MORGAN STANLEY
Form 424B2
November 28, 2018

The information in this preliminary pricing supplement is not complete and may be changed. We may not deliver these notes until a final pricing supplement is delivered. This preliminary pricing supplement and the accompanying prospectus, product supplement and index supplement do not constitute an offer to sell these notes and we are not soliciting an offer to buy these notes in any state where the offer or sale is not permitted.

Subject to Completion, Preliminary Pricing Supplement dated November 28, 2018

PROSPECTUS Dated November 16, 2017	***Pricing Supplement No. 1,256 to***
PRODUCT SUPPLEMENT Dated November 16, 2017	***Registration Statement Nos. 333-221595; 333-221595-01***
INDEX SUPPLEMENT Dated November 16, 2017	***Dated , 2018***
	Rule 424(b)(2)

Morgan Stanley Finance LLC

STRUCTURED INVESTMENTS

Opportunities in U.S. Equities

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Capped Leveraged S&P 500® Index-Linked Notes due

Fully and Unconditionally Guaranteed by Morgan Stanley

Principal at Risk Securities

The notes are unsecured obligations of Morgan Stanley Finance LLC ("MSFL") and are fully and unconditionally guaranteed by Morgan Stanley. The notes will not bear interest. The amount that you will be paid on your notes on the stated maturity date (expected to be the second scheduled business day after the determination date) is based on the performance of the S&P 500® Index as measured from the trade date to and including the determination date (expected to be between 24 and 27 months after the trade date). If the final underlier level on the determination date is greater than the initial underlier level (set on the trade date and may be higher or lower than the actual closing level of the underlier on the trade date), the return on your notes will be positive, subject to the maximum settlement amount (expected to be between $1,249.30 and $1,292.50 for each $1,000 face amount of your notes). **However, if the final underlier level is less than the initial underlier level, the return on your notes will be negative. You could lose your entire investment in the notes.** The notes are notes issued as part of MSFL's Series A Global Medium-Term Notes program.

All payments are subject to our credit risk. If we default on our obligations, you could lose some or all of your investment. These notes are not secured obligations and you will not have any security interest in, or otherwise have any access to, any underlying reference asset or assets.

To determine your payment at maturity, we will calculate the underlier return, which is the percentage increase or decrease in the final underlier level from the initial underlier level. On the stated maturity date, for each $1,000 face amount of your notes, you will receive an amount in cash equal to:

if the underlier return is *positive* (the final underlier level is *greater than* the initial underlier level), the *sum* of (i) $1,000 *plus* (ii) the *product* of (a) $1,000 *times* (b) 300% *times* (c) the underlier return, subject to the maximum settlement amount; or

if the underlier return is *zero or negative* (the final underlier level is *equal to or less than* the initial underlier level), the *sum* of (i) $1,000 *plus* (ii) the *product* of (a) the underlier return *times* (b) $1,000.

If the underlier return is negative (the final underlier level is less than the initial underlier level), you will lose some or all of your investment.

You should read the additional disclosure herein so that you may better understand the terms and risks of your investment.

The estimated value on the trade date will be approximately $976.30 per note, or within $15.00 of that estimate. See "Estimated Value" on page 2.

	Price to public[(1)]	*Agent's commissions*	*Proceeds to us*[(2)]
Per note	*$1,000*	*$20*	*$980*
Total	*$*	*$*	*$*

(1) The price to public will be between 98.00% and 100.00% of the face amount, reflecting, for certain investors, a foregone agent's commission with respect to sales of such notes; see "Additional Information About the Notes — Supplemental information regarding plan of distribution; conflicts of interest" on page 21. Morgan Stanley & Co. LLC ("MS & Co.") will sell all of the notes that it purchases from us to an unaffiliated dealer. Investors that purchase and hold the notes in fee-based accounts may be charged fees based on the amount of assets held in those accounts, including the notes.

(2) See "Additional Information About the Notes —Use of proceeds and hedging" beginning on page 19.

The notes involve risks not associated with an investment in ordinary debt securities. See "Risk Factors" beginning on page 10.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these notes, or determined if this document or the accompanying product supplement, index supplement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The notes are not deposits or savings accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality, nor are they obligations of, or guaranteed by, a bank.

You should read this document together with the related product supplement, index supplement and prospectus, each of which can be accessed via the hyperlinks below. Please also see "Terms" on page 3 and "Additional Information About the Notes" on page 19.

MORGAN STANLEY

About Your Prospectus

The notes are notes issued as part of MSFL's Series A Global Medium-Term Notes program. This prospectus includes this preliminary pricing supplement and the accompanying documents listed below. This preliminary pricing supplement constitutes a supplement to the documents listed below and should be read in conjunction with such documents:

Prospectus dated November 16, 2017

Product Supplement dated November 16, 2017

Index Supplement dated November 16, 2017

The information in this preliminary pricing supplement supersedes any conflicting information in the documents listed above. In addition, some of the terms or features described in the listed documents may not apply to your notes.

ESTIMATED VALUE

The Original Issue Price of each note is $1,000. This price includes costs associated with issuing, selling, structuring and hedging the notes, which are borne by you, and, consequently, the estimated value of the notes on the Trade Date will be less than $1,000. We estimate that the value of each note on the Trade Date will be approximately $976.30, or within $15.00 of that estimate. Our estimate of the value of the notes as determined on the Trade Date will be set forth in the final pricing supplement.

What goes into the estimated value on the Trade Date?

In valuing the notes on the Trade Date, we take into account that the notes comprise both a debt component and a performance-based component linked to the Underlier. The estimated value of the notes is determined using our own pricing and valuation models, market inputs and assumptions relating to the Underlier, instruments based on the Underlier, volatility and other factors including current and expected interest rates, as well as an interest rate related to our secondary market credit spread, which is the implied interest rate at which our conventional fixed rate debt trades in the secondary market.

What determines the economic terms of the notes?

In determining the economic terms of the notes, including the Upside Participation Rate, the Cap Level and the Maximum Settlement Amount, we use an internal funding rate, which is likely to be lower than our secondary market credit spreads and therefore advantageous to us. If the issuing, selling, structuring and hedging costs borne by you were lower or if the internal funding rate were higher, one or more of the economic terms of the notes would be more favorable to you.

What is the relationship between the estimated value on the Trade Date and the secondary market price of the notes?

The price at which MS & Co. purchases the notes in the secondary market, absent changes in market conditions, including those related to the Underlier, may vary from, and be lower than, the estimated value on the Trade Date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type and other factors. However, because the costs associated with issuing, selling, structuring and hedging the notes are not fully deducted upon issuance, for a period of up to 3 months following the issue date, to the extent that MS & Co. may buy or sell the notes in the secondary market, absent changes in market conditions, including those related to the Underlier, and to our secondary market credit spreads, it would do so based on values higher than the estimated value. We expect that those higher values will also be reflected in your brokerage account statements.

MS & Co. may, but is not obligated to, make a market in the notes, and, if it once chooses to make a market, may cease doing so at any time.

SUMMARY INFORMATION

The Capped Leveraged S&P 500® Index-Linked Notes, which we refer to as the notes, are unsecured obligations of MSFL and are fully and unconditionally guaranteed by Morgan Stanley. The notes will pay no interest, do not guarantee any return of principal at maturity and have the terms described in the accompanying product supplement, index supplement and prospectus, as supplemented or modified by this document. The notes are notes issued as part of MSFL's Series A Global Medium-Term Notes program.

References to "we," "us" and "our" refer to Morgan Stanley or MSFL, or Morgan Stanley and MSFL collectively, as the context requires.

Terms

Capitalized terms used but not defined herein have the meanings assigned to them in the accompanying product supplement and prospectus. All references to "Cash Settlement Amount," "Closing Level," "Determination Date," "Face Amount," "Final Underlier Level," "Initial Underlier Level," "Maximum Settlement Amount," "Original Issue Price," "Stated Maturity Date," "Trade Date," "Underlier," "Underlier Return" and "Upside Participation Rate" herein shall be deemed to refer to "payment at maturity," "index closing value," "valuation date," "stated principal amount," "final index value," "initial index value," "maximum payment at maturity," "issue price," "maturity date," "pricing date," "underlying index," "index return" and "leverage factor," respectively, as used in the accompanying product supplement.

If the terms described herein are inconsistent with those described in the accompanying product supplement or prospectus, the terms described herein shall control.

Issuer: Morgan Stanley Finance LLC

Guarantor: Morgan Stanley

Underlier: S&P 500® Index

Underlier Publisher: S&P Dow Jones Indices LLC

Notes: The accompanying product supplement refers to the notes as the "PLUS."

Specified currency: U.S. dollars ("$")

Face Amount: Each note will have a Face Amount of $1,000; $ in the aggregate for all the notes; the aggregate Face Amount of notes may be increased if the Issuer, at its sole option, decides to sell an additional amount of the notes on a date subsequent to the date hereof.

Denominations: $1,000 and integral multiples thereof

Cash Settlement Amount (on the Stated Maturity Date): For each $1,000 Face Amount of notes, we will pay you on the Stated Maturity Date an amount in cash equal to:

- if the Final Underlier Level is *greater than* or *equal to* the Cap Level, the Maximum Settlement Amount;
- if the Final Underlier Level is *greater than* the Initial Underlier Level but *less than* the Cap Level, the *sum* of (i) $1,000 *plus* (ii) the *product* of (a) $1,000 *times* (b) the Upside Participation Rate *times* (c) the Underlier Return; or
- if the Final Underlier Level is *equal to or less than* the Initial Underlier Level, the *sum* of (i) $1,000 *plus* (ii) the *product* of (a) $1,000 *times* (b) the Underlier Return.

You will lose some or all of your investment at maturity if the Final Underlier Level is less than the Initial Underlier Level. Any payment of the Cash Settlement Amount is subject to the credit of the Issuer.

Initial Underlier Level: To be determined on the Trade Date. The Initial Underlier Level may be higher or lower than the actual Closing Level of the Underlier on the Trade Date; provided that the Initial Underlier Level will not be higher than the highest level of the Underlier on the Trade Date.

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Final Underlier Level: The Closing Level of the Underlier on the Determination Date, except in the limited circumstances described under "Description of PLUS—Postponement of Valuation Date(s)" on page S-44 of the accompanying product supplement, and subject to adjustment as provided under "Description of PLUS—Discontinuance of Any Underlying Index or Basket Index; Alteration of Method of Calculation" on page S-47 of the accompanying product supplement.

Underlier Return: The *quotient* of (i) the Final Underlier Level *minus* the Initial Underlier Level *divided* by (ii) the Initial Underlier Level, expressed as a percentage

Upside Participation Rate: 300%

Cap Level (to be set on the Trade Date): Expected to be between 108.31% and 109.75% of the Initial Underlier Level

Maximum Settlement Amount (to be set on the Trade Date): Expected to be between $1,249.30 and $1,292.50 for each $1,000 Face Amount of notes

Trade Date:

Original Issue Date (Settlement Date) (to be set on the Trade Date): Expected to be the fifth scheduled Business Day following the Trade Date

Determination Date (to be set on the Trade Date): Expected to be between 24 and 27 months after the Trade Date, subject to postponement as described in the accompanying product supplement on page S-44 under "Description of PLUS—Postponement of Valuation Date(s)."

Stated Maturity Date (to be set on the Trade Date): Expected to be the second scheduled Business Day following the Determination Date, subject to postponement as described below. The Stated Maturity Date is a pricing term and will be determined by us on the Trade Date.

Postponement of Stated Maturity Date: If the scheduled Determination Date is not a Trading Day or if a market disruption event occurs on that day so that the Determination Date as postponed falls less than two Business Days prior to the scheduled Stated Maturity Date, the Stated Maturity Date of the notes will be postponed to the second

Business Day following that Determination Date as postponed.

Closing Level: As described under "Description of PLUS—Some Definitions—index closing value" on page S-37 of the accompanying product supplement

Business Day: As described under "Description of PLUS—Some Definitions—business day" on page S-36 of the accompanying product supplement

Trading Day: As described under "Description of PLUS—Some Definitions—index business day" on page S-37 of the accompanying product supplement. The product supplement refers to a Trading Day as an "index business day."

