

Flux Power Holdings, Inc.  
Form 10-K  
September 26, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

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

**For the fiscal year ended June 30, 2016**

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

**Commission File Number: 000-25909**

**FLUX POWER HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(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

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

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 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.

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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  
(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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

The aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant as of December 31, 2015 (the last business day of the registrant’s most recently completed second fiscal quarter) was approximately \$1,641,000.

The number of shares of registrant’s common stock outstanding as of September 26, 2016 was 249,856,478.

**Documents incorporated by reference:** None.

**FLUX POWER HOLDINGS, INC.**

**FORM 10-K ANNUAL REPORT**

**For the Fiscal Year Ended June 30, 2016**

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## **SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS**

This report contains forward-looking statements. The forward-looking statements are contained principally in the 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 lithium-ion batteries for industrial uses, including our first-ever UL 2771 Listed lithium-ion “LiFT Pack” forklift batteries. We have developed an innovative high power battery cell management system (“BMS”) and have structured our business around this core technology. Our proprietary BMS provides three critical functions to our battery systems:

**Cell Balancing:** This is performed by 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 primarily focusing on the lift equipment market targeting dealers and distributors, and secondarily, on the airline ground support equipment market. We believe 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. We initially focused our efforts on the original equipment manufacturer (“OEM”) market. However, such efforts proved to be time consuming and elusive. In addition, working exclusively with one manufacturer would significantly limit our market opportunity. As such, we 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. This provides a more direct market path to the consumer without the delays and issues that accompany dealing solely with the OEM.

We are leveraging from our prior experience of developing and shipping over 15 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. Such pilot programs have been highly beneficial in providing us with the much needed feedback necessary to improve our battery packs. It also led us to securing a UL Listing on our LiFT Pack as more fully discussed below.

Our primary focus has been with our entry-level LiFT Pack line to power walkie pallet jack forklifts. During fiscal year 2016, the pace of sales has been limited by our focus on converting Flux’s production from small-run production and prototyping into large scale production of our UL-listed products. We purposely dialed down production over the last two quarters in order to incorporate the improvements gleaned from the UL review process last winter, as well as, implement important engineering features that stem from a model changeover. During the fourth quarter of fiscal year 2016, we also developed specialized assembly and testing stations designed to speed production time frames by automating many facets of testing and assembly. We expect to see the results of these design and production enhancements, in the way of improved gross margins, during the second quarter of fiscal 2017.

In addition, we are developing advanced energy storage systems for other related industrial equipment, portable power, and stationary grid applications ranging from 24-volt to 72-volt applications. During the fourth quarter of 2016, we successfully completed a pilot of our custom-developed, 72-volt battery pack to power electric aviation ground support equipment with a leading regional airline at Los Angeles International Airport. Prior to that, we shipped a 48-volt, 900 amp hour pack for robotic mining equipment to South America and developed a portable 24-volt battery pack for the US military, which is currently in the trial period.

In summary, we are developing a suite of complementary technologies and products that utilize our core BMS technology. Sales during the year ended June 30, 2016 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 of 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 consolidated financial statements represented are those of Flux Power.

## 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 five years developing lithium battery energy storage technology, including shipping over 15 megawatts of power in a variety of applications ranging from electrical vehicles to industrial equipment applications.

In January 2016, we obtained certification from Underwriters Laboratory (“UL”) on our LiFT Packs for forklift use listed to UL 2271. The UL Listing, issued by UL, a global safety science organization, demonstrates the quality, safety and reliability of our LiFT Pack line for customers, distributors, dealers and OEM partners. We believe we have emerged from this effort with a substantially enhanced product line, particularly in the areas of overall design and durability, as well as, features that improve our LiFT Packs’ value and performance for customers. We passed our Initial Production Inspection by UL to allow LiFT Packs with the UL Listing to be shipped and two subsequent surprise UL inspections. We shipped our first UL certified LiFT Pack to our customers beginning in May 2016. Our LiFT Packs are now the first and only UL Listed lithium-ion batteries available.

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

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.

## **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 forklift. 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 primarily uses lead-acid batteries, which is a legacy 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 very competitive with lead-acid in numerous applications.

### ***Other Equipment Solutions***

We have produced battery packs on an opportunistic basis for applications including robotic mining equipment, portable packs for field operations by the U.S. military, and solar, grid-tie energy storage in an office setting. We currently are building and selling prototypes for airport equipment, commonly called ground support equipment, to power the baggage/cargo trucks. These packs provide much higher levels of power ratings of up to 400 amp hours at 72 volts. Initial customer response indicates our packs to be performing very well with high satisfaction.

### ***Battery Types***

The most common battery technologies currently available to address forklift equipment, 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 an 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. We currently use Lithium-ion cells, specifically lithium iron phosphate (LiFePO<sub>4</sub>). We are not in the business of developing new battery cell chemistries and are thus “agnostic” as to chemistry and can take advantage of new chemistries when available in the market.

**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 year ended June 30, 2016, we had three major customers that each represented more than 10% of our revenues on an individual basis, or approximately \$285,000 or 51% of our total revenues.

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.

## 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:

Life Cycles

Discharge Rate

Depth of Discharge per Cycle

Allowing Cells to communicate their State of Health to:

Ensure Proper Charging

Protect the Cells from Over Discharge

Adjust System Parameters during Varying Temperature

Enabling other system components to adjust their functions to:

Protect Drive Components from Damage

Tie Properly to Grid Power Systems

Optimize Charge Efficiency

Other benefits of our battery packs:

Lower total costs of ownership

Maintenance free

Lighter in weight

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.* We design our BMS modules/boards and have two granted patents. We source manufacturing of the boards to two local board houses. We are currently developing further technology enhancements to this BMS technology, including the use of more efficient board components.

**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**

We obtain a limited number of components and supplies included in our products from a small group of suppliers. During the fiscal year ended June 30, 2016 we had three suppliers who accounted for more than 10% of our total purchases, on an individual basis. Purchases for these three suppliers totaled \$793,000 for a total of 66% of our total purchases.

During the fiscal year ended June 30, 2015, we 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.

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

## **Research and Development**

Research and development expenses for the fiscal years ended June 30, 2016 and 2015 were approximately \$1,296,000 and \$655,000, 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 obtain UL listing for our LiFT Packs, as well as, costs associated with the development and testing of a prototype battery pack for ground support equipment in partnership with a domestic airline. 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 primarily major lead acid battery manufacturers, including, but not limited to: GNB, Hawker, Deka, EnerSys, Crown Battery, Douglas 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. There are several new lithium products being introduced to the lift equipment sector, in apparent small volume, by several manufacturers who do not have ties to the major battery companies or OEM lift equipment manufacturers.

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 UL Listing, received in January 2016, demonstrates the quality, safety and reliability of our LiFT Pack line for customers, distributors, dealers and OEM partners. We believe we have emerged from this effort with a substantially enhanced product line, particularly in the areas of overall design and durability, as well as, features that improve our LiFT Packs' value and performance for customers. Our LiFT Packs are now the first and only UL Listed lithium-ion batteries available.

### **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.

**Ground Support Equipment:** Our products' telematics, modularity, longevity and low cost solutions fit with airport equipment solutions, commonly known as ground support equipment, operated by all airlines to transport baggage and related cargo. These applications are well suited to our modular and scalable pack designs and benefit from our pack innovation derived from LiFT Packs and the related harsh environments. We have conducted successful pilot programs and plan to continue introduction of these packs to a variety of customers, with expectations of significant revenue opportunity in the coming year.

**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. Although these markets have longer integration timelines, we believe they represent potentially significant additions to our revenue mix in future periods.

## **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 Chairman of the Board 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, 2016, we have 5 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, 2016, we have twenty-eight (28) employees, of which twenty-six (26) are full-time and two (2) 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.

## **Other Information**

Our Internet address is [www.fluxpwr.com](http://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](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers, such as us, that file electronically with the SEC.

Our principal executive office is located at 985 Poinsettia Avenue, Suite A, Vista, CA 92081. The telephone number at our principal executive office is (760) 741-3589 (FLUX).

## **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, 2016 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 we will require additional funding to support operations and provide working capital.***

As of June 30, 2016, we had a cash balance of \$127,000, negative working capital of \$720,000 and an accumulated deficit of \$15,262,000. We have a history of losses and have experienced a lack of revenue due to the time to launch our revised business strategy. Our revenues for the fiscal year ended June 30, 2016, decreased approximately \$157,000, or 22%, compared to the fiscal year ended June 30, 2015. Our net loss of \$4,571,000 for the fiscal year ended June 30, 2016, increased by approximately \$2,156,000, or 89%, compared to the net loss for the fiscal year ended June 30, 2015. Based on our current and planned level of expenditures, we estimate that total financing proceeds of approximately \$2,500,000 will be required to fund current and planned operations through June 30, 2017. 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. We initiated a private placement in April 2016 to raise \$3,100,000, subsequently amended in August 2016 to increase offering amount to \$4,000,000. As of August 31, 2016, a total of \$3,900,000 has been raised of which \$2,125,000 was received in cash and \$1,775,000 was received via the settlement of outstanding liabilities. Additionally, during fiscal year 2016 we borrowed \$2,950,000 under our existing related party credit facility with Esenjay Investments, LLC (“Esenjay”) and converted \$3,350,000 of debt outstanding under this credit facility to equity. As of June 30, 2016, there was \$2,300,000 available for future draws under this credit facility, subject to the prior approval by 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 our existing 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 September 26, 2016 we have an outstanding balance of \$920,000 under our existing Unrestricted Line of Credit with Esenjay and \$2,580,000 available for future draws. However, our ability to borrow under this facility is at the discretion of Esenjay. Also, Esenjay has no obligation to disburse such funds and has the right not to advance funds under the line of credit. The Unrestricted Line of Credit with Esenjay has a maximum borrowing amount of \$3,500,000, matures on January 31, 2018, is convertible at \$0.06 per share of common stock and accrues interest at 6%. Pursuant to a side letter, Esenjay has agreed to limit its right of conversion under the Unrestricted Line of Credit to such number of

shares so that upon conversion, if any, it will not cause the Company to exceed its authorized number of shares of common stock. In addition, as a secured party, upon an event of default, Esenjay will have a right to the collateral granted to them under the line of credit, 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 may not have a sufficient number of shares of common stock authorized under our Articles of Incorporation to raise the capital through the sale of our common stock which could adversely affect our business, financial conditions, and results of operations.***

As discussed above, we have been raising capital through the private placement of our common stock. Under our Articles of Incorporation, we are authorized to issue 300,000,000 shares of common stock, of which 249,856,478 shares of common stock are outstanding as of September 26, 2016, and approximately 32,000,000 warrants and options are exercisable. In addition, the outstanding debt under our lines of credit are convertible into shares of common stock. The limited number of shares of common stock available for issuance may limit our ability to raise funding through the sale of our common stock, and in such an event we will have to seek alternative sources of funding unless we increase our authorized shares of common stock or effect a reverse stock split.

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

Beginning in 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. 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, airport ground support equipment, portable power, and specialized equipment such as robotic mining equipment. 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.

***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 one manufacturer, which is located in China and has 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 this manufacturer. We refer to the battery cell supplier as our limited source supplier. 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.

***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, and we have one controlling stockholder.*

As of September 26, 2016, our present directors and executive officers, and their respective affiliates beneficially owned approximately 73.8% of our outstanding common stock, including common shares underlying options, warrants and convertible debt that were exercisable or convertible or which would become exercisable or convertible within 60 days. More specifically, Michael Johnson, our director and beneficial owner of Esenjay, beneficially owns approximately 67.3% of such outstanding common stock. As a result of their ownership, our directors and executive officers and their respective affiliates collectively, and Esenjay, individually, 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**

The Company's corporate headquarters totals 22,054 square feet and is located in Vista, California. Effective February 25, 2014, the Company entered into a two-year lease agreement for this facility with average monthly rent payments of approximately \$12,000 per month and paid a security deposit of \$25,000. On February 20, 2016, we entered into a First Amendment to the Lease extending the expiration of the lease to May 31, 2016 and increasing the monthly rent payments for the period from March 1, 2016 to May 31, 2016 to \$14,300 per month. On May 24, 2016, we entered into a Second Amendment to the Lease extending the lease term through May 31, 2018.

The Company also subleases space to a related party, Epic Boats, on a month-to-month basis at a rate of 10% of lease expense.

Total rent expense was \$137,000 and \$102,000 for the years ended June 30, 2016 and 2015, respectively, net of sublease income.



**ITEM 3 - LEGAL PROCEEDINGS**

From time to time, we may be involved in litigation relating to claims arising out of our operations. Since June 2015, we have been a party to a legal proceeding arising from a work related injury that took place in June 2013. We deny and dispute all liability and damage allegations made by or on behalf of the plaintiff. However, having fully considered the risks, time and costs associated with continued litigation of this claim, as well as an appeal, we have decided to fully and finally resolve and settle the dispute. Accordingly, on August 26, 2016 we entered into a settlement agreement with the plaintiff whereby in exchange for the plaintiff releasing Flux Power from any and all claims of any nature that the plaintiff had or now has or might in the future have against us, we agreed to pay the plaintiff \$10,000 as settlement. Included in accrued expenses in the accompanying consolidated financial statements as of June 30, 2016 is a \$10,000 accrual associated with this claim, which was paid in September 2016 to the plaintiff.

**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 high and low prices for our common stock during each quarter for the period July 1, 2014 through June 30, 2016, as set forth below. Such prices do not represent actual transactions, and do not include retail mark-ups, mark-downs or commissions.

|                                 | <b>High</b> | <b>Low</b> |
|---------------------------------|-------------|------------|
| Fiscal year ended June 30, 2016 |             |            |
| First quarter                   | \$0.06      | \$0.03     |
| Second quarter                  | \$0.06      | \$0.03     |
| Third quarter                   | \$0.06      | \$0.02     |
| Fourth quarter                  | \$0.06      | \$0.02     |

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 |

## **Stockholders**

The approximate number of record holders of our common stock as of September 26, 2016 was 1,360, based on information provided by our transfer agent. The foregoing number of record holders does not include an unknown number of stockholders who hold their stock in “street name.”

## **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 2016 and 2015 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 2016 is as follows:

|   | (a)   | (b)   | (c)   |
|---|---|---|---|
|   | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | 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 <sup>(1)</sup>     | 3,415,000   | 0.05  | 6,585,000   |
| Equity compensation plans not approved by security holders <sup>(2)</sup> | 5,589,000   | \$ 0.15   | -   |
| <b>Total</b>  | <b>9,004,000</b>  | <b>\$ 0.11</b>  | <b>6,585,000</b>  |

(1) Represents incentive stock options granted under our 2014 Stock Option Plan (“2014 Option Plan”) during the fiscal year ended June 30, 2016. The 2014 Equity Incentive Program was approved February 17, 2015 and provided for the issuance of incentive stock options.

(2) Consists of 787,337 options granted under the 2010 Stock Option Plan (“2010 Option Plan”) and assumed by the Company in a Reverse Acquisition. An additional 4,801,683 non-qualified options were issued for a total outstanding at June 30, 2016 of 5,589,020.

**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 Rule 12b-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 lithium-ion batteries for industrial uses, including our first-ever UL 2771 Listed lithium-ion "LiFT Pack" forklift batteries. We have developed an innovative high power battery cell management system ("BMS") and have structured our business around this core technology. Our proprietary BMS provides three critical functions to our battery systems:

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

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

*Error reporting:* This is performed by analyzing data from monitoring each individual cell and making decisions on whether the individual cell or the system is operating out of normal specifications. This error reporting is crucial to system management as it ensures ancillary devices are not damaging your storage system and will give the operator an opportunity to take corrective action to maintain long overall system life.

Using our proprietary battery management technology, we are able to offer completely integrated energy storage solutions or custom modular standalone systems to our customers. In addition, we have also developed a suite of

complementary technologies and products that accompany and enhance the abilities of our BMS to meet the needs of the growing advanced energy storage market.

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

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

## **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:

### ***Inventories***

Inventories consist primarily of batteries, battery management systems and the related subcomponents, and are stated at the lower of cost or market. 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 \$30,000 during the fiscal year ended June 30, 2016.

We reviewed our inventory valuation with regard to our gross loss for the fiscal year ended June 30, 2016. The gross loss was due to factors related to new product launch, such as low volume, early higher cost designs, and limited sourcing, as well as, an increase in warranty expense of repairing products in the field and returned products. As such, we do not believe the loss is related to raw material inventory issues that would require write-downs.

