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

**FORM 10-Q**

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

**For the quarterly period ended December 31, 2014**

**£ 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** | **86-0931332** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| **985 Poinsettia Avenue, Suite A, Vista, California** | **92081** |
| (Address of principal executive offices) | (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 **R** 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 **R** No **£**

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

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

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

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

| Class | Outstanding as of: February 13, 2015 |
|---|---|
| Common Stock, $0.001 par value | 99,314,112 |

**FLUX POWER HOLDINGS, INC.**

**FORM 10-Q**
**For the Quarterly Period Ended December 31, 2014**
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**SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS**

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

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

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

Use of Certain Defined Terms

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

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

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

Item 1. Financial Statements

| | December 31, 2014 (Unaudited) | June 30, 2014 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash | $ 19,000 | $ 116,000 |
| Accounts receivable, net | 157,000 | 140,000 |
| Inventories, net | 130,000 | 85,000 |
| Other current assets | 46,000 | 18,000 |
| Total current assets | 352,000 | 359,000 |
| Other Assets | 29,000 | 25,000 |
| Property, plant and equipment, net | 61,000 | 78,000 |
| Total assets | $ 442,000 | $ 462,000 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable | 518,000 | 320,000 |
| Accrued expenses | 166,000 | 219,000 |
| Customer deposits from related party | 136,000 | 136,000 |
| Warrant derivative liability | 133,000 | 571,000 |
| Note payable – related party | 175,000 | — |
| Total current liabilities | 1,128,000 | 1,246,000 |
| Long term liabilities: | | |
| Line of credit, net of discount | 56,000 | — |
| Total liabilities | 1,184,000 | 1,246,000 |
| Commitments and contingencies (Notes 5 and 11) | | |
| STOCKHOLDERS' DEFICIT | | |
| Preferred stock, $0.001 par value: authorized 5,000,000 shares, none issued and outstanding | — | — |
| Common stock, $0.001 par value: authorized 145,000,000 shares, 99,314,112 and 93,274,113 shares issued and outstanding as of December 31, 2014 and June 30, 2014, respectively | 99,000 | 93,000 |
| Additional paid-in capital | 8,250,000 | 7,399,000 |
| Accumulated deficit | (9,091,000) | (8,276,000) |
| Total stockholders' deficit | (742,000) | (784,000) |
| Total liabilities and stockholders' deficit | $ 442,000 | $ 462,000 |

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

**FLUX POWER HOLDINGS, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**Three and Six Month Periods Ended December 31, 2014 and 2013**
**(Unaudited)**

| | Three months Ended | | Six months Ended | |
|---|---|---|---|---|
| | December 31, 2014 | December 31, 2013 | December 31, 2014 | December 31, 2013 |
| Net revenue | $ 210,000 | $ 28,000 | $ 296,000 | $ 62,000 |
| Cost of sales | 193,000 | 19,000 | 272,000 | 40,000 |
| Gross profit | 17,000 | 9,000 | 24,000 | 22,000 |
| Operating expenses: | | | | |
| Selling and administrative expenses | 474,000 | 342,000 | 949,000 | 612,000 |
| Amortization of prepaid advisory fees | 1,000 | 414,000 | 33,000 | 825,000 |
| Research and development | 141,000 | 123,000 | 262,000 | 230,000 |
| Total operating expenses | 616,000 | 879,000 | 1,244,000 | 1,667,000 |
| Operating loss | (599,000) | (870,000) | (1,220,000) | (1,645,000) |
| Other income (expense): | | | | |
| Change in fair value of derivate liabilities | — | 2,000 | 438,000 | 83,000 |
| Interest expense, net | (23,000) | (47,000) | (23,000) | (100,000) |
| Other income (expense) | 4,000 | — | (10,000) | — |
| Net loss | $ (618,000) | $ (915,000) | $ (815,000) | $ (1,662,000) |
| Net loss per share – basic and diluted | $ (0.01) | $ (0.02) | $ (0.01) | $ (0.03) |
| Weighted average number of common shares outstanding – basic and diluted | 97,399,546 | 47,715,793 | 95,628,315 | 47,604,706 |

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

**FLUX POWER HOLDINGS, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**Six Months Ended December 31, 2014 and 2013**
**(Unaudited)**

| | Six Months Ended | |
|---|---|---|
| | December 31, 2014 | December 31, 2013 |
| Cash flows from operating activities: | | |
| Net loss | $ (815,000) | $ (1,662,000) |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | |
| Depreciation | 18,000 | 33,000 |
| Amortization of prepaid advisory fees | 33,000 | 825,000 |
| Change in fair value of warrant liability | (438,000) | (83,000) |
| Stock-based compensation | 113,000 | 60,000 |
| Stock issuance for services | 11,000 | 53,000 |
| Gain on sale of property and equipment | (4,000) | — |
| Amortization of line of credit discount | 18,000 | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (17,000) | 7,000 |
| Inventories | (45,000) | 13,000 |
| Other current assets | (61,000) | 17,000 |
| Accounts payable | 198,000 | (8,000) |
| Accrued expenses | 18,000 | (55,000) |
| Accrued interest | 5,000 | 101,000 |
| Customer deposits | — | 17,000 |
| Customer deposits from related party | — | (2,000) |
| Net cash used in operating activities | (966,000) | (684,000) |
| | | |
| Cash flows from investing activities: | | |
| Purchases of equipment | (6,000) | — |
| Proceeds from the sale of equipment | 9,000 | — |
| Net cash provided by investing activities | 3,000 | — |
| | | |
| Cash flows from financing activities: | | |
| Proceeds from the sale of common stock and warrants, net of offering costs paid | 501,000 | — |
| Proceeds from note payable – related party | 365,000 | 668,000 |
| Net cash provided by financing activities | 866,000 | 668,000 |
| | | |
| Net decrease in cash | (97,000) | (16,000) |
| Cash, beginning of period | 116,000 | 20,000 |
| | | |
| Cash, end of period | $ 19,000 | $ 4,000 |
| | | |
| Supplemental Disclosures of Non-cash Investing and Financing Activities:: | | |
| Issuance of warrants recorded as deferred financing costs | $ 4,000 | $ — |
| Debt discount related to warrants and beneficial conversion feature | $ 152,000 | $ — |

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

**FLUX POWER HOLDINGS, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**DECEMBER 31, 2014**

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

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and the rules of the Securities and Exchange Commission (“SEC”) applicable to interim reports 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, 2014 filed with the SEC. In the opinion of management, the accompanying condensed consolidated interim financial statements include all adjustments, necessary in order to make the financial statements not misleading. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year or any other future period. Certain notes to the financial statements that would substantially duplicate the disclosures contained in the audited financial statements for the most recent fiscal year as reported in the Company’s Annual Report on Form 10-K have been omitted. The accompanying condensed consolidated balance sheet at June 30, 2014 has been derived from the audited balance sheet at June 30, 2014 contained in such Form 10-K.

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

**Nature of Business**

Flux Power Holdings, Inc. (“Flux” or the “Company”) was incorporated as Olerama, Inc. in Nevada in 1998. Since its incorporation, there have been several name changes, including the change in January 2010 whereby the name of the Company was changed to Lone Pine Holdings, Inc. Following the completion of a reverse merger on June 14, 2012, as described below, the Company’s operations have been conducted through its wholly owned subsidiary, Flux Power, Inc. (“Flux Power”), a California corporation.

On May 23, 2012, by way of a merger, Lone Pine Holdings changed its name to Flux Power Holdings, Inc. (“FPH”) a Nevada corporation. The transaction has been reflected as a reverse merger where FPH was the surviving legal entity after the merger. Flux Power remained the accounting acquirer. The merger has been accounted for as a recapitalization as of the earliest period presented. Accordingly, the historical condensed consolidated financial statements represented are those of Flux Power.

Flux Power develops and sells rechargeable advanced energy storage systems. The Company has structured its business around its core technology, “The Battery Management System” (“BMS”). The Company’s BMS provides three critical functions to their battery systems: cell balancing, monitoring and error reporting. Using its proprietary management technology, the Company is able to offer complete integrated energy storage solutions or custom modular standalone systems to their clients. The Company has also developed a suite of complementary technologies and products that accompany their core products. Sales during the three months ended September 30, 2014 and 2013 were primarily to customers located throughout the United States.

