Flux Power Holdings, Inc.
Form 10-K
September 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended June 30, 2015

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

Commission File Number: 000-25909

FLUX POWER HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

877-505-3589

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.001 par value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No þ

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 þ 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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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	¨	Smaller reporting company	þ
(Do not check if a smaller reporting company)			

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

Yes ¨ No þ

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares of registrant’s common stock outstanding as of September 25, 2015 was 150,710,137

Documents incorporated by reference: None.

Transitional Small Business Disclosure Format (Check one): Yes ¨ No þ

FLUX POWER HOLDINGS, INC.

FORM 10-K ANNUAL REPORT

For the Fiscal Year Ended June 30, 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.

PART I

ITEM 1 — BUSINESS

Overview

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

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

- ***Monitoring***: This is performed by way of a physical connection to individual cells for monitoring voltage and performing 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 system monitoring and making decisions on whether the system is operating out of normal specifications. This error reporting is crucial to system management as it ensures ancillary devices are not damaging the storage system and will give the operator an opportunity to take corrective action to maintain long overall system life.

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

Current Business Strategy

We are currently primarily focusing on the lift equipment with dealers/distributors, and secondarily, with other related industrial equipment, portable power, and stationary grid applications. We are working with various lift equipment

original equipment manufacturers (OEMs), and their dealers and battery distributors to bring our advanced energy storage systems to the lift equipment market. This process has included securing “technical approval” by the OEMs for compatibility with their equipment and then developing a sales network utilizing existing battery distributors and equipment dealers.

We are leveraging from our prior experience of developing and shipping over 14 megawatts of battery packs in a variety of applications ranging from electrical vehicles, electric boats, and various industry specific applications. The current process of working with the lift equipment sector has included securing “technical approval” by the OEMs for compatibility with their equipment and then developing a sales network utilizing existing battery distributors and equipment dealers. Our product development has included pilot programs and trials with national account end users and industrial equipment manufacturers. We formally launched our products to the lift equipment industry in January 2014; this launch typically includes shipping demonstration units to equipment dealers and battery distributors who invite their customers to try the battery packs. These trial periods have a duration ranging from two weeks to several months.

In addition, we are developing advanced energy storage systems for other related industrial equipment, portable power, and stationary grid applications ranging from 24 volt to 48 volt applications. One of these larger applications included shipment to support a 48 volt, 900 amp hour pack for robotic mining equipment in South America. We have also developed portable 24 volt battery packs for the US military, which is currently in the trial period.

In summary, the Company has also developed a suite of complementary technologies and products that utilizes our core BMS technology. Sales during the twelve months ended June 30, 2015 were primarily to customers located throughout the United States.

History

We were incorporated in Nevada in 1998 under the name Olerama, Inc. Since our incorporation, there have been several name changes, including the change in January 2010 where we changed our name to Lone Pine Holdings, Inc. and in May 2012, in connection with the reverse acquisition, we changed our name from Lone Pine Holdings, Inc. to our current name, Flux Power Holdings, Inc. ("Flux").

We operate our business through our wholly-owned subsidiary, Flux Power, Inc. ("Flux Power"). Flux Power was incorporated in October 2009 to provide solutions to exploit the lithium battery market for small electric vehicles and began shipping prototype product in the second quarter of 2010 while continuing to develop its intellectual property portfolio.

Reverse Acquisition of Flux Power Inc.

On June 14, 2012, we completed the acquisition of Flux Power (the "Reverse Acquisition") pursuant to a Securities Exchange Agreement dated May 18, 2012 ("Exchange Agreement") by and among Flux Power, and its shareholders, Mr. Christopher ("Chris") Anthony, Esenjay Investments, LLC, and Mr. James Gevarges (collectively the "Flux Power Shareholders"). In connection with the Reverse Acquisition, we purchased 100% of the issued and outstanding shares of common stock of Flux Power from the Flux Power Shareholders in exchange for 37,714,514 newly issued shares our common stock ("Exchange Shares") based on an exchange ratio of 2.9547039 ("Share Exchange Ratio"). As a result of the Reverse Acquisition, the Flux Power Shareholders collectively owned approximately 91% of the issued and outstanding shares of our common stock, and Flux Power became our wholly-owned operating subsidiary.

The Reverse Acquisition has been reflected as a reverse merger where Flux 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.

Our principal executive office is located at 985 Poinsettia Avenue, Suite A, Vista, CA 92081. The telephone number at our principal executive office is (877) 505-3589 (FLUX).

DESCRIPTION OF OUR BUSINESS

Our Business

We are in the business of energy storage and battery management. In October 2009, we started to develop technologies for the advanced energy storage market and began shipping prototype product in the second quarter of 2010 while continuing to develop our intellectual property portfolio. In 2011, we began shipping Federal Motor Vehicle Safety Standards validated products and then started shipping ancillary products to enhance our overall product line. Focusing on cell management of large format lithium cells, our technology dramatically extends the battery system life, lowering the overall cost of ownership to a level which makes lithium competitive with lead-acid in numerous applications. We have spent over four years developing lithium battery energy storage technology, including shipping over 14 megawatts of power in a variety of applications ranging from electrical vehicles to industrial equipment applications. We are currently in the process of qualifying for an Underwriters Laboratory ("UL") Listing which will provide tangible credibility of the safety and integrity of our products.

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

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

- *Monitoring*: This is performed through temperature probes, a physical connection to individual cells for voltage and calculations from basic metrics to determine remaining capacity and internal impedance. This monitoring assures

  accurate measurements to best manage the system and assure longevity.

- *Error reporting*: This is performed by analyzing data from monitoring each individual cell and making 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 clients. In addition, we have also developed a suite of complementary technologies and products that accompany and enhance the abilities of our BMS to meet the needs of the growing advanced energy storage market.

We sold our first validated product in the second quarter of 2010 and have since delivered over 14 mega watt-hours of advanced energy storage to clients such as NACCO Materials Handling Group, Inc. (NACCO), GreenTech Automotive, Inc. (GTA), Crown Equipment Corporation, Damascus Corporation, Columbia Parcar Corporation, Wheego Electric Cars Inc., ("Wheego"), Epic Electric Vehicles, and Texas Association of Local Health Officials (TALHO).

Industry Background for the Energy Storage Market

The energy storage market has grown over recent years from one mostly reliant on lead-acid technologies created in the 1800s to one leveraging advanced chemistries and the corresponding ability to store more energy in less space. Back-up power has increasingly grown to depend on telematics to accurately gauge system health. Electric vehicles have adopted lighter weight energy storage to increase range and payload abilities and grid management applications have sought to increase the cycle life of their systems to assure better returns on their investments over the long term. We believe that all of these needs will cause the advanced energy storage market to grow exponentially over the next five (5) to ten (10) years.

Lift Equipment – Material Handling Equipment

We currently focus our business on lift equipment. Lift equipment commonly called a forklift truck (also called a lift truck, a fork truck, or a forklift) is a powered industrial truck used to lift and transport materials. The modern forklift was developed in the 1960s by various companies including the transmission manufacturing company Clark and the hoist company Yale & Towne Manufacturing. The forklift has since become an indispensable piece of equipment in manufacturing and warehousing operations. Lift equipment is produced in a range of power capacities from smaller lift type equipment such as a Walkie (ie, pallet jack) to a ride-on fork-lift. Lift equipment vehicles are not new technology and don't require new testing, which can cause delays in product placement. The existing lift equipment market uses lead-acid batteries, which is outdated technology and can lead to customer dissatisfaction with life cycles, performance, and additional maintenance costs. We believe the replacement of lead-acid batteries with lithium cells dramatically extends run time and the battery system life, lowering the overall cost of ownership to a level which makes lithium competitive with lead-acid in numerous applications.

Other Equipment Solutions

The micro-grid market includes working with companies to provide mobile and man-portable advanced energy storage to act as gas generator replacements and convenient mobile power for lighting, disaster preparedness, communications and water filtration. We have demonstration units currently being evaluated by the U.S. military

providing us with their assessment and feedback. Additionally, we have placed solar, grid-tie energy storage in an office setting facility to evaluate the results of the output to meet operational needs.

Battery Types

The most common battery technologies currently available to address the electric vehicle and grid management markets include the following:

Lead-acid Batteries: Lead-acid is one of the most developed battery technologies as it has been in use since the 1800s. It is relatively easy to manufacture and is inexpensive and ubiquitous energy storage medium. Automobile manufacturers use lead-acid for starter batteries and lead-acid has been used widely in electric vehicle and grid management solutions. Unfortunately, lead-acid batteries weigh more per unit of stored energy and have less power output per unit mass versus advanced energy storage system technologies and thus are not well suited for advanced applications such as grid management devices and electric vehicles. In addition, lead can be hazardous to the environment and there are efforts in many countries to phase this legacy technology out over time.

