

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Flux Power Holdings, Inc.

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

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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

Commission File Number: 000-25909

FLUX POWER HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

86-0931332

(I.R.S. Employer
Identification Number)

985 Poinsettia Avenue, Suite A, Vista, California

(Address of principal executive offices)

92081

(Zip Code)

877-505-3589

(Registrant's telephone number, including area code)

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

Yes No

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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 May 14, 2018 |
|---------------------------------|--------------------------------|
| Common Stock, \$0.001 par value | 26,356,033 |

FLUX POWER HOLDINGS, INC.

FORM 10-Q

For the Quarterly Period Ended March 31, 2018

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

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

Use of Certain Defined Terms

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

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

Item 1. Financial Statements

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

| | March 31, 2018 (Unaudited) | June 30, 2017 |
|---|---|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 128,000 | \$ 121,000 |
| Accounts receivable | 972,000 | 80,000 |
| Inventories | 1,431,000 | 1,566,000 |
| Other current assets | 22,000 | 69,000 |
| Total current assets | <u>2,553,000</u> | <u>1,836,000</u> |
| Other assets | | |
| Property, plant and equipment, net | 26,000 | 26,000 |
| | <u>77,000</u> | <u>59,000</u> |
| Total assets | <u>\$ 2,656,000</u> | <u>\$ 1,921,000</u> |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable | \$ 628,000 | \$ 367,000 |
| Accrued expenses | 262,000 | 259,000 |
| Accrued interest | 774,000 | 239,000 |
| Line of credit - related party | 9,730,000 | - |
| Convertible promissory note - related party | 500,000 | - |
| Total current liabilities | <u>11,894,000</u> | <u>865,000</u> |
| Long term liabilities: | | |
| Line of credit - related party | - | 5,185,000 |
| Convertible promissory note - related party | - | 500,000 |
| Customer deposits from related party | 106,000 | 120,000 |
| Total liabilities | <u>12,000,000</u> | <u>6,670,000</u> |
| Commitments and contingencies (Note 8) | | |
| Stockholders' deficit: | | |
| Preferred stock, \$0.001 par value; 5,000,000 shares authorized; none issued and outstanding | - | - |
| Common stock, \$0.001 par value; 300,000,000 shares authorized; 25,441,248 and 25,085,526 shares issued and outstanding at March 31, 2018 and June 30, 2017, respectively | 25,000 | 25,000 |
| Additional paid-in capital | 15,367,000 | 14,923,000 |
| Accumulated deficit | <u>(24,736,000)</u> | <u>(19,697,000)</u> |
| Total stockholders' deficit | <u>(9,344,000)</u> | <u>(4,749,000)</u> |
| Total liabilities and stockholders' deficit | <u>\$ 2,656,000</u> | <u>\$ 1,921,000</u> |

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

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

| | Three months ended March 31, | | Nine months ended March 31, | |
|--|-------------------------------------|----------------|------------------------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net revenue | \$ 1,666,000 | \$ 306,000 | \$ 3,020,000 | \$ 781,000 |
| Cost of sales | 1,816,000 | 508,000 | 3,728,000 | 1,384,000 |
| Gross loss | (150,000) | (202,000) | (708,000) | (603,000) |
| Operating expenses: | | | | |
| Selling and administrative expenses | 909,000 | 664,000 | 2,378,000 | 1,842,000 |
| Research and development | 483,000 | 245,000 | 1,441,000 | 772,000 |
| Total operating expenses | 1,392,000 | 909,000 | 3,819,000 | 2,614,000 |
| Operating loss | (1,542,000) | (1,111,000) | (4,527,000) | (3,217,000) |
| Other income (expense): | | | | |
| Change in fair value of derivative liabilities | - | 1,000 | - | 14,000 |
| Interest expense | (211,000) | (52,000) | (512,000) | (174,000) |
| Net loss | \$ (1,753,000) | \$ (1,162,000) | \$ (5,039,000) | \$ (3,377,000) |
| Net loss per share - basic and diluted | \$ (0.07) | \$ (0.05) | \$ (0.20) | \$ (0.14) |
| Weighted average number of common shares outstanding - basic and diluted | 25,112,349 | 25,038,256 | 25,142,039 | 24,372,419 |

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

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

| | Nine Months Ended March 31, | |
|---|------------------------------------|--------------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net loss | \$ (5,039,000) | \$ (3,377,000) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation | 41,000 | 32,000 |
| Change in fair value of warrant liability | - | (14,000) |
| Stock-based compensation | 209,000 | 30,000 |
| Stock issuance for services | 35,000 | 9,000 |
| Amortization of deferred financing costs | - | 44,000 |
| Amortization of debt discount | - | 19,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (892,000) | (2,000) |
| Inventories | 135,000 | (748,000) |
| Other current assets | 47,000 | (7,000) |
| Accounts payable | 261,000 | 148,000 |
| Accrued expenses | 3,000 | (77,000) |
| Accrued interest | 535,000 | 58,000 |
| Customer deposits | (14,000) | (12,000) |
| Net cash used in operating activities | <u>(4,679,000)</u> | <u>(3,897,000)</u> |
| Cash flows from investing activities | | |
| Purchases of equipment | (59,000) | (45,000) |
| Net cash used in investing activities | <u>(59,000)</u> | <u>(45,000)</u> |
| Cash flows from financing activities: | | |
| Repayment of line of credit | - | (215,000) |
| Proceeds from the sale of common stock | 200,000 | 1,075,000 |
| Borrowings from line of credit - related party debt | 4,545,000 | 3,025,000 |
| Net cash provided by financing activities | <u>4,745,000</u> | <u>3,885,000</u> |
| Net change in cash | 7,000 | (57,000) |
| Cash, beginning of period | <u>121,000</u> | <u>127,000</u> |
| Cash, end of period | <u>\$ 128,000</u> | <u>\$ 70,000</u> |
| Supplemental Disclosures of Non-Cash Investing and Financing Activities: | | |
| Conversion of debt to equity | \$ - | \$ 400,000 |
| Fair value of warrants exchanged for common stock | \$ - | \$ 10,000 |
| Stock issuance for services | <u>\$ 35,000</u> | <u>\$ -</u> |

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

FLUX POWER HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018
(Unaudited)

NOTE 1 - NATURE OF BUSINESS

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the rules of the Securities and Exchange Commission ("SEC") applicable to interim reports of companies filing as a smaller reporting company. These financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017 filed with the SEC on September 22, 2017. 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, 2017 has been derived from the audited balance sheet at June 30, 2017 contained in such Form 10-K.