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

**NOTE 2 – LIQUIDITY AND GOING CONCERN**

The accompanying 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 $9,091,000 through December 31, 2014, and as of December 31, 2014 had limited cash and a substantial working capital deficit. To date, the Company's revenues and operating cash flows have not been sufficient to sustain its operations and it has relied on debt and equity financing to fund its operations. Management estimates that additional capital of approximately $1.5 million is required to fund planned operations through June 30, 2015. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's 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 plans to continue to seek funding, as necessary, through private placements of equity securities. The Company initiated a private placement in August 2014 to raise $990,000. A total of $535,500 of gross proceeds has been raised as of February 1, 2015 as part of this private placement Also, $215,000 has been raised through a convertible line of credit entered into in October 2014. In addition, the Company is pursuing other investment structures that management believes may generate the necessary funding for the Company. Although management believes that the additional required funding will be obtained, there is no guarantee the Company will be able to obtain the additional required funds on a timely basis or that funds will be available on terms acceptable to the Company. If such funds are not available when required, management will be required to curtail its investments in additional sales and marketing and product development resources, and capital expenditures, which may have a material adverse effect on the Company's future cash flows and results of operations, and its ability to continue operating as a going concern. The accompanying financial statements do not include any adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to liquidate its assets and discharge its liabilities in other than the normal course of business and at amounts that may differ from those reflected in the accompanying condensed consolidated financial statements.

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***Principles of Consolidation***

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

***Subsequent Events***

Management has evaluated events subsequent to December 31, 2014, through the date of this filing with the Securities and Exchange Commission for transactions and other events that may require adjustment of and/or disclosure in such financial statements.

***Reclassifications***

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

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

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

***Cash and Cash Equivalents***

The Company considers all liquid short-term investments with maturities of less than three months when acquired to be cash equivalents. The Company had no other cash equivalents at December 31, 2014 and June 30, 2014.

***Fair Values of Financial Instruments***

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

***Accounts Receivable and Customer Deposits***

Accounts receivable are carried at their estimated collectible amounts. The Company may require advance deposits from its customers prior to shipment of the ordered products. The Company has not experienced collection issues related to its accounts receivable, and has not recorded an allowance for doubtful accounts during the three and six months ended December 31, 2014 and 2013.

***Inventories***

Inventories consist primarily of battery management systems and the related subcomponents, and are stated at the lower of cost (first-in, first-out) or market. The Company evaluates inventories to determine if write-downs are necessary due to obsolescence or if the inventory levels are in excess of anticipated demand at market value based on consideration of historical sales and product development plans. The Company did not record an adjustment related to obsolete inventory during the three and six months ended December 31, 2014 and 2013.

***Property, Plant and Equipment***

Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation and amortization are provided using the straight-line method over the estimated useful lives, of the related assets ranging from three to ten years, or, in the case of leasehold improvements, over the lesser of the useful life of the related asset or the lease term.

***Stock-based Compensation***

Pursuant to the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic No. 718-10, Compensation-Stock Compensation, which establishes accounting for equity instruments exchanged for employee service, we utilize the Black-Scholes option pricing model to estimate the fair value of employee stock option awards at the date of grant, which requires the input of highly subjective assumptions, including expected volatility and expected life. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our share-based compensation. These assumptions are subjective and generally require significant analysis and judgment to develop. When estimating fair value, some of the assumptions will be based on, or determined from, external data and other assumptions may be derived from our historical experience with stock-based payment arrangements. The appropriate weight to place on historical experience is a matter of judgment, based on relevant facts and circumstances.

Common stock or equity instruments such as warrants issued for services to non-employees are valued at their estimated fair value at the measurement date (the date when a firm commitment for performance of the services is reached, typically the date of issuance, or when performance is complete). If the total value exceeds the par value of the stock issued, the value in excess of the par value is added to the additional paid-in-capital account.

***Revenue Recognition***

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, price is fixed or determinable, and collectability of the selling price is reasonably assured. Delivery occurs when risk of loss is passed to the customer, as specified by the terms of the applicable customer agreements. When a right of return exists, contractually or implied, the Company recognizes revenue on the sell-through method. Under this method, revenue is not recognized upon delivery of the inventory components. Instead, the Company records deferred revenue upon delivery and recognizes revenue when the inventory components are sold through to the end user. During the three and six months ended December 31, 2014, and 2013, the Company did not record any deferred revenue.

***Product Warranties***

The Company evaluates its exposure to product warranty obligations based on historical experience. Our products are warrantied for five years unless modified by a separate agreement. As of December 31, 2014, the Company carries a warranty liability of approximately $21,000, which is included in accrued expenses on the Company's balance sheets.

***Shipping and Handling Costs***

The Company records shipping and handling costs charged to customers as revenue and shipping and handling costs to cost of sales as incurred. During the three and six months ended December 31, 2014, the Company recorded $9,000 and $13,000, respectively, which are included in revenue in the accompanying condensed consolidated statements of operations.

***Impairment of Long-lived Assets***

In accordance with authoritative guidance for the impairment or disposal of long-lived assets, if indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through the undiscounted future operating cash flows. If impairment is indicated, the Company measures the amount of such impairment by comparing the carrying value of the asset to the present value of the expected future cash flows associated with the use of the asset. The Company believes that no impairment indicators are present.

***Research and Development***

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

***Income Taxes***

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

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

We also follow the provisions of FASB ASC Topic No.740 relating to uncertain tax provisions and have analyzed filing positions in all of the federal and state jurisdictions where the Company is required to file income tax returns, as well as all open tax years in these jurisdictions. Based on our analysis, no unrecognized tax benefits have been identified as of December 31, 2014, or June 30, 2014, and accordingly, no additional tax liabilities have been recorded.

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

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

For the three and six months ended December 31, 2014, basic and diluted weighted-average common shares outstanding were 97,399,546 and 95,628,315, respectively. The Company incurred a net loss for the three and six months ended December 31, 2014, and therefore, basic and diluted loss per share for those periods are the same because the inclusion of potential common equivalent shares were excluded from diluted weighted-average common shares outstanding during the period, as the inclusion of such shares would be anti-dilutive. As of December 31, 2014, there were 2,230,018 potentially dilutive common shares outstanding, which include common shares underlying outstanding stock options that were excluded from diluted weighted-average common shares outstanding.

For the three and six months ended December 31, 2013, basic and diluted weighted-average common shares outstanding were 47,715,793 and 47,604,706, respectively. The Company incurred a net loss for the three and six months ended December 31, 2013, and therefore, basic and diluted loss per share for those periods are the same because the inclusion of potential common equivalent shares were excluded from diluted weighted-average common shares outstanding during the period, as the inclusion of such shares would be anti-dilutive. As of December 31, 2014, there were 460,713 potentially dilutive common shares outstanding, which include common shares underlying outstanding stock options that were excluded from diluted weighted-average common shares outstanding.

***Derivative Financial Instruments***

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

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

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

***New Accounting Standards***

In August 2014, The FASB issued Accounting Standards Update (ASU) No. 2014-15 regarding ASC topic No. 205, *Presentation of Financial Statements – Going Concern*. The standard requires all companies to evaluate if conditions or events raise substantial doubt about an entity's ability to continue as a going concern and requires different disclosure of items that raise substantial doubt bit are, or are not, alleviated as a result of consideration of management's plans. ASU 2014-15 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is permitted. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

**NOTE 4 – RELATED PARTY NOTES PAYABLE AND LINE OF CREDIT**

In October 2011, we entered into a revolving promissory note agreement ("Revolving Note") for $1,000,000 with Esenjay Investments, LLC ("Esenjay"), which is one of our major stockholders who beneficially own approximately 47% of our common stock. Mr. Michael Johnson is a current member of our board of directors and is the director and sole shareholder of Esenjay. The Revolving Note had an interest rate of 8% per annum, and an original maturity date of September 30, 2013, as amended, and borrowings under this line are secured by substantially all of the assets of the Company. As of September 30, 2013, the balance outstanding payable on the note was $1,000,000. On October 16, 2013, we entered into the Second Amendment to the Revolving Note pursuant to which the Revolving Note was amended to: (i) extend the maturity date from September 30, 2013, to December 31, 2015; (ii) change the interest rate on the outstanding principal amount as of October 16, 2013, and forward to 6% per annum, and (iii) grant the holder of the Revolving Note the option to convert any or all of the amount outstanding under the Revolving Note, as amended, into shares of our common stock at a conversion price of $ 0.30 per share until December 31, 2015.