Nickel Batteries: Nickel batteries, NiCd (nickel cadmium) or NiMH (nickel metal hydride) are durable and inexpensive technologies with relatively high power. Unfortunately, cadmium is not a safe material and exposure can result in health hazard to humans and damage to the environment. An alternative to the toxic NiCd battery is NiMH, which has greater energy versus lead-acid batteries and is more suitable to a wider range of applications. The NiMH was used in early electric vehicles and some other bulk storage applications. Unfortunately, these chemistries are not as energy dense as advanced lithium batteries and thus are now being leveraged out of the advanced energy storage system market by more energy dense chemistries.

Legacy Lithium Chemistries: Lithium batteries are more energy dense versus lead-acid, NiCd or NiMH batteries and are more volumetrically and weight efficient. Introduced in the 1990s, lithium batteries made their way into portable electronics devices like laptop computers and cell phones. Unfortunately, early lithium cobalt was prone to heat issues when arranged in large groups and if a battery cell were compromised a fire or explosion could result. This attribute made early lithium batteries unsuitable for large grid management devices and electric vehicles. The cobalt in these early cells was also a more expensive metal versus the compounds used in modern lithium batteries.

Advanced Energy Storage Lithium Batteries: The current generation of advanced energy storage lithium batteries was developed in the late 1990s. These new chemistries improve upon energy density, volumetrics and weight metrics. There have also been great enhancements to the safety of these modern lithium batteries. Heat and catastrophic failure issues do not plague advanced energy storage systems today. There has also been a significant increase in modern lithium batteries' cycle life. This makes today's advanced energy storage systems the most conducive to electric vehicle and grid management use.

Other Technologies: Ultra capacitors and fuel cells have been proposed as potential alternatives or replacements to lithium batteries. Ultra capacitors deliver high power and have an extended cycle life but suffer from poor energy density. This makes them suitable for small burst power needs but not for grid storage and electric vehicle devices. Fuel cells generate energy converting a fuel, typically hydrogen to energy. Fuel cell systems offer good energy density but are poor performers in terms of power and cycle life. Fuel cell systems are suitable for devices with small power needs and short life spans but are generally not suitable for use in electric vehicles and grid management devices.

Current Advanced Energy Storage Application Needs

There are a number of features required of advanced energy storage applications today, such as:

Target Application Power*:* An advanced energy storage system must be able to deliver the electrical power required. Electrical power, measured in watts, is the rate at which electrical energy is delivered. Electric industrial vehicles, in particular, need enough power to assure smooth acceleration through a systems discharge curve and grid management systems need enough power to meet load demands.

Duration of Charge/Run Times: An advanced energy storage system must be able to provide a certain total amount of electrical energy. Total electrical energy is measured in watt hours and is the product of power and time. Advanced energy storage systems with greater energy can perform for a longer duration when compared to legacy technologies. For example, Lithium ion batteries provide up to 25% longer run times than legacy batteries of comparable capacity, or amps per hour rating. The total electrical energy of an advanced energy storage system determines an electric vehicle's range per charge and a grid management device's total power.

High/Sustained Power: The energy that an advanced energy storage system can provide in total depends on the power requirements of the device in which it is installed. When an advanced energy storage system delivers higher power, the available energy of the advanced energy storage system is less than if it was delivering lower power. Advanced energy storage systems are better suited to deliver high power versus legacy lead-acid. For example, the higher power required to push a vehicle like an electrically propelled boat through the water would be detrimental to legacy power

technologies because their lack of ability to operate as efficiently in high power applications. Advanced energy storage systems are able to supply a high power required without detriment to the energy storage system.

Safe Operation: For almost all industrial equipment, electric vehicle and grid management solutions, the safety of an advanced energy storage system is of utmost importance. Legacy lead-acid batteries tend to get hot with heavy operation and the toxic nature of these legacy chemistries can be troublesome in the event of a cell breach. Advanced energy storage systems focus on chemistries that do not violently react with oxygen so a cell breach is less likely to result in an explosion or fire. Lithium iron phosphate is known to be the "lithium chemistry of choice" for many large format applications due to its lower cost and greater safety attributes.

Extended Life: The cycle life of an advanced energy storage system is the total number of times the system can be charged and discharged while still performing to specification in the device installed. Legacy lead-acid technologies often do not perform to specification past a several hundred cycles in industrial equipment applications. In comparison, an advanced energy storage system can last three to five times as long in the same application.

Volumetrics and Weight: The weight and size of advanced energy storage systems are of crucial importance to both portable power and grid management devices. In electric vehicles, where packaging space is precious, a lightweight system can greatly enhance range. In grid management devices that seek to extend current back-up power time benefit from better volumetrics and devices that shift load or peak-shave for improved average energy costs benefit from small advanced energy storage systems that keep connections between cells at a minimum.

Lowest Cost: Advanced energy storage systems provide power dense solutions with extended cycle life which, together, equate to very cost conscious solutions for most applications in the industrial vehicle equipment, portable power, and grid management market segments. We believe that, in our products, advanced energy storage systems can cost much less than legacy lead-acid technologies over the course of device operation.

Our Products and Services

We seek to gain market share in the advanced energy storage segment, with current focus on lift equipment, using our system technologies that extend life, add much needed safety mechanisms, and communication and cycle life memory tools. We are focused on cell and system management tools. From our modular 24-volt energy storage solutions to stackable charging, we provide the building blocks to create custom systems designed for a diverse set of applications. Whether it is vehicle or stationary storage systems, we provide capable systems that meet cost and performance targets which we believe, in many cases and based on the life cycle data of the lead-acid batteries provided by the manufacturers; outperform traditional lead-acid technologies on both metrics. Our systems use lithium-ion cells that are denser in energy than traditional lead-acid batteries, which allow our batteries to hold more charge over the same weight. In addition, our BMS protects the lithium-ion batteries enabling the lithium-ion batteries to reach their full life and cycle potential and outlasting lead-acid based batteries which would have to be replaced and thereby adding additional costs over the same time period. Our systems manage individual cells and their charge cycles, which generally allows for more consistent discharge capability and ease of maintenance over an unmanaged battery. Through our BMS, we have enhanced battery systems overall to provide safer, more reliable and extended life rechargeable energy storage systems for applications including motive, marine, industrial, military, stationary, and grid management markets.

Based on our experience, we believe that, compared to our competitors, our expertise in the large format energy storage market segment is paving the way for lower cost and higher performance solutions.

BMS. Our proprietary BMS product provides three critical functions for battery systems: cell balancing, monitoring parameters and reporting errors to the system. Our BMS monitors parameters and reports errors to other devices, which can then determine the best action to take to prevent failure. Another BMS function is system cell balancing. The BMS will analyze each battery cell in the system during charge and discharge to determine which cells to balance to prevent overcharging and allow the other batteries to catch-up and equalize capacity throughout the system.

Battery Modules. We supply high-power, energy-dense advanced energy storage modules for the electrical vehicles, industrial, governmental and grid storage applications. Our primary product consists of the Flux Power 24-volt lithium pack and individual 3.2 volt cells in various sizes from 60AH to 900AH. We offer varying chemistries and configurations based on the applications. Our battery modules are designed for our BMS.

Chargers. Our smart charging solutions are designed to interface with our battery management system. Our smart chargers consist of both air-cooled and liquid-cooled chargers. These modular chargers can be stacked from 3kW – 300kW.

Application Integration. We are one of the few developers to successfully integrate lithium packs in a variety of applications including industrial equipment to portable energy storage. The technology complexity of lithium requires knowledgeable engineering and testing.

Marketing and Sales

Customer Concentrations

We currently sell products directly to our customers, through lift equipment dealers, or through battery distributors. Our direct customers vary from small companies to military integrators.

During the fiscal year ended June 30, 2015, we had three major customers that each represented more than 10% of our revenues on an individual basis, or approximately $341,000 or 47% of our total revenues, which was a result of sales to three customers, Southern States Motive Power, Shoppa's Material Handling, and Bjorkman Industrial Power Corporation, which represented $149,000 or 21%, $110,000 or 15%, and $82,000 or 11% of sales, respectively.

During the fiscal year ended June 30, 2014, we had two major customer that represented more than 10% of our revenues on an individual basis, or approximately $129,000 or 36% of our total revenues, which was a result of sales to two customers, Penguin ASI and Southern States Motive Power, which represented $67,000 or 19% and $62,000 or 17% of sales, respectively.

