# Flux Power Holdings, Inc.

## Form: 10-Q

## Date Filed: 2016-11-10

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 September 30, 2016**

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

**Commission File Number: 000-25909**

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

| **Nevada** | **86-0931332** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| **985 Poinsettia Avenue, Suite A, Vista, California** | **92081** |
| (Address of principal executive offices) | (Zip Code) |

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

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

Yes ☑ 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 | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer (Do not check if a smaller reporting company) | ☐ | 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:

| Class | Outstanding as of November 10, 2016 |
|---|---|
| Common Stock, $0.001 par value | 249,931,478 |

**FLUX POWER HOLDINGS, INC.**

**FORM 10-Q**
**For the Quarterly Period Ended September 30, 2016**
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## SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

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

Use of Certain Defined Terms

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

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

## PART I - Financial Information

Item 1. Financial Statements

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

| | September 30, 2016 (Unaudited) | June 30, 2016 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash | $ 88,000 | $ 127,000 |
| Accounts receivable | 125,000 | 82,000 |
| Inventories | 270,000 | 202,000 |
| Deferred financing costs | - | 44,000 |
| Other current assets | 20,000 | 42,000 |
| Total current assets | 503,000 | 497,000 |
| Other assets | 16,000 | 16,000 |
| Property, plant and equipment, net | 38,000 | 46,000 |
| Total assets | $ 557,000 | $ 559,000 |
| **LIABILITIES AND STOCKHOLDERS' DEFICIT** | | |
| Current liabilities: | | |
| Accounts payable | $ 491,000 | $ 526,000 |
| Accrued expenses | 330,000 | 335,000 |
| Warrant derivative liability | 6,000 | 24,000 |
| Line of credit, net of discount | 215,000 | 196,000 |
| Total current liabilities | 1,042,000 | 1,081,000 |
| Long term liabilities: | | |
| Customer deposits from related party | 136,000 | 136,000 |
| Line of credit - related party | 920,000 | 1,200,000 |
| Total liabilities | 2,098,000 | 2,417,000 |
| Commitments and contingencies (Note 11) | | |
| Stockholders' deficit: | | |
| Preferred stock, $0.001 par value; 5,000,000 shares authorized; none issued and outstanding | - | - |
| Common stock, $0.001 par value; 300,000,000 shares authorized; 249,931,478 and 209,375,137 shares issued and outstanding at September 30, 2016 and June 30, 2016, respectively | 250,000 | 209,000 |
| Additional paid-in capital | 14,650,000 | 13,195,000 |
| Accumulated deficit | (16,441,000) | (15,262,000) |
| Total stockholders' deficit | (1,541,000) | (1,858,000) |
| Total liabilities and stockholders' deficit | $ 557,000 | $ 559,000 |

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

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

| | Three months ending September 30, 2016 | Three months ending September 30, 2015 |
|---|---|---|
| Net revenue | $ 293,000 | $ 171,000 |
| Cost of sales | 460,000 | 238,000 |
| Gross loss | (167,000) | (67,000) |
| Operating expenses: | | |
| Selling and administrative expenses | 647,000 | 555,000 |
| Research and development | 290,000 | 336,000 |
| Total operating expenses | 937,000 | 891,000 |
| Operating loss | $ (1,104,000) | $ (958,000) |
| Other income (expense): | | |
| Change in fair value of derivative liabilities | 11,000 | - |
| Interest expense | (42,000) | (50,000) |
| Other expense | (44,000) | - |
| Net loss | $ (1,179,000) | $ (1,008,000) |
| Net loss per share - basic and diluted | $ (0.01) | $ (0.01) |
| Weighted average number of common shares outstanding - basic and diluted | 230,863,490 | 114,537,944 |

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

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

| | Three months ended September 30, | |
|---|---|---|
| | **2016** | **2015** |
| Cash flows from operating activities: | | |
| Net loss | $ (1,179,000) | $ (1,008,000) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation | 16,000 | 8,000 |
| Change in fair value of warrant liability | (11,000) | - |
| Stock-based compensation | 10,000 | 30,000 |
| Stock issuance for services | 3,000 | 3,000 |
| Amortization of deferred financing costs | 44,000 | - |
| Amortization of debt discount | 19,000 | 22,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (43,000) | (21,000) |
| Inventories | (68,000) | 2,000 |
| Other current assets | 22,000 | (46,000) |
| Accounts payable | (34,000) | 32,000 |
| Accrued expenses | (5,000) | 22,000 |
| Net cash used in operating activities | (1,226,000) | (956,000) |
| Cash flows from investing activities | | |
| Purchases of equipment | (8,000) | - |
| Net cash used in investing activities | (8,000) | - |
| Cash flows from financing activities: | | |
| Proceeds from the sale of common stock | 1,075,000 | - |
| Proceeds from line of credit - related party and line of credit | 120,000 | 975,000 |
| Net cash provided by financing activities | 1,195,000 | 975,000 |
| Net change in cash | (39,000) | 19,000 |
| Cash, beginning of period | 127,000 | 53,000 |
| Cash, end of period | $ 88,000 | $ 72,000 |
| **Supplemental Disclosures of Non-Cash Investing and Financing Activities:** | | |
| Conversion of related party debt to equity | $ 400,000 | $ 2,047,000 |
| Fair value of warrants exchanged for common stock | $ 7,000 | $ - |

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

## NOTE 1 - NATURE OF BUSINESS

### Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the rules of the Securities and Exchange Commission ("SEC") applicable to interim reports of companies filing as a smaller reporting company. These financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016 filed with the SEC on September 26, 2016. 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, 2016 has been derived from the audited balance sheet at June 30, 2016 contained in such Form 10-K.

### Nature of Business

Flux Power Holdings, Inc. ("Flux") 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 was changed to Lone Pine Holdings, Inc. Following the completion of a reverse merger on June 14, 2012, as described below, Flux's operations have been conducted through its wholly owned subsidiary, Flux Power, Inc. ("Flux Power"), a California corporation (collectively, the "Company").

