

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2020

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

Commission File Number: 001-31543

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)

2685 S. Melrose Drive, 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

| Title of Each Class | Trading Symbol(s) | Name of each exchange on which registered |
|-------------------------------------------|-------------------|-------------------------------------------|
| Common Stock, par value \$0.001 per share | FLUX | NASDAQ Capital Market |

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

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

| | | | |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
 Yes ☐ No ☒

The number of shares of registrant's common stock outstanding as of February 7, 2021 was 12,592,908.

FLUX POWER HOLDINGS, INC.

FORM 10-Q

For the Quarterly Period Ended December 31, 2020

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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 section captioned “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” in our Annual Report on Form 10-K for the fiscal year ended June 30, 2020 filed with the SEC on September 28, 2020. 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. You should read these factors and the other cautionary statements made in this report and in the documents we incorporate by reference into this report as being applicable to all related forward-looking statements wherever they appear in this report or the documents we incorporate by reference into this report. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements.

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 to support our current and proposed operations, which could be more difficult in light of the negative impact of the COVID-19 pandemic on investor sentiment and investing ability;
- 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 grow net revenue and increase our gross profit margin;
- 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 compete with larger companies with far greater resources than we have;
- our continued ability to obtain raw materials and other supplies for our products at competitive prices and on a timely basis, particularly in light of the potential impact of the COVID-19 pandemic on our suppliers and supply chain;
- 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;
- our ability to retain key members of our senior management;
- our ability to continue to operate safely and effectively during the COVID-19 pandemic; and
- our dependence on our major customers.

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,” “Flux,” “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., a California corporation (“Flux Power”).
- “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 - Financial Information

Item 1. Financial Statements

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

| | December 31, 2020 (Unaudited) | June 30, 2020 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 4,653,000 | \$ 726,000 |
| Accounts receivable | 4,462,000 | 3,069,000 |
| Inventories | 6,588,000 | 5,256,000 |
| Other current assets | 696,000 | 787,000 |
| Total current assets | 16,399,000 | 9,838,000 |
| Right of use asset | 3,238,000 | 3,435,000 |
| Other assets | 132,000 | 174,000 |
| Property, plant and equipment, net | 818,000 | 528,000 |
| Total assets | \$ 20,587,000 | \$ 13,975,000 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Current liabilities: | | |
| Accounts payable | \$ 4,715,000 | \$ 4,648,000 |
| Accrued expenses | 1,795,000 | 1,400,000 |
| Deferred revenue | 38,000 | 4,000 |
| Customer deposits | 13,000 | 1,563,000 |
| Due to Factor | - | 469,000 |
| Short-term loans – related party | - | 2,057,000 |
| Line of credit - related party | 2,403,000 | 5,290,000 |
| Paycheck Protection Program loan payable | 1,297,000 | - |
| Financing lease payable | 8,000 | 28,000 |
| Office lease payable, current portion | 404,000 | 288,000 |
| Accrued interest | 202,000 | 50,000 |
| Total current liabilities | 10,875,000 | 15,797,000 |
| Long term liabilities: | | |
| Paycheck Protection Program loan payable | - | 1,297,000 |
| Office lease payable, less current portion | 3,089,000 | 3,301,000 |
| Total liabilities | 13,964,000 | 20,395,000 |
| Stockholders' equity (deficit): | | |
| Preferred stock, \$0.001 par value; 500,000 shares authorized; none issued and outstanding | - | - |
| Common stock, \$0.001 par value; 30,000,000 shares authorized; 12,193,110 and 7,420,487 shares issued and outstanding at December 31, 2020 and June 30, 2020, respectively | 12,000 | 7,000 |
| Additional paid-in capital | 67,371,000 | 46,985,000 |
| Accumulated deficit | (60,760,000) | (53,412,000) |
| Total stockholders' equity (deficit) | 6,623,000 | (6,420,000) |
| Total liabilities and stockholders' equity (deficit) | \$ 20,587,000 | \$ 13,975,000 |

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

FLUX POWER HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three months ended December 31, | | Six months ended December 31, | |
|--------------------------------------------------------------------------|----------------------------------------|----------------|--------------------------------------|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Net revenue | \$ 6,469,000 | \$ 3,615,000 | \$ 10,968,000 | \$ 5,534,000 |
| Cost of sales | 4,980,000 | 3,289,000 | 8,606,000 | 5,091,000 |
| Gross profit | 1,489,000 | 326,000 | 2,362,000 | 443,000 |
| Operating expenses: | | | | |
| Selling and administrative expenses | 3,135,000 | 2,229,000 | 6,055,000 | 4,492,000 |
| Research and development | 1,594,000 | 1,021,000 | 3,101,000 | 2,361,000 |
| Total operating expenses | 4,729,000 | 3,250,000 | 9,156,000 | 6,853,000 |
| Operating loss | (3,240,000) | (2,924,000) | (6,794,000) | (6,410,000) |
| Interest expense | (124,000) | (383,000) | (554,000) | (711,000) |
| Net loss | \$ (3,364,000) | \$ (3,307,000) | \$ (7,348,000) | \$ (7,121,000) |
| Net loss per share - basic and diluted | \$ (0.29) | \$ (0.65) | \$ (0.69) | \$ (1.39) |
| Weighted average number of common shares outstanding - basic and diluted | 11,633,793 | 5,106,781 | 10,647,181 | 5,105,061 |

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

FLUX POWER HOLDING, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(unaudited)

| | Common Stock | | Additional | Accumulated | |
|----------------------------------------------------------------|---------------------|----------------------|------------------------|------------------------|-----------------------|
| | Shares | Capital Stock | Paid-in Capital | Deficit | Total |
| | | Amount | | | |
| Balance at June 30, 2020 | <u>7,420,487</u> | <u>\$ 7,000</u> | <u>\$ 46,985,000</u> | <u>\$ (53,412,000)</u> | <u>\$ (6,420,000)</u> |
| Issuance of common stock – private placement transactions, net | 800,000 | 1,000 | 3,199,000 | - | 3,200,000 |
| Issuance of common stock – debt conversion | 100,000 | - | 400,000 | - | 400,000 |
| Issuance of common stock, net of costs | 3,099,250 | 3,000 | 10,695,000 | - | 10,698,000 |
| Fair value of warrants issued | - | - | 174,000 | - | 174,000 |
| Stock based compensation | - | - | 225,000 | - | 225,000 |
| Net loss | - | - | - | (3,984,000) | (3,984,000) |
| Balance at September 30, 2020 | <u>11,419,737</u> | <u>11,000</u> | <u>61,678,000</u> | <u>(57,396,000)</u> | <u>4,293,000</u> |
| Issuance of common stock – exercised options | 6,289 | - | - | - | - |
| Issuance of common stock – debt conversion | 540,347 | 1,000 | 2,160,000 | - | 2,161,000 |
| Issuance of common stock, net of costs | 226,737 | - | 3,336,000 | - | 3,336,000 |
| Stock based compensation | - | - | 197,000 | - | 197,000 |
| Net loss | - | - | - | (3,364,000) | (3,364,000) |
| Balance at December 31, 2020 | <u>12,193,110</u> | <u>\$ 12,000</u> | <u>\$ 67,371,000</u> | <u>\$ (60,760,000)</u> | <u>\$ 6,623,000</u> |

| | Common Stock | | Additional | Accumulated | |
|----------------------------------------------|---------------------|----------------------|------------------------|------------------------|-----------------------|
| | Shares | Capital Stock | Paid-in Capital | Deficit | Total |
| | | Amount | | | |
| Balance at June 30, 2019 | <u>5,101,580</u> | <u>\$ 5,000</u> | <u>\$ 35,902,000</u> | <u>\$ (39,076,000)</u> | <u>\$ (3,169,000)</u> |
| Issuance of common stock – exercised options | 2,894 | - | - | - | - |
| Stock based compensation | - | - | 451,000 | - | 451,000 |
| Net loss | - | - | - | (3,814,000) | (3,814,000) |
| Balance at September 30, 2019 | <u>5,104,474</u> | <u>5,000</u> | <u>36,353,000</u> | <u>(42,890,000)</u> | <u>(6,532,000)</u> |
| Issuance of common stock – services | 3,121 | - | 30,000 | - | 30,000 |
| Stock based compensation | - | - | 449,000 | - | 449,000 |
| Net loss | - | - | - | (3,307,000) | (3,307,000) |
| Balance at December 31, 2019 | <u>5,107,595</u> | <u>\$ 5,000</u> | <u>\$ 36,832,000</u> | <u>\$ (46,197,000)</u> | <u>\$ (9,360,000)</u> |