Market disruption event: The following replaces in its entirety the section entitled "Description of PLUS—Some Definitions—market disruption event" on page S-37 of the accompanying product supplement:

"Market disruption event" means, with respect to the Underlier:

(i) the occurrence or existence of:

(a) a suspension, absence or material limitation of trading of securities then constituting 20 percent or more, by weight, of the Underlier (or the successor index) on the relevant exchanges for such securities for more than two hours of trading or during the one-half hour period preceding the close of the principal trading session on such relevant exchange, or

(b) a breakdown or failure in the price and trade reporting systems of any relevant exchange as a result of which the reported trading prices for securities then constituting 20 percent or more, by weight, of the Underlier (or the successor index), or futures or options contracts, if available, relating to the Underlier (or the successor index) or the securities then constituting 20 percent or more, by weight, of the Underlier during the last one-half

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hour preceding the close of the principal trading session on such relevant exchange are materially inaccurate, or

(c) the suspension, material limitation or absence of trading on any major U.S. securities market for trading in futures or options contracts or exchange-traded funds related to the Underlier (or the successor index), or in futures or options contracts, if available, relating to securities then constituting 20 percent or more, by weight, of the Underlier (or the successor index) for more than two hours of trading or during the one-half hour period preceding the close of the principal trading session on such market,

in each case as determined by the calculation agent in its sole discretion; and

(ii) a determination by the calculation agent in its sole discretion that any event described in clause (i) above materially interfered with our ability or the ability of any of our affiliates to unwind or adjust all or a material portion of the hedge position with respect to the notes.

For the purpose of determining whether a market disruption event exists at any time, if trading in a security included in the Underlier is suspended, absent or materially limited at that time, then the relevant percentage contribution of that security to the value of the Underlier shall be based on a comparison of (x) the portion of the value of the Underlier attributable to that security relative to (y) the overall value of the Underlier, in each case immediately before that suspension or limitation.

For the purpose of determining whether a market disruption event has occurred: (1) a limitation on the hours or number of days of trading will not constitute a market disruption event if it results from an announced change in the regular business hours of the relevant exchange or market, (2) a decision to permanently discontinue trading in the relevant futures or options contract or exchange-traded fund will not constitute a market disruption event, (3) a suspension of trading in futures or options contracts or exchange-traded funds on the Underlier, or futures or options contracts, if available, relating to securities then constituting 20 percent or more, by weight, of the Underlier, by the primary securities market trading in such contracts or funds by reason of (a) a price change exceeding limits set by such securities exchange or market, (b) an imbalance of orders relating to such contracts or funds, or (c) a disparity in bid and ask quotes relating to such contracts or funds will constitute a suspension, absence or material limitation of trading in futures or options contracts or exchange-traded funds related to the Underlier and (4) a “suspension, absence or material limitation of trading” on any relevant exchange or on the primary market on which futures or options contracts or exchange-traded funds related to the Underlier are traded will not include any time when such securities market is itself closed for trading under ordinary circumstances.

Trustee: The Bank of New York Mellon

Calculation Agent: MS & Co.

Issuer Notice To Registered Security Holders, the Trustee and the Depositary: In the event that the Stated Maturity Date is postponed due to postponement of the Determination Date, the Issuer shall give notice of such postponement and, once it has been determined, of the date to which the Stated Maturity Date has been rescheduled (i) to each registered holder of the notes by mailing notice of such postponement by first class mail, postage prepaid, to such registered holder's last address as it shall appear upon the registry books, (ii) to the Trustee by facsimile confirmed by mailing such notice to the Trustee by first class mail, postage prepaid, at its New York office and (iii) to The Depository Trust Company (the "depositary") by telephone or facsimile, confirmed by mailing such notice to the depositary by first class mail, postage prepaid. Any notice that is mailed to a registered holder of the notes in the manner herein provided shall be conclusively presumed to have been duly given to such registered holder, whether or not such registered holder receives the notice. The Issuer shall give such notice as promptly as possible, and in no case later than (i) with respect to notice of postponement of the Stated Maturity Date, the Business Day immediately preceding the scheduled Stated Maturity Date and (ii) with respect to notice of the date to which the Stated Maturity Date has been rescheduled, the Business Day immediately following the actual Determination Date for determining the Final Underlier Level.

The Issuer shall, or shall cause the Calculation Agent to, (i) provide written notice to the Trustee and to the depositary of the amount of cash, if any, to be delivered with respect to each Face Amount of notes, on or prior to 10:30 a.m. (New York City time) on the Business Day preceding the Stated Maturity Date,

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and (ii) deliver the aggregate cash amount due with respect to the notes, if any, to the Trustee for delivery to the depositary, as holder of the notes, on the Stated Maturity Date.

CUSIP no.: 61768DSL0

ISIN: US61768DSL00

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HYPOTHETICAL EXAMPLES

The following table and chart are provided for purposes of illustration only. They should not be taken as an indication or prediction of future investment results and are intended merely to illustrate the impact that the various hypothetical Closing Levels of the Underlier on the Determination Date could have on the Cash Settlement Amount.

The examples below are based on a range of Final Underlier Levels that are entirely hypothetical; no one can predict what the level of the Underlier will be on any day during the term of the notes, and no one can predict what the Final Underlier Level will be on the Determination Date. The Underlier has at times experienced periods of high volatility — meaning that the level of the Underlier has changed considerably in relatively short periods — and its performance cannot be predicted for any future period.

The information in the following examples reflects hypothetical rates of return on the notes assuming that they are purchased on the Original Issue Date at the Face Amount and held to the Stated Maturity Date. The value of the notes at any time after the Trade Date will vary based on many economic and market factors, including interest rates, the volatility of the Underlier, our creditworthiness and changes in market conditions, and cannot be predicted with accuracy. Any sale prior to the Stated Maturity Date could result in a substantial loss to you.

Key Terms and Assumptions	
Face Amount:	$1,000
Upside Participation Rate:	300.00%
Hypothetical Cap Level:	109.030% of the Initial Underlier Level
Hypothetical Maximum Settlement Amount:	$1,270.90 per $1,000 Face Amount of notes (127.090% of the Face Amount) (the midpoint of the expected range set forth on the cover of this pricing supplement)
Minimum Cash Settlement Amount:	None

- *Neither a market disruption event nor a non-Trading Day occurs on the Determination Date.*
- *No discontinuation of the Underlier or alteration of the method by which the Underlier is calculated.*
- *Notes purchased on the Original Issue Date at the Face Amount and held to the Stated Maturity Date.*

Moreover, we have not yet set the Initial Underlier Level that will serve as the baseline for determining the Underlier Return and the amount that we will pay on the notes, if any, at maturity. We will not do so until the Trade Date. As a result, the actual Initial Underlier Level may differ substantially from the level of the Underlier at any time prior to the Trade Date.

For these reasons, the actual performance of the Underlier over the term of the notes, as well as the Cash Settlement Amount, if any, may bear little relation to the hypothetical examples shown below or to the historical levels of the Underlier shown elsewhere in this document. For information about the historical levels of the Underlier during recent periods, see “The Underlier” below.

The levels in the left column of the table below represent hypothetical Final Underlier Levels and are expressed as percentages of the Initial Underlier Level. The amounts in the right column represent the hypothetical Cash Settlement Amount, based on the corresponding hypothetical Final Underlier Level (expressed as a percentage of the Initial Underlier Level), and are expressed as percentages of the Face Amount of notes (rounded to the nearest one-thousandth of a percent). Thus, a hypothetical Cash Settlement Amount of 100% means that the value of the cash payment that we would deliver for each $1,000 Face Amount of notes on the Stated Maturity Date would equal 100% of the Face Amount of notes, based on the corresponding hypothetical Final Underlier Level (expressed as a percentage of the Initial Underlier Level) and the assumptions noted above. The numbers appearing in the table and chart below may have been rounded for ease of analysis.

Hypothetical Final Underlier Level	**Hypothetical Cash Settlement Amount**
(as Percentage of Initial Underlier Level)	**(as Percentage of Face Amount)**
200.000%	127.090%
175.000%	127.090%
150.000%	127.090%
125.000%	127.090%
120.000%	127.090%
115.000%	127.090%
110.000%	127.090%
109.030%	**127.090%**
104.000%	112.000%
103.000%	109.000%
101.000%	103.000%
100.000%	**100.000%**
90.000%	90.000%
75.000%	75.000%
50.000%	50.000%
25.000%	25.000%
0.000%	**0.000%**

If, for example, the Final Underlier Level were determined to be 25.000% of the Initial Underlier Level, the Cash Settlement Amount would be 25.000% of the Face Amount of notes, as shown in the table above. As a result, if you purchased your notes on the Original Issue Date at the Face Amount and held them to the Stated Maturity Date, you would lose 75.000% of your investment. If you purchased your notes at a premium to the Face Amount, you would lose a correspondingly higher percentage of your investment.

If the Final Underlier Level were determined to be 175.000% of the Initial Underlier Level, the Cash Settlement Amount would be capped at the Maximum Settlement Amount (expressed as a percentage of the Face Amount), or 127.090% of each $1,000 Face Amount of notes, as shown in the table above. As a result, if you purchased the notes on the Original Issue Date at the Face Amount and held them to the Stated Maturity Date, you would not benefit from any increase in the Final Underlier Level above the Hypothetical Cap Level of 109.030% of the Initial Underlier Level.

Payoff Diagram

The following chart shows a graphical illustration of the hypothetical Cash Settlement Amount (expressed as a percentage of the Face Amount of notes), if the Final Underlier Level (expressed as a percentage of the Initial Underlier Level) were any of the hypothetical levels shown on the horizontal axis. The chart shows that any hypothetical Final Underlier Level (expressed as a percentage of the Initial Underlier Level) of less than 100% (the section left of the 100% marker on the horizontal axis) would result in a hypothetical Cash Settlement Amount of less than 100% of the Face Amount of notes (the section below the 100% marker on the vertical axis), and, accordingly, in a loss of principal to the holder of the notes. The chart also shows that any hypothetical Final Underlier Level (expressed as a percentage of the Initial Underlier Level) of greater than 109.030% (the section right of the Hypothetical Cap Level of 109.030% marker on the horizontal axis) would result in a capped return on your investment and a Cash Settlement Amount equal to the Maximum Settlement Amount.

Hypothetical Payoff Diagram

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RISK FACTORS

The following is a non-exhaustive list of certain key risk factors for investors in the notes. For further discussion of these and other risks, you should read the section entitled "Risk Factors" in the accompanying product supplement and prospectus. We also urge you to consult your investment, legal, tax, accounting and other advisers in connection with your investment in the notes.

The Notes Do Not Pay Interest Or Guarantee The Return Of Any Of Your Principal

The terms of the notes differ from those of ordinary debt securities in that the notes do not pay interest and do not guarantee any return of principal at maturity. If the Final Underlier Level is less than the Initial Underlier Level, you will receive for each note that you hold a Cash Settlement Amount that is less than the Face Amount of each note by an amount proportionate to the full decline in the level of the Underlier over the term of the notes. As there is no minimum Cash Settlement Amount on the notes, you could lose your entire initial investment.

Also, the market price of your notes prior to the Stated Maturity Date may be significantly lower than the purchase price you pay for your notes. Consequently, if you sell your notes before the Stated Maturity Date, you may receive significantly less than the amount of your investment in the notes.

The Appreciation Potential Of The Notes Is Limited By The Maximum Settlement Amount

The appreciation potential of the notes is limited by the Maximum Settlement Amount of $1,249.30 to $1,292.50 per note, or 124.93% to 129.25% of the Face Amount. The actual Maximum Settlement Amount will be determined on the Trade Date. Although the Upside Participation Rate provides 300% exposure to any increase in the Final Underlier Level over the Initial Underlier Level, because the Cash Settlement Amount will be limited to 124.93% to 129.25% of the Face Amount for the notes, any increase in the Final Underlier Level over the Initial Underlier Level by more than 8.31% to 9.75% of the Initial Underlier Level will not further increase the return on the notes.

The Stated Maturity Date Of The Notes Is A Pricing Term And Will Be Determined By Us On The Trade Date

We will not fix the Stated Maturity Date until the Trade Date, and so you will not know the exact term or the Determination Date of the notes at the time that you make your investment decision. The term could be as short as approximately 2 years, and as long as approximately 2 years and 3 months. You should be willing to hold your notes for up to approximately 2 years and 3 months, and the Stated Maturity Date selected by us could have an impact on the value of the notes. For example, if the Underlier appreciates, a note with a shorter term will result in a higher annualized return based on that appreciation than a note with a longer term. In addition, the Underlier may be lower on the actual Determination Date and the Cash Settlement Amount may be lower than if the Determination Date and Stated Maturity Date had been set differently in the three-month range.