Flux Power develops and sells rechargeable advanced energy storage systems. The Company has structured its business around its core technology, "The Battery Management System" ("BMS"). The Company's BMS provides three critical functions to their battery systems: cell balancing, monitoring and error reporting. Using its proprietary management technology, the Company is able to offer complete integrated energy storage solutions or custom modular standalone systems to their clients. The Company has also developed a suite of complementary technologies and products that accompany their core products. Sales during the three months ended September 30, 2016 and 2015 were primarily to customers located throughout the United States.

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

## NOTE 2 - 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 $16,441,000 through September 30, 2016, and as of September 30, 2016 had a working capital deficit of $539,000. To date, our revenues and operating cash flows have not been sufficient to sustain our operations and we have relied on debt and equity financing to fund our operations. These factors raise substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to raise additional capital on a timely basis until such time as revenues and related cash flows are sufficient to fund our operations.

Management plans to raise additional required capital through private placements of equity securities and through draws on our existing related-party credit facility. We initiated a private placement of equity securities in April 2016 under which we were authorized by the Board of Directors to raise up to $4,000,000. The private placement expired on August 31, 2016 (See Note 6). For the period from April 4, 2016 through August 31, 2016, a total of $3,900,000 was raised pursuant to this private placement. Of this total, $2,125,000 was received in cash and $1,775,000 resulted from the settlement of outstanding debt.

We currently have a line of credit facility with our largest shareholder with a maximum principal amount available of $3,500,000. As of September 30, 2016 an aggregate of $2,580,000 was available for future draws at the lender's discretion. The related party credit facility matures on January 31, 2018, but may be further extended by the lender. Between October 1, 2016 and November 10, 2016, we borrowed an aggregate of $275,000 under this agreement (See Notes 4 and 12). In addition, we are 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 we will be able to obtain the additional required funds on a timely basis or that funds will be available on terms acceptable to us. If such funds are not available when required, management will be required to curtail its investments in additional sales and marketing and product development resources, and capital expenditures, which may have a material adverse effect on our future cash flows and results of operations, and our ability to continue operating as a going concern. The accompanying financial statements do not include any adjustments that would be necessary should we be unable to continue as a going concern and, therefore, be required to liquidate 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 consolidated financial statements.

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

The Company's significant accounting policies are described in Note 3, "Summary of Significant Accounting Policies," in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016. There have been no material changes in these policies or their application.

***Principles of Consolidation***

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

***Reclassifications***

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

***Net Loss Per Common Share***

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

For the three months ended September 30, 2016 and 2015, basic and diluted weighted-average common shares outstanding were 230,863,490 and 114,537,944, respectively. The Company incurred a net loss for the three months ended September 30, 2016 and 2015, and therefore, basic and diluted loss per share for the periods are the same because the inclusion of potential common equivalent shares were excluded from diluted weighted-average common shares outstanding during the period, as the inclusion of such shares would be anti-dilutive. The total potentially dilutive common shares outstanding at September 30, 2016 and 2015, excluded from diluted weighted-average common shares outstanding, which include common shares underlying outstanding convertible debt, stock options and warrants, were 51,140,074 and 36,812,122, respectively.

***Recent Accounting Pronouncements***

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

**NOTE 4 - RELATED PARTY DEBT AGREEMENTS**

Between October 2011 and September 2012, the Company entered into three debt agreement with Esenjay Investments, LLC (“Esenjay”). Esenjay is deemed to be a related party as Mr. Michael Johnson, the beneficial owner and director of Esenjay is a current member of our board of directors and a major shareholder of the Company (owning approximately 64% of our outstanding common shares as of September 30, 2016). The three debt agreements consisted of a Bridge Loan Promissory Note, a Secondary Revolving Promissory Note and an Unrestricted Line of Credit (collectively, the “Loan Agreements”). On December 31, 2015, the Bridge Loan Promissory Note and the Secondary Revolving Promissory Note expired leaving the Unrestricted Line of Credit.

The Unrestricted Line of Credit, bearing an interest rate of 6% per annum, has since been amended resulting in an increase in the maximum borrowing amount from $2,000,000 to $3,500,000, a reduction in the conversion rate of $0.30 to $0.06 per share, and an extension of the maturity date from December 31, 2015 to January 31, 2018. The change in the conversion rate took place on December 29, 2015 and resulted in an estimated change in fair value of the conversion price of $310,000. This change in fair value was recorded as a deferred financing cost on December 29, 2016 and was amortized over the then remaining seven-month term of the Unrestricted Line of Credit. The deferred financing cost totaled $0 and $44,000 on September 30, 2016 and June 30, 2016, respectively. During the three months ended September 30, 2016, we recorded $44,000 of deferred financing amortization costs, which is included in other expense in the accompanying condensed consolidated statements of operations.

Between July 1, 2014 and September 30, 2016, we borrowed an aggregate of $4,670,000 pursuant to these various debt agreements with Esenjay. On September 3, 2015, we entered into a Loan Conversion Agreement with Esenjay, as amended on October 6, 2015 and November 13, 2015, pursuant to which we issued 51,171,025 shares of our common stock (based on $0.04 per share) in exchange for the cancellation of $2,000,000 outstanding under the Loan Agreements, plus $46,841 in accrued interest. In conjunction with our then outstanding private placement (see Note 6) between April 1, 2016 and August 31, 2016, $1,750,000 of the outstanding debt under the Unrestricted Line of Credit was settled via the issuance of 43,750,000 shares of our common stock.

As of September 30, 2016 the outstanding principal balance of the Unrestricted Line of Credit was $920,000 resulting in $2,580,000 available for future draws. Borrowings under the Unrestricted Line of Credit are subject to pre-approval by Esenjay which has no obligation to loan additional funds. During the three months ended September 30, 2016 and 2015, the Company recorded approximately $16,000 and $20,000 of interest expense related to the Unrestricted Line of Credit, respectively. Subsequent to September 30, 2016, we have borrowed an additional $275,000 under the Unrestricted Line of Credit (see Note 12).