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

FLUX POWER HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Six Months Ended December 31, | |
|---------------------------------------------------------------------------------|--------------------------------------|--------------------|
| | 2020 | 2019 |
| Cash flows from operating activities: | | |
| Net loss | \$ (7,348,000) | \$ (7,121,000) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation | 127,000 | 62,000 |
| Stock-based compensation | 422,000 | 900,000 |
| Stock issuance for services | - | 30,000 |
| Fair value of warrant issued as debt issuance cost | 174,000 | - |
| Noncash interest expense | 197,000 | 634,000 |
| Noncash rent expense | 197,000 | 153,000 |
| Allowance for inventory reserve | (242,000) | - |
| Amortization of prepaid offering costs | 547,000 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,393,000) | (824,000) |
| Inventories | (1,090,000) | (393,000) |
| Other current assets | (414,000) | (261,000) |
| Accounts payable | 67,000 | 1,001,000 |
| Accrued expenses | 395,000 | (47,000) |
| Due to Factor | (469,000) | 1,655,000 |
| Accrued interest | 152,000 | - |
| Office lease payable | (96,000) | (14,000) |
| Deferred revenue | 34,000 | 26,000 |
| Customer deposits | (1,550,000) | 212,000 |
| Net cash used in operating activities | <u>(10,290,000)</u> | <u>(3,987,000)</u> |
| Cash flows from investing activities | | |
| Purchases of equipment | (417,000) | (122,000) |
| Net cash used in investing activities | <u>(417,000)</u> | <u>(122,000)</u> |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock in private placement | 3,200,000 | - |
| Proceeds from issuance of common stock, net of costs | 14,034,000 | - |
| Borrowings from short-term loan - related party debt | - | 1,000,000 |
| Borrowings from line of credit - related party debt | - | 3,155,000 |
| Payment of short-term loan – related party | (1,178,000) | - |
| Payment of line of credit – related party | (1,402,000) | - |
| Principal payments on financing lease payable | (20,000) | (12,000) |
| Net cash provided by financing activities | <u>14,634,000</u> | <u>4,143,000</u> |
| Net change in cash | 3,927,000 | 34,000 |
| Cash, beginning of period | 726,000 | 102,000 |
| Cash, end of period | <u>\$ 4,653,000</u> | <u>\$ 136,000</u> |
| Supplemental Disclosures of Non-Cash Investing and Financing Activities: | | |
| Initial recognition of right-of-use lease asset and lease liability | \$ - | \$ 2,706,000 |
| Common stock issued for conversion of related party debt | \$ 2,561,000 | \$ - |
| Accrued interest converted into principal | \$ 197,000 | \$ 1,205,000 |
| Stock issuance for services | \$ - | \$ 30,000 |
| Supplemental schedule of cash flow information: | | |
| Interest paid | <u>\$ 31,000</u> | <u>\$ 92,000</u> |

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

FLUX POWER HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020
(Unaudited)

NOTE 1 - NATURE OF BUSINESS

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and the rules of the Securities and Exchange Commission (“SEC”) applicable to interim reports of companies filing as a smaller reporting company. These financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2020 filed with the SEC on September 28, 2020. In the opinion of management, the accompanying condensed consolidated interim financial statements include all adjustments necessary in order to make the financial statements not misleading. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year or any other future period. Certain notes to the financial statements that would substantially duplicate the disclosures contained in the audited financial statements for the most recent fiscal year as reported in the Company’s Annual Report on Form 10-K have been omitted. The accompanying condensed consolidated balance sheet at June 30, 2020 has been derived from the audited balance sheet at June 30, 2020 contained in such Form 10-K.

Nature of Business

Flux Power Holdings, Inc. (“Flux”) was incorporated in 1998 in the State of Nevada. On June 14, 2012, Flux entered into a reverse merger and changed its name to Flux Power Holdings, Inc. (“Flux”). Flux’s operations are conducted through its wholly owned subsidiary, Flux Power, Inc. (“Flux Power”), a California corporation (collectively, the “Company”).

The Company designs, develops, manufactures, and sells advanced rechargeable lithium-ion energy storage solutions for lift trucks, airport ground support equipment (“GSE”), stationary energy storage, and other industrial and commercial applications. The Company’s “LiFT” battery packs, including its proprietary battery management system (“BMS”), provide its customers with a better performing, higher value, and more environmentally friendly alternative as compared to traditional lead acid and propane-based solutions.

The Company has received Underwriters Laboratory (“UL”) Listing on its lithium-ion packs for most Class 1,2, and 3 forklifts. The Company believes that a UL Listing demonstrates the safety, reliability and durability of its products and gives it an important competitive advantage over other lithium-ion energy suppliers. Additionally, the Company’s LiFT packs have been approved for use by leading industrial motive manufacturers, including Toyota Material Handling USA, Inc., Crown Equipment Corporation, Raymond Corporation, Clark Material Handling and others.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company’s significant accounting policies are described in Note 2, “Summary of Significant Accounting Policies,” in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2020. There have been no material changes in these policies or their application.

Management has considered all recent accounting pronouncements issued since the last audit of the Company's consolidated financial statements and believes that these recent pronouncements will not have a material effect on the Company's condensed consolidated financial statements.

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 three months ended December 31, 2020 and 2019, basic and diluted weighted-average common shares outstanding were 11,633,793 and 5,106,781, respectively. For the six months ended December 31, 2020 and 2019, basic and diluted weighted-average common shares outstanding were 10,647,181 and 5,105,061, respectively. The Company incurred a net loss for the three and six months ended December 31, 2020 and 2019, and therefore, basic and diluted loss per share for the periods are the same because 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 December 31, 2020 and 2019, excluded from diluted weighted-average common shares outstanding, which include common shares underlying outstanding convertible debt, stock options, RSUs, and warrants, were 1,562,019 and 568,641, respectively.

NOTE 3 – NOTES PAYABLE

Paycheck Protection Program Loan

On May 1, 2020, the Company applied for and received a loan from the Bank of America, NA (the "BOA") in the aggregate principal amount of approximately \$1,297,000 (the "PPP Loan") pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The PPP Loan is evidenced by a promissory note dated May 1, 2020, issued by Flux Power to the BOA (the "PPP Note"). The PPP Loan has a two-year term and bears interest at a rate of 1.0% per annum. Monthly principal and interest payments are deferred for six months after the date of disbursement. The Company received the funds on or around May 4, 2020. The PPP Note may be prepaid by the Company at any time prior to maturity with no prepayment penalties. Proceeds from the PPP Loan, in compliance with the CARES Act, were used to fund designated expenses, including certain payroll costs, group health care benefits and other permitted expenses. Under the terms of the PPP, subject to specific limitations, up to the entire amount of principal and accrued interest may be forgiven to the extent PPP Loan proceeds are used for qualifying expenses as described in the CARES Act and applicable implementing guidance issued by the U.S. Small Business Administration under the PPP. The Company has used the entire PPP Loan amount for designated qualifying expenses and accordingly, in January 2021 has submitted an application to the lender for the PPP Loan forgiveness in accordance with the terms of the PPP. The loan forgives application is currently being reviewed by the Small Business Administration, however, no assurance can be given that the Company will obtain forgiveness of the PPP Loan in whole or in part. With respect to any portion of the PPP Loan that may not be forgiven, the PPP Loan will be subject to customary provisions for a loan of this type, including customary events of default relating to, among other things, payment defaults, and breaches of the provisions of the PPP Note. As of December 31, 2020, the outstanding balance of the PPP Loan was approximately \$1,297,000.

