

Flux Power Holdings, Inc.  
Form 10-Q  
November 14, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2014**

**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**

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(Registrant's telephone number, including area code)

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

Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," 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   
(Do not check if a smaller reporting company)

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

Yes  No

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

Class	Outstanding as of: November 14, 2014
Common Stock, \$0.001 par value	96,947,446

**FLUX POWER HOLDINGS, INC.**

**FORM 10-Q**

**For the Quarterly Period Ended September 30, 2014**

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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 “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,” “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:

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the “Company,” “we,” “us,” and “our” refer to the combined business of Flux Power Holdings, Inc., a Nevada corporation and its wholly-owned subsidiary, Flux Power, Inc. (“Flux Power”), a California corporation;

- “Exchange Act” refers the Securities Exchange Act of 1934, as amended;
- “SEC” refers to the Securities and Exchange Commission; and
- “Securities Act” refers to the Securities Act of 1933, as amended.

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

## Item 1. Financial Statements

	September 30, 2014 (Unaudited)	June 30, 2014
<b>ASSETS</b>		
Current assets:		
Cash	\$ 58,000	\$ 116,000
Accounts receivable, net	37,000	140,000
Inventories, net	102,000	85,000
Other current assets	39,000	18,000
Total current assets	236,000	359,000
Other assets	27,000	25,000
Property, plant and equipment, net	74,000	78,000
Total assets	\$ 337,000	\$ 462,000
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 443,000	\$ 320,000
Accrued expenses	222,000	219,000
Customer deposits from related party	136,000	136,000
Warrant derivative liability	133,000	571,000
Total current liabilities	934,000	1,246,000
Long term liabilities:		
Related party note payable	25,000	-
Line of credit, net of discount	20,000	-
Total liabilities	979,000	1,246,000
Commitments and contingencies (Note 5)		
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock, \$0.001 par value: authorized 5,000,000 shares, none issued and outstanding	-	-
Common stock, \$0.001 par value: authorized 145,000,000 shares, 94,857,444 and 93,274,113 shares issued and outstanding as of September 30, 2014 and June 30, 2014,	95,000	93,000

respectively

Additional paid-in capital	7,736,000	7,399,000
Accumulated deficit	(8,473,000 )	(8,276,000)
Total stockholders' deficit	(642,000 )	(784,000 )
Total liabilities and stockholders' deficit	\$ 337,000	\$ 462,000

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

**FLUX POWER HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****For the Three Months Ended September 30, 2014 and 2013****(Unaudited)**

	2014	2013
Net revenue <sup>(1)</sup>	\$86,000	\$34,000
Cost of revenue	79,000	21,000
Gross profit	7,000	13,000
Operating expenses:		
Selling and administrative expenses	507,000	269,000
Amortization of prepaid advisory fees	-	411,000
Research and development	121,000	107,000
Total operating expense	628,000	787,000
Operating loss	(621,000 )	(774,000 )
Other income (expense):		
Change in fair value of warrant derivative liability	438,000	81,000
Interest expense, net	(14,000 )	(53,000 )
Net loss	\$(197,000 )	\$(746,000 )
Net loss per common share – basic and diluted	\$(0.00 )	\$(0.02 )
Weighted average number of common shares outstanding – basic and diluted	93,857,083	47,493,619

Includes sales to related parties of approximately \$0 and \$3,000 for the three months ended September 30, 2014  
(1)  
and 2013, respectively.

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



**FLUX POWER HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Three Months Ended September 30, 2014 and 2013****(Unaudited)**

	2014	2013
Cash flows from operating activities:		
Net loss	\$(197,000)	\$(746,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	10,000	12,000
Amortization of prepaid advisory fees	-	411,000
Change in fair value of warrant liability	(438,000)	(81,000 )
Stock-based compensation	51,000	23,000
Stock issued for services	-	20,000
Changes in operating assets and liabilities:		
Accounts receivable	103,000	5,000
Inventories	(17,000 )	(3,000 )
Other current assets	(20,000 )	57,000
Accounts payable	123,000	12,000
Accrued expenses	79,000	(108,000)
Accrued interest	-	52,000
Customer deposits	-	14,000
Customer deposits from related party	-	(2,000 )
Net cash used in operating activities	(306,000)	(334,000)
Cash flows from investing activities:		
Purchases of equipment	(6,000 )	-
Net cash used in investing activities	(6,000 )	-
Cash flows from financing activities:		
Net proceeds from the sale of common stock and warrants, net of offering costs paid	129,000	-
Proceeds from related party note payable and line of credit	125,000	363,000
Net cash provided by financing activities	254,000	363,000
Net (decrease) increase in cash	(58,000 )	29,000
Cash, beginning of period	116,000	20,000
Cash, end of period	\$58,000	\$49,000
Supplemental disclosures of Non-cash Financing Activities:		
Issuance of warrants recorded as deferred financing costs	\$3,000	\$-
Debt discount related to warrants and beneficial conversion feature	\$80,000	-

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

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**FLUX POWER HOLDINGS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2014**

**NOTE 1 – BASIS OF PRESENTATION AND NATURE OF BUSINESS**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and the rules of the Securities and Exchange Commission (“SEC”) applicable to interim reports and should be read in conjunction with the audited financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2014 filed with the SEC. In the opinion of management, the accompanying condensed consolidated interim financial statements include all adjustments, necessary in order to make the financial statements not misleading. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year or any other future period. Certain notes to the financial statements that would substantially duplicate the disclosures contained in the audited financial statements for the most recent fiscal year as reported in the Company’s Annual Report on Form 10-K have been omitted. The accompanying condensed consolidated balance sheet at June 30, 2014 has been derived from the audited balance sheet at June 30, 2014 contained in such Form 10-K.

