note 4 in the accompanying condensed consolidated financial statements).

Net Loss

Net loss for Q3 2019 increased \$2,061,000 or 118%, as compared to the net loss in Q3 2018. The increase is primarily attributable to increased staff and development expenses related to expanding our products line, our growing sales department, interest expense, and increased stock-based compensation costs. As we continue to increase sales of our packs, we anticipate being able to take advantage of greater quantity discounts thus improving our gross margin.

The following table represents our unaudited condensed consolidated statement of operations for the nine months ended March 31, 2019 and March 31, 2018.

	Nine months ended March 31,			
	2019		2018	
	\$	% of Revenues	\$	% of Revenues
Net revenue	\$ 6,297,000	100%	\$ 3,020,000	100%
Cost of sales	5,968,000	95%	3,728,000	123%
Gross income (loss)	329,000	5%	(708,000)	-23%
Operating expenses:				
Selling and administrative expenses	5,518,000	88%	2,378,000	79%
Research and development	2,892,000	46%	1,441,000	48%
Total operating expenses	8,410,000	134%	3,819,000	126%
Operating loss	(8,081,000)	-128%	(4,527,000)	-149%
Other income (expense):				
Interest expense, net	(1,058,000)	-17%	(512,000)	-17%
Net loss	\$ (9,139,000)	-150%	\$ (5,039,000)	-16%

Revenues

Revenues for the nine months ended March 31, 2019, increased by \$3,277,000 or 109%, compared to the nine months ended March 31, 2018. This substantial increase in shipments was directly attributable the continued strong relationships with two leading forklift manufacturers and the related end users. Additionally, the increase in revenue was directly attributable to the increase in battery pack sales across the full line of batteries during the nine months ended March 31, 2019.

Cost of Sales

Cost of sales during the nine months ended March 31, 2019, increased \$2,240,000, or 60%, compared to the nine months ended March 31, 2018. The increase in cost of sales is directly related to our substantial increase in pack sales as discussed above offset by decreased cost for inventory, and lower warranty expense as a percentage of revenue resulting in a gross margin percentage increase of 28% for the nine months ended March 31, 2019 compared to the nine months ended March 31, 2018.

Selling and Administrative Expenses

Selling and administrative expenses for the nine months ended March 31, 2019 increased \$3,158,000 or 134%, compared to the nine months ended March 31, 2018. The increase is primarily attributable to increases in staff, higher stock-based compensation as discussed above regarding Q3 2019, and additional professional fees.

Research and Development Expense

Research and development expenses for the nine months ended March 31, 2019 increased \$1,451,000 or 101%, compared to the nine months ended March 31, 2018 due to our continued focus in developing lithium-ion battery packs for Class 1 forklifts, Class 2 forklifts Class 3 end riders and GSE.

Interest Expense

Interest expense during the nine months ended March 31, 2019 increased \$546,000, or 107%, and consists primarily of interest expense related to our outstanding lines of credit and convertible promissory note. Also included in interest expense during the nine months ended March 31, 2019 is additional interest expense of approximately \$466,000 agreed to be paid under the Esenjay Early Conversion Agreement as well as origination fees of \$25,000 for the shareholder lines of credit (see Note 4).

Net Loss

Net loss for the nine months ended March 31, 2019 increased \$4,118,000, or 82%, as compared to net loss for the nine months ended March 31, 2018 for the reasons stated above.

Liquidity and Capital Resources

Overview

As of March 31, 2019, and June 30, 2018, we had a cash balance of \$900,000 and \$2,706,000 respectively. Since June of 2012, when we changed our business operations to design, develop and sell rechargeable advanced energy storage systems, we have generated negative cash flows from operations, and we have financed our operations primarily through sales of our products, private sales of equity securities and credit facilities.

In January 2019, we completed the sale of 3,992,564 shares of common stock for aggregate gross proceeds of \$4,391,820, or \$1.10 per share in cash. We incurred no offering costs. A portion of the proceeds from the offering was used to repay in full approximately \$2.6 million in borrowings and accrued interest under two short-term credit facilities with two creditors.

We have evaluated our expected cash requirements over the next twelve months, which include, but are not limited to, investments in additional sales and marketing and product development resources, capital expenditures, and working capital requirements and have determined that our existing cash resources are not sufficient to meet our anticipated needs during the next twelve months, and that additional financing is required to support current operations. Based on our current and planned levels of expenditures, we estimate that total financing proceeds of approximately \$13,100,000 will be required to fund current and planned operations for the next twelve months. In addition, we anticipate that further additional financing may be required to fund our business plan subsequent to that date, until such time as revenues and related cash flows become sufficient to support our operating costs.