If You Purchase Your Notes At A Premium To The Face Amount, The Return On Your Investment Will Be Lower Than The Return On Notes Purchased At The Face Amount, And The Impact Of Certain Key Terms Of The Notes Will Be Negatively Affected

The Cash Settlement Amount will not be adjusted based on the issue price you pay for the notes. If you purchase notes at a price that differs from the Face Amount of notes, then the return on your investment in such notes held to the Stated Maturity Date will differ from, and may be substantially less than, the return on notes purchased at the Face Amount. If you purchase your notes at a premium to the Face Amount and hold them to the Stated Maturity Date, the return on your investment in the notes will be lower than it would have been had you purchased the notes at the Face Amount or at a discount to the Face Amount. In addition, the impact of the Cap Level on the return on your investment will depend upon the price you pay for your notes relative to the Face Amount. For example, if you purchase your notes at a premium to the Face Amount, the Cap Level will reduce your potential percentage return on the notes to a greater extent than would have been the case for notes purchased at the Face Amount or at a discount to the Face Amount.

The Underlier Reflects The Price Return Of The Stocks Composing The Underlier, Not A Total Return

The return on the notes is based on the performance of the Underlier, which reflects the changes in the market prices of the stocks composing the Underlier. It is not, however, linked to a "total return" version of the Underlier, which, in addition to reflecting those price returns, would also reflect all dividends and other distributions paid on the stocks composing the Underlier. The return on the notes will not include such a total return feature.

The Market Price Will Be Influenced By Many Unpredictable Factors

Several factors, many of which are beyond our control, will influence the value of the notes in the secondary market and the price at which MS & Co. may be willing to purchase or sell the notes in the secondary market, including: the level of the Underlier, volatility (frequency and magnitude of changes in value) of the Underlier and dividend yield of the Underlier, interest and yield rates, time remaining to maturity, geopolitical conditions and economic, financial, political and regulatory or judicial events that affect the Underlier or equities markets generally and which may affect the Final Underlier Level of the Underlier and any actual or anticipated changes in our credit ratings or credit spreads. The level of the Underlier may be, and has been, volatile, and we can give you no assurance that the volatility will lessen. See "The Underlier" below. You may receive less, and possibly significantly less, than the Face Amount per note if you try to sell your notes prior to maturity.

The Notes Are Subject To Our Credit Risk, And Any Actual Or Anticipated Changes To Our Credit Ratings Or Credit Spreads May Adversely Affect The Market Value Of The Notes

You are dependent on our ability to pay all amounts due on the notes at maturity, and therefore you are subject to our credit risk. If we default on our obligations under the notes, your investment would be at risk and you could lose some or all of your investment. As a result, the market value of the notes prior to maturity will be affected by changes in the market's view of our creditworthiness. Any actual or anticipated decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to adversely affect the market value of the notes.

As A Finance Subsidiary, MSFL Has No Independent Operations And Will Have No Independent Assets

As a finance subsidiary, MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of the notes if they make claims in respect of such notes in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank *pari passu* with all other unsecured, unsubordinated obligations of Morgan Stanley. Holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Holders of the notes should accordingly assume that in any such proceedings they could not have any priority over and should be treated *pari passu* with the claims of other unsecured, unsubordinated creditors of Morgan Stanley, including holders of Morgan Stanley-issued securities.

The Amount Payable On The Notes Is Not Linked To The Level Of The Underlier At Any Time Other Than The Determination Date

The Final Underlier Level will be based on the Closing Level on the Determination Date, subject to adjustment for non-Trading Days and certain market disruption events. Even if the level of the Underlier appreciates prior to the Determination Date but then drops by the Determination Date, the Cash Settlement Amount may be less, and may be significantly less, than it would have been had the Cash Settlement Amount been linked to the level of the Underlier prior to such drop. Although the actual level of the Underlier on the Stated Maturity Date or at other times during the term of the notes may be higher than the Final Underlier Level, the Cash Settlement Amount will be based solely on the Closing Level on the Determination Date.

Investing In The Notes Is Not Equivalent To Investing In The Underlier

Investing in the notes is not equivalent to investing in the Underlier or its component stocks. Investors in the notes will not have voting rights or rights to receive dividends or other distributions or any other rights with respect to stocks that constitute the Underlier.

Adjustments To The Underlier Could Adversely Affect The Value Of The Notes

The publisher of the Underlier may add, delete or substitute the stocks constituting the Underlier or make other methodological changes that could change the level of the Underlier. The publisher of the Underlier may discontinue or suspend calculation or publication of the Underlier at any time. In these circumstances, the calculation agent will have the sole discretion to substitute a successor index that is comparable to the discontinued Underlier and is permitted to consider indices that are calculated and published by the calculation agent or any of its affiliates. If the calculation agent determines that there is no appropriate successor index, the Cash Settlement Amount on the notes will be an amount based on the closing prices at maturity of the securities composing the Underlier at the time of such discontinuance, without rebalancing or substitution, computed by the calculation agent in accordance with the formula for calculating the Underlier last in effect prior to discontinuance of the Underlier.

The Rate We Are Willing To Pay For Securities Of This Type, Maturity And Issuance Size Is Likely To Be Lower Than The Rate Implied By Our Secondary Market Credit Spreads And Advantageous To Us. Both The Lower Rate And The Inclusion Of Costs Associated With Issuing, Selling, Structuring And Hedging The Notes In The Original Issue Price Reduce The Economic Terms Of The Notes, Cause The Estimated Value Of The Notes To Be Less Than The Original Issue Price And Will Adversely Affect Secondary Market Prices

Assuming no change in market conditions or any other relevant factors, the prices, if any, at which dealers, including MS & Co., may be willing to purchase the notes in secondary market transactions will likely be significantly lower than the Original Issue Price, because secondary market prices will exclude the issuing, selling, structuring and hedging-related costs that are included in the Original Issue Price and borne by you and because the secondary market prices will reflect our secondary market credit spreads and the bid-offer spread that any dealer would charge in a secondary market transaction of this type as well as other factors.

The inclusion of the costs of issuing, selling, structuring and hedging the notes in the Original Issue Price and the lower rate we are willing to pay as issuer make the economic terms of the notes less favorable to you than they otherwise would be.

However, because the costs associated with issuing, selling, structuring and hedging the notes are not fully deducted upon issuance, for a period of up to 3 months following the issue date, to the extent that MS & Co. may buy or sell the notes in the secondary market, absent changes in market conditions, including those related to the Underlier, and to our secondary market credit spreads, it would do so based on values higher than the estimated value, and we expect that those higher values will also be reflected in your brokerage account statements.

The Estimated Value Of The Notes Is Determined By Reference To Our Pricing And Valuation Models, Which May Differ From Those Of Other Dealers And Is Not A Maximum Or Minimum Secondary Market Price

These pricing and valuation models are proprietary and rely in part on subjective views of certain market inputs and certain assumptions about future events, which may prove to be incorrect. As a result, because there is no market-standard way to value these types of securities, our models may yield a higher estimated value of the notes than those generated by others, including other dealers in the market, if they attempted to value the notes. In addition, the estimated value on the Trade Date does not represent a minimum or maximum price at which dealers, including MS & Co., would be willing to purchase your notes in the secondary market (if any exists) at any time. The value of your notes at any time after the date hereof will vary based on many factors that cannot be predicted with accuracy, including our creditworthiness and changes in market conditions. See also “The Market Price Will Be Influenced By Many Unpredictable Factors” above.

The Notes Will Not Be Listed On Any Securities Exchange And Secondary Trading May Be Limited

The notes will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the notes. MS & Co. may, but is not obligated to, make a market in the notes and, if it once chooses to make a market, may cease doing so at any time. When it does make a market, it will generally do so for transactions of routine secondary market size at prices based on its estimate of the current value of the notes, taking into account its bid/offer spread, our credit spreads, market volatility, the notional size of the proposed sale, the cost of unwinding any related hedging positions, the time remaining to maturity and the likelihood that it will be able to resell the notes. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the notes easily. Since other broker-dealers may not participate significantly in the secondary market for the notes, the price at which you may be able to trade your notes is likely to depend on the price, if any, at which MS & Co. is willing to transact. If, at any time, MS & Co. were to cease making a market in the notes, it is likely that there would be no secondary market for the notes. Accordingly, you should be willing to hold your notes to maturity.

The Calculation Agent, Which Is A Subsidiary Of Morgan Stanley And An Affiliate Of MSFL, Will Make Determinations With Respect To The Notes

As calculation agent, MS & Co. will determine the Initial Underlier Level and the Final Underlier Level and will calculate the Cash Settlement Amount you receive at maturity, if any. Moreover, certain determinations made by MS & Co. in its capacity as calculation agent, may require it to exercise discretion and make subjective judgments, such as with respect to the occurrence or non-occurrence of market disruption events and the selection of a successor index or calculation of the Final Underlier Level in the event of a market disruption event or discontinuance of the Underlier. These potentially subjective determinations may adversely affect the Cash Settlement Amount at maturity, if any. For further information regarding these types of determinations, see “Description of PLUS—Postponement of Valuation Date(s)” and “—Calculation Agent and Calculations” in the accompanying product supplement. In addition, MS & Co. has determined the estimated value of the notes on the Trade Date.

Hedging And Trading Activity By Our Affiliates Could Potentially Adversely Affect The Value Of The Notes

One or more of our affiliates and/or third-party dealers expect to carry out hedging activities related to the notes (and possibly to other instruments linked to the Underlier or its component stocks), including trading in the stocks that constitute the Underlier as well as in other instruments related to the Underlier. As a result, these entities may be unwinding or adjusting hedge positions during the term of the notes, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the Determination Date approaches. Some of our affiliates also trade the stocks that constitute the Underlier and other financial instruments related to the Underlier on a regular basis as part of their general broker-dealer and other businesses. Any of these hedging or trading activities on or prior to the Trade Date could potentially increase the Initial Underlier Level, and, therefore, could increase the level at or above which the Underlier must close on the Determination Date so that investors do not suffer a loss on their initial investment in the notes. Additionally, such hedging or trading activities during the term of the notes, including on the Determination Date, could adversely affect the level of the Underlier on the Determination Date, and, accordingly, the Cash Settlement Amount an investor will receive at maturity, if any. Furthermore, if the dealer from which you purchase notes is to conduct trading and hedging activities for us in connection with the notes, that dealer may profit in connection with such trading and hedging activities and such profit, if any, will be in addition to the compensation that the dealer receives for the sale of the notes to you. You should be aware that the potential to earn a profit in connection with hedging activities may create a further incentive for the dealer to sell the notes to you, in addition to the compensation they would receive for the sale of the notes.

We May Sell An Additional Aggregate Face Amount Of Notes At A Different Issue Price

At our sole option, we may decide to sell an additional aggregate Face Amount of notes subsequent to the date hereof. The issue price of the notes in the subsequent sale may differ substantially (higher or lower) from the issue price you paid as provided on the cover of this document.

Past Performance is No Guide to Future Performance

The actual performance of the Underlier over the term of the notes, as well as the amount payable at maturity, may bear little relation to the historical Closing Levels of the Underlier or to the hypothetical return examples set forth herein. We cannot predict the future performance of the Underlier.

The U.S. Federal Income Tax Consequences Of An Investment In The Notes Are Uncertain

Please read the discussion under "Tax Considerations" in this document and the discussion under "United States Federal Taxation" in the accompanying product supplement (together, the "Tax Disclosure Sections") concerning the U.S. federal income tax consequences of an investment in the notes. If the Internal Revenue Service (the "IRS") were successful in asserting an alternative treatment, the timing and character of income on the notes might differ significantly from the tax treatment described in the Tax Disclosure Sections. For example, under one possible treatment, the IRS could seek to recharacterize the notes as debt instruments. In that event, U.S. Holders would be required to accrue into income original issue discount on the notes every year at a "comparable yield" determined at the time of issuance and recognize all income and gain in respect of the notes as ordinary income. Additionally, as discussed under "United States Federal Taxation—FATCA" in the accompanying product supplement, the withholding rules commonly referred to as "FATCA" would apply to the notes if they were recharacterized as debt instruments. We do not plan to request a ruling from the IRS regarding the tax treatment of the notes, and the IRS or a court may not agree with the tax treatment described in the Tax Disclosure Sections.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. investors should be subject to withholding tax; and whether these instruments are or should be subject to the "constructive ownership" rule, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the notes, possibly with retroactive effect. Both U.S. and Non-U.S. Holders should consult their tax advisers regarding the U.S. federal income tax consequences of an investment in the notes, including possible alternative treatments, the issues presented by this notice and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

THE UNDERLIER

The S&P 500® Index, which is calculated, maintained and published by S&P Dow Jones Indices LLC ("S&P"), consists of stocks of 500 component companies selected to provide a performance benchmark for the U.S. equity markets. The calculation of the S&P 500® Index is based on the relative value of the float adjusted aggregate market capitalization of the 500 component companies as of a particular time as compared to the aggregate average market capitalization of 500 similar companies during the base period of the years 1941 through 1943. For additional information about the S&P 500® Index, see the information set forth under "S&P 500® Index" in the accompanying index supplement.