### ***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 product is sold on consignment, the item remains in our inventory and revenue is not recognized until the product is ultimately sold to the end user. When a right of return exists, contractually or implied, the Company recognizes revenue on the sell-through method. Under this method, revenue is not recognized upon delivery of the product. Instead, the Company records deferred revenue upon delivery and recognize revenue when the product are sold through to the end

user. As of June 30, 2016 and 2015 the Company did not have any deferred revenue.

### ***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 8, 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 8, to the financial statements).

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

We account for stock-based compensation in accordance with the provisions of FASB ASC Topic No. 718, “*Compensation-Stock Compensation*” (“ASC 718”) which establishes accounting for equity instruments exchanged for employee service, we utilize the Black-Scholes option pricing model to estimate the fair value of employee stock option awards at the date of grant, which requires the input of highly subjective assumptions, including expected volatility and expected life. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our share-based compensation. These assumptions are subjective and generally require significant analysis and judgment to develop. When estimating fair value, some of the assumptions will be based on, or determined from, external data and other assumptions may be derived from our historical experience with stock-based payment arrangements. The appropriate weight to place on historical experience is a matter of judgment, based on relevant facts and circumstances.



***Shipping and Handling Costs***

We have simplified our 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, 2016 and 2015, costs for inbound inventory were approximately \$31,000 and \$19,000, respectively. Shipping costs for finished products delivered to customers totaled approximately \$107,000 and \$100,000 for the years ended June 30, 2016 and 2015, respectively.

**Segment and Related Information**

We operate as a single reportable segment.

**Comparison of Results of Operations**

The following discussion should be read in conjunction with our financial statements and the related notes that appear elsewhere in this Annual Report.

The following table represents our statement of operations for the years ended June 30, 2016 (“Fiscal 2016”) and June 30, 2015 (“Fiscal 2015”)

|                                       | <b>Fiscal 2016</b> |                      | <b>Fiscal 2015</b> |                      |   |
|---------------------------------------|--------------------|----------------------|--------------------|----------------------|---|
|                                       | <b>\$</b>          | <b>% of Revenues</b> | <b>\$</b>          | <b>% of Revenues</b> |   |
| Revenues                              | \$558,000          | 100                  | % \$715,000        | 100                  | % |
| Cost of goods sold                    | 1,098,000          | 197                  | % 774,000          | 108                  | % |
| Gross loss                            | (540,000 )         | -97                  | % (59,000 )        | -8                   | % |
| Operating expenses:                   |                    |                      |                    |                      |   |
| Selling and administrative expenses   | 2,240,000          | 401                  | % 2,108,000        | 295                  | % |
| Amortization of prepaid advisory fees | 34,000             | 6                    | % 17,000           | 2                    | % |
| Research and development              | 1,296,000          | 232                  | % 655,000          | 92                   | % |

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|  |               |      |   |               |      |   |
|--|---------------|------|---|---------------|------|---|
| Total operating expenses                       | 3,570,000     | 639  | % | 2,780,000     | 389  | % |
| Operating loss                                 | (4,110,000)   | -737 | % | (2,839,000)   | -397 | % |
| Other income (expense):                        |               |      |   |               |      |   |
| Change in fair value of derivative liabilities | 11,000        | 2    | % | 548,000       | 77   | % |
| Interest expense, net                          | (472,000 )    | -85  | % | (114,000 )    | -16  | % |
| Other expense                                  | -             | -    | % | (10,000 )     | -1   | % |
| Net loss                                       | \$(4,571,000) | -820 | % | \$(2,415,000) | -337 | % |

***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, such as electric forklifts, airline ground support equipment and portable power. 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 Fiscal 2016 decreased \$157,000 or 22%, compared to Fiscal 2015. This decrease in revenues was primarily attributable to our significant slowing of production associated with a model changeover to new UL Listed Packs. This model changeover included design changes driven by both UL requirements and ongoing product development changes.

### ***Cost of Sales***

Cost of sales for Fiscal 2016 increased \$324,000 or 42%, compared to Fiscal 2015. The increase in cost of sales was primarily attributable to an increase in warranty expense of repairing products in the field and returned products. Our assessment and tracking of product issues indicates resolution of most problems, including assembly and product launch issues. Our LiFT Packs can be subjected to very harsh vibration in certain operational settings. We believe we have “hardened” our packs going forward to sustain the harshest of environments. However, we anticipate that we may still incur issues on packs in the field that do not have the benefit of certain fixes. As of June 30, 2016, we had approximately \$120,000 accrued for product warranty liability.

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

Selling and administrative expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, public company costs, consulting costs, professional fees and other expenses. Such expenses for Fiscal 2016 increased \$132,000 or 6%, compared to Fiscal 2015. The increase in Fiscal 2016 resulted primarily from increased expenses in marketing and customer accommodation costs related to demo and service packs shipped to customers, administrative costs associated with documentation relating to product design changes, as well as, consulting fees paid for investor relations and advisory services related to capital raise efforts.

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

Amortization of prepaid advisory fees for Fiscal 2016 increased \$17,000 or 100%, compared to Fiscal 2015. The prepaid advisory fees amortized during Fiscal 2016 relate to the fair value of shares of the Company’s common stock issued in connection with an advisory agreement with Catalyst Global LLC (“CGL”) dated February 11, 2015. The fair

value of the shares issued pursuant to this agreement have been recognized over the term of the contract which expired in February 2016. The prepaid advisory fees amortized during Fiscal 2015 are related to the fair value of shares of the Company's common stock issued in connection with an advisory agreement with CGL dated October 14, 2013 which expired in October 2014. Effective April 1, 2016, we entered into a renewal contract with CGL, pursuant to which CGL agreed to provide investor relations services for 12 months in exchange for monthly fees of \$2,000 per month and 540,000 shares of restricted common stock issued as follows: 315,000 shares on June 30, 2016 for services provided during the three months ended June 30, 2016 and the balance vesting pro rata upon each of the six-, nine-, and twelve-month anniversaries of the contract. The initial tranche was valued at \$0.05 per share or approximately \$14,500 when issued on June 30, 2016.

### ***Research and Development Expense***

Research and development expenses for the Fiscal 2016 increased \$641,000 or 98%, compared to Fiscal 2015. Such expenses consist primarily of materials, supplies, salaries and personnel related expenses, stock-based compensation expense, consulting costs, and other expenses associated with the continued development of our LiFT pack, as well as, research into new product opportunities. The increase was primarily due to testing and certification fees, an increase in personnel costs and benefits, and material and labor costs associated with the project to have UL certify our LiFT Packs. We also incurred related costs to add durability and customer requests to the design of our packs.

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

We follow 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 Fiscal 2016 and Fiscal 2015 are included as a component of other income (expense) in the accompanying consolidated statements of operations for the respective period. The change in the fair value of the warrant derivative liabilities income for Fiscal 2016 decreased \$537,000 or 98%, compared to Fiscal 2015. The decrease in the income is due primarily to a reset of the exercise price of the warrants resulting from the triggering of the warrants anti-dilution (see Note 8 to the consolidated financial statements).

### ***Interest Expense***

Interest expense for Fiscal 2016 increased \$358,000 or 314%, compared to Fiscal 2015. On December 29, 2015 we entered into the Second Amendment of our Unrestricted Line of Credit (see Note 4 to the financial statement) which included, among other provisions, the reduction in the conversion price of the Unrestricted Line of Credit from \$0.30 to \$0.06 per share. The estimated change in fair value of the conversion price of approximately \$310,000 was recorded as a deferred financing cost at the date of the Second Amendment and is being amortized over the remaining seven-month term of the amended Unrestricted Line of Credit agreement. During Fiscal 2016, we recorded approximately \$266,000 of deferred financing amortization cost, which is included in interest expense in the accompanying consolidated statements of operations. Also included in Fiscal 2016 and Fiscal 2015 interest expense was approximately \$118,000 and \$153,000, respectively, of interest expense related to our outstanding lines of credit, as well as deferred discount amortization (see Notes 5 and 6 to the consolidated financial statements).

### ***Net Loss***

Net Loss during Fiscal 2016 increased \$2,156,000 or 89%, compared to Fiscal 2015. The increase is due primarily to increased warranty expense and research and development costs, as discussed above, combined with a decrease in revenues while we transitioned over to our new UL LiFT packs.

## **Liquidity and Capital Resources**

### ***Overview***

As of June 30, 2016, we had a cash balance of \$127,000, negative working capital of approximately \$720,000 and an accumulated deficit of \$15,262,000. We do not have sufficient liquidity and capital resources to fund planned operations through our fiscal year ending June 30, 2017. See “Future Liquidity Needs” below.

### ***Cash Flows***

### ***Operating Activities***

Our operating activities resulted in net cash used in operations of \$3,920,000 for Fiscal 2016, compared to net cash used in operations of \$2,363,000 for the Fiscal 2015.

The net cash used in operating activities for Fiscal 2016 reflects the net loss of \$4,571,000 for the period offset primarily by non-cash items including stock based compensation, stock issued for services and the amortization of deferred financing costs and debt discount, as well as, reductions in accounts receivables, inventories, other assets and accrued expenses.

The net cash used in operating activities for Fiscal 2015 reflects the net loss of \$2,415,000 for the period offset primarily by non-cash items including the change in fair value of warrant liability, stock based compensation, stock issued for services and the amortization of debt discount, as well as, increases in accounts receivables, accounts payable and accrued expense, offset by decreases in inventories and other current assets. inventories, other assets and accrued expenses.

### **Investing Activities**

Net cash used in investing activities for Fiscal 2016 and Fiscal 2015 totaled \$5,000 and \$16,000, respectively. Fiscal 2016 net cash used in investing activities resulted from the purchase of \$5,000 of equipment. Net cash used in investing activities during the Fiscal 2015 consists primarily of the sale of equipment for \$9,000 that was offset by purchases of equipment of \$25,000.

### **Financing Activities**

Net cash provided by financing activities during Fiscals 2016 and 2015, was \$3,999,000 and \$2,316,000, respectively. The increase in cash provided by financing activities is the result of continued borrowing from our Unrestricted Line of Credit with Esenjay.

### **Future Liquidity Needs**

We have evaluated our expected cash requirements over the next twelve months, which include, but are not limited to, investments in additional sales and marketing and product development resources, capital expenditures, and working capital requirements and have determined that our existing cash resources are not sufficient to meet our anticipated needs during the next twelve months, and that additional financing is required to support current operations. Based on our current and planned levels of expenditure, we estimate that total financing proceeds of approximately \$2,500,000 will be required to fund current and planned operations through June 30, 2017. In addition, we anticipate that further

additional financing may be required to fund our business plan subsequent to that date, until such time as revenues and related cash flows become sufficient to support our operating costs.

We intend to continue to seek capital through the private placement of debt and equity securities. We are exploring alternative financing options and investment structures that may provide us with additional cash funding. In April 2016, our Board of Directors approved the private placement of up to 77,500,000 shares of our common stock to select accredited investors for a total amount of \$3,100,000, or \$0.04 per share of common stock. On July 28, 2016, our Board of Directors increased the aggregate amount offered to up to \$4,000,000 and extended the termination date to August 31, 2016 (the "Offering"). As of August 31, 2016, a total of 97,500,000 shares of common stock have been sold to ten (10) accredited investors for a total aggregate offering amount of \$3,900,000 of which \$2,125,000 was received in cash, \$1,750,000 was received in exchange of settlement of outstanding liabilities under the Unrestricted Line of Credit with Esenjay, and \$25,000 was received in the form of settlement of accounts payable to a vendor.

Between July 1, 2014 and September 26, 2016, we borrowed \$4,670,000 pursuant to various related party credit facilities of which \$3,750,000 has been converted to equity. As of September 26, 2016, the amount outstanding under the Unrestricted Line of Credit with Esenjay was \$920,000, with an aggregate of \$2,580,000 available under the Unrestricted Line of Credit for future draws at Esenjay's discretion. The credit facility matures on January 31, 2018, but may be further extended by Esenjay, and is convertible into shares of common stock at \$0.06 per share, to the extent such will not cause us to exceed our authorized number of shares of common stock. As of September 26, 2016, Esenjay owns approximately 67% of our issued and outstanding common stock. Also, a \$500,000 convertible line of credit with an unrelated party was entered into in October 2014 and matures on September 19, 2016, but can be extended if the lender provides for such in writing. As of September 26, 2016, we have borrowed \$215,000 under this line of credit and \$285,000 remains available for future draws.

Although management believes that the additional required funding will be obtained, there is no guarantee we will be able to obtain the additional required funds in the future or that funds will be available on terms acceptable to us. If such funds are not available, management will be required to curtail its investments in additional sales and marketing and product development resources, and capital expenditures, which will have a material adverse effect on our future cash flows and results of operations, and its ability to continue operating as a going concern.

To the extent that we raise additional funds by issuing equity or debt securities, our shareholders may experience additional significant dilution and such financing may involve restrictive covenants. To the extent that we raise additional funds through collaboration and licensing arrangements, it may be necessary to relinquish some rights to our technologies or our product candidates, or grant licenses on terms that may not be favorable to us. Such actions may have a material adverse effect on our business.

### *Going Concern*

During Fiscal 2016, we incurred net losses from operations of \$4,571,000 and have incurred an accumulated deficit of \$15,262,000 as of June 30, 2016. In addition, as of June 30, 2016 we had limited available cash balances and negative working capital, and were in need of additional capital to fund operations. In their report on the annual consolidated



financial statements for the fiscal year ended June 30, 2016, our independent auditors included an explanatory paragraph in which they expressed substantial doubt regarding the Company's ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to raise additional capital on a timely basis until such time as revenues and related cash flows are sufficient to fund our operations. Management's plans are to continue to seek funding, as necessary, through private placements of equity securities.

The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders. (See Note 2 to the financial statements)

### **Off-Balance Sheet Arrangements**

As of June 30, 2016, we did not have any other relationships with unconsolidated entities or financial partners, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

### **Recent Accounting Pronouncements**

#### **Recently Adopted Accounting Pronouncements**

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

In April 2015, the FASB issued ASU No. 2015-03, *Interest-Imputation of Interest*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The new guidance is effective for the Company's fiscal year beginning July 1, 2016. Early adoption is permitted. We elected to early adopt ASU No. 2015-03 during the fourth quarter of fiscal 2016. The adoption had no impact on our consolidated financial statements.

### **Recently Issued Accounting Pronouncements Not Yet Adopted**

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

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

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

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

In August 2014, the FASB issued ASU No. 2014-15 regarding ASC topic No. 205, *Presentation of Financial Statements - Going Concern*. The standard requires all companies to evaluate if conditions or events raise substantial doubt about an entity's ability to continue as a going concern and requires different disclosure of items that raise substantial doubt that are, or are not, alleviated as a result of consideration of management's plans. The new guidance is effective for the Company's fiscal year beginning July 1, 2017. Early adoption is permitted. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This update outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. In May 2015, the FASB issued ASU No. 2015-14 deferring the effective date to annual reporting periods beginning after December 15, 2017, which is effective for the Company's fiscal year beginning July 1, 2018. Early adoption is permitted only as of an annual reporting period beginning after December 15, 2016. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

## **ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

## **ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements required by this item begin on page F-1 with the index to financial statements followed by the financial statements.

## **ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

## **ITEM 9A - CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, as of the end of the period covered by this report, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Act of 1934. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be included in our Securities and Exchange Commission (“SEC”) reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, relating to the Company, including our consolidated subsidiaries, and was made known to them by others within those entities, particularly during the period when this report was being prepared. Based on the management's assessment and review of our financial statements and results for the fiscal year ended June 30, 2016, we have concluded that our disclosure controls and procedures were effective for purposes stated above.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive officer and principal financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(a) Management's Report on Internal Control over Financial Reporting

Our management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. As of June 30, 2016 management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control - Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of June 30, 2016 based on the COSO criteria.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding the effectiveness of the Company's internal control over financial reporting, as such report is not required due to the Company's status as a smaller reporting company.

**Change in Internal Control Over Financial Reporting**

There have been no changes in the Company's internal controls over financial reporting during the fiscal year ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 9B - OTHER INFORMATION**

None.