Revolving Line of Credit

On November 9, 2020, the Company entered into a certain Loan and Security Agreement ("Agreement") with Silicon Valley Bank ("SVB"). The Agreement provides the Company with a senior secured revolving credit facility for up to \$4.0 million available on a revolving basis ("Credit Facility") which matures on November 8, 2021. Outstanding principal under the Credit Facility accrues interest at a floating per annum rate equal to the greater of either (i) prime rate plus two and one-half of one percent (2.50%) or (ii) five and three-quarters percent (5.75%). Interest payment is due monthly on the last day of the month. In the event of default, the amounts due under the Agreement will bear interest at a rate per annum equal to five percent (5.0%) above the rate that is otherwise applicable to such amounts. The Company paid a non-refundable commitment fee of \$15,000 upon execution of the Loan Agreement. In addition, the Company is required to pay a quarterly unused facility fee equal to one-quarter of one percent (0.25%) per annum of the average daily unused portion of the commitments under the Credit Facility, depending upon availability of borrowings under the Credit Facility. The loans and other obligations of the Company under the Credit Facility are secured by substantially all of the tangible and intangible assets of the Company (including, without limitation, intellectual property) pursuant to the terms of the Agreement and the Intellectual Property Security Agreement dated as of November 9, 2020. As of December 31, 2020, the Company has not yet utilized the line of credit.

NOTE 4 - RELATED PARTY DEBT AGREEMENTS

Esenjay Loan

On March 9, 2020, the Company and Esenjay entered into a certain convertible promissory note ("Original Esenjay Note") pursuant to which Esenjay provided the Company with a loan in the principal amount of \$750,000 (the "Esenjay Loan"). On June 2, 2020, the Original Esenjay Note was amended and restated to (i) extend the maturity date from June 30, 2020 to September 30, 2020, and (ii) to increase the principal amount outstanding under the Original Esenjay Note from \$750,000 to \$1,400,000 (the "Esenjay Note").

On June 26, 2020 and July 22, 2020, Esenjay assigned a total of \$900,000 of the Esenjay Note to three (3) accredited investors. On June 30, 2020, in connection with the completion of the Company's initial closing of its private placement offering, the principal amount outstanding under the Esenjay Note became convertible into shares of common stock at \$4.00 per share, which was the cash price per share of such offering. The three note holders converted their notes into an aggregate 225,000 shares of common stock at \$4.00 per share.

On August 31, 2020, the Company entered into the Third Amended and Restated Credit Facility Agreement and pursuant to which the Company further amended the Notes to, among other amended items, to include outstanding obligations for an aggregate amount of approximately \$564,000, consisting of \$500,000 in principal and approximately \$64,000 in accrued interest, under the Esenjay Note, into the Credit Facility Agreement. (See "Credit Facility" below).

Cleveland Loan

On July 3, 2019, the Company entered into a loan agreement with Cleveland, pursuant to which Cleveland agreed to loan the Company \$1,000,000 (the "Cleveland Loan"). On July 9, 2020, the Company made a payment to Cleveland in the amount of \$200,000 as a partial payment of the outstanding principal balance of the Cleveland Loan.

On July 27, 2020, pursuant to the Eighth Amendment to the Unsecured Promissory Note the maturity date of the note was extended from July 31, 2020 to August 31, 2020 and the Company capitalized all accrued and unpaid interest as of July 27, 2020 to the principal amount.

On August 19, 2020, the Company paid Cleveland the entire remaining principal balance due under the Cleveland Loan, together with all accrued interest payable as of August 19, 2020, in an aggregate amount of approximately \$978,000.

Credit Facility

On March 22, 2018, Flux Power entered into a credit facility agreement with Esenjay with a maximum borrowing amount of \$5,000,000 (the "Original Agreement"). The Original Agreement was amended multiple times to allow for, among other things, an increase in the maximum principal amount available under line of credit ("LOC") to \$12,000,000, additional lenders and extensions of the maturity date to September 30, 2021. In August 2020, the Company paid down an aggregate principal amount of approximately \$1,402,000 of the outstanding balance under the LOC. On August 31, 2020, the Company entered into the Third Amended and Restated Credit Facility Agreement and pursuant to which the Company further amended the Notes to (i) extend the maturity date from December 31, 2020 to September 30, 2021, and (ii) include outstanding obligations under the Esenjay Note of approximately \$564,000, consisting of \$500,000 in principal and approximately \$64,000 in accrued interest, into the LOC. In November 2020, the Lenders holding an aggregate of approximately \$2,161,000 in principal and accrued interest outstanding under the LOC elected to convert their Notes into 540,347 shares of common stock. As of December 31, 2020, there was approximately \$2,403,000 in principal outstanding under the LOC of which \$884,000 was held by Esenjay, \$519,000 was held by Cleveland, and the balance of \$1,000,000 was held by other Lenders. As of December 31, 2020, there was approximately \$9,597,000 available for future draws.

NOTE 5 – FACTORING ARRANGEMENT

On August 23, 2019, the Company entered into a Factoring Agreement (“Factoring Agreement”) with CSNK Working Capital Finance Corp. d/b/a Bay View Funding (“CSNK”) for a factoring facility under which CSNK would, from time to time, buy approved receivables from the Company. The Company gave termination notice to CSNK and accordingly, effective August 30, 2020 has terminated the Factoring Agreement. As of December 31, 2020 and June 30, 2020, an outstanding balance of \$0 and \$469,000, respectively, was due to CSNK under the Factoring Agreement. The section below describes the terms of such factoring agreement prior to its termination.

The factoring facility was for an initial term of twelve months and allowed for renewal on a year-to-year basis thereafter, unless terminated in accordance with the Factoring Agreement. The Company had the right to terminate the Factoring Agreement at any time upon 60 days prior written notice and payment to CSNK of an early termination fee equal to 0.5% of the Maximum Credit multiplied by the number of months remaining in the term.

NOTE 6 - STOCKHOLDERS' EQUITY (DEFICIT)

At-The-Market (“ATM”) Offering

2020 ATM Offering

On December 21, 2020 the Company entered into a Sales Agreement (the “Sales Agreement”) with H.C. Wainwright & Co., LLC (“HCW”) to sell shares of its common stock, par value \$0.001 (the “Common Stock”) from time to time, through an “at the market offering” program (the “ATM Offering”) under which HCW will act as sales agent.

The Company has agreed to pay HCW a commission in an amount equal to 3.0% of the gross sales proceeds of the shares sold through it as sales agent under the Sales Agreement. In addition, the Company has agreed to reimburse HCW for certain expenses it incurs in the performance of its obligations up to a maximum of \$50,000, and \$2,500 per quarter thereafter, under the Sales Agreement. The Company has also agreed pursuant to the Sales Agreement to indemnify and provide contribution to HCW against certain liabilities, including liabilities under the Securities Act.