Nature of Business

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

Reverse Stock Split

On August 10, 2017, we filed a certificate of amendment to our articles of incorporation with the State of Nevada effectuating a reverse split of the Company's common stock at a ratio of 1 for 10, whereby every ten pre-reverse stock split shares of common stock automatically converted into one post reverse stock split share of common stock, without changing the \$0.001 par value or authorized number of our common stock (the "Reverse Stock Split"). The Reverse Stock Split became effective in the State of Nevada on August 18, 2017. Mr. Michael Johnson, a current member of our board of directors and a holder of a majority of our issued and outstanding common stock approved the Reverse Stock Split on July 7, 2017. On that date, every 10 issued and outstanding shares of the Company's common stock automatically converted into one outstanding share. No fractional shares were issued in connection with the Reverse Stock Split. If, as a result of the Reverse Split, a stockholder would otherwise have been entitled to a fractional share, each fractional share was rounded up. As a result of the Reverse Stock Split, the number of the Company's outstanding shares of common stock decreased from 250,842,418 (pre-split) shares to 25,085,526 (post-split) shares. The Reverse Stock Split affected all stockholders of the Company's common stock uniformly and did not affect any stockholder's percentage of ownership interest, except for that which may have been affected by the rounding up of fractional shares. Because of the reduction in the number of the Company's outstanding shares, the Company's loss per share in all periods was increased by a factor of ten.

As the par value per share of the Company's common stock remained unchanged at \$0.001 per share, a total of \$226,000 was reclassified from common stock to additional paid-in capital. In connection with the Reverse Stock Split, proportionate adjustments have been made to the per share exercise price and the number of shares issuable upon the exercise or conversion of all outstanding options, warrants, convertible or exchangeable securities entitling the holders to purchase, exchange for, or convert into, shares of common stock. All references to shares of common stock and per share data for all periods presented in the accompanying condensed consolidated financial statements and notes thereto have been adjusted to reflect the Reverse Stock Split on a retroactive basis.

NOTE 2 – LIQUIDITY AND GOING CONCERN

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred an accumulated deficit of \$24,736,000 through March 31, 2018 and had a net loss of \$1,753,000 and \$5,039,000 for the three and nine month ended March 31, 2018, respectively. To date, our revenues and operating cash flows have not been sufficient to sustain our operations and we have relied on debt and equity financing to fund our operations. These factors raise substantial doubt about our ability to continue as a going concern for the twelve months following the filing date of our Quarterly Report on Form 10-Q, May 14, 2018. Our ability to continue as a going concern is dependent upon our ability to raise additional capital on a timely basis until such time as revenues and related cash flows are sufficient to fund our operations.

Management has undertaken steps to improve our financial position with the goal of sustaining our operations. These steps include (a) developing a full product line of lithium battery packs for forklifts; and (b) expanding our sales force throughout the United States. In that regard, we have increased our research and development efforts to focus on completing the development of energy storage solutions that can be used on larger forklifts. During December 2017, we shipped our first Class 1 LiFT Pack to a Fortune 100 heavy machinery conglomerate for evaluation and have continued the improvement and development of the Class 1 LiFT Pack, as well as, the development of the Class 2 and Class 3 packs. Our Class 3 End Rider LiFT pack was presented at a major Food & Beverage tradeshow during March 2018 and we anticipate sending additional evaluation packs out beginning in May 2018. Additionally, our GSE LiFT Pack has been under evaluation for the past year and we received our first major production order for 17 GSE LiFT packs that are scheduled to be shipped by the end of May 2018. We have also doubled our sales force since December 2016 with personnel having significant experience in the industrial equipment handling industry. Combined with the development of relationships with two of the nation's largest industrial equipment manufacturers we have generated revenues in excess of fiscal 2017 revenues during each of the past two quarters. The impact of these efforts is expected to continue to be seen throughout the remainder of fiscal 2018.

We have evaluated our expected cash requirements over the next twelve months, which include, but are not limited to, investments in additional sales and marketing and product development resources, capital expenditures, and working capital requirements and have determined that our existing cash resources are not sufficient to meet our anticipated needs during the next twelve months, and that additional financing is required to support current operations. Based on our current and planned levels of expenditures, we estimate that total financing proceeds of approximately \$5,000,000 will be required to fund current and planned operations for the twelve months following the filing date of this Quarterly Report on Form 10-Q. In addition, we anticipate that further additional financing may be required to fund our business plan subsequent to that date, until such time as revenues and related cash flows become sufficient to support our operating costs.

Management plans to raise additional required capital through private placements of equity securities and through draws on our existing related-party credit facilities. We initiated a private placement of equity securities in March 2018 under which we are authorized by the Board of Directors to raise up to \$4,000,000 (See Note 5). As of May 11, 2018, a total of \$800,000 was raised pursuant to this private placement, of which, \$200,000 was raised prior to March 31, 2018. Subsequent to the closing on May 11, 2018, the offering was terminated. Additionally, as more fully discussed in Note 4, we have two credit facilities with Esenjay Investments, LLC ("Esenjay"). Esenjay is deemed to be a related party as Mr. Michael Johnson, the beneficial owner and director of Esenjay, is a current member of our board of directors and a major shareholder of the Company. The Unrestricted Line of Credit has a maximum borrowing amount of \$10,000,000 of which \$2,025,000 was available for future draw as of May 14, 2018 and the Inventory Line of Credit has a maximum borrowing amount of \$5,000,000 of which \$3,245,000 was available for future draws as of May 14, 2018.

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 3, "Summary of Significant Accounting Policies," in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017. There have been no material changes in these policies or their application.