In addition, information about the Underlier may be obtained from other sources including, but not limited to, the Underlier Publisher's website (including information regarding (i) the Underlier's top ten constituents and (ii) the Underlier's sector weightings). We are not incorporating by reference into this document the website or any material it includes. Neither the issuer nor the agent makes any representation that such publicly available information regarding the Underlier is accurate or complete.

Information as of market close on November 27, 2018:

Bloomberg Ticker Symbol:	SPX
Current Index Value:	2,682.17
52 Weeks Ago:	2,601.42
52 Week High (on 9/20/2018):	2,930.75
52 Week Low (on 2/8/2018):	2,581.00

The following graph sets forth the daily Closing Levels of the Underlier for each quarter in the period from January 1, 2013 through November 27, 2018. The Closing Level of the Underlier on November 27, 2018 was 2,682.17. We obtained the information in the graph below from Bloomberg Financial Markets without independent verification. The Underlier has at times experienced periods of high volatility. The actual performance of the Underlier over the term of the notes, as well as the amount payable at maturity, may bear little relation to the historical Closing Levels of the Underlier or to the hypothetical return examples set forth herein. We cannot predict the future performance of the Underlier. You should not take the historical levels of the Underlier as an indication of its future performance, and no assurance can be given as to the Closing Level of the Underlier on the Determination Date.

S&P 500® Index

Daily Index Closing Values

January 1, 2013 to November 27, 2018

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TAX CONSIDERATIONS

Although there is uncertainty regarding the U.S. federal income tax consequences of an investment in the notes due to the lack of governing authority, in the opinion of our counsel, Davis Polk & Wardwell LLP, under current law, and based on current market conditions, a note should be treated as a single financial contract that is an “open transaction” for U.S. federal income tax purposes.

Assuming this treatment of the notes is respected and subject to the discussion in “United States Federal Taxation” in the accompanying product supplement, the following U.S. federal income tax consequences should result based on current law:

§ A U.S. Holder should not be required to recognize taxable income over the term of the notes prior to settlement, other than pursuant to a sale or exchange.

§ Upon sale, exchange or settlement of the notes, a U.S. Holder should recognize gain or loss equal to the difference between the amount realized and the U.S. Holder’s tax basis in the notes. Such gain or loss should be long-term capital gain or loss if the investor has held the notes for more than one year, and short-term capital gain or loss otherwise.

In 2007, the U.S. Treasury Department and the Internal Revenue Service (the “IRS”) released a notice requesting comments on the U.S. federal income tax treatment of “prepaid forward contracts” and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. investors should be subject to withholding tax; and whether these instruments are or should be subject to the “constructive ownership” rule, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the notes, possibly with retroactive effect.

As discussed in the accompanying product supplement, Section 871(m) of the Internal Revenue Code of 1986, as amended, and Treasury regulations promulgated thereunder (“Section 871(m)”) generally impose a 30% (or a lower applicable treaty rate) withholding tax on dividend equivalents paid or deemed paid to Non-U.S. Holders with respect to certain financial instruments linked to U.S. equities or indices that include U.S. equities (each, an “Underlying Security”). Subject to certain exceptions, Section 871(m) generally applies to securities that substantially replicate the economic performance of one or more Underlying Securities, as determined based on tests set forth in the applicable Treasury regulations (a “Specified Security”). However, pursuant to an IRS notice, Section 871(m) will not apply to securities issued before January 1, 2021 that do not have a delta of one with respect to any Underlying Security. Based on our determination that the notes do not have a delta of one with respect to any Underlying Security, our counsel is of the opinion that the notes should not be Specified Securities and, therefore, should not be subject to Section 871(m).

Our determination is not binding on the IRS, and the IRS may disagree with this determination. Section 871(m) is complex and its application may depend on your particular circumstances, including whether you enter into other transactions with respect to an Underlying Security. If withholding is required, we will not be required to pay any additional amounts with respect to the amounts so withheld. You should consult your tax adviser regarding the potential application of Section 871(m) to the notes.

Both U.S. and non-U.S. investors considering an investment in the notes should read the discussion under "Risk Factors" in this document and the discussion under "United States Federal Taxation" in the accompanying product supplement and consult their tax advisers regarding all aspects of the U.S. federal income tax consequences of an investment in the notes, including possible alternative treatments, the issues presented by the aforementioned notice and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

The discussion in the preceding paragraphs under "Tax considerations" and the discussion contained in the section entitled "United States Federal Taxation" in the accompanying product supplement, insofar as they purport to describe provisions of U.S. federal income tax laws or legal conclusions with respect thereto, constitute the full opinion of Davis Polk & Wardwell LLP regarding the material U.S. federal tax consequences of an investment in the notes.

ADDITIONAL INFORMATION ABOUT THE NOTES

No interest or dividends: The notes will not pay interest or dividends.

No listing: The notes will not be listed on any securities exchange.

No redemption: The notes will not be subject to any redemption right.

Purchase at amount other than Face Amount: The amount we will pay you on the Stated Maturity Date for your notes will not be adjusted based on the issue price you pay for your notes, so if you acquire notes at a premium (or discount) to the Face Amount and hold them to the Stated Maturity Date, it could affect your investment in a number of ways. The return on your investment in such notes will be lower (or higher) than it would have been had you purchased the notes at the Face Amount. Additionally, the Cap Level would be triggered at a lower (or higher) percentage return than indicated below, relative to your initial investment. See "Risk Factors—If You Purchase Your Notes At A Premium To The Face Amount, The Return On Your Investment Will Be Lower Than The Return On Notes Purchased At The Face Amount, And The Impact Of Certain Key Terms Of The Notes Will Be Negatively Affected" beginning on page 10 of this document.

Use of proceeds and hedging: The proceeds from the sale of the notes will be used by us for general corporate purposes. We will receive, in aggregate, $1,000 per note issued. The costs of the notes borne by you and described on page 2 comprise the cost of issuing, structuring and hedging the notes.

On or prior to the Trade Date, we will hedge our anticipated exposure in connection with the notes, by entering into hedging transactions with our affiliates and/or third party dealers. We expect our hedging counterparties to take positions in stocks of the Underlier, futures and options contracts on the Underlier, and any component stocks of the Underlier listed on major securities markets or positions in any other available securities or instruments that they may wish to use in connection with such hedging. Such purchase activity could increase the level of the Underlier on the Trade Date, and therefore increase the level at or above which the Underlier must close on the Determination Date so that investors do not suffer a loss on their initial investment in the notes. In addition, through our affiliates, we are likely to modify our hedge position throughout the term of the notes, including on the Determination Date, by purchasing and selling the stocks constituting the Underlier, futures or options contracts on the Underlier or its component stocks listed on major securities markets or positions in any other available securities or instruments that we may wish to use in connection with such hedging activities. As a result, these entities may be unwinding or adjusting hedge positions during the term of the notes, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the Determination Date approaches. We cannot give any assurance that our hedging activities will not affect the level of the Underlier, and, therefore, adversely affect the value of the notes or the payment you will receive at maturity, if any. For further information on our use of proceeds and hedging, see "Use of Proceeds and Hedging" in the accompanying product supplement.

Benefit Plan Investor Considerations: Each fiduciary of a pension, profit-sharing or other employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (a "Plan"), should consider the fiduciary standards of ERISA in the context of the Plan's particular circumstances before authorizing an investment in the notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan.

In addition, we and certain of our affiliates, including MS & Co., may each be considered a "party in interest" within the meaning of ERISA, or a "disqualified person" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), with respect to many Plans, as well as many individual retirement accounts and Keogh plans (such accounts and plans, together with other plans, accounts and arrangements subject to Section 4975 of the Code, also "Plans"). ERISA Section 406 and Code Section 4975 generally prohibit transactions between Plans and parties in interest or disqualified persons. Prohibited transactions within the meaning of ERISA or the Code would likely arise, for example, if the notes are acquired by or with the assets of a Plan with respect to which MS & Co. or any of its affiliates is a service provider or other party in interest, unless the notes are acquired pursuant to an exemption from the "prohibited transaction" rules. A violation of these "prohibited transaction" rules could result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

The U.S. Department of Labor has issued five prohibited transaction class exemptions (“PTCEs”) that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase or holding of the notes. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts) and PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers). In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide an exemption for the purchase and sale of securities and the related lending transactions, provided that neither the Issuer of the notes nor any of its affiliates has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of the Plan involved in the transaction and provided further that the Plan pays no more, and receives no less, than “adequate consideration” in connection with the transaction (the so-called “service provider” exemption). There can be no assurance that any of these class or statutory exemptions will be available with respect to transactions involving the notes.

Because we may be considered a party in interest with respect to many Plans, the notes may not be purchased, held or disposed of by any Plan, any entity whose underlying assets include “plan assets” by reason of any Plan’s investment in the entity (a “Plan Asset Entity”) or any person investing “plan assets” of any Plan, unless such purchase, holding or disposition is eligible for exemptive relief, including relief available under PTCEs 96-23, 95-60, 91-38, 90-1, 84-14 or the service provider exemption or such purchase, holding or disposition is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on behalf of a Plan, transferee or holder of the notes will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the notes that either (a) it is not a Plan or a Plan Asset Entity and is not purchasing such notes on behalf of or with “plan assets” of any Plan or with any assets of a governmental, non-U.S. or church plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code (“Similar Law”) or (b) its purchase, holding and disposition of these notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or violate any Similar Law.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the notes on behalf of or with “plan assets” of any Plan consult with their counsel regarding the availability of exemptive relief.

The notes are contractual financial instruments. The financial exposure provided by the notes is not a substitute or proxy for, and is not intended as a substitute or proxy for, individualized investment management or advice for the benefit of any purchaser or holder of the notes. The notes have not been designed and will not be administered in a manner intended to reflect the individualized needs and objectives of any purchaser or holder of the notes.

Each purchaser or holder of any notes acknowledges and agrees that:

(i) the purchaser or holder or its fiduciary has made and shall make all investment decisions for the purchaser or holder and the purchaser or holder has not relied and shall not rely in any way upon us or our affiliates to act as a fiduciary or adviser of the purchaser or holder with respect to (A) the design and terms of the notes, (B) the purchaser or holder's investment in the notes, or (C) the exercise of or failure to exercise any rights we have under or with respect to the notes;

(ii) we and our affiliates have acted and will act solely for our own account in connection with (A) all transactions relating to the notes and (B) all hedging transactions in connection with our obligations under the notes;

(iii) any and all assets and positions relating to hedging transactions by us or our affiliates are assets and positions of those entities and are not assets and positions held for the benefit of the purchaser or holder;

(iv) our interests are adverse to the interests of the purchaser or holder; and

(v) neither we nor any of our affiliates is a fiduciary or adviser of the purchaser or holder in connection with any such assets, positions or transactions, and any information that we or any of our affiliates may provide is not intended to be impartial investment advice.

Each purchaser and holder of the notes has exclusive responsibility for ensuring that its purchase, holding and disposition of the notes do not violate the prohibited transaction rules of ERISA or the Code or any Similar Law. The sale of any notes to any Plan or plan subject to Similar Law is in no respect a representation by us or any of our affiliates or representatives that such an investment meets all relevant legal requirements wit New Roman, Times, Serif; margin: 0pt 0; text-align: justify; text-indent: 0.5in">

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

Employees

As of June 30, 2012, we employed 19 employees. None of our employees are currently represented by a trade union. We consider our relations with our employees to be good.

Legal Proceedings

We are not currently involved in any legal proceedings.

Other Information

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

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

ITEM 1A — RISK FACTORS

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this report, before making an investment decision. If any of the following risks actually occur, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. You should read the section entitled "Special Note Regarding Forward Looking Statements" above for a discussion of what types of statements are forward-looking statements, as well as the significance of such statements in the context of this report.

Risk Factors Relating to Our Business

Flux Power has incurred net losses since our inception.

Flux Power has incurred net losses since our inception. For the fiscal years ended June 30, 2012 and 2011, Flux Power has incurred net losses of approximately $2,385,000, and $1,313,000 respectively. No assurance can be given that we will achieve profitability in the future.

We had negative working capital.