Technology

We believe our cell management and communication tools extend battery system life and improve system performance by managing individual cells in a system, communicating individual cell conditions to ancillary devices, and communicating individual cell conditions to other devices which either require or supply power. Whether it is vehicle, lift equipment or grid storage systems, we provide capable systems that meet cost and performance targets which we believe, in many cases and based on the life cycle data of the lead-acid batteries provided by the manufacturers; outperform traditional lead-acid technologies on both metrics. Our systems use lithium-ion cells that are denser in energy than traditional lead-acid batteries, which allow our batteries to hold more charge over the same weight. In addition, our BMS protects the lithium-ion batteries enabling the lithium-ion batteries to reach their full life and cycle potential and outlasting lead-acid based batteries which would have to be replaced and thereby adding additional costs over the same time period. Our systems manage individual cells and their charge cycles, which generally allow for more consistent discharge capability and ease of maintenance over an unmanaged battery by:

- Managing individual cells within a system to maximize

Ø Life Cycles
Ø Discharge Rate
Ø Depth of Discharge per Cycle

- Allowing Cells to Communicate their State of Health to

Ø Ensure Proper Charging
Ø Protect the Cells from Over Discharge
Ø Adjust System Parameters during Varying Temperature

- Enabling other system components to adjust their functions to

Ø Protect Drive Components from Damage
Ø Tie Properly to Grid Power Systems
Ø Optimize Charge Efficiency

- Other benefits of our battery packs

Ø Lower total costs of ownership
Ø Maintenance free
Ø Lighter in weight
Ø Longer life than lead-acid batteries

Production process

Except for charger components and battery cells, we design all of our own products in-house and outsource manufacturing and assembly when possible.

Batteries. Since our battery management system and battery modules are not tied to any specific lithium-ion battery chemistry, we can source our batteries from a variety of manufacturers to meet our needs as well as our customer's needs. During this past year, we have sourced our batteries from several suppliers, all having manufacturing operations in China, with some having wholesale warehouses in the United States.

Battery Modules and Packs. We design all of our battery modules and packs in-house. In addition, we occasionally design and assemble prototype battery packs and storage systems for our customers.

Chargers. We currently buy chargers from several sources, all of whom are U.S. based suppliers.

BMS. In the past, our BMS units and CAN Current Sensor Builds were outsourced to LHV Power, one of our early business supporters. LHV Power's chief executive officer, president and owner, James Gevarges, was a former member of our Board of Directors and is one of our major shareholders. LHV Power has an advanced engineering team that has produced products for Hewlett Packard, Dell, Black and Decker, Train, and Carrier. LHV has several contracts with manufacturing facilities in China and Taiwan. In addition, LHV had assisted us with manufacturing assessments of our other products. Our relationship with LHV Power was formerly governed by the Manufacturing Agreement dated August 1, 2009 which expired on August 1, 2014. We have no near term plans to use LHV Power as a supplier. We plan to outsource the manufacturing of our BMS to other manufacturers in the future.

In-House Product Assembly:

BMS units, Chargers and CAN Current Sensors: Units are outsourced, programmed and tested at our facility before shipping.

24-volt Modules: We receive completed 24-volt module cases and lids. Cells are packed in the module cases, connected to BMS, and secured in place. Lids with BMS installed are programmed and calibrated. Each full unit is sealed and tested before shipping.

Volume sales will enable cost reductions by:

Manufacturability Optimization: We are currently building products to be as robust and full-featured as possible to meet initial demand that typically reflects smaller quantity needs. With investment in design, these premium components hopefully can be value-engineered with the goal to continue to offer full-featured devices at less than 50% of the cost.

Low Cost Version Designs: We will have a growing number of clients that do not need full-featured devices to make their products perform well. With working capital, we believe that we can design low cost options for customers which can be marketed at a deeper discount to our current full-featured products.

Advanced Manufacturing Capabilities: We are currently seeking out advanced manufacturing relationships to further enhance our abilities.

Suppliers

During the fiscal year ended June 30, 2015, we obtained a limited number of components and supplies included in our products from a small group of suppliers and had three suppliers who accounted for more than 10% of our total purchases, on an individual basis. Purchases for these three suppliers totaled $528,000, for a total of 66% of our total purchases.

During the fiscal year ended June 30, 2014, we obtained a limited number of components and supplies included in our products from a small group of suppliers and had two suppliers who accounted for more than 10% of our total purchases, on an individual basis. Purchases for these two suppliers totaled $96,000 for a total of 39% of our total purchases.

In the past we have sourced Lithium batteries from a number of suppliers. We are realigning our battery sourcing to improve consistency, responsiveness, and quality.

Research and Development

Research and development expenses for the fiscal years ended June 30, 2015 and 2014 were approximately $655,000 and $536,000, respectively. Such expenses consist primarily of materials, supplies, salaries and personnel related expenses, stock-based compensation expense, consulting costs and other expenses. The increase in research and development expenses was primarily due to increase in personnel costs and benefits, and material and labor costs associated with the project to have UL certify our LiFT Packs. We currently perform our research and development at our facility in Vista, California. We seek to develop innovative new and improved products for cell and system management along with associated communication, display, current sensing and charging tools.

Competition

Our competitors in the lift equipment sector are major lead acid battery manufacturers, including, but not limited to: GNB, Hawker, Deka, Enersys, Crown Battery and Interstate. We are not aware that these suppliers currently offer lithium-based products for lift equipment in any significant volume to end users, equipment dealers, OEMs or battery distributors.

We believe that we have several technological and business advantages over our competitors, which will lead to our success in the advanced energy storage market. Our concentration on cell and system management tools has allowed us to compete with a much lower capitalization structure. Further, since our BMS are not based on any specific cell chemistries, we can source cells from different manufacturers based on the performance needs and cost. This flexibility in cell sourcing allows us to provide complete storage systems at much lower cost versus our current competition. We are also differentiated by the ability to integrate battery packs successfully into a variety of applications.

Our marketing and sales strategy is to actively pursue the following market segments:

Lift Equipment – Material Handling Equipment: The advantage of the lift equipment market is that it is an indispensable piece of equipment in manufacturing and warehousing operations. Lift equipment vehicles are not new technology and don't require new testing which can cause delays in product placement. The existing lift equipment market uses lead-acid batteries, which is outdated technology and can lead to customer dissatisfaction with life cycles, performance, and additional maintenance costs. The replacement of lead-acid batteries with lithium cells dramatically extends the battery system life, lowering the overall cost of ownership to a level which makes lithium competitive with lead-acid in numerous applications. We believe with marketing efforts we will be able to reach larger target markets.

Grid Management Solutions: Our products' telematics, modularity, longevity and low cost solutions fit with smart grid management solutions, peak shaving devices, bulk storage, back-up power, and frequency modulation devices at every level of grid management. These devices have the longest integration timelines, but have the potential to become our largest revenue component over time. These applications are part of our product roadmap over the next several years.

Military (Defense) and Municipal: Our products' longevity, easy integration and telematics make it a fit for energy storage applications for both the military and municipal markets. These markets have longer integration timelines but will become a healthy addition to our revenue mix over the next two years.

Intellectual Property

Our success depends, at least in part, on our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of patents pending, patent applications, trade secrets, including know-how, employee and third party nondisclosure agreements, copyright laws, trademarks, intellectual property licenses and other contractual rights to establish and protect our proprietary rights in our technology. In addition to such factors as innovation, technological expertise and experienced personnel, we believe that a strong patent position is important to remain competitive.

We have developed our intellectual property portfolio through our continued investment in research and development, and through our acquisition of technologies from Epic Boats (an entity founded and controlled by Chris Anthony, our board member and former chief executive officer), Gottlieb Inventions, and Joseph Gottlieb.

In connection with our BMS, we are actively pursuing patent applications relating to determining battery life and remaining battery life cycles. Several patent applications relating to these inventions have been approved and others will be filed with the U.S. Patent & Trademark Office. We are developing a certain number of BMS related patents. In addition, we have a number of trademark applications and registrations protecting the Flux Power name and logo. These include Flux, Flux Power, and the Flux Power logo.

As of June 30, 2015, we have 11 patent applications pending with the United States Patent and Trademark Office, with two patents approved and issued. In addition, we intend to continue to file additional patent applications with respect to our technology and to seek protection of our intellectual property internationally in a broad range of areas. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. Even if granted, there can be no assurance that these pending patent applications will provide us with protection.

Government Regulations

Product Safety Regulations. Our products are subject to product safety regulations by Federal, state, and local organizations. Accordingly, we may be required, or may voluntarily determine to obtain approval of our products from one or more of the organizations engaged in regulating product safety. These approvals could require significant time and resources from our technical staff and, if redesign were necessary, could result in a delay in the introduction of our products in various markets and applications.

Environmental Regulations. Federal, state, and local regulations impose significant environmental requirements on the manufacture, storage, transportation, and disposal of various components of advanced energy storage systems. Although we believe that our operations are in material compliance with current applicable environmental regulations, there can be no assurance that changes in such laws and regulations will not impose costly compliance requirements on us or otherwise subject us to future liabilities.

Moreover, Federal, state, and local governments may enact additional regulations relating to the manufacture, storage, transportation, and disposal of components of advanced energy storage systems. Compliance with such additional regulations could require us to devote significant time and resources and could adversely affect demand for our products. There can be no assurance that additional or modified regulations relating to the manufacture, storage, transportation, and disposal of components of advanced energy systems will not be imposed.

