

**SECURITIES & EXCHANGE COMMISSION EDGAR FILING**

**Flux Power Holdings, Inc.**

**Form: 10-Q**

**Date Filed: 2015-05-15**

Corporate Issuer CIK: 1083743

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, 2015

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

Commission File Number: 000-25909

**FLUX POWER HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of  
incorporation or organization)

86-0931332

(I.R.S. Employer  
Identification Number)

985 Poinsettia Avenue, Suite A, Vista, California

(Address of principal executive offices)

92081

(Zip Code)

877-505-3589

(Registrant's telephone number, including area code)

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

Yes  No

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

(Do not check if a smaller reporting company)

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

Yes  No

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

<u>Class</u>	<u>Outstanding as of May 5, 2015</u>
<u>Common Stock, \$0.001 par value</u>	<u>99,464,112</u>

FLUX POWER HOLDINGS, INC.

FORM 10-Q  
For the Quarterly Period Ended March 31, 2015  
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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.
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**FLUX POWER HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

Item 1. Financial Statements

	March 31, 2015 (Unaudited)	June 30, 2014
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 69,000	\$ 116,000
Accounts receivable, net	151,000	140,000
Inventories, net	166,000	85,000
Other current assets	61,000	18,000
<b>Total current assets</b>	<b>447,000</b>	<b>359,000</b>
<b>Other Assets</b>		
Property, plant and equipment, net	25,000	25,000
	61,000	78,000
<b>Total assets</b>	<b>\$ 533,000</b>	<b>\$ 462,000</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current liabilities:</b>		
Accounts payable	399,000	320,000
Accrued expenses	201,000	219,000
Customer deposits from related party	136,000	136,000
Warrant derivative liability	73,000	571,000
Note payable – related party	925,000	—
<b>Total current liabilities</b>	<b>1,734,000</b>	<b>1,246,000</b>
<b>Long term liabilities:</b>		
Line of credit, net of discount	88,000	—
<b>Total liabilities</b>	<b>1,822,000</b>	<b>1,246,000</b>
<b>Commitments and contingencies (Notes 11)</b>		
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock, \$0.001 par value: authorized 5,000,000 shares, none issued and outstanding	—	—
Common stock, \$0.001 par value: authorized 300,000,000 and 145,000,000 shares as of March 31, 2015 and June 30, 2014, respectively, 99,464,112 and 93,274,113 shares issued and outstanding as of March 31, 2015 and June 30, 2014, respectively	99,000	93,000
Additional paid-in capital	8,336,000	7,399,000
Accumulated deficit	(9,724,000)	(8,276,000)
<b>Total stockholders' deficit</b>	<b>(1,289,000)</b>	<b>(784,000)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 533,000</b>	<b>\$ 462,000</b>

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

**FLUX POWER HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Three and Nine Month Periods Ended March 31, 2015 and 2014**  
**(Unaudited)**

	<u>Three months Ended</u>		<u>Nine months Ended</u>	
	<u>March 31, 2015</u>	<u>March 31, 2014</u>	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Net revenue	\$ 199,000	\$ 94,000	\$ 495,000	\$ 157,000
Cost of sales	220,000	48,000	492,000	88,000
Gross profit (loss)	(21,000)	46,000	3,000	69,000
Operating expenses:				
Selling and administrative expenses	498,000	476,000	1,447,000	1,089,000
Amortization of prepaid advisory fees	2,000	427,000	35,000	1,252,000
Research and development	137,000	139,000	399,000	369,000
Total operating expenses	637,000	1,042,000	1,881,000	2,710,000
Operating loss	(658,000)	(996,000)	(1,878,000)	(2,641,000)
Other income (expense):				
Change in fair value of derivative liabilities	60,000	(650,000)	498,000	(567,000)
Interest expense, net	(42,000)	(41,000)	(65,000)	(141,000)
Other income (expense)	8,000	(58,000)	(2,000)	(58,000)
Net loss	\$ (632,000)	\$ (1,745,000)	\$ (1,447,000)	\$ (3,407,000)
Net loss per share – basic and diluted	\$ (0.01)	\$ (0.03)	\$ (0.01)	\$ (0.06)
Weighted average number of common shares outstanding – basic and diluted	99,384,111	62,455,356	96,861,970	52,482,656

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

**FLUX POWER HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Nine Months Ended March 31, 2015 and 2014**  
**(Unaudited)**

	Nine Months Ended	
	March 31, 2015	March 31, 2014
<b>Cash flows from operating activities:</b>		
Net loss	\$ (1,447,000)	\$ (3,407,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	26,000	45,000
Amortization of prepaid advisory fees	35,000	1,252,000
Change in fair value of warrant liability	(498,000)	567,000
Stock-based compensation	174,000	194,000
Stock issuance for services	21,000	125,000
Gain on sale of property and equipment	(4,000)	—
Amortization of debt discount	38,000	—
Changes in operating assets and liabilities:		
Accounts receivable	(11,000)	(44,000)
Inventories	(81,000)	(39,000)
Other current assets	(73,000)	(39,000)
Accounts payable	79,000	(105,000)
Accrued expenses	42,000	3,000
Accrued interest	16,000	142,000
Customer deposits	—	17,000
Customer deposits from related party	—	(2,000)
Net cash used in operating activities	<u>(1,683,000)</u>	<u>(1,291,000)</u>
<b>Cash flows from investing activities:</b>		
Purchases of equipment	(14,000)	—
Proceeds from the sale of equipment	9,000	—
Net cash used by investing activities	<u>(5,000)</u>	<u>—</u>
<b>Cash flows from financing activities:</b>		
Proceeds from the sale of common stock and warrants, net of offering costs paid	501,000	1,276,000
Proceeds from note payable – related party and line of credit	1,140,000	668,000
Net cash provided by financing activities	<u>1,641,000</u>	<u>1,944,000</u>
Net (decrease) increase in cash	(47,000)	653,000
Cash, beginning of period	<u>116,000</u>	<u>20,000</u>
Cash, end of period	<u>\$ 69,000</u>	<u>\$ 673,000</u>
<b>Supplemental Disclosures of Non-cash Investing and Financing Activities:</b>		
Conversion of debt to equity	—	\$ 550,000
Issuance of warrants recorded as deferred financing costs	\$ 5,000	\$ —
Debt discount related to warrants and beneficial conversion feature	\$ 165,000	\$ —

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, 2015**

**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 March 31, 2015 and 2014 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 \$9,724,000 through March 31, 2015, and as of March 31, 2015 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 \$2 million is required to fund planned operations through March 31, 2016. 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 debt and/or 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 March 31, 2015 as part of this private placement. Also, between July 1, 2014 and March 31, 2014, the Company has raised \$925,000 and \$215,000 through a related party credit facilities and convertible line of credit with a non-related party, respectively. In April 2015, we borrowed additional \$500,000 from the related party and pursuant to existing agreements, an aggregate of \$1,825,000 is available for future draws at the lender's discretion. The related party credit facilities mature in December 2015, but may be further extended by lender. The convertible line of credit was entered into in October 2014 and matures on September 19, 2016, but can be extended if the lender provides in writing. At March 31, 2015, \$285,000 was available for future draws and there have been no subsequent draws on this line of credit. 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, the Company 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 which have been 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.

### ***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 cash equivalents at March 31, 2015 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 outstanding 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 or non-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 nine months ended March 31, 2015 and 2014.

### ***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 nine months ended March 31, 2015 and 2014.

### ***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 nine months ended March 31, 2015, and 2014, the Company did not record any deferred revenue.

### ***Product Warranties***

The Company evaluates its exposure to product warranty obligations based on historical experience. Our products are warranted for five years unless modified by a separate agreement. As of March 31, 2015, the Company carries a warranty liability of approximately \$29,000, which is included in accrued expenses on the Company's balance sheets.

### ***Shipping and Handling Costs***

The Company has simplified its treatment of shipping and handling costs for deliveries of product to customers to conform with lift equipment industry practice. Cost to deliver sold product to customers is paid by the Company and classified in operating expense. No additional pricing for shipping is invoiced to the customer. Shipping costs of inbound inventory to build product are charged to cost of goods sold. For the quarter ended March 31, 2015, costs for inbound inventory were \$3,000 and the shipping costs for finished product delivered to customers totaled \$31,000.

### ***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.

The Company also follows 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 March 31, 2015, or June 30, 2014, and accordingly, no additional tax liabilities have been recorded.

### ***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 include the impact from all dilutive potential common shares relating to outstanding convertible securities.

For the three and nine months ended March 31, 2015, basic and diluted weighted-average common shares outstanding were 99,384,111 and 96,861,970, respectively. The Company incurred a net loss for the three and nine months ended March 31, 2015, 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 March 31, 2015, there were 1,761,832 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 nine months ended March 31, 2014, basic and diluted weighted-average common shares outstanding were 62,455,356 and 52,482,656, respectively. The Company incurred a net loss for the three and nine months ended March 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 March 31, 2014, there were 2,090,555 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.

The Company evaluates 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 May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). This update outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. This guidance was originally effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016, which for the Company is January 1, 2017; early adoption was not permitted. In April 2015, the FASB voted to propose a deferral of the effective date of the new standard by one year, but to permit companies to adopt one year earlier if they choose. The standard may be adopted using a full retrospective or a modified retrospective (cumulative effect) method. The Company does not anticipate that the adoption of this update will have a material impact on its financial position or results of operations.

In August 2014, The FASB issued 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 but 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. The Company is currently evaluating the impact this guidance will have on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30), *Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. For public business entities, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Entities should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, entities are required to comply with the applicable disclosures for a change in an accounting principle. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

### **NOTE 4 – RELATED PARTY DEBT AGREEMENTS**

Between October 2011 and October 2013, the Company has entered into and/or amended various debt agreements with Esenjay Investments, LLC ("Esenjay"), with an aggregate borrowing limit of \$3,250,000. Esenjay is deemed to be a related party as Mr. Michael Johnson, the sole shareholder and a director of Esenjay is a current member of our board of directors and a major shareholder of the Company (with beneficial ownership of approximately 51% as of March 31, 2015).

During our fiscal year ended June 30, 2014, a total of \$3,136,000 of debt principal, which represented the total principal outstanding under these various debt agreements with Esenjay was converted to equity, which resulted in ending balances of \$0 at June 30, 2014. The exchanges were 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.

Between July 1, 2014 and March 31, 2015, the Company borrowed an aggregate of \$925,000 pursuant to these various debt agreements with Esenjay and at March 31, 2015 total unused credit amount under these various debt instruments was \$2,325,000. Under the terms of these debt agreements, additional borrowings are subject to pre-approval by Esenjay and Esenjay has no obligation to loan additional funds under these facilities. For the takedowns, the interest rate is 6% and the notes mature December 31, 2015. At March 31, 2015, the outstanding balance under these various debt instruments with Esenjay was \$925,000. Esenjay has the option to convert any or all of the remaining amount outstanding under these debt instruments into shares of our common stock at a conversion price of \$0.30 per share until December 31, 2015.

