

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

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

Commission File Number: 000-25909

FLUX POWER HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

86-0931332

(I.R.S.
Employer
Identification
Number)

985 Poinsettia Avenue, Suite A, Vista, California

(Address of principal executive offices)

92081

(Zip Code)

877-505-3589

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(Registrant's telephone number, including area code)

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

Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a
smaller reporting
company)

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

Yes No

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

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

FLUX POWER HOLDINGS, INC.

FORM 10-Q

For the Quarterly Period Ended March 31, 2015

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

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

Use of Certain Defined Terms

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

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

•“Exchange Act” refers the Securities Exchange Act of 1934, as amended;

•“SEC” refers to the Securities and Exchange Commission; and

•“Securities Act” refers to the Securities Act of 1933, as amended.

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

Item 1. Financial Statements

	March 31, 2015 (Unaudited)	June 30, 2014
ASSETS		
Current assets:		
Cash	\$ 69,000	\$ 116,000
Accounts receivable, net	151,000	140,000
Inventories, net	166,000	85,000
Other current assets	61,000	18,000
Total current assets	447,000	359,000
Other Assets		
Property, plant and equipment, net	25,000	25,000
	61,000	78,000
Total assets	\$ 533,000	\$ 462,000
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	399,000	320,000
Accrued expenses	201,000	219,000
Customer deposits from related party	136,000	136,000
Warrant derivative liability	73,000	571,000
Note payable – related party	925,000	—
Total current liabilities	1,734,000	1,246,000
Long term liabilities:		
Line of credit, net of discount	88,000	—
Total liabilities	1,822,000	1,246,000
Commitments and contingencies (Notes 11)		
STOCKHOLDERS' DEFICIT		
Preferred stock, \$0.001 par value: authorized 5,000,000 shares, none issued and outstanding	—	—
	99,000	93,000

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Common stock, \$0.001 par value: authorized 300,000,000 and 145,000,000 shares
as of March 31, 2015 and June 30, 2014, respectively, 99,464,112 and 93,274,113
shares issued and outstanding as of March 31, 2015 and June 30, 2014, respectively

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

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

FLUX POWER HOLDINGS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****Three and Nine Month Periods Ended March 31, 2015 and 2014****(Unaudited)**

	<u>Three months Ended</u>		<u>Nine months Ended</u>	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Net revenue	\$ 199,000	\$ 94,000	\$ 495,000	\$ 157,000
Cost of sales	220,000	48,000	492,000	88,000
Gross profit (loss)	(21,000)	46,000	3,000	69,000
Operating expenses:				
Selling and administrative expenses	498,000	476,000	1,447,000	1,089,000
Amortization of prepaid advisory fees	2,000	427,000	35,000	1,252,000
Research and development	137,000	139,000	399,000	369,000
Total operating expenses	637,000	1,042,000	1,881,000	2,710,000
Operating loss	(658,000)	(996,000)	(1,878,000)	(2,641,000)
Other income (expense):				
Change in fair value of derivative liabilities	60,000	(650,000)	498,000	(567,000)
Interest expense, net	(42,000)	(41,000)	(65,000)	(141,000)
Other income (expense)	8,000	(58,000)	(2,000)	(58,000)
Net loss	\$(632,000)	\$(1,745,000)	\$(1,447,000)	\$(3,407,000)
Net loss per share – basic and diluted	\$(0.01)	\$(0.03)	\$(0.01)	\$(0.06)
Weighted average number of common shares outstanding – basic and diluted	99,384,111	62,455,356	96,861,970	52,482,656

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

FLUX POWER HOLDINGS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****Nine Months Ended March 31, 2015 and 2014****(Unaudited)**

	Nine Months Ended	
	March 31, 2015	March 31, 2014
Cash flows from operating activities:		
Net loss	\$(1,447,000)	\$(3,407,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	26,000	45,000
Amortization of prepaid advisory fees	35,000	1,252,000
Change in fair value of warrant liability	(498,000)	567,000
Stock-based compensation	174,000	194,000
Stock issuance for services	21,000	125,000
Gain on sale of property and equipment	(4,000)	—
Amortization of debt discount	38,000	—
Changes in operating assets and liabilities:		
Accounts receivable	(11,000)	(44,000)
Inventories	(81,000)	(39,000)
Other current assets	(73,000)	(39,000)
Accounts payable	79,000	(105,000)
Accrued expenses	42,000	3,000
Accrued interest	16,000	142,000
Customer deposits	—	17,000
Customer deposits from related party	—	(2,000)
Net cash used in operating activities	(1,683,000)	(1,291,000)
Cash flows from investing activities:		
Purchases of equipment	(14,000)	—
Proceeds from the sale of equipment	9,000	—
Net cash used by investing activities	(5,000)	—
Cash flows from financing activities:		
Proceeds from the sale of common stock and warrants, net of offering costs paid	501,000	1,276,000
Proceeds from note payable – related party and line of credit	1,140,000	668,000
Net cash provided by financing activities	1,641,000	1,944,000
Net (decrease) increase in cash	(47,000)	653,000
Cash, beginning of period	116,000	20,000
Cash, end of period	\$69,000	\$673,000

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Supplemental Disclosures of Non-cash Investing and Financing Activities:

Conversion of debt to equity	—	\$550,000
Issuance of warrants recorded as deferred financing costs	\$5,000	\$—
Debt discount related to warrants and beneficial conversion feature	\$165,000	\$—

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

FLUX POWER HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2015

NOTE 1 – BASIS OF PRESENTATION AND NATURE OF BUSINESS

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) an