**NOTE 5 - LINE OF CREDIT**

*Line of Credit*

On October 2, 2014, the Company entered into a line of credit ("Line of Credit") agreement in the maximum amount of $500,000 with a non-related lender ("Lender"). Borrowings under the Line of Credit bear 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 the Company, and are secured by all of the assets of the Company 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 used solely for working capital purposes. As of September 30, 2016 and June 30, 2016, the Company had borrowed a total of $215,000 under the Line of Credit. Accrued interest at September 30, 2016 was $34,000. The Company's inability to repay the Note on the September 19, 2016 due date has resulted in an event of default under the Note. Upon the occurrence of a default under the Note, the outstanding obligations are subject to a default interest rate of 18% and a penalty fee. In addition, Lender may exercise its rights as a secured party under the Security Agreement. We are currently in the process of renegotiating with Lender terms to remedy the event of default. As of the filing date of this Quarterly Report on Form 10-Q, Lender has not issued a notice of default.

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 was recorded as a debt discount and 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 September 30, 2016 and June 30, 2016, the $215,000 principal amount outstanding under this agreement is presented net of unamortized debt discount totaling $0 and $19,000, respectively. During the three months ended September 30, 2016 and 2015, the Company recorded debt discount amortization of approximately $19,000 and $22,000, respectively, 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 Line of Credit. 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 shares subject to the warrant equals 5% of the aggregate gross proceeds from the Line of Credit 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. During fiscal 2015 and in connection with the Line of Credit, SRA earned a commission of $10,750 and warrants to purchase 89,583 shares of the Company's common stock at $0.12 per share. Mr. Timothy Collins, the former Executive Chairman of the Company's board of directors is the Chief Executive Officer, President, director and shareholder of SRA. On July 31, 2015, the Agency Agreement with SRA reached its termination date, and was not renewed.

**NOTE 6 - STOCKHOLDERS' DEFICIT**

***Common Stock and Warrants***

We issued the following shares of common stock during the three months ended September 30, 2016 :

| | | Value of Common Stock | Shares of Common Stock |
|---|---|---|---|
| Shares issued in 2016 Private Placement as Loan Conversio n | $ | 400,000 | 10,000,000 |
| Shares issued in 2016 Private Placement for Cas h | | 1,075,000 | 26,875,000 |
| Shares issued in 2016 Private Placement for Private Placement Subscription | | - | 2,500,000 |
| Shares issued for Services Rendere d | | 3,000 | 75,000 |
| Shares issued in Warrant Exchang e | | 7,824 | 1,106,341 |
| Total | $ | 1,485,824 | 40,556,341 |

***Private Placement –2016***

In April 2016, our Board of Directors approved the private placement of up to 77,500,000 shares of our common stock to select accredited investors for a total amount of $3,100,000, or $0.04 per share of common stock. On July 28, 2016, our Board of Directors increased the aggregate amount offered to up to $4,000,000 and extended the termination date to August 31, 2016 (the "Offering"). During the three months ended September 30, 2016, $1,475,000 was raised of which $1,075,000 was received in cash and $400,000 was received via the settlement of outstanding debt. Esenjay, our controlling shareholder and primary credit line holder, participated in the Offering as an investor by purchasing 12,500,000 shares for cash proceeds of $500,000 and 10,000,000 shares in exchange for the settlement of $400,000 of debt owed to Esenjay by the Company. In addition, we sold 14,375,000 shares to unrelated accredited investors for $575,000 in cash and issued 2,500,000 shares to an unrelated accredited investor, for which we had received cash proceeds prior to June 30, 2016 of $100,000. On April 15, 2016, we entered into an agreement with Esenjay, whereby Esenjay agreed to limit its right of conversion under the Unrestricted Line of Credit to such number of shares so that upon conversion, if any, it will not cause us to exceed our authorized number of shares of common stock. Upon termination of the Offering on August 31, 2016, we had raised a total of $3,900,000 of which $2,125,000 was received in cash and $1,775,000 was received via the settlement of outstanding debt and liabilities. The securities offered and sold in the Offering have not been registered under the 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***

***Monarch Bay Securities.*** On October 7, 2015, we signed an engagement letter ("Agreement") with Monarch Bay Securities ("MBS") to assist us in raising capital. The arrangement is on a non-exclusive basis and has an initial term of six months. Pursuant to the arrangement, we have paid to MBS a non-refundable cash retainer of $20,000. The $20,000 retainer was fully expensed during the year ended June 30, 2016. In addition, upon a successful closing of financing during the period stated in the Agreement, we will pay MBS a fee of 8% of gross proceeds raised in cash and warrants to purchase 8% of total number of shares issued and issuable by the Company to investors under each successful financing. We are currently in the process of renegotiating a new agreement with MBS.

***Catalyst Global LLC.*** Effective April 1, 2016, we entered into a renewal contract with Catalyst Global LLC ("CGL") to provide investor relations services for 12 months in exchange for monthly fees of $2,000 per month and 540,000 shares of restricted common stock issued as follows: 315,000 shares on June 30, 2016 for services provided during the three months ended June 30, 2016 and the 75,000 shares issued upon each of the six-, nine-, and twelve-month anniversaries of the contract. The initial tranche was valued at $0.05 per share or approximately $14,500 when issued on June 30, 2016, the second tranche of 75,000 shares was issued on September 29, 2016 and was valued at $0.04 per share or $3,000. During the three months ended September 30, 2016, we recorded expense of approximately $3,000.