### **NOTE 5 – LINE OF CREDIT AND SHORT TERM LOAN**

#### ***Line of Credit***

On October 2, 2014, the Company entered in a line of credit ("Line of Credit") agreement in the maximum amount of \$500,000 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 Line of Credit on October 2, 2014. Borrowings under the 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 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 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 Line of Credit can be solely used for working capital purposes. As of March 31, 2015, the Company borrowed a total of \$215,000 under the Line of Credit. In connection with the 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 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 \$215,000, Lender is entitled to purchase up to 1,791,667 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 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 \$85,000 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 \$80,000 related to the beneficial conversion feature. As of March 31, 2015, the \$215,000 principal amount outstanding under this agreement is presented net of unamortized debt discount totaling \$127,000. During the nine months ended March 31, 2015, the Company recorded approximately \$38,000 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 3 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 March 31, 2015 and in connection with the Line of Credit, SRA earned a commission of \$10,750 and warrants to purchase 89,583 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 March 31, 2015. Mr. Timothy Collins, the Executive Chairman of the Company's board of directors is the Chief Executive Officer, President, director and shareholder of SRA.

#### **Short Term Loan**

On January 8, 2015, the Company received an advance of \$54,000 under an unrelated third party convertible note agreement entered into on December 31, 2014 ("Convertible Note"). Under the term of this agreement the Convertible Note had a maturity date of October 2, 2015 and bore interest at a rate of 8% per annum. The note was convertible into shares of the Company's common stock at any time after the maturity date at an exercise price of 61% of the market price (39% discount). The Convertible Note provided 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.

On February 17, 2015, the Company repaid the full principal amount of \$54,000 and the outstanding interest and prepayment penalty of \$9,000.

#### **NOTE 6 - STOCKHOLDERS' EQUITY**

At March 31, 2015, the Company had 300,000,000 shares of common stock, par value of \$ 0.001 authorized for issuance, of which 99,464,112 shares were issued and outstanding. At the annual shareholders meeting held on February 17, 2015, the total authorized shares were increased from 145,000,000 to 300,000,000 as part of an approved amendment to the articles of incorporation. In addition the shareholders also approved the Company's 2014 Equity Plan reserving 10,000,000 shares for issuance of stock options and restricted stock.

In addition, at March 31, 2015, 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 the Company's Amended and Restated Articles of Incorporation. As of March 31, 2015 and June 30, 2014 there are 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 of directors approved a private placement equity financing that is intended to raise up to a total of \$990,000. In connection with this private placement, the Company is offering accredited investors units, consisting of 1,000,000 shares of common stock and 500,000 warrants at a purchase price of \$90,000 per unit. As of March 31, 2015, we have sold 5.95 units to 14 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. 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 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 2014***

From January to March 2014, the Company conducted a private placement equity financing, pursuant to which the Company issued to accredited investors a total of 32.4 units, which consisted of 1,000,000 shares of common stock and 500,000 warrants at a purchase price of \$60,000 per unit. 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. This offering resulted in the receipt by the Company of gross proceeds totaling approximately \$1,394,000 and the conversion of previously outstanding related party debt to equity in the amount of \$550,000, and the issuance of 32,400,000 shares of common stock and warrants to purchase up to 16,200,000 shares of common stock. In connection with this offering a total of 12.5 Units were sold to Esenjay for total of \$750,000. Of the total purchase price, Esenjay paid cash in the aggregate amount of \$200,000 and converted a total of \$550,000 of previously outstanding debt principal (See Note 4).

The securities offered and sold in this 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.

SRA served as Company’s placement agent in connection with this offering and received 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 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 this offering.

#### ***Debt Conversion with Related Party***

In June 2014, the Company converted all of the then outstanding principal and accrued interest owed under various debt agreements with Esenjay totaling \$2,586,000 and \$304,000, respectively. Pursuant to this conversion, the Company issued 12.1 million shares of common stock-based on a conversion price of \$0.24 per share. In addition, Esenjay was 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.

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.

## **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 90,000 shares on each of the subsequent three-, six-, and nine-month anniversaries of the contract. The fair value of the shares on the issuance date was recorded as a prepaid expense and amortized over the contract period. The initial tranche was valued at \$0.05 per share or \$9,000 when issued on November 8, 2013, the second tranche of 90,000 shares was issued on March 19, 2014 and was valued at \$0.38 per share, or \$34,000, the third tranche of 90,000 shares was issued on April 23, 2014 and was valued at \$0.30 per share, or \$27,000 and the fourth tranche of 90,000 shares was issued on October 15, 2014 and was valued at \$0.12 per share, or \$10,800. During the three and nine months ended March 31, 2015, we recorded expense of approximately \$2,000 and \$35,000, respectively, in connection with this agreement. During the three and nine months ended March 31, 2014, the Company recorded expense of approximately \$4,000 and \$5,000, respectively. As of March 31, 2015, the total remaining balance of the prepaid investor relation services was \$0.

On February 11, 2015, the Company signed a renewal contract with 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: 150,000 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 \$0.07 per share or \$10,500 when issued on February 17, 2015. During the nine months ended March 31, 2015, we recorded expense of approximately \$2,000. As of March 31, 2015, the total remaining balance of the prepaid investor relation services was approximately \$9,000.

**Security Research Associates, Inc.** On June 26, 2013, the Company entered into an agreement with 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 and 2015 private placement offerings described above. In connection with these private placements, SRA was paid aggregate cash compensation in the amount of \$142,155 and warrants to purchase a total of 2,176,500 at exercise prices ranging from \$0.06 - \$0.09 per share. Compensation under the SRA agreement is based on 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 offerings received from all investors (excluding Esenjay) placed by SRA divided by \$0.06 per share.

The Company entered into a renewal agreement with SRA on March 18, 2015 pursuant to which it retained SRA as the Company's exclusive placement agent on a "best-efforts" basis in connection with private placement of stock or convertible securities by the Company. The engagement period commenced on the date of the renewal agreement and will terminate upon the earlier of the termination of the renewal agreement or July 31, 2015 no changes were made to terms of compensation. During the engagement period, the Company agreed that it will not retain any additional placement agents to perform the same or similar services to be performed by SRA under the renewal agreement and the Company will refer to SRA all offers and inquiries with respect to the financing by any person or entity, with the exception of participation by Esenjay Investment LLC.

#### **Warrant Activity**

Warrant activity during the nine months ended March 31, 2015, 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	5,241,749	0.22	
Stock purchase warrants exercised	—	—	
Shares purchasable under outstanding warrants at March 31, 2015	<u>28,040,096</u>	<u>\$ 0.21</u>	<u>2.25 – 4.75</u>

Warrant activity during the nine months ended March 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, 2013, repriced	2,907,347	\$ 0.27	3.21
Stock purchase warrants issued	17,991,000	0.19	5.00
Stock purchase warrants exercised	—	—	
Shares purchasable under outstanding warrants at March 31, 2014	<u>20,898,347</u>	<u>\$ 0.20</u>	<u>3.21 – 5.00</u>

#### **Stock-based Compensation**

During the nine months ended March 31, 2015, 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 nine month period ended March 31, 2015. The Company has not registered the shares of common stock underlying stock options outstanding as of March 31, 2015.



Activity in stock options during the nine months ended March 31, 2015, 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	5.10
Granted	400,000	0.06	1.95
Exercised	—		
Forfeited and cancelled	(634,338)		
Outstanding at March 31, 2015	6,101,357	\$ 0.16	7.73
Exercisable at March 31, 2015	4,394,399	\$ 0.15	7.40

Activity in stock options during the nine months ended March 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, 2013	2,527,389	\$ 0.15	5.85
Granted	5,310,973	0.17	8.89
Exercised	—		
Forfeited and cancelled	(792,836)		
Outstanding at March 31, 2014	7,045,526	\$ 0.18	8.57
Exercisable at March 31, 2014	3,317,097	\$ 0.14	8.02

Stock-based compensation expense recognized in our condensed consolidated statements of operations for the nine months ended March 31, 2015, and 2014, 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 March 31, 2015, was \$0.06, and as a result the intrinsic value of the exercisable options at March 31, 2015, was \$13,000.

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 Nine Months Ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Research and development	\$ 3,000	\$ 4,000	\$ 9,000	\$ 7,000
General and administration	58,000	129,000	165,000	186,000
Total stock-based compensation expense	\$ 61,000	\$ 133,000	\$ 174,000	\$ 193,000

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,	2015	2014
Expected volatility	100%	218%
Risk free interest rate	0.96%	0.7% 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 March 31, 2015, is approximately \$231,000, which is expected to be recognized over the weighted average period of 1.34 years.

#### NOTE 7 – WARRANT DERIVATIVE LIABILITY

At March 31, 2015 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 March 31, 2015 and an aggregate value as of June 30, 2014 as follows:

	Issued Warrants	Estimated Fair Value Per Share \$ as of March 31, 2015	Estimated Total Fair Value in Aggregate \$ as of March 31, 2015	Estimated Total Fair Value in Aggregate \$ as of June 30, 2014
June 2012 Warrants	562,551	\$ 0.03	\$ 14,000	\$ 110,000
July 2012 Warrants	338,013	0.03	9,000	67,000
August 2012 Warrants	120,719	0.03	3,000	24,000
October 2012 Warrants	48,287	0.03	1,000	10,000
Advisory Agreement Warrants	1,837,777	0.03	46,000	360,000
<b>Total</b>	<b>2,907,347</b>		<b>\$ 73,000</b>	<b>\$ 571,000</b>

The change in aggregate estimated fair value of the warrants classified as derivative liabilities during the three and nine months ended March 31, 2015 totaling \$60,000 and \$498,000, respectively and are 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.

The table below sets forth a summary of changes in the fair value of our (Level 3) financial instruments for the nine months ended March 31, 2015:

	Balance at June 30, 2014	Estimated fair value of new derivative liabilities	Change in estimated fair value recognized in results of operations	Balance at March 31, 2015
Warrant derivative liabilities	\$ 571,000	\$ -	\$ (498,000)	\$ 73,000

#### 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-lessor 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 \$11,000 from Epic Boats under the sublease rental agreement during the three months and nine months ended March 31, 2015 respectively. Prior to February 2014, the Company was under a separate sublease agreement with Epic Boats, and paid rental fees of \$8,000 and \$56,000 during the three and nine months ended March 31, 2014, respectively, related to sublease rent expense.

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 March 31, 2015 and June 30, 2014 is approximately \$136,000. There were no receivables outstanding from Epic Boats as of March 31, 2015 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 March 31, 2015, cash totaled approximately \$69,000, 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 months ended March 31, 2015, the Company had three customers that represented more than 10% of its revenues on an individual basis, representing approximately 55%, respectively, in the aggregate.

During the nine months ended March 31, 2015, the Company had two customers that represented more than 10% of its revenues on an individual basis, representing approximately 33%, respectively, in the aggregate.

During the three and nine months ended March 31, 2014, the Company had four customers that represented more than 10% of its revenues on an individual basis and approximately 76% and 64%, 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 months ended March 31, 2015, we had two suppliers who accounted for more than 10% of our total inventory purchases on an individual basis and approximately 44% in the aggregate.

During the nine months ended March 31, 2015, we had one supplier who accounted for more than 10% of our total inventory purchases on an individual basis and approximately 20%.

During the three and nine months ended March 31, 2014, we had four suppliers, who accounted for more than 10% of our total inventory purchases on an individual basis and approximately 79% and 62%, respectively, in the aggregate.