On March 7, 2012, we entered into an additional note payable agreement with Esenjay for $250,000 ("Bridge Note"). The Bridge Note had an original maturity date of March 7, 2014, and bore interest at the rate of 8% per annum. As of September 30, 2013, the balance outstanding payable on the Bridge Note was $250,000 and there were no further funds available under the Bridge Note. On October 16, 2013, we entered into the First Amendment to the Bridge Loan Promissory Note (the "Amendment") pursuant to which the Bridge Note was amended to: (i) extend the maturity date from March 7, 2014, to December 31, 2015; (ii) change the interest rate on the outstanding principal amount as of October 16, 2013, and forward to 6% per annum; and (iii) grant the holder of the Bridge Note the option to convert any or all of the amount outstanding under the Bridge Note, as amended, into shares of our common stock at a conversion price of $0.30 per share until December 31, 2015. As of December 31, 2014, the remaining principal balance on the Bridge Note was $175,000.

On September 24, 2012, we entered into a Line of Credit agreement with Esenjay for $1,500,000 ("Line of Credit"). Borrowings under the Line of Credit are secured by our assets and bore interest at the rate of 8% per annum, with all unpaid principal and accrued interest due and payable on September 24, 2014. On October 16, 2013, we entered into the First Amendment to the Line of Credit (the "Amendment") pursuant to which the Line of Credit was amended to: (i) extend the maturity date from September 24, 2014, to December 31, 2015; (ii) change the interest rate on the outstanding principal amount as of October 16, 2013, and forward to 6% per annum; (iii) increase the Line of Credit to $2,000,000; and (iv) grant holder the option to convert up to $400,000 of the outstanding amount under the Line of Credit into shares of our common stock at a conversion price of $0.06 per share until December 31, 2013, and the option to convert any or all of the remaining amount outstanding under the Line of Credit into shares of our common stock at a conversion price of $ 0.30 per share until December 31, 2015.

On January 13, 2014, we accepted a subscription agreement from Esenjay pursuant to which we sold Esenjay 10 Units for an aggregate purchase price of $600,000, or $60,000 per Unit, of which (i) $200,000 was paid in cash, and (ii) $400,000 was a conversion of $400,000 of principal amount outstanding under the Revolving Note, as amended. Each Unit consisted of 1,000,000 shares of our common stock and 500,000 warrants. In connection with Esenjay's purchase of the Units, we issued 10,000,000 shares of our common stock and warrants to purchase up to 5,000,000 shares of our common stock, at an exercise price of $0.20 per share until January 13, 2019.

On March 12, 2014, we accepted a subscription agreement from Esenjay pursuant to which we sold Esenjay 2.5 Units for an aggregate purchase price of $150,000, or $60,000 per Unit, which was a conversion of $150,000 of principal amount outstanding under the Revolving Note, as amended. Each Unit consisted of 1,000,000 shares of our common stock and 500,000 warrants. In connection with Esenjay's purchase of the Units, we issued 2,500,000 shares of our common stock and warrants to purchase up to 1,250,000 shares of our common stock, at an exercise price of $0.20 per share until March 12, 2019. On June 11, 2014, the Company converted all $2,586,000 of principal and $304,000 of accrued interest related to the Revolving Note, Bridge Note and Line of Credit, into common stock and warrants, eliminating all of Flux's long-term debt. Flux Power's largest shareholder, Esenjay Investments LLC, converted all of its long-term debt and accrued interest into 12.1 million shares of Flux Power restricted common stock at a price of $0.24 per share. Esenjay was also granted 3-year warrants to purchase 1.9 million shares of common stock at $0.30 per share, in connection with this conversion.

During our fiscal year ended June 30, 2014, a total of $3,136,000 of debt principal was converted to equity, which resulted in ending balances of $0 for each the Revolving Note, Bridge Note and Line of Credit at June 30, 2014. The exchange was accounted for as a capital transaction in accordance with ASC Topic No. 470-50-40, "*Debt, Modifications and Extinguishments*". Accordingly, no gain or loss was recognized.

Total unused credit under these debt instruments was $3,075,000 at December 31, 2014. Esenjay has no obligation to loan funds and the right to not advance funds under these facilities. For the takedown, the interest rate is 6% and the note matures December 31, 2015.

On October 2, 2014, the Company entered in a line of credit agreement in the maximum amount of $500,000 ("Second Line of Credit") with Leon Frenkel ("Lender"). The Lender had advanced funds totaling $50,000 on September 19, 2014 and $50,000 on September 30, 2014, in anticipation of signing the Second Line of Credit on October 2, 2014. Borrowings under the Second Line of Credit bears interest at 8% per annum, with all unpaid principal and accrued interest due and payable on September 19, 2016 pursuant to the terms of the Secured Convertible Promissory Note (the "Note"). In addition, at the election of Lender, all or any portion of the outstanding principal, accrued but unpaid interest and/or late charges under the Second Line of Credit may be converted into shares of the Company's common stock at any time at a conversion price of $0.12 per share. Borrowings under the Second Line of Credit are guaranteed by Flux Power, the Company's wholly-owned subsidiary, and are secured by all of the assets of the Company and Flux Power pursuant to the terms of a certain Security Agreement and Guaranty Agreement dated as of October 2, 2014. Proceeds from the Second Line of Credit can be solely used for working capital purposes. As of December 31, 2014, the Company borrowed a total of $190,000 under the Second Line of Credit. In connection with the Second Line of Credit, the Company granted a warrant to the Lender to purchase a certain number of shares of common stock of the Company equal to the outstanding advances under the Second Line of Credit divided by the conversion price of $0.12, for a term of five years, at an exercise price per share equal to $0.20. Accordingly, in connection with the advance of $190,000, Lender is entitled to purchase up to 1,583,333 shares of common stock upon exercise of the warrant at $0.20 per share. The Lender has no other material relationship with the Company or its affiliates. The estimated relative fair value of warrants issued in connection with advances under the Second Line of Credit is recorded as a debt discount and is amortized as additional interest expense over the term of the underlying debt. The Company recorded debt discount of approximately $76,000 based on the relative fair value of these warrants. In addition, as the effective conversion price of the debt was less than the market price of the underlying common stock on the date of issuance, the Company recorded additional debt discount of approximately $76,000 related to the beneficial conversion feature. As of December 31, 2014, the $190,000 principal amount outstanding under this agreement is presented net of unamortized debt discount totaling $134,000. During the six months ended December 31, 2014, the Company recorded approximately $18,000 of debt discount amortization, which is included in interest expense in the accompanying condensed consolidated statements of operations. The Company retained Security Research Associates Inc. ("SRA"), on a best-efforts basis, as its placement agent for the placement of the Note. The Company agreed to pay SRA a cash amount equal to 5% of the gross proceeds raised and a warrant for the purchase of the common stock of the Company. The number of common stock subject to the warrant equals 5% of the aggregate gross proceeds from the Note received by the Company from the Lender divided by $0.12 per share. The warrant will have a term of 5 years, an exercise price equal to $0.12 per share and will also include cashless exercise provisions as well as representations and warranties that are customary and standard in warrants issued to placement agents or underwriters. As of December 31, 2014 and in connection with the Second Line of Credit, SRA earned a commission of $9,500 and warrants to purchase 79,167 shares of our common stock at $0.12 per share. The earned cash commission was unpaid and included in the ending accrued expense balance as of December 31, 2014.