In December 2020, the Company sold an aggregate of 226,737 shares of common stock at an average price of \$15.40 per share for gross proceeds of approximately \$3.5 million in the ATM Offering, prior to deducting commissions and other offering related expenses. The offer and sale of the Shares were made pursuant to the Company’s effective “shelf” registration statement on Form S-3 filed with the Securities and Exchange Commission (the “SEC”) on October 16, 2020, and declared effective by the SEC on October 26, 2020, and a prospectus supplement related to the ATM Offering, dated December 21, 2020.

Public Offering

2020 Public Offering and NASDAQ Capital Market Uplisting

On August 18, 2020, the Company closed an underwritten public offering of its common stock at a public offering price of \$4.00 per share for gross proceeds of approximately \$12.4 million, which included the full exercise of the underwriters’ over-allotment option to purchase additional shares, prior to deducting underwriting discounts and commissions and offering expenses. A total of 3,099,250 shares of common stock were issued by the Company in the offering, including the full exercise of the over-allotment option. The securities were offered pursuant to a registration statement on Form S-1 (File No. 333-231766), which was declared effective by the United States Securities and Exchange Commission on August 12, 2020.

Concurrent with the announcement of the public offering, on August 14, 2020, the Company’s common stock commenced trading on The NASDAQ Capital Market under the symbol “FLUX.” Prior to the listing on The NASDAQ Capital Market, the Company’s common stock was quoted on the OTCQB.

Private Placements

2020 Private Placement

On April 22, 2020, the Company sold and issued an aggregate of 66,250 shares of common stock, at \$4.00 per share, for an aggregate purchase price of \$265,000 in cash to two (2) accredited investors (the “2020 Private Placement”). On June 30, 2020, the Company completed an initial closing of the 2020 Private Placement offering of up to 2,000,000 shares of common stock, pursuant to which the Company sold an aggregate of 275,000 shares of common stock at \$4.00 per share, for an aggregate purchase price of \$1,100,000 to six (6) accredited investors. The \$1,100,000 aggregate purchase price for such shares was paid in cash. Esenjay and Mr. Dutt, the Company’s president and chief executive officer, participated in the initial closing in the amount of \$300,000 and \$50,000, respectively. On July 24, 2020, the Company sold and issued an aggregate of 800,000 shares of common stock, at \$4.00 per share, for an aggregate purchase price of \$3,200,000 in cash to accredited investors, including Mr. Cosentino, one of our directors, who participated in the offering in the amount of \$250,000.

The shares offered and sold in the 2020 Private Placement offering described above were not initially registered under the Securities Act of 1933, as amended (“Securities Act”), and could not have been offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act. As of the issuance date, the shares were offered and sold to the accredited investors in reliance upon exemptions from registration pursuant to Rule 506(b) of Regulation D promulgated under Section 4(a)(2) under the Securities Act. However, pursuant to a Registration on Form S-3 with SEC, which became effective on October 26, 2020, such shares were registered.

Debt Conversion

LOC Conversion

On June 30, 2020, there was a partial conversion of the debt underlying the secured promissory notes issued to lenders under the LOC at a conversion price of \$4.00 per share (the “Conversion”). At the option of the lenders, on June 30, 2020, an aggregate of approximately \$7,383,000 in principal and accrued interest outstanding under the LOC was converted into 1,845,830 shares of common stock, which consisted of (a) partial conversion of Principal plus interest under the Esenjay LOC Note in the amount of \$4,400,000 into 1,100,000 shares of common stock at \$4.00 per share, and (b) conversion of approximately \$2,983,000 of the secured promissory notes issued in connection with the LOC, principal plus accrued interest, by other lenders, including certain assignees of the Esenjay LOC Note, into 745,830 shares of common stock.

On November 6, 2020, there was a partial conversion of the debt underlying the secured promissory notes issued to lenders under the LOC at a conversion price of \$4.00 per share (the “November 2020 Conversion”). At the option of the lenders, on November 6, 2020, an aggregate of approximately \$2,161,000 in principal and accrued interest outstanding under the LOC was converted into 540,347 shares of common stock.

Esenjay Note Conversion

On June 30, 2020, two (2) accredited individuals, who became note holders to the Esenjay Note pursuant to the assignment of such notes by Esenjay to the note holders, converted \$500,000 in principal into 125,000 shares of common stock at \$4.00 per share.

On July 22, 2020, one accredited individual, who became note holder to the Esenjay Note pursuant to the assignment of such note by Esenjay to the note holder, converted \$400,000 in principal into 100,000 shares of common stock at \$4.00 per share.

Warrant Activity

On July 3, 2019, the Company issued a three-year warrant to Cleveland Capital, L.P. (“Cleveland Warrant”) to purchase our common stock in a number equal to one-half percent (0.5%) of the number of shares of common stock outstanding after giving effect to the total number of shares of common stock sold in a public offering at an exercise price equal to the per share public offering price. On September 1, 2019, the Cleveland Warrant was amended and restated to change the warrant coverage from 0.5% to 1% of the number of shares of common stock outstanding after giving effect to the total number of shares of common stock sold in the next private or public offering (“Offering”) at an exercise price equal to the per share price of common stock sold in the Offering. The closing of a private offering constituting the Offering occurred on July 24, 2020. Upon such closing, the number and the exercise price of the Cleveland Warrant became determinable, and represented as a right to purchase up to 83,205 shares of common stock at \$4.00 per share and had a fair value of approximately \$174,000. As of December 31, 2020, all 83,205 warrants remain outstanding and exercisable.

On August 18, 2020 and in conjunction with the Company’s public offering, the Company issued five-year warrants to the underwriters to purchase up to 185,955 shares of the Company’s common stock at an exercise price of \$4.80 per share and had a fair value of approximately \$513,000. The underwriters’ warrants are exercisable on or after February 8, 2021.

Warrant detail for the six months ended December 31, 2020 is reflected below:

| | Number of Warrants | Weighted Average Exercise Price Per Warrant | Remaining Contract Term (# years) |
|-------------------------------------------------------|-------------------------------|------------------------------------------------------------|--------------------------------------------------|
| Warrants outstanding and exercisable at June 30, 2020 | 83,205 | \$ 4.00 | 2.01 |
| Warrants issued | 185,955 | \$ 4.80 | 5.00 |
| Warrants forfeited | - | \$ - | - |
| Warrants outstanding at December 31, 2020 | 269,160 | \$ 4.55 | 3.66 |
| Warrants exercisable at December 31, 2020 | 83,205 | \$ 4.00 | 1.50 |

Warrant detail for the six months ended December 31, 2019 is reflected below:

| | Number of Warrants | Weighted Average Exercise Price Per Warrant | Remaining Contract Term (# years) |
|-----------------------------------------------------------|-------------------------------|------------------------------------------------------------|--------------------------------------------------|
| Warrants outstanding and exercisable at June 30, 2019 | 8,333 | \$ 20.00 | 0.25 |
| Warrants issued | - | \$ - | - |
| Warrants forfeited | (8,333) | \$ 20.00 | - |
| Warrants outstanding and exercisable at December 31, 2019 | - | \$ - | - |

Stock-based Compensation

Stock Options

On November 26, 2014, the board of directors approved the 2014 Equity Incentive Plan (the “2014 Plan”), which was approved by the Company’s stockholders on February 17, 2015. The 2014 Plan offers selected employees, directors, and consultants the opportunity to acquire the Company’s common stock and serves to encourage such persons to remain employed by the Company and to attract new employees. The 2014 Plan allows for the award of stock and options, up to 1,000,000 shares of common stock.