As of June 30, 2012, and June 30, 2011, we had a negative working capital of approximately $3,590,000 and $1,140,000, meaning Flux Power's current liabilities exceeds its current assets. This negative working capital may limit our growth since the majority of our net income, if any, will be used to pay accounts payable and existing debts. No assurance can be given that we will be able to pay our liabilities when they become due.

Our ability to obtain additional financing may be limited, which could delay or prevent the completion of one or more of our strategies.

Flux Power has, to date, financed its working capital and capital expenditure needs primarily from investments and credit lines. Flux Power expects its working capital needs and its capital expenditure needs to increase in the future as it continues to expand and enhance its production facilities, increase its design, research and development capabilities and as Flux Power continue to implement its other strategies. Our ability to raise additional capital will depend on the financial success of Flux Power's current business and the successful implementation of Flux Power's key strategic initiatives, as well as financial, economic and market conditions and other factors, some of which are beyond our control. We may not be successful in raising any required capital on reasonable terms and at required times, or at all. Further, equity financings may have a further dilutive effect on our stockholders. If we require additional debt financing, the lenders may require us to agree on restrictive covenants that could limit our flexibility in conducting future business activities, and the debt service payments may be a significant drain on our free capital allocated for research and other activities. If we are unsuccessful in raising additional capital or if new capital funding costs are higher than our prior capital funding costs, our business operations and our development programs may be materially and adversely impacted, with similar effects on our results of operations and financial condition.

Flux Power's limited operating history makes evaluating its business and future prospects difficult and may increase the risk of your investment.

Flux Power was formed during the 2010 fiscal year. You must consider the risks and difficulties Flux Power faces as an early stage company with limited operating history. If Flux Power does not successfully address these risks, its business, prospects, operating results and financial condition will be materially and adversely harmed. Flux Power began delivering its first battery product and battery management system (BMS) in the second quarter of 2010, and as of December 2011, Flux Power has have 46 customers, almost all of which are in the Electric Vehicle, Emergency Back-Up Power Supply, or Solar Storage market segments. Flux Power's revenues for the fiscal years ended June 30, 2012 and 2011 were approximately $5,930,000 and $984,000, respectively. Flux Power has a very limited operating history on which investors can base an evaluation of its business, operating results and prospects

For the fiscal year ending June 30, 2012, 78% of Flux Power's revenues were derived from sales of its battery products and 17% from BMS. We have not derived material revenues from our handheld or charger. We have not sold our products for use in applications other than electric vehicles. However, Flux Power intends to extend the application of its battery products and BMS for industrial energy storage, government applications, and hobby and specialty applications. Flux Power is currently testing its battery products and BMS for other applications but Flux Power has not yet sold any of its products for use in other than electric vehicles. There are no assurances that Flux Power will be able to successfully extend the application of our battery products and BMS outside of the electrical vehicle industry and into other targeted end markets.

Our business depends in large part on the growth in demand for electric vehicles.

Many of our battery products and BMS are used to power electric vehicles in the commercial and industrial spaces. Therefore, the demand for our rechargeable batteries and systems is substantially tied to the market demand for electric vehicles. A growth in the demand for electric vehicles will be essential to the expansion of our business. Our results of operations may be adversely affected by decreases in the general level of economic activity. Decreases in consumer spending that may result from the current global economic downturn may weaken demand for items that use our battery products and BMS. A decrease in the demand for electric vehicles would likely have a material adverse effect on our results of operations. We are unable to predict the duration and severity of the current disruption in financial markets and the global adverse economic conditions and the effect such events might have on our business.

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

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

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

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

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

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

Uncertainty about the current and future global economic conditions may cause our customers to defer purchases or cancel purchase orders for our products in response to tighter credit, decreased cash availability and weakened consumer confidence. Our financial success is sensitive to changes in general economic conditions, both globally and nationally. Recessionary economic cycles, higher interest borrowing rates, higher fuel and other energy costs, inflation, increases in commodity prices, higher levels of unemployment, higher consumer debt levels, higher tax rates and other changes in tax laws or other economic factors that may affect consumer spending or buying habits could continue to adversely affect the demand for our products. In addition, a number of our customers may be impacted by the significant decrease in available credit that has resulted from the current financial crisis. If credit pressures or other financial difficulties result in insolvency for our customers it could adversely impact our financial results. There can be no assurances that government and consumer responses to the disruptions in the financial markets will restore consumer confidence.

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

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

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

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

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

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

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

Although we exhibited significant growth from our inception to the present day, we can provide no assurance that our revenues will continue to grow. Our ability to maintain our revenue levels or to grow in the future depends upon, among other things, the continued success of our efforts to maintain our brand image and bring new products to market and our ability to expand within our current distribution channels.

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

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

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

Flux Power has historically depended on a limited number of customers for a significant portion of its revenues and this dependence is likely to continue.

We currently sell products direct or through one of several retail distributors in North America. Our direct customers are mostly large companies while our distributors primarily distribute to smaller retail customers.

For the fiscal year ended June 30, 2012, the Company had four major customers that represented more than 10% of its revenues on an individual basis, and combined represented 81% or approximately $4,798,000 of the Company’s total revenues.

The four major customers were Greentech Automotive, Inc., which represented 34% of the total revenue, Epic Boats (a company founded and controlled by Chris Anthony, our chairman and president), represented 19% of the total revenue, Artisan Vehicle Systems, which represented 18% of the total revenues, and Boulder EV, represented 10% of the total revenue.

For the fiscal year ended June 30, 2011, two major customers represented more than 10% of its revenues on an individual basis, and combined represented 47% or approximately $463,000 of the Company’s total revenues.

The two major customers were Wheego Electric Cars, which represented 32% of the total revenue, Epic Boats (a company founded and controlled by Chris Anthony, our chairman and president), represented 15% of the total revenue.

We anticipate that a limited number of customers will continue to contribute to a significant portion of our revenues in the future. Maintaining the relationships with these significant customers is vital to the expansion and success of our business as the loss of a major customer could expose us to risk of substantial losses. Our revenues could decline and our results of operations could be materially adversely affected if one or more of these significant customers stops or reduces its purchasing of our products, or if we fail to expand our customer base for our products.

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

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

Our business may be adversely affected by the global economic downturn, in addition to the continuing uncertainties in the financial markets.

The global economy is currently in a pronounced economic downturn. Global financial markets are continuing to experience disruptions, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates, and uncertainty about economic stability. Given these uncertainties, there is no assurance that there will not be further deterioration in the global economy, the global financial markets and consumer confidence. If economic conditions deteriorate further, our business and results of operations could be materially and adversely affected.

Additionally, the automobile industry in particular was severely impacted by the poor economic conditions and several vehicle manufacturing companies, including General Motors and Chrysler, were forced to file for bankruptcy. Sales of new automobiles generally have dropped during this global economic downturn. Sales of consumer products such as electric vehicles have slowed along with this downturn. Our future results of operations may experience substantial fluctuations from period to period as a consequence of these factors, and such conditions and other factors affecting consumer spending may affect the timing of orders. Thus, any economic downturns generally would have a material adverse effect on our business, cash flows, financial condition and results of operations.

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

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

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

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

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

— cease selling, incorporating or using products that incorporate the challenged intellectual property;

— pay substantial damages;

— obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms or at all; or

— redesign our battery management systems.

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

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

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

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

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

— our pending patent applications may not result in the issuance of patents;

— our patents, if issued, may not be broad enough to protect our proprietary rights;

— the patents we have been granted may be challenged, invalidated or circumvented because of the pre-existence of similar patented or unpatented intellectual property rights or for other reasons;

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- the costs associated with enforcing patents, confidentiality and invention agreements or other intellectual property rights may make aggressive enforcement impracticable; and

- current and future competitors may independently develop similar technology and/or duplicate our systems in a way that circumvents our patents.

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

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

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

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

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

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

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

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

Our business depends substantially on the continuing efforts of our executive officers, and our business may be severely disrupted if we lose their services.

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

Our management team has limited experience in public company matters, which could impair our ability to comply with legal and regulatory requirements.

Our management team has only limited public company management experience or responsibilities, which could impair our ability to comply with legal and regulatory requirements such as the Sarbanes-Oxley Act of 2002 and applicable federal securities laws including filing required reports and other information required on a timely basis. There can be no assurance that our management team will be able to implement and affect programs and policies in an effective and timely manner that adequately respond to increased legal, regulatory compliance and reporting requirements imposed by such laws and regulations. Our failure to comply with such laws and regulations could lead to the imposition of fines and penalties and further result in the deterioration of our business.

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

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

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

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

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

We may face significant costs relating to environmental regulations.

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

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

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

Risks Related to Our Common Stock and Market

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

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

- our earnings releases, actual or anticipated changes in our earnings, fluctuations in our operating results or our failure to meet the expectations of financial market analysts and investors;
- changes in financial estimates by us or by any securities analysts who might cover our stock;
- speculation about our business in the press or the investment community;
- significant developments relating to our relationships with our customers or suppliers;
- stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in our industry;
- limited "public float" in the hands of a small number of persons whose sales or lack of sales could result in positive or negative pricing pressure on the market price for our common stock;
- customer demand for our products;
- investor perceptions of our industry in general and our Company in particular;
- the operating and stock performance of comparable companies;
- general economic conditions and trends;
- announcements by us or our competitors of new products, significant acquisitions, strategic partnerships or divestitures;
- changes in accounting standards, policies, guidance, interpretation or principles;
- loss of external funding sources;
- sales of our common stock, including sales by our directors, officers or significant stockholders; and
- additions or departures of key personnel.

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

As of September 4, 2012, our present directors and executive officers, and their respective affiliates beneficially owned approximately 83% of our outstanding common stock, including underlying options that were exercisable or which would become exercisable within 60 days. As a result of their ownership, our directors and executive officers and their respective affiliates collectively are able to significantly influence all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may also have the effect of delaying or preventing a change in control.

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

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

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

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

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

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

Preferred Stock may be issued under our Articles of Incorporation.

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

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

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

ITEM 1B — UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 2 — PROPERTIES

Effective July 1, 2011, the Company completed its long-term office space lease agreement and instead entered into a month-to-month agreement for its office space. The agreement provides for monthly payments of approximately $13,000. Currently management is seeking other office space rental options in proximity to the current offices.

In July of 2011 the Company entered into a sublease with a related party for approximately $6,600 per month for a portion of this space. The sublease was terminated on January 1, 2012. The Company recorded rent expense, net of sublease income during the fiscal years ended June 30, 2012 and 2011, of approximately $106,000 and approximately $133,000, respectively.

ITEM 3 — LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. 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 4 — MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Data

Our common stock started quotation on the OTCQB under the stock symbol “LNPI.” On June 14, 2012, our symbol was changed to “FLUX.” The following table sets forth the range of the closing bid prices for our common stock for the period January 1, 2010 through June 30, 2012, for each of the quarters ended on the date set forth below. Such prices represent inter-dealer quotations, do not represent actual transactions, and do not include retail mark-ups, mark-downs or commissions.

	High	Low
2012		
Quarter ended June 30, 2012	$2.35	$2.25
Quarter Ended March 31, 2012	$0.29	$0.29
2011		
Quarter Ended December 31, 2011	$0.29	$0.29
Quarter Ended September 30, 2011	$0.29	$0.29
Quarter Ended June 20, 2011	$0.29	$0.29
Quarter Ended March 31, 2011	$0.29	$0.29
2010		
Quarter Ended December 31, 2010	$0.25	$0.25
Quarter Ended September 30, 2010	$0.25	$0.25
Quarter Ended June 20, 2010	$0.25	$0.25
Quarter Ended March 31, 2010	$0.25	$0.25

Shareholders

The approximate number of record holders of our common stocks as of September 4, 2012 was 1,342.

Dividends

The Company did not declare or pay dividends on its common stock during fiscal years 2012 and 2011.

Recent Sales of Unregistered Securities

In connection with the Reverse Acquisition, (a) we adopted amended and restated Bylaws, (b) changed our name to "Flux Power Holdings, Inc." (c) we have assumed the 2010 Option Plan ("Plan") and all of the stock options of Flux Power's outstanding as of the closing of the Reverse Acquisition, and all 1,535,500 stock options of Flux Power's outstanding as of June 14, 2012, whether or not exercised and whether or not vested, were substituted by us with 4,536,948 new options based on a ratio of 2.9547039 ("Share Exchange Ratio") in a manner that complies with Sections 424(a) and 409A of the Internal Revenue Code. The new options substituted by us continue to have, and are subject to, the substantially the same terms and conditions as before, but are convertible into shares of our common stock, as adjusted given effect to the Share Exchange Ratio. However, we will not be able to grant additional options under the Option Plan (d) each of the Flux Power Shareholders agreed not to offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of any shares of Exchange Shares for a period of 18 months from the Closing except during the period after the first anniversary of the Closing and a period of 6 months thereafter, in such an amount which constitutes less than 3% in the aggregate of such Flux Shareholder's beneficial ownership of our common stock per month, and (e) we agreed to use our best efforts to conduct a private placement of our securities in a private placement to accredited investors, as described below.