Reclassifications

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

Net Loss Per Common Share

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

For the three months ended March 31, 2018 and 2017, basic and diluted weighted-average common shares outstanding were 25,112,349 and 25,038,256, respectively. For the nine months ended March 31, 2018 and 2017, basic and diluted weighted-average common shares outstanding were 25,142,039 and 24,372,419, respectively. The Company incurred a net loss for the three and nine months ended March 31, 2018 and 2017, and therefore, basic and diluted loss per share for the periods are the same because the inclusion of potential common equivalent shares were excluded from diluted weighted-average common shares outstanding during the period, as the inclusion of such shares would be anti-dilutive. The total potentially dilutive common shares outstanding at March 31, 2018 and 2017, excluded from diluted weighted-average common shares outstanding, which include common shares underlying outstanding convertible debt, stock options and warrants, were 17,987,632 and 9,317,423, respectively.

Income Taxes

We follow the liability method of accounting for income taxes under which deferred tax assets and liabilities are recognized for the future tax consequences of (i) temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements and (ii) operating loss and tax credit carry-forwards for tax purposes. Deferred tax assets are reduced by a valuation allowance when, based upon management's estimates, it is more likely than not that a portion of the deferred tax assets will not be realized in a future period. We recognized a full valuation allowance as of March 31, 2018 and June 30, 2017 and have not recognized any tax provision or benefit for any of the periods presented. We review our tax positions quarterly for tax uncertainties. We did not have any uncertain tax positions as of March 31, 2018 or June 30, 2017.

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

NOTE 4 - RELATED PARTY DEBT AGREEMENTS

Esenjay Credit Facilities

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

We have an unrestricted credit facility with Esenjay which has a maximum borrowing amount of \$10,000,000, is convertible at a rate of \$0.60 per share, bears interest at 8% per annum and matures on January 31, 2019 (the "Unrestricted Line of Credit"). The outstanding principal balance of the Unrestricted Line of Credit as of March 31, 2018 was \$7,975,000, resulting in \$2,025,000 available for future draws.

During the three and nine months ended March 31, 2018, the Company recorded approximately \$195,000 and \$467,000, respectively of interest expense in the accompanying condensed consolidated statements of operations related to the Unrestricted Line of Credit and Inventory Line of Credit. Advances under both the Unrestricted Line of Credit and Inventory Line of Credit are made solely at the discretion of Esenjay and are secured by substantially all of Flux's tangible and intangible assets.

Shareholder Convertible Promissory Note

On April 27, 2017, we formalized an oral agreement for advances totaling \$500,000, received from a shareholder ("Shareholder") into a written Convertible Promissory Note (the "Convertible Note"). Borrowings under the Convertible Note accrue interest at 12% per annum, with all unpaid principal and accrued interest due and payable on October 27, 2018. In addition, at the election of Shareholder, all or any portion of the outstanding principal, accrued but unpaid interest and/or late charges under the Convertible Note may be converted into shares of the Company's common stock at a conversion price of \$1.20 per share; provided, however, the Shareholder shall not have the right to convert any portion of the Convertible Note to the extent that the Shareholder would beneficially own in excess of 5% of the total number of shares of common stock outstanding immediately after giving effect to the issuance of shares of common stock issuable upon conversion of the Convertible Note. During the three and nine months ended March 31, 2018, we recorded \$15,000 and \$45,000 of interest expense in the accompanying condensed consolidated statements of operations related to the Convertible Note.

NOTE 5 - STOCKHOLDERS' DEFICIT
Private Placement –2018

In March 2018, our Board of Directors approved a private placement of up to 5,714,286 shares of our common stock to select accredited investors for a total amount of \$4,000,000, or \$0.70 per share of common stock (“Offering”). As of March 31, 2018, 285,714 shares of our common stock were sold to an accredited investor at \$0.70 per share for a total of \$200,000. The securities in the Offering were offered and sold to accredited investors in reliance upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act and Rule 506 promulgated thereunder. See Note 9.

Warrant Activity

Warrant detail for the nine months ended March 31, 2018 is reflected below:

| | Number of Warrants | Weighted Average Exercise Price Per Warrant | Remaining Contract Term (# years) |
|--|-----------------------|---|--|
| Warrants outstanding and exercisable at June 30, 2017 | 2,342,590 | \$ 1.97 | 0.12 - 1.55 |
| Warrants issued | - | \$ - | - |
| Warrants forfeited | (460,157) | \$ 2.15 | - |
| Warrants outstanding and exercisable at March 31, 2018 | <u>1,882,433</u> | \$ 1.92 | 1.28 |

Stock-based Compensation

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

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

Activity in stock options during the nine months ended March 31, 2018, and related balances outstanding as of that date are reflected below:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contract Term (# years) |
|-------------------------------|---------------------|---------------------------------------|--|
| Outstanding at June 30, 2017 | 716,277 | \$ 1.10 | |
| Granted | 1,970,000 | 0.46 | |
| Exercised | - | | |
| Forfeited and cancelled | (66,910) | 0.62 | |
| Outstanding at March 31, 2018 | <u>2,619,367</u> | \$ 0.61 | 8.60 |
| Exercisable at March 31, 2018 | <u>1,228,654</u> | \$ 0.77 | 7.75 |

Activity in stock options during the nine months ended March 31, 2017 and related balances outstanding as of that date are reflected below:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contract Term (# years) |
|-------------------------------|---------------------|---------------------------------------|--|
| Outstanding at June 30, 2016 | 900,402 | \$ 1.13 | |
| Granted | - | | |
| Exercised | - | | |
| Forfeited and cancelled | (184,125) | \$ 1.63 | |
| Outstanding at March 31, 2017 | 716,277 | \$ 1.01 | 7.17 |
| Exercisable at March 31, 2017 | 562,435 | \$ 1.14 | 6.55 |

Stock-based compensation expense recognized in our condensed consolidated statements of operations for the three and nine months ended March 31, 2018 and 2017, includes compensation expense for stock-based options and awards granted based on the grant date fair value. For options and awards granted, expenses are amortized under the straight-line method over the expected vesting period. Stock-based compensation expense recognized in the condensed consolidated statements of operations has been reduced for estimated forfeitures of options that are subject to vesting. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Our average stock price during the nine months ended March 31, 2018 was \$0.48, and as a result the intrinsic value of the exercisable options at March 31, 2018 was \$4,000.