We intend to continue to seek capital through the sale of equity securities through private or public placements and debt placements.

The following table summarizes our cash flows for the periods indicated:

	Nine Months Ended March 31,		Year Ended June 30,	
	2019	2018	2018	2017
Net cash used in operating activities	(7,055,000)	(4,679,000)	(6,500,000)	(5,698,000)
Net cash used in investing activities	(209,000)	(59,000)	(85,000)	(53,000)
Net cash provided by financing activities	5,458,000	4,745,000	9,170,000	5,745,000
Net change in cash	(1,806,000)	7,000	2,585,000	(6,000)

Operating Activities

Net cash used in operating activities was \$7,055,000 during the nine months ended March 31, 2019, compared to net cash used in operations of \$4,679,000 during the nine months ended March 31, 2018. The primary reason for the increase in net cash used in operations was a significant increase in net loss and an increase in inventory as of March 31, 2019, offset by increases in accounts payable, and accrued expenses and interest.

Net cash used in operating activities during the nine months ended March 31, 2018, reflects the net loss of \$5,021,000 for the period offset primarily by non-cash items including stock-based compensation and depreciation, as well as, increases in accounts receivable, accounts payable and accrued interest and decreases in inventories.

Investing Activities

Net cash used in investing activities during the nine months ended March 31, 2019 consists of the purchase of office equipment, primarily computer related, of \$144,000. Net cash used in investing activities during the nine months ended March 31, 2018 consists primarily of the purchase of office and warehouse equipment and leasehold improvements, totaling \$59,000.

Net cash used in investing activities during the nine months ended March 31, 2018 consists primarily of the purchase of office and warehouse equipment and leasehold improvements, totaling \$59,000.

Financing Activities

Net cash provided by financing activities during the nine months ended March 31, 2019 was \$5,393,000 and consisted of proceeds from the sale of common stock. Net cash provided by financing activities during the nine months ended March 31, 2018 was \$4,745,000 and resulted from the borrowing from our line of credit with Esenjay.

Net cash provided by financing activities during the nine months ended March 31, 2018 was \$4,745,000 and consisted of \$200,000 of proceeds from the sale of common stock and \$4,545,000 of borrowings from our lines of credit with Esenjay.

Future Liquidity Needs

As of March 31, 2019, we amended our line of credit with Esenjay, a related party to (i) increase the maximum principal amount available under line of credit from \$5,000,000 to \$7,000,000 ("LOC"), (ii) add Cleveland as additional lender to the LOC pursuant to which each lender has a right to advance a pro rata amount of the principal amount available under the LOC, (iii) extend the maturity date from March 31, 2019 to December 31, 2019, and (iv) to provide for additional parties to become a "Lender" under the LOC. \$3,405,000 remains outstanding as of March 31, 2019 and \$ 3,595,000 available for future draws. The LOC matures on December 31, 2019.

As of March 31, 2019 and June 30, 2018, we incurred net losses from operations of \$9,422,000 and \$6,965,000, and have incurred an accumulated deficit of \$36,084,000 and \$26,662,000. In addition, as of March 31, 2019 and June 30, 2018, we had limited available cash balances and were in need of additional capital to fund operations. In their report on the annual consolidated financial statements for Fiscal 2018, our independent auditors included an explanatory paragraph in which they expressed substantial doubt regarding the Company's ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to raise additional capital on a timely basis until such time as revenues and related cash flows are sufficient to fund our operations. Management's plans are to continue to seek funding, as necessary, through the sale of equity securities through private placements, credit line extensions and convertible debt placements.

The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders.

Although management believes we will be able to obtain additional required funding, there is no guarantee we will be able to obtain such funding on a timely basis or that funds will be available on terms acceptable to us. If such funds are not available, management will be required to curtail its investments in additional sales and marketing and product development resources, and capital expenditures, which will have a material adverse effect on our future cash flows and results of operations, and our ability to continue operating as a going concern.

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

Off-Balance Sheet Arrangements

None.

Critical Accounting Policies

The unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. Information with respect to our critical accounting policies which we believe could have the most significant effect on our reported results and require subjective or complex judgments by management is contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the year ended June 30, 2018.

Recently Issued Accounting Pronouncements Not Yet Adopted

On June 20, 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. ASU 2018-07 is intended to reduce the cost and complexity and to improve financial reporting for share-based payments to nonemployees for goods and services. The amendments in ASU 2018-07 are effective for fiscal years beginning after December 15, 2018, including interim periods therein.