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(a) Private Placement - June and July 2012

In June 2012, we conducted a private placement of our common stock and warrants to accredited investors to purchase up to 8 Units (or fractional Units thereof), at a price of $500,000 per Unit, with each Unit consisting of 1,207,185 shares of our common stock and 241,437 five (5) year warrants to purchase one share of our common stock at an exercise price of $0.41 per share of which Baytree Capital, its designees or assignees, has committed to investing at least $1,000,000 in the Private Placement. In connection with the private placement, we had the following closings:

On June 22, 2012, we entered into Securities Purchase Agreements with four (4) individual accredited investors pursuant to which we sold an aggregate of 1,448,624 shares of common stock and issued 289,725 five year Warrants for an aggregate purchase price of $600,000.

On June 29, 2012, we conducted a second closing (the “Second Closing”). At the Second Closing, we sold an additional 1,364,121 shares of common stock and issued 272,825 five year Warrants for an aggregate purchase price of $565,000 to six (6) individual accredited investors.

On July 30, 2012, we conducted a third closing (the “Third Closing”). At the Third Closing, we sold an additional 1,690,063 shares of common stock and issued 338,013 five year Warrants for an aggregate purchase price of $700,000 to ten (10) accredited investors.

The common stock purchased in the private placement and the common stock issued upon exercise of warrants has piggyback registration rights. The securities offered and sold in the private placement have not been registered under the Securities Act of 1933, as amended (“Securities Act”), and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.

(b) Private Placement– August 2012

Subsequent to our private placement referred to above, in August 2012 we commenced a private placement of our common stock and warrants to accredited investors to purchase up to 8 Units (or fractional Units thereof) for a purchase price of $250,000 per Unit for an aggregate amount of $2,000,000, with each Unit consists of 603,592 shares of our common stock and 120,718 warrants, with each warrant entitling the holder to purchase one share of common stock at an exercise price of $0.41 per share at any time for a period of up to five (5) years from the issuance date at which time the Warrant will expire. On August 31, 2012, we entered into a Securities Purchase Agreement with four (4) accredited investors pursuant to which we sold an aggregate of 603,594 shares of common stock and issued 120,719 five year warrants for an aggregate purchase price of $250,000.

The common stock purchased in the private placement and the common stocks issued upon exercise of warrants have piggyback registration rights. The securities offered and sold in the private placement have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.

Purchases of Equity Securities

We have never repurchased any of our equity securities.

Dividend Policy

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

Equity Compensation Plan Information

Flux Power has adopted the 2010 Stock Option Plan (“Option Plan”) which reserved 2,000,000 shares of common stock for issuance upon exercise of options. As of June 14, 2012, the number of shares of common stock outstanding under the Option Plan was 1,535,500, and as of June 30, 2011, the number of shares of common stock outstanding under the Option Plan was 710,000.

The following table contains information relating to the Option Plan as of June 30, 2012, as assumed and adjusted by us pursuant to the Reverse Acquisition:

	Number of Securities to be Issued Upon Exercise of Outstanding Options, and Warrants	Weighted-Average Exercise Price of Outstanding Options, and Warrants	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in column A)
Equity compensation plans not approved by security holders	4,536,948	$ 0.17	0
Total	4,536,948	$ 0.17	0

DESCRIPTION OF SECURITIES

Common Stock

We are authorized to issue up to 145,000,000 shares of common stock, par value $0.001 per share. Each outstanding share of common stock entitles the holder thereof to one vote per share on all matters. Our bylaws provide that any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors.

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

All of the issued and outstanding shares of our common stock are duly authorized, validly issued, fully paid and non-assessable. To the extent that additional shares of our common stock are issued, the relative interests of existing stockholders will be diluted.

Preferred Stock

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

ITEM 6 — SELECTED FINANCIAL DATA

As a smaller reporting company, we are not required to provide this information.

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

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

Some of the statements contained in the following discussion of the Company's financial condition and results of operations refer to future expectations or include other "forward-looking" information. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by these statements. The forward-looking information is based on various factors and was derived from numerous assumptions. See "Cautionary Statement for Purposes of the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995," included in this Report on Form 10-K for a discussion of factors to be considered when evaluating forward-looking information detailed below. These factors could cause our actual results to differ materially from the forward looking statements.

Overview

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

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

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

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

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

We sold our first validated product in the second quarter of 2010 and have since delivered over 15 mega watt-hours of Advanced Energy Storage to clients such as NACCO Materials Handling Group, Inc., GreenTech Automotive, Inc. (GTA), Crown Equipment Corporation, Damascus Corporation, Columbia Parcar Corporation, Wheego Electric Cars Inc., Epic Electric Vehicles, and Texas Association of Local Health Officials (“TALHO”). This places us amongst the top tier of Advanced Energy Storage providers in North America. We also sell our Advanced Energy Storage products through distributors such as Dukes Garage, Small Car Performance, Electric Motor Sports, MCelectric, Jungle Motors and EV America.

Recent Developments and Events

New Agreements

Revolving Line of Credit. On September 24, 2012, Flux Power, Inc., entered into a certain Unrestricted and Line of Credit (“Line of Credit) with Esenjay Investments, LLC (“Esenjay”) pursuant to which Esenjay agreed to provide us with a revolving line of credit for $1,500,000 (“Line of Credit”). Borrowings under the Line of Credit is secured by the assets of the Company and bears interest at 8% per annum, with all unpaid principal and accrued interest due and payable on September 24, 2014. There is no prepayment penalty under the Line of Credit. Proceeds from the Line of Credit can be used at the discretion of the Company and the Company intends to use it for working capital. As of September 28, 2012, the Company has not borrowed any amounts under the Line of Credit. Esenjay is one of our major shareholders which beneficially own approximately 43% of our common stock. Mr. Michael Johnson, our director, is the director and shareholder of Esenjay.

ACP Agreement. On September 4, 2012, the Company entered into an agency agreement with American Capital Partners (ACP), a Financial Industry Regulatory Authority (FINRA) registered broker-dealer for the purpose of advising and assisting the Company, on a best efforts basis, with the $2,000,000 private placement of our common stock and warrants. The agreement expires February 25, 2014. The terms of the agreement require the Company to pay a total cash fee of nine percent (9%) of the value received from each investor. Additionally the Company agreed to issue shares to ACP equal to seven percent (7%) of the shares placed by the ACP. The Company agreed to reimburse ACP for legal fees up to $10,000 incurred in connection with this placement by ACP.

NACCO Prototype Agreement. On February 6, 2012, Flux Power entered into a Prototype Agreement (the "Prototype Agreement") with NACCO Materials Handling Group, Inc. ("NACCO") to develop and provide three (3) prototype battery packs for NACCO's lift trucks. Pursuant to the Prototype Agreement, we agreed to develop and provide three prototype battery backs for use in NACCO's lift trucks. Our fees under the Prototype Agreement are based on hourly rates of our project managers and engineers and the material costs related to the project. We will retain ownership of all intellectual property developed under the Prototype Agreement, but we have granted NACCO a fully-paid, worldwide, non-exclusive, license to use, sell, and reproduce the prototype battery packs. The term of the Prototype Agreement is indefinite but it may be terminated upon 60 days written notice of either party. As of September 1, 2012, the Company has delivered prototype battery packs and recognized approximately $111,000 of revenue from this agreement.

GTA Terms & Conditions. On September 21, 2011, Flux Power and GreenTech Automotive, Inc. (GTA) entered into terms and conditions for future purchase orders. All sales from Flux Power to GTA that include Flux Power's product for production of GTA's electronic vehicle shall be governed under this agreement. This agreement does not obligate GTA to make any purchases of our products.

Notes Payable

In October 2011, the Company entered into a new revolving promissory note agreement (Secondary Operating Capital) with a stockholder for $1,000,000. The revolving promissory note bears interest at 8% per annum, all principal and accrued interest are due and payable on September 30, 2013, as amended, and the note is secured by substantially all of the assets of the Company. As of June 30, 2012 the balance outstanding was $600,000.

In March 2012, the Company entered into an additional note payable (the "Bridge Loan") agreement with the same stockholder for $250,000. All principal and accrued interest are due and payable on March 7, 2014 and the note bears interest at 8% per annum. As of June 30, 2012 the balance outstanding was $250,000.

Critical Accounting Policies and Estimates

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

The Company believes the following critical accounting policies and estimates affect the preparation of its Financial Statements.

Inventory Valuation

Inventories consist primarily of batteries, battery management systems and the related subcomponents, and are stated at the lower of cost (first-in, first-out) or market. Prepaid inventory represents deposits made by us for inventory purchases. We evaluate inventories to determine if write-downs are necessary due to obsolescence or if the inventory levels are in excess of anticipated demand at market value based on consideration of historical sales and product development plans. The Company recorded a write-off related to obsolete inventory in the amount of approximately $26,000 during the fiscal year ended June 30, 2012. The Company did not record inventory write-down during fiscal year ended June 30, 2011.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, price is fixed or determinable and collectability of the selling price is reasonably assured. Delivery occurs when risk of loss is passed to the customer, as specified by the terms of the applicable customer agreements.

When a right of return exists, contractually or implied the Company recognizes revenue on the sell through-method. Under this method, revenue is not recognized upon delivery of the inventory components. Instead, the Company records deferred revenue upon delivery and recognize revenue when the inventory components are sold through to the end user.

Valuation of Equity Instruments

The Company follows FASB ASC Topic No. 815, *Derivatives and Hedging* to classify and value warrant liabilities. Warrants classified as derivative liabilities are recorded at their fair values at the issuance date and are revalued at each subsequent reporting date, using a Monte Carlo simulation (“MCS”). A MCS model uses a simulation technique to generate multiple random price paths for the stock price to simulate many possible future outcomes which are then discounted at the risk-free rate. These simulated paths are then averaged to determine the fair value of the warrants.

Our outstanding warrants, more fully described below, offer the holders of such warrants protection against dilution whereby the exercise price of the warrants can be adjusted if the Company completes a subsequent round of financing at less than $1 per share. This provision requires the warrants described below be accounted for as derivative liabilities.

Results of Operations

For the years ended June 30, 2012 and June 30, 2011

	For the Fiscal Year Ended	
	June 30, 2012	June 30, 2011
Revenues	$ 5,930,000	$ 984,000
Costs of revenues	4,769,000	846,000
Gross profit	1,161,000	138,000
Operating expenses:		
Selling, general and administration	2,368,000	1,027,000
Research and development	590,000	382,000
Total operating expenses	2,958,000	1,409,000
Operating loss	(1,797,000)	(1,271,000)
Other income (expense):		
Loss on change in fair value of derivative liabilities	(526,000)	-
Interest expense, net	(62,000)	(42,000)
Net loss	(2,385,000)	(1,313,000)

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Net Loss

Net losses reported were approximately $2,385,000 for fiscal 2012 as compared to approximately $1,313,000 in fiscal 2011.

Revenues

We currently sell products direct or through one of several retail distributors in North America. Our direct customers are mostly large companies while our distributors primarily distribute to smaller retail customers.

Revenues for the fiscal year ended June 30, 2012, increased approximately $4,946,000, or 503%, compared to the year ended June 30, 2011. This large increase in sales was attributable to the increase in both existing and new customer sales and new contracts.

Concentration of Customers

We currently sell products direct or through one of several retail distributors in North America. Our direct customers are mostly large companies while our distributors primarily distribute to smaller retail customers.

For the fiscal year ended June 30, 2012, the Company had four major customers that represented more than 10% of its revenues on an individual basis, and combined represented 81% or approximately $4,798,000 of the Company's total revenues.

The four major customers were Greentech Automotive, Inc., which represented 34% of the total revenue, Epic Boats (a company founded and controlled by Chris Anthony, our chairman and president), represented 19% of the total revenue, Artisan Vehicle Systems, which represented 18% of the total revenues, and Boulder EV, represented 10% of the total revenue.

For the fiscal year ended June 30, 2011, the Company had two major customers represented more than 10% of its revenues on an individual basis, and combined represented 47% or approximately $463,000 of the Company's total revenues.

The two major customers were Wheego Electric Cars, which represented 32% of the total revenue, and Epic Boats (a company founded and controlled by Chris Anthony, our chairman and president), represented 15% of the total revenue.