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

| | For the Three Months Ended March 31 | | For the Nine Months Ended March 31, | |
|--|--|-----------|--|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Research and development | \$ 16,000 | \$ 3,000 | \$ 80,000 | \$ 10,000 |
| General and administration | 29,000 | 7,000 | 129,000 | 20,000 |
| Total stock-based compensation expense | \$ 45,000 | \$ 10,000 | \$ 209,000 | \$ 30,000 |

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

| Nine months ended March 31, | 2018 | 2017 |
|-----------------------------|-------|-------|
| Expected volatility | 100% | 100% |
| Risk free interest rate | 1.76% | 1.31% |
| Forfeiture rate | 23.0% | 23.0% |
| Dividend yield | 0% | 0% |
| Expected term (years) | 5 | 3 |

The remaining amount of unrecognized stock-based compensation expense at March 31, 2018 relating to outstanding stock options, is approximately \$441,000, which is expected to be recognized over the weighted average period of 2.60 years.

Advisory Agreement

Catalyst Global LLC. Effective April 1, 2017, we entered into a renewal contract (the "2017 Renewal") with Catalyst Global LLC to provide investor relations services for 12 months in exchange for monthly fees of \$3,500 per month and 23,333 shares of restricted common stock per quarter. The initial tranche of 23,333 shares was valued at \$0.45 per share or \$10,500 when issued on June 7, 2017, the second tranche of 23,333 shares was valued at \$0.50 per share or \$11,667 when issued on September 25, 2017, the third tranche of 23,333 shares was valued at \$0.475 per share or \$11,083 when issued on January 16, 2018, the fourth tranche of 23,333 shares was valued at \$0.50 per share or \$11,667 when issued on March 27, 2018. The 2017 Renewal is cancelable upon 60 days written notice.

Shenzhen Reach Investment Development Co. ("SRID"). On March 14, 2018, we entered into a consulting agreement with SRID to assist us with identifying strategic partners, suppliers and manufacturers in China for a term of 12 months. Included with the services is a two-week trip to China to meet with potential manufacturers, which took place in April 2018. In consideration for the services, we agreed to issue to SRID, up to 174,672 shares of restricted common stock valued at approximately \$80,000 over the course of the 12-month term. See Note 9.

NOTE 6 - OTHER RELATED PARTY TRANSACTIONS

Transactions with Epic Boats

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

The Company received \$4,000 and \$9,000, respectively during the three months and nine months ended March 31, 2018, from Epic Boats under the sublease rental agreement which is recorded as a reduction to rent expense and the customer deposits discussed below.

As of March 31, 2018 and June 30, 2017, customer deposits totaling approximately \$106,000 and \$120,000, respectively, were recorded in the accompanying condensed consolidated balance sheets. There were no receivables outstanding from Epic Boats as of March 31, 2018 and June 30, 2017.

Consulting Agreement

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

NOTE 7 - CONCENTRATIONS

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and unsecured trade accounts receivable. The Company maintains cash balances at a financial institution in San Diego, California. Our cash balance at this institution is secured by the Federal Deposit Insurance Corporation up to \$250,000. The Company has not experienced any losses in such accounts. Management believes that the Company is not exposed to any significant credit risk with respect to its cash.

Customer Concentrations

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

During the three and nine months ended March 31, 2018, two customers accounted for 92% and 85% of revenue, respectively. As of March 31, 2018 and June 30, 2017, two customer accounted for 91% and five customers accounted for 91% of accounts receivable, respectively.

During the three months ended March 31, 2017, four customers accounted for 69% and three customers accounted for 58% of revenue, respectively.

Suppliers/Vendor Concentrations

We obtain many of the components and supplies included in our products from a small group of suppliers. During the three and nine months ended March 31, 2018 we had four suppliers who accounted for more than 10% of our total inventory purchases on an individual basis or approximately 65% and 57%, respectively, in the aggregate.

During the three months ended March 31, 2017 we had two suppliers who accounted for more than 10% of our total inventory purchases on an individual basis or approximately 54% in the aggregate. During the nine months ended March 31, 2017 we had three suppliers who accounted for more than 10% of our total inventory purchases on an individual basis or approximately 60% in the aggregate.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

From time to time, we may be involved in routine legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of our business. The ultimate amount of liability, if any, for any claims of any type (either alone or in the aggregate) may materially and adversely affect our financial condition, results of operations and liquidity. In addition, the ultimate outcome of any litigation is uncertain. Any outcome, whether favorable or unfavorable, may materially and adversely affect us due to legal costs and expenses, diversion of management attention and other factors. We expense legal costs in the period incurred. We cannot assure you that contingencies of a legal nature or contingencies having legal aspects will not be asserted against us in the future, and these matters could relate to prior, current or future transactions or events. As of March 31, 2018, we are not a party to any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on our business, financial condition or operating results.

NOTE 9 - SUBSEQUENT EVENTS

On April 25, 2018, we issued 57,672 shares of common stock valued at \$0.49 per share or \$28,000, to SRID as payment for consulting service rendered in accordance with their consulting agreement (see Note 5). Such shares were issued upon exemptions from registration pursuant to Regulation S of the Securities Act.

During the period from April 1, 2018 through May 14, 2018 we sold 857,143 shares of our common stock to four accredited investors at \$0.70 per share, totaling \$600,000, as part of our March 2018 private placement (see Note 5). Such shares were issued upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act, and Rule 506 promulgated thereunder. The offering was terminated on May 11, 2018.

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, 2017.