***Warrant Activity***

Warrant detail for the three months ended September 30, 2016 is reflected below:

| | Number of Warrants | | Weighted Average Exercise Price Per Warrant | Remaining Contract Term (# years) |
|---|---|---|---|---|
| Warrants outstanding and exercisable at June 30, 2016 | 28,040,096 | $ | 0.20 | 0.39 - 2.50 |
| Warrants issued | - | $ | - | - |
| Warrants exchanged | (1,837,777) | $ | 0.14 | 0.29 |
| Warrants outstanding and exercisable at September 30, 2016 | 26,202,319 | $ | 0.20 | 0.29 - 2.23 |

In 2012, we issued warrants to certain investors and a consultant (together, the "2012 Warrant Holders") to purchase a total of 2,970,347 shares of our common stock at $0.41 per share (the "2012 Warrants"). On August 23, 2016 we offered our 2012 Warrant Holders the option to convert their 2012 Warrants for shares of our common stock at a conversion rate of 0.602 shares of common stock per warrant share (the "Warrant Exchange"). As of September 30, 2016, one (1) 2012 Warrant Holder has accepted this offer and accordingly, we have exchanged his warrant to purchase 1,837,777 shares of common stock at an exercise price of $0.14 per share into 1,106,341 shares of common stock valued at $0.04 per share, or approximately $44,000. At September 30, 2016, warrants to purchase 1,069,570 shares of common stock remain available to convert into 643,881 shares of common stock (see Note 7).

The Warrant Exchange was accounted for in accordance with the Financial Accounting Standards Board, Accounting Standards Codification Topic No.480-35 *Distinguishing Liabilities From Equities, Subsequent Measurement.* As such, the fair value of the warrants was calculated on the settlement date and recorded as a change in fair value of derivative liabilities. The common stock issued in exchange for the warrants was recorded at the fair value of the remaining warrant derivative liability.

***Stock-based Compensation***

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

Activity in stock options during the three months ended September 30, 2016 and related balances outstanding as of that date are reflected below:

| | **Number of Shares** | | **Weighted Average Exercise Price** | **Weighted Average Remaining Contract Term (# years)** |
|---|---|---|---|---|
| Outstanding at June 30, 2016 | 9,004,020 | $ | 0.11 | |
| Granted | - | | | |
| Exercised | - | | | |
| Forfeited and cancelled | (801,320) | $ | 0.25 | |
| Outstanding at September 30, 2016 | 8,202,700 | $ | 0.10 | 7.42 |
| Exercisable at September 30, 2016 | 6,023,455 | $ | 0.12 | 6.40 |

Activity in stock options during the three months ended September 30, 2015 and related balances outstanding as of that date are reflected below:

| | **Number of Shares** | | **Weighted Average Exercise Price** | **Weighted Average Remaining Contract Term (# years)** |
|---|---|---|---|---|
| Outstanding at June 30, 2015 | 6,101,357 | $ | 0.16 | |
| Granted | - | | | |
| Exercised | - | | | |
| Forfeited and cancelled | (389,774) | | 0.30 | |
| Outstanding at September 30, 2015 | 5,711,583 | $ | 0.15 | 6.20 |
| Exercisable at September 30, 2015 | 4,849,251 | $ | 0.15 | 6.02 |

Stock-based compensation expense recognized in our consolidated statements of operations for the three months ended September 30, 2016 and 2015, includes compensation expense for stock-based options and awards granted based on the grant date fair value. For options and awards granted, expenses are amortized under the straight-line method over the expected vesting period. Stock-based compensation expense recognized in the condensed consolidated statements of operations has been reduced for estimated forfeitures of options that are subject to vesting. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Our average stock price during the three months ended September 30, 2016, was $0.05, and as a result the intrinsic value of the exercisable options at September 30, 2016, was $4,000.

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

| **Three months ended September 30,** | **2016** | **2015** |
|---|---|---|
| Research and development | $ 7,000 | $ 3,000 |
| General and administrative | 4,000 | 27,000 |
| Total stock-based compensation expense | $ 11,000 | $ 30,000 |

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

| **Three months ended September 30,** | **2016** | **2015** |
|---|---|---|
| Expected volatility | 100% | 100% |
| Risk free interest rate | 1.31% | 0.96% |
| Forfeiture rate | 23.0% | 17% |
| Dividend yield | 0% | 0% |
| Expected term (years) | 3 | 3 |

The remaining amount of unrecognized stock-based compensation expense at September 30, 2016 relating to outstanding stock options, is approximately $70,000, which is expected to be recognized over the weighted average period of 1.83 years.

**NOTE 7 – WARRANT DERIVATIVE LIABILITY**

The 2012 Warrants discussed in Note 6 include exercise price re-set provisions should future equity offerings be offered at a price lower than the warrant exercise price. In accordance with ASC No. 815, the re-set provisions are recorded as derivative liabilities in the accompanying condensed consolidated financial statements.

Warrants classified as derivative liabilities are recorded at their fair values at the issuance date and are revalued at each subsequent reporting date. These warrants were determined to have an average fair value per warrant and aggregate value as of September 30, 2016 of $0.01 and $6,000, respectively and an average fair value per warrant and aggregate value as of June 30, 2016 of $0.01 and $24,000, respectively.

Significant assumptions used to estimate the fair value of the warrants classified as derivative liabilities are summarized below:

| | As of September 30, 2016 | As of June 30, 2016 |
|---|---|---|
| Risk-free interest rate | 0.47% | 0.44% - 0.49% |
| Expected life (average) (years) | 0.70 – 1.08 | 0.96 - 1.33 |
| Stock price (based on prices on valuation date) | $0.05 | $0.05 |
| Exercise price | $0.14 | $0.15 |
| Expected volatility | 110% | 110% |

As discussed in Note 6, in conjunction with the Offering, we sold shares of our common stock at a price of $0.04 per share, thereby triggering an anti-dilution provision in the 2012 Warrants. As a result, the exercise price of such warrants has been reduced to $0.14 per share as of September 30, 2016. The remaining terms, including expiration dates, of all effected warrants remain unchanged.

The change in the estimated fair value of warrants classified as derivative liabilities during the three months ended September 30, 2016 and 2015 was $10,000 and $0, respectively, and is included as a component of other income (expense) in the accompanying condensed consolidated statements of operations.