Occupational Safety and Health Regulations. The California Division of Occupational Safety and Health ("Cal/OSHA") and other regulatory agencies have jurisdiction over the operations of our Vista, California facility. Because of the risks generally associated with the assembly of advanced energy storage systems we expect rigorous enforcement of applicable health and safety regulations. Frequent audits by or changes, in the regulations issued by Cal/OSHA, or other regulatory agencies with jurisdiction over our operations, may cause unforeseen delays and require significant time and resources from our technical staff.

Employees

As of June 30, 2015, we have nineteen (19) employees, of which fourteen (14) are full-time and five (5) are part-time. We engage outside consultants for business development and operations or other functions from time to time. None of our employees are currently represented by a trade union. We consider our relations with our employees to be good.

Other Information

Our Internet address is www.fluxpwr.com. We make available free of charge on our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Other than the information expressly set forth in this annual report, the information contained, or referred to, on our website is not part of this annual report.

The public may also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers, such as us, that file electronically with the SEC.

ITEM 1A — RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this report, before making an investment decision. If any of the following risks actually occur, our business, financial condition or results of operations could suffer. In that

case, the trading price of our common stock could decline, and you may lose all or part of your investment. You should read the section entitled “Special Note Regarding Forward Looking Statements” above for a discussion of what types of statements are forward-looking statements, as well as the significance of such statements in the context of this report.

Risk Factors Relating to Our Business

Our independent auditors have expressed substantial doubt about our ability to continue as a going concern.

In their audit opinion issued in connection with our financial statements as of June 30, 2015 and for the year then ended, our independent registered public accounting firm included a going concern explanatory paragraph which stated there was substantial doubt about our ability to continue as a going concern. We have prepared our financial statements on a going concern basis that contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the foreseeable future. Our financial statements do not include any adjustments that would be necessary should we be unable to continue as a going concern and, therefore, be required to liquidate our assets and discharge our liabilities in other than the normal course of business and at amounts different from those reflected in our financial statements. If we are unable to continue as a going concern, our stockholders may lose all or a substantial portion or all of their investment.

We have a history of losses and negative working capital and currently our lender has the right not to advance funds under our credit facilities, and require additional funding to support operations and provide working capital for growth.

As of June 30, 2015, we had a cash balance of approximately $53,000, negative working capital of approximately $2,175,000 and an accumulated deficit of approximately $10,691,000. We have a history of losses and have experienced a lack of revenue due to the time to launch our revised business strategy. We have experienced an increase in our revenues and a decrease in gross profit. Our revenues for the fiscal year ended June 30, 2015, increased approximately $357,000, or about 100%, compared to the year ended June 30, 2014. Our net loss of $2,415,000 for the fiscal year ended June 30, 2015, decreased by approximately $1,884,000, compared to the fiscal year ended June 30, 2014 net loss of $4,299,000. The Company does not currently believe that its existing cash resources are sufficient to meet its anticipated needs during the next twelve months. Our operations have been primarily funded through the sale of our securities and borrowings under our credit facilities. Our continued operations and growth are dependent on our ability to complete equity financings, make borrowings under our credit facilities or/and generate positive cash flows from operating activities. For the twelve months ended June 30, 2015, we have conducted private placements of our common stock and warrants to accredited investors and raised gross cash proceeds of approximately $536,000. In addition, as of June 30, 2015, a total of $1.6 million was owed by the Company under existing agreements with Esenjay Investment LLC (“Esenjay”). We are currently pursuing additional funds through private placements. In addition, we are pursuing additional sources of funding, which could result from certain distributor relationships, joint operating ventures, acquisitions or mergers. We expect to cover our anticipated operating expenses through cash on hand, collections on additional customer billings, borrowings under our lines of credit, and proceeds from the private placement of equity securities. However, there is no guarantee we will be able to obtain additional funds in the future

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

Our level of indebtedness and an event of default under existing notes and credit facility could adversely affect our business, financial condition, results of operations or liquidity.

We have substantial indebtedness and have relied on our credit facilities to provide working capital. As of June 30, 2015 we have an outstanding balance of $1.6 million under our existing credit facilities with Esenjay; however our ability to borrow under these facilities is at the discretion of Esenjay. Also, Esenjay has no obligation to disburse such funds and has the right not to advance funds under these loans. Credit Lines include: revolving note for $1.0 million ("Revolving Note"), additional note payable of $250,000 ("Bridge Note") and line of credit for $2.0 million ("Credit Line"). A total of $1.65 million is available under these lines as of June 30, 2015. The three credit lines with Esenjay mature on December 31, 2015. We are currently pursuing plans to refinance the related outstanding balances. Under the Revolving Note, Bridge Note and Credit Line, the interest rate on unpaid balance of all lines accrue interest at a rate of 6%. In addition, as a secured party, upon an event of default, Esenjay will have a right to the collateral granted to them under the Revolving Note, Bridge Note and Credit Line, and we may lose our ownership interest in the assets. A loss of our collateral will have material adverse effect on our operations, our business and financial condition.

We have realigned our marketing focus to smaller number of products and selling to customers that do not require extensive product development.

Beginning 2010, we focused on providing customized solutions to larger OEM customers. Recent experience has shown that we could achieve higher longer-term revenue by focusing on a smaller number of products and selling to customers that do not require extensive and lengthy product development and negotiation periods. An example was the decision in late 2013 by NACCO to pursue a much larger supplier that can provide extensive resources to support lengthy prove-out requirements for one of their product areas. As a response, we have determined to narrow our focus to product segments including "lift equipment" and related verticals.. We feel that we are well positioned to address these markets, which include applications such as industrial electric vehicles like lift equipment, tug equipment, back-up power, grid tie power, solar storage, electric service vehicles and pallet drivers. 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 have a limited operating history which makes evaluating our business and future prospects difficult and may increase the risk of your investment.

There are risks and difficulties we face as an early stage company with limited operating history. If we do not successfully address these risks, our business, prospects, operating results and financial condition will be materially and adversely harmed. We began delivering our first battery product and BMS in the second quarter of 2010, and as of June 30, 2015, we have 39 customers, almost all of which are in the lift equipment, robotic equipment, emergency back-up power supply, or solar storage market segments. We have a very limited operating history on which investors

can base an evaluation of its business and operating results can vary significantly.

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Our success depends on the success of manufacturers of the end applications that use our battery products and BMS.

Because our products are designed to be used in other products such as lift equipment, our success depends on whether end application manufacturers and their end dealers will incorporate our battery products and BMS in their products. Although we strive to produce high quality battery products and BMS, there is no guarantee that end application manufacturers will accept our products. Our failure to gain acceptance of our products from these manufacturers could result in a material adverse effect on our results of operations.

Additionally, even if a manufacturer or their equipment dealers decide to use our batteries, the manufacturer may not be able to market and sell its products successfully. The manufacturer's inability to market and sell its products successfully could materially and adversely affect our business and prospects because this manufacturer may not order new products from us. Therefore, our business, financial condition, results of operations and future success would be materially and adversely affected.

Lithium-ion battery modules have been observed to catch fire or vent smoke and flame, and such events have raised concerns over the use of large format high-power batteries.

We sell and supply large format high-power lithium based battery modules for industrial equipment and we intend to supply these lithium packs for governmental and grid storage applications. Historically, lithium-ion batteries in laptops and cellphones have been reported to catch fire or vent smoke and flames, and more recently, news have been reported that several electric vehicles that use high-power lithium-ion batteries have caught on fire which trigger investigation as to the cause of the fires. As such, any adverse publicity and issues as to the use of high-power batteries in automotive or lift equipment applications will affect our business and prospects since we sell and supply large format high-power lithium based battery packs for industrial applications. In addition, any failure of our battery modules may cause damage to the industrial equipment or lead to personal injury or death and may subject us to lawsuits. We may have to recall our battery modules, which would be time consuming and expensive.

Current economic conditions may adversely affect consumer spending and the overall general health of our retail customers, which, in turn, may adversely affect our financial condition, results of operations and cash resources.

Uncertainty about the current and future global economic conditions may cause our customers to defer purchases or cancel purchase orders for our products in response to tighter credit, decreased cash availability and weakened consumer confidence. Our financial success is sensitive to changes in general economic conditions, both globally and nationally. Recessionary economic cycles, higher interest borrowing rates, higher fuel and other energy costs,

inflation, increases in commodity prices, higher levels of unemployment, higher consumer debt levels, higher tax rates and other changes in tax laws or other economic factors that may affect consumer spending or buying habits could continue to adversely affect the demand for our products. In addition, a number of our customers may be impacted by the significant decrease in available credit that has resulted from the current financial crisis. If credit pressures or other financial difficulties result in insolvency for our customers it could adversely impact our financial results. There can be no assurances that government and consumer responses to the disruptions in the financial markets will restore consumer confidence.