## **NOTE 11 – SUBSEQUENT EVENTS**

Management has evaluated events subsequent to March 31, 2015, through the date of this filing with the SEC for transactions and other events that may require adjustment of and/or disclosure in such financial statements.

In April 2015, we borrowed an aggregate of \$500,000 from Esenjay under our related party credit facilities. Based on these takedowns, the remaining available balance under our three debt facilities with Esenjay is \$1,825,000 (See Note 4).

## 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 April 3, 2015, we borrowed \$200,000 from Esenjay under our revolving promissory note agreement. On April 30, 2015, the Company borrowed \$300,000 from Esenjay under our revolving promissory note agreement. These takedowns result in a remaining available balance of \$1,825,000 under our various debt agreements with Esenjay. The funds were used to support working capital requirements for growth and operating expenses.

On March 18, 2015, our board of directors approved a private placement of an aggregate of \$2 million principal amount of its 6% - 8% Convertible Promissory Notes (the "Notes") due three (3) years after closing ("Debt Offering") only to accredited investors. Subject to certain conditions, the Notes will be convertible into shares of Common Stock. The securities offered will not be or have not been registered under the Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

On February 17, 2015, the Company held its 2015 Annual Meeting of Shareholders to vote on the six proposals: the election of all board director positions; an increase in common shares authorized from 145 million to 300 million pursuant to the Amended and Restated Articles of Incorporation; a 2014 Equity Incentive Plan; ratification of appointment of the independent public accounting firm, Squar Milner, Peterson, Miranda & Williamson, LLP; an advisory vote on named executive officer compensation; and an advisory vote on the frequency of the advisory vote on executive compensation. All proposals were approved by shareholder vote.

## Segment and Related Information

We operate as a single reportable segment.

## Results of Operations and Financial Condition

### *Comparison for the Three Months Ended March 31, 2015 and 2014*

#### **Net Loss**

Net losses reported were approximately \$632,000 for the three months ended March 31, 2015, as compared to net losses of approximately \$1,745,000 for the three months ended March 31, 2014.

#### **Revenues**

Our product focus is primarily on Lift Equipment, with a strategy to expand on an opportunistic basis to adjacent applications, including stationary and portable power. 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.

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. However, 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 March 31, 2015, increased by approximately \$105,000, or 112%, compared to the three months ended March 31, 2014 from \$94,000 to \$199,000. 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 just launched its lift equipment products.

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

Cost of revenues for the three months ended March 31, 2015, increased approximately \$172,000, or 358%, compared to the three months ended March 31, 2014 from \$48,000 to \$220,000. 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 March 31, 2015, decreased by approximately \$67,000, or 146%, compared to the three months ended March 31, 2014. We incurred a gross loss as a percentage of revenue of 11% for the three months ended March 31, 2015, compared to a gross profit of 49% in the three months ended March 31, 2014. This year over year decrease in gross profit primarily reflects an estimate of inventory based on analysis and not a physical count for the quarter ended March 31, 2014; the related COGS estimate was correspondingly understated. Adjustments were made at year end 2014 to reflect the physical count of inventory at year end. The inventory levels at quarter end March 31, 2015 are based on a physical count. Gross loss for the three months ended March 31, 2015 primarily reflects continued launch costs including incentives and customer accommodations as part of introduction of product to new customers.

#### ***Selling and Administrative Expenses***

Selling and administrative expenses for the three months ended March 31, 2015, and 2014, were approximately \$498,000 and \$476,000, 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 and was nominally increased by approximately \$22,000, or 5%.

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

Amortization of prepaid advisory fees for the three months ended March 31, 2015, and 2014, was approximately \$2,000 and \$427,000, respectively. The prepaid advisory fees amortized during the three months ended March 31, 2015 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 March 31, 2014 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 March 31, 2015, and 2014, were approximately \$137,000 and \$139,000, respectively. Such expenses consist primarily of materials, supplies, salaries and personnel related expenses, stock-based compensation expense, consulting costs, and other expenses and was nominally decreased by approximately \$2,000, or 1%.

#### ***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. Increases or decreases in the fair value of the warrants for the three months ended March 31, 2015, and 2014 are included as a component of other income (expense) in the accompanying condensed consolidated statements of operations for the respective period. For the three months ended March 31, 2015, the change in the fair value of the warrants was resulted in other income of \$60,000 compared to other expense of \$650,000 in the same quarter in the prior year (see Note 8, to the financial statements).

## **Comparison for the Nine Months Ended March 31, 2015 and 2014**

### **Net Loss**

Net losses reported were approximately \$1,447,000 for the nine months ended March 31, 2015, as compared to net losses of approximately \$3,407,000 for the nine months ended March 31, 2014.

### **Revenues**

Revenues for the nine months ended March 31, 2015, increased by approximately \$338,000, or 215%, compared to the nine months ended March 31, 2014. This increase in sales was primarily attributable to the launch and sales of lift equipment.

### **Cost of Revenues**

Cost of revenues for the nine months ended March 31, 2015, increased approximately \$404,000, or 459%, compared to the nine months ended March 31, 2014. 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 nine months ended March 31, 2015, decreased by approximately \$66,000, or 96%, compared to the nine months ended March 31, 2014, as a result of higher costs related to introduction and launch of lift equipment products. Gross profit as a percentage of revenue for the nine months ended March 31, 2015, decreased to 1% compared to 44% in the nine months ended March 31, 2014. Gross loss for the nine months ended March 31, 2015 primarily reflects continued launch costs including incentives and customer accommodations as part of introduction of product to new customers.

### **Selling and Administrative Expenses**

Selling and administrative expenses for the nine months ended March 31, 2015, and 2014, were approximately \$1,447,000 and \$1,089,000, 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 \$358,000, or 33%, 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 nine months ended March 31, 2015, and 2014, was approximately \$35,000 and \$1,252,000, respectively. The prepaid advisory fees amortized during the nine months ended March 31, 2015 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 nine months ended March 31, 2014 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 nine months ended March 31, 2015, and 2014, were approximately \$399,000 and \$369,000, 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 \$30,000, or 8%, 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. Increases or decreases in the fair value of warrants for the nine months ended March 31, 2015, and 2014 are included as a component of other income (expense) in the accompanying condensed consolidated statements of operations for the respective period. For the nine months ended March 31, 2015 the change in the fair value of the warrants resulted in other income of \$489,000 compared to an expense of \$567,000 in the nine month period in the prior year (see Note 8, to the financial statements).

### **Liquidity and Capital Resources**

#### **Overview**

As of March 31, 2015, we had a cash balance of approximately \$69,000, negative working capital of approximately \$1,287,000, and an accumulated deficit of approximately \$9,724,000. We do not have sufficient liquidity and capital resources to fund planned operations through the coming 12 months. 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 \$1,683,000 for the nine months ended March 31, 2015, compared to net cash used in operations of approximately \$1,291,000 for the nine months ended March 31, 2014.

Net cash used in operating activities during the nine months ended March 31, 2015, reflects the net loss of approximately \$1,447,000 for the period offset by non-cash items including: depreciation of approximately \$26,000, amortization of prepaid advisory fees of \$35,000, stock-based compensation of approximately \$174,000, stock issued for services of \$21,000, amortization of the line of credit discount of \$38,000, a change in accounts payable of \$79,000 and combined changes in accrued expenses and interest of \$58,000. These were offset by changes in the fair value of warrants liability of approximately \$498,000, the gain on sale of fixed assets of \$4,000, a change in accounts receivable of \$11,000, a change in inventories of \$81,000 and a change in prepaid expenses and other current assets of \$73,000.

The net cash used in operating activities for the nine months ended March 31, 2014 reflects our use of proceeds to build the business including increasing expenditures such as demonstration packs for product introduction and additional marketing and research and development.

### **Investing Activities**

Our investment activities resulted in net cash used by financing activities of \$5,000 for the nine months ended March 31, 2015 compared to \$0 for the nine months ended March 31, 2014. Net cash used by investing activities during the nine months ended March 31, 2015 consists primarily of the sale of equipment for \$9,000 that was partially offset by purchases of equipment of approximately \$14,000. There were no investing activities for the nine months ended March 31, 2014.

### **Financing Activities**

Net cash provided by financing activities during the nine months ended March 31, 2015, and 2014, was approximately \$1,641,000 and \$1,944,000, respectively. The decrease in cash provided by financing activities is the result lower proceeds from sale of common stock which was partially offset by higher proceeds from notes payable and line of credit.

### **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 \$0.4 million will be required to fund current and planned operations through the fiscal year ending June 30, 2015. We do not have sufficient liquidity and capital resources to fund planned operations through our fiscal year ending June 30, 2015. In addition, management estimates that additional capital of approximately \$2 million is required to fund planned operations through March 31, 2015 to March 31, 2016. 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. 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 debt and equity securities. We commenced a private placement of our Units in August 2014 and have raised a total of \$535,500 pursuant to this offering. Also, \$215,000 has been raised pursuant to a convertible line of credit. At March 31, 2015, we had \$2.3 million available under our various debt instruments with Esenjay, provided however, Esenjay has no obligation to loan funds and retains the right to not advance funds under these facilities. In addition, the Company is currently conducting a debt offering of up to \$2 million. 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 May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). This update outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. This guidance was originally effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016, which for the Company is January 1, 2017; early adoption was not permitted. In April 2015, the FASB voted to propose a deferral of the effective date of the new standard by one year, but to permit companies to adopt one year earlier if they choose. The standard may be adopted using a full retrospective or a modified retrospective (cumulative effect) method. The Company does not anticipate that the adoption of this update will have a material impact on its financial position or results of operations.

In August 2014, The FASB issued 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 but 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.

In April 2015, the FASB issued ASU No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30), *Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. For public business entities, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Entities should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, entities are required to comply with the applicable disclosures for a change in an accounting principle. The adoption of this ASU is not expected to have a material impact on the Company's 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, 2015, 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 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 February 11, 2015, we signed a renewal 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: 150,000 shares upon signing and the balance vesting pro rata upon each of the three-, six-, and nine-month anniversaries of the contract. Pursuant to the renewal agreement, we issued 150,000 shares of our common stock to CGL in February 2015 (“Initial Shares”). The Initial Shares was valued at \$0.07 per share or \$10,500 when issued on February 17, 2015. The Initial Shares have not been registered under the Securities Act. The Initial Shares were offered and sold in reliance upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

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 March 31, 2015, 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.

### 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
3.1	Amended and Restated Articles of Incorporation (1)
10.23	2014 Equity Incentive Plan*
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*

(1) Incorporated by reference to Form 8-K filed with the SEC on February 19, 2015.

\* 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: May 15, 2015

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

**FLUX POWER HOLDINGS, INC.**  
**a Nevada Corporation**

**2014 EQUITY INCENTIVE PLAN**

1. PURPOSE. The purpose of this Plan is to provide incentives to attract, retain and motivate Eligible Persons whose present and potential contributions are important to the success of the Company by offering them an opportunity to participate in the Company's future performance through awards of Incentive and Non-Qualified Stock Options ("Options"), and Stock ("Restricted Stock" or "Unrestricted Stock"). This Plan is not intended to replace any current plan of, or awards issued by, the Company, nor will it limit the ability of the Company to create additional or new plans, or to issue additional or new awards. Capitalized terms not defined in the text are defined in Section 28.