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Cost of Revenues

Cost of revenues for the fiscal year ended June 30, 2012, increased approximately $3,923,000 or 464% compared to the fiscal year ended June 30, 2011. This large increase in cost of revenues was attributable to the increase in customer sales.

Gross Profit

Gross profit for the fiscal year ended June 30, 2012, increased by approximately $1,023,000 or 741%, compared to the fiscal year ended June 30, 2011. Gross profit as a percentage of revenue for the fiscal year ended June 30, 2012, increased to 20% compared to 14% in the fiscal year ended June 30, 2011. Sales traction during the fiscal year ended June 30, 2012 allowed us to perform more efficiently on managing product cost and we were able to negotiate customer agreements at better margins.

Selling, and General and Administrative Expenses

Selling, and general and administrative expenses for the fiscal year ended June 30, 2012 and the fiscal year ended June 30, 2011 were approximately $2,368,000 and approximately $1,027,000, respectively. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, sales travel, consulting costs, professional fees and other expenses. The increase of approximately $1,341,000 was due primarily to additional marketing and costs associated with our Reverse Acquisition, legal and accounting professional fees.

Research and Development Expense

Research and development expenses for the fiscal year ended June 30, 2012 and the fiscal year ended June 30, 2011 were approximately $590,000 and approximately $382,000, respectively. Such expenses consist primarily of materials, supplies, salaries and personnel related expenses, stock-based compensation expense, consulting costs and other expenses. The increase of approximately $208,000 was primarily due to an increase in personnel costs and benefits, and an increase in material and supplies consumption.

Liquidity and Capital Resources

For the years ended June 30, 2012 and 2011

As of June 30, 2012, we had a cash balance of approximately $812,000, negative working capital of approximately $3,590,000 and an accumulated deficit of approximately $4,328,000.

Cash Flows from Operating Activities

Our operating activities resulted in net cash used in operations of approximately $1,494,000 for the fiscal year ended June 30, 2012 compared to net cash used in operations of approximately $743,000 for the fiscal year ended June 30, 2011.

The net cash used in operating activities for the fiscal year ended June 30, 2012 reflects our use of proceeds to build the business including increasing expenditures such as, additional marketing and research and development and the costs of our Reverse Acquisition (see Note 1 to our consolidated financial statements). The net loss of approximately $2,385,000 offset by depreciation of approximately $30,000, amortization of prepaid consulting fees of approximately $68,000, changes in the fair value of warrants issued of approximately $526,000, stock-based compensation of approximately $45,000, offset by approximately $26,000 related to the write down for obsolescence of inventory. Changes in operating assets and liabilities included an increase in accounts receivable of approximately $13,000, an increase in accounts payable of approximately $284,000, a decrease in inventories of approximately $1,238,000, (net of $26,000 write-down for obsolete inventory), additional decrease of prepaid inventories $56,000, an increase in accrued expenses of approximately $339,000 primarily related to payroll and related costs, a decrease in customer deposits of approximately $207,000, a decrease in customer deposits from related party of approximately $167,000, a decrease in deferred revenue of approximately $1,322,000, and other minor factors.

The net cash used in operating activities for the fiscal year ended June 30, 2011 reflects a net loss of approximately $1,313,000 offset by depreciation of approximately $22,000 and stock-based compensation of approximately $58,000. Changes in operating assets and liabilities included an increase in accounts receivable of approximately $40,000, a decrease in accounts payable of approximately $6,000, an increase in inventories of approximately $1,697,000, a decrease in prepaid inventory of approximately $550,000, an increase in accrued expenses of approximately $30,000, a decrease in customer deposits of approximately $347,000, an increase in customer deposits from related party of approximately $208,000, an increase in deferred revenue of approximately $1,802,000, and an increase in prepaid others of approximately $10,000, and other minor factors.

Cash Flows from Investing Activities

The net cash used in investing activities for the fiscal years ended June 30, 2012 and 2011 consist primarily of purchases of equipment of approximately $60,000 and $14,000, respectively.

Cash Flows from Financing Activities

Net cash provided by financing activities for the fiscal years ended June 30, 2012 and 2011 was approximately $2,126,000 and $930,000, respectively. The increase in financing activities is the result of additional debt and equity issuances.

(a) Private Placement Transactions

During the fiscal year ended June 30, 2012, the Company received approximately $1,126,000 (net of fees) which includes $3,000 from the issuance of common shares, in connection with the Company’s Reverse Acquisition (See note 1, to the financial statements). In accordance with the Reverse Acquisition the Company conducted two Private Placement transactions and sold 2,813,000 shares of common stock and issued 563,000 five (5) year warrants. The Company additionally issued 2,294,000 shares of common stock and 468,000 warrants during July and August 2012 for a total approximating $924,000 net proceeds.

(b) Stockholder Notes Payable

Working Capital Loans

During the fiscal year ended June 30, 2012, the Company had $200,000 outstanding on a $400,000 (Inventory Funding Loan) revolving note payable with a stockholder. The note had a stated interest rate of 8% per annum and was for inventory purchases. Interest accrued daily and was payable upon maturity or conversion as amended. Advances on the note were collateralized by substantially all assets of the Company.

The Company had another revolving note payable (Operating Capital Loan) in the amount of $1,000,000, due to the same stockholder. During the fiscal year ended June 30, 2012, the Company had $830,000 outstanding on this note. The note bore interest at 8% per annum and a maturity date of May 2012. The purpose of this note was to provide bridge capital for financing. Advances on the note are collateralized by substantially all of the assets of the Company.

In August 2011, the Company amended the terms of both the Inventory Funding Loan and Operating Capital Loan to provide for conversion feature of the notes payable into shares of the Company's common stock at $1 per share.

In September 2011, the Company entered into an additional note payable (Short-Term Loan) agreement with the same stockholder for $150,000. The note matured in May 2012 and bore interest at 8% per annum as amended, and is convertible into the Company's equity securities in the same terms as the above Loans.

In December 2011, the combined full outstanding principal balance of $1,180,000 on the Inventory Funding Loan, Operating Capital Loan and Short-Term notes payable together with $84,228 of accrued interest on these notes were converted into 3,735,419 (1,264,228 shares pre-reverse Acquisition) shares of common stock at a conversion price of $.34 ($1.00 per share pre-reverse Acquisition).

Revolving Loans

In October 2011, we entered into a new revolving promissory note agreement (Secondary Operating Capital) with a stockholder for $1,000,000. The revolving promissory note bears interest at 8%, is due on September 30, 2013, as amended, and is secured by substantially all of the assets of the Company. As of June 30, 2012 the balance outstanding payable on the note was $600,000.

On March 7, 2012, we entered into an additional note payable agreement with the same stockholder for $250,000. The note is due on on March 7, 2014 and bears interest at 8% per annum. As of June 30, 2012 the balance outstanding payable on the note was $250,000.

We may require additional financing in the future. The timing of the Company's need for additional capital will depend in part on its future operating performance in terms of revenue growth and the level of operating expenses maintained.

However, there is no guarantee the Company will be able to obtain additional funds in the future or that funds will be available on terms acceptable to the Company. If such funds are not available, management will be required to curtail its investments in additional sales and marketing and product development resources, and capital expenditures, which may have an adverse effect on the Company’s future cash flows and results of operations, and its ability to fund operations.

During the fiscal year ended June 30, 2011, we received $930,000 from the issuance of notes payable to a shareholder, and we received $400 from the collection of a note receivable from a shareholder.

Future Liquidity Needs

We have evaluated our expected cash requirements over the next twelve months, which includes, but is not limited to, investments in additional sales and marketing and product development resources, capital expenditures, and working capital requirements.

We may require additional financing in the future. The timing of our need for additional capital will depend in part on our future operating performance in terms of revenue growth and the level of operating expenses maintained.

We believe our cash, accounts receivables, and our revolving promissory notes are adequate to satisfy our working capital needs and sustain our ongoing operations for at least the next twelve months.

However, there is no guarantee we will be able to obtain additional funds in the future if required or that funds will be available on terms acceptable to us. If such funds are not available, management will be required to curtail its investments in additional sales and marketing and product development resources, and capital expenditures, which may have an adverse effect on our future cash flows and results of operations, and our ability to fund operations.

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

Additionally, recent global market and economic conditions have been unprecedented and challenging with tighter credit conditions and recession in most major economies. As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide credit to businesses and consumers. These factors have led to a decrease in spending by businesses and consumers alike, and a corresponding decrease in global infrastructure spending. Continued turbulence in the U.S. and international markets and economies and prolonged declines in business and consumer spending may adversely affect our liquidity and financial condition, including our ability to access the capital markets to meet liquidity needs.

Off-Balance Sheet Arrangements

As of June 30, 2012, we did not have any other relationships with unconsolidated entities or financial partners, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Recent Accounting Pronouncements

Refer to Note 1, “Summary of Significant Accounting Polices,” in the accompanying notes to the financial statements for a discussion of new accounting standards.

ITEM 7A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

ITEM 8 — FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Financial Statements on page 58.

ITEM 9 — CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, as of the end of the period covered by this report, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Act of 1934. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be included in our Securities and Exchange Commission ("SEC") reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, relating to the Company, including our consolidated subsidiaries, and was made known to them by others within those entities, particularly during the period when this report was being prepared. Based on the management's assessment and review of our financial statements and results for the fiscal year ended June 30, 2012, we have concluded that our disclosure controls and procedures were effective for purposes stated above.

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

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.

Our management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. As of June 30, 2012, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of June 30, 2012 based on the COSO criteria.

For the fiscal year ended June 30, 2011, the company had a material weakness in internal controls over financial reporting in that the Company did not employ personnel with sufficient knowledge of generally accepted accounting principles (GAAP) to enable it to prepare financial statements in accordance with GAAP. The Company remediated this material weakness in January 2012 by hiring a Chief Financial Officer who is a Certified Public Accountant who holds an active California license.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to permanent rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Change in Internal Control Over Financial Reporting

With the exception of the remediation measure taken in January 2012 in hiring our Chief Financial Officer, there have been no other changes in the Company's internal controls over financial reporting during the fiscal year ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B — OTHER INFORMATION

None.

PART III

ITEM 10 — DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors, Executive Officers and Significant Employees

Identification of Directors, Executive Officers and Significant Employees

The following table and text set forth the names and ages of our current directors, executive officers and significant employees as of the date of this report. Our Board of Directors is comprised of only one class. All of the directors will serve until the next annual meeting of stockholders and until their successors are elected and qualified, or until their earlier death, retirement, resignation or removal. There are no family relationships among any of the directors and executive officers.

Name	Age	Position
Chris L. Anthony	36	Chairman and Chief Executive Officer
Stephen G. Jackson	49	Chief Financial Officer and Chief Operating Officer
Craig Miller	40	Chief Intellectual Property Officer and Corporate Secretary
Michael Johnson	61	Director
James Gevarges	46	Director

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

Business Experience

Chris L. Anthony, Chief Executive Officer, and Director. Mr. Anthony has been our Chairman and Chief Executive Officer since June 14, 2012. Mr. Anthony has been Chairman and Chief Executive Officer of Flux Power since it was incorporated. Since November 2010, Mr. Anthony has also served as an R&D Advisor to Epic Boats, LLC, a Delaware company primarily engaged in the business of providing recreational and competitive watercrafts, including an electric wake boarding boat which he founded in 2002 (“Epic Boats”) and where he served as Chief Executive Officer until October 2010. Mr. Anthony is a majority owner of Epic Boats. At Epic Boats, Mr. Anthony’s primary responsibilities included managing the day to day operations of the Company in his capacity as Chief

Executive Officer and Founder. From 2005 to 2009 Mr. Anthony served as the Chief Operating Officer of Aptera Motors, Inc., a Delaware company engaged in the business of manufacturing a three-wheel electric car (“Aptera Motors”) and was a Director of that company from 2005 to 2010. Aptera Motors and Epic Boats are not affiliates of the Company. Mr. Anthony is an expert in energy storage, electric propulsion systems, and advanced composite manufacturing processes. He has significant experience building advanced products in the marine and commuter vehicle industries. Mr. Anthony has a Bachelor’s of Science degree in finance from the Cameron School of Business.