**NOTE 5 – COMMITMENTS AND CONTINGENCIES**

From time to time, we may be involved in litigation relating to claims arising out of our operations. On January 8, 2015, funding pursuant to a securities purchase agreement and a convertible debenture agreement with KBM Worldwide for a principal amount of $54,000 was received. The term sheet for these agreements was agreed to on December 23, 2014, and the related securities purchase agreement and convertible promissory note were signed December 31, 2014. The note matures on October 2, 2015 and bears interest at a rate of 8% per annum. The note is convertible into shares of the Company's common stock at any time after the maturity date and is convertible at a rate of 61% of the market price (39% discount), which will be determined by taking an average of the lowest three trading prices for the common stock during the ten trading day period prior to the conversion date. In accordance with the terms of these agreements, the Company is required to maintain authorized and reserved shares of common stock equal to five times the number of shares issuable upon conversion of the note. The note provides for prepayment at 30 day intervals for the first six months, with a prepayment penalty starting at 10% up to 30 days after issuance of the note, with 5% increases to the penalty amount every 30 days, up to a maximum penalty of 35% if paid between days 151 and 180 of the note. After the 180 days, the Company will have no right of prepayment. As funding did not occur until after December 31, 2014, no assets or liabilities have been recorded by the Company as of December 31, 2014 in connection with this note.

**NOTE 6 - STOCKHOLDERS' EQUITY**

At December 31, 2014, the Company had 145,000,000 shares of common stock, par value of $ 0.001 authorized for issuance, of which 99,314,112 shares were issued and outstanding.

In addition, at December 31, 2014, the Company is authorized to issue up to 5,000,000 shares of preferred stock, par value of $0.001, in one or more classes or series within a class pursuant to our Articles of Incorporation. There are currently no shares of preferred stock issued and outstanding.

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

***Common Stock and Warrants***

***Private Placements – Fiscal 2015***

On July 31, 2014, the board approved a second round of financing for calendar year 2014. As such, starting in August 2014, the Company has been conducting a Private Placement Offering of Units ("September Offering") that is intended to raise a total of $990,000. As of December 31, 2014, we have sold 5.95 units to 14 accredited investors ("Investors") for total gross proceeds of $535,500, pursuant to which we issued 5,949,999 shares of common stock and warrants to purchase up to 2,974,999 shares of common stock. The warrants are exercisable for three years and each warrant entitles the holder to purchase one share of common stock at $0.25 per share. The units were offered only to accredited investors and the purchase price of each unit was $90,000, with each unit consisting of 1,000,000 shares of common stock and 500,000 warrants. SRA served as our placement agent. SRA earned a cash commission of $34,695 based on 9% of gross proceeds and have earned warrants to purchase 385,500 shares of our common stock at an exercise price of $0.09 for its services as our private placement agent. The cash commission of $34,695 was recorded as a cost of equity financing. The securities offered and sold have not been registered under the Securities Act. The securities were offered and sold in reliance upon exemptions from registration pursuant to Rule 506 promulgated thereunder.

***Private Placements – Fiscal 2014***

From January to March 2014, the Company conducted a Private Placement Offering of Units ("March Offering"). The Units were offered only to accredited investors and the purchase price of each Unit was $60,000, with each Unit consisting of 1,000,000 shares of common stock and 500,000 warrants. The warrants are exercisable for 5 years and each warrant entitles the holder to purchase one share of common stock at an exercise price of $0.20 per share. On March 12, 2014, the Company completed the March Offering by selling an aggregate of 32.4 Units to 41 accredited investors resulting in the conversion of debt to equity in the amount of $550,000 and cash proceeds of approximately $1,394,000, and issuance of 32,400,000 shares of common stock and warrants to purchase up to 16,200,000 shares of common stock. The March Offering was conducted in three tranches. On January 13, 2014, we completed our first tranche of the March Offering by selling 10 Units to Esenjay for an aggregate purchase price of $600,000, of which (i) $200,000 was paid in cash, and (ii) $400,000 was a conversion of $400,000 of principal amount outstanding under the Revolving Note, as amended (see Note 4). In connection with Esenjay's purchase of the Units, we issued 10,000,000 shares of our common stock and warrants to purchase up to 5,000,000 shares of our common stock. On February 14, 2014, we completed our second tranche of the March Offering by selling 2.8 Units to five accredited investors for an aggregate purchase price of $168,000, all of which were paid in cash. In connection with the closing of the second tranche, we issued a total of 2,800,000 shares of our common stock and warrants to purchase up to 1,400,000 shares of our common stock. On March 12, 2014, we completed the final tranche, to a cumulative total of 41 accredited investors, of the March Offering by closing on the sale of 19.6 Units for total purchase price of $1,176,000, pursuant to which we issued 19,600,000 shares of common stock and warrants to purchase up to 9,800,000 shares of common stock. Esenjay participated in the final tranche by purchasing a total of 2.5 Units for an aggregate purchase price of $150,000, of which the $150,000 was a conversion of principal amount outstanding under the Revolving Note, as amended (see Note 4).

On June 11, 2014, the Company converted all $2,586,000 of outstanding principal and $304,000 of accrued interest related to the Revolving Note, Bridge Note and Line of Credit, into common stock and warrants, eliminating all of Flux's long-term debt. Flux Power's largest shareholder, Esenjay Investments LLC, converted all of its long-term debt and accrued interest into 12.1 million shares of Flux Power restricted common stock at a price of $0.24 per share. Esenjay was also granted 3-year warrants to purchase 1.9 million shares of common stock at $0.30 per share, as an incentive for the conversion.

All of the above mentioned debt conversions have been accounted for as a capital transaction in accordance with FASB ASC Topic No. 470-50-40, "*Debt, Modifications and Extinguishments* ". Accordingly, no gain or loss has been recognized.

Security Research Associates Inc. ("SRA") of San Francisco served as Company's placement agent in connection with the March Offering. The Company engaged SRA for services rendered in conjunction with this March Offering and paid cash compensation in the amount of 9% of the gross proceeds raised and a warrant to purchase the number of shares of common stock equal to 9% of the aggregate gross proceeds from the March Offering received by the Company from all investors placed by SRA divided by $0.06 per share. The Company paid SRA $107,460 and issued a warrant to purchase 1,791,000 shares of our common stock at an exercise price of $0.06 for its services as the Company's private placement agent in the March Offering. The newly appointed director and executive chairman of the Board of Directors, Timothy Collins, is the Chief Executive Officer, President, director and shareholder of SRA.

In connection with the March Offering, the Company inadvertently in error issued duplicate stock certificates representing an aggregate of 600,000 shares of common stock of the Company. As a result, there was an additional 600,000 shares of common stock issued and outstanding on the records of the Company's transfer agent as of June 30, 2014. The Company has already corrected this error. The number of shares of common stock issued and outstanding reflected in the financial statements and these notes exclude 600,000 shares of common stock which were inadvertently issued in error. All such common share certificates have been returned as of July 2014.

The securities offered and sold in the Offering have not been registered under the Securities Act of 1933, as amended ("Securities Act"). The Securities were offered and sold to accredited investors in reliance upon exemptions from registration pursuant to Rule 506 promulgated thereunder.

***Private Placements – Fiscal 2013 and Fiscal 2012***

During fiscal years 2012 and 2013, the Company issued 5,347,839 shares of common stock and 1,069,570 five year warrants to purchase shares of our common stock at an exercise price of $0.41 per share, resulting in aggregate proceeds of approximately $2,215,000, pursuant to private placement transactions. Tranches of these transactions closed during each month during June through August of 2012 and a final tranche in October of 2012.

***Repricing of Warrants***

The fiscal year 2013 and fiscal year 2012 offering (see above) included warrants issued at a price of $0.20, which triggered an anti-dilution protection for Company's warrant holders issued under our 2012 Private Placements that were issued for an offering price of our common stock at $0.41. As a result, the Board of Directors gave approval to amend the exercise price of 2,907,347 common share purchase warrants issued by way of our completed 2012 Private Placements, which included the July, August and October 2012 closings of 507,019, our June 2012 closing of 562,551 and the Baytree advisory agreement warrants of 1,837,777. The exercise price of the 2,907,347 common share purchase warrants was reduced to $0.27 from $0.41 per warrant share and applies to all warrants issued in our 2012 Private Placements. On April 2, 2014, the Company provided notice of adjustment to the Warrant Holders in accordance with the applicable section of the warrant certificate. The remaining terms, including expiration dates, of all warrants remain unchanged. The modified exercise price of the warrants to $0.27 resulted in a repricing modification charge of $98,000 that was recorded as a cost of capital raised in connection with the offering. For subsequent stock and warrant issuances including the debt conversion on June 11, 2014, the private placements in August through December, and the convertible credit line in September, the review of potential repricing of warrants resulted no further change from the exercise price of $0.27.