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.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4 - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file with the SEC under the Securities Exchange Act of 1934, as amended is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate, to allow for timely decisions regarding required disclosure. As required by SEC Rules 13a-15(e) and 15d-15(e) 15d-15(b), we carried out an evaluation as of the end of the fiscal quarter ended March 31, 2019, under the supervision and with the participation of our management, including our principal executive and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended ("Exchange Act")) and concluded that our disclosure controls and procedures were effective to ensure the information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control Over Financial Reporting

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

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

From time to time, we may be involved in routine legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of our business. The ultimate amount of liability, if any, for any claims of any type (either alone or in the aggregate) may materially and adversely affect our financial condition, results of operations and liquidity. In addition, the ultimate outcome of any litigation is uncertain. Any outcome, whether favorable or unfavorable, may materially and adversely affect us due to legal costs and expenses, diversion of management attention and other factors. We expense legal costs in the period incurred. We cannot assure you that contingencies of a legal nature or contingencies having legal aspects will not be asserted against us in the future, and these matters could relate to prior, current or future transactions or events. As of March 31, 2019 we are not a party to any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on our business, financial condition or operating results.

ITEM 1A - RISK FACTORS

Any investment in our common stock involves a high degree of risk. Investors should carefully consider the risks described in our Annual Report on Form 10-K as filed with the SEC on September 26, 2018 and all of the information contained in our public filings before deciding whether to purchase our common stock.

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

Effective April 1, 2018, we entered into a renewal contract (the "2018 Renewal") with Catalyst Global LLC to provide investor relations services for 12 months in exchange for monthly fees of \$4,500 per month and 8,710 shares of restricted common stock per quarter. The initial tranche of 8,710 shares was valued at \$1.70 per share or \$14,807 when issued on June 21, 2018, the second tranche of 8,710 shares was valued at \$2.01 per share or \$17,507 when issued on September 28, 2018, the third tranche of 8,710 shares was valued at \$1.75 per share or \$15,243 when issued on December 31, 2018, and the fourth tranche of 8,710 shares was valued at \$1.31 per share or \$11,410 when issued on March 27, 2019. The 2018 Renewal is cancelable upon 60 days written notice. These shares have not been registered under the Securities Act. Such shares were issued upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

On March 14, 2018, we entered into a consulting agreement with Shenzhen Reach Investment Development Co. ("SRID") to assist us with identifying strategic partners, suppliers and manufacturers in China for a term of 12 months. Included with the services is a two-week trip to China to meet with potential manufacturers, which took place in April 2018. In consideration for the services, we agreed to issue to SRID, up to 174,672 shares of restricted common stock valued at approximately \$80,000 over the course of the 12-month term. As of March 31, 2019, 174,672 shares have been issued. These shares have not been registered under the Securities Act. Such shares were issued upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

Other than the equity issuances disclosed in this Item 2 and the equity sold by us which have previously included in Current Reports of Form 8-K filed with the SEC, we have not issued any other equity during the quarter ended March 31, 2019.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS

The following exhibits are filed as part of this Report

<u>ExhibitNo.</u>	<u>Description</u>
31.1	Certifications of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act.*
31.2	Certifications of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act.*
32.1	Certifications of the Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act.*
32.2	Certifications of the Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act.*
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase*
101.DEF	XBRL Taxonomy Extension Definition Linkbase*
101.LAB	XBRL Taxonomy Extension Label Linkbase*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase*

(1) Incorporated by reference to Current Report on Form 8-K filed with the SEC on November 1, 2018.

(2) Incorporated by reference to Current Report on Form 8-K filed with the SEC on December 28, 2018.

* Filed herewith.

SIGNATURES

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

Date: May 10, 2019

Flux Power Holding, Inc.

By: /s/ Ronald F. Dutt

Name: Ronald F. Dutt

Title: Chief Executive Officer (Principal Executive Officer)

By: /s/ Charles A. Scheiwe

Name: Charles A. Scheiwe

Title: Chief Financial Officer (Principal Financial Officer)

**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: May 10, 2019

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

**CERTIFICATIONS OF CHIEF FINANCIAL 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: May 10, 2019

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

**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 March 31, 2019 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: May 10, 2019

By: /s/ Ronald F. Dutt

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

**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 March 31, 2019, 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: May 10, 2019

By: /s/ Charles A. Scheiwe

Name: Charles A. Scheiwe
Title: Chief Financial Officer
(Principal Financial Officer)