**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 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. As of September 30, 2016 and June 30, 2016, the fair value of our Level 3 financial instruments was $6,000 and $24,000, respectively. The table below sets forth a summary of changes in the fair value of our Level 3 financial instruments for the three months ended September 30, 2016:

| Fair value measurements of warrants using significant unobservable inputs (Level 3) | | |
|---|---|---|
| Balance at June 30, 2016 | $ | 24,000 |
| Change in fair value of warrant liability | | (11,000) |
| Warrant exchange for common stock (Note 6) | | (7,000) |
| Balance at September 30, 2016 | $ | 6,000 |

The fair value of our warrant derivative liabilities and the change in the estimated fair value of derivative liabilities that we recorded during the three months ended September 30, 2016, related to warrants issued in connection with our private placement transactions (see Notes 6 and 7).

**NOTE 9 - OTHER RELATED PARTY TRANSACTIONS**

***Transactions with Epic Boats***

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

The Company received $4,000 during the three months ended September 30, 2016 and 2015, from Epic Boats under the sublease rental agreement which is recorded as a reduction to 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 September 30, 2016, we had received approximately $136,000 from Epic Boats as deposits for various products.

**NOTE 10 - CONCENTRATIONS**

***Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and unsecured trade accounts receivable. The Company maintains cash balances at a financial institution in San Diego, California. Our cash balance at this institution is secured by the Federal Deposit Insurance Corporation up to $250,000. As of September 30, 2016, cash totaled approximately $88,000, 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 September 30, 2016, we had 2 major customers that each represented more than 10% of our revenues on an individual basis, or approximately 50% in the aggregate.

During the three months ended September 30, 2015, we had one major customer that represented approximately 59% of our revenues.

***Suppliers/Vendor Concentrations***

We obtain a limited number of components and supplies included in our products from a small group of suppliers. During the three months ended September 30, 2016 we had three suppliers who accounted for more than 10% of our total inventory purchases on an individual basis or approximately 54% in the aggregate.

During the three months ended September 30, 2015 we had two suppliers who accounted for more than 10% of our total inventory purchases on an individual basis or approximately 44% in the aggregate.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

From time to time, we may be involved in litigation relating to claims arising out of our operations. Since June 2015, we have been a party to a legal proceeding arising from a work related injury that took place in June 2013. We deny and dispute all liability and damage allegations made by or on behalf of the plaintiff. However, having fully considered the risks, time and costs associated with continued litigation of this claim, as well as an appeal, we decided to fully and finally resolve and settle the dispute. Accordingly, on August 26, 2016 we entered into a settlement agreement with the plaintiff whereby in exchange for the plaintiff releasing Flux Power from any and all claims of any nature that the plaintiff had or now has or might in the future have against us, we paid the plaintiff $10,000 as settlement in September 2016.

**NOTE 12 - SUBSEQUENT EVENTS**

Management has evaluated events subsequent to September 30, 2016, 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.

On October 7, 2016, we paid back $50,000 of the principal balance owed under our Line of Credit resulting in $165,000 outstanding.

During the period from October 1, 2016 through November 10, 2016 we borrowed an aggregate of $275,000 from Esenjay under our Unrestricted Line of Credit. As of November 10, 2016, the amount outstanding under the Unrestricted Line of Credit was $1,195,000, with an aggregate of $2,305,000 available under the Unrestricted Line of Credit for future draws at Esenjay’s discretion. As of November 10, 2016, Esenjay owns approximately 64% of our issued and outstanding common stock (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, 2016.

**Overview**

We design, develop and sell rechargeable advanced lithium-ion batteries for industrial uses, including our first-ever UL 2771 Listed lithium-ion "LiFT Pack" forklift batteries. We have developed an innovative high power battery cell management system ("BMS") and have structured our business around this core technology. Our proprietary BMS provides three critical functions to our battery systems:

- *Cell Balancing*: This is performed by continuously adjusting the capacity of each cell in a storage system according to temperature, voltage, and internal impedance metrics. This management 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 decisions 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 customers. 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 are primarily focusing on the lift equipment market targeting dealers and distributors, and secondarily, on the airline ground support equipment market. In January 2016, we obtained certification from Underwriters Laboratory ("UL") on our LiFT Packs for forklift use listed to UL 2271. The UL Listing, issued by UL, a global safety science organization, demonstrates the quality, safety and reliability of our LiFT Pack line for customers, distributors, dealers and OEM partners. We believe we have emerged from this effort with a substantially enhanced product line, particularly in the areas of overall design and durability, as well as, features that improve our LiFT Packs' value and performance for customers. We passed our Initial Production Inspection by UL to allow LiFT Packs with the UL Listing to be shipped and two subsequent surprise UL inspections. We shipped our first UL certified LiFT Pack to our customers beginning in May 2016. Our LiFT Packs are now the first and only UL Listed lithium-ion batteries available. During the fourth quarter of fiscal year 2016, we also developed specialized assembly and testing stations designed to speed production time frames by automating many facets of testing and assembly. We expect to see the results of these design and production enhancements, in the way of improved gross margins, during the second quarter of fiscal 2017.

In April 2016, we began piloting our custom-developed, 72-volt battery pack for use with electric aviation ground support equipment. The pilot program, organized by Averest, Inc., a leading distributor of industrial batteries and chargers for aviation ground support equipment, was with a leading regional airline at Los Angeles International Airport. The test program wrapped up in August 2016 and was deemed an unqualified success. Now, working with a distributor focused on the airlines, we are planning to provide more test units for additional airlines. The successful development and 3-month pilot highlights the scalability of our design and engineering capabilities, as well as, our proprietary battery management technology for a broad array of motive power applications. Importantly it also moves us into a customer price point of roughly $20,000 to $25,000 per pack for several power rating alternatives, creating an excellent new leg of growth potential.

**Segment and Related Information**

We operate as a single reportable segment.