We are dependent on a limited number of suppliers for our battery cells, and the inability of these suppliers to continue to deliver, or their refusal to deliver, our battery cells at prices and volumes acceptable to us would have a material adverse effect on our business, prospects and operating results.

Our battery cells, which are an integral part of our battery products and systems, are currently sourced from two manufacturers, which are located in China with one of them having distribution in the United States. While we obtain components for our products and systems from multiple sources whenever possible, we have spent a great deal of time in developing and testing our battery cells that we receive from these two manufacturers. We refer to these battery cell suppliers as our limited source suppliers. To date we have no qualified alternative sources for our battery cells and we generally do not maintain long-term agreements with our limited source suppliers. We continue to evaluate additional battery suppliers. While we believe that we will be able to establish alternate supply relationships for our battery cells, we may be unable to do so in the short term or at all at prices, quality or costs that are favorable to us.

Changes in business conditions, wars, governmental changes and other factors beyond our control or which we do not presently anticipate, could also affect our suppliers' ability to deliver components to us on a timely basis. Furthermore, if we experience significant increased demand, or need to replace our existing suppliers, there can be no assurance that additional supplies of component parts will be available when required on terms that are favorable to us, at all, or that any supplier would allocate sufficient supplies to us in order to meet our requirements or fill our orders in a timely manner. In the past, we have replaced certain suppliers because of their failure to provide components that met our quality control standards. The loss of any limited source supplier or the disruption in the supply of components from these suppliers could lead to delays in the deliveries of our battery products and systems to our customers, which could hurt our relationships with our customers and also materially adversely affect our business, prospects and operating results.

Increases in costs, disruption of supply or shortage of raw materials, in particular lithium-iron phosphate cells, could harm our business.

We may experience increases in the costs or a sustained interruption in the supply or shortage of raw materials. Any such increase or supply interruption could materially negatively impact our business, prospects, financial condition and operating results. For instance, we are exposed to multiple risks relating to price fluctuations for lithium-iron phosphate cells.

These risks include:

- the inability or unwillingness of current battery manufacturers to supply the number of lithium-iron phosphate cells required to support our sales as demand for such rechargeable battery cells increases;
- disruption in the supply of cells due to quality issues or recalls by the battery cell manufacturers; and
- an increase in the cost of raw materials, such as iron and phosphate, used in lithium-iron phosphate cells.

We may be unable to successfully execute our long-term growth strategy or increase our current revenue levels.

We can provide no assurance that our revenues will grow. Our ability to maintain our revenue levels or to grow in the future depends upon, among other things, adequate capital to support current operations and the continued success of our efforts to maintain our brand image and bring new products to market and our ability to expand within our current distribution channels.

Our success is highly dependent on continually developing new and advanced products, technologies, and processes and failure to do so may cause us to lose our competitiveness in the battery industry and may cause our profits to decline.

To remain competitive in the battery industry, it is important to continually develop new and advanced products, technologies, and processes. There is no assurance that competitors' new products, technologies, and processes will not render our existing products obsolete or non-competitive. Alternately, changes in legislative, regulatory or industry requirements or in competitive technologies may render certain of our products obsolete or less attractive. Our competitiveness in the renewable battery market therefore relies upon our ability to enhance our current products, introduce new products, and develop and implement new technologies and processes. Our battery system predominately uses lithium-iron phosphate cells. If our competitors develop alternative products with more enhanced features than our battery system, our financial condition and results of operations would be materially and adversely

affected.

The research and development of new products and technologies is costly and time consuming, and there are no assurances that our research and development of new products will be either successful or completed within anticipated timeframes, if at all. Our failure to technologically evolve and/or develop new or enhanced products may cause us to lose competitiveness in the battery market. In addition, in order to compete effectively in the renewable battery industry, we must be able to launch new products to meet our customers' demands in a timely manner. However, we cannot provide assurance that we will be able to install and certify any equipment needed to produce new products in a timely manner, or that the transitioning of our manufacturing facility and resources to full production under any new product programs will not impact production rates or other operational efficiency measures at our manufacturing facility. In addition, new product introductions and applications are risky, and may suffer from a lack of market acceptance, delays in related product development and failure of new products to operate properly. Any failure by us to successfully launch new products, or a failure by our customers to accept such products, could adversely affect our results.

We have historically depended on a limited number of customers for a significant portion of our revenues and this dependence is likely to continue.

We are dependent on one core technology and product category and limited products to generate revenues. We cannot assure you that these or other future products will achieve customer acceptance to attain a level of sales to support our operating costs. Historically the vast majority of our product sales were generated from a small number of customers, however we are concentrating on increasing our customer base in the lift equipment market to expand our product placement. We currently do not have long-term agreements with any of our customers. Future agreements with respect to pricing, returns, promotions, among other things, are subject to periodic negotiation with each customer. No assurance can be given that current customers will continue to do business with us. The loss of any of our significant customers will have a material adverse effect on our business, results of operations, financial condition and liquidity. In addition, the uncertainty of product orders can make it difficult to forecast our sales and allocate our resources in a manner consistent with actual sales, and our expense levels are based in part on our expectations of future sales. If our expectations regarding future sales are inaccurate, we may be unable to reduce costs in a timely manner to adjust for sales shortfalls.

The market for our products and services is very competitive and, if we cannot effectively compete, our business will be harmed.

The market for our products and services is very competitive and subject to rapid technological change. Many of our competitors are larger and have significantly greater assets, name recognition and financial, personnel and other resources than we have. As a result, our competitors may be in a stronger position to respond quickly to potential acquisitions and other market opportunities, new or emerging technologies and changes in customer requirements. We cannot assure you that we will be able to maintain or increase our market share against the emergence of these or other sources of competition. Failure to maintain and enhance our competitive position could materially adversely affect our business and prospects.

Our business may be adversely affected by declines in the global economy, in addition to uncertainties in the financial markets.

Although the global economy has substantially recovered from the recession of 2009, economic growth has been much slower than historical recoveries. The uncertainties in the pace of economic recovery and growth and the financial markets are well-known and could adversely affect our business.

Warranty claims, product liability claims and product recalls could harm our business, results of operations and financial condition.

Our business inherently exposes us to potential warranty and product liability claims, in the event that our products fail to perform as expected or such failure of our products results, or is alleged to result, in bodily injury or property damage (or both). Such claims may arise despite our quality controls, proper testing and instruction for use of our products, either due to a defect during manufacturing or due to the individual's improper use of the product. In addition, if any of our designed products are, or are alleged, to be defective, then we may be required to participate in a recall of them.

Although we have product liability insurance for our products, this may be inadequate to cover all potential product liability claims. In addition, while we often seek to limit our product liability in our contracts, such limits may not be enforceable or may be subject to exceptions. Any product recall or lawsuit seeking significant monetary damages either in excess of our coverage, or outside of our coverage, may have a material adverse effect on our business and financial condition. We may not be able to secure additional product liability insurance coverage on acceptable terms or at reasonable costs when needed. If we were to experience a large insured loss, it might exceed our coverage limits, or our insurance carriers could decline to further cover us or raise our insurance rates to unacceptable levels, any of

which could impair our financial position and results of operations. A successful product liability claim against us could require us to pay a substantial monetary award. We cannot be assured that such claims will not be made in the future.

We may need to defend ourselves against patent or trademark infringement claims, which may be time-consuming and would cause us to incur substantial costs.

Companies, organizations or individuals, including our competitors, may hold or obtain patents, trademarks or other proprietary rights that would prevent, limit or interfere with our ability to make, use, develop or sell our battery products and BMS, which could make it more difficult for us to operate our business. Companies holding patents or other intellectual property rights relating to battery packs or electronic power management systems may bring suits alleging infringement of such rights or otherwise asserting their rights and seeking licenses. In addition, if we are determined to have infringed upon a third party's intellectual property rights, we may be required to do one or more of the following:

~~ce~~ase selling, incorporating or using products that incorporate the challenged intellectual property;
obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms or at all; or
~~re-~~design our battery management systems.

In the event of a successful claim of infringement against us and our failure or inability to obtain a license to the infringed technology, our business, prospects, operating results and financial condition could be materially adversely affected. In addition, any litigation or claims, whether or not valid, could result in substantial costs and diversion of resources and management attention.

We may license patents and other intellectual property from third parties, and we may face claims that our use of this in-licensed technology infringes the rights of others. In that case, we may seek indemnification from our licensors under our license contracts with them. However, our rights to indemnification may be unavailable or insufficient to cover our costs and losses, depending on our use of the technology, whether we choose to retain control over conduct of the litigation, and other factors.

Our business will be adversely affected if we are unable to protect our intellectual property rights from unauthorized use or infringement by third parties.