2. ADOPTION AND STOCKHOLDER APPROVAL. This Plan will be effective upon adoption by the Board (the "Effective Date") and continuance of the Plan for Incentive Stock Options shall be subject to approval by the Stockholders within twelve (12) months after the date the Plan is adopted. Such Stockholder approval shall be obtained in the manner and to the degree required under the applicable laws. No Award will be granted after termination of this Plan but all Awards granted prior to termination will remain in effect in accordance with their terms. So long as the Company is subject to Section 16(b) of the Exchange Act, the Company will comply with the requirements of Rule 16b-3 (or its successor), as amended.

3. TERM OF PLAN. Unless earlier terminated as provided herein, this Plan will terminate ten (10) years from the date this Plan is adopted by the Board.

4. SHARES SUBJECT TO THIS PLAN.

4.1. Number of Shares Available. Subject to Section 4.2, the total number of Shares reserved and available for grant and issuance pursuant to this Plan will be ten million (10,000,000) (the "Maximum Number"). Not more than the Maximum Number of shares of Stock shall be granted in the form of Incentive Stock Options. Shares issued under the Plan will be drawn from authorized and unissued shares or shares now held or subsequently acquired by the Company.

4.1.1. Future Awards. Subject to Section 4.2 and to the fullest extent permissible under Rule 16b-3 under the Exchange Act and Section 422 of the Code and any other applicable laws, rules and regulations, (i) if an Award is canceled, terminates, expires, is forfeited or lapses for any reason without having been exercised or settled, any shares of Stock subject to the Award will be added back into the Maximum Number and will again be available for the grant of an Award under the Plan and (ii) and the number of shares of Stock withheld to satisfy a Participant's minimum tax withholding obligations will be added back into the Maximum Number and will be available for the grant of an Award under the Plan. Also, only the net numbers of Shares that are issued pursuant to the exercise of an Award will be counted against the Maximum Number.

However, in the event that prior to the Award's cancellation, termination, expiration, forfeiture or lapse, the holder of the Award at any time received one or more elements of "beneficial ownership" pursuant to such Award (as defined by the SEC, pursuant to any rule or interpretations promulgated under Section 16 of the Exchange Act), the Shares subject to such Award will not again be made available for re-grant under the Plan.

4.1.2. Acquired Company Awards. Notwithstanding anything in the Plan to the contrary, the Plan Administrator may grant Awards under the Plan in substitution for awards issued under other plans, or assume under the Plan awards issued under other plans, if the other plans are or were plans of other acquired entities ("Acquired Entities") (or the parent of an Acquired Entity) and the new Award is substituted, or the old award is assumed, by reason of a merger, consolidation, acquisition of property or stock, reorganization or liquidation (the "Acquisition Transaction"). In the event that a written agreement pursuant to which the Acquisition Transaction is completed is approved by the Board and said agreement sets forth the terms and conditions of the substitution for or assumption of outstanding awards of the Acquired Entity, said terms and conditions will be deemed to be the action of the Plan Administrator without any further action by the Plan Administrator, except as may be required for compliance with Rule 16b-3 under the Exchange Act, and the persons holding such awards will be deemed to be Participants.

4.1.3. Reserve of Shares. At all times, the Company will reserve and keep available a sufficient number of Shares as will be required to satisfy the requirements of all outstanding Awards granted under this Plan. The Shares to be issued hereunder upon exercise of an Award may be either authorized but unissued; supplied to the Plan through acquisitions of Shares on the open market; Shares purchased under the Plan and forfeited back to the Plan; Shares surrendered in payment of the exercise price of an option; or Shares withheld for payment of applicable employment taxes and/or withholding obligations resulting from the exercise of an Option. The following rules will apply for purposes of the determination of the number of Shares available for grant under the Plan:

i. Grants. The grant of an Award will reduce the Shares available for grant under the Plan by the number of Shares subject to such Award.

ii. Outstanding. While an Award is outstanding, it will be counted against the authorized pool of Shares regardless of its vested status.

4.2. Adjustments. Should any change be made to the Stock of the Company by reason of any stock split (including reverse stock split), stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Company's receipt of consideration, the Administrator will make the appropriate adjustments to (i) the maximum number and/or class of securities issuable under the Plan; and (ii) the number and/or class of securities and the exercise price per Share in effect under each outstanding Award in order to prevent the dilution or enlargement of benefits thereunder; provided however, that the number of Shares subject to any Award will always be a whole number and the Administrator will make such adjustments as are necessary to insure Awards of whole Shares.

4.3. Limitations on Awards. Notwithstanding any provision in the Plan to the contrary (but subject to adjustment as provided in Section 4.2), the Maximum Number of Shares of Stock with respect to one or more Options that may be granted during any one fiscal year under the Plan to any one Participant will be one million (1,000,000). Determinations under the preceding sentence will be made in a manner that is consistent with Section 162(m) of the Code and regulations promulgated thereunder. The provisions of this Section will not apply in any circumstance with respect to which the Administrator determines that compliance with Section 162(m) of the Code is not necessary.

4.4. No Repricing. Absent stockholder approval, neither the Administrator nor the Board will have any authority, with or without the consent of the affected holders of Awards, to "reprice" an Award in the event of a decline in the price of Shares after the date of their initial grant either by reducing the exercise price from the original exercise price or through cancellation of outstanding Awards in connection with re-granting of Awards at a lower price to the same individual. This paragraph may not be amended, altered or repealed by the Administrator or the Board without approval of the stockholders of the Company.

4.5. No Reloading. No Option will provide for the automatic grant of replacement or reload Options upon the Participant exercising the Option and paying the Exercise Price by tendering Shares of Stock, net exercise or otherwise. This paragraph may not be amended, altered or repealed by the Administrator or the Board without approval of the stockholders of the Company.

4.6. Maximum Number Limitations. From the date this Plan was first adopted until twenty four (24) months thereafter, the Company shall not increase the Maximum Number except as may be required pursuant to Section 4.2.

## 5. ADMINISTRATION OF THIS PLAN.

5.1. Authority. Authority to control and manage the operation and administration of this Plan will be vested in a committee consisting of two (2) or more members of the Board (the "Committee") or in the Board acting as the Committee if no formal Committee is created by the Board. It is intended that the directors appointed to serve on the Committee will be "non-employee directors" (within the meaning of Rule 16b-3 promulgated under the Exchange Act) and "outside directors" (within the meaning of Section 162(m) of the Code) to the extent that Rule 16b-3 and, if necessary for relief from the limitation under Section 162(m) of the Code and such relief sought by the Company, Section 162(m) of the Code, respectively, are applicable. However, the mere fact that a Committee member will fail to qualify under either of the foregoing requirements will not invalidate any Award made by the Committee which Award is otherwise validly made under the Plan. Members of the Committee may be appointed from time to time by, and will serve at the pleasure of, the Board. As used herein, the term "Administrator" means the Committee.



5.2. Interpretation. Subject to the express provisions of this Plan, the Administrator will have the exclusive power, authority and discretion to:

(1) construe and interpret this Plan and any agreements defining the rights and obligations of the Company and Participants under this Plan;

(2) select Participants;

(3) determine the terms and conditions of any Award granted under the Plan, including, but not limited to, the Exercise Price, grant price or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of the Award, and acceleration or waivers thereof, based in each case on such considerations as the Administrator in its sole discretion determines that is not inconsistent with any rule or regulation under any tax or securities laws or includes an alternative right that does not disqualify an Incentive Stock Option under applicable regulations. Determinations made by the Administrator under this Plan need not be uniform but may be made on a Participant-by-Participant basis;

(4) determine the number of Shares or other consideration subject to Awards;

(5) determine whether Awards will be subject to a condition, or grant a right, that is not inconsistent with any rule or regulation under any tax or securities laws or includes an alternative right that does not disqualify an incentive stock option under applicable regulations;

(6) prescribe the form of each Award Agreement, which need not be identical for each Participant;

(7) further define the terms used in this Plan;

(8) correct any defect or supply any omission or reconcile any inconsistency in this Plan or in any Award Agreement;

(9) provide for rights of refusal and/or repurchase rights;

(10) amend outstanding Award Agreements to provide for, among other things, any change or modification which the Administrator could have provided for upon the grant of an Award or in furtherance of the powers provided for herein that does not disqualify an Incentive Stock Option under applicable regulations unless the Participant so consents;

(11) prescribe, amend and rescind rules and regulations relating to the administration of this Plan; and

(12) make all other determinations necessary or advisable for the administration of this Plan.

5.3. Decisions Binding. Any decision or action of the Administrator in connection with this Plan or Awards granted or shares of Stock purchased under this Plan will be final and binding. The Administrator will not be liable for any decision, action or omission respecting this Plan, or any Awards granted or shares of Stock sold under this Plan.

5.4. Limitation on Liability. To the extent permitted by applicable law in effect from time to time, no member of the Committee will be liable for any action or omission of any other member of the Committee nor for any act or omission on the member's own part, excepting only the member's own willful misconduct, gross negligence, or bad faith and without reasonable belief that it was in the best interests of the Company, arising out of or related to this Plan. The Company will pay expenses incurred by, and satisfy a judgment or fine rendered or levied against, a present or former member of the Committee in any action against such person (whether or not the Company is joined as a party defendant) to impose liability or a penalty on such person for an act alleged to have been committed by such person while a member of the Committee arising with respect to this Plan or administration thereof or out of membership on the Committee or by the Company, or all or any combination of the preceding, provided, the Committee member was acting in good faith, within what such Committee member reasonably believed to have been within the scope of his or her employment or authority and for a purpose which he or she reasonably believed to be in the best interests of the Company or its stockholders. Payments authorized hereunder include amounts paid and expenses incurred in settling any such action or threatened action. The provisions of this section will apply to the estate, executor, administrator, heirs, legatees or devisees of a Committee member, and the term "person" as used on this section will include the estate, executor, administrator, heirs, legatees, or devisees of such person.

#### 6. GRANT OF OPTIONS; TERMS AND CONDITIONS OF GRANT.

6.1. Grant of Options. One or more Options may be granted to any Eligible Person. Subject to the express provisions of this Plan, the Administrator will determine from the Eligible Persons those individuals to whom Options under this Plan may be granted. Each Option granted under this Plan will be evidenced by an Award Agreement, which will expressly identify the Option as an Incentive Stock Option or a Non-Qualified Stock Option. The Shares underlying a grant of an Option may be in the form of Restricted Stock or Unrestricted Stock.

Further, subject to the express provisions of this Plan, the Administrator will specify the grant date (the "Grant Date"), the number of Shares covered by the Option, the Exercise Price and the terms and conditions for exercise of the Options. As soon as practicable after the Grant Date, the Company will provide the Participant with a written Award Agreement in the form approved by the Administrator.

The Administrator may, in its absolute discretion, grant Options under this Plan at any time and from time to time before the expiration of this Plan.

6.2. General Terms and Conditions. Except as otherwise provided herein, the Options will be subject to the following terms and conditions and such other terms and conditions not inconsistent with this Plan as the Administrator may impose:

6.2.1. Exercise of Option. The Administrator may determine in its discretion whether any Option will be subject to vesting and the terms and conditions of any such vesting. The Award Agreement will contain any such vesting schedule.