Activity in stock options during the six months ended December 31, 2020 and related balances outstanding as of that date are reflected below:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contract Term (# years) |
|----------------------------------|-------------------------|----------------------------------------|-----------------------------------------------------------|
| Outstanding at June 30, 2020 | 579,584 | \$ 11.00 | 7.55 |
| Granted | - | \$ - | - |
| Exercised | (10,750) | \$ 4.60 | - |
| Forfeited and cancelled | (7,463) | \$ 7.31 | - |
| Outstanding at December 31, 2020 | 561,371 | \$ 11.17 | 6.87 |
| Exercisable at December 31, 2020 | 493,224 | \$ 10.94 | 6.67 |

Activity in stock options during the six months ended December 31, 2019 and related balances outstanding as of that date are reflected below:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contract Term (# years) |
|----------------------------------|-------------------------|----------------------------------------|-----------------------------------------------------------|
| Outstanding at June 30, 2019 | 580,171 | \$ 11.05 | 8.59 |
| Granted | - | \$ - | - |
| Exercised | (4,437) | \$ 4.69 | - |
| Forfeited and cancelled | (7,093) | \$ 12.32 | - |
| Outstanding at December 31, 2019 | 568,641 | \$ 11.08 | 8.07 |
| Exercisable at December 31, 2019 | 377,428 | \$ 10.47 | 7.71 |

Restricted Stock Units

On November 5, 2020, the Company's Board of Directors approved an amendment to the Company's 2014 Equity Incentive Plan, as amended (the "2014 Plan"), to include the right to grant Restricted Stock Units ("RSUs") under the 2014 Plan. Subject to vesting requirements set forth in the RSU Award Agreement, one share of common stock is issuable for one vested RSU. In addition, on November 5, 2020, the Board of Directors established and approved an equity pool of 48,000 shares under the 2014 Plan for the issuance of RSUs to its key employees, the grant of 43,525 RSUs for one-time retention awards to its executive officers, and the grant of 67,785 RSUs under the 2014 Plan to certain employees of the Company, which consisted of; (a) 27,114 time-based RSUs, and (b) 40,671 performance-based RSUs. The RSUs are subject to vesting requirements.

Activity in RSUs during the six months ended December 31, 2020 and related balances outstanding as of that date are reflected below:

| | Number of Shares | Weighted Average Grant date Fair Value | Weighted Average Remaining Contract Term (# years) |
|----------------------------------|-------------------------|-----------------------------------------------|-----------------------------------------------------------|
| Outstanding at June 30, 2020 | - | \$ - | - |
| Granted | 134,865 | \$ 8.88 | - |
| Forfeited and cancelled | (4,228) | \$ 8.88 | - |
| Outstanding at December 31, 2020 | 130,637 | \$ 8.88 | 3.15 |

There were no RSUs granted or outstanding during the six months ended December 31, 2019.

Stock-based compensation

Stock-based compensation expense recognized in the condensed consolidated statements of operations for the three and six months ended December 31, 2020 and 2019, includes compensation expense for stock-based options and awards granted based on the grant date fair value. For options and awards granted, expenses are amortized under the straight-line method over the expected vesting period. Stock-based compensation expense recognized in the condensed consolidated statements of operations has been reduced for estimated forfeitures of options and awards 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.

At December 31, 2020, the aggregate intrinsic value of exercisable options was approximately \$3,325,000.

The following table summarizes stock-based compensation expense for employee and non-employee option grants and RSUs:

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|----------------------------------------|------------------------------------|------------|----------------------------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Research and development | \$ 45,000 | \$ 54,000 | \$ 98,000 | \$ 108,000 |
| Selling and administrative | 152,000 | 395,000 | 324,000 | 792,000 |
| Total stock-based compensation expense | \$ 197,000 | \$ 449,000 | \$ 422,000 | \$ 900,000 |

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:

| | Six Months Ended December 31, | |
|-------------------------|----------------------------------|-----------------|
| | 2020 | 2019 |
| Expected volatility | 0% | 111.4% - 112.2% |
| Risk free interest rate | 0% | 2.43% - 2.45% |
| Forfeiture rate | 20% | 20% |
| Dividend yield | 0% | 0% |
| Expected term (years) | 0 | 5.61 |

At December 31, 2020, the unamortized stock-based compensation expense relating to outstanding stock options and RSUs was approximately \$589,000 and \$737,000, respectively, and these amounts are which is expected to be expensed over the weighted-average remaining recognition period of 1.19 years and 3.15 years, respectively.

NOTE 7 - CONCENTRATIONS

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and unsecured trade accounts receivable. The Company maintains its cash in checking and savings accounts at federally insured financial institutions in excess of federally insured limits. As of December 31, 2020, the Company's cash balance was approximately \$4,653,000. Management believes that the Company is not exposed to any significant credit risk with respect to its cash.

Customer Concentrations

During the three months ended December 31, 2020, the Company had four (4) major customers that each represented more than 10% of its revenues, on an individual basis, and together represented approximately \$4,817,000 or 74% of its total revenues. During the six months ended December 31, 2020, the Company had three (3) major customers that each represented more than 10% of its revenues on an individual basis, and together represented approximately \$6,496,000 or 59% of its total revenues.

During the three months ended December 31, 2019, the Company had two (2) major customers that each represented more than 10% of its revenues, on an individual basis, and together represented approximately \$2,828,000 or 78% of its total revenues. During the six months ended December 31, 2019, the Company had three (3) major customers that each represented more than 10% of its revenues on an individual basis, and together represented approximately \$4,085,000 or 74% of its total revenues.

Suppliers/Vendor Concentrations

The Company obtains a limited number of components and supplies included in its products from a small group of suppliers. During the three months ended December 31, 2020, the Company had one (1) supplier who accounted for more than 10% of its total purchases and represented approximately \$1,489,000 or 20% of its total purchases. During the six months ended December 31, 2020 the Company had one (1) supplier that represented more than 10% of its total purchases and represented approximately \$2,648,000 or 19% of its total purchases.

During the three months ended December 31, 2019, the Company had two (2) suppliers who accounted for more than 10% of its total purchases, on an individual basis, and together represented approximately \$1,175,000 or 29% of its total purchases. During the six months ended December 31, 2019 the Company had two (2) suppliers that each represented more than 10% of its total purchases, on an individual basis, and together represented approximately \$2,208,000 or 34% of its total purchases.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

From time to time, the Company may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties and an adverse result in these or other matters may arise from time to time that may harm the Company's business. To the best knowledge of management, there are no material legal proceedings pending against the Company.

Operating Leases

On April 25, 2019 the Company signed a Standard Industrial/Commercial Multi-Tenant Lease ("Lease") with Accutek to rent approximately 45,600 square feet of industrial space at 2685 S. Melrose Drive, Vista, California. The Lease has an initial term of seven years and four months, commencing on or about June 28, 2019. The lease contains an option to extend the term for two periods of 24 months, and the right of first refusal to lease an additional approximate 15,300 square feet. The monthly rental rate is \$42,400 for the first 12 months, escalating at 3% each year.

On February 26, 2020, the Company entered into the First Amendment to Standard Industrial/Commercial Multi-Tenant Lease dated April 25, 2019 (the "Amendment") with Accutek to rent an additional 17,539 rentable square feet of space. The lease for the additional space commenced on April 1, 2020 (30 days following the occupancy date of the additional space) and will terminate concurrently with the term of the original lease on November 20, 2026. The base rent for the additional space is the same rate as the space rented under the terms of the original lease, \$0.93 per rentable square (subject to 3% annual increase). In connection with the Amendment, the Company purchased certain existing office furniture for a total purchase price of \$8,300.

Total rent expense was approximately \$215,000 and \$421,000 for the three months and six months ended December 31, 2020, respectively.

Total rent expense was approximately \$128,000 and \$298,000 for the three months and six months ended December 31, 2019, respectively.