Any failure to protect our proprietary rights adequately could result in our competitors offering similar products, potentially resulting in the loss of some of our competitive advantage and a decrease in our revenue, which would adversely affect our business, prospects, financial condition and operating results. Our success depends, at least in part, on our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of patents, patent applications, trade secrets, including know-how, employee and third party nondisclosure agreements, copyright laws, trademarks, intellectual property licenses and other contractual rights to establish and protect our proprietary rights in our technology.

The protection provided by the patent laws is and will be important to our future opportunities. However, such patents and agreements and various other measures we take to protect our intellectual property from use by others may not be effective for various reasons, including the following:

- the patents we have been granted may be challenged, invalidated or circumvented because of the pre-existence of similar patented or unpatented intellectual property rights or for other reasons;
- the costs associated with enforcing patents, confidentiality and invention agreements or other intellectual property rights may make aggressive enforcement impracticable; and
- current and future competitors may independently develop similar technology and/or duplicate our systems in a way that circumvents our patents.

Our patent applications may not result in issued patents, which may have a material adverse effect on our ability to prevent others from commercially exploiting products similar to ours.

Our patent applications may not result in issued patents, which may have a material adverse effect on our ability to prevent others from commercially exploiting products similar to ours.

We cannot be certain that we are the first creator of inventions covered by pending patent applications or the first to file patent applications on these inventions, nor can we be certain that our pending patent applications will result in issued patents or that any of our issued patents will afford protection against a competitor. In addition, patent applications that we intend to file in foreign countries are subject to laws, rules and procedures that differ from those of the United States, and thus we cannot be certain that foreign patent applications related to issue United States patents will be issued. Furthermore, if these patent applications issue, some foreign countries provide significantly less effective patent enforcement than in the United States.

The status of patents involves complex legal and factual questions and the breadth of claims allowed is uncertain. As a result, we cannot be certain that the patent applications that we file will result in patents being issued, or that our patents and any patents that may be issued to us in the near future will afford protection against competitors with similar technology. In addition, patents issued to us may be infringed upon or designed around by others and others may obtain patents that we need to license or design around, either of which would increase costs and may adversely affect our business, prospects, financial condition and operating results.

We rely on trade secret protections through confidentiality agreements with our employees, customers and other parties; the breach of such agreements could adversely affect our business and results of operations.

We rely on trade secrets, which we seek to protect, in part, through confidentiality and non-disclosure agreements with our employees, customers and other parties. There can be no assurance that these agreements will not be breached, that we would have adequate remedies for any such breach or that our trade secrets will not otherwise become known to or independently developed by competitors. To the extent that consultants, key employees or other third parties apply technological information independently developed by them or by others to our proposed projects, disputes may arise as to the proprietary rights to such information that may not be resolved in our favor. We may be involved from time to time in litigation to determine the enforceability, scope and validity of our proprietary rights. Any such litigation could result in substantial cost and diversion of effort by our management and technical personnel.

Our production capacity might not be able to meet with growing market demand or changing market conditions.

We cannot give assurance that our production capacity will be able to meet our obligations and the growing market demand for our products in the future. Furthermore, we may not be able to expand our production capacity in response to the changing market conditions. If we fail to meet demand from our customers, we may lose our market share.

Our business depends substantially on the continuing efforts of the members of our senior management team, and our business may be severely disrupted if we lose their services.

We believe that our success is largely dependent upon the continued service of the members of our senior management team, who are critical to establishing our corporate strategies and focus, and ensuring our continued growth. Our continued success will depend on our ability to attract and retain a qualified and competent management team in order to manage our existing operations and support our expansion plans. Although we are not aware of any change, if any of the members of our senior management team are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. Therefore, our business may be severely disrupted, and we may incur additional expenses to recruit and retain their replacement. In addition, if any of the members of our senior management team joins a competitor or forms a competing company, we may lose some of our customers.

Workforce reductions may impair our ability to comply with legal and regulatory requirements as a Public Company.

There can be no assurance that our management team will be able to implement and affect programs and policies in an effective and timely manner especially if subject to workforce reductions, that adequately respond to increased legal, regulatory compliance and reporting requirements imposed by such laws and regulations. Our failure to comply with such laws and regulations could lead to the imposition of fines and penalties and further result in the deterioration of our business.

Compliance with changing regulations concerning corporate governance and public disclosure may result in additional expenses.

There have been changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”), new regulations promulgated by the SEC and rules promulgated by the national securities exchanges. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. As a result, our efforts to comply with evolving laws, regulations and standards are likely to continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. Members of our Board of Directors and our chief executive officer and interim chief financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified directors and executive officers, which could harm our business. If the actions we take in our efforts to comply with new or changed laws, regulations and standards differ from the actions intended by regulatory or governing bodies, we could

be subject to liability under applicable laws or our reputation may be harmed.

In addition, Sarbanes-Oxley specifically requires, among other things, that we maintain effective internal controls for financial reporting and disclosure of controls and procedures. In particular, we must perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of Sarbanes-Oxley. Our testing, or the subsequent testing by our independent registered public accounting firm, when required, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

We may be required to obtain the approval of various government agencies to market our products.

Our products are subject to product safety regulations by Federal, state, and local organizations. Accordingly, we may be required, or may voluntarily determine to, obtain approval of our products from one or more of the organizations engaged in regulating product safety. These approvals could require significant time and resources from our technical staff, and, if redesign were necessary, could result in a delay in the introduction of our products in various markets and applications. There can be no assurance that we will obtain any or all of the approvals that may be required to market our products.

We may face significant costs relating to environmental regulations.

Federal, state, and local regulations impose significant environmental requirements on the manufacture, storage, transportation, and disposal of various components of advanced energy storage systems. Although we believe that our operations are in material compliance with current applicable environmental regulations, there can be no assurance that changes in such laws and regulations will not impose costly compliance requirements on us or otherwise subject us to future liabilities. Moreover, Federal, state, and local governments may enact additional regulations relating to the manufacture, storage, transportation, and disposal of components of advanced energy storage systems. Compliance with such additional regulations could require us to devote significant time and resources and could adversely affect demand for our products. There can be no assurance that additional or modified regulations relating to the manufacture, storage, transportation, and disposal of components of advanced energy systems will not be imposed.

We may face significant costs relating to Occupational Safety and Health Regulations

The California Division of Occupational Safety and Health ("Cal/OSHA") and other regulatory agencies have jurisdiction over the operations of our Vista, California facility. Because of the risks generally associated with the assembly of advanced energy storage systems, we expect rigorous enforcement of applicable health and safety regulations. Frequent audits by or changes in the regulations issued by Cal/OSHA, or other regulatory agencies with jurisdiction over our operations, may cause unforeseen delays and require significant time and resources from our technical staff.

Risks Related to Our Common Stock and Market

The market price of our common stock can become volatile, leading to the possibility of its value being depressed at a time when you may want to sell your holdings.

The market price of our common stock can become volatile. Numerous factors, many of which are beyond our control, may cause the market price of our common stock to fluctuate significantly. These factors include:

our earnings releases, actual or anticipated changes in our earnings, fluctuations in our operating results or our failure to meet the expectations of financial market analysts and investors;
changes in financial estimates by us or by any securities analysts who might cover our stock;
speculation about our business in the press or the investment community;

significant developments relating to our relationships with our customers or suppliers;
stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in our industry;
limited "public float" in the hands of a small number of persons whose sales or lack of sales could result in positive or negative pricing pressure on the market price for our common stock;
customer demand for our products;
investor perceptions of our industry in general and our Company in particular;
general economic conditions and trends;
announcements by us or our competitors of new products, significant acquisitions, strategic partnerships or divestitures;
changes in accounting standards, policies, guidance, interpretation or principles;
loss of external funding sources;
sales of our common stock, including sales by our directors, officers or significant stockholders; and
additions or departures of key personnel.

The ownership of our stock is highly concentrated in our management.

As of September 25, 2015, our present directors and executive officers, and their respective affiliates beneficially owned approximately 76.4% of our outstanding common stock, including underlying options and warrants that were exercisable or which would become exercisable within 60 days. As a result of their ownership, our directors and executive officers and their respective affiliates collectively are able to significantly influence all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may also have the effect of delaying or preventing a change in control.

We do not intend to pay dividends on shares of our common stock for the foreseeable future.

We have never declared or paid any cash dividends on shares of our common stock. We intend to retain any future earnings to fund the operation and expansion of our business and, therefore, we do not anticipate paying cash dividends on shares of our common stock in the foreseeable future.

Our common stock is illiquid and this low trading volume may adversely affect the price of our common stock.

Our common stock currently is quoted on the OTCQB under the symbol "FLUX." However, with limited trading history, a trading market that does not represent an "established trading market," a limited current public float, volatility in the bid and asked prices and the fact that our common stock is very thinly traded, you could lose all or a substantial portion of your funds if you make an investment in us. In addition, potential dilutive effects of future sales of shares of common stock by us and our shareholders, and subsequent sale of common stock by the holders of warrants and options, could have an adverse effect on the price of our securities, which could hinder our ability to raise additional capital to fully implement our business, operating and development plans.