**PART III**

**ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

**Directors, Executive Officers and Significant Employees**

*Identification of Directors, Executive Officers and Significant Employees*

The following table and text set forth the names and ages of our current directors, executive officers and significant employees as of the date of this report. Our Board of Directors is comprised of only one class. All of the directors will serve until the next annual meeting of stockholders or until their successors are elected and qualified, or until their earlier death, retirement, resignation or removal. There are no family relationships among any of the directors and executive officers. Our Board of Director members are not paid for their service.

| <b>Name</b>            | <b>Age</b> | <b>Position</b>   |
|------------------------|------------|---|
| Christopher L. Anthony | 40         | Chairman and Former Chief Executive Officer and President   |
| Ronald F. Dutt         | 69         | Director, Chief Executive Officer, Interim Chief Financial Officer, and Interim Corporate Secretary |
| Michael Johnson        | 68         | Director  |
| James Gevarges         | 51         | Director  |

There are no arrangements or understandings between our directors and executive officers and any other person pursuant to which any director or officer was or is to be selected as a director or officer.

*Business Experience*

**Christopher L. Anthony, Chairman.** Mr. Anthony was appointed as chairman on September 3, 2015 and has been a board member since June 14, 2012. Mr. Anthony was also the Company's chief executive officer from June 14, 2012 to June 28, 2013. Prior to the Company's Reverse Acquisition of Flux Power Holdings, Inc., in June 2012 Mr. Anthony served as chairman and chief executive officer of Flux Power since it was incorporated in 2009. Mr. Anthony is the

founder and a majority owner of Epic Boats, LLC (“Epic Boats”) a Delaware Corporation and has served as an R&D advisor since it was founded in 2002 and also served as chief executive officer through October 2010. On June 28, 2013 Mr. Anthony resigned as Flux Power’s chief executive officer to return full time to his position as chief executive officer of Epic Boats to manage the day to day operations. Epic Boats is primarily engaged in the business of providing recreational and competitive watercrafts, including an electric wake boarding boat. From 2005 to 2009 Mr. Anthony served as the chief operating officer of Aptera Motors, Inc., a Delaware company engaged in the business of manufacturing a three-wheel electric car (“Aptera Motors”) and was a director of that company from 2005 to 2010. Aptera Motors and Epic Boats are not affiliates of the Company. Mr. Anthony is an expert in energy storage, electric propulsion systems, and advanced composite manufacturing processes. He has significant experience building advanced products in the marine and commuter vehicle industries. Mr. Anthony has a Bachelor’s of Science degree in finance from the Cameron School of Business.

**Ronald F. Dutt. Director, Chief Executive Officer, Interim Chief Financial Officer, Director and Interim Corporate Secretary.** Mr. Dutt has been our chief executive officer, interim chief financial officer and director since March 19, 2014. Previously he was our chief financial officer since December 7, 2012 and our interim chief executive officer since June 28, 2013. Mr. Dutt has served as the Company’s interim corporate secretary since June 28, 2013. Mr. Dutt will serve as the interim of chief financial officer and corporate secretary until the Company and Board replaces the position(s) with qualified individuals. Prior to Flux Power, Mr. Dutt provided chief financial officer and chief operating officer consulting services during 2008 through 2012. In this capacity Mr. Dutt provided financial consulting, including strategic business modeling and managed operations. Prior to 2008, Mr. Dutt served in several capacities as executive vice president, chief financial officer and treasurer for various public and private companies including SOLA International, Directed Electronics, Fritz Companies DHL Americas, Aptera Motors, Inc., and Visa International. Currently, Mr. Dutt serves as a board member of Rising International, a not-for-profit organization in Santa Cruz, California since 2011, and as a board advisor for Tyga-Box Systems, a New York City based company since 2011. Rising International and Tyga-Box are not affiliates of the Company. Mr. Dutt holds an MBA in Finance from University of Washington and an undergraduate degree in Chemistry from the University of North Carolina. Additionally, Mr. Dutt served in the United States Navy and received an honorable discharge as a Lieutenant.

**Michael Johnson, Director.** Mr. Johnson has been our director since July 12, 2012. Mr. Johnson has been a director of Flux Power since it was incorporated. Since 2002, Mr. Johnson has been a director and the chief executive officer of Esenjay Petroleum Corporation (“Esenjay Petroleum”), a Delaware company located in Corpus Christi, Texas which is engaged in the business oil exploration and production. Mr. Johnson’s primary responsibility at Esenjay Petroleum is to manage the business and company as chief executive officer. Mr. Johnson is director and beneficial owner of Esenjay Investments LLC, a Delaware company engaged in the business of investing in companies, and an affiliate of the Company owning approximately 67.3% of our outstanding shares, including common shares underlying options, warrants and convertible debt that were exercisable or convertible or which would become exercisable or convertible within 60 days. As a result of Mr. Johnson’s leadership and business experience he is an industry expert in the natural gas exploration industry and brings a wealth of management and successful company building experience to the board. Mr. Johnson received a BS degree in mechanical engineering from the University of Southwestern Louisiana in 1971.

**James Gevarges, Director.** Mr. Gevarges served on our Board as director from July 14, 2012 to October 24, 2014 at which time he resigned. On September 30, 2015, Mr. Gevarges was reinstated as a director. Mr. Gevarges is the President, Chief Executive Officer, and a majority owner of Current Ways, Inc., a California company engaged in the business of manufacturing chargers and other components for electric vehicles, which he founded in 2010. Current Ways, Inc. is not an affiliate of the Company. Since 1991 Mr. Gevarges has also been a Director and the Chief Executive Officer of LHV Power Corporation (formerly known as HiTek Power, Corp) (“LHV Power”), a California company located in Santee, California which is engaged in the business of designing, manufacturing and marketing of power supply systems. Mr. Gevarges is the sole owner of LHV Power. LHV Power is not an affiliate of the Company. Mr. Gevarges’ primary responsibilities at LHV Power are to manage the company and business as Chief Executive Officer and President. As a result of Mr. Gevarges’ management and industry experience he is a power supply industry expert and brings an enormous amount of manufacturing and successful company management experience to the Company. Mr. Gevarges has a Bachelor’s of Science degree in electrical engineering from Louisiana State University.

### ***Involvement in Certain Legal Proceedings***

To the best of our knowledge, during the past ten years, none of our directors or executive officers were involved in any of the following: (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; and (4) being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

### ***Board Leadership Structure and Role in Risk Oversight***



The Board does not have a policy as to whether the roles of our chairman and chief executive officer should be separate. Instead, the Board makes this determination based on what best serves our Company's needs at any given time.

In its governance role, and particularly in exercising its duty of care and diligence, the Board is responsible for ensuring that appropriate risk management policies and procedures are in place to protect the company's assets and business. Our Board has broad and ultimate oversight responsibility for our risk management processes and programs and executive management is responsible for the day-to-day evaluation and management of risks to the Company.

### *Audit Committee*

We have not adopted an audit committee charter. Our Board of Directors serves the function of the audit committee. The Board of Directors intends to establish an audit committee in the future.

### *Audit Committee Financial Expert*

Our Board of Directors has not established a separate audit committee within the meaning of Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Instead, our entire Board of Directors acts as the audit committee within the meaning of Section 3(a)(58)(B) of the Exchange Act. In addition, our Board of Directors has not made a determination as to whether a director on the Board meets the definition of an "audit committee financial expert" within the meaning of Item 407(d)(5) of Regulation S-K. We continue to seek candidates for outside directors and for a financial expert to serve on a separate audit committee when we establish one.

In fulfilling its oversight responsibilities, the Board has reviewed and discussed the audited financial statements with management and discussed with the independent auditors the matters required to be discussed by PCAOB Standard 16, formerly SAS 61. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The independent auditors are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles.

The Board of Directors discussed with the independent auditors, the auditors' independence from the management of the Company and received written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1. After Board of Director's review and discussions, as mentioned above, the Board of Directors recommended that the audited financial statements be included in the Company's Annual Report on Form 10-K.

#### ***Compensation Committee and Governance and Nomination Committee***

We have not adopted a compensation committee and governance committee charters. The Board of Directors currently serves these functions. The Board of Directors will consider establishing a compensation committee and governance committee in the future. There were no material changes to the procedures by which security holders may recommend nominees to our Board of Directors.

#### ***Code of Conduct and Ethics***

We have not adopted a Code of Conduct for our senior executive officers.

#### ***Indemnification Agreements***

We executed a standard form of indemnification agreement ("Indemnification Agreement") with each of our Board members and executive officers (each, an "Indemnitee").

Pursuant to and subject to the terms, conditions and limitations set forth in the Indemnification Agreement, we agreed to indemnify each Indemnitee, against any and all expenses incurred in connection with the Indemnitee's service as our officer, director and or agent, or is or was serving at our request as a director, officer, employee, agent or advisor of another corporation, partnership, joint venture, trust, limited liability company, or other entity or enterprise but only if the Indemnitee acted in good faith and in a manner he reasonably believed to be in or not opposed to our best interest,

and in the case of a criminal proceeding, had no reasonable cause to believe that his conduct was unlawful. In addition, the indemnification provided in the indemnification agreement is applicable whether or not negligence or gross negligence of the Indemnitee is alleged or proven. Additionally, the Indemnification Agreement establishes processes and procedures for indemnification claims, advancement of expenses and costs and contribution obligations.

#### **Compliance with Section 16 of the Securities Exchange Act of 1934**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors and persons who own more than 10% of a registered class of our equity securities, to file with the Securities and Exchange Commission (hereinafter referred to as the "Commission") initial statements of beneficial ownership, reports of changes in ownership and Annual Reports concerning their ownership, of Common Stock and other of our equity securities on Forms 3, 4, and 5, respectively. Executive officers, directors and greater than 10% stockholders are required by Commission regulations to furnish us with copies of all Section 16(a) reports they file. Based solely on information available to us in public filings, we believe that all reports required by Section 16(a) for transactions in the fiscal year ended June 30, 2016, were timely filed, except as follows:

On September 3, 2015, Esenjay acquired 51,171,025 shares of common stock (at \$0.04 per share) in consideration for cancellation of debt in the amount of \$2,046,841. On September 10, 2015, a Form 4 was filed for Mr. Johnson, the sole director and beneficial owner of Esenjay, and our director.

On December 22, 2015, Ronald Dutt, our director, Chief Executive Officer and interim Chief Financial Officer, acquired a right to purchase up to 1,900,000 shares of our common stock. The stock option vests over a 3 year period in quarterly installments, with 25% vesting on December 22, 2015. The exercise price is \$.05 per share (which was the closing market price on December 22, 2015). On January 5, 2016, a Form 4 was filed for Mr. Dutt. On May 5, 2016, Esenjay acquired 33,750,000 shares of common stock (at \$0.04 per share) in exchange for the settlement \$1,350,000 of debt owed to Esenjay by the Company. On May 18, 2016 a Form 4 was filed for Mr. Johnson, the sole director and beneficial owner of Esenjay.

On June 2, 2016, Esenjay acquired 6,250,000 shares of common stock (at \$0.04 per share) or \$250,000 in cash. On June 9, 2016 a Form 4 was filed for Mr. Johnson, the sole director and beneficial owner of Esenjay.

**ITEM 11 - EXECUTIVE COMPENSATION***Compensation for our Named Executive Officers*

The following table sets forth information concerning all forms of compensation earned by our named executive officers during the fiscal years ended June 30, 2016 and 2015 for services provided to the Company and its subsidiaries.

| Name and Principal Position   | Year | Salary<br>(\$) | Bonus<br>(\$) | Stock Option  |                               | Non-Equity                                |                                      | Total (\$) |
|---|------|----------------|---------------|---------------|-------------------------------|---|--------------------------------------|------------|
|   |      |                |               | Award<br>(\$) | Awards<br>(\$) <sup>(1)</sup> | Incentive<br>Plan<br>Compensation<br>(\$) | All<br>Other<br>Compensation<br>(\$) |            |
| Ronald F. Dutt, Chief Executive Officer,<br>Interim Chief Financial Officer, Director and<br>Interim Corporate Secretary <sup>(2)</sup> | 2016 | \$ 170,000     | \$ -          | \$ -          | \$ 48,968                     | \$ -                                      | \$ -                                 | \$ 218,968 |
|   | 2015 | \$ 170,000     | \$ -          | \$ -          | \$ -                          | \$ -                                      | \$ -                                 | \$ 170,000 |

The grant date fair value was determined in accordance with the provisions of FASB ASC Topic No. 718 using the (1) Black-Scholes valuation model with assumptions described in more detail in the notes to our audited financial statements included in this report.

Mr. Dutt's Employment Agreement effective December 11, 2012 provided for option grants of 200,000. On July (2) 30, 2013, Mr. Dutt was granted 1,750,000 shares of non-qualified stock options. On December 22, 2015, Mr. Dutt was granted 1,900,000 shares of incentive stock options subject to certain vesting restrictions.

*Benefit Plans*

We do not have any profit sharing plan or similar plans for the benefit of our officers, directors or employees. However, we may establish such plan in the future.

*Equity Compensation Plan Information*

In connection with the Reverse Acquisition, we assumed the 2010 Option Plan. As of June 30, 2016, the number of shares of common stock outstanding under the 2010 Option Plan was 1,190,384. No additional shares of common stock may be granted under the 2010 Option Plan.

On November 26, 2014, our board of directors approved our 2014 Equity Incentive Plan (the “2014 Option Plan”), which was approved by our shareholders on February 17, 2015. The 2014 Option Plan offers selected employees, directors, and consultants the opportunity to acquire our common stock, and serves to encourage such persons to remain employed by us and to attract new employees. The 2014 Option Plan allows for the award of stock and options, up to 10,000,000 shares of our common stock. We granted 4,385,000 incentive stock options under the 2014 Option Plan during the year ended June 30, 2016.

As of June 30, 2016, we have 3,415,000 incentive stock options and 5,589,000 non-qualified options exercisable and outstanding which were granted from the 2014 Option Plan and 2010 Option Plan, respectively.

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The following table sets forth certain information concerning unexercised options, stock that has not vested, and equity compensation plan awards outstanding as of June 30, 2016 for the named executive officers below:

| Name        | Option Awards <sup>(1)</sup> |   |   |   | Stock Awards               |                        |  |   | Equity  |
|-------------|------------------------------|---|---|---|----------------------------|------------------------|--|---|---|
|             | Award Grant Date             | Number of Securities Underlying Unexercised Options Exercisable | Number of Securities Underlying Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options | Option Exercise Price (\$) | Option Expiration Date | Market Value of Shares or Units of Stock That Have Not Vested (\$) | Equity Incentive Awards: Number of Shares or Units or Other Rights That Have Not Vested | Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested |
| Ronald Dutt | 12/22/2015                   | 712,500   | 1,187,500                                     | 1,187,500   | 0.05                       | 12/22/2025             | \$ -   | -   | \$ -  |
|             | 7/30/2013                    | 1,513,021   | 236,979                                       | -   | 0.10                       | 7/30/2023              | \$ -   | -   | \$ -  |

(1) The fair value of each option grant is estimated at the date of grant using the Black-Scholes option pricing model. Expected volatility is calculated based on the historical volatility of the Company's stock.

The risk free interest rate is based on the U.S. Treasury yield for a term equal to the expected life of the options at the time of grant.

### **Compensation of Non-Executive Directors**

#### *Aggregated Option/SAR exercised and Fiscal year-end Option/SAR value table*

Neither our executive officers nor the other individuals listed in the tables above, exercised options or SARs during the last fiscal year.

#### *Long-term incentive plans*

No long term incentive awards were granted by us in the last fiscal year.

#### *Employment Agreements with Executive Officers*

We entered into an Employment Agreement with our current chief executive officer, Ronald F. Dutt effective December 11, 2012. Mr. Dutt is an “at-will” employee of Flux Power Holdings, Inc. The Employment Agreement provides an annual salary of \$170,000 and option grants of 200,000 shares of non-qualified stock options, subject to the following vesting schedule: 25% shares vest after 12 months, and remaining shares vest monthly over 36 months. Effective May 27, 2013 Mr. Dutt agreed to a temporary reduced salary of \$2,776 per month or \$33,312 per year. On June 28, 2013 Flux’s chief executive officer and president, Christopher Anthony tendered his resignation and the Board of Directors appointed Mr. Dutt as interim chief executive officer and corporate secretary, to assume the duties as such and to continue to hold the position of chief financial officer until further notice from the Board of Directors. Mr. Dutt is not paid additional compensation for his interim role. However, related to this added responsibility, effective July 26, 2013, the Board has authorized an increase in his salary from \$2,776 to \$11,333 per month, reflecting 80% restoration of the salary identified in his employment agreement dated December 7, 2012. Additionally, Mr. Dutt was granted 1,750,000 non-qualified stock options at an exercise price equal to \$0.10, the fair market value of the Company’s common stock on July 30, 2013, with a vesting schedule of 50% immediately and 50% quarterly over the next four years, pursuant to the terms of the Company's form of Non-Qualified Option Agreement. On December 22, 2015 Mr. Dutt was granted 1,900,000 incentive stock options at an exercise price equal to \$0.05, the fair market value of the Company’s common stock on the date of grant, with a vesting schedule of 25% immediately and 75% quarterly over the next three years, pursuant to the terms of the Company's form of Incentive Stock Option Agreement. All other terms of Mr. Dutt's employment agreement, dated December 11, 2012 remains unchanged.