Overview

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

- *Cell Balancing:* This is performed by continuously adjusting the capacity of each cell in a storage system according to temperature, voltage, and internal impedance metrics. This management ensures longevity of the overall system.
- *Monitoring:* This is performed through temperature probes, physical connection to individual cells for voltage and calculations from basic metrics to determine remaining capacity and internal impedance. This monitoring uses accurate measurements to best manage the system and ensure longevity.
- *Error reporting:* This is performed by analyzing data from individual cell and to determine whether the system is operating within normal specifications. This error reporting is crucial to system management as it ensures ancillary devices are not damaging the battery; it will give the operator an opportunity to take corrective action to maintain long overall system life.
- *Over Discharge Prevention:* Battery systems are protected against excessively low cell voltage (over discharge) by means of continuous cell voltage measurement and predictive algorithms in the BMS. Preventing over discharge is critical to maximizing system lifetime.

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

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

We are working with various forklift manufacturers, their dealers and battery distributors to bring our advanced energy storage systems to the lift equipment market. This provides a more direct market path to the consumer without the delays and issues that accompany dealing solely with battery distributors. These efforts have resulted in pilot programs and trials with national accounts, end users, and industrial equipment manufacturers. We have used the feedback from these pilot programs to substantially improve our battery packs. Because of our strong relationships with two leading forklift manufacturers, we were able to generate revenues during both the second and third quarters of fiscal 2018 in excess of our fiscal 2017 revenues and we are on track for a comparable fourth quarter. We are in continued discussions with these forklift manufacturers for similar orders anticipated to ship throughout the next six months.

During the latter part of fiscal 2017 we also began marketing directly to end-users of lift equipment, primarily in the food and beverage industry. By going directly to the customers with the many benefits of utilizing lithium-ion batteries in their walkie pallet jack forklifts, we anticipate seeing a more rapid transition from traditional lead acid batteries to our lithium-ion batteries. Such benefits include less maintenance, faster charge times, longer lasting and greater power. As a result of such marketing efforts, Flux was named as one of *Food Logistics* “Rock Stars of the Food & Beverage Supply Chain” in both 2018 and 2017. *Food Logistics* is the only publication dedicated to covering the movement of product through the global food supply chain. This recognition underscores the increasing acceptance of Flux LiFT Packs powering multi-shift operations at a growing base of food industry distribution centers across America.

Our strategy is to offer a full product lineup for forklifts during the following two quarters. We are leveraging our prior experience of developing and shipping over 15 megawatts of battery packs into a variety of applications including electrical vehicles, robotic mining vehicles, and various industry specific applications. By working with the forklift manufacturers, we have secured “technical approval” for compatibility with their equipment and in January 2018 we received Energy Storage System compatibility approval from Toyota Material Handling USA with respect to their 8HBW23 walkie pallet jack and from Raymond Corporation with respect to their 8210 walkie pallet jack. Each of these models have been tested to be electrically compatible with our LiFT Packs. These approvals represent another step towards our achieving industry acceptance and expanding awareness for a lithium-ion battery pack in lift equipment.

In addition to our forklift line, we have developed an 80-volt, 600 amp-hour lithium-ion battery pack to power large airport ground support equipment (“GSE”). Our GSE Pack is designed to provide a better performing and more cost-effective power source for electrical aviation GSE, with an initial focus on baggage/cargo tractors. Our GSE Packs were in an evaluation stage since April 2016 with unqualified success highlighting the scalability of our design and engineering capabilities, as well as, our proprietary battery management technology for a broad array of motive power applications, and with a customer price point of roughly \$20,000 to \$34,000 per pack, it creates an excellent new leg of growth potential. During February 2018, we secured a 17-unit purchase order for our GSE Pack from the global aviation industry’s largest provider of cargo and aircraft ground handling services. These units are slated for shipping during the fourth quarter of fiscal 2018 and will generate an additional \$300,000 of revenues.

Our primary source of revenues thus far has been from our entry-level LiFT Pack line to power Class 3 walkie pallet jack forklifts. We are currently in development of much larger lithium-ion battery solutions for Class 1 and Class 2 material handling equipment. The Class 1 and Class 2 equipment, comprised of counter balance forklifts, narrow aisle, and end riders are a natural progression for Flux as we leverage our scalable technology and design. These larger systems will satisfy customers seeking one lithium battery vendor to address all their material handling equipment needs. During December 2017, we shipped our first Class 1 LiFT Pack to a Fortune 100 heavy machinery conglomerate for evaluation and have continued the improvement and development of the Class 1 LiFT Pack, as well as, the development of the Class 2 and Class 3 packs. Our Class 3 end rider LiFT Pack was presented at a major Food & Beverage tradeshow during March 2018 and we anticipate sending additional evaluation packs out beginning in May 2018. With a focus on improvements to our LiFT Packs and overall production processes behind us, and the continued development of our product line, we are now positioned to accelerate our sales efforts in fiscal 2018.

Segment and Related Information

We operate as a single reportable segment.

Results of Operations and Financial Condition

The following table represents our unaudited condensed consolidated statement of operations for the three months ended March 31, 2018 ("Q3 2018") and March 31, 2017 ("Q3 2017").

| | Three Months Ended March 31, | | | |
|--|------------------------------|---------------|----------------|---------------|
| | 2018 | | 2017 | |
| | \$ | % of Revenues | \$ | % of Revenues |
| Net revenue | \$ 1,666,000 | 100% | \$ 306,000 | 100% |
| Cost of sales | 1,816,000 | 109% | 508,000 | 166% |
| Gross loss | (150,000) | -9% | (202,000) | -66% |
| Operating expenses: | | | | |
| Selling and administrative expenses | 909,000 | 55% | 664,000 | 217% |
| Research and development | 483,000 | 29% | 245,000 | 80% |
| Total operating expenses | 1,392,000 | 84% | 909,000 | 297% |
| Operating loss | (1,542,000) | -93% | (1,111,000) | -363% |
| Other income (expense): | | | | |
| Change in fair value of derivative liabilities | - | 0% | 1,000 | 0% |
| Interest expense, net | (211,000) | -13% | (52,000) | -17% |
| Net loss | \$ (1,753,000) | -105% | \$ (1,162,000) | -380% |

Revenues

Revenues for Q3 2018, increased by \$1,360,000 or 444%, compared to Q3 2017. During Q3 2018 we sold approximately 530 LiFT Packs, compared to approximately 90 LiFT Packs in Q3 2017. This substantial increase was directly attributable to our strong relationships with two leading forklift manufacturers and the related end users which resulted in approximately 92% of Q3 2018 revenues. Additionally, at March 31, 2018 we had sales orders which will generate approximately \$1,000,000 in revenues from our walkie pallet jack and GSE product lines, combined.