Penny stock regulations affect our stock price, which may make it more difficult for investors to sell their stock.

Broker-dealer practices in connection with transactions in "penny stocks" are regulated by certain penny stock rules adopted by the SEC. Penny stocks generally are equity securities with a price per share of less than $5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ Stock Market, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules generally require that prior to a transaction in a penny stock the broker-dealer make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules. Our securities are subject to the penny stock rules, and investors may find it more difficult to sell their securities.

Preferred Stock may be issued under our Articles of Incorporation.

Our Articles of Incorporation authorize the issuance of up to 5,000,000 shares of preferred stock. The preferred stock may be issued in one or more series, the terms of which may be determined at the time of issuance. These terms may include voting rights including the right to vote as a series on particular matters, preferences as to dividends and liquidation, conversion rights, redemption rights and sinking fund provisions. The issuance of any preferred stock could diminish the rights of holders of our common stock, and therefore could reduce the value of such common stock.

We were a "shell company" and are subject to additional restrictions under Rule 144 on resales of our Restricted Securities.

The following is a quotation from subparagraph (i)(B)(2) of Rule 144: "Notwithstanding paragraph (i)(1), if the issuer of the securities previously had been an issuer described in paragraph (i)(1)(i) but has ceased to be an issuer described in paragraph (i)(1)(i); is subject to the reporting requirements of section 13 or 15(d) of the Exchange Act; has filed all reports and other materials required to be filed by section 13 or 15(d) of the Exchange Act, as applicable, during the preceding 12 months (or for such shorter period that the issue was required to file such reports and materials), other than Form 8-K reports (§249.308 of this chapter); and has filed current "Form 10 information" with the Commission reflecting its status as an entity that is no longer an issuer described in paragraph (i)(1)(i), then those securities may be sold subject to the requirements of this section after one year has elapsed from the date that the issuer filed "Form 10 information" with the Commission." As a "shell company" immediately prior to the Reverse Acquisition, we are subject to additional restrictions under Rule 144 which provides that no sales of our restricted securities could be sold until we have complied with subparagraph (i)(B)(2) of Rule 144.

ITEM 1B — UNRESOLVED STAFF COMMENTS

None.

ITEM 2 — PROPERTIES

On March 1, 2014, Flux Power entered into a two-year lease agreement to rent the office, warehouse and manufacturing facility located in Vista, California, at approximately $12,000 per month. On March 26, 2014, Flux Power as the sub-lessor entered into a new sublease agreement with Epic Boats (an entity founded and controlled by Chris Anthony, our board director and former chief executive officer) as the sub-lessee, whereas Epic Boats agrees to pay Flux Power 10% of facility costs on a month to month basis, for a period no longer than through the end of the two year lease agreement. We believe our facility at Vista, California provide adequate space for our current and projected needs.

The Company recorded rent expense, net of sublease income during the fiscal years ended June 30, 2015 and 2014, of approximately $101,000 and approximately $77,000, respectively.

ITEM 3 — LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. We are currently a party to a legal proceeding arising from a work related injury. While we do not presently believe that the ultimate outcome of such proceedings will have a material adverse effect on our business, operating results or financial condition, litigation is subject to inherent uncertainties. If an unfavorable ruling were to occur, it is possible that such ruling could have a material adverse impact on our business, operating results or financial condition in the period in which the ruling occurs. Our current estimates of the potential impact from such legal proceeding could change in the future.

ITEM 4 — MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5 — MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Data

Our common stock is quoted on the OTCQB under the stock symbol "FLUX." The following table sets forth the range of the closing prices for our common stock during each quarter for the period July 1, 2013 through June 30, 2015, as set forth below. Such prices do not represent actual transactions, and do not include retail mark-ups, mark-downs or commissions.

	High	Low
Fiscal year ended June 30, 2015		
First quarter	$0.31	$0.10
Second quarter	$0.13	$0.09
Third quarter	$0.11	$0.05
Fourth quarter	$0.07	$0.05
Fiscal year ended June 30, 2014		
First quarter	$0.15	$0.03
Second quarter	$0.10	$0.04
Third quarter	$0.40	$0.06
Fourth quarter	$0.39	$0.19

Shareholders

The approximate number of record holders of our common stocks as of September 25, 2015 was 1,380.

Recent Sales of Unregistered Securities

None that have not been previously reported.

Purchases of Equity Securities

We have never repurchased any of our equity securities.

Dividends

The Company did not declare or pay dividends on its common stock during fiscal years 2015 and 2014 and we presently do not expect to declare or pay such dividends in the foreseeable future and expect to reinvest all undistributed earnings to expand our operations, which the management believes would be of the most benefit to our shareholders. The declaration of dividends, if any, will be subject to the discretion of our Board of Directors, which may consider such factors as our results of operations, financial condition, capital needs and acquisition strategy, among others.

Equity Compensation Plan Information

Information for our equity compensation plans in effect as of the end of fiscal year 2015 is as follows:

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a)
Equity compensation plans approved by security holders	N/A	N/A	10,000,000
Equity compensation plans not approved by security holders *	6,101,357	$ 0.16	0
Total	6,101,357	$ 0.16	0

* Consists of 790,384 options granted under the 2010 Stock Option Plan ("Option Plan") and assumed by the Company in a Reverse Acquisition. An additional 5,310,973 "non-qualified" options were issued for a total outstanding at June 30, 2015 of 6,101,357. No additional shares of common stock may be granted under the Option Plan.

DESCRIPTION OF SECURITIES

Common Stock

We are authorized to issue up to 300,000,000 shares of common stock, par value $0.001 per share. Each outstanding share of common stock entitles the holder thereof to one vote per share on all matters. Our bylaws provide that any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors.

The holders of shares of our common stock are entitled to dividends out of funds legally available when and as declared by our Board of Directors. Our Board of Directors has never declared a dividend and does not anticipate declaring a dividend in the foreseeable future. Should we decide in the future to pay dividends, as a holding company, our ability to do so and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiary and other holdings and investments. In the event of our liquidation, dissolution or winding up, holders of our common stock are entitled to receive, ratably, the net assets available to stockholders after payment of all creditors.

To the extent that additional shares of our common stock are issued, the relative interests of existing stockholders will be diluted.

Preferred Stock

We may issue up to 5,000,000 shares of preferred stock, par value of $0.001 in one or more classes or series within a class pursuant to our Articles of Incorporation. There are currently no shares of preferred stock issued and outstanding.

ITEM 6 — SELECTED FINANCIAL DATA

As a Smaller Reporting Company as defined by Rule12b-2 of the Exchange Act and in item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this Item.

ITEM 7 — MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's results of operations and financial condition. The discussion should be read in conjunction with the Financial Statements and Notes thereto contained in this Annual Report on Form 10-K.

Some of the statements contained in the following discussion of the Company's financial condition and results of operations refer to future expectations or include other "forward-looking" information. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by these statements. The forward-looking information is based on various factors and was derived from numerous assumptions. See "Special Note regarding Forward Looking Statements" included in this Report on Form 10-K for a discussion of factors to be considered when evaluating forward-looking information detailed below. These factors could cause our actual results to differ materially from the forward looking statements.

Overview

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

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

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

- *Error reporting*: This is performed by analyzing data from monitoring each individual cell and making 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 clients. In addition, we have also developed a suite of complementary technologies and products that accompany and enhance the abilities of our BMS to meet the needs of the growing advanced energy storage market.

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

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

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

Proposed Acquisition

In June 2013, we entered into a non-binding letter of intent ("LOI"), disclosed in the Company's Form 8-K filed with the SEC on June 27, 2013, to acquire KleenSpeed Technologies ("KleenSpeed"), a company controlled by Tim Collins, our former executive chairman. KleenSpeed develops technology for distributed energy markets, including grid storage. After two years of negotiations and due diligence, the Company and KleenSpeed were unable to agree on a strategy or suitable terms for the acquisition. On July 21, 2015, the Company's Board of Directors decided to abandon the proposed acquisition of KleenSpeed.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and the related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates based on its historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies and estimates affect the preparation of our financial statements:

Inventory Valuation

Inventories consist primarily of batteries, battery management systems and the related subcomponents, and are stated at the lower of cost or market. Prepaid inventory represents deposits made by us for inventory purchases. We evaluate 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. We recorded an adjustment related to obsolete inventory in the amount of approximately $29,000 during the fiscal year ended June 30, 2014.

We reviewed our inventory valuation with regard to our Gross Margin loss for the fiscal year ended June 30, 2015. The Gross Margin loss was due to factors related to new product launch, such as low volume, early higher cost

designs, and limited sourcing. As such, we do not believe the loss is related to raw material inventory issues that would require writedowns.