There were no performance based bonuses paid for fiscal years ended June 30, 2016 and 2015.





*Compensation Committee Interlocks and Insider Participation*

We have not established a Compensation Committee and our Board of Directors will serve this function.

*Director Independence*

We currently do not have any independent directors as the term “independent” is defined by the rules of the Nasdaq Stock Market.

**ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

As used in this section, the term beneficial ownership with respect to a security is defined by Rule 13d-3 under the Securities Exchange Act of 1934, as amended, as consisting of sole or shared voting power (including the power to vote or direct the vote) and/or sole or shared investment power (including the power to dispose of or direct the disposition of) with respect to the security through any contract, arrangement, understanding, relationship or otherwise, subject to community property laws where applicable. As of September 26, 2016 we had a total of 249,856,478 shares of common stock issued outstanding.

The following table sets forth, as of September 26, 2016, information concerning the beneficial ownership of shares of our common stock held by our directors, our named executive officers, our directors and executive officers as a group, and each person known by us to be a beneficial owner of 5% or more of our outstanding common stock. Unless otherwise indicated, the business address of each of our directors and executive officers is c/o Flux Power Holdings, Inc., 985 Poinsettia Avenue, Suite A, Vista, California 92081. Each person has sole voting and investment power with respect to the shares of our common stock, except as otherwise indicated. Beneficial ownership consists of a direct interest in the shares of common stock, except as otherwise indicated.

| <b>Name and Address of Beneficial Owner</b> | <b>Amount and Nature of</b>               | <b>Percentage of</b> |
|---|---|----------------------|
|   | <b>Beneficial Ownership<sup>(1)</sup></b> | <b>Ownership</b>     |

**Directors and Named Executive Officers**

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|   |             |     |      |   |
|---|-------------|-----|------|---|
| Christopher L. Anthony, Chairman and Former Chief Executive Officer                   | 9,118,816   | (2) | 3.3  | % |
| Ronald F. Dutt, Director, Chief Executive Officer and Interim Chief Financial Officer | 2,439,955   | (3) | 0.9  | % |
| James Gevargis  | 6,504,878   | (4) | 2.4  | % |
| Michael Johnson (Esenjay Investments, LLC), Director                                  | 184,836,117 | (5) | 67.3 | % |
| Current Executive Officers & Directors as a Group (4 people)                          | 202,899,766 |     | 73.9 | % |

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As used in this section, the term beneficial ownership with respect to a security is defined by Rule 13d-3 under the Securities Exchange Act of 1934, as amended, as consisting of sole or shared voting power (including the power to vote or direct the vote) and/or sole or shared investment power (including the power to dispose of or direct the disposition of) with respect to the security through any contract, arrangement, understanding, relationship or (1) otherwise, subject to community property laws where applicable. Accordingly, shares of common stock which an individual or group has a right to acquire within 60 days pursuant to the exercise of options or warrants are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be beneficially owned and outstanding for the purpose of computing the percentage ownership of any other person shown in the table.

(2) The 9,118,816 shares beneficially owned includes 8,818,816 shares of common stock and 300,000 stock options.

(3) The 2,439,955 shares beneficially owned includes 40,997 shares of common stock and 2,398,958 stock options.

(4) The 6,504,878 shares beneficially owned includes 5,909,408 shares of common stock and 595,470 stock options.

The 184,836,117 shares beneficially owned includes shares held by Esenjay Investments, LLC, of which Mr. Johnson is the sole director and beneficial owner. Includes 159,923,981 shares of common stock, 595,470 stock options, 8,983,333 of warrants and 15,333,333 shares issuable related to existing convertible debt so long as such conversion will not cause the Company to exceed the authorized number of shares of common stock.

## **ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

### ***Transactions with Related Persons***

On June 26, 2013, we entered into an agreement with Security Research Associates, Inc. (“SRA”), a company which Mr. Collins, our former executive chairman is also the chief executive officer, president, director and shareholder of SRA, pursuant to which SRA agreed to provide business and advisory services. SRA served as our placement agent in connection with the Company’s 2014 Private Placement Offering (“2014 Offering”) and was paid cash compensation in the amount of 9% of the gross proceeds raised and a warrant to purchase the number of shares of our common stock equal to 9% of the aggregate gross proceeds from the 2014 Offering received by the Company from all investors (excluding Esenjay) placed by SRA divided by \$0.06 per share. SRA was paid \$107,460 in cash and reimbursement for related expenses of approximately \$10,000 and issued a warrant to purchase 1,791,000 shares of our common stock at an exercise price of \$0.06 for its services as our private placement agent in the 2014 Offering. In connection with this agreement, the estimated fair value of the warrants issued in the approximate amount of \$107,460 (1,791,000 warrants at \$0.06) and related expenses of approximately \$10,000 was recorded as an offset to equity related to expense associated with the 2014 Offering. The Company’s contract with SRA was amended to reflect renewal to support the March 2014 placement and the August 2014 placement. For the August 2014 placement, SRA was paid \$34,695 in cash commissions and awarded warrants to purchase our common stock at an exercise price of \$0.09 for its services. Additionally, SRA placed a convertible line of credit with Leon Frenkel totaling \$500,000 that has, at June 30, 2016 an outstanding balance of \$215,000, including a warrant to purchase 1,791,667 shares of the Company’s common stock at \$0.12 per share. The agreement with SRA expired on July 31, 2015.

On June 29, 2016 and August 15, 2016 two (2) accredited investors, who are siblings of Mr. Johnson, invested an aggregate of \$200,000 for the purchase of 5,000,000 shares of our common stock in our Offering.

### ***Loans from Stockholder and Conversion into Common Stock***

In October 2011, we entered into a revolving promissory note agreement (“Revolving Note”) for \$1,000,000 with Esenjay Investments, LLC (“Esenjay”), which is one of our major stockholders who beneficially own approximately 67.3% of our common stock as of September 26, 2016. Mr. Michael Johnson is a current member of our board of directors and is the director and beneficial owner of Esenjay. The Revolving Note had an interest rate of 8% per annum, and an original maturity date of September 30, 2013, as amended, and is secured by substantially all of the assets of the Company. On October 16, 2013, we entered into the Second Amendment to the Revolving Note pursuant to which the Revolving Note was amended to: (i) extend the maturity date from September 30, 2013, to December 31, 2015; (ii) change the interest rate on the outstanding principal amount as of October 16, 2013, and forward to 6% per annum, and (iii) grant the holder of the Revolving Note the option to convert any or all of the amount outstanding under the Revolving Note, as amended, into shares of our common stock at a conversion price of \$0.30 per share until

December 31, 2015.

On March 7, 2012, we entered into an additional note payable agreement with Esenjay for \$250,000 (“Bridge Note”). The Bridge Note had an original maturity date of March 7, 2014, and bore interest at the rate of 8% per annum. As of September 30, 2013, the balance outstanding payable on the Bridge Note was \$250,000 and there were no further funds available under the Bridge Note. On October 16, 2013, we entered into the First Amendment to the Bridge Loan Promissory Note (the “Amendment”) pursuant to which the Bridge Note was amended to: (i) extend the maturity date from March 7, 2014, to December 31, 2015; (ii) change the interest rate on the outstanding principal amount as of October 16, 2013, and forward to 6% per annum; and (iii) grant the holder of the Bridge Note the option to convert any or all of the amount outstanding under the Bridge Note, as amended, into shares of our common stock at a conversion price of \$0.30 per share until December 31, 2015.

On September 24, 2012, we entered into a Unrestricted Line of Credit agreement with Esenjay for \$1,500,000 (“Unrestricted Line of Credit”). Borrowings under the Unrestricted Line of Credit are secured by our assets and bore interest at the rate of 8% per annum, with all unpaid principal and accrued interest due and payable on September 24, 2014. On October 16, 2013, we entered into the First Amendment to the Unrestricted Line of Credit (the “Amendment”) pursuant to which the Unrestricted Line of Credit was amended to: (i) extend the maturity date from September 24, 2014, to December 31, 2015; (ii) change the interest rate on the outstanding principal amount as of October 16, 2013, and forward to 6% per annum; (iii) increase the Unrestricted Line of Credit to \$2,000,000; and (iv) grant holder the option to convert up to \$400,000 of the outstanding amount under the Unrestricted Line of Credit into shares of our common stock at a conversion price of \$0.06 per share until December 31, 2013, and the option to convert any or all of the remaining amount outstanding under the Unrestricted Line of Credit into shares of our common stock at a conversion price of \$0.30 per share until December 31, 2015.

On September 3, 2015, the Company entered into a Loan Conversion Agreement (“Conversion Agreement”), as amended on October 6, 2015 and November 13, 2015 (the “Amendments”), with Esenjay pursuant to which we agreed to issue 51,171,025 shares of our common stock (based on \$0.04 per share) (the “Shares”) in exchange for the cancellation of principal amount of \$2,000,000 (“Principal Amount”) of the total \$2,200,000 outstanding under the Revolving Note, the Bridge Note and the Unrestricted Line of Credit (collectively, the “Loan Agreements”), with Esenjay, plus \$46,841 in accrued and unpaid interest on such Principal Amount as of September 3, 2015 (the accrued interest together with the Principal Amount referred to as the “Debt”). In connection with the Conversion Agreement, as amended, on September 9, 2015, the Company issued 51,171,025 shares (“Esenjay Shares”) to Esenjay in exchange for cancellation of Principal Amount. The Revolving Note and Bridge Note expired on December 31, 2015 and the Unrestricted Line of Credit was amended as discussed below.

On December 29, 2015, we entered into a Second Amendment to the Unrestricted Line of Credit (“Second Amendment”), with Esenjay, pursuant to which we agreed to amend certain terms of the Unrestricted Line of Credit agreement dated September 24, 2012 and amended on October 16, 2013. Under the Second Amendment, the agreement was modified and amended to (i) extended the maturity date to July 30, 2016; (ii) increased the maximum principal amount available from \$2,000,000 to \$2,500,000; and (iii) reduced the conversion price from \$0.30 to \$0.06. The estimated change in fair value of the conversion price of approximately \$310,000 was determined to be a debt issuance cost, and accordingly, was recorded as a deferred financing cost at the date of the Second Amendment to be amortized over the remaining seven-month term through July 30, 2016. During the year ended June 30, 2016, we recorded approximately \$266,000 of deferred financing amortization costs, which are included in interest expense in the accompanying consolidated statements of operations.

On March 29, 2016, we entered into a Third Amendment to the Unrestricted Line of Credit with Esenjay, pursuant to which the maximum principal amount available was increased to \$3,500,000. In April 2016, \$1,350,000 of the outstanding debt under the Unrestricted Line of Credit was settled, in conjunction with our then outstanding private placement via the issuance of 33,750,000 shares of our common stock. In August 2016, \$400,000 of the outstanding debt under the Unrestricted Line of Credit was settled, in conjunction with our then outstanding private placement via the issuance of 10,000,000 shares of our common stock. See further discussion in Note 7 of our consolidated financial statements included herein. The outstanding principal balance of the Unrestricted Line of Credit as of June 30, 2016 was \$1,200,000 resulting in a remaining \$2,300,000 available for future draws under this agreement, subject to lender’s approval.

In April 2016, pursuant to a certain Side Letter, Esenjay agreed to limit its right of conversion under the Unrestricted Line of Credit to such number of shares so that upon conversion, if any, it will not cause the Company to exceed the authorized number of shares of common stock.

On July 28, 2016, we entered into a Fourth Amendment to the Unrestricted Line of Credit with Esenjay, pursuant to which we modified and amended to extend the maturity date to January 31, 2018. The outstanding principal balance of the Unrestricted Line of Credit as of September 26, 2016 was \$920,000 resulting in a remaining \$2,580,000 available for future draws under this agreement, subject to Esenjay’s approval.

*Lease Agreements*

Effective July 1, 2013, the Company relocated its principal office and manufacturing to the Epic Boats (an entity founded and controlled by Chris Anthony, our former chief executive officer and board member) facility in Vista, California. The Company entered into a month-to-month sub-lease agreement for shared space with Epic Boats. On February 25, 2014, the Company entered into a two-year agreement to rent the property, at \$12,130 per month, with an annual increase of 3%. The agreement provides for monthly payments of approximately 10% of the monthly rental payment, which was terminated on March 1, 2014. Subsequently, the Company became the tenant of that space and entered into a sublease with Epic Boats, as the sub-lessee in which Epic Boats agreed to pay the Company 10% of the facility costs through June 30, 2014, with March as a transition month requiring 20% of the facility cost.

The Company recorded rent expense, net of sublease income during the fiscal years ended June 30, 2016 and 2015, of approximately \$137,000 and approximately \$102,000, respectively.

***Title Transfer and Deposit Agreements - Related Parties***

On October 21, 2009, Flux Power entered into an agreement with Epic Boats where Epic Boats assigned and transferred to Flux Power the entire right, title, and interest into products, technology, intellectual property, inventions and all improvements thereof, as defined in the table below.

| <b>Product</b>                | <b>Description</b>   |
|-------------------------------|--|
| Battery Box Design            | All hardware, tooling and design reduced to practice otherwise of the battery housings which include the integration of a battery management system. |
| CAN Communication Protocol    | Top communication protocol that communicates through the CAN bus   |
| CAN based Throttle Controller | All hardware, software and tooling reduced to practice or otherwise of the throttle controller   |
| BMS Head End Interfaces       | Interfaces to the motor and generator controller to the diagnostic software  |

As of this date, Flux Power began selling products to Epic Boats under Flux Power's standard terms and conditions and has continued to sell products to Epic Boats as a customer. We have not sold any products to Epic Boats during the fiscal years ended June 30, 2016 and 2015. The customer deposits balance received from Epic Boats at June 30, 2016 and 2015 is approximately \$136,000. There were no receivables outstanding from Epic Boats as of June 30, 2016 and 2015.

**ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**Independent Auditor**

For the fiscal years ended June 30, 2016 and 2015, the Company's independent public accounting firm was Squar Milner LLP.

**Fees Paid to Principal Independent Registered Public Accounting Firm**

The aggregate fees billed by our Independent Registered Public Accounting Firm, for fiscal years ended June 30, are as follows:

|                                   | 2016      | 2015     |
|-----------------------------------|-----------|----------|
| Audit fees <sup>(1)</sup>         | \$106,000 | \$91,000 |
| Audit related fees <sup>(2)</sup> | -         | -        |
| Tax fees <sup>(3)</sup>           | -         | -        |
| All other fees <sup>(4)</sup>     | -         | -        |
| Total                             | \$106,000 | \$91,000 |

Audit fees represent fees for professional services provided in connection with the audit of our annual financial statements and the review of our quarterly financial statements and those services normally provided in (1) connection with statutory or regulatory filings or engagements including comfort letters, consents and other services related to SEC matters. This information is presented as of the latest practicable date for this annual report.

Audit-related fees represent fees for assurance and related services that are reasonably related to the performance (2) of the audit or review of our financial statements and not reported above under "Audit Fees." No such fees were incurred during the fiscal years ended June 30, 2016 or 2015.

(3) Squar Milner LLP does not provide us with tax compliance, tax advice or tax planning services.

All other fees include fees billed by our independent auditors for products or services other than as described in (4) the immediately preceding three categories. No such fees were incurred during the fiscal years ended June 30, 2016 or 2015.

The Company's Board of Directors serves as the Audit Committee and has unanimously approved all audit and non-audit services provided by the independent auditors. The independent accountants and management are required to periodically report to the Board of Directors regarding the extent of services provided by the independent accountants, and the fees for the services performed to date. The Company has not adopted a Charter for the Audit Committee as of June 30, 2016.