Cost of Sales

Cost of sales for Q3 2018, increased \$1,308,000, or 257%, compared to Q3 2017. The increase in cost of sales is directly related to our substantial increase in LiFT Pack sales as discussed above. The primary reason for cost of sales not increasing as much as our revenues during the quarter is due to efficiencies garnered in the production of our LiFT Packs. It has always been imperative to us that we maintain a knowledgeable and well-trained workforce to produce our packs. Accordingly, production wage expense included in cost of sales has remained substantial, despite our low sales volume prior to September 2017. During Q2 2018 and Q3 2018, we have been able to increase production significantly while increasing our production wages only minimally. The impact of the greater efficiency of our workforce resulted in an improved gross loss percent from -72% during Q3 2017 to -9% in Q3 2018. Despite this improvement, we have continued to recognize a gross loss during Q3 2018 as we remain subject to low volume purchases, early higher cost designs and limited sourcing related to our inventory purchases, as well as, the continued warranty expense from early generation products in the field. As demand for our LiFT Pack continues, we anticipate recognizing quantity discounts on inventory purchases, reductions in warranty expense and continued efficiencies from our workforce, all contributing to improvements in our gross margin.

Selling and Administrative Expenses

Selling and administrative expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, public company costs, consulting costs, professional fees and other expenses. Such expense for Q3 2018 increased \$245,000 or 37%, compared to Q3 2017. This increase is primarily due to the addition of two Regional Sales Managers and a Director of Sales since Q3 2017, commissions related to the Q3 2018 sales and increased shipping costs on delivery of our LiFT packs.

Research and Development Expense

Research and development expenses for Q3 2018 increased \$238,000 or 97%, compared to Q3 2017. Such expenses consist primarily of materials, supplies, salaries and personnel related expenses, stock-based compensation expense, and other expenses associated with the continued development of our full line of products for LiFT Pack and GSE. During Q3 2018, we have continued to focus our efforts in developing lithium-ion battery packs for Class 1 and Class 2 forklifts. The scalable technology and design of our LiFT Packs makes for a natural progression to these larger packs. During December 2017, we shipped our first Class 1 LiFT Pack to a Fortune 100 heavy machinery conglomerate for evaluation and have continued the improvement and development of the Class 1 LiFT Pack, as well as, the development of the Class 2 and Class 3 packs. The impact of these efforts is expected to continue to be seen throughout the remainder of fiscal 2018. We anticipate research and development expenses continuing to be a sizeable portion of our expenses as we continue to develop new and improved products to our product line.

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 fair value of derivative liabilities for Q3 2018 decreased \$1,000 or 100% compared to Q3 2017. During August 2016, we proposed to our warrant holders that the re-set provision included in the warrant (that creating the derivative liability) be eliminated. Upon receiving consents to eliminate the re-set provision from a majority of the warrant holders, the re-set provision and the related derivative liability were eliminated as of January 23, 2017, thus resulting in no change in fair value of derivative liabilities during Q3 2018.

Interest Expense

Interest expense for Q3 2018 increased \$159,000 or 306% and consists of interest expense related to our outstanding lines of credit and convertible promissory note (see Note 4 in the accompanying condensed consolidated financial statements).

Net Loss

Net loss for Q3 2018 increased \$591,000 or 51%, as compared to net loss in Q3 2017. The increase is primarily attributable to increased staff and development expenses related to expanding our products line, our growing sales department, interest expense, and increased stock-based compensation costs. As we continue to increase sales of our walkie LiFT Packs, we anticipate being able to take advantage of greater quantity discounts thus improving our gross margin. Additionally, with the introduction of Class 1 and Class 2 packs to the market we expect to also strengthen our financial position.

The following table represents our unaudited condensed consolidated statement of operations for the nine months ended March 31, 2018 and March 31, 2017.

| | Nine months ended March 31, | | | |
|--|-----------------------------|---------------|----------------|---------------|
| | 2018 | | 2017 | |
| | \$ | % of Revenues | \$ | % of Revenues |
| Net revenue | \$ 3,020,000 | 100% | \$ 781,000 | 100% |
| Cost of sales | 3,728,000 | 123% | 1,384,000 | 177% |
| Gross loss | (708,000) | -23% | (603,000) | -77% |
| Operating expenses: | | | | |
| Selling and administrative expenses | 2,378,000 | 79% | 1,842,000 | 236% |
| Research and development | 1,441,000 | 48% | 772,000 | 99% |
| Total operating expenses | 3,819,000 | 126% | 2,614,000 | 335% |
| Operating loss | (4,527,000) | -150% | (3,217,000) | -412% |
| Other income (expense): | | | | |
| Change in fair value of derivative liabilities | - | 0% | 14,000 | 2% |
| Interest expense, net | (512,000) | -17% | (174,000) | -22% |
| Net loss | \$ (5,039,000) | -167% | \$ (3,377,000) | -432% |

Revenues

Revenues for the nine months ended March 31, 2018, increased by \$2,239,000 or 287%, compared to the nine months ended March 31, 2017. This substantial increase in shipments was directly attributable the development of a strong relationships with two leading forklift manufacturers and the related end users which generated approximately 85% of revenues during the nine months ended March 31, 2018. Additionally, at March 31, 2018 we had sales orders which will generate approximately \$1,000,000 in revenues from our walkie pallet jack and GSE product lines, combined. We are in continued discussions with these forklift manufacturers for similar orders anticipated to ship throughout the remainder of fiscal 2018 and into fiscal 2019.