6.2.2. Option Term. Each Option and all rights or obligations thereunder will expire on such date as will be determined by the Administrator, but not later than ten (10) years after the Grant Date (five (5) years in the case of an Incentive Stock Option when the Optionee owns more than ten percent (10%) of the total combined voting power of all classes of stock of the Company ("Ten Percent Stockholder")), and will be subject to earlier termination as hereinafter provided.

6.2.3. Exercise Price. The Exercise Price of any Option will be determined by the Administrator when the Option is granted and may not be less than one hundred percent (100%) of the Fair Market Value of the Shares on the Grant Date, and the Exercise Price of any Incentive Stock Option granted to a Ten Percent Stockholder will not be less than one hundred ten percent (110%) of the Fair Market Value of the Shares on the Grant Date. Payment for the Shares purchased will be made in accordance with Section 9 of this Plan. The Administrator is authorized to issue Options, whether Incentive Stock Options or Non-Qualified Stock Options, at an option price in excess of the Fair Market Value on the Grant Date.

6.2.4. Method of Exercise. Options may be exercised only by delivery to the Company of a stock option exercise agreement (the "Exercise Agreement") in a form approved by the Administrator (which need not be the same for each Participant), stating the number of Shares being purchased, the restrictions imposed on the Shares purchased under such Exercise Agreement, if any, and such representations and agreements regarding the Participant's investment intent and access to information and other matters, if any, as may be required or desirable by the Company to comply with applicable securities laws, together with payment in full of the Exercise Price for the number of Shares being purchased. The Form must be duly executed by Participant and be accompanied by payment in cash, or by check payable to the Company, in full for the Exercise Price for the number of Shares being purchased. Alternatively, but only if the Administrator authorizes at the time of exercise at its sole discretion, and where permitted by law (i) by surrender of shares of Stock of the Company that have been owned by the Participant for more than six (6) months or lesser period if the surrender of Shares is otherwise exempt from Section 16 of the Exchange Act and if such shares were purchased from the Company by use of a promissory note, such note has been fully paid with respect to such shares, (ii) by forfeiture of Shares equal to the value of the exercise price pursuant to a "deemed net-stock exercise" as provided for in the Plan, (iii) by broker sale by following the required instructions therefore including as so authorized by the Administrator and its sole discretion instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the exercise price and the amount of any required tax or other withholding obligations, or (iv) by any combination of the foregoing methods of payment or any other consideration or method of payment.

6.2.5. Transferability of Options. Except as otherwise provided below for Non-Qualified Stock Options, no Option will be transferable other than by will or by the laws of descent and distribution and during the lifetime of a Participant only the Participant, his guardian or legal representative may exercise an Option, except that Non-Qualified Stock Options may be transferred to a Participant's former spouse pursuant to a property settlement made part of an agreement or court order incident to the divorce.

At its discretion, the Administrator may provide for transfer of an Option (other than an Incentive Stock Option), without payment of consideration, to the following family members of the Participant, including adoptive relationships: a child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, niece, nephew, former spouse (whether by gift or pursuant to a domestic relations order), any person sharing the employee's household (other than a tenant or employee), a family-controlled partnership, corporation, limited liability company and trust, or a foundation in which family members heretofore described control the management of assets (collectively "Family Member"). The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the Option pursuant to the assignment. The terms applicable to the assigned portion will be the same as those in effect for the Option immediately prior to such assignment and will be set forth in such documents issued to the assignee as the Administrator may deem appropriate. A request to assign an Option may be made only by delivery to the Company of a written stock option assignment request in a form approved by the Administrator, stating the number of Options and Shares underlying Options requested for assignment, that no consideration is being paid for the assignment, identifying the proposed transferee, and containing such other representations and agreements regarding the Participant's investment intent and access to information and other matters, if any, as may be required or desirable by the Company to comply with applicable securities laws.

Notwithstanding anything to the contrary in the Plan, the Award or any charter, by-laws or other instrument or document governing or applicable to the Options or shares of Common Stock, if and to the extent the Administrator determines that it is necessary to rely on the 12h-1(f) Exemption with respect to the Options outstanding under this Plan, each Option, including any Option granted prior to, on or after the date of any such determination by the Administrator, will be further restricted as follows, if applicable:

(A) The Options and, prior to exercise, the shares of Common Stock to be issued upon exercise of the Options will be restricted as to transfer by the Optionee other than to persons who are Family Members through gift or domestic relations order, or to an executor or guardian of the Optionee upon the death or disability of the Optionee, until the Company becomes subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act or is no longer relying on the 12h-1(f) Exemption; provided, that the Optionee may transfer the Options to the Company, or in connection with a change of control or other acquisition transaction involving the Company, if, after such transaction, the Options will no longer be outstanding, and the Company no longer will be relying on the 12h-1(f) Exemption; and

(B) The Options, and the shares of Common Stock issuable upon exercise of such Options, will be restricted as to any pledge, hypothecation or other transfer, including any short position, any "put equivalent position" (as defined in Rule 16a-1(h) of the Exchange Act), or any "call equivalent position" (as defined in Rule 16a-1(b) of the Exchange Act) by the Optionee prior to exercise of an Option, except in the circumstances permitted until the Company becomes subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act or is no longer relying on the 12h-1(f) Exemption.

6.2.6. Beneficiaries. Notwithstanding Section 6.2.5, a Participant may, in the manner determined by the Administrator, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Option upon the Participant's death. If no beneficiary has been designated or survives the Participant, payment will be made to the Participant's estate. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time, provided the change or revocation is filed with the Administrator.

6.2.7. Exercise After Certain Events.

i. Termination of Employment - Employee/Officer

(1) Incentive Stock Options.

(a) Termination of All Services. If for any reason other than retirement (as defined below), permanent and total Disability (as defined below) or death, a Participant Terminates employment with the Company (including employment as an Officer of the Company), vested Incentive Stock Options held at the date of such termination may be exercised, in whole or in part, at any time within three (3) months after the date of such Termination or such lesser period specified in the Award Agreement (but in no event after the earlier of (i) the expiration date of the Incentive Stock Option as set forth in the Award Agreement, and (ii) ten (10) years from the Grant Date (five (5) years for a Ten Percent Stockholder)).

(b) Continuation of Services as Consultant. If a Participant granted an Incentive Stock Option terminates employment but continues as a Consultant or in a similar capacity to the Company or any of its Subsidiaries, Participant need not exercise the Incentive Stock Option within three (3) months of Termination of employment but will be entitled to exercise within three (3) months of Termination of services to the Company (one (1) year in the event of permanent and total Disability or death) or such lesser or greater period specified in the Award Agreement (but in no event after the earlier of (i) the expiration date of the Option as set forth in the Award Agreement, and (ii) ten (10) years from the Grant Date). However, if Participant does not exercise within three (3) months of Termination of employment, the Option will not qualify as an Incentive Stock Option.

(c) Right to Extend Exercise Period. Notwithstanding Section 6.2.7(i)(1)(a) above, a Participant may, in the manner determined by the Administrator pursuant to the Award Agreement, need not exercise the Incentive Stock Option within three (3) months of Termination of employment but will be entitled to exercise within such period as specified in the Award Agreement (but in no event after the earlier of (i) the expiration date of the Option as set forth in the Award Agreement, and (ii) ten (10) years from the Grant Date). However, if Participant does not exercise within three (3) months of Termination of employment, the Option will not qualify as an Incentive Stock Option.

(2) Non-Qualified Stock Options.

(a) Termination of All Services. If for any reason other than Retirement (as defined below), permanent and total Disability (as defined below) or death, a Participant terminates employment with the Company (including employment as an Officer of the Company), vested Options held at the date of such Termination may be exercised, in whole or in part, at any time within three (3) months of the date of such Termination or such lesser period specified in the Award Agreement (but in no event after the earlier of (i) the expiration date of the Option as set forth in the Award Agreement, and (ii) ten (10) years from the Grant Date).

(b) Continuation of Services as Consultant. If a Participant Terminates employment but continues as a Consultant or in a similar capacity to the Company or any of its Subsidiaries, Participant need not exercise the Option within three (3) months of Termination but will be entitled to exercise within three (3) months of Termination of services to the Company (one (1) year in the event of permanent and total Disability or death) or such lesser or greater period specified in the Award Agreement (but in no event after the earlier of (i) the expiration date of the Option as set forth in the Award Agreement, and (ii) ten (10) years from the Grant Date).

(c) Right to Extend Exercise Period. Notwithstanding Section 6.2.7(i)(2)(a) above, a Participant may, in the manner determined by the Administrator pursuant to the Award Agreement, provide that need not exercise the Option within three (3) months of Termination but will be entitled to exercise within such period as specified in the Award Agreement (but in no event after the earlier of (i) the expiration date of the Option as set forth in the Award Agreement, and (ii) ten (10) years from the Grant Date).

ii. Retirement. If a Participant ceases to be an employee of the Company (including as an officer of the Company) as a result of Retirement, Participant need not exercise the Option within three (3) months of Termination of employment but will be entitled to exercise the Option within the maximum term of the Option to the extent the Option was otherwise exercisable at the date of Retirement. However, if a Participant does not exercise within three (3) months of Termination of employment, the Option will not qualify as an Incentive Stock Option if it otherwise so qualified. The term "Retirement" as used herein means such Termination of employment as will entitle the Participant to early or normal retirement benefits under any then existing pension or salary continuation plans of the Company excluding 401(k) participants (except as otherwise covered under other pension or salary continuation plans).

iii. Permanent Disability and Death. If a Participant becomes permanently and totally Disabled while employed by the Company (including as an officer of the Company), or dies while employed by the Company (including as an Officer of the Company) or death occurs three (3) months thereafter, vested Options then held may be exercised by the Participant, the Participant's personal representative, or by the person to whom the Option is transferred by will or the laws of descent and distribution, in whole or in part, at any time within one (1) year after the Termination of employment because of the Disability or death or any lesser period specified in the Award Agreement (but in no event after the earlier of (i) the expiration date of the Option as set forth in the Award Agreement, and (ii) ten (10) years from the Grant Date).

### 6.3. Limitations on Grant of Incentive Stock Options.

#### 6.3.1. Threshold.

The aggregate Fair Market Value (determined as of the Grant Date) of the Shares for which Incentive Stock Options may first become exercisable by any Participant during any calendar year under this Plan, together with that of Shares subject to Incentive Stock Options first exercisable by such Participant under any other plan of the Company or any Subsidiary, will not exceed \$200,000. For purposes of this Section, all Options in excess of the \$200,000 threshold will be treated as Non-Qualified Stock Options notwithstanding the designation as Incentive Stock Options. For this purpose, Options will be taken into account in the order in which they were granted, and the Fair Market Value of the Shares will be determined as of the date the Option with respect to such Shares is granted.

#### 6.3.2. Compliance with Section 422 of the Code.

There will be imposed in the Award Agreement relating to Incentive Stock Options such terms and conditions as are required in order that the Option be an "incentive stock option" as that term is defined in Section 422 of the Code.

#### 6.3.3. Requirement of Employment.

No Incentive Stock Option may be granted to any person who is not an Employee of the Company or a Subsidiary of the Company.