The Future Minimum Lease Payments as of December 31, 2020 are as follows:

| | | |
|-------------------------------------|----|-------------------------|
| Year Ending June 30, | | |
| 2021 (remaining six months) | \$ | 363,000 |
| 2022 | | 746,000 |
| 2023 | | 768,000 |
| 2024 | | 791,000 |
| 2025 | | 815,000 |
| Thereafter | | 1,199,000 |
| Total Future Minimum Lease Payments | | <u>4,682,000</u> |
| Less: discount | | (1,189,000) |
| Total lease liability | \$ | <u><u>3,493,000</u></u> |

NOTE 9 - SUBSEQUENT EVENTS

Credit facility

During January 2021 two holders of the Company's outstanding convertible debt issued in connection with the Third Amended and Restated Credit Facility Agreement exercised their rights to convert approximately \$1,588,000 in principal and accrued interest outstanding into 396,970 shares of common stock at \$4.00 per share (the "Conversion Shares"). After giving effect to the issuance of the Conversion Shares, as of February 7, 2021, there was approximately \$884,000 outstanding under the LOC and approximately \$11,116,000 available for future draws.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion 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 unaudited interim condensed consolidated Financial Statements and Notes thereto and Part II, Item 7, Management's Discussion and Analysis of Financial condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended June 30, 2020.

Business Overview

We design, develop, manufacture, and sell advanced lithium-ion energy storage solutions for lift trucks, airport ground support equipment (GSE), stationary energy storage, and other industrial and commercial applications. Our "LiFT Pack" battery packs, including our proprietary battery management system ("BMS"), provide our customers with a better performing, higher value, and more environmentally friendly alternative as compared to traditional lead acid and propane-based solutions. We believe that the increasing demand for lithium-ion battery packs in the material handling sector continues to drive our current revenue growth.

Our long-term strategy is to meet the rapidly growing demand for lithium-ion storage solutions and to be the supplier of choice, targeting large fleets as a priority. We intend to reach this goal by investing in research and development to expand our product mix, and by expanding our sales and marketing efforts, improving our customer support efforts and continuing our efforts to improve production efficiencies. Our research and development efforts center on providing better technology than our competition. We recently filed three new patents on advanced technology related to lithium-ion battery packs. The technology behind these pending patents are designed to:

- increase battery life by optimizing the charging cycle,
- give users a better understanding of the health of their battery in use, and
- apply artificial intelligence ("AI") to predictively balance the cells for optimal performance.

We currently focus on the material handling sector and "natural product extensions" including stationary power and airport ground support equipment. The material handling sector is a multi-billion dollar addressable market and provides opportunity to build scale to achieve product and service levels to win and support large fleets. Natural product extensions including solar energy storage provide further growth opportunities. We continue to expand our supply chain and customer partnerships and seek further partnerships and/or acquisitions that provide synergy to meeting our growth and "building scale" objectives. Our recent business growth reflects our expanded product line, additional OEM relationships and supply contracts, production capacity increases, and an expanded nation-wide service footprint. Our strategy for sales growth places a high priority on growing relationships with the national account sales forces of the equipment OEMs and solidifying our brand reputation of trust and reliability.

Improvement in our gross profit margin remains a high priority for us. Our gross profit margin has been increasing due to internal initiatives to reduce production costs through volume purchases, design improvements, and supplier sourcing.

To achieve our objective of becoming the supplier of choice, we continue to expand our infrastructure to support sales to Fortune 500 fleets and to meet their demands, including timely deliveries and service to nation-wide locations and quality requirements. Given current expectations, we anticipate that our revenue growth to exceed the corresponding increase in our infrastructure expenses resulting to improved profitability going forward.

To support our plans for growth, we have improved our financial strength and our access to capital. Our outstanding debt has been reduced through a combination of debt service and the decision by holders of our notes to convert their notes to equity. On August 18, 2020, we closed an underwritten public offering of our common stock at a public offering and issued 3,099,250 shares of our common stock at \$4.00 per share for gross proceeds of approximately \$12.4 million, which included the full exercise of the underwriters' over-allotment option to purchase additional shares, prior to deducting underwriting discounts and commissions and offering expenses. Concurrent with the announcement of our public offering, on August 14, 2020, our common stock commenced trading on The NASDAQ Capital Market under the symbol "FLUX." On October 16, 2020 we filed a shelf registration on Form S-3 for \$50 million to support capital raise for business growth. We recently put in place a new revolving line of credit for up to \$4 million with Silicon Valley Bank which matures on November 8, 2021. In connection with the shelf registration statement, in December 2020, we entered into a Sales Agreement with H.C. Wainwright & Co., LLC enabling us to sell shares of our common stock in "At-The-Market" offerings from time to time. We will continue to explore a variety of options to access the capital needed to fund our operations.

Recent Developments

COVID-19 Update

As a result of the COVID-19 pandemic, the state government, California, where our manufacturing facility is located—had issued orders requiring businesses that do not conduct essential services to temporarily close their physical workplaces to employees and customers. We were deemed an essential business and, as a result, were exempt from those state orders. In March 2020, we put in place a number of protective measures in response to the COVID-19 outbreak.

These measures include the cancelling of all non-critical commercial air travel and all other travel, requesting that employees limit non-essential personal travel, eliminating all but essential third-party access to our facilities, enhancing our facilities' janitorial and sanitary procedures, encouraging employees to work from home to the extent their job function enables them to do so, encouraging the use of virtual employee meetings, and providing staggered work hours and social distancing measures for those employees associated with manufacturing and service operations.

We cannot predict at this time the full extent to which COVID-19 will impact our business, results and financial condition, which will depend on many factors. We are staying in close communication with our employees, customers, suppliers and partners, and acting to mitigate the impact of this dynamic and evolving situation, but there is no guarantee that we will be able to do so. Although as of the date hereof, we have not observed any material impacts to our supply of components, but the situation is fluid.

Many of our customers are essential businesses and remain in operation, reflecting the ongoing needs for material handling and contributing to our growth trajectory. We have experience reduced demand from our customers for lithium-ion packs for airport ground support equipment due to reduction in air travel of passengers and cargo.

Future changes in applicable government orders or regulations, or changes in the interpretation of existing orders or regulations, could result in further disruptions to our business that may materially and adversely affect our financial condition and results of operations.

Credit Facility

On November 6, 2020, there was a partial conversion of the debt underlying the secured promissory notes issued to six (6) note holders under the LOC at a conversion price of \$4.00 per share. At the option of the note holders, on November 6, 2020, an aggregate of approximately \$2,161,000 in principal and accrued interest outstanding under the LOC was converted into 540,347 shares of our common stock.

In January 2021, there was a partial conversion of the debt underlying the secured promissory notes issued to two (2) note holders under the LOC at a conversion price of \$4.00 per share. At the option of the note holders, on January 6, 2021 and January 8, 2021, approximately \$561,000 and \$1,027,000, respectively, in principal and accrued interest outstanding was converted into 140,199 and 256,771 shares of our common stock, respectively. After giving effect to the issuance of such shares, as of February 7, 2021, there was approximately \$884,000 outstanding under the LOC and approximately \$11,116,000 available for future draws. As of February 7, 2021, the Company had 12,592,908 shares of common stock outstanding.

Segment and Related Information

We operate as a single reportable segment.