**PART IV**

**ITEM 15 - EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**(a) Financial Statements and Financial Statement Schedules.**

The following financial statements of Flux Power Holdings, Inc., and Report of Squar Milner LLP, independent registered public accounting firm, are included in this report:

|  | Page |
|--|------|
| <u>Report of Independent Registered Public Accounting Firm - Squar Milner LLP</u>                  | F-1  |
| <u>Consolidated Balance Sheets as of June 30, 2016 and 2015</u>                                    | F-2  |
| <u>Consolidated Statements of Operations for the Years Ended June 30, 2016 and 2015</u>            | F-3  |
| <u>Consolidated Statements of Stockholders' Deficit for the Years Ended June 30, 2016 and 2015</u> | F-4  |
| <u>Consolidated Statements of Cash Flows for the Years Ended June 30, 2016 and 2015</u>            | F-5  |
| <u>Notes to the Consolidated Financial Statements</u>  | F-6  |

Financial Statement Schedules: All schedules have been omitted because the required information is included in the financial statements or notes thereto or because they are not required.

See Subsection (b) below:

**(b) Exhibits:**

The following exhibits are filed as part of this Report

| Exhibit | Description   |
|---------|---|
| No.     |   |
| 2.1     | Securities Exchange Agreement dated May 18, 2012. Incorporated by reference to Exhibit 2.1 on Form 8-K filed with the SEC on May 24, 2012.                          |
| 2.2     | Amendment No. 1 to the Securities Exchange Agreement dated June 13, 2012. Incorporated by reference to Exhibit 2.2 on Form 8-K filed with the SEC on June 18, 2012. |
| 3.1     |   |

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- Restated Articles of Incorporation. Incorporated by reference to Exhibit 3.1 on Form 8-K filed with the SEC on February 19, 2015.
- 3.2 Amended and Restated Bylaws of Flux Power Holdings, Inc. Incorporated by reference to Exhibit 3.1 on Form 8-K filed with the SEC on May 31, 2012.
- 10.1 Esenjay Secondary Revolving Promissory Note for Operating Capital dated October 1, 2011. Incorporated by reference to Exhibit 10.1 on Form 8-K filed with the SEC on June 18, 2012.
- 10.2 Esenjay Bridge Loan Promissory Note dated March 7, 2012. Incorporated by reference to Exhibit 10.2 on Form 8-K filed with the SEC on June 18, 2012.
- 10.3 Flux Power Holdings, Inc. 2010 Stock Plan. Incorporated by reference to Exhibit 10.5 on Form 8-K filed with the SEC on June 18, 2012.
- 10.4 Flux Power Holdings, Inc. 2010 Stock Plan: Form of Stock Option Agreement. Incorporated by reference to Exhibit 10.6 on Form 8-K filed with the SEC on June 18, 2012.
- 10.5 Form of Warrant. Incorporated by reference to Exhibit 4.1 on Form 8-K filed with the SEC on June 26, 2012.
- 10.6 Form of Securities Purchase Agreement. Incorporated by reference to Exhibit 10.1 on Form 8-K filed with the SEC on June 26, 2012.
- 10.7 Form of Indemnification Agreement. Incorporated by reference to Exhibit 10.12 on Form 8-K filed with the SEC on June 18, 2012.
- 10.8 Unrestricted and Open Line of Credit dated September 24, 2012. Incorporated by reference to Exhibit 10.1 on Form 8-K filed with the SEC on September 27, 2012.
- 10.9 Terms of Employment with Ronald F. Dutt. Incorporated by reference to Exhibit 10.16 on Form 8-K filed with the SEC on December 13, 2012.
- 10.10 Agreement to Amend Unrestricted and Open Line of Credit. Incorporated by reference to Exhibit 10.1 on Form 10-Q/A filed with the SEC on May 13, 2013.
- 10.11 Second Amendment to the Secondary Revolving Promissory Note. Incorporated by reference to Exhibit 10.1 on Form 8-K filed with the SEC on October 22, 2013.
- 10.12 First Amendment to the Bridge Loan Promissory Note. Incorporated by reference to Exhibit 10.2 on Form 8-K filed with the SEC on October 22, 2013.
- 10.13 First Amendment to the Unrestricted and Open Line of Credit. Incorporated by reference to Exhibit 10.3 on Form 8-K filed with the SEC on October 22, 2013.
- 10.14 Subscription Agreement Dated January 13, 2014. Incorporated by reference to Exhibit 10.1 on Form 8-K filed with the SEC on January 15, 2014.
- 10.15 Warrant. Incorporated by reference to Exhibit 4.1 on Form 8-K filed with the SEC on January 15, 2014.
- 10.16 Form of Unit Subscription. Incorporated by reference to Exhibit 10.18 on Form 10-Q filed with the SEC on February 14, 2014.
- 10.17 Loan Conversion Agreement. Incorporated by reference to Exhibit 10.1 on Form 8-K filed with the SEC on June 11, 2014.
- 10.18 Form of Unit Subscription. Incorporated by reference to Exhibit 10.22 on Form 10-K filed with the SEC on October 7, 2014.
- 10.19 2014 Equity Incentive Plan. Incorporated by reference to Exhibit 10.23 on Form 10-Q filed with the SEC on May 15, 2015.
- 10.20 Credit Facility Agreement. Incorporated by reference to Exhibit 10.01 on Form 8-K filed with the SEC on October 8, 2014
- 10.21 Loan Conversion Agreement. Incorporated by reference to Exhibit 10.1 on Form 8-K filed with the SEC on September 9, 2015.
- 10.22 Amendment to Loan Conversion Agreement by reference to Exhibit 10.2 on Form 8-K/A filed with the SEC on October 7, 2015
- 10.23 Amendment No. 2 to the Loan Conversion Agreement by reference to Exhibit 10.1 on Form 8-K filed with the SEC on November 16, 2015
- 10.24 Second Amendment to the Unrestricted and Open Line of Credit by reference to Exhibit 10.1 on Form 8-K filed with the SEC on January 5, 2016
- 10.25

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Third Amendment to the Unrestricted and Open Line of Credit by reference to Exhibit 10.1 on Form 8-K filed with the SEC on March 31, 2016

10.26 Subscription Agreement by reference to Exhibit 10.1 on Form 8-K filed with the SEC on May 9, 2016

10.27 Fourth Amendment to the Unrestricted and Open Line of Credit by reference to Exhibit 10.1 on Form 8-K filed with the SEC on August 2, 2016

10.28 Subscription Agreement by reference to Exhibit 10.1 on Form 8-K filed with the SEC on August 19, 2016

21.1 Subsidiaries. Incorporated by reference to Exhibit 21.1 on Form 8-K filed with the SEC on June 18, 2012.

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| <b>Signature</b>                                      | <b>Title</b>  | <b>Date</b>        |
|---|---|--------------------|
| <i>/s/ Christopher Anthony</i><br>Christopher Anthony | Chairman of the Board   | September 26, 2016 |
| <i>/s/ Ronald F. Dutt</i><br><br>Ronald F. Dutt       | Director, Chief Executive Officer<br>Interim Chief Financial Officer<br><br><i>(Principal Executive Officer and<br/>Principal Financial and<br/>Principal Accounting Officer)</i> | September 26, 2016 |
| <i>/s/ Michael Johnson</i><br>Michael Johnson         | Director  | September 26, 2016 |
| <i>/s/ James Gevarges</i><br>James Gevarges           | Director  | September 26, 2016 |

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have audited the accompanying consolidated balance sheets of Flux Power Holdings, Inc. and its subsidiary (the “Company”) as of June 30, 2016 and 2015, and the related consolidated statements of operations, stockholders’ deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Flux Power Holdings, Inc. and its subsidiary, as of June 30, 2016 and 2015, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2, the Company has incurred a significant accumulated deficit through June 30, 2016 and requires immediate additional financing to sustain its operations. These factors, among others, raise substantial doubt about the Company’s ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 2 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ SQUAR MILNER LLP

San Diego, California

September 26, 2016



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

|  | June 30,<br>2016 | June 30,<br>2015 |
|--|------------------|------------------|
| <b>ASSETS</b>  |                  |                  |
| Current assets:  |                  |                  |
| Cash   | \$ 127,000       | \$ 53,000        |
| Accounts receivable  | 82,000           | 69,000           |
| Inventories  | 202,000          | 181,000          |
| Deferred financing costs   | 44,000           | -                |
| Other current assets   | 42,000           | 56,000           |
| Total current assets   | 497,000          | 359,000          |
| Other assets   | 16,000           | 25,000           |
| Property, plant and equipment, net   | 46,000           | 66,000           |
| Total assets   | \$ 559,000       | \$ 450,000       |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   |                  |                  |
| Current liabilities:   |                  |                  |
| Accounts payable   | \$ 526,000       | \$ 593,000       |
| Accrued expenses   | 335,000          | 182,000          |
| Customer deposits from related party   | 136,000          | 136,000          |
| Warrant derivative liability   | 24,000           | 23,000           |
| Line of credit - related party   | -                | 1,600,000        |
| Line of credit, net of discount  | 196,000          | 110,000          |
| Total current liabilities  | 1,217,000        | 2,644,000        |
| Long term liabilities:   |                  |                  |
| Line of credit - related party   | 1,200,000        | -                |
| Total liabilities  | 2,417,000        | 2,644,000        |
| Commitments and contingencies (Note 13)  |                  |                  |
| Stockholders' deficit:   |                  |                  |
| Preferred stock, \$0.001 par value; 5,000,000 shares authorized; none issued and outstanding | -                | -                |



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|  |              |              |
|--|--------------|--------------|
| Common stock, \$0.001 par value; 300,000,000 shares authorized; 209,375,137 and 99,464,000 shares issued and outstanding at June 30, 2016 and 2015, respectively | 209,000      | 99,000       |
| Additional paid-in capital   | 13,195,000   | 8,398,000    |
| Accumulated deficit  | (15,262,000) | (10,691,000) |
| Total stockholders' deficit  | (1,858,000 ) | (2,194,000 ) |
| Total liabilities and stockholders' deficit  | \$559,000    | \$450,000    |

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

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**FLUX POWER  
HOLDINGS, INC.  
CONSOLIDATED  
STATEMENTS  
OF  
OPERATIONS**

|  | <b>Years ended June 30,<br/>2016</b> |   | <b>2015</b>   |   |
|--|--------------------------------------|---|---------------|---|
| Net revenue  | \$ 558,000                           |   | \$ 715,000    |   |
| Cost of sales  | 1,098,000                            |   | 774,000       |   |
| Gross loss   | (540,000                             | ) | (59,000       | ) |
| Operating expenses:  |                                      |   |               |   |
| Selling and administrative expenses                                      | 2,240,000                            |   | 2,108,000     |   |
| Amortization of prepaid advisory fees                                    | 34,000                               |   | 17,000        |   |
| Research and development   | 1,296,000                            |   | 655,000       |   |
| Total operating expenses   | 3,570,000                            |   | 2,780,000     |   |
| Operating loss   | (4,110,000                           | ) | (2,839,000    | ) |
| Other income (expense):  |                                      |   |               |   |
| Change in fair value of derivative liabilities                           | 11,000                               |   | 548,000       |   |
| Interest expense   | (472,000                             | ) | (114,000      | ) |
| Other expense  | -                                    |   | (10,000       | ) |
| Net loss   | \$ (4,571,000                        | ) | \$ (2,415,000 | ) |
| Net loss per share - basic and diluted                                   | \$ (0.03                             | ) | \$ (0.02      | ) |
| Weighted average number of common shares outstanding - basic and diluted | 149,273,899                          |   | 97,527,682    |   |

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

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**FLUX POWER  
HOLDINGS, INC.  
CONSOLIDATED  
STATEMENTS  
OF  
STOCKHOLDERS'  
DEFICIT  
For the Years  
Ended June 30,  
2016 and 2015**

|   | Common Stock |           | Additional<br>Paid-in | Accumulated     | Total         |
|---|--------------|-----------|-----------------------|-----------------|---------------|
|   | Shares       | Amount    | Capital               | Deficit         |               |
| <b>Balance at June 30, 2014</b>                                       | 93,274,000   | \$93,000  | \$7,399,000           | \$(8,276,000 )  | \$(784,000 )  |
| Issuance of common stock - services                                   | 240,000      | -         | 21,000                | -               | 21,000        |
| Issuance of common stock - private placement                          | 5,950,000    | 6,000     | 495,000               | -               | 501,000       |
| Warrants issued related to debt financing                             | -            | -         | 170,000               | -               | 170,000       |
| Stock-based compensation  | -            | -         | 313,000               | -               | 313,000       |
| Net loss  | -            | -         | -                     | (2,415,000 )    | (2,415,000)   |
| <b>Balance at June 30, 2015</b>                                       | 99,464,000   | \$99,000  | \$8,398,000           | \$(10,691,000 ) | \$(2,194,000) |
| Issuance of common stock – conversion of related party debt to equity | 84,921,000   | 85,000    | 3,312,000             | -               | 3,397,000     |
| Issuance of common stock - services                                   | 615,000      | 1,000     | 28,000                | -               | 29,000        |
| Issuance of common stock - private placement transactions, net        | 24,375,000   | 24,000    | 938,000               | -               | 962,000       |
| Private placement subscription  | -            | -         | 100,000               | -               | 100,000       |
| Deferred financing costs related to debt modification                 | -            | -         | 310,000               | -               | 310,000       |
| Stock based compensation  | -            | -         | 109,000               | -               | 109,000       |
| Net loss  | -            | -         | -                     | (4,571,000 )    | (4,571,000)   |
| <b>Balance at June 30, 2016</b>                                       | 209,375,000  | \$209,000 | \$13,195,000          | \$(15,262,000 ) | \$(1,858,000) |

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



**FLUX POWER  
HOLDINGS, INC.  
CONSOLIDATED  
STATEMENTS  
OF CASH  
FLOWS**

|   | <b>Years ended June 30,</b> |               |
|---|-----------------------------|---------------|
|   | <b>2016</b>                 | <b>2015</b>   |
| Cash flows from operating activities:   |                             |               |
| Net loss  | \$(4,571,000)               | \$(2,415,000) |
| Adjustments to reconcile net loss to net cash used in operating activities      |                             |               |
| Depreciation  | 25,000                      | 32,000        |
| Amortization of prepaid advisory fees   | 34,000                      | 17,000        |
| Change in fair value of warrant liability                                       | (11,000 )                   | (548,000 )    |
| Stock-based compensation  | 109,000                     | 237,000       |
| Stock issuance for services   | 29,000                      | 21,000        |
| Gain on sale of property and equipment  | -                           | (4,000 )      |
| Amortization of deferred financing costs  | 266,000                     | -             |
| Amortization of debt discount   | 86,000                      | 60,000        |
| Changes in operating assets and liabilities:                                    |                             |               |
| Accounts receivable   | (13,000 )                   | 71,000        |
| Inventories   | (21,000 )                   | (96,000 )     |
| Other current assets  | (11,000 )                   | (50,000 )     |
| Accounts payable  | (42,000 )                   | 133,000       |
| Accrued expenses  | 200,000                     | 179,000       |
| Net cash used in operating activities   | (3,920,000)                 | (2,363,000)   |
| Cash flows from investing activities:   |                             |               |
| Purchases of equipment  | (5,000 )                    | (25,000 )     |
| Proceeds from the sale of equipment   | -                           | 9,000         |
| Net cash used in investing activities   | (5,000 )                    | (16,000 )     |
| Cash flows from financing activities:   |                             |               |
| Proceeds from the sale of common stock and warrants                             | 949,000                     | 501,000       |
| Private placement subscription  | 100,000                     | -             |
| Borrowings from line of credit - related party and line of credit               | 2,950,000                   | 1,815,000     |
| Net cash provided by financing activities                                       | 3,999,000                   | 2,316,000     |
| Net change in cash  | 74,000                      | (63,000 )     |
| Cash, beginning of period   | 53,000                      | 116,000       |
| Cash, end of period   | \$127,000                   | \$53,000      |
| <b>Supplemental Disclosures of Non-Cash Investing and Financing Activities:</b> |                             |               |
| Conversion of debt to equity  | \$3,397,000                 | \$-           |
| Issuance of common stock in private placement for reduction of accounts payable | \$25,000                    | \$-           |

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|   |            |           |
|---|------------|-----------|
| Warrant re-pricing modification                                       | \$(12,000  | ) \$-     |
| Deferred financing cost related to the line of credit – related party | \$(310,000 | ) \$-     |
| Issuance of warrants recorded as deferred financing costs             | \$-        | \$5,000   |
| Debt discount related to warrants and beneficial conversion feature   | \$-        | \$165,000 |

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

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**FLUX POWER HOLDINGS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2016 and 2015**

**NOTE 1 - NATURE OF BUSINESS AND REVERSE ACQUISITION**

**Nature of Business**

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

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

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

**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 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 of



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 was accounted for as a recapitalization affected by a share exchange, wherein Flux Power is considered the acquirer for accounting and financial reporting purposes and has been reflected in the accompanying consolidated financial statements as of the earliest period presented. The assets and liabilities of the acquired entity have been brought forward at their book value and no goodwill has been recognized.