Cost of Sales

Cost of sales during the nine months ended March 31, 2018, increased \$2,344,000, or 169%, compared to the nine months ended March 31, 2017. The increase in cost of sales is directly related to our increase in LiFT Pack sales. Consistent with the increase discussed regarding Q3 2018 above, cost of sales did not increase as much as our revenues during the period due to efficiencies garnered by our production workforce. We anticipate further reductions in our cost of sales in the future as we begin to take advantage of greater quantity discounts that will come along with our increased sales.

Selling and Administrative Expenses

Selling and administrative expenses for the nine months ended March 31, 2018 increased \$536,000 or 29%, compared to the nine months ended March 31, 2017. As discussed above regarding Q3 2018, the increase is primarily attributable to the addition of two Regional Sales Managers and a Director of Sales since Q3 2017, sales commissions and increased shipping costs on delivery of our LiFT packs. Additionally, we issued 1.97 million stock options in October 2017 resulting in stock based compensation during the nine months ended March 31, 2018 of \$129,000 compared to \$19,000 during the nine months ended March 31, 2017.

Research and Development Expense

Research and development expenses for the nine months ended March 31, 2018 increased \$669,000 or 87%, compared to the nine months ended March 31, 2017 due to our continued focus in developing lithium-ion battery packs for Class 1 and Class 2 forklifts. During December 2017, we shipped our first Class 1 LiFT Pack to a Fortune 100 heavy machinery conglomerate for evaluation and have continued the improvement and development of the Class 1 LiFT Pack, as well as, the development of the Class 2 and Class 3 packs. The impact of these efforts is expected to continue to be seen throughout the remainder of fiscal 2018. We anticipate research and development expenses continuing to be a sizeable portion of our expenses as we continue to develop new and improved products to our product line.

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 fair value of derivative liabilities for the nine months ended March 31, 2018 decreased \$14,000 or 100% compared to the nine months ended March 31, 2017. During August 2016, we proposed to our warrant holders that the re-set provision included in the warrant (that creating the derivative liability) be eliminated. Upon receiving consents to eliminate the re-set provision from a majority of the warrant holders, the re-set provision and the related derivative liability were eliminated as of January 23, 2017, thus resulting in no change in fair value of derivative liabilities during the nine months ended March 31, 2018.

Interest Expense

Interest expense during the nine months ended March 31, 2018 and 2017 increased \$338,000, or 194%, and consists primarily of interest expense related to our outstanding lines of credit and convertible promissory note. Also included in interest expense during the nine months ended March 31, 2017 is the amortization of deferred financing costs associated with our Unrestricted Line of Credit. On December 29, 2015, we entered into the Second Amendment of our Unrestricted Line of Credit which included, among other provisions, the reduction in the conversion price of the Unrestricted Line of Credit from \$3.00 to \$0.60 per share. The estimated change in fair value of the conversion price of approximately \$310,000 was recorded as a deferred financing cost at the date of the Second Amendment and was amortized over the then remaining seven-month term of the amended Unrestricted Line of Credit agreement. During the nine months ended March 31, 2017, we amortized the remaining \$44,000 of deferred financing costs.

Net Loss

Net loss for the nine months ended March 31, 2018 increased \$1,662,000, or 49%, as compared to net loss for the nine months ended March 31, 2017. The increase is primarily attributable to increased staff and development expenses related to expanding our product line, our growing sales department, interest expense, and increased stock-based compensation costs. As we continue to increase sales of our walkie LiFT Packs, we anticipate being able to take advantage of greater quantity discounts thus improving our gross margin. Additionally, with the introduction of Class 1 and Class 2 packs to the market we expect to also strengthen our financial position.

Liquidity and Capital Resources

Overview

As of March 31, 2018, we had a cash balance of \$128,000, a working capital deficit of \$9,341,000, and an accumulated deficit of \$24,736,000. We do not have sufficient liquidity and capital resources to fund planned operations for the twelve months following the filing date of this Quarterly Report. The Company is exploring and working on securing additional capital in the form of convertible debt and private placements from both current sources and new sources. See "Future Liquidity Needs" below.

Cash Flows

Operating Activities

Our operating activities resulted in net cash used in operations of \$4,679,000 during the nine months ended March 31, 2018, compared to net cash used in operations of \$3,897,000 during the nine months ended March 31, 2017.

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

Net cash used in operating activities during the nine months ended March 31, 2017, reflects the net loss of approximately \$3,377,000 for the period offset primarily by non-cash items including depreciation, stock based compensation and the amortization of debt discounts and deferred financing costs, as well as, increases in inventories and accrued expenses offset by an increase in accounts payable.

Investing Activities

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

Net cash used in investing activities during the nine months ended March 31, 2017 consists primarily of the purchase of computer software, leasehold improvements and warehouse equipment for \$45,000.

Financing Activities

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

Net cash provided by financing activities during the nine months ended March 31, 2017 was \$3,885,000 and consisted of \$1,075,000 of proceeds from the sale of common stock, \$2,525,000 of borrowings from our line of credit with Esenjay, \$500,000 advanced from a shareholder and the repayment of our Line of Credit of \$215,000 with a non-related party.

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. These factors raise substantial doubt about our ability to continue as a going concern for the twelve months following the filing date of our Quarterly Report on Form 10-Q. Based on our current and planned levels of expenditures, we estimate that total financing proceeds of approximately \$5,000,000 will be required to fund current and planned operations for the twelve months following the filing date of this Quarterly Report on Form 10-Q. In addition, we anticipate that further additional financing may be required to fund our business plan subsequent to that date, until such time as revenues and related cash flows become sufficient to support our operating costs.