**Results of Operations and Financial Condition**

The following table represents our unaudited condensed consolidated statement of operations for the three months ended September 30, 2016 ("Q1 2017") and September 30, 2015 ("Q1 2016").

| | Three months ended September 30, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | $ | % of Revenues | $ | % of Revenues |
| Revenues | $ 293,000 | 100% | $ 171,000 | 100% |
| Cost of sales | 460,000 | 157% | 238,000 | 139% |
| Gross loss | (167,000) | -57% | (67,000) | -39% |
| | | | | |
| Operating expenses: | | | | |
| Selling and administrative expenses | 647,000 | 221% | 555,000 | 325% |
| Research and development | 290,000 | 99% | 336,000 | 196% |
| Total operating expenses | 937,000 | 320% | 891,000 | 521% |
| | | | | |
| Operating loss | (1,104,000) | -377% | (958,000) | -560% |
| | | | | |
| Other income (expense): | | | | |
| Change in fair value of derivative liabilities | 11,000 | 4% | - | 0% |
| Interest expense, net | (42,000) | -14% | (50,000) | -29% |
| Other expense | (44,000) | -15% | - | 0% |
| | | | | |
| Net loss | $ (1,179,000) | -402% | $ (1,008,000) | -589% |

***Revenues***

Our product focus is primarily on Lift Equipment, reflecting our current products for walkie pallet jacks and plans to introduce higher capacity packs in 2017 for Class I, II, and III forklifts. We also are implementing a with a strategy to expand on an opportunistic basis to adjacent applications, including airport ground service equipment in 2017. We feel that we are well positioned to address these markets, which would utilize our modular and scalable battery pack design and technology. 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 Q1 2017, increased by $122,000 or 71%, compared to Q1 2016. This increase in revenues was directly attributable to an 84% increase in the number of LiFT Packs sold in Q1 2017 compared to Q1 2016. The increased sales resulted from the completion of design changes driven by both UL requirements and ongoing product development changes during the second half of fiscal year 2016. The increase in revenues was not as significant as the increase in packs sold due to discounts provided during Q1 2017 in order to introduce our products to the market. We anticipate that we will be able to reduce the amount of discounts provided, thus resulting in even greater revenues, once the benefits of our redesigned LiFT Packs are proven in the market place.

***Cost of Sales***

Cost of sales for Q1 2017, increased $222,000, or 93%, compared to Q1 2016. The increase in cost of sales is primarily related to our increase in LiFT Pack sales. As noted above, we had an increase in the number of LiFT Packs sold of approximately 84%. The increase in cost of sales was slightly higher than that due to an increase in warranty expense of repairing products in the field and returned products. Our assessment and tracking of product issues indicates resolution of all major experienced problems, including assembly and product launch issues. Our LiFT Packs, can be subjected to very harsh vibration in certain operational settings. We believe we have "hardened" our packs going forward to sustain the harshest of environments. However, we anticipate that we may still incur issues on packs in the field that do not have the benefit of certain fixes. As of September 30, 2016, we had $120,000 accrued for product warranty liability.

***Selling and Administrative Expenses***

Selling and administrative expenses for Q1 2017 increased $92,000 or 17%, compared to Q1 2016. Such expenses consist primarily of salaries and personnel related expenses, marketing, insurance, stock-based compensation expense, public company costs, and professional fees. The increase in Q1 2017 resulted primarily from (1) an increase in legal fees attributed to our 2016 Private Placement and the Warrant Exchange discussed in Note 6 of our condensed consolidated financial statements included herein; (2) increase marketing costs associated with the shipment of demo LiFT Packs sent to various customers to stimulate sales; (3) increased payroll costs associated with the hiring of a Director of Operations, mechanical engineer, and senior tech specialist, in March 2016 necessary to improve our production and further our presence in the Lift Equipment marketplace and; (4) increased shipping and handling costs resulting from the increase in LiFT Packs shipped during Q1 2017.

***Research and Development Expense***

Research and development expenses for Q1 2017 decreased $46,000 or 14%, compared to Q1 2016. Such expenses consist primarily of materials, supplies, salaries and personnel related expenses, stock-based compensation expense, consulting costs, and other expenses associated with the continued development of our LiFT Pack, as well as, research into new product opportunities, such as our aviation ground support equipment battery pack. The decrease in Q1 2017 is primarily due to decreased costs associated with our UL certification project which was substantially completed in January 2016. We anticipate research and development expenses continuing to be a significant portion of our expenses as we continue to develop new and improved products to our product line.

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

We follow FASB ASC Topic No. 820, *Fair Value Measurements and Disclosures* ("ASC 820") in connection with financial assets and liabilities measured at fair value on a recurring basis subsequent to initial recognition. For Q1 2017 and Q1 2016, the change in the fair value of the warrants resulted in other income of $11,000 and $0, respectively (see Note 7 in the accompanying condensed consolidated financial statements). The resulting decrease in the warrant derivative liability is primarily attributable to the decrease in the market value of our common stock and the exchange of approximately 63% of the outstanding warrants at June 30, 2016 into shares of common stock on during Q1 2017, thus eliminating a significant portion of the warrant liability at September 30, 2016.

***Interest Expense***

Interest expense for Q1 2017 and Q1 2016 was $42,000 and $50,000, respectively, and consists primarily of interest expense related to our outstanding lines of credit, as well as deferred discount amortization (see Notes 4 and 5 in the accompanying condensed consolidated financial statements).

***Other Expense***

Other expense during Q1 2017 consists of financing costs associated with our Unrestricted Line of Credit. On December 29, 2015 we entered into the Second Amendment of our Unrestricted Line of Credit which included, among other provisions, the reduction in the conversion price of the Unrestricted Line of Credit from $0.30 to $0.06 per share on December 29, 2015. The estimated change in fair value of the conversion price of approximately $310,000 was recorded as a deferred financing cost at the date of the Second Amendment and was amortized over the remaining seven-month term of the amended Unrestricted Line of Credit agreement. During the three months ended September 30, 2016, we amortized the remaining $44,000 of deferred financing costs which is included in other expenses.