## **NOTE 2 - GOING CONCERN**

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred an accumulated deficit of \$15,262,000 through June 30, 2016, and as of June 30, 2016 had a substantial working capital deficit. To date, our revenues and operating cash flows have not been sufficient to sustain our operations and we have relied on debt and equity financing to fund our operations. These factors raise substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to raise additional capital on a timely basis until such time as revenues and related cash flows are sufficient to fund our operations.

Management plans to raise additional required capital through private placements of equity securities and through draws on our existing related-party credit facility. We initiated a private placement of equity securities in April 2016 under which we are authorized by the Board of Directors to raise up to \$4,000,000 (See Note 7). Through June 30, 2016, a total of \$2,425,000 was raised pursuant to this private placement. Of this total, \$1,050,000 was received in cash and \$1,375,000 represented the settlement of outstanding liabilities. Between July 1, 2016 and August 31, 2016 a total of \$1,475,000 was raised, of which \$1,075,000 was received in cash and \$400,000 represented the settlement of outstanding liabilities.

As of June 30, 2016, there was an aggregate of \$2,300,000 available under our existing related-party credit facility. Future borrowing under this agreement are subject to approval by the lender. Between July 1, 2016 and August 31, 2016, we borrowed an aggregate of \$120,000 under this agreement (See Notes 5 and 14). In addition, we are pursuing other investment structures that management believes may generate the necessary funding for the Company.

Although management believes that the additional required funding will be obtained, there is no guarantee we will be able to obtain the additional required funds on a timely basis or that funds will be available on terms acceptable to us. If such funds are not available when required, management will be required to curtail its investments in additional sales and marketing and product development resources, and capital expenditures, which may have a material adverse effect on our future cash flows and results of operations, and our ability to continue operating as a going concern. The accompanying financial statements do not include any adjustments that would be necessary should we be unable to continue as a going concern and, therefore, be required to liquidate its assets and discharge its liabilities in other than the normal course of business and at amounts that may differ from those reflected in the accompanying consolidated financial statements.

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

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

#### ***Principles of Consolidation***

The consolidated financial statements include 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 June 30, 2016, through the date of this filing 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***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as certain financial statement disclosures. Significant estimates include valuation allowances relating to accounts receivable, inventory, and deferred tax assets, and valuation of derivative liabilities and equity instruments. While management believes that the estimates and assumptions used in the preparation of the financial statements are appropriate, actual results could differ from these estimates.

### ***Cash and Cash Equivalents***

As of June 30, 2016, cash totaled approximately \$127,000 and consists of funds held in a non-interest bearing bank deposit account. The Company considers all liquid short-term investments with maturities of less than three months when acquired to be cash equivalents. The Company had no cash equivalents at June 30, 2016 and 2015.

### ***Fair Values of Financial Instruments***

The carrying amount of our cash, accounts payable, accounts receivable, and accrued liabilities approximates their estimated fair values due to the short-term maturities of those financial instruments. The carrying amount of the line of credit agreement approximates its fair values as interest approximates current market interest rates for similar instruments. Management has concluded that it is not practical to determine the estimated fair value of amounts due to related parties because the transactions cannot be assumed to have been consummated at arm's length, the terms are not deemed to be market terms, there are no quoted values available for these instruments, and an independent valuation would not be practical due to the lack of data regarding similar instruments, if any, and the associated

potential costs. Derivative liabilities recorded in connection with warrants are reported at their estimated fair value, with changes in fair value reported in results of operations (see Note 10).

Except for derivative liabilities referenced above, the Company does not have any other assets or liabilities that are measured at fair value on a recurring or non-recurring basis.

***Accounts Receivable and Customer Deposits***

Accounts receivable are carried at their estimated collectible amounts. The Company may require advance deposits from its customers prior to shipment of the ordered products. The Company has not experienced collection issues related to its accounts receivable, and has not recorded an allowance for doubtful accounts during the fiscal year ended June 30, 2016 and 2015.

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### ***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 recorded an adjustment related to obsolete inventory in the amount of approximately \$30,000 during the fiscal year ended June 30, 2016.

### ***Property, Plant and Equipment***

Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation and amortization are provided using the straight-line method over the estimated useful lives, of the related assets ranging from three to ten years, or, in the case of leasehold improvements, over the lesser of the useful life of the related asset or the lease term.

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

Pursuant to the provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic No. 718-10, *Compensation-Stock Compensation*, which establishes accounting for equity instruments exchanged for employee service, we utilize the Black-Scholes option pricing model to estimate the fair value of employee stock option awards at the date of grant, which requires the input of highly subjective assumptions, including expected volatility and expected life. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our share-based compensation. These assumptions are subjective and generally require significant analysis and judgment to develop. When estimating fair value, some of the assumptions will be based on, or determined from, external data and other assumptions may be derived from our historical experience with stock-based payment arrangements. The appropriate weight to place on historical experience is a matter of judgment, based on relevant facts and circumstances.

Common stock or equity instruments such as warrants issued for services to non-employees are valued at their estimated fair value at the measurement date (the date when a firm commitment for performance of the services is reached, typically the date of issuance, or when performance is complete). If the total value exceeds the par value of the stock issued, the value in excess of the par value is added to the additional paid-in-capital.

### ***Revenue Recognition***

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, price is fixed or determinable, and collectability of the selling price is reasonably assured. Delivery occurs when risk of loss is passed to the customer, as specified by the terms of the applicable customer agreements. When a product is sold on consignment, the item remains in our inventory and revenue is not recognized until the product is ultimately sold to the end user. When a right of return exists, contractually or implied, the Company recognizes revenue on the sell-through method. Under this method, revenue is not recognized upon delivery of the products. Instead, the Company records deferred revenue upon delivery and recognize revenue when the product are sold through to the end user. As of June 30, 2016 and 2015, the Company did not have any deferred revenue.

### ***Product Warranties***

The Company evaluates its exposure to product warranty obligations based on historical experience. Our products, primarily lift equipment packs, are warrantied for five years unless modified by a separate agreement. As of June 30, 2016 and 2015, the Company carried warranty liability of approximately \$120,000 and \$45,000, respectively, which is included in accrued expenses on the Company's consolidated balance sheets.

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

Shipping costs for finished products delivered to customers totaled approximately \$107,000 and \$100,000 for the years ended June 30, 2016 and 2015, respectively. We classify the cost to deliver sold product to customers, paid by the Company 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 sales. For the years ended June 30, 2016 and 2015, costs for inbound inventory were approximately \$31,000 and \$19,000, respectively.

### ***Impairment of Long-lived Assets***

In accordance with authoritative guidance for the impairment or disposal of long-lived assets, if indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through the undiscounted future operating cash flows.

If impairment is indicated, the Company measures the amount of such impairment by comparing the carrying value of the asset to the present value of the expected future cash flows associated with the use of the asset. The Company believes that no impairment indicators were present, and accordingly no impairment losses were recognized during the fiscal years ended June 30, 2016 and 2015.

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### ***Research and Development***

The Company is actively engaged in new product development efforts. Research and development cost relating to possible future products are expensed as incurred.

### ***Income Taxes***

The Company follows FASB ASC Topic No. 740, *Income Taxes*. Deferred tax assets or liabilities are recorded to reflect the future tax consequences of temporary differences between the financial reporting basis of assets and liabilities and their tax basis at each year-end. These amounts are adjusted, as appropriate, to reflect enacted changes in tax rates expected to be in effect when the temporary differences reverse.

The Company records deferred tax assets and liabilities based on the differences between the financial statement and tax bases of assets and liabilities and on operating loss carry forwards using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company also follows the provisions of FASB ASC Topic No.740 relating to uncertain tax provisions and has analyzed filing positions in all of the federal and state jurisdictions where the Company is required to file income tax returns, as well as all open tax years in these jurisdictions. As a result, no unrecognized tax benefits have been identified as of June 30, 2016 or June 30, 2015, and accordingly, no additional tax liabilities have been recorded.

### ***Net Loss Per Common Share***

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

For the year ended June 30, 2016, basic and diluted weighted-average common shares outstanding were 149,273,899. The Company incurred a net loss for the years ended June 30, 2016 and 2015, and therefore, basic and diluted loss per share for the fiscal year are the same because the inclusion of potential common equivalent shares were excluded from diluted weighted-average common shares outstanding during the period, as the inclusion of such shares would be



anti-dilutive. The total potentially dilutive common shares outstanding at June 30, 2015, excluded from diluted weighted-average common shares outstanding, which include common shares underlying outstanding convertible debt, stock options and warrants, were 57,952,924. For the year ended June 30, 2015, basic and diluted weighted-average common shares outstanding were 97,527,682. The total potentially dilutive common shares outstanding at June 30, 2015, excluded from diluted weighted-average common shares outstanding, which include common shares underlying outstanding convertible debt, stock options and warrants, were 1,514,868.

### ***Derivative Financial Instruments***

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risk.

The Company evaluates free-standing derivative instruments (or embedded derivatives) to properly classify such instruments within equity or as liabilities in our financial statements. The classification of a derivative instrument is reassessed at each reporting date. If the classification changes because of events during a reporting period, the instrument is reclassified as of the date of the event that caused the reclassification. There is no limit on the number of times a contract may be reclassified.

Instruments classified as derivative liabilities are recorded initially at their estimated fair value and are re-measured each reporting period (or upon reclassification). The change in fair value is recorded on our consolidated statements of operations in other (income) expense.

The Company follows FASB ASC Topic No. 815, *Derivatives and Hedging* ("ASC No. 815") 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, multiple random price paths for the stock price are generated to simulate many possible future outcomes, which are then discounted at the risk-free rate. These simulated paths are then averaged to determine the fair value of the warrants (see Note 8).

### ***Beneficial Conversion Feature of Notes Payable***

The convertible feature of certain notes payable provides for a rate of conversion that is below market value. Such feature is normally characterized as a "beneficial conversion feature" of which we measure the estimated fair value in circumstances in which the conversion feature is not required to be separated from the host instrument and accounted for separately, and record that value in the consolidated financial statements as a discount from the face amount of the notes. Such discounts are amortized to interest expense over the term of the notes.

### ***New Accounting Standards***

#### **Recently Adopted Accounting Pronouncements**

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

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

#### **Recently Issued Accounting Pronouncements Not Yet Adopted**

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments*, which provides guidance on reducing the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. In addition to other specific cash flow

issues, ASU 2016-15 provides clarification on when an entity should separate cash receipts and cash payments into more than one class of cash flows and when an entity should classify those cash receipts and payments into one class of cash flows on the basis of predominance. The new guidance is effective for the fiscal years beginning after December 31, 2017, and interim periods within those fiscal years. Early adoption is permitted including an adoption in an interim period. The adoption of this ASU is not expected to have a material impact on our consolidated financial statements.

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

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

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

In August 2014, the FASB issued ASU No. 2014-15 regarding ASC topic No. 205, *Presentation of Financial Statements - Going Concern*. The standard requires all companies to evaluate if conditions or events raise substantial doubt about an entity's ability to continue as a going concern and requires different disclosure of items that raise substantial doubt that are, or are not, alleviated as a result of consideration of management's plans. The new guidance is effective for the Company's fiscal year beginning July 1, 2017. Early adoption is permitted. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This update outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. In May 2015, the FASB issued ASU No. 2015-14 deferring the effective date to annual reporting periods beginning after December 15, 2017, which is effective for the Company's fiscal year beginning July 1, 2018. Early adoption is permitted only as of an annual reporting period beginning after December 15, 2016. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

#### **NOTE 4 - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment, net consist of the following at June 30, 2016 and 2015:

|                                    | <b>2016</b> | <b>2015</b> |
|------------------------------------|-------------|-------------|
| Vehicles                           | \$ 1,000    | \$ 1,000    |
| Machinery and equipment            | 71,000      | 66,000      |
| Office equipment                   | 105,000     | 105,000     |
| Furniture and Equipment            | 34,000      | 34,000      |
|                                    | 211,000     | 206,000     |
| Less: Accumulated depreciation     | (165,000)   | (140,000)   |
| Property, plant and equipment, net | \$46,000    | \$66,000    |

Depreciation expense was approximately \$25,000 and \$32,000, for fiscal years 2016 and 2015, respectively, and is included in selling and administrative expenses in the accompanying consolidated statements of operations.

#### **NOTE 5 - RELATED PARTY DEBT AGREEMENTS**

Between October 2011 and September 2012, the Company entered into three debt agreements with Esenjay Investments, LLC (“Esenjay”). Esenjay is deemed to be a related party as Mr. Michael Johnson, the beneficial owner and director of Esenjay is a current member of our board of directors and a major shareholder of the Company (owning approximately 66% of our outstanding common shares as of June 30, 2016). The three debt agreements consisted of a Bridge Loan Promissory Note, a Secondary Revolving Promissory Note and an Unrestricted Line of Credit (collectively, the “Loan Agreements”). On December 31, 2015, the Bridge Loan Promissory Note and the Secondary Revolving Promissory Note expired leaving the Unrestricted Line of Credit, with a maximum borrowing amount of \$2,500,000, available for future draws. As discussed below, the Unrestricted Line of Credit has been amended resulting in an increase in the maximum borrowing amount to \$3,500,000. Additional borrowings under the Unrestricted Line of Credit are subject to pre-approval by Esenjay which has no obligation to loan additional funds under the agreement. The borrowings bear an interest rate at 6% per annum and, as amended on July 28, 2016, mature on January 31, 2018.

Between July 1, 2014 and June 30, 2016, we borrowed an aggregate of \$4,550,000 pursuant to these various debt agreements with Esenjay. On September 3, 2015, we entered into a Loan Conversion Agreement with Esenjay (“Conversion Agreement”), as amended on October 6, 2015 and November 13, 2015, pursuant to which we agreed to issue 51,171,025 shares of our common stock (based on \$0.04 per share) in exchange for the cancellation of \$2,000,000 (“Principal Amount”) of the total \$2,200,000 outstanding under the Loan Agreements, plus \$46,841 in accrued interest on such Principal Amount as of September 3, 2015 (the accrued interest together with the Principal Amount referred to as the “Debt”). In connection with the Conversion Agreement, as amended, on September 9, 2015, we issued 51,171,025 shares to Esenjay in exchange for settlement of the Debt.

On December 29, 2015, we entered into a Second Amendment to the Unrestricted Line of Credit (“Second Amendment”), with Esenjay which modified the following terms: (i) extended the maturity date to July 30, 2016; (ii) increased the maximum principal amount available from \$2,000,000 to \$2,500,000; and (iii) reduced the conversion price from \$0.30 to \$0.06. The estimated change in fair value of the conversion price of approximately \$310,000 was determined to be a debt issuance cost, and accordingly, was recorded as a deferred financing cost at the date of the Second Amendment to be amortized over the remaining seven-month term through July 30, 2016. During the year ended June 30, 2016, we recorded approximately \$266,000 of deferred financing amortization costs, which are included in interest expense in the accompanying consolidated statements of operations.

On March 29, 2016, we entered into a Third Amendment to the Unrestricted Line of Credit with Esenjay, pursuant to which the maximum principal amount available was increased to \$3,500,000.

In April 2016, \$1,350,000 of the outstanding debt under the Unrestricted Line of Credit was settled, in conjunction with our then outstanding private placement discussed further in Note 7, via the issuance of 33,750,000 shares of our common stock.

The common stock shares issued during fiscal 2016 as settlement of the Debt and/or Unrestricted Line of Credit have not been registered under the Securities Act. The shares were offered and sold in reliance upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act. The transactions have been accounted for as a capital transaction in accordance with FASB ASC Topic No. 470-50, “*Debt, Modifications and Extinguishments*”. Accordingly, no gain or loss has been recognized.