Management plans to raise additional required capital through private placements of equity securities and through draws on our existing related-party credit facilities. We initiated a private placement of equity securities in March 2018 under which we are authorized by the Board of Directors to raise up to \$4,000,000 through the sale of our common stock at \$0.70 per share to select accredited investors. As of May 11, 2018, a total of \$800,000 was raised pursuant to this private placement, of which \$200,000 was raised prior to March 31, 2018. The private placement was terminated on May 11, 2018 following the closing. Additionally, as more fully discussed in Note 4 to our unaudited condensed consolidated financial statements, we have two credit facilities with Esenjay Investments, LLC ("Esenjay"). Esenjay is deemed to be a related party as Mr. Michael Johnson, the beneficial owner and director of Esenjay, is a current member of our board of directors and a major shareholder of the Company. The Unrestricted Line of Credit with Esenjay has a maximum borrowing amount of \$10,000,000, bears interest at 8% per annum, matures on January 31, 2019, and is convertible into shares of common stock at \$0.60 per share. As of May 14, 2018, there was \$2,025,000 available for future draw under the Unrestricted Line of Credit. Pursuant to a credit facility agreement dated March 22, 2018, Esenjay agreed to provide Flux Power with a line of credit which has a maximum borrowing amount of \$5,000,000, bears interest at 15% per annum and matures on March 31, 2019. As of May 14, 2018, there was \$3,245,000 available for future draws under the Inventory Line of Credit. Esenjay owns approximately 61% of our issued and outstanding common stock as of May 14, 2018.

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

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

Off-Balance Sheet Arrangements

None.

Critical Accounting Policies

The unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. Information with respect to our critical accounting policies which we believe could have the most significant effect on our reported results and require subjective or complex judgments by management is contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the year ended June 30, 2017.

Recently Issued Accounting Pronouncements Not Yet Adopted

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

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4 - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file with the SEC under the Securities Exchange Act of 1934, as amended is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate, to allow for timely decisions regarding required disclosure. As required by SEC Rules 13a-15(e) and 15d-15(e) 15d-15(b), we carried out an evaluation as of the end of the fiscal quarter ended March 31, 2018, under the supervision and with the participation of our management, including our principal executive and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934, as amended ("Exchange Act")) and concluded that our disclosure controls and procedures were effective to ensure the information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control Over Financial Reporting

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

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

From time to time, we may be involved in routine legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of our business. The ultimate amount of liability, if any, for any claims of any type (either alone or in the aggregate) may materially and adversely affect our financial condition, results of operations and liquidity. In addition, the ultimate outcome of any litigation is uncertain. Any outcome, whether favorable or unfavorable, may materially and adversely affect us due to legal costs and expenses, diversion of management attention and other factors. We expense legal costs in the period incurred. We cannot assure you that contingencies of a legal nature or contingencies having legal aspects will not be asserted against us in the future, and these matters could relate to prior, current or future transactions or events. As of March 31, 2018, we are not a party to any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on our business, financial condition or operating results.

ITEM 1A - RISK FACTORS

Any investment in our common stock involves a high degree of risk. Investors should carefully consider the risks described in our Annual Report on Form 10-K as filed with the SEC on September 22, 2017 and all of the information contained in our public filings before deciding whether to purchase our common stock.

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

Effective April 1, 2017, we entered into a renewal contract (the "2017 Renewal") with Catalyst Global LLC to provide investor relations services for 12 months in exchange for monthly fees of \$3,500 per month and 23,333 shares of restricted common stock per quarter. The initial tranche of 23,333 shares was valued at \$0.45 per share or \$10,500 when issued on June 7, 2017, the second tranche of 23,333 shares was valued at \$0.50 per share or \$11,667 when issued on September 25, 2017, the third tranche of 23,333 shares was valued at \$0.475 per share or \$11,083 when issued on January 16, 2018, the fourth tranche of 23,333 shares was valued at \$0.50 per share or \$11,667 when issued on March 27, 2018. The 2017 Renewal is cancelable upon 60 days written notice. These shares have not been registered under the Securities Act. Such shares were issued upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

On March 14, 2018, we entered into a consulting agreement with Shenzhen Reach Investment Development Co. ("SRID") to assist us with identifying strategic partners, suppliers and manufacturers in China for a term of 12 months. In consideration for the services, we agreed to issue to SRID, up to 174,672 shares of restricted common stock valued at approximately \$80,000 over the course of the 12-month term. On April 25, 2018, we issued 57,672 shares of common stock valued at \$0.49 per share or \$28,000, to SRID as payment for consulting service rendered in accordance with their consulting agreement. These shares have not been registered under the Securities Act. Such shares were issued upon exemptions from registration pursuant to Regulation S of the Securities Act.

In March 2018, our Board of Directors approved the private placement of up to 5,714,286 shares of our common stock to select accredited investors for a total amount of \$4,000,000, or \$0.70 per share of common stock. The private placement was terminated on May 11, 2018. During the period from March 1, 2018 through May 11, 2018 we sold an aggregate of 1,142,857 shares of our common stock at \$0.70 per share, to five accredited investors, resulting in gross proceeds of \$800,000. These shares have not been registered under the Securities Act. Such shares were issued upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act, and Rule 506 promulgated thereunder.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 - OTHER INFORMATION

Consulting Agreement

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

ITEM 6 - EXHIBITS

The following exhibits are filed as part of this Report

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|---|
| 10.1 | Credit Facility Agreement dated March 22, 2018 ⁽¹⁾ |
| 10.2 | Secured Promissory Note dated March 22, 2018 ⁽²⁾ |
| 10.3 | Guaranty and Security Agreement dated March 22, 2018 ⁽³⁾ |
| 31.1 | Certifications of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act.* |
| 31.2 | Certifications of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act.* |
| 32.1 | Certifications of the Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act.* |
| 32.2 | Certifications of the Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act.* |
| 101.INS | XBRL Instance Document* |
| 101.SCH | XBRL Taxonomy Extension Schema* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase* |

* Filed herewith.

- (1) Incorporated by reference to Exhibit 10.1 contained in Form 8-K filed with the SEC on March 28, 2018.
- (2) Incorporated by reference to Exhibit 10.2 contained in Form 8-K filed with the SEC on March 28, 2018.
- (3) Incorporated by reference to Exhibit 10.3 contained in Form 8-K filed with the SEC on March 28, 2018.

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: May 14, 2018

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

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

I, Ronald F. Dutt, certify that:

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

Date: May 14, 2018

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

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

I, Ronald F. Dutt, certify that:

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

Date: May 14, 2018

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

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

In connection with the Quarterly Report of Flux Power Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: May 14, 2018

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

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

In connection with the Quarterly Report of Flux Power Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: May 14, 2018

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