Results of Operations and Financial Condition

The following table represents our unaudited condensed consolidated statement of operations for the three months ended December 31, 2020 and 2019.

| | Three Months Ended December 31, | | | |
|-------------------------------------|---------------------------------|---------------|----------------|---------------|
| | 2020 | | 2019 | |
| | \$ | % of Revenues | \$ | % of Revenues |
| Revenues | \$ 6,469,000 | 100% | \$ 3,615,000 | 100% |
| Cost of sales | 4,980,000 | 77% | 3,289,000 | 91% |
| Gross profit | 1,489,000 | 23% | 326,000 | 9% |
| Operating expenses: | | | | |
| Selling and administrative expenses | 3,135,000 | 48% | 2,229,000 | 62% |
| Research and development | 1,594,000 | 25% | 1,021,000 | 28% |
| Total operating expenses | 4,729,000 | 73% | 3,250,000 | 90% |
| Operating loss | (3,240,000) | -50% | (2,924,000) | -81% |
| Interest expense, net | (124,000) | -2% | (383,000) | -11% |
| Net loss | \$ (3,364,000) | -52% | \$ (3,307,000) | -91% |

Revenues

Our product focus is primarily on lift equipment, reflecting our current products for walkie pallet jacks, and higher capacity packs for Class 1, 2, and 3 forklifts. We have continued to expand in markets that offer natural applications for our products, including airport ground support equipment and energy storage for solar EV charging stations. We feel that we are well positioned to address these markets, which utilize our modular and scalable battery pack design and technology.

We currently sell most of our products through a distribution network of equipment dealers, OEMs and battery distributors in North America. This distribution network primarily sells to large, multi-facility companies. However, we do sell certain battery packs directly to other customers, including industrial equipment manufacturers and the ultimate end-user.

Revenues for the quarter ended December 31, 2020, increased by \$2,854,000 or 79% to \$6,469,000, compared to \$3,615,000 for the quarter ended December 31, 2019. This substantial increase in revenue was directly attributable to the increase in battery pack sales across several of the different series of batteries, notably M36 battery, G Series, X Series, and C Series. The increased sales was a result of sales growth from existing customers as well as the addition of new customers.

Cost of Sales

Cost of sales for the quarter ended December 31, 2020, increased by \$1,691,000, or 51%, to \$4,980,000 compared to \$3,289,000 for the quarter ended December 31, 2019. The 51% increase in cost of sales on a revenue increase of 79% reflected direct cost reduction and. Cost of sales as a percent of revenue for the quarter ended December 31, 2020 was 77% compared to 91% for the same period last year. The principal drivers of cost reductions in the quarter were reduced material costs through volume purchasing, reduced warranty related expenses, increased sales of higher margin packs, and lower personnel related costs.

Gross Profit

Gross profit for the quarter ended December 31, 2020 increased by \$1,163,000 or 357%, to \$1,489,000 compared to \$326,000 for the quarter ended December 31, 2019. Gross profit as a percentage of revenues increased to 23% for the quarter ended December 31, 2020 as compared to 9% for the quarter ended December 31, 2019. Improvement in the gross profit margin was primarily attributable to higher sales to both new and existing customers, and to the cost of sales efficiencies noted above.

Selling and Administrative Expenses

Selling and administrative expenses for the quarter ended December 31, 2020 increased by \$906,000 or 41%, to \$3,135,000 compared to \$2,229,000 for the quarter ended December 31, 2019. The increase was primarily attributable to increases in personnel related expenses, sales commissions, professional liability and directors and officers insurance, shipping/freight expenses, board compensation, partially offset by a decrease in stock-based compensation.

Research and Development Expense

Research and development expenses for the quarter ended December 31, 2020 increased by \$573,000 or 56%, to \$1,594,000 compared to \$1,021,000 for the quarter ended December 31, 2019. Such expenses consisted primarily of materials, supplies, salaries and personnel related expenses, product testing, consulting, and other expenses associated with the product development. The increase in expenses was primarily due to additional research expenses related to new product development including expenses related to UL certification, partially offset by labor related efficiencies. We anticipate research and development expenses to remain an ongoing portion of our expenses as we continue to introduce new and improved products.

Interest Expense

Interest expense for the quarter ended December 31, 2020 decreased by \$259,000 or 68% to \$124,000 compared to \$383,000 for the quarter ended December 31, 2019. Interest expense was primarily related to our outstanding lines of credit and convertible promissory note. Interest expense decreased during the quarter ended December 31, 2020 due to a lower average outstanding debt balance as certain noteholders elected to convert their notes to equity.

Net Loss

Net loss for the quarter ended December 31, 2020 increased nominally by \$57,000 or 2%, to \$3,364,000 as compared to \$3,307,000 for the quarter ended December 31, 2019. The increase was primarily attributable to increased operating expenses, offset by a decrease in interest expense, and an increase in gross profit.

The following table represents our unaudited condensed consolidated statement of operations for the six months ended December 31, 2020 and December 31, 2019.

| | Six months ended December 31, | | | |
|-------------------------------------|-------------------------------|---------------|----------------|---------------|
| | 2020 | | 2019 | |
| | \$ | % of Revenues | \$ | % of Revenues |
| Net revenues | \$ 10,968,000 | 100% | \$ 5,534,000 | 100% |
| Cost of sales | 8,606,000 | 78% | 5,091,000 | 92% |
| Gross profit | 2,362,000 | 22% | 443,000 | 8% |
| Operating expenses: | | | | |
| Selling and administrative expenses | 6,055,000 | 56% | 4,492,000 | 81% |
| Research and development | 3,101,000 | 28% | 2,361,000 | 43% |
| Total operating expenses | 9,156,000 | 84% | 6,853,000 | 124% |
| Operating loss | (6,794,000) | -62% | (6,410,000) | -116% |
| Other income (expense): | | | | |
| Interest expense, net | (554,000) | -5% | (711,000) | -13% |
| Net loss | \$ (7,348,000) | -67% | \$ (7,121,000) | -129% |

Revenues

Revenues for the six months ended December 31, 2020, increased by \$5,434,000 or 98%, to \$10,968,000 compared to \$5,534,000 for the six months ended December 31, 2019. This substantial increase in revenue was directly attributable to the increase in battery pack sales across several of the different series of batteries, notably M36 battery, G Series and X Series, as we continue to add new product lines. The increased sales included sales growth of existing customers as well as the addition of new customers.

Cost of Sales

Cost of sales for the six months ended December 31, 2020, increased by \$3,515,000, or 69%, to \$8,606,000 compared to \$5,091,000 for the six months ended December 31, 2019. The 69% increase in cost of sales on a revenue increase of 98% reflected direct cost reduction. Cost of sales as a percentage of revenue for the six months ended December 31, 2020 was 78%, a decrease of 14% compared to 92% for the six months ended December 31, 2019. The principal drivers of cost reductions in the quarter were simplified component designs, reduced material costs through volume purchasing, reduced warranty related expenses, and lower personnel related costs.

Gross Profit

Gross profit for the six months ended December 31, 2020 increased by \$1,919,000 or 433%, to \$2,362,000 compared to \$443,000 for the six months ended December 31, 2019. Gross profit as a percentage of revenues increased to 22% for the six months ended December 31, 2020 as compared to 8% for the six months ended December 31, 2019. Improvement in the gross profit margin was primarily attributable to higher sales to both new and existing customers, and to the cost of sales efficiencies noted above.

Selling and Administrative Expenses

Selling and administrative expenses for the six months ended December 31, 2020 increased by \$1,563,000 or 35%, to \$6,055,000 compared to \$4,492,000 for the six months ended December 31, 2019. The increase was primarily attributable to increases in payroll costs related to additional new hires as well as sales commission, insurance expenses including professional liability and directors and officers insurance, board compensation, and marketing expenses, partially offset by decreases in stock-based compensation and travel costs.

Research and Development Expense

Research and development expenses for the six months ended December 31, 2020 increased by \$740,000 or 31%, to \$3,101,000 compared to \$2,361,000 for the six months ended December 31, 2019. Such expenses consisted primarily of materials, supplies, salaries and personnel related expenses, product testing, consulting, and other expenses associated with product development. The increase in expenses was primarily due to additional research expenses related to new product development including expenses related to UL certifications, partially offset by labor related efficiencies. We anticipate research and development expenses to remain an ongoing portion of our expenses as we continue to introduce new and improved products.