6.4 Risk And Financial Information Pursuant To The 12h-1(F) Exemption. Notwithstanding anything to the contrary in the Plan, the Award or any charter, by-laws or other instrument or document governing or applicable to the Options or shares of Common Stock, if and to the extent the Administrator determines that it is necessary to rely on the 12h-1(f) Exemption with respect to the Options outstanding under the Plan, and until the Company becomes subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act or is no longer relying on the 12h-1(f) Exemption, the Company will, subject to the last sentence of this Section 6.4, provide to each Optionee the information described in Rules 701(e)(3), (4) and (5) under the Securities Act every six months with the financial statements required to be provided thereunder being not more than 180 days old and with such information provided either by physical or electronic delivery to each Optionee or by written notice to each Optionee of the availability of the information on an Internet site that may be password-protected and of any password needed to access the information. The information described in Rules 701(e)(3), (4) and (5) consists of (i) information about the risks associated with investment in Options and the shares of Common Stock purchased upon exercise of an Option, (ii) the Company's financial statements required to be furnished by Part F/S of Form 1-A under Regulation A of the Securities Act, and (iii) if the Company is relying on Rule 701(d)(2)(ii) under the Act to use the total assets of the Company to determine the amount of Options that may be granted, the financial statements of the Company. The Company may request that the Optionee agree to keep the information to be provided pursuant to this Section 6.4 confidential and shall not be required to provide such information if an Optionee does not agree to keep the information confidential.

## 7. RESTRICTED STOCK AWARDS.

7.1. Grant of Restricted Stock Awards. Subject to the terms and provisions of this Plan, the Administrator is authorized to make awards of Restricted Stock to any Eligible Person in such amounts and subject to such terms and conditions as may be selected by the Administrator (a "Restricted Stock Award"). All Restricted Stock Awards will be evidenced by an Award Agreement.

7.2. Issue Date and Vesting Date. At the time of the grant of shares of Restricted Stock, the Administrator will establish an Issue Date or Issue Dates and a Vesting Date or Vesting Dates with respect to such Shares. The Administrator may divide such shares of Restricted Stock into classes and assign a different Issue Date and/or Vesting Date for each class. If the Participant is employed by the Company on an Issue Date (which may be the date of grant), the specified number of shares of Restricted Stock will be issued in accordance with the provisions of Section 7.6. Provided that all conditions to the vesting of a share of Restricted Stock imposed hereto are satisfied, such share will vest and the restrictions will cease to apply to such share.

7.3. Conditions to Vesting. Restricted Stock will be subject to such restrictions on or conditions to vesting as the Administrator may impose (including, without limitation, as a condition to the vesting of any class or classes of shares of Restricted Stock, that the Participant or the Company achieves such performance goals as the Administrator may specify as provided for in this Plan, limitations on the right to vote Restricted Stock or the right to receive dividends on the Restricted Stock). These restrictions may lapse separately or in combination at such times, under such circumstances, in such installments, time-based, or upon the satisfaction of performance goals as provided for in this Plan, as the Administrator determines at the time of the grant of the Award or thereafter.

7.4. Voting and Dividends. Unless the Administrator in its sole and absolute discretion otherwise provides in an Award Agreement, holders of Restricted Stock will have the right to vote such Restricted Stock and the right to receive any dividends declared or paid with respect to such Restricted Stock. The Administrator may require that any dividends paid on Restricted Stock will be held in escrow until all restrictions on such Restricted Stock have lapsed and/or the Administrator may provide that any dividends paid on Restricted Stock must be reinvested in Stock, which may or may not be subject to the same vesting conditions and restrictions applicable to such Restricted Stock. All distributions, if any, received by a Participant with respect to Restricted Stock as a result of any stock split, stock dividend, combination of stock, or other similar transaction will be subject to the restrictions applicable to the original Award.

7.5. Forfeiture. Except as otherwise determined by the Administrator at the time of the grant of the Award or thereafter, upon failure to affirmatively accept the grant of a Restricted Stock Award by execution of a Restricted Stock Award Agreement, termination of employment during the applicable restriction period, failure to satisfy the restriction period or failure to satisfy a performance goal during the applicable restriction period, Restricted Stock that is at that time subject to restrictions will immediately be forfeited and returned to the Company; provided, however, that the Administrator may provide in any Award Agreement that restrictions or forfeiture conditions relating to Restricted Stock will be waived in whole or in part in the event of terminations resulting from specified causes, and the Administrator may in other cases waive in whole or in part restrictions or forfeiture conditions relating to Restricted Stock. The Company also will have the right to require the return of all dividends paid on such shares, whether by termination of any escrow arrangement under which such dividends are held or otherwise.



7.6. Certificates for Restricted Stock. Restricted Stock granted under the Plan may be evidenced in such manner as the Administrator will determine. The Administrator may provide in an Award Agreement that either (i) the Secretary of the Company will hold such certificates for the Participant's benefit pursuant to the provisions of this Plan until such time as the Restricted Stock is forfeited to the Company or the restrictions lapse or (ii) such certificates will be delivered to the Participant, provided, however, that such certificates will bear a legend or legends that comply with the applicable securities laws and regulations and make appropriate reference to the restrictions imposed under this Plan and the Award Agreement.

7.7. Restrictions on Transfer Prior to Vesting. Unless otherwise provided, prior to the vesting of Restricted Stock, Restricted Stock Awards, granted under this Plan, and any rights and interests therein, including the Restricted Stock itself, will not be transferable or assignable by the Participant, and may not be made subject to execution, attachment or similar process, otherwise than by will or by the laws of descent and distribution or as consistent with the Award Agreement provisions relating thereto. Unless otherwise provided in this Plan, during the lifetime of the Participant, a Restricted Stock Award and any rights and interests therein, will be exercisable only by the Participant, and any election with respect thereto may be made only by the Participant. Any attempt to transfer a Restricted Stock Award or any rights and interests therein including the Restricted Stock itself, will be void and unless the Administrator determines in its sole and absolute discretion that the attempt was inadvertent or unintentional, such Award, including the Restricted Stock itself and any rights and interests therein, will be forfeited by the Participant.

7.8. Consequences of Vesting. Upon the vesting of a share of Restricted Stock pursuant to the terms of the Plan and the applicable Award Agreement, the restrictions as provided by the Administrator will cease to apply to such share. Reasonably promptly after a share of Restricted Stock vests, the Company will cause to be delivered to the Participant to whom such shares were granted, a certificate evidencing such share, free of the legend referenced with respect to such restriction. Notwithstanding the foregoing, such share still may be subject to restrictions on transfer as a result of applicable securities laws or otherwise pursuant to this Plan.

8. UNRESTRICTED STOCK AWARDS. The Administrator may, in its sole discretion, award Unrestricted Stock to any Participant as a Stock Bonus or otherwise pursuant to which such Participant may receive shares of Stock free of restrictions or limitations that would otherwise be applied under Section 7 of this Plan.

## 9. PAYMENT FOR SHARE PURCHASES.

9.1. Payment. Payment for Shares purchased pursuant to this Plan may be made in cash (by check) or, where expressly approved for the Participant at the sole discretion of the Administrator and where permitted by law as follows:

9.1.1. Cancellation of Indebtedness. By cancellation of indebtedness of the Company to the Participant.

9.1.2. Surrender of Shares. By surrender of shares of Stock of the Company that have been owned by the Participant for more than six (6) months or lesser period if the surrender of Shares is otherwise exempt from Section 16 of the Exchange Act and, if such shares were purchased from the Company by use of a promissory note, such note has been fully paid with respect to such shares.

9.1.3. Deemed Net-Stock Exercise. By forfeiture of Shares equal to the value of the exercise price pursuant to a "deemed net-stock exercise" by requiring the Participant to accept that number of Shares determined in accordance with the following formula, rounded down to the nearest whole integer:

$$a = b \times \left( \frac{c - d}{c} \right)$$

where:

a = net Shares to be issued to Participant

b = number of Awards being exercised

c = Fair Market Value of a Share

d = Exercise price of the Awards

9.1.4. Broker-Assisted. By delivering a properly executed exercise notice to the Company together with a copy of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the exercise price and the amount of any required tax or other withholding obligations.

9.1.5 Combination of Methods. By any combination of the foregoing methods of payment or any other consideration or method of payment as will be permitted by applicable corporate law.

## 10. WITHHOLDING TAXES.

10.1. Withholding Generally. Whenever Shares are to be issued in satisfaction of Awards granted under this Plan or Shares are forfeited pursuant to a "deemed net-stock exercise," the Company may require the Participant to remit to the Company by cash, or check payable to the Company, an amount sufficient to satisfy federal, state and local taxes and FICA withholding requirements prior to the delivery of any certificate or certificates for such Shares. When, under applicable tax laws, a Participant incurs tax liability in connection with the exercise or vesting of any Award, the Company will have the authority and right to deduct or withhold an amount sufficient to satisfy federal, state, and local taxes and FICA withholding requirements with respect to such transactions. Any such payment must be made, or any such withholding may be made, promptly when the amount of such obligation becomes determinable.

10.2. Stock for Withholding. To the extent permissible under applicable tax, securities and other laws, the Administrator may, in its sole discretion and upon such terms and conditions as it may deem appropriate, permit a Participant to satisfy his or her obligation to pay any such withholding tax, in whole or in part, with Stock up to an amount not greater than the Company's minimum statutory withholding rate for federal and state tax purposes, including payroll taxes. The Administrator may exercise its discretion, by (i) directing the Company to apply shares of Stock to which the Participant is entitled as a result of the exercise of an Award, or (ii) delivering to the Company Shares of Stock owned by the Participant for more than six (6) months, unless the delivery of the Shares is otherwise exempt from Section 16 of the Exchange Act. A Participant who has made an election pursuant to this Section 10.2 may satisfy his or her withholding obligation only with shares of Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting or other similar requirements. The shares of Stock so applied or delivered for the withholding obligation will be valued at their Fair Market Value as of the date of measurement of the amount of income subject to withholding.

#### 11. PROVISIONS APPLICABLE TO AWARDS.

11.1. Acceleration. The Administrator may, in its absolute discretion, without amendment to the Plan, (i) accelerate the date on which any Award granted under the Plan becomes exercisable, (ii) waive or amend the operation of Plan provisions respecting exercise after termination of service or otherwise adjust any of the terms of such Award and (iii) accelerate the Vesting Date, or waive any condition imposed hereunder, with respect to any share of Restricted Stock or otherwise adjust any of the terms applicable to such share.

11.2. Compliance with Section 162(m) of the Code. Notwithstanding any provision of this Plan to the contrary, if the Administrator determines that compliance with Section 162(m) of the Code is required or desired, all Awards granted under this Plan to Named Executive Officers will comply with the requirements of Section 162(m) of the Code. In addition, in the event that changes are made to Section 162(m) of the Code to permit greater flexibility with respect to any Award or Awards under this Plan, the Administrator may make any adjustments it deems appropriate.