***Advisory Agreements***

***Catalyst Global LLC.*** On October 14, 2013, the Company entered into a contract with Catalyst Global LLC ("CGL"), pursuant to which CGL agreed to provide investor relations services for 12 months in exchange for monthly fees of $2,000 per month and 450,000 shares of restricted common stock issued as follows: 180,000 shares upon signing and the balance vesting pro rata upon each of the three-, six-, and nine-month anniversaries of the contract. The initial tranche was valued at $0.05 per share or $9,000 when issued on November 8, 2013. During the six months ended December 31, 2014, we recorded expense of approximately $2,000. As of December 31, 2014, the total remaining balance of the prepaid investor relation services was 0.

On March 19, 2014, the Company issued the second tranche shares valued at $0.38 per share, based on the price per share of the Company's common stock. The costs associated with the 90,000 shares issued of $34,000 were amortized over the remaining annual contract that ended in October 2014. During the six months ended December 31, 2014, we recorded expense of approximately $17,000. As of December 31, 2014, the remaining balance of the prepaid investor relation services relating to the second tranche is $0.

On April 23, 2014, the Company issued the third tranche shares valued at $0.30 per share, based on the price per share of the Company's common stock. The costs associated with the 90,000 shares issued of $27,000 were amortized over the remaining annual contract that ended in October 2014. During the six months ended December 31, 2014, we recorded expense of approximately $14,000. As of December 31, 2014, the remaining balance of the prepaid investor relation services relating to the third tranche is $0.

On October 15, 2014, the Company issued the fourth and final tranche shares valued at $0.12 per share, based on the price per share of the Company's common stock. The costs associated with the 90,000 shares issued of $10,800 were fully expensed upon issuance, based on terms of the contract.

**Security Research Associates, Inc**. On June 26, 2013, the Company entered into an agreement with Security Research Associates, Inc., ("SRA"), pursuant to which SRA agreed to provide business and advisory services. SRA served as our placement agent in connection with the Company's 2014 Private Placement Offering ("Offering") and was paid cash compensation in the amount of 9% of the gross proceeds raised and a warrant to purchase the number of shares of our common stock equal to 9% of the aggregate gross proceeds from the Offering received by the Company from all investors (excluding Esenjay) placed by SRA divided by $0.06 per share. SRA was paid $107,460 in cash and reimbursement for related expenses of approximately $10,000 and issued a warrant to purchase 1,791,000 shares of our common stock at an exercise price of $0.06 for its services as our private placement agent in the Offering. In connection with this agreement, the estimated fair value of the warrants issued in the approximate amount of $107,460 (1,791,000 warrants at $0.06) and related expenses of approximately $10,000 was recorded as an offset to equity related to expense associated with the Offering. The Company's contract with SRA has been amended to reflect renewal to support the March 2014 placement and the recent August 2014 placement. In connection with the August 2014 placement, SRA earned a cash commission of $34,695 based on 9% of total gross proceeds raised and issued a warrant to purchase 385,500 shares of our common stock at an exercise price of $0.09 for its services as our private placement agent. The securities offered and sold have not been registered under the Securities Act. The securities were offered and sold in reliance upon exemptions from registration pursuant to Rule 506 promulgated thereunder.

The Company has retained SRA on a best-efforts basis, as its placement agent for the placement of debt. The Company will pay to SRA for services rendered in conjunction with this debt financing in the amount of five percent (5%) of the gross proceeds raised and a warrant for the purchase of the Common Shares. The number Common Shares subject to the warrant will equal five percent (5%) of the aggregate gross proceeds from the Note received by the Company from the Lender divided by Twenty Cents ($0.20) per share. The warrant will have a term of three (3) years and will include cashless exercise provisions as well as representations and warranties that are customary and standard in warrants issued to placement agents or underwriters. The exercise price will equal twenty cents ($0.20). The Company also agrees to reimburse SRA periodically, upon request, or upon termination of SRA's services, for SRA's expenses incurred in connection with SRA's financial advisory services, including fees and expenses of legal counsel, travel expenses and printing. All such non-accountable fees and expenses for the debt offering shall not exceed a combined aggregate amount of ten thousand dollars ($10,000). For the three and six months ended December 31, 2014, SRA earned $4,500 and $9,500 in cash commissions and 37,500 and 79,167 warrants, respectively, with an estimated fair value of $4,000 based on loan proceeds on the Frenkel loan. As of February 1, 2015, SRA earned a cash commission of $10,750 at 5% of gross proceeds; and a right to exercise 89,583 warrants, exercisable into shares of common stock at $0.12 per share.

***Warrant Activity***

Warrant activity during the six months ended December 31, 2014, and related balances outstanding as of such dates are reflected below:

| | Number | Weighted Average Exercise Price Per Share | Remaining Contract Term (# years) |
|---|---|---|---|
| Shares purchasable under outstanding warrants at June 30, 2014 | 22,798,347 | $ 0.21 | |
| Stock purchase warrants issued | 5,023,000 | 0.22 | |
| Stock purchase warrants exercised | — | — | |
| Shares purchasable under outstanding warrants at December 31, 2014 | 27,821,347 | $ 0.21 | 2.45 – 4.20 |

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

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

***Stock-based Compensation***

During the six months ended December 31, 2014, the Company issued 400,000 non-qualified stock options of the Company's common stock to a consultant, pursuant to a consulting agreement entered into in December 2013. These options were valued using the Black-Scholes model on the day they were originally due to be issued per agreement, and the Company recorded an accrual in the amount of $76,000 during the year ended June 30, 2014. Such options were issued in July 2014 when the current fair value of $64,000 was determined using the Black-Scholes model. The change in fair value of $12,000 was recorded as a reduction to stock based compensation expense during the six month period ended December 31, 2014. The Company has not registered the shares of common stock underlying stock options outstanding as of December 31, 2014.

Activity in stock options during the six months ended December 31, 2014, and related balances outstanding as of that date are reflected below:

| | Number of Shares | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contract Term (# years) |
|---|---|---|---|
| Outstanding at June 30, 2014 | 6,335,695 | $ 0.19 | 5.85 |
| Granted | 400,000 | | |
| Exercised | — | | |
| Forfeited and cancelled | (634,338) | | |
| Outstanding at December 31, 2014 | 6,101,357 | $ 0.16 | 7.98 |
| Exercisable at December 31, 2014 | 4,042,550 | $ 0.14 | 7.53 |

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

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

Stock-based compensation expense recognized in our condensed consolidated statements of operations for the six months ended December 31, 2014, and 2013, 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.

The closing price of our stock at December 31, 2014, was $0.11, and as a result the intrinsic value of the exercisable options at December 31, 2014, was $91,000.

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

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | December 31, 2014 | December 31, 2013 | December 31, 2014 | December 31, 2013 |
| Research and development | $ 3,000 | $ 4,000 | $ 6,000 | $ 3,000 |
| General and administration | 59,000 | 33,000 | 107,000 | 57,000 |
| Total stock-based compensation expense | $ 62,000 | $ 37,000 | $ 113,000 | $ 60,000 |

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, | 2014 | 2013 |
|---|---|---|
| Expected volatility | 100% | 218% |
| Risk free interest rate | .96% | 1.4% to 1.7% |
| Forfeiture rate | 0% | 13% |
| Dividend yield | 0% | 0% |
| Expected term | 3 years | 3-5 years |

The remaining amount of unrecognized stock-based compensation expense at December 31, 2014, is approximately $293,000, which is expected to be recognized over the weighted average period of 1.54 years.

**NOTE 7 – Warrant Derivative Liability**

At December 31, 2014 there were 2,907,347 outstanding warrants classified as derivative liabilities due to exercise price re-set provisions included in the underlying warrant agreements.