Interest Expense

Interest expense for the six months ended December 31, 2020 decreased by \$157,000 or 22% to \$554,000 compared to \$711,000 for the six months ended December 31, 2019. Interest expense has consisted primarily of interest expense related to our outstanding lines of credit and convertible promissory note. Also included in interest expense during the six months ended December 31, 2020 was additional interest expense of approximately \$174,000 of amortization of debt discount related to Cleveland promissory note that was paid off in August 2020. Interest expense decreased due to lower average outstanding debt balance during the current six-month period as certain note holders elected to convert their notes to equity, partially offset by \$174,000 of debt discount amortization noted above.

Net Loss

Net loss for the six months ended December 31, 2020 increased by \$227,000 or 3%, to \$7,348,000 as compared to \$7,121,000 for the six months ended December 31, 2019. The increase is primarily attributable to increased operating expenses, offset by a decrease in interest expense, and an increase in gross profit.

Liquidity and Capital Resources

Overview

As of December 31, 2020, we had a cash balance of \$4,653,000 and an accumulated deficit of \$60,760,000. We believe our existing cash, combined with additional funding available under our existing LOC under the Third Amended and Restated Credit Facility Agreement and under our new revolving line of credit for up to \$4 million with Silicon Valley Bank, together with potential sales of our common stock under the sale Agreement with H.C. Wainwright & Co., LLC will be sufficient to meet our anticipated capital resources to fund planned operations for the next twelve months. See “Future Liquidity Needs” below.

Cash Flows

Operating Activities

Net cash used in operating activities was \$10,290,000 for the six months ended December 31, 2020, compared to net cash used in operating activities of \$3,987,000 for the six months ended December 31, 2019. The net cash used in operating activities for the six months ended December 31, 2020 reflects the net loss of \$7,348,000 for the period offset primarily by non-cash items including depreciation, stock-based compensation, non-cash interest expense, non-cash facility lease expense, amortization of prepaid offering costs, as well as, increases in accounts payable and accrued expenses, accrued interest, and deferred revenue, partially offset by increases in accounts receivable, inventory, other current assets, and decreases in customer deposits, drawdowns from factoring facility, and office lease payable. We continue our efforts to improve our working capital efficiency by improving vendor terms and inventory levels and decreasing our receivables days outstanding.

Net cash used in operating activities for the six months ended December 31, 2019 reflects the net loss of \$7,121,000 for the period offset primarily by non-cash items including depreciation, stock-based compensation, non-cash interest expense, non-cash facility lease expense, as well as increases in accounts payable, drawdowns from factoring facility, and customer deposits, partially offset by increases in accounts receivable, inventory, and other current assets.

Investing Activities

Net cash used in investing activities was \$417,000 for the six months ended December 31, 2020 and consisted primarily of the costs of internally developed software and purchase of furniture and equipment and warehouse equipment.

Net cash used in investing activities was \$122,000 for the six months ended December 31, 2019 and consisted primarily of the purchase of leasehold improvements and warehouse equipment.

Financing Activities

Net cash provided by financing activities was \$14,634,000 for the six months ended December 31, 2020, which primarily consisted of \$17,234,000 in net proceeds from the issuance of common stock in a public offering, a private placement, and under our At-The-Market offering, which were partially offset by \$2,580,000 in payments of outstanding related party borrowings, and \$20,000 in payment of financing lease payable.

Net cash provided by financing activities was \$4,143,000 for the six months ended December 31, 2019, which primarily consisted of borrowings under the Company's Amended and Restated Credit Facility Agreement.

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. We believe that our existing cash, combined with additional funding available to us under our existing Third Amended and Restated Credit Facility Agreement, our existing revolving working capital line of credit with Silicon Valley Bank for \$4,000,000 and potential sales of our common stock under the "At-The-Market" offering will be sufficient to meet our anticipated capital resources to fund planned operations for the next twelve months. As of February 7, 2021, there is approximately \$11,116,000 available for future draws under the LOC. In addition, to support our operations and anticipated growth, we intend on continue our efforts to secure additional capital from a variety of current and new sources including, but not limited to, a working capital line of credit facility, and sales of our equity securities.

To the extent that we raise additional funds by issuing equity or convertible debt securities, our shareholders may experience additional dilution and such financing may involve restrictive covenants.

Off-Balance Sheet Arrangements

None.

Critical Accounting Policies

The unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. Information with respect to our critical accounting policies which we believe could have the most significant effect on our reported results and require subjective or complex judgments by management is contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the year ended June 30, 2020.

ITEM 3 - 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 4 - 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 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 upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2020.

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.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the six months ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties and an adverse result in these or other matters may arise from time to time that may harm our business. To the best knowledge of management, there are no material legal proceedings pending against the Company.

ITEM 1A - RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks set forth in the section captioned "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended June 30, 2020, filed with the SEC on September 28, 2020, before making an investment decision. If any of the 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 captioned "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.

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Conversion of Debt

On November 6, 2020, we issued an aggregate of 540,347 shares of common stock at \$4.00 per share to six (6) note holders in connection with the conversion of \$2,161,000 in principal and accrued interest outstanding under the Third Amended and Restated Credit Facility.

During January 2021, we issued an aggregate of 396,970 shares of common stock to two (2) note holders at \$4.00 per share in connection with the conversion of \$1,588,000 in principal and accrued interest outstanding under the Third Amended and Restated Credit Facility.

The offers, sales, and issuances of the securities described above were deemed to be exempt from registration under the Securities Act in reliance on Section 4(a)(2) of the Securities Act or Rule 506 of Regulation D promulgated thereunder as transactions by an issuer not involving a public offering. Each of the recipients of securities in these transactions was an accredited investor within the meaning of Rule 501 of Regulation D under the Securities Act.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS

The following exhibits are filed as part of this Report.

| Exhibit No. | Description |
|-------------|--------------------------------------------------------------------------------------------------------------------|
| 10.1 | <u>Amendment No. 2 to the Flux Power Holdings Inc. 2014 Equity Incentive Plan⁽¹⁾</u> |
| 10.2 | <u>Form of Restricted Stock Unit Award Agreement⁽¹⁾</u> |
| 10.3 | <u>Form of Performance Restricted Stock Unit Award Agreement⁽¹⁾</u> |
| 10.4 | <u>Annual Cash Bonus Plan⁽¹⁾</u> |
| 10.5 | <u>Loan and Security Agreement with Silicon Valley Bank⁽²⁾</u> |
| 10.6 | <u>Intellectual Property Security Agreement⁽²⁾</u> |
| 10.7 | <u>Sales Agreement with H.C. Wainwright & Co., LLC⁽³⁾</u> |
| 31.1 | <u>Certifications of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act.*</u> |
| 31.2 | <u>Certifications of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act.*</u> |
| 32.1 | <u>Certifications of the Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act.*</u> |
| 32.2 | <u>Certifications of the Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act.*</u> |
| 101.INS | XBRL Instance Document* |
| 101.SCH | XBRL Taxonomy Extension Schema* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase* |

* Filed herewith

(1) Incorporated by reference to Current Report on Form 8-K filed with the SEC on November 9, 2020.

(2) Incorporated by reference to Current Report on Form 8-K filed with the SEC on November 12, 2020.

(3) Incorporated by reference to Current Report on Form 8-K filed with the SEC on December 21, 2020.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Flux Power Holdings, Inc.

Date: February 11, 2021

By: /s/ Ronald F. Dutt

Ronald F. Dutt
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Charles A. Scheiwe

Charles A. Scheiwe
Chief Financial Officer
(Principal Financial Officer)