***Net Loss***

Net losses for Q1 2017 increased $171,000 or 17%, as compared to net losses in Q1 2016. The increase is primarily attributable to increased personnel and legal fees, as well as, financing costs as discussed above. These increases in our net loss our offset but increased revenues generated from the improved sales of our LiFT Packs.

**Liquidity and Capital Resources**

***Overview***

As of September 30, 2016, we had a cash balance of $88,000, negative working capital of $539,000, and an accumulated deficit of $16,441,000. To date, our revenues and operating cash flows have not been sufficient to sustain our operations and we have relied on debt and equity financing to fund our operations. These factors raise substantial doubt about our ability to continue as a going concern. 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 do not have sufficient liquidity and capital resources to fund planned operations through the coming twelve months. See “Future Liquidity Needs” below.

***Cash Flows***

***Operating Activities***

Our operating activities resulted in net cash used in operations of $ 1,226,000 for Q1 2017, compared to net cash used in operations of $956,000 for Q1 2016.

Net cash used in operating activities during Q1 2017, reflects the net loss of $1,179,000 for the period offset primarily by non-cash items including depreciation, the change in fair value of warrant liability, costs of financing and the amortization of debt discounts, as well as, increases in accounts receivable and inventories and a decrease in accounts payable.

Net cash used in operating activities during Q1 2016, reflects the net loss of $1,008,000 for the period offset primarily by non-cash items including stock-based compensation and the amortization of debt discount, as well as, increases in accounts receivable, prepaid and other assets, accounts payable and accrued expenses.

***Investing Activities***

Net cash used in investing activities during Q1 2017 consists primarily of the purchase of office equipment for $8,000. There were no investing activities during Q1 2016.

***Financing Activities***

Net cash provided by financing activities during Q1 2017 was $1,195,000 and consisted of $1,075,000 of proceeds from the sale of common stock and $120,000 of borrowings from our line of credit with Esenjay. Net cash provided by financing activities during Q1 2016 was $975,000 and resulted from the borrowings from our line of credit with Esenjay.

***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 $2,500,000 will be required to fund current and planned operations through June 30, 2017. 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.

In April 2016, our Board of Directors approved the private placement of up to 77,500,000 shares of our common stock to select accredited investors for a total amount of $3,100,000, or $0.04 per share of common stock. On July 28, 2016, our Board of Directors increased the aggregate amount offered to up to $4,000,000 and extended the termination date to August 31, 2016 (the “Offering”). As of August 31, 2016, a total of 97,500,000 shares of common stock have been sold to ten (10) accredited investors for a total aggregate offering amount of $3,900,000 of which $2,125,000 was received in cash, $1,750,000 was received in exchange of settlement of outstanding liabilities under the Unrestricted Line of Credit with Esenjay, and $25,000 was received in the form of settlement of accounts payable to a vendor.

Between July 1, 2014 and September 30, 2016, we borrowed $4,670,000 pursuant to various related party credit facilities of which $3,750,000 has been converted to equity. As of September 30, 2016, the amount outstanding under the Unrestricted Line of Credit with Esenjay was $920,000, with an aggregate of $2,580,000 available under the Unrestricted Line of Credit for future draws at Esenjay's discretion. As of November 10, 2016, the amount outstanding under the Unrestricted Line of Credit was $1,195,000, with an aggregate of $2,305,000 available under the Unrestricted Line of Credit for future draws. The credit facility matures on January 31, 2018, but may be further extended by Esenjay, and is convertible into shares of common stock at $0.06 per share, to the extent such will not cause us to exceed our authorized number of shares of common stock. Esenjay owns approximately 64% of our issued and outstanding common stock as of November 10, 2016. In addition, in October 2014, pursuant to a certain Secured Convertible Promissory Note (the "Note") a $500,000 convertible line of credit with an unrelated party (the "Lender") was established, of which $215,000 in principal remains outstanding as of September 30, 2016. The Note matured on September 19, 2016. Our inability to repay the Note on the due date has resulted in an event of default under the Note. Upon the occurrence of a default under the Note, the outstanding obligations are subject to a default interest rate of 18% and a penalty fee. In addition, Lender may exercise its rights as a secured party under the Security Agreement. We are currently in the process of renegotiating with Lender terms to remedy the event of default. On October 7, 2016, we paid $50,000 to the Lender towards the Note's outstanding principal.

We intend to continue to seek capital through the private placement of debt and equity securities. We are exploring alternative financing options and investment structures that may provide us with additional cash funding. However, 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 will 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, 2016.

**Recently Adopted Accounting Pronouncements**

In July 2015, The FASB issued Accounting Standards Update ("ASU") No. 2015-11, *Inventory*, which simplifies the subsequent measurement of inventory for which cost is determined by methods other than last-in first-out ("LIFO") and the retail inventory method. For inventory within the scope of the new guidance, entities will be required to compare the cost of inventory to only one measure, its net realizable value, and not the three measures required by the existing guidance. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The new guidance should not change how entities initially measure the cost of inventory. The guidance will be effective for the Company's fiscal year beginning July 1, 2017. Early adoption is permitted. We elected to early adopt ASU No. 2015-11 during the fourth quarter of fiscal 2016. The adoption had no impact on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest-Imputation of Interest*, 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. The new guidance is effective for the Company's fiscal year beginning July 1, 2016. Early adoption is permitted. We elected to early adopt ASU No. 2015-03 during the fourth quarter of fiscal 2016. The adoption had no impact on our consolidated financial statements as the deferred financing costs presented on the consolidated balance sheet as of June 30, 2016 are related to the line of credit - related party.

### Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments*, which provides guidance on reducing the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. In addition to other specific cash flow issues, ASU 2016-15 provides clarification on when an entity should separate cash receipts and cash payments into more than one class of cash flows and when an entity should classify those cash receipts and payments into one class of cash flows on the basis of predominance. The new guidance is effective for the fiscal years beginning after December 31, 2017, and interim periods within those fiscal years. Early adoption is permitted including an adoption in an interim period. The adoption of this ASU is not expected to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* The amendments in this ASU change the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The guidance is effective for the Company's fiscal year beginning July 1, 2019. Early adoption is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The adoption of this ASU is not expected to have a material impact on our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall*, primarily to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in this ASU include, among other items, guidance to classify equity securities with readily determinable fair values into different categories and require equity securities to be measured at fair value with changes in the fair value recognized through net income. The amendments allow equity investments that do not have readily determinable fair values to be re-measured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The amendments also require enhanced disclosures about those investments. The amendments improve financial reporting by providing relevant information about an entity's equity investments and reducing the number of items that are recognized in other comprehensive income. The guidance is effective for the Company for fiscal years beginning after December 15, 2017. The adoption of this ASU is not expected to have a material impact on our consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, *Extraordinary and Unusual Items*, which eliminates the concept of extraordinary items. Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Eliminating the extraordinary classification simplifies income statement presentation by altogether removing the concept of extraordinary items from consideration. The new guidance is effective for the Company's fiscal year beginning July 1, 2016. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this ASU is not expected to have a material impact on our consolidated financial statements.

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 that are, or are not, alleviated as a result of consideration of management's plans. The new guidance is effective for the Company's fiscal year beginning July 1, 2017. Early adoption is permitted. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. 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. In May 2015, the FASB issued ASU No. 2015-14 deferring the effective date to annual reporting periods beginning after December 15, 2017, which is effective for the Company's fiscal year beginning July 1, 2018. Early adoption is permitted only as of an annual reporting period beginning after December 15, 2016. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

## ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

## ITEM 4 - CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file with the SEC under the Securities Exchange Act of 1934, as amended is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate, to allow for timely decisions regarding required disclosure. As required by SEC 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 September 30, 2016, 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. Since June 2015, we have been a party to a legal proceeding arising from a work related injury that took place in June 2013. We deny and dispute all liability and damage allegations made by or on behalf of the plaintiff. However, having fully considered the risks, time and costs associated with continued litigation of this claim, as well as an appeal, we decided to fully and finally resolve and settle the dispute. Accordingly, on August 26, 2016 we entered into a settlement agreement with the plaintiff whereby in exchange for the plaintiff releasing Flux Power from any and all claims of any nature that the plaintiff had or now has or might in the future have against us, we paid the plaintiff $10,000 as settlement in September 2016.

## ITEM 1A - RISK FACTORS

Any investment in our common stock involves a high degree of risk. Investors should carefully consider the risks described in our Annual Report on Form 10-K as filed with the SEC on September 26, 2016 and all of the information contained in our public filings before deciding whether to purchase our common stock.

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

On August 23, 2016, we offered our 2012 Warrant Holders the option to convert their 2012 Warrants for shares of our common stock at a conversion rate of 0.602 shares of common stock per warrant share. As of September 26, 2016, one (1) 2012 Warrant Holder accepted this offer and accordingly, we have converted the warrant to originally purchase 1,837,777 shares of common stock at an exercise price of $0.14 per share into 1,106,341 shares of common stock valued at $0.04 per share, or $44,254. Such shares were issued upon exemptions from registration pursuant to Section 4(1) of the Securities Act.

Effective April 1, 2016, we entered into a renewal contract with Catalyst Global LLC ("CGL") to provide investor relations services for 12 months in exchange for monthly fees of $2,000 per month and 540,000 shares of restricted common stock issued as follows: 315,000 shares on June 30, 2016 for services provided during the three months ended June 30, 2016 and the 75,000 shares issued upon each of the six-, nine-, and twelve-month anniversaries of the contract. The initial tranche was valued at $0.05 per share or approximately $14,500 when issued on June 30, 2016, the second tranche of 75,000 shares was issued on September 29, 2016 and was valued at $0.04 per share or $3,000. These shares have not been registered under the Securities Act. Such shares were issued upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act.

## ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

On October 2, 2014, we entered into a line of credit ("Line of Credit") agreement with a non-related lender ("Lender") 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"). Borrowings under the Line of Credit are guaranteed by the Company, and are secured by all of the assets of the Company pursuant to the terms of a certain Security Agreement and Guaranty Agreement. We were unable to repay the Note and accrued interest on September 19, 2016 resulting in an event of default under the Note. Upon the occurrence of a default under the Note, the outstanding obligations are subject to a default interest rate of 18% per annum and a penalty fee of 2% of the delinquent amount. In addition, Lender may exercise its rights as a secured party under the Security Agreement. As of September 30, 2016, the Company had borrowed a total of $215,000 under the Line of Credit and had accrued interest of $34,000. We are currently in the process of renegotiating with Lender terms to remedy the event of default. On October 7, 2016, we paid $50,000 to the Lender towards the Note's outstanding principal. As of the filing date of this Quarterly Report on Form 10-Q, Lender has not issued a notice of default.

**ITEM 4 - MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5 - OTHER INFORMATION**

None.

**ITEM 6 - EXHIBITS**

The following exhibits are filed as part of this Report

| Exhibit No. | Description |
|---|---|
| 31.1 | Certifications of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act.* |
| 31.2 | Certifications of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act.* |
| 32.1 | Certifications of the Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act.* |
| 32.2 | Certifications of the Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act.* |
| 101.INS | XBRL Instance Document* |
| 101.SCH | XBRL Taxonomy Extension Schema* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase* |

* Filed herewith.

**SIGNATURES**

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

Flux Power Holding, Inc.

Date: November 10, 2016

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

**Exhibit 31.1**

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

I, Ronald F. Dutt, certify that:

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

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

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

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

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

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

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

d. Disclosed in this report any change in the Registrant 's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrants 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: November 10, 2016

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

**Exhibit 31.2**

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

I, Ronald F. Dutt, certify that:

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

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

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

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

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

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

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

d. Disclosed in this report any change in the Registrant 's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's 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: November 10, 2016

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

**Exhibit 32.1**

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

In connection with the Quarterly Report of Flux Power Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2016 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: November 10, 2016

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

**Exhibit 32.2**

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

In connection with the Quarterly Report of Flux Power Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2016, 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: November 10, 2016

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