Warrants classified as derivative liabilities are recorded at their estimated fair values at the issuance date and are revalued at each subsequent reporting date. These warrants were determined to have an estimated fair value per share and aggregate value as of December 31, 2014 and an aggregate value as of June 30, 2014 as follows:

| | Issued Warrants | Estimated Fair Value Per Share $ as of December 31, 2014 | Estimated Total Fair Value in Aggregate $ as of December 31, 2014 | Estimated Total Fair Value in Aggregate $ as of June 30, 2014 |
|---|---|---|---|---|
| June 2012 Warrants | 562,551 | $ 0.05 | $ 26,000 | $ 110,000 |
| July 2012 Warrants | 338,013 | 0.05 | 16,000 | 67,000 |
| August 2012 Warrants | 120,719 | 0.05 | 6,000 | 24,000 |
| October 2012 Warrants | 48,287 | 0.05 | 2,000 | 10,000 |
| Advisory Agreement Warrants | 1,837,777 | 0.05 | 83,000 | 360,000 |
| **Total** | 2,907,347 | | $ 133,000 | $ 571,000 |

There was no change in aggregate estimated fair value of the warrants classified as derivative liabilities during the three months ended December 31, 2014. The change in aggregate estimated fair value of the warrants classified as derivative liabilities during the six months ended December 31, 2014 totaling $438,000 is recorded on the accompanying condensed consolidated statement operations as other income.

**NOTE 8 – FAIR VALUE MEASUREMENTS**

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

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

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

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

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

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

| At December 31, 2014: | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|
| Description: | | | |
| Warrant derivative liabilities | $ - | $ - | $ 133,000 |

| At June 30, 2014: | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|
| Description: | | | |
| Warrant derivative liabilities | $ - | $ - | $ 571,000 |

The table below sets forth a summary of changes in the fair value of our (Level 3) financial instruments for the six months ended December 31, 2014:

| | Balance at June 30, 2014 | Estimated fair value of new derivative liabilities | Change in estimated fair value recognized in results of operations | Balance at December 31, 2014 |
|---|---|---|---|---|
| Warrant derivative liabilities | $ 571,000 | $ - | $ (438,000) | $ 133,000 |

**NOTE 9 – OTHER RELATED PARTY TRANSACTIONS**

***Transactions with Epic Boats***

Effective July 1, 2013, we relocated our principal office and manufacturing to the Epic Boats (an entity founded and controlled by Chris Anthony, our board member and former Chief Executive Officer) facility in Vista, California. We entered into a month-to-month sublease agreement for shared space with Epic Boats.

On March 1, 2014, the landlord terminated its lease with Epic Boats resulting in the termination of our previous sublease agreement with Epic Boats, and entered into a lease with Flux Power as lessee. On February 25, 2014, Flux power entered into a two-year sublease agreement to rent the property, at $12,130 per month, with an annual increase of 3%. The agreement provides for monthly payments of approximately 10% of the monthly rental payment. On March 26, 2014, Flux Power as the sub-lesser entered into a new sublease agreement with Epic Boats as the sub-lessee, whereas Epic Boats agrees to pay Flux Power 10% of facility costs on a month to month basis, for a period no longer than through the end of the two year lease agreement. We believe our facility at Vista, California provide adequate space for our current and projected needs.

The Company received $4,000 and $7,000 from Epic Boats under the sublease rental agreement during the three months and six months ended December 31, 2014, respectively and paid to Epic Boats $15,000 and $30,000 during the three and six months ended December 31, 2013, respectively, related to sublease rent expense and income.

On October 21, 2009, we entered into an agreement with Epic Boats where Epic Boats assigned and transferred to Flux Power the entire right, title, and interest into products, technology, intellectual property, inventions and all improvements thereof, for several product types. As of this date, Flux Power began selling products to Epic Boats under Flux Power's standard terms and conditions and has continued to sell products to Epic Boats as a customer. On April 7, 2014, the Company sold $3,000 worth of assets that were fully depreciated, with no anticipated use for the Company to Epic Boats. On October 1, 2014, the Company sold $9,000 worth of assets that were partially depreciated, with no anticipated use for the Company. The transaction related to Chris Anthony buying two electric vehicles (Columbia Park Car and a Torque) that were in inventory to support the Company’s products for electric cars several years ago. The gain on sale related to these vehicles was $4,000. This equipment was no longer needed by the Company due the product strategy focus on lift equipment. The customer deposits balance received from Epic Boats at December 31, 2014 and June 30, 2014 is approximately $136,000. There were no receivables outstanding from Epic Boats as of December 31, 2014 or June 30, 2014.

## NOTE 10 – CONCENTRATIONS

***Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments. The Company maintains cash balances at a financial institution in San Diego, California. The Company's cash balance at this institution is secured by the Federal Deposit Insurance Corporation up to $250,000. As of December 31, 2014, cash totaled approximately $19,000, which consists of funds held in a non-interest bearing bank deposit account. The Company has not experienced any losses in such accounts. Management believes that the Company is not exposed to any significant credit risk with respect to its cash.

***Customer Concentrations***

During the three and six months ended December 31, 2014, the Company had three customers that represented more than 10% of its revenues on an individual basis and approximately 49% and 50%, respectively, in the aggregate.

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

***Suppliers/Vendor Concentrations***

We obtain components and supplies included in our products from a small group of suppliers. During the three and six months ended December 31, 2014, we had two suppliers, who accounted for more than 10% of our total inventory purchases on an individual basis and approximately 48% and 46%, respectively, in the aggregate.

During the three and six months ended December 31, 2013, we had three and four suppliers, respectively, who accounted for more than 10% of our total inventory purchases on an individual basis and approximately 82% and 67%, respectively, in the aggregate.

## NOTE 11 – SUBSEQUENT EVENTS

On January 8, 2015, funding pursuant to a securities purchase agreement and a convertible debenture agreement with KBM Worldwide for a principal amount of $54,000 was received. The term sheet for these agreements was agreed to on December 23, 2014, and the related securities purchase agreement and convertible promissory note were signed December 31, 2014. The note matures on October 2, 2015 and bears interest at a rate of 8% per annum. The note is convertible into shares of the Company's common stock at any time after the maturity date and is convertible at a rate of 61% of the market price (39% discount), which will be determined by taking an average of the lowest three trading prices for the common stock during the ten trading day period prior to the conversion date. In accordance with the terms of these agreements, the Company is required to maintain authorized and reserved shares of common stock equal to five times the number of shares issuable upon conversion of the note. The note provides for prepayment at 30 day intervals for the first six months, with a prepayment penalty starting at 10% up to 30 days after issuance of the note, with 5% increases to the penalty amount every 30 days, up to a maximum penalty of 35% if paid between days 151 and 180 of the note. After the 180 days, the Company will have no right of prepayment. As funding did not occur until after December 31, 2014, no assets or liabilities have been recorded by the Company as of December 31, 2014 in connection with this note.

On January 9, 2015, we borrowed $25,000 under the Frenkel line of credit. Accordingly, in connection with the advance of $25,000, Lender was issued a warrant certificate, pursuant to which he may exercise into 208,333 shares of common stock at $0.20 per share. SRA will be paid a cash commission of $1,250 and be entitled to 10,417 warrants exercisable at $0.12 per share in conjunction with this takedown. For the takedown, the interest rate is 8% and the note matures September 19, 2016.

Management has evaluated events subsequent to December 31, 2014, through the date of this filing with the Securities and Exchange Commission for transactions and other events that may require adjustment of and/or disclosure in such financial statements.

On January 28, 2015, we borrowed $150,000 from "Esenjay" (Esenjay Investments, LLC) under our revolving promissory note agreement. This takedown results in a remaining balance of $2,925,000 under our three debt facilities with Esenjay.

## 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, 2014.

Overview

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

- Cell Balancing: This is performed by continuously adjusting the capacity of each cell in a storage system according to temperature, voltage, and internal impedance metrics. This management assures longevity of the overall system.

- Monitoring: This is performed through temperature probes, a physical connection to individual cells for voltage and calculations from basic metrics to determine remaining capacity and internal impedance. This monitoring assures accurate measurements to best manage the system and assure longevity.

- Error reporting: This is performed by analyzing data from monitoring each individual cell and making decision on whether the individual cell or the system is operating out of normal specifications. This error reporting is crucial to system management as it ensures ancillary devices are not damaging your storage system and will give the operator an opportunity to take corrective action to maintain long overall system life.

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

We sold our first validated product in the second quarter of 2010 and have since delivered over 15 mega watt-hours of Advanced Energy Storage to clients such as NACCO Materials Handling Group, Inc. (NACCO), GreenTech Automotive, Inc. (GTA), Crown Equipment Corporation, Damascus Corporation, Columbia Parcar Corporation, Wheego Electric Cars Inc., ("Wheego"), Epic Electric Vehicles, and Texas Association of Local Health Officials (TALHO).