Revenue Recognition

We recognize 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 or consignment exists, contractually or implied, we recognize revenue on the sell-through method. Under this method, revenue is not recognized upon delivery of the inventory components. Instead, we record deferred revenue upon delivery and recognize revenue when the inventory components are sold through to the end user.

There was no deferred revenue recognized during the twelve months ended June 30, 2015 or accrued at June 30, 2015 or 2014.

Derivative Financial Instruments

We follow Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) Topic No. 815, *Derivatives and Hedging* to classify and value warrant liabilities. Warrants classified as derivative liabilities are recorded at their fair values at the issuance date and are revalued at each subsequent reporting date, using a Monte Carlo simulation model (see Note 9, to the financial statements).

We have certain outstanding warrants, issued in 2013, that offer the holders of such warrants protection against dilution whereby the exercise price of the warrants can be adjusted if the Company completes a subsequent round of financing at less than $1 per share. This provision requires the warrants issued in 2013 be accounted for as derivative liabilities (See Note 9, to the financial statements).

Share-based Compensation

We account for share-based compensation in accordance with the provisions of FASB ASC Topic No. 718, "*Compensation—Stock Compensation*" ("ASC 718") and ASC 505-50, *Equity-Based Payments to Non-Employees* ("ASC 505-50") requiring the measurement and recognition of compensation expense for all share-based payment awards based on estimated grant or measurement date fair values. ASC Topic No. 718 and ASC Topic No. 505-50 require the use of subjective assumptions, including expected stock price volatility, forfeitures and the estimated term of each award. If actual results differ significantly from our estimates, stock-based compensation expense and our results of operations could be materially impacted.

Shipping and Handling Costs

The Company has simplified its treatment of shipping and handling costs for deliveries of product to customers to conform with the 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 years ended June 30, 2015 and 2014, costs for inbound inventory were approximately $19,000 and $20,000, respectively. Shipping costs for finished products delivered to customers totaled approximately $100,000 and $26,000 for the years ended June 30, 2015 and 2014, respectively. Inbound shipping costs for year ended June 30, 2014 reflected inbound freight costs form sourcing cells primarily from China, compared with local sourcing for the year ended, June 30, 2015.

Segment and Related Information

We operate as a single reportable segment.

Comparison of Results of Operations

For the years ended June 30, 2015 and June 30, 2014

Net Loss

During 2015, we reported net loss of approximately $2,415,000, as compared to a net loss of approximately $4,299,000 in fiscal year 2014. Excluding the impact of the amortization of $1,561,000 of consulting expense which was incurred in 2012 and amortized over the contract term, we would have reported a net loss of $2,738,000 in fiscal year 2014.

Revenues

Our product focus is primarily on lift equipment, with a strategy to expand on an opportunistic basis to adjacent applications, including stationary and portable power. We feel that we are well positioned to address these markets, which include applications such as industrial electric vehicles like electric forklifts, floor scrubbers, back-up power, grid-tie power, solar storage, electric service vehicles, pallet drivers, and mobile cooling units. However, we cannot guarantee that we will be successful in transitioning companies in these segments from legacy lead-acid technologies to our advanced energy storage solutions.

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

Revenues for the fiscal year ended June 30, 2015, increased by approximately $357,000, or 100%, compared to the year ended June 30, 2014. This increase in sales was primarily attributable to gaining momentum with the launch of our LiFT Pack products in fiscal year 2015.

Cost of Revenues

Cost of revenues for the fiscal year ended June 30, 2015, increased approximately $451,000 compared to the fiscal year ended June 30, 2014. This increase in cost of revenues was attributable primarily to the increase in sales of our LiFT Packs as discussed above reflecting the launch of our LiFT Pack products and higher costs from startup volumes and higher related production labor and overhead. We expect costs to decrease to approximately 75% of revenues once higher sales volume is achieved in 2016 and future years.

Selling and Administrative Expenses

Selling and administrative expenses for the fiscal years ended June 30, 2015 and 2014 were approximately $2,108,000 and $1,659,000, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, public company costs, consulting costs, professional fees and other expenses. The increase of approximately $449,000 or 27% was primarily due to increased engineering support, sales and marketing costs to support the launch of LiFT Packs.

Amortization of Prepaid Advisory Fees

Amortization of prepaid advisory fees for the fiscal years ended June 30, 2015 and 2014 were approximately $17,000 and $1,561,000, respectively. The prepaid advisory fees amortized during the fiscal year 2015 are related to the fair value of shares of the Company's common stock issued in connection with an advisory agreement with Catalyst Global LLC dated October 14, 2013 of $49,000 offset by $32,000 adjustment to amortization expense related to planned issuance of common stock to other consultants in 2014 which was not issued. The fair value of the shares issued pursuant to this agreement has been recognized over the term of the contract which ended in October 2014. We renewed our annual contract with Catalyst Global on February 11, 2015. The prepaid advisory fees amortized during the fiscal year 2014 are primarily related to the fair value of the warrants issued under an advisory agreement with Baytree Capital dated June 14, 2012, and to value of the shares of the Company's common stock issued pursuant to the same agreement where Baytree Capital agreed to provide business and advisory services to the Company. The prepaid advisory fees related to this arrangement were fully amortized as of June 30, 2014. Additionally, in fiscal year ended June 30, 2014, we issued common stock to other consultants for payment of advisory services, with an estimated fair value of $32,000, that are amortized and included in the amount of amortized prepaid advisory fees for the twelve months ended June 30, 2014.

Research and Development Expense

Research and development expenses for the fiscal years ended June 30, 2015 and 2014 were approximately $655,000 and $536,000, respectively. Such expenses consist primarily of materials, supplies, salaries and personnel related expenses, stock-based compensation expense, consulting costs and other expenses. The increase of approximately $119,000 or 22% was primarily due to increase in personnel costs and benefits, and material and labor costs associated with the project to have UL certify our LiFT Packs.

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. Changes in the fair value of the warrants for the fiscal years ended June 30, 2015 and 2014, are included as a component of other income (expense) in the accompanying condensed consolidated statements of operations for the respective period. For the fiscal year ended June 30, 2015, the change in the fair value of the warrants was resulted in other income of $548,000 compared to other expense of $330,000 for the fiscal year ended June 30, 2014 (see Note 9, to the financial statements).

Liquidity and Capital Resources

Overview

As of June 30, 2015, we had a cash balance of approximately $53,000, negative working capital of approximately $2,175,000 and an accumulated deficit of approximately $10,691,000. We do not have sufficient liquidity and capital resources to fund planned operations through our fiscal year ending June 30, 2016. See "Future Liquidity Needs" below.

Cash Flows

Operating Activities

Our operating activities resulted in net cash used in operations of approximately $2,363,000, for the fiscal year ended June 30, 2015, compared to net cash used in operations of approximately $2,151,000 for the fiscal year ended June 30, 2014.

The net cash used in operating activities for the fiscal year ended June 30, 2015 reflects our use of proceeds to build the business including launching lift equipment products and increasing expenditures such as additional marketing and research and development. The net loss of approximately $2,415,000 was offset by a decrease of $71,000 in accounts receivable, an increase of $133,000 in accounts payable, and an increase of $179,000 in accrued expenses. In addition, net cash used in operating activities was impacted by an increase of $96,000 in inventory, an increase of $50,000 in other current assets, and non-cash activity of $185,000 in total. Non-cash items mainly included; depreciation of approximately $32,000, amortization of prepaid advisory fees of approximately $17,000, stock-based compensation of approximately $237,000, amortization of debt discount of $60,000, stock issuance for services of $21,000, offset by a decrease in fair value of warrant liability of $548,000.

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The net cash used in operating activities for the fiscal year ended June 30, 2014 reflects our use of proceeds to build the business including increasing expenditures such as additional marketing and research and development. The net loss of $4,299,000 was offset by a decrease of $104,000 in inventory, a decrease of $42,000 in other current assets, and non-cash activity of $2,384,000. In addition, net cash used in operating activities was impacted by an increase of $127,000 in accounts receivable, a decrease of $50,000 in accounts payable, and a decrease of $203,000 in accrued expenses. Non-cash items mainly included; amortization of prepaid advisory fees of approximately $1,561,000, increase in fair value of warrant liability of $330,000, depreciation of approximately $55,000, stock-based compensation of approximately $315,000, and stock issuance for services of $152,000, inventory valuation adjustment of $29,000.

Investing Activities

Net cash used in investing activities for the fiscal years ended June 30, 2015 and 2014 consist primarily of purchases of equipment of approximately $25,000 and $4,000, respectively, and $9,000 and $3,000 proceeds from the sale of certain fixed asset during fiscal years ended June 30, 2015 and 2014, respectively.

Financing Activities

Net cash provided by financing activities for the fiscal years ended June 30, 2015 and 2014 was approximately $2,316,000 and $2,248,000, respectively. The increase in financing activities is the result of additional requirements for capital.

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 $2,000,000 will be required to fund current and planned operations through June 30, 2016. 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.