The outstanding principal balance of the Unrestricted Line of Credit as of June 30, 2016 was \$1,200,000 resulting in a remaining \$2,300,000 available for future draws under this agreement, subject to lender’s approval. During fiscal 2016 and 2015, the Company recorded approximately \$92,000 and \$29,000, respectively of interest expense in the accompanying consolidated statements of operations related to the Unrestricted Line of Credit. Subsequent to June 30, 2016, we have borrowed \$120,000 under the credit facility and entered into a Fourth Amendment to the Unrestricted Line of Credit extending the maturity date to January 31, 2018 (see Note 14).

#### **NOTE 6 - LINE OF CREDIT AND SHORT TERM LOAN**

##### *Line of Credit*

On October 2, 2014, the Company entered into a line of credit (“Line of Credit”) agreement in the maximum amount of \$500,000 with a non-related lender (“Lender”). Borrowings under the Line of Credit bear interest at 8% per annum, with all unpaid principal and accrued interest due and payable on September 19, 2016 pursuant to the terms of the Secured Convertible Promissory Note (the “Note”). In addition, at the election of Lender, all or any portion of the outstanding principal, accrued but unpaid interest and/or late charges under the Second Line of Credit may be converted into shares of the Company’s common stock at any time at a conversion price of \$0.12 per share. Borrowings under the Line of Credit are guaranteed by the Company, and are secured by all of the assets of the Company pursuant to the terms of a certain Security Agreement and Guaranty Agreement dated as of October 2, 2014. Proceeds from the Line of Credit can be solely used for working capital purposes. As of June 30, 2016 and 2015, the Company had borrowed a total of \$215,000 under the Line of Credit. We are currently in the process of renegotiating the maturity date of the Line of Credit with the Lender.

In connection with the Line of Credit, the Company granted a warrant to the Lender to purchase a certain number of shares of common stock of the Company equal to the outstanding advances under the Line of Credit divided by the conversion price of \$0.12, for a term of five years, at an exercise price per share equal to \$0.20. Accordingly, in connection with the advance of \$215,000, Lender is entitled to purchase up to 1,791,667 shares of common stock upon exercise of the warrant at \$0.20 per share. The Lender has no other material relationship with the Company or its affiliates. The estimated relative fair value of warrants issued in connection with advances under the Line of Credit is recorded as a debt discount and is amortized as additional interest expense over the term of the underlying debt. The Company recorded debt discount of approximately \$85,000 based on the relative fair value of these warrants. In addition, as the effective conversion price of the debt was less than the market price of the underlying common stock

on the date of issuance, the Company recorded additional debt discount of approximately \$80,000 related to the beneficial conversion feature. As of June 30, 2016 and 2015, the \$215,000 principal amount outstanding under this agreement is presented net of unamortized debt discount totaling \$19,000 and \$105,000, respectively. During fiscal 2016 and 2015, the Company recorded approximately \$86,000 and \$60,000 of debt discount amortization, which is included in interest expense in the accompanying consolidated statements of operations.

The Company retained Security Research Associates Inc. (“SRA”), on a best-efforts basis, as its placement agent for the placement of the Line of Credit. The Company agreed to pay SRA a cash amount equal to 5% of the gross proceeds raised and a warrant for the purchase of the common stock of the Company. The number of common stock shares subject to the warrant equals 5% of the aggregate gross proceeds from the Line of Credit received by the Company from the Lender divided by \$0.12 per share. The warrant will have a term of 3 years, an exercise price equal to \$0.12 per share and will also include cashless exercise provisions as well as representations and warranties that are customary and standard in warrants issued to placement agents or underwriters. During fiscal 2015 and in connection with the Line of Credit, SRA earned a commission of \$10,750 and warrants to purchase 89,583 shares of the Company’s common stock at \$0.12 per share. Mr. Timothy Collins, the former Executive Chairman of the Company’s board of directors is the Chief Executive Officer, President, director and shareholder of SRA. On July 31, 2015, the Agency Agreement with SRA reached its termination date, and was not renewed.

#### **NOTE 7 - STOCKHOLDERS’ DEFICIT**

At June 30, 2016 the Company had 300,000,000 shares of common stock, par value of \$0.001 authorized for issuance, of which 209,375,137 shares were issued and outstanding.

In addition, at June 30, 2016, the Company is authorized to issue up to 5,000,000 shares of preferred stock, par value of \$0.001, in one or more classes or series within a class pursuant to the Company's Amended and Restated Articles of Incorporation. As of June 30, 2016 and 2015 there were no shares of preferred stock issued and outstanding.

Holders of common stock are entitled to receive dividends, when, as, and if declared by the Board of Directors, out of any assets legally available to the Company. Dividends are declared and paid in an equal per-share amount on the outstanding shares of each series of common stock. To date the Board of Directors has neither declared nor paid common stock dividends to shareholders.

### ***Common Stock and Warrants***

#### ***Private Placement – Fiscal 2016***

In April 2016, our Board of Directors approved the private placement of up to 77,500,000 shares of our common stock to select accredited investors for a total amount of \$3,100,000, or \$0.04 per share of common stock. On July 28, 2016, our Board of Directors increased the aggregate amount offered to up to \$4,000,000 and extended the termination date to August 31, 2016 (the "Offering"). As of June 30, 2016, a total of \$2,425,000 has been raised of which \$1,050,000 was received in cash and \$1,375,000 was received via the settlement of outstanding liabilities. Esenjay, our controlling shareholder and primary credit line holder, participated in the Offering as an investor by purchasing 6,250,000 shares for cash proceeds of \$250,000 and 33,750,000 shares in exchange for the settlement of \$1,350,000 of debt owed to Esenjay by the Company. In addition, we sold 20,000,000 shares (of which 2,500,000 shares were not issued until subsequent to June 30, 2016) shares to two unrelated accredited investors for \$800,000 in cash and 625,000 shares in exchange for settlement of accounts payable to a vendor. On April 15, 2016, we entered into an agreement with Esenjay, whereby Esenjay agreed to limit its right of conversion under the Unrestricted Line of Credit to such number of shares so that upon conversion, if any, it will not cause us to exceed our authorized number of shares of common stock. The securities offered and sold in the Offering have not been registered under the Securities Act. The securities were offered and sold to accredited investors in reliance upon exemptions from registration pursuant to Rule 506 promulgated thereunder. Subsequent to June 30, 2016 we sold an additional 36,875,000 shares under the private placement (See Note 14).

The initial closing of the Offering in May 2016 at a price of \$0.04 per share triggered an anti-dilution provision for warrant holders under our 2012 Private Placement pursuant to which an aggregate of 2,907,347 shares of common stock may be purchased upon exercise. As a result, the exercise price of such warrants was reduced from \$0.27 to \$0.15 per share. The remaining terms, including expiration dates, of all effected warrants remain unchanged. The modified exercise price of the warrants to \$0.15 resulted in a repricing modification charge of \$12,000 that was recorded as a cost of capital raised in connection with the offering (See Note 8 and Note 14).



***Private Placements - 2015***

On July 31, 2014, the Board of Directors approved a private placement equity financing that was intended to raise up to a total of \$990,000. In connection with this private placement, we offered accredited investors units, consisting of 1,000,000 shares of common stock and 500,000 warrants at a purchase price of \$90,000 per unit. During fiscal 2015, we have sold 5.95 units to 14 investors for total gross proceeds of approximately \$536,000, pursuant to which we issued 5,949,999 shares of common stock and warrants to purchase up to 2,974,999 shares of common stock. The warrants are exercisable for three years and each warrant entitles the holder to purchase one share of common stock at \$0.25 per share. SRA served as our placement agent and earned a cash commission of approximately \$35,000 based on 9% of gross proceeds and earned warrants to purchase 385,500 shares of our common stock at an exercise price of \$0.09 for its services. The cash commission of approximately \$35,000 was recorded as a cost of equity financing. The securities offered and sold in this offering have not been registered under the Securities Act. The securities were offered and sold to accredited investors in reliance upon exemptions from registration pursuant to Rule 506 promulgated thereunder.

***Advisory Agreements***

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

***Catalyst Global LLC.*** On October 14, 2013, we entered into a contract with Catalyst Global LLC (“CGL”), pursuant to which CGL agreed to provide investor relations services for 12 months in exchange for monthly fees of \$2,000 per month and 450,000 shares of restricted common stock issued as follows: 180,000 shares upon signing and 90,000 shares on each of the subsequent three-, six-, and nine-month anniversaries of the contract. The fourth tranche of 90,000 shares was issued on October 15, 2014 and was valued at \$0.12 per share, or \$10,800. During the year ended June 30, 2015, we recorded expense of \$44,000, in connection with this agreement.

On February 11, 2015, we entered into a renewal contract with CGL, pursuant to which CGL agreed to provide investor relations services for 12 months in exchange for monthly fees of \$2,000 per month and 450,000 shares of restricted common stock issued as follows: 150,000 shares upon signing and the balance vesting pro rata upon each of the three-, six-, nine-, and twelve-month anniversaries of the contract. The initial tranche was valued at \$0.07 per share or \$10,500 when issued on February 17, 2015, the second tranche of 75,000 shares was issued on May 11, 2015 and was valued at \$0.06 per share, or \$4,500, the third tranche of 75,000 shares was issued on August 11, 2015 and was valued at \$0.04 per share, or \$3,000, the fourth tranche of 75,000 shares was issued on November 12, 2015 and was valued at \$0.05 per share, or \$3,750 and the fifth and final tranche of 75,000 shares was issued on February 11, 2016 and was valued at \$0.04 per share or \$3,000. During the years ended June 30, 2016, and 2015 we recorded expense of approximately \$20,000 and \$5,000, respectively. As of June 30, 2015, the total remaining balance of the prepaid investor relation services related to the 2015 contract was approximately \$10,000.

Effective April 1, 2016, we entered into a renewal contract with CGL, pursuant to which CGL agreed to provide investor relations services for 12 months in exchange for monthly fees of \$2,000 per month and 540,000 shares of restricted common stock issued as follows: 315,000 shares on June 30, 2016 for services provided during the three months ended June 30, 2016 and the balance vesting pro rata upon each of the six-, nine-, and twelve-month anniversaries of the contract. The initial tranche was valued at \$0.05 per share or approximately \$14,500 when issued on June 30, 2016. During the year ended June 30, 2016, we recorded expense of approximately \$14,500.

***Security Research Associates, Inc.*** On June 26, 2013, we entered into an agreement with SRA pursuant to which SRA agreed to provide business and advisory services. SRA served as our placement agent in connection with the Company's 2014 and 2015 private placement offerings described above. In connection with these private placements, SRA was paid aggregate cash compensation in the amount of \$142,155 and warrants to purchase a total of 2,176,500 at exercise prices ranging from \$0.06 - \$0.09 per share. Compensation under the SRA agreement is based on 9% of the gross proceeds raised and a warrant to purchase the number of shares of our common stock equal to 9% of the aggregate gross proceeds from the offerings received from all investors (excluding Esenjay) placed by SRA divided by \$0.06 per share.

We entered into a renewal agreement with SRA on March 18, 2015 pursuant to which we retained SRA through July 2015 as our exclusive placement agent on a "best-efforts" basis in connection with private placement of stock or convertible securities by the Company. No additional funding was received by the Company, and no additional fees were paid to SRA, during the renewal period. On July 31, 2015, the Agency Agreement with SRA reached its termination date, and was not renewed.

### ***Warrant Activity***

Warrant detail for the year ended June 30, 2015 is reflected below:

|   | Number     | Weighted<br>Average<br>Exercise<br>Price Per<br>Share | Remaining<br>Contract<br>Term (#<br>years) |
|---|------------|---|--|
| Shares purchaseable under outstanding warrants at June 30, 2014 | 22,798,347 | \$ 1.21   | 1.95 - 3.70                                |
| Stock purchase warrants issued                                  | 5,241,749  | \$ 0.22   | 1.53 - 2.54                                |
| Stock purchase warrants exercised                               | -          | \$ -  |  |
| Shares purchasable under outstanding warrants at June 30, 2015  | 28,040,096 | \$ 0.21   | 1.53 - 3.70                                |

No warrants have been issued or exercised during the year ended June 30, 2016. The weighted average exercise price per share and remaining contract term of the outstanding warrants at June 30, 2016 was \$0.21 and 0.95-3.75 years, respectively.

### *Stock-based Compensation*

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

During the year ended June 30, 2016, we issued 4,385,000 incentive stock options of the Company’s common stock, with an aggregated estimated grant-date fair value of \$113,000, to seventeen of our employees. During the year ended June 30, 2015, we issued 400,000 non-qualified stock options of the Company’s common stock to a consultant, pursuant to a consulting agreement entered into in December 2013. These options were valued using the Black-Scholes model on the day they were originally due to be issued per agreement, and the Company recorded an accrual in the amount of \$76,000 during the year ended June 30, 2014. Such options were issued in July 2014 when the current fair value of \$64,000 was determined using the Black-Scholes model. The change in fair value of \$12,000 was recorded as a reduction to stock based compensation expense during the year ended June 30, 2015. We have not registered the shares of common stock underlying stock options outstanding as of June 30, 2016.

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

|                              |                  | <b>Weighted</b> |                  |
|------------------------------|------------------|-----------------|------------------|
|                              | <b>Number of</b> | <b>Weighted</b> | <b>Average</b>   |
|                              | <b>Shares</b>    | <b>Average</b>  | <b>Remaining</b> |
|                              |                  | <b>Exercise</b> | <b>Contract</b>  |
|                              |                  | <b>Price</b>    | <b>Term (#</b>   |
|                              |                  |                 | <b>years)</b>    |
| Outstanding at June 30, 2015 | 6,101,357        | \$ 0.16         |                  |
| Granted                      | 4,385,000        | \$ 0.05         |                  |
| Exercised                    | -                |                 |                  |
| Forfeited and cancelled      | (1,482,337)      | \$ 0.12         |                  |
| Outstanding at June 30, 2016 | 9,004,020        | \$ 0.11         | 7.55             |
| Exercisable at June 30, 2016 | 6,525,902        | \$ 0.13         | 6.95             |

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

|                              |                  | <b>Weighted</b> |                  |
|------------------------------|------------------|-----------------|------------------|
|                              | <b>Number of</b> | <b>Weighted</b> | <b>Average</b>   |
|                              | <b>Shares</b>    | <b>Average</b>  | <b>Remaining</b> |
|                              |                  | <b>Exercise</b> | <b>Contract</b>  |
|                              |                  | <b>Price</b>    | <b>Term (#</b>   |
|                              |                  |                 | <b>years)</b>    |
| Outstanding at June 30, 2014 | 6,335,695        | \$ 0.19         | 8.04             |
| Granted                      | 400,000          |                 |                  |
| Exercised                    | -                |                 |                  |
| Forfeited and cancelled      | (634,338 )       |                 |                  |
| Outstanding at June 30, 2015 | 6,101,357        | \$ 0.16         | 7.48             |
| Exercisable at June 30, 2015 | 4,749,859        | \$ 0.16         | 7.25             |

Stock-based compensation expense recognized in our consolidated statements of operations for the year ended June 30, 2016 and 2015, includes compensation expense for stock-based options and awards granted based on the grant

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

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

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

| <b>Years ended June 30,</b>            | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|
| Research and development               | \$21,000    | \$12,000    |
| General and administrative             | 88,000      | 225,000     |
| Total stock-based compensation expense | \$109,000   | \$237,000   |

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

|                         | <b>2016</b> | <b>2015</b> |
|-------------------------|-------------|-------------|
| Expected volatility     | 100%        | 100 %       |
| Risk free interest rate | 1.31%       | 0.96 %      |
| Forfeiture rate         | 17%- 24%    | 17 %        |
| Dividend yield          | 0%          | 0 %         |
| Expected term (years)   | 3           | 3           |

The remaining amount of unrecognized stock-based compensation expense at June 30, 2016 relating to outstanding stock options, is approximately \$80,000, which is expected to be recognized over the weighted average period of 2.22 years.

#### **NOTE 8 - Warrant Derivative Liability**

In 2012, we issued warrants to certain investors and a consultant (together, the "2012 Warrant Holders") to purchase a total of 2,970,347 shares of our common stock at \$0.41 per share (the "2012 Warrants"). The 2012 Warrants include exercise price re-set provisions should future equity offerings be offered at a price lower than the warrant exercise

price. In accordance with ASC No. 815, the re-set provisions are recorded as derivative liabilities in the accompanying consolidated financial statements.