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

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

**Recent Developments**

On November 3, 2014 the Company launched a Strategic Advisory Board with the appointment of Sir Nigel Burney and Stephen Capelli. The Flux Advisory Board will be comprised of up to six members and work directly with Flux's CEO and Board of Directors. The Advisory Board's mission is to support the Company in the formation and execution of its business strategy, with particular emphasis on business development, partnering and strategic and financial investor introductions. Advisory Board members will be compensated with a grant of stock in their first year of service.

On January 8, 2015, funding pursuant to a securities purchase agreement and a convertible debenture agreement with KBM Worldwide for a principal amount of $54,000 was received. The term sheet for these agreements was agreed to on December 23, 2014. In conjunction with closing of the note, $20k was paid to our external auditors from this funding and $4k will be used to pay transactional legal fees. The note matures on October 2, 2015 and bears interest at a rate of 8% per annum. The note is convertible into shares of the Company's common stock at any time after the maturity date and is convertible at a rate of 61% of the market price (39% discount), which will be determined by taking an average of the lowest three trading prices for the common stock during the ten trading day period prior to the conversion date. In accordance with the terms of these agreements, the Company is required to maintain authorized and reserved shares of common stock equal to five times the number of shares issuable upon conversion of the note. The note provides for prepayment at 30 day intervals for the first six months, with a prepayment penalty starting at 10% up to 30 days after issuance of the note, with 5% increases to the penalty amount every 30 days, up to a maximum penalty of 35% if paid between days 151 and 180 of the note. After the 180 days, the company will have no right of prepayment. As funding did not occur until after December 31, 2014, no assets or liabilities have been recorded by the Company as of December 31, 2014 in connection with this note.

**Segment and Related Information**

We operate as a single reportable segment.

**Results of Operations and Financial Condition**

***Comparison for the Three Months Ended December 31, 2014 and 2013***

***Net Loss***

Net losses reported were approximately $618,000 for the three months ended December 31, 2014, as compared to net losses of approximately $915,000 for the three months ended December 31, 2013.

***Revenues***

We currently sell products primarily through a distribution network of equipment dealers and battery distributors in North America. This distribution network mostly sells to large company, national accounts. We do sell certain battery packs directly to other accounts including industrial equipment manufacturers and third party integrators serving the military.

Revenues for the three months ended December 31, 2014, increased by approximately $182,000, or 650%, compared to the three months ended December 31, 2013. This increase in sales was primarily attributable to the sales of lift equipment in the current year, while in the prior year. The Company had not yet launched its forklift products.

We have narrowed our focus to product segments including "lift equipment" and "micro-grid energy storage". We feel that we are well positioned to address these markets, which include applications such as industrial electric vehicles like electric forklifts, floor scrubbers, back-up power, grid-tie power, solar storage, electric service vehicles, pallet drivers, and mobile cooling units. However, we cannot guarantee that we will be successful in transitioning companies in these segments from legacy lead-acid technologies to our advanced energy storage solutions.

***Cost of Revenues***

Cost of revenues for the three months ended December 31, 2014, increased approximately $174,000, or 916%, compared to the three months ended December 31, 2013. This large increase in cost of revenues was attributable to the increase in related sales costs as discussed above. Additionally, this increase in cost of revenues was attributable to the increase in costs to support higher revenues and the higher mix of lift packs, which have a higher cost per unit than sales of components and other products.

***Gross Profit***

Gross profit for the three months ended December 31, 2014, increased by approximately $8,000, or 89%, compared to the three months ended December 31, 2013. Gross profit as a percentage of revenue for the three months ended December 31, 2014, decreased to 8% compared to 32% in the three months ended December 31, 2013.

***Selling and Administrative Expenses***

Selling and administrative expenses for the three months ended December 31, 2014, and 2013, were approximately $474,000 and $342,000, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, public company costs, consulting costs, professional fees and other expenses. The increase of approximately $132,000, or 39%, was primarily due to increased sales and marketing expense, including demonstration lift packs, to promote lift equipment sales, plus additional expense for board of director equity incentives.

***Amortization of Prepaid Advisory Fees***

Amortization of prepaid advisory fees for the three months ended December 31, 2014, and 2013, was approximately $1,000 and $414,000, respectively. The prepaid advisory fees amortized during the three months ended December 31, 2014 are related to the fair value of shares of the Company's common stock issued in connection with an advisory agreement with Catalyst Global LLC dated October 14, 2013. The fair value of the shares issued pursuant to this agreement has been recognized over the term of the contract which ended in October 2014. The prepaid advisory fees amortized during the three months ended December 31, 2013 were related to the fair value of the warrants issued under an advisory agreement with Baytree Capital dated June 14, 2012, and to value of the shares of the Company's common stock issued pursuant to the same agreement where Baytree Capital agreed to provide business and advisory services to the Company. The prepaid advisory fees related to this arrangement were fully amortized as of June 30, 2014.

***Research and Development Expense***

Research and development expenses for the three months ended December 31, 2014, and 2013, were approximately $141,000 and $123,000, respectively. Such expenses consist primarily of materials, supplies, salaries and personnel related expenses, stock-based compensation expense, consulting costs, and other expenses. The increase of approximately $18,000, or 15%, was primarily due to an increase in expense related to product and OEM testing fees.

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

We follow FASB ASC Topic No. 820, *Fair Value Measurements and Disclosures* ("ASC 820") in connection with financial assets and liabilities measured at fair value on a recurring basis subsequent to initial recognition. The change in the fair value for the three months ended December 31, 2014, and 2013, was approximately $0 and $2,000, respectively (see Note 8, to the financial statements) and is recorded as other income in the accompanying condensed consolidated statements of operations.

***Comparison for the Six Months Ended December 31, 2014 and 2013***

***Net Loss***

Net losses reported were approximately $815,000 for the six months ended December 31, 2014, as compared to net losses of approximately $1,662,000 for the six months ended December 31, 2013.

***Revenues***

Revenues for the six months ended December 31, 2014, increased by approximately $234,000, or 377%, compared to the six months ended December 31, 2013. This increase in sales was primarily attributable to sales of lift equipment.

We have narrowed our focus to product segments including "lift equipment" and "micro-grid energy storage". We feel that we are well positioned to address these markets, which include applications such as industrial electric vehicles like electric forklifts, floor scrubbers, back-up power, grid-tie power, solar storage, electric service vehicles, pallet drivers, and mobile cooling units. However, we cannot guarantee that we will be successful in transitioning companies in these segments from legacy lead-acid technologies to our advanced energy storage solutions.

***Cost of Revenues***

Cost of revenues for the six months ended December 31, 2014, increased approximately $232,000, or 580%, compared to the six months ended December 31, 2013. This increase in cost of revenues was attributable to the increase in sales, as well as in costs to support higher revenues and the higher mix of lift packs, which have a higher cost per unit than sales of components and other products.

***Gross Profit***

Gross profit for the six months ended December 31, 2014, increased by approximately $2,000, or 9%, compared to the six months ended December 31, 2013. Gross profit as a percentage of revenue for the six months ended December 31, 2014, decreased to 8% compared to 35% in the six months ended December 31, 2013.

***Selling and Administrative Expenses***

Selling and administrative expenses for the six months ended December 31, 2014, and 2013, were approximately $949,000 and $612,000, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, public company costs, consulting costs, professional fees, and other expenses. The increase of approximately $337,000, or 55%, was primarily due to increased sales and marketing expense, including demonstration lift packs, to promote lift equipment sales, plus additional expense for board of director equity incentives.

***Amortization of Prepaid Advisory Fees***

Amortization of prepaid advisory fees for the six months ended December 31, 2014, and 2013, was approximately $33,000 and $825,000, respectively. The prepaid advisory fees amortized during the six months ended December 31, 2014 are related to the fair value of shares of the Company's common stock issued in connection with an advisory agreement with Catalyst Global LLC dated October 14, 2013. The fair value of the shares issued pursuant to this agreement has been recognized over the term of the contract which ended in October 2014. The prepaid advisory fees amortized during the six months ended December 31, 2013 were related to the fair value of the warrants issued under an advisory agreement with Baytree Capital dated June 14, 2012, and to value of the shares of the Company's common stock issued pursuant to the same agreement where Baytree Capital agreed to provide business and advisory services to the Company. The prepaid advisory fees related to this arrangement were fully amortized as of June 30, 2014.