11.3. Performance Goals. In order to preserve the deductibility of an Award under Section 162(m) of the Code, the Administrator may determine that any Award granted pursuant to this Plan to a Participant that is or is expected to become a Covered Employee will be determined solely on the basis of (a) the achievement by the Company or Subsidiary of a specified target return, or target growth in return, on equity or assets, (b) the Company's stock price, (c) the Company's total stockholder return (stock price appreciation plus reinvested dividends) relative to a defined comparison group or target over a specific performance period, (d) the achievement by the Company or a Parent or Subsidiary, or a business unit of any such entity, of a specified target, or target growth in, net income, earnings per share, earnings before income and taxes, and earnings before income, taxes, depreciation and amortization, or (e) any combination of the goals set forth in (a) through (d) above, and will be subject to any additional limitations set forth in Section 162(m) of the Code (including any amendment to Section 162(m) of the Code) or any regulations or rulings issued thereunder that are requirements for qualification as qualified performance-based compensation as described in Section 162(m)(4)(C) of the Code, and the Plan will be deemed amended to the extent deemed necessary by the Administrator to conform to such requirements. If an Award is made on such basis, the Administrator will establish goals prior to the beginning of the period for which such performance goal relates (or such later date as may be permitted under Section 162(m) of the Code or the regulations thereunder but not later than ninety (90) days after commencement of the period of services to which the performance goal relates), and the Administrator has the right for any reason to reduce (but not increase) the Award, notwithstanding the achievement of a specified goal. Any payment of an Award granted with performance goals will be conditioned on the written certification of the Administrator in each case that the performance goals and any other material conditions were satisfied.

In addition, to the extent that Section 409A is applicable, (i) performance-based compensation will also be contingent on the satisfaction of pre-established organizational or individual performance criteria relating to a performance period of at least twelve (12) consecutive months in which the Eligible Participant performs services, and (ii) performance goals will be established not later than ninety (90) days after the beginning of any performance period to which the performance goal relates, provided that the outcome is substantially uncertain at the time the criteria are established.

11.4. Compliance with Section 409A of the Code. Notwithstanding any provision of this Plan to the contrary, if any provision of this Plan or an Award Agreement contravenes any regulations or Treasury guidance promulgated under Section 409A of the Code or could cause an Award to be subject to the interest and penalties under Section 409A of the Code, such provision of this Plan or any Award Agreement will be modified to maintain, to the maximum extent practicable, the original intent of the applicable provision without violating the provisions of Section 409A of the Code. In addition, in the event that changes are made to Section 409A of the Code to permit greater flexibility with respect to any Award under this Plan, the Administrator may make any adjustments it deems appropriate.

11.5. Section 280G of the Code. Notwithstanding any other provision of this Plan to the contrary, unless expressly provided otherwise in the Award Agreement, if the right to receive or benefit from an Award under this Plan, either alone or together with payments that a Participant has a right to receive from the Company, would constitute a "parachute payment" (as defined in Section 280G of the Code), all such payments will be reduced to the largest amount that will result in no portion being subject to the excise tax imposed by Section 4999 of the Code.

11.6. Cancellation of Awards. In the event a Participant's Continuous Services has been terminated for "Cause," he or she will immediately forfeit all rights to any and all Awards outstanding. The determination by the Board that termination was for Cause will be final and conclusive. In making its determination, the Board will give the Participant an opportunity to appear and be heard at a hearing before the full Board and present evidence on the Participant's behalf. Should any provision to this Section be held to be invalid or illegal, such illegality will not invalidate the whole of this Section, but rather this Plan will be construed as if it did not contain the illegal part or narrowed to permit its enforcement, and the rights and obligations of the parties will be construed and enforced accordingly.

12. PRIVILEGES OF STOCK OWNERSHIP. No Participant will have any of the rights of a stockholder with respect to any Shares until the Shares are issued to the Participant. After Shares are issued to the Participant, the Participant will be a stockholder and have all the rights of a stockholder with respect to such Shares, including the right to vote and receive all dividends or other distributions made or paid with respect to such Shares; provided, that if such Shares are Restricted Stock, then any new, additional or different securities the Participant may become entitled to receive with respect to such Shares by virtue of a stock dividend, stock split or any other change in the corporate or capital structure of the Company will be subject to the same restrictions as the Restricted Stock. The Company will issue (or cause to be issued) such stock certificate promptly upon exercise of the Award. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued.

13. RESTRICTION ON SHARES. At the discretion of the Administrator, the Company may reserve to itself and/or its assignee(s) in the Award Agreement that the Participant not dispose of the Shares for a specified period of time, or that the Shares are subject to a right of first refusal or a right to repurchase at the Shares Fair Market Value at the time of sale. The terms and conditions of any such rights or other restrictions will be set forth in the Award Agreement evidencing the Award.

14. CERTIFICATES. All certificates for Shares or other securities delivered under this Plan will be subject to such stock transfer orders, legends and other restrictions as the Administrator may deem necessary or advisable, including restrictions under any applicable federal, state or foreign securities law, or any rules, regulations and other requirements of the SEC or any stock exchange or automated quotation system upon which the Shares may be listed or quoted.

15. ESCROW, PLEDGE OF SHARES. To enforce any restrictions on a Participant's Shares, the Administrator may require the Participant to deposit all certificates representing Shares, together with stock powers or other instruments of transfer approved by the Administrator, appropriately endorsed in blank, with the Company or an agent designated by the Company to hold in escrow until such restrictions have lapsed or terminated, and the Administrator may cause a legend or legends referencing such restrictions to be placed on the certificates. In connection with any pledge of the Shares, the Participant will be required to execute and deliver a written pledge agreement in such form, as the Administrator will from time to time approve.

16. SECURITIES LAW AND OTHER REGULATORY COMPLIANCE.

16.1. Compliance With Applicable Laws. An Award will not be effective unless such Award is in compliance with all applicable federal and state securities laws, rules and regulations of any governmental body, and the requirements of any stock exchange or automated quotation system upon which the Shares may then be listed or quoted, as they are in effect on the Grant Date and also on the date of exercise or other issuance. Notwithstanding any other provision in this Plan, the Company will have no obligation to issue or deliver certificates for Shares under this Plan prior to (i) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and/or (ii) completion of any registration or other qualification of such Shares under any state or federal laws or rulings of any governmental body that the Company determines to be necessary or advisable. The Company will be under no obligation to register the Shares with the SEC or to effect compliance with the registration, qualification or listing requirements of any state securities laws, stock exchange or automated quotation system, and the Company will have no liability for any inability or failure to do so. Upon exercising all or any portion of an Award, a Participant may be required to furnish representations or undertakings deemed appropriate by the Company to enable the offer and sale of the Shares or subsequent transfers of any interest in such Shares to comply with applicable securities laws. Evidences of ownership of Shares acquired pursuant to an Award will bear any legend required by, or useful for purposes of compliance with, applicable securities laws, this Plan or the Award Agreement.

16.2. Rule 16b-3 Exemption. During any time when the Company has a class of equity security registered under Section 12 of the Exchange Act, it is the intent of the Company that Awards pursuant to the Plan and the exercise of Awards granted hereunder will qualify for the exemption provided by Rule 16b-3 under the Exchange Act. To the extent that any provision of the Plan or action by the Board or the Administrator does not comply with the requirements of Rule 16b-3, it will be deemed inoperative to the extent permitted by law and deemed advisable by the Board or the Administrator, and will not affect the validity of the Plan. In the event that Rule 16b-3 is revised or replaced, the Board or the Administrator may exercise its discretion to modify this Plan in any respect necessary to satisfy the requirements of, or to take advantage of any features of, the revised exemption or its replacement.

17. NO OBLIGATION TO EMPLOY. Nothing in this Plan or any Award granted under this Plan will confer or be deemed to confer on any Participant any right to continue in the employ of, or to continue any other relationship with, the Company or to limit in any way the right of the Company to terminate such Participant's employment or other relationship at any time, with or without cause.

18. ADJUSTMENT FOR CHANGES IN CAPITALIZATION. The existence of outstanding Awards will not affect the Company's right to effect adjustments, recapitalizations, reorganizations or other changes in its or any other corporation's capital structure or business, any merger or consolidation, any issuance of bonds, debentures, preferred or prior preference stock ahead of or affecting the Stock, the dissolution or liquidation of the Company's or any other corporation's assets or business or any other corporate act whether similar to the events described above or otherwise.

## 19. DISSOLUTION, LIQUIDATION, MERGER.

19.1. Company Not the Survivor. In the event of a dissolution or liquidation of the Company, a merger, consolidation, combination or reorganization in which the Company is not the surviving corporation, or a sale of substantially all of the assets of the Company (as determined in the sole discretion of the Board), the Administrator, in its absolute discretion, may cancel each outstanding Award upon payment in cash or stock, or combination thereof, as determined by the Board, to the Participant of the amount by which any cash and the fair market value of any other property which the Participant would have received as consideration for the Shares covered by the Award if the Award had been exercised before such liquidation, dissolution, merger, consolidation, combination, reorganization or sale exceeds the Exercise Price of the Award or negotiate to have such option assumed by the surviving corporation and, in its absolute discretion, may accelerate the time within which each outstanding Award may be exercised, provided however, that the Change of Control in Section 20 will control with respect to acceleration in vesting in the event of a merger, consolidation, combination or reorganization that results in a change of control as so defined. The exercise or vesting of any Award that was permissible solely by reason of this section and the applicable Award Agreement will be conditioned upon the consummation of the applicable event. Upon consummation of such dissolution, liquidation, merger, consolidation, combination, reorganization or sale of substantially all of the assets, any outstanding but unexercised Options not otherwise canceled, assumed or substituted as provided for above, will terminate.

19.2. Company is the Survivor. In the event of a merger, consolidation, combination or reorganization in which the Company is the surviving corporation ("Survivor Event"), the Board, as it was comprised before the Survivor Event, will determine the appropriate adjustment of the number and kind of securities with respect to which outstanding Awards may be exercised, and the exercise price at which outstanding Awards may be exercised. The Board will determine, in its sole and absolute discretion, when the Company will be deemed to survive for purposes of this Plan.

20. CHANGE OF CONTROL. The Administrator will have the authority, in its absolute discretion exercisable either in advance of any actual or anticipated "change of control" in the Company, to fully vest all outstanding Awards. A "change of control" will mean an event involving one transaction or a related series of transactions, in which (i) the Company issues securities equal to 50% or more of the Company's issued and outstanding voting securities, determined as a single class, to any individual, firm, partnership, limited liability company, or other entity, including a "group" within the meaning of Exchange Act Rule 13d-3, (ii) the Company issues voting securities equal to 50% or more of the issued and outstanding voting stock of the Company in connection with a merger, consolidation other business combination, (iii) the Company is acquired in a merger, consolidation, combination or reorganization in which the Company is not the surviving company, or (iv) all or substantially all of the Company's assets are sold or transferred.

21. DEFERRAL OF AWARDS. The Administrator may permit or require the deferral of payment or settlement of any Stock Award subject to such rules and procedures as it may establish. Payment or settlement of Options may not be deferred unless such deferral would not cause the provisions of Section 409A of the Code to be violated.

22. NOTIFICATION OF ELECTION UNDER SECTION 83(b) OF THE CODE. If any Participant will, in connection with the acquisition of shares of Company Stock under the Plan, make the election permitted under Section 83(b) of the Code (i.e., an election to include in gross income in the year of transfer the amounts specified in Section 83(b)), such Participant will notify the Company of such election within ten days of filing notice of the election with the Internal Revenue Service, in addition to any filing and notification required pursuant to regulations issued under the authority of Code Section 83(b).

