Flux Power Holdings, Inc.
Form 10-Q
May 15, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **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	**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 **x** 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 **x** 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	x

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

Yes **£** No x

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

Class	Outstanding as of May 5, 2015
Common Stock, $0.001 par value	99,464,112

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.

FLUX POWER HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

Item 1. Financial Statements

	March 31, 2015 (Unaudited)	June 30, 2014
ASSETS		
Current assets:		
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
Total current assets	447,000	359,000
Other Assets	25,000	25,000
Property, plant and equipment, net	61,000	78,000
Total assets	$533,000	$462,000
LIABILITIES AND STOCKHOLDERS’ DEFICIT		
Current liabilities:		
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	—
Total current liabilities	1,734,000	1,246,000
Long term liabilities:		
Line of credit, net of discount	88,000	—
Total liabilities	1,822,000	1,246,000
Commitments and contingencies (Notes 11)		
STOCKHOLDERS’ DEFICIT		
Preferred stock, $0.001 par value: authorized 5,000,000 shares, none issued and outstanding	—	—
	99,000	93,000

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		
Additional paid-in capital	8,336,000	7,399,000
Accumulated deficit	(9,724,000)	(8,276,000)
Total stockholders' deficit	(1,289,000)	(784,000)
Total liabilities and stockholders' deficit	$ 533,000	$ 462,000

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

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FLUX POWER HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Three and Nine Month Periods Ended March 31, 2015 and 2014

(Unaudited)

	Three months Ended		**Nine months Ended**	
	March 31, 2015	**March 31, 2014**	**March 31, 2015**	**March 31, 2014**
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
Cash flows from operating activities:		
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	(1,683,000)	(1,291,000)
Cash flows from investing activities:		
Purchases of equipment	(14,000)	—
Proceeds from the sale of equipment	9,000	—
Net cash used by investing activities	(5,000)	—
Cash flows from financing activities:		
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	1,641,000	1,944,000
Net (decrease) increase in cash	(47,000)	653,000
Cash, beginning of period	116,000	20,000
Cash, end of period	$69,000	$673,000

Supplemental Disclosures of Non-cash Investing and Financing Activities:		
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 warrantied 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 bit are, or are not, alleviated as a result of consideration of management’s plans. ASU 2014-15 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is permitted. 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	28,040,096	$ 0.21	2.25 – 4.75

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	20,898,347	$ 0.20	3.21 – 5.00

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
Total	2,907,347		$ 73,000	