***Research and Development Expense***

Research and development expenses for the six months ended December 31, 2014, and 2013, were approximately $262,000 and $230,000, respectively. Such expenses consist primarily of materials, supplies, salaries and personnel related expenses, stock-based compensation expense, consulting costs, and other expenses. The increase of approximately $32,000, or 14%, was primarily due to an increase in expense related to product and OEM testing fees.

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

We follow FASB ASC Topic No. 820, *Fair Value Measurements and Disclosures* ("ASC 820") in connection with financial assets and liabilities measured at fair value on a recurring basis subsequent to initial recognition. The change in the fair value for the six months ended December 31, 2014, and 2013, was approximately $438,000 and $83,000, respectively (see Note 8, to the financial statements) and is recorded as other income in the accompanying condensed consolidated statements of operations.

**Liquidity and Capital Resources**

***Overview***

As of December 31, 2014, we had a cash balance of approximately $19,000, negative working capital of approximately $776,000, and an accumulated deficit of approximately $9,091,000. We do not have sufficient liquidity and capital resources to fund planned operations through our fiscal year ending June 30, 2015. 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. See "Future Liquidity Needs" below.

***Cash Flows***

***Operating Activities***

Our operating activities resulted in net cash used in operations of approximately $966,000 for the six months ended December 31, 2014, compared to net cash used in operations of approximately $684,000 for the six months ended December 31, 2013.

Net cash used in operating activities during the six months ended December 31, 2014, reflects the net loss of approximately $815,000 for the period offset by non-cash items including: depreciation of approximately $18,000, amortization of prepaid advisory fees of $33,000, stock-based compensation of approximately $113,000, stock issued for services of $11,000, amortization of the line of credit discount of $18,000, a change in AP of $198,000 and combined changes in accrued expenses and interest of $23,000. These were offset by changes in the fair value of warrants liability of approximately $438,000, the gain on sale of fixed assets of $4,000, a change in accounts receivable of $17,000, a change in inventories of $45,000 and a change in prepaid expenses and other current assets of $61,000.

The net cash used in operating activities for the six months ended December 31, 2013 reflects our use of proceeds to build the business including increasing expenditures such as additional marketing and research and development. We incurred $684,000 of cash outflows primarily due to the payment of operating expenses of $467,000 and R&D expenses of $227,000.

***Investing Activities***

Net cash provided by investing activities during the six months ended December 31, 2014 consists primarily of the sale of equipment for $9,000 that was partially offset by purchases of equipment of approximately $6,000. There were no investing activities for the six months ended December 31, 2013.

***Financing Activities***

Net cash provided by financing activities during the six months ended December 31, 2014, and 2013, was approximately $866,000 and $668,000, respectively. The increase in financing activities is the result of proceeds from the sale of debt and equity securities pursuant to private placements.

***Future Liquidity Needs***

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 expenditure, we estimate that total financing proceeds of approximately $1.5 million will be required to fund current and planned operations through the fiscal year ended June 30, 2015. 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. These factors raise substantial doubt about our 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.

We intend to continue to seek capital through the private placement of securities. We commenced a private placement of our securities in August 2014 with the intent of raising $990,000. A total of $535,500 has been raised as of February 1, 2015 as part of this private placement Also, $215,000 has been raised as part of a convertible line of credit. In addition, the Company is pursuing other investment structures that management believes may generate the necessary funding for the Company. The timing of our need for additional capital will depend in part on our future operating performance in terms of revenue growth and the level of operating expenses and capital expenditures incurred. We are exploring alternative financing options and investment structures that may provide us with additional cash funding.

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 in the future or that funds will be available on terms acceptable to us. If such funds are not available, management will be required to curtail its investments in additional sales and marketing and product development resources, and capital expenditures, which may have a material adverse effect on our future cash flows and results of operations, and its ability to continue operating as a going concern.

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

**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, 2014.

**Recent Accounting Pronouncements**

In August 2014, The FASB issued Accounting Standards Update (ASU) No. 2014-15 regarding ASC topic No. 205, *Presentation of Financial Statements – Going Concern*. The standard requires all companies to evaluate if conditions or events raise substantial doubt about an entity's ability to continue as a going concern and requires different disclosure of items that raise substantial doubt bit are, or are not, alleviated as a result of consideration of management's plans. ASU 2014-15 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is permitted. We are currently evaluating the impact this guidance will have on our 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 Rule 15d-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended ("Exchange Act") Rule 15d- concluded that our disclosure controls and procedures were effective to ensure the information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed and reported within the time periods specified in the SEC's rules and forms.

**Changes in Internal Control Over Financial Reporting**

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

# PART II – OTHER INFORMATION

## ITEM 1 — LEGAL PROCEEDINGS

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

## ITEM 1A — RISK FACTORS

Any investment in our common stock involves a high degree of risk. Investors should carefully consider the risks described in our Annual Report on Form 10-K as filed with the SEC on October 7, 2014 and all of the information contained in our public filings before deciding whether to purchase our common stock. There have been no material revisions to the "Risk Factors" as set forth in our Annual Report on Form 10-K as filed with the SEC on October 7, 2014.

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

On July 31, 2014, the board approved a second round of financing for calendar year 2014. As such, starting in August 2014, the Company commenced a Private Placement Offering of Units ("September Offering") for a total of $990,000. As of December 31, 2014, we have sold 5.95 units to 14 accredited investors ("Investors") for total gross proceeds of $535,500, pursuant to which we issued 5,949,999 shares of common stock and warrants to purchase up to 2,974,999 shares of common stock. The warrants are exercisable for three years and each warrant entitles the holder to purchase one share of common stock at $0.25 per share. The units were offered only to accredited investors and the purchase price of each unit was $90,000, with each unit consisting of 1,000,000 shares of common stock and 500,000 warrants. Security Research Associates, Inc. ("SRA") served as our placement agent. SRA earned a cash commission of $34,695 based on 9% of gross proceeds and have earned warrants to purchase 385,500 shares of our common stock at an exercise price of $0.09 for its services as our private placement agent. The cash commission of $34,695 was recorded as a cost of equity financing. The securities offered and sold have not been registered under the Securities Act. The securities were offered and sold in reliance upon exemptions from registration pursuant to Rule 506 promulgated thereunder.

On January 8, 2015, the Company closed on a convertible debenture agreement with KBM Worldwide for a principal amount of $54,000. The note matures on October 2, 2015 and bears interest at a rate of 8% per annum. The note is convertible into shares of the Company's common stock at any time after the maturity date and is convertible at a rate of 61% of the market price (39% discount), which will be determined by taking an average of the lowest three trading prices for the common stock during the ten trading day period prior to the conversion date. The note provides for prepayment at 30 day intervals for the first six months, with a prepayment penalty starting at 10% up to 30 days after issuance of the note, with 5% increases to the penalty amount every 30 days, up to a maximum penalty of 35% if paid between days 151 and 180 of the note. After the 180 days, the company will have no right of prepayment. The Company entered into this agreement by executing a term sheet on December 23, 2014. Proceeds from the loan were received by the Company on January 8, 2015. The securities were offered and sold in reliance upon exemptions from registration pursuant to Rule 506 promulgated thereunder.

## ITEM 3 — DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4 — MINE SAFETY DISCLOSURES

Not applicable.

**ITEM 5 — OTHER INFORMATION**

None.

**ITEM 6 — EXHIBITS**

The following exhibits are filed as part of this Report

| Exhibit No. | Description |
|---|---|
| 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.FRE | XBRL Taxonomy Extension Presentation Linkbase* |

* 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.

| | |
|---|---|
| | Flux Power Holding, Inc. |
| Date: February 13, 2015 | By: By: /s/ Ronald F. Dutt |
| | Name: Ronald F. Dutt |
| | Title: Chief Executive Officer |
| | Principal Executive 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 Registrants first fiscal quarter) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 13, 2015

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

**Exhibit 31.2**

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

I, Ronald F. Dutt, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Flux Power Holdings, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's first fiscal quarter) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 13, 2015

By: /s/ Ronald F. Dutt
Name: Ronald F. Dutt
Title: Interim 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 period ended December 31, 2014 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 13, 2015

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 period ended December 31, 2014 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 13, 2015

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