The accompanying condensed consolidated financial statements of the Company have been prepared on a going-concern basis. See Note 2 for discussion of liquidity/going concern matters.

**Nature of Business**

Flux Power Holdings, Inc. (“Flux” or the “Company”) was incorporated as Olerama, Inc. in Nevada in 1998. Since its incorporation, there have been several name changes, including the change in January 2010 whereby the name of the Company was changed to Lone Pine Holdings, Inc. Following the completion of a reverse merger on June 14, 2012, as described below, the Company’s operations have been conducted through its wholly owned subsidiary, Flux Power, Inc. (“Flux Power”), a California corporation.

On May 23, 2012, by way of a merger, Lone Pine Holdings changed its name to Flux Power Holdings, Inc. (“FPH”) a Nevada corporation. The transaction has been reflected as a reverse merger where FPH was the surviving legal entity after the merger. Flux Power remained the accounting acquirer. The merger has been accounted for as a recapitalization as of the earliest period presented. Accordingly, the historical condensed consolidated financial statements represented are those of Flux Power.

Flux Power develops and sells rechargeable advanced energy storage systems. The Company has structured its business around its core technology, “The Battery Management System” (“BMS”). The Company’s BMS provides three critical functions to their battery systems: cell balancing, monitoring and error reporting. Using its proprietary management technology, the Company is able to offer complete integrated energy storage solutions or custom modular standalone systems to their clients. The Company has also developed a suite of complementary technologies and products that accompany their core products. Sales during the three months ended September 30, 2014 and 2013 were primarily to customers located throughout the United States.

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

## **NOTE 2 – LIQUIDITY AND GOING CONCERN**

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred an accumulated deficit of \$8,473,000 through September 30, 2014, and as of September 30, 2014 had limited cash and a working capital deficit. To date, the Company’s revenues and operating cash flows have not been sufficient to sustain its operations and it has relied on debt and equity financing to fund its operations. Management estimates that additional capital of approximately \$1.6 million is required to fund planned operations through June 30, 2015. These factors raise substantial doubt about the Company’s ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon our ability to raise additional capital on a timely basis until such time as revenues and related cash flows are sufficient to fund our operations.

Management plans to continue to seek funding, as necessary, through private placements of equity securities. The Company initiated a private placement in August 2014 to raise \$990,000. A total of \$322,500 has been raised as of November 14, 2014. In addition, the Company is pursuing other investment structures that management believes may generate the necessary funding for the Company. Although management believes that the additional required funding will be obtained, there is no guarantee the Company will be able to obtain the additional required funds on a timely basis or that funds will be available on terms acceptable to the Company. If such funds are not available when required, 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 the Company's future cash flows and results of operations, and its ability to continue operating as a going concern. The accompanying financial statements do not include any adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to liquidate its assets and discharge its liabilities in other than the normal course of business and at amounts that may differ from those reflected in the accompanying condensed consolidated financial statements.

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

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying condensed consolidated financial statements follows:

#### ***Basis of Consolidation***

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

#### ***Subsequent Events***

Management has evaluated events subsequent to September 30, 2014 through the date filed with the Securities and Exchange Commission for transactions and other events that may require adjustment of and/or disclosure in such financial statements.

***Reclassifications***

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

***Use of Estimates in Financial Statement Preparation***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as certain financial statement disclosures. Significant estimates include valuations of equity instruments and deferred tax assets. While management believes that the estimates and assumptions used in the preparation of the financial statements are appropriate, actual results could differ from these estimates.

***Cash and Cash Equivalents***

As of September 30, 2014, cash totaled approximately \$58,000 and consists of funds held in a non-interest bearing bank deposit account. The Company considers all highly liquid short term investments with maturities of less than three months when acquired to be cash equivalents. The Company had no other cash equivalents at September 30, 2014 and June 30, 2014.

***Fair Values of Financial Instruments***

The carrying amount of our accounts payable and accounts receivable approximates their estimated fair values due to the short-term maturities of those financial instruments. The carrying amount of notes payable and line of credit approximates their fair value as the interest approximates current market interest rates for the similar instruments. Derivative liabilities recorded in connection with warrants are reported at their estimated fair value, with changes in fair value being reported in results of operations (see Note 8). Except for derivative liabilities referenced above, the Company does not have any other assets or liabilities that are measured at fair value on a nonrecurring basis.

***Accounts Receivable and Customer Deposits***

Accounts receivable are carried at their estimated collectible amounts. The Company may require advance deposits from its customers prior to shipment of the ordered products. The Company has not experienced collection issues related to its accounts receivable, and has not recorded an allowance for doubtful accounts at either September 30, 2014 or June 30, 2014.

***Inventories***

Inventories consist primarily of battery management systems and the related subcomponents, and are stated at the lower of cost (first-in, first-out) or market. The Company evaluates inventories to determine if write-downs are necessary due to obsolescence or if the inventory levels are in excess of anticipated demand at market value based on consideration of historical sales and product development plans. The Company did not record an adjustment related to obsolete inventory at either September 30, 2014 or June 30, 2014.

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