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Warrants classified as derivative liabilities are recorded at their fair values at the issuance date and are revalued at each subsequent reporting date. Using the Monte Carlo simulation model these warrants were determined to have a fair value per share and aggregate value as of June 30, 2016 and an aggregate value as of June 30, 2015 as follows:

|                             |                    | Fair<br>Value<br>Per<br>Share | Total Fair<br>Value in<br>Aggregate<br>\$ as of | Total Fair<br>Value in<br>Aggregate<br>\$ as of |
|-----------------------------|--------------------|-------------------------------|---|---|
|                             | Issued<br>Warrants | \$ as of                      | \$ as of  | \$ as of  |
|                             |                    | June<br>30,<br>2016           | June 30,<br>2016                                | June 30,<br>2015                                |
| June 2012 Warrants          | 562,551            | \$0.008                       | \$ 5,000  | \$ 4,000  |
| July 2012 Warrants          | 338,013            | \$0.009                       | \$ 3,000  | \$ 3,000  |
| August 2012 Warrants        | 120,719            | \$0.010                       | \$ 1,000  | \$ 1,000  |
| October 2012 Warrants       | 48,287             | \$0.012                       | \$ 1,000  | \$ 1,000  |
| Advisory Agreement Warrants | 1,837,777          | \$0.008                       | \$ 14,000                                       | \$ 14,000                                       |
| <b>Total</b>                | <b>2,907,347</b>   |                               | <b>\$ 24,000</b>                                | <b>\$ 23,000</b>                                |

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

|   | <b>As of<br/>June 30,<br/>2016</b> | <b>As of<br/>June 30,<br/>2015</b> |
|---|------------------------------------|------------------------------------|
| Risk-free interest rate                         | 0.44%-0.49%                        | 0.62%-0.76%                        |
| Expected life (average) (years)                 | .96-1.33                           | 1.96-2.34                          |
| Stock price (based on prices on valuation date) | \$0.05                             | \$0.05                             |
| Exercise price                                  | \$0.15                             | \$0.27                             |
| Expected volatility                             | 110%                               | 100%                               |

As discussed in Note 7 above, during May 2016 we sold shares of our common stock at a price of \$0.04 per share, thereby triggering an anti-dilution provision included in the warrants to purchase an aggregate of 2,907,347 shares of common stock upon exercise. As a result, the exercise price of such warrants was reduced to \$0.15 per share. The

remaining terms, including expiration dates, of all effected warrants remain unchanged.

The change in the estimated fair value of warrants classified as derivative liabilities during the year ended June 30, 2016 and 2015 was \$11,000 and \$548,000, respectively, and is included as a component of other income (expense) in the accompanying consolidated statements of operations (see Note 10).

## NOTE 9 - INCOME TAXES

Pursuant to the provisions of FASB ASC Topic No. 740 *Income Taxes* ("ASC 740"), deferred income taxes reflect the net effect of (a) temporary difference between carrying amounts of assets and liabilities for financial purposes and the amounts used for income tax reporting purposes, and (b) net operating loss carryforwards. No net provision for refundable Federal income taxes has been made in the accompanying statement of operations because no recoverable taxes were paid previously. Significant components of the Company's net deferred tax assets at June 30, 2016 and 2015 are shown below. A valuation allowance of approximately \$8,107,000 and \$6,259,000 has been established to offset the net deferred tax assets as of June 30, 2015 and 2014, respectively, due to uncertainties surrounding the Company's ability to generate future taxable income to realize these assets.

The Company is subject to taxation in the United States and California. The Company's tax years for 2010 and forward are subject to examination by the United States and California tax authorities due to the carry forward of unutilized net operating losses and research and development credits (if any).

We have incurred losses since inception, so no current income tax provision or benefit has been recorded. Significant components of our net deferred tax assets are shown in the table below.

|   | Year Ended June 30, |             |
|---|---------------------|-------------|
|   | 2016                | 2015        |
| Deferred Tax Assets:                        |                     |             |
| Net operating loss carryforwards            | \$6,473,000         | \$4,694,000 |
| Stock compensation                          | 1,503,000           | 1,459,000   |
| Other, net                                  | 131,000             | 106,000     |
| Net deferred tax assets                     | 8,107,000           | 6,259,000   |
| Valuation allowance for deferred tax assets | (8,107,000)         | (6,259,000) |
| Net deferred tax assets                     | \$-                 | \$-         |



The Company recognizes windfall tax benefits associated with the exercise of stock options directly to stockholders' equity only when realized. Accordingly, deferred tax assets are not recognized for net operating loss carryforwards from windfall tax benefits occurring from January 1, 2006 onward. At June 30, 2016, deferred tax assets do not include excess tax benefits from stock-based compensation.

At June 30, 2016, the Company had unused net operating loss carryovers of approximately \$16,093,000 and \$16,052,000 that are available to offset future federal and state taxable income, respectively. These operating losses begin to expire in 2030.

The provision for income taxes on earnings subject to income taxes differs from the statutory federal rate at June 30, 2016 and 2015, due to the following:

|  | Year Ended June 30, |              |
|--|---------------------|--------------|
|  | 2016                | 2015         |
| Federal income taxes at 34%                              | \$(1,554,000)       | \$(801,000 ) |
| State income taxes, net                                  | (404,000 )          | (137,000 )   |
| Permanent differences and other                          | 121,000             | 2,000        |
| Change in the estimated fair market value of derivatives | (11,000 )           | (218,000 )   |
| Change in valuation allowance                            | 1,848,000           | 1,154,000    |
| Provision for income taxes                               | \$-                 | \$-          |

Internal Revenue Code Sections 382 limits the use of our net operating loss carryforwards if there has been a cumulative change in ownership of more than 50% within a three-year period. The Company has not yet completed a Section 382 net operating loss analysis. In the event that such analysis determines there is a limitation on the use on net operating loss carryforwards to offset future taxable income, the recorded deferred tax asset relating to such net operating loss carryforwards will be reduced. However, as the Company has recorded a full valuation allowance against its net deferred tax assets, there is no impact on the Company's consolidated financial statements as of June 30, 2016 and 2015.

We follow FASB ASC Topic No. 740, *Income Taxes* ("ASC 740"), which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under ASC 740, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, ASC 740 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

In accordance with ASC 740, there are no unrecognized tax benefits as of June 30, 2016 or June 30, 2015.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company is subject to taxation in the U.S. and state jurisdictions. The Company is currently not under examination by any taxing authorities.

#### **NOTE 10 - FAIR VALUE MEASUREMENTS**

We follow FASB ASC Topic No. 820, *Fair Value Measurements and Disclosures* ("ASC 820") in connection with financial assets and liabilities measured at fair value on a recurring basis subsequent to initial recognition.

ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following categories:

Level 1: Quoted market prices in active markets for identical assets and liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data

The hierarchy noted above requires us to minimize the use of unobservable inputs and to use observable market data, if available, when determining fair value.

The fair value of our recorded derivative liabilities is determined based on unobservable inputs that are not corroborated by market data, which is a (Level 3) classification. We record derivative liabilities on our balance sheet at fair value with changes in fair value recorded in our consolidated statements of operations.

Following is a summary as of the reporting date of the fair values and applicable level within the fair value hierarchy of assets and liabilities measured at fair value on a recurring basis:

**At June 30, 2016:**

| Description:                   | Quoted    | Significant | Significant  |
|--------------------------------|-----------|-------------|--------------|
|                                | Prices in | Other       | Unobservable |
|                                | Active    | Observable  |              |
|                                | Markets   | Inputs      | Inputs       |
|                                | for       |             |              |
|                                | Identical |             |              |
|                                | Assets    | (Level 2)   | (Level 3)    |
|                                | (Level 1) |             |              |
| Warrant derivative liabilities | \$ -      | \$ -        | \$ 24,000    |

**At June 30, 2015:**

| Description:                   | Quoted    | Significant | Significant  |
|--------------------------------|-----------|-------------|--------------|
|                                | Prices in | Other       | Unobservable |
|                                | Active    | Observable  |              |
|                                | Markets   | Inputs      | Inputs       |
|                                | for       |             |              |
|                                | Identical |             |              |
|                                | Assets    | (Level 2)   | (Level 3)    |
|                                | (Level 1) |             |              |
| Warrant derivative liabilities | \$ -      | \$ -        | \$ 23,000    |

The table below sets forth a summary of changes in the fair value of our (Level 3) financial instruments for the year ended June 30, 2015:

Fair value measurements of warrants using significant unobservable inputs (Level 3)

|   |          |
|---|----------|
| Balance at June 30, 2015                        | \$23,000 |
| Change in fair value of warrant liability       | (11,000) |
| Warrant re-pricing modification charge (Note 7) | 12,000   |
| Balance at June 30, 2016                        | \$24,000 |

The fair value of our warrant derivative liabilities and the change in the estimated fair value of derivative liabilities that we recorded during fiscal year 2016, related to warrants issued in connection with our private placement transactions (see Notes 7 and 8).

### Quantitative Information about Significant Unobservable Inputs used in (Level 3) Fair Value Measurements

The following table represents the Plan's level 3 financial instruments at June 30, 2016, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs:

| Instrument                     | Fair Value | Principal Valuation Significant |                                     | Range of Significant |       |
|--------------------------------|------------|---------------------------------|-------------------------------------|----------------------|-------|
|                                |            | Technique                       | Unobservable Inputs                 | Input Values         |       |
| Warrant derivative liabilities | \$ 24,000  | Monte Carlo simulation          | Volatility                          | 110%                 |       |
|                                |            |                                 | Risk free rates                     | 0.44%                | 0.49% |
|                                |            |                                 | Probability of subsequent financing | 95%                  |       |

### NOTE 11 - OTHER RELATED PARTY TRANSACTIONS

#### *Transactions with Epic Boats*

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



The Company received \$16,000 and \$15,000 during the fiscal years ended June 30, 2016 and 2015, respectively, from Epic Boats under the sublease rental agreement which is recorded as a reduction to rent expense.

On October 21, 2009, we entered into an agreement with Epic Boats where Epic Boats assigned and transferred to Flux Power the entire right, title, and interest into products, technology, intellectual property, inventions and all improvements thereof, for several product types. As of that date, Flux Power began selling products to Epic Boats under Flux Power's standard terms and conditions and has continued to sell products to Epic Boats as a customer. As of June 30, 2016 and 2015, we had received approximately \$136,000 from Epic Boats as deposits for various products. There were no receivables outstanding from Epic Boats as of June 30, 2016 and 2015.

## **NOTE 12 - CONCENTRATIONS**

### ***Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and unsecured trade accounts receivable. The Company maintains cash balances at a financial institution in San Diego, California. Our cash balance at this institution is secured by the Federal Deposit Insurance Corporation up to \$250,000. As of June 30, 2016, cash totaled approximately \$127,000, which consists of funds held in a non-interest bearing bank deposit account. The Company has not experienced any losses in such accounts. Management believes that the Company is not exposed to any significant credit risk with respect to its cash.

### ***Customer Concentrations***

During the year ended June 30, 2016, we had three major customers that each represented more than 10% of our revenues on an individual basis, or approximately \$285,000 or 51% of our total revenues.

During the 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.

### ***Suppliers/Vendor Concentrations***

We obtain a limited number of components and supplies included in our products from a small group of suppliers. During the year ended June 30, 2016 we had three suppliers who accounted for more than 10% of our total purchases, on an individual basis. Purchases for these three suppliers totaled \$793,000 for a total of 66% of our total purchases.

We obtain a limited number of components and supplies included in our products from a small group of suppliers. During the year ended June 30, 2015 we 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.

### **NOTE 13 - COMMITMENTS AND CONTINGENCIES**

From time to time, we may be involved in litigation relating to claims arising out of our operations. Since June 2015, we have been a party to a legal proceeding arising from a work related injury that took place in June 2013. We deny and dispute all liability and damage allegations made by or on behalf of the plaintiff. However, having fully considered the risks, time and costs associated with continued litigation of this claim, as well as an appeal, we have decided to fully and finally resolve and settle the dispute. Accordingly, on August 26, 2016 we entered into a settlement agreement with the plaintiff whereby in exchange for the plaintiff releasing Flux Power from any and all claims of any nature that the plaintiff had or now has or might in the future have against us, we agreed to pay the plaintiff \$10,000 as settlement. Included in accrued expenses in the accompanying consolidated financial statements as of June 30, 2016 is a \$10,000 accrual associated with this claim, which was paid in September 2016.

#### *Operating Leases*

The Company's corporate headquarters totals 22,054 square feet and is located in Vista, California. Effective February 25, 2014, the Company entered into a two-year lease agreement for this facility with average monthly rent payments of approximately \$12,000 per month and paid a security deposit of \$25,000, or approximately 2 months of rent. On February 20, 2016, we entered into a First Amendment to the Lease extending the expiration of the lease to May 31, 2016 and increasing the monthly rent payments for the period from March 1, 2016 to May 31, 2016 to \$14,300 per month. On May 24, 2016, we entered into a Second Amendment to the Lease extending the lease term through May 31, 2018.

The Company also subleases space to a related party, Epic Boats, on a month-to-month basis at a rate of 10% of lease expense.

Total rent expense was \$137,000 and \$102,000 for the years ended June 30, 2016 and 2015, respectively, net of sublease income.

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are approximately \$158,000 and \$162,000 for the fiscal years ending June 30, 2017 and 2018, respectively under the current lease expiring on May 31, 2018.

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## NOTE 14 - SUBSEQUENT EVENTS

Management has evaluated events subsequent to June 30, 2016, through the date of this filing with the SEC for transactions and other events that may require adjustment of and/or disclosure in such financial statements.

On July 28, 2016, our Board of Directors increased the aggregate amount offered under our private placement to \$4,000,000 or 100,000,000 shares of our common stock and extended the termination date to August 31, 2016. During the period July 1, 2016 through August 31, 2016, we sold 36,875,000 shares of common stock, at \$0.04 per share, for a total purchase price of \$1,475,000 to six (6) accredited investors of which \$1,075,000 was received in cash and \$400,000 was received via the settlement of outstanding liabilities. Esenjay, our controlling shareholder and primary credit line holder, participated in this subsequent tranche as an investor by purchasing 10,000,000 shares in exchange for the settlement of \$400,000 of debt owed to Esenjay by the Company. Additionally, two (2) of the accredited investors who invested an aggregate of \$200,000 are siblings of Mr. Johnson.

As a result of the additional investments under the Offering the anti-dilution provision for warrant holders under our 2012 Private Placement was triggered (See Note 7) and as a result, the exercise price of such warrants was reduced from \$0.15 to \$0.14 per share. The remaining terms, including expiration dates, of all effected warrants remain unchanged.

The 36,875,000 shares discussed above have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act. Such shares were offered and sold to the accredited investors in reliance upon exemptions from registration pursuant to Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D.

On July 28, 2016 we entered into a Fourth Amendment to the Unrestricted Line of Credit with Esenjay, pursuant to which we extended the maturity date of the Unrestricted Line of Credit to January 31, 2018.

On August 23, 2016 we offered our 2012 Warrant Holders the option to convert their 2012 Warrants for shares of our common stock at a conversion rate of 0.602 shares of common stock per warrant share (the "Warrant Exchange"). The Warrant Exchange was offered in order to eliminate the derivative liability accounting, valuation and reporting associated with the 2012 Warrant exercise price re-set provisions. As of September 26, 2016, one (1) 2012 Warrant Holder has accepted this offer and accordingly, we have converted his warrant to purchase 1,837,777 shares of common stock at an exercise price of \$0.14 per share into 1,106,341 shares of common stock valued at \$0.04 per share, or \$44,254. At September 26, 2016, warrants to purchase 1,069,570 shares of common stock remain available to convert into 643,881 shares of common stock.

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During the period from July 1, 2016 through September 26, 2016 we borrowed an aggregate of \$120,000 from Esenjay under our Unrestricted Line of Credit and settled \$400,000 of the liability through our private placement as discussed above. As of September 26, 2016, the amount outstanding under the Unrestricted Line of Credit was \$920,000, with an aggregate of \$2,580,000 available under the Unrestricted Line of Credit for future draws at Esenjay's discretion. As of September 26, 2016, Esenjay owns approximately 64% of our issued and outstanding common stock (See Note 5).

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