23. TERMINATION; AMENDMENT. The Board may amend, suspend or terminate this Plan at any time and for any reason; provided, however, that stockholder approval will be required for the following types of amendments to this Plan: (i) any increase in Maximum Number of Common Stock issuable under the Plan or the maximum number of shares of Common Stock available as incentive stock options, except for a proportional increase in the Maximum Number or maximum number of shares of Common Stock available as incentive stock options, as a result of stock split or stock dividend or (ii) a change in the class of Employees entitled to be granted Incentive Stock Options. Further, the Board may, in its discretion, determine that any amendment should be effective only if approved by the Stockholders even if such approval is not expressly required by this Plan or by law. No Awards will be made after the termination of the Plan. At any time and from time to time, the Administrator may amend or modify any outstanding Award or Award Agreement without approval of the Participant; provided, however, that no amendment or modification of any Award will adversely affect any outstanding Award without the written consent of the Participant; provided further, however, that the original term of any Award may not be extended unless it would not cause the provisions of Section 409A to be violated. No termination, amendment, or modification of the Plan will adversely affect any Award previously granted under the Plan, without the written consent of the Participant. Notwithstanding any provision herein to the contrary, the Administrator will have broad authority to amend this Plan or any outstanding Award under this Plan without approval of the Participant to the extent necessary or desirable (i) to comply with, or take into account changes in, applicable tax laws, securities laws, accounting rules and other applicable laws, rules and regulations, or (ii) to ensure that an Award is not subject to interest and penalties under Section 409A of the Code or the excise tax imposed by Section 4999 of the Code.

24. TRANSFERS UPON DEATH; NONASSIGNABILITY. Upon the death of a Participant outstanding Awards granted to such Participant including Options and Stock may be transferred and exercised only by the executor or administrator of the Participant's estate or by a person who will have acquired the right to such exercise by will or by the laws of descent and distribution in accordance with and as provided for in this Plan. No transfer of an Award by will or the laws of descent and distribution will be effective to bind the Company unless the Company will have been furnished with (a) written notice thereof and with a copy of the will and/or such evidence as the Administrator may deem necessary to establish the validity of the transfer and (b) an agreement by the transferee to comply with all the terms and conditions of the Award that are or would have been applicable to the Participant and to be bound by the acknowledgments made by the Participant in connection with the grant of the Award. Except as otherwise provided, no Award or interest in it may be transferred, assigned, pledged or hypothecated by the Participant, whether by operation of law or otherwise, or be made subject to execution, attachment or similar process.



25. FAILURE TO COMPLY. In addition to the remedies of the Company elsewhere provided for herein, failure by a Participant (or beneficiary) to comply with any of the terms and conditions of the Plan or the applicable Award Agreement, unless such failure is remedied by such Participant (or beneficiary) within ten days after notice of such failure by the Administrator, will be grounds for the cancellation and forfeiture of such Award, in whole or in part, as the Administrator, in its sole discretion, may determine.

26. GOVERNING LAW. Except to the extent preempted by any applicable federal law, this Plan and the rights of all persons under this Plan will be construed in accordance with and under applicable provisions of the laws of the State of California, without reference to the principles of conflicts of laws thereunder.

27. MISCELLANEOUS. Except as specifically provided in a retirement or other benefit plan of the company or a related entity, Awards will not be deemed compensation for purposes of computing benefits or contributions under any retirement plan of the Company or a related entity, and will not affect any benefits under any other benefit plan of any kind or any benefit plan subsequently instituted under which the availability or amount of benefits is related to level of compensation. This Plan is not a "retirement plan" or "welfare plan" under the Employee Retirement Income Security Act of 1974, as amended.

28. DEFINITIONS. As used in this Plan, the following terms will have the following meanings:

"12h-1(f) Exemption" means the exemption from registration under Section 12(g) of the Exchange Act by operation of Rule 12h-1(f) of the Exchange Act.

"Administrator" means the Committee appointed by the Board to administer this Plan or if there is no such Committee, the Board itself.

"Award" means, individually and collectively, any award under this Plan, including any Option, Restricted Stock Award, or Unrestricted Stock Award.

"Award Agreement" means, with respect to each Award, the signed written agreement between the Company and the Participant setting forth the terms and conditions of the Award.

"Board" means the Board of Directors of the Company.

"Cause" means, termination of employment of a Participant for cause under the Company's generally applicable policies and procedures or, in the case of a non-employee director of the Company, for circumstances which would constitute cause if such policies and procedures were applicable.

“Code” means the Internal Revenue Code of 1986, as amended.

“Committee” means the Committee appointed by the Board to administer this Plan.

“Company” means Flux Power Holdings, Inc., a Nevada corporation, or any successor corporation, and its Subsidiary as the context so warrants.

“Consultant” means any consultant or advisor to the Company or any of its Subsidiaries who may be offered securities registrable on Form S-8 under the Securities Act or pursuant to an offer that is exempt from registration requirement under Section 5 of the Securities Act under Rule 701 promulgated under the Securities Act.

“Continuous Service” means that the provision of services to the Company or a Subsidiary in any capacity of employee, director or Consultant that is not interrupted or terminated. Continuous Service will not be considered interrupted in the case of (i) any approved leave of absence, (ii) transfers between locations of the Company or among the Company, any Subsidiary, or any successor, in any capacity of employee, director or Consultant, or (iii) any change in status as long as the individual remains in the service of the Company or a Subsidiary in any capacity of employee, director or Consultant (except as otherwise provided in the Award Agreement). An approved leave of absence will include sick leave, maternity or paternity leave, military leave, or any other authorized personal leave as determined by the Administrator. For purposes of incentive stock options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract.

“Covered Employee” means a covered employee as defined in Section 162(m)(3) of the Code, provided that no employee will be a Covered Employee until the deduction limitations of Section 162(m) of the Code are applicable to the Company and any reliance period under Treasury Regulation Section 1.162-27(f) has expired.

“Disability” or “Disabled” means a disability covered under a long-term disability plan of the Company applicable to a Participant. The Committee may require such medical or other evidence as it deems necessary to judge the nature and permanency of the Participant’s condition. Notwithstanding the above, (i) with respect to an Incentive Stock Option, “Disability” or “Disabled” will mean permanent and total disability as defined in Section 22(e)(3) of the Code and (ii) to the extent an Option is subject to Section 409A of the Code, and payment or settlement of the Option is to be accelerated solely as a result of the Eligible Participant’s Disability, Disability will have the meaning ascribed thereto under Section 409A of the Code and the Treasury guidance promulgated thereunder.

“Effective Date” has the meaning set forth in Section 2.

“Eligible Person” means any (i) director, officer or employee of the Company or any of its Subsidiaries who, in the opinion of the Committee, is rendering valuable services to the Company or any of its Subsidiaries, or (ii) Consultant to the Company or any of its Subsidiaries.

“Employee” means any and all employees of the Company or of a Subsidiary.

“Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time and any successor statute.

“Exercise Agreement” has the meaning set forth in Section 6.2.4.

“Exercise Price” means the price at which a holder of an Option may purchase the Shares issuable upon exercise of the Option.

“Fair Market Value” means on the date in question:

(i) Listed Stock. If the Stock is traded on any established stock exchange or quoted on a national market system, the closing sales price for the Stock as quoted on that stock exchange or system for the date the value is to be determined (the “Value Date”). If no sales are reported as having occurred on the Value Date, fair market value will be that closing sales price for the last preceding trading day on which sales of Stock are reported as having occurred. If no sales are reported as having occurred during the five (5) trading days before the Value Date, fair market value will be the closing sales price for the first sale following the grant date and if no sale follows the grant date for five (5) trading days then the fair market value will be the closing bid for Stock on the Value Date or the trading date preceding the Value Date. If Stock is listed on multiple exchanges or systems, fair market value will be based on sales or bids on the primary exchange or system on which Stock is traded or quoted.

(ii) Stock Quoted by Securities Dealer. If the Stock is regularly quoted by a recognized securities dealer but selling prices are not reported on any established stock exchange or quoted on a national market system, fair market value will be the closing bid for the Stock on the Value Date or the trading date preceding the Value Date. If no prices are quoted for the Value Date or the trading date preceding the Value Date, fair market value will be the arithmetic mean between the high bid and low asked prices on the Value Date or the trading day preceding the Value Date. Otherwise, fair market value will be determined using any other reasonable method using actual transactions in such Stock as reported by such market.

(iii) No Established Market. If Stock is not traded on any established stock exchange or quoted on a national market system and are not quoted by a recognized securities dealer, the Administrator will determine fair market value based upon a reasonable application of a reasonable valuation method.

“Incentive Stock Option” means an Option within the meaning of Section 422 of the Code.

“Issue Date” means the date established by the Administrator on which stock certificates representing shares of Restricted Stock will be issued by the Company pursuant to the terms of this Plan.

“Named Executive Officer” means, if applicable, a Participant who, as of the date of vesting and/or payout of an Award is one of the group of “covered employees,” as defined in the regulations promulgated under Section 162(m) of the Code, or any successor statute.

“Non-Qualified Stock Option” means an Option which is not an Incentive Stock Option.

“Officer” means an officer of the Company and an officer who is subject to Section 16 of the Exchange Act.

“Option” means an award of an option to purchase Shares pursuant to Section 6.

“Optionee” means the holder of an Option.

“Participant” means a person who receives an Award under this Plan.

“Plan” means this Flux Power Holdings, Inc. 2012 Equity Incentive Plan, as amended from time to time.

“Restricted Stock Award” means an award of Shares pursuant to Section 7.

“Rule 16b-3” means Rule 16b-3 under Section 16(b) of the Exchange Act, as amended from time to time, and any successor rule.

“SEC” means the Securities and Exchange Commission.

“Securities Act” means the Securities Act of 1933, as amended from time to time.

“Shares” means shares of the Company’s Stock reserved for issuance under this Plan, as adjusted pursuant to this Plan, and any successor security.

“Stock” means the Common Stock, \$.001 par value, of the Company, and any successor entity.

“Stock Award” means an Award of Restricted Stock or Unrestricted Stock.

“Subsidiary” means any corporation in an unbroken chain of corporations beginning with the Company if, at the time of granting of an Award, each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

“Ten Percent Stockholder” has the meaning set forth in Section 6.2.2.

“Termination” or “Terminated” means, for purposes of this Plan with respect to a Participant, that the Participant has for any reason ceased to provide services as an employee, officer, director, or Consultant of the Company or any of its Subsidiaries. An employee will not be deemed to have ceased to provide services in the case of (i) sick leave, (ii) military leave, or (iii) any other leave of absence approved by the Administrator; provided, that such leave is for a period of not exceeding three (3) months, or if longer, so long as reemployment with the Company granting the option or the corporation assuming or substituting an option under Section 1.424-1(a) of the Income Tax Regulations upon the expiration of such leave is guaranteed by contract or statute.

"Unrestricted Stock Award" means an award of Shares pursuant to Section 8.

"Vesting Date" will mean the date established by the Administrator on which a Share of Restricted Stock may vest.

**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 third 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: May 15, 2015

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

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**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 third 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: May 15, 2015

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

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

In connection with the Quarterly Report of Flux Power Holdings, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2015 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 15, 2015

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

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

In connection with the Quarterly Report of Flux Power Holdings, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2015 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 15, 2015

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

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