Stephen G. Jackson, Chief Financial Officer and Chief Operating Officer. Mr. Jackson has been our Chief Financial Officer since June 14, 2012. Mr. Jackson has been providing services to Flux Power since November 2011 and joined the Company as a full time employee in January 2012. Prior to joining Flux Power, Mr. Jackson served as the Chief Financial Officer and Chief Operating Officer for Verdezyne Inc, an alternative energy bio-fuel company from 2008 to 2011. Mr. Jackson is a Certified Public Accountant and has more than 20 years finance and operations experience, including 7 years at SAIC, a FORTUNE 500® scientific, engineering, and technology applications company, where he held several significant financial management positions, and 3 years at PriceWaterhouse LLP (“PW”). Verdezyne, Inc., SAIC, and PW are not affiliates of the Company. He received his Bachelor of Business Administration degree in Accounting from the University of Texas at Austin and a Master of Science degree in Accountancy from San Diego State University.

Craig Miller, Chief Intellectual Property Officer and Corporate Secretary. Mr. Miller has been our Chief Intellectual Property Officer since July 1, 2012 and our corporate secretary since June 14, 2012. Mr. Miller has been providing various business and Intellectual Property related services since the inception of Flux Power. Prior to working with Flux Power Mr. Miller had his own practice consulting companies on Intellectual Property Matters such as filing of patent applications, providing patent strategy and providing general business consulting. Mr. Miller has also worked in house as Director of Intellectual Property for BakBone Software, Inc. (2006~2009) where he helped BakBone prepare for a Nasdaq public offering. BakBone Software was a computer software company specializing in development of data protection storage software. Mr. Miller has over 12 years of experience in the Intellectual Property field and during such time has held several significant management positions in Intellectual Property. Mr. Miller received his Bachelor of Science degree in electrical engineering from California State Polytechnic University, Pomona.

Michael Johnson, Director. Mr. Johnson has been our director since July 12, 2012. Mr. Johnson has been a director of Flux Power since it was incorporated. Since 2002, Mr. Johnson has been a director and the Chief Executive Officer of Esenjay Petroleum Corporation ("Esenjay Petroleum"), a Delaware company located in Corpus Christi, Texas which is engaged in the business oil exploration and production. Mr. Johnson's primary responsibility at Esenjay Petroleum was to manage the business and company as Chief Executive Officer. Mr. Johnson is director and shareholder of Esenjay Investments LLC, a Delaware company engaged in business of investing in companies, and an affiliate of the Company owning approximately 49% of the issued and outstanding shares of the Company. As a result of Mr. Johnson's leadership and business experience he is an industry expert in the natural gas exploration industry and brings a wealth of management and successful company building experience to the board. Mr. Johnson received a BS degree in mechanical engineering from the University of Southwestern Louisiana in 1971.

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

Involvement in Certain Legal Proceedings

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

Board Leadership Structure and Role in Risk Oversight

The Board does not have a policy as to whether the roles of our Chairman and Chief Executive Officer should be separate. Instead, the Board makes this determination based on what best serves our Company's needs at any given time. Currently, Mr. Anthony holds the positions of Chairman and Chief Executive Officer of our Company. The Board may decide to separate the positions of Chairman and Chief Executive Officer in the future if the Board believes it is in the best interest of the Company and our shareholders.

The Board believes that effective board leadership is highly dependent on the experience, skills and personal interaction between persons in leadership roles. The Company believes that having one person, particularly Mr. Anthony with his extensive knowledge of the industry and executive management experience, his extensive knowledge of the operations of the Company and his own commitment to innovation and strategic thinking, serve as both Chief Executive Officer and Chairman is the best leadership structure for the Company because it demonstrates to our employees, customers and shareholders that the Company is under strong leadership, with a single person setting the tone and having primary responsibility for managing the Company's operations. Accordingly, with significant input from our Board, Mr. Anthony sets the strategic direction for our Company and provides daily leadership and guidance to our managements and employees. In addition, this unity of leadership promotes strategy development and execution, timely decision-making and effective management of Company resources. The Company believes that it has been well-served by this structure.

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

Audit Committee

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

Audit Committee Financial Expert

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

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

The Board of Director discussed with the independent auditors, the auditors' independence from the management of the Company and received written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1.

After Board of Director's review and discussions, as mentioned above, the Board of director recommended that the audited financial statements be included in the Company's Annual Report on Form 10-K.

Compensation Committee and Governance and Nomination Committee

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

Code of Conduct and Ethics

We have not adopted a Code of Conduct for our CEO and Senior Executive Officers.

Indemnification Agreements

In connection with the appointment of Mr. Chris Anthony as a director, Chief Executive Officer and President, and Mr. Steve Jackson as our Chief Financial Officer, and Mr. Craig Miller as our Secretary on June 14, 2012, and the appointment of Mr. James Gevarges and Mr. Michael Johnson on July 12, 2012, we executed a standard form of indemnification agreement (“Indemnification Agreement”) with each of them (each, an “Indemnitee”).

Pursuant to and subject to the terms, conditions and limitations set forth in the Indemnification Agreement, we agreed to indemnify each Indemnitee, against any and all expenses incurred in connection with the Indemnitee's service as our officer, director and or agent, or is or was serving at our request as a director, officer, employee, agent or advisor of another corporation, partnership, joint venture, trust, limited liability company, or other entity or enterprise but only if the Indemnitee acted in good faith and in a manner he reasonably believed to be in or not opposed to our best interest, and in the case of a criminal proceeding, had no reasonable cause to believe that his conduct was unlawful. In addition, the indemnification provided in the indemnification agreement is applicable whether or not negligence or gross negligence of the Indemnitee is alleged or proven. Additionally, the Indemnification Agreement establishes processes and procedures for indemnification claims, advancement of expenses and costs and contribution obligations.

Compliance with Section 16 of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors and persons who own more than 10% of a registered class of our equity securities, to file with the Securities and Exchange Commission (hereinafter referred to as the "Commission") initial statements of beneficial ownership, reports of changes in ownership and Annual Reports concerning their ownership, of Common Stock and other of our equity securities on Forms 3, 4, and 5, respectively. Executive officers, directors and greater than 10% stockholders are required by Commission regulations to furnish us with copies of all Section 16(a) reports they file. Based solely on information available to us in public filings, we believe that all reports required by Section 16(a) for transactions in the fiscal year ended June 30, 2012, were timely filed.

ITEM 11 — EXECUTIVE COMPENSATION

Summary Compensation Table

During the fiscal year ended June 30, 2011 and June 30, 2012, no compensation was paid to Mr. Gianluca Cicogna-Mozzoni, our former executive officers or director who held such positions prior to the Reverse Acquisition. Upon the closing of the Reverse Acquisition, Mr. Gianluca Cicogna-Mozzoni submitted a resignation letter pursuant to which he resigned from all offices that he held, effective immediately; and from his position as our director that will become effective on the tenth day following the mailing by us of an information statement to our stockholders that complies with the requirements of Section 14(f) of the Exchange Act (the "Effective Date"). Mr. Cicogna-Mozzoni's resignation was effective on July 12, 2012.

The following table sets forth the information, on an accrual basis, with respect to the compensation of our and Flux Power's named executive officers for the fiscal years ended June 30, 2012 and June 30, 2011.

Name and Principal Position	Year	**Salary ($)**	**Bonus ($) (1)**	**Stock Awards ($) (2)**	**Option Awards ($) (3)**		**Non-Equity Incentive Plan Compensation ($) (4)**	**All Other Compensation ($)**		Total ($) **($)**
Chris L. Anthony(5), Chief Executive Officer and Chairman of the Board	2012	$127,200	$30,000	$ —	$9,000	(5)	$ —	$—		$166,200
	2011	$60,000	$—	$ —	$—		$ —	$—		$60,000
Stephen G. Jackson (6), Chief Financial Officer and Chief Operating Officer	2012	$64,992	$25,560	$ —	$223,000	(6)	$ —	$—		$313,552
	2011	$—	$—	$ —	$—		$ —	$—		$—
Joseph Gottlieb (7), Former Chief Technology Officer	2012	$—	$—	$ —	$—		$ —	$—		$—
	2011	$172,918	$—	$ —	$26,500	(7)	$ —	$ 75,000	(7)	$274,418

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(1) Amounts listed under the “Bonus” column for fiscal 2012 reflect the discretionary bonuses paid to each of the Named Executive Officers.

(2) The “Stock Awards” column is the grant date fair value of stock awards issued during each respective year, adjusted where applicable for our assessment of the probability that performance conditions will be achieved. The grant date fair value was determined in accordance with the provisions of FASB ASC Topic 718. There were no Stock awards issued in fiscal ended June 30, 2012 or 2011.

(3) The “Option Awards” column is the grant date fair value of stock options granted during each respective year, adjusted where applicable for our assessment of the probability that performance conditions will be achieved. The grant date fair value was determined in accordance with the provisions of FASB ASC Topic 718 using the Black-Scholes valuation model with assumptions described in more detail in the notes to our audited financial statements included in this report. None of the stock options with performance conditions that were granted in fiscal ended June 30, 2012 or 2011were considered probable of achieving their vesting conditions at the date of grant. Therefore the grant date fair value of such performance awards for purposes of the Summary Compensation Table was zero.

(4) There were no bonuses paid in fiscal 2012 or 2011 related to Incentive Plan performance.

(5) Mr. Anthony was granted on October 1, 2011 options to purchase 100,000 shares or 295,470 as adjusted (see Note 1, to the financial statements) of our common stock at $0.04 per share. The options vest quarterly over a 2-year period and expire on October 1, 2021. The fair value of the option award as of June 30, 2012 is approximately $9,000.

(6) Mr. Jackson was granted on January 25, 2012 options to purchase 300,000 shares or 886,411 as adjusted (see Note 1, to the financial statements) of our common stock at $0.34 per share. The options vest 25% after 12 mos., remaining monthly over 36 months and expire on January 22, 2020. As of June 30, 2012 the options are fully unvested. The fair value of the option award as of June 30, 2012 is approximately $223,000.

(7) Mr. Gottlieb resigned as Chief Technology Officer on July 31, 2011, and was paid a severance of $75,000. On December 3, 2010, Mr. Gottlieb was granted fully vested options to purchase 265,000 shares or 782,997 as adjusted (see Note 1, to the financial statements) of our common stock at $0.04 per share. The options expire on July 31, 2013. The fair value of the option award as of June 30, 2012 is approximately $23,000.

Benefit Plans

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

Equity Compensation Plan Information

Flux Power has adopted the 2010 Stock Option Plan (“Option Plan”) which reserved 2,000,000 shares of common stock for issuance upon exercise of options. As of June 14, 2012, the number of shares of common stock outstanding under the Option Plan was 1,535,500, and as of June 30, 2011, the number of shares of common stock outstanding under the Option Plan was 710,000.

As part of the Reverse Acquisition, we assumed the Option Plan and all 1,535,500 stock options of Flux Power's outstanding as of June 14, 2012, whether or not exercised and whether or not vested, will be substituted by us with 4,536,948 new options based on a ratio of 2.9547039 ("Share Exchange Ratio") in a manner that complies with Sections 424(a) and 409A of the Internal Revenue Code. The new options substituted by us shall continue to have, and be subject to, the substantially the same terms and conditions as before, but will be convertible into shares of our common stock, as adjusted given effect to the Share Exchange Ratio. However, we will not be able to grant additional options under the Option Plan.

The following table sets forth certain information concerning our unexercised options, stock that has not vested, and equity compensation plan awards outstanding as of June 30, 2012 for the named executive officers below:

	Option Awards(1)						Stock Awards			
Name	Award Grant Date	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Chris L. Anthony	10/01/2011	110,081	184,669	0	$ 0.04	10/1/2021	184,669	$ 9,000	0	$ 0
Stephen G. Jackson	01/25/2012	0	886,411	0	0.34	01/25/2022	886,441	223,000	0	0
Joseph Gottlieb (2)	12/03/2010	782,997	0	0	0.04	12/31/2013	0	0	0	0

(1) The fair value of each option grant is estimated at the date of grant using the Black-Scholes option pricing model. Expected volatility is calculated based on the historical volatility of the Company's stock. The risk free interest rate is based on the U.S. Treasury yield for a term equal to the expected life of the options at the time of grant.

(2) Mr. Gottlieb resigned July 31, 2011.

Compensation of Non-Executive Directors

As of June 30, 2012, no equity awards were issued to any of our non-executive directors.

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

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

Long-term incentive plans

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

Employment contracts and termination of employment and change-in-control arrangements

Effective August 1, 2012, we hired Craig Miller as our Chief Intellectual Property and Corporate Secretary on an at-will basis. In consideration for his services, we agreed to pay Mr. Miller an annual base salary of $180,000 paid in biweekly installments. Mr. Miller is also eligible to (i) receive a bonus of $10,000 for every $5,000,000 in revenue per quarter, and (ii) participate in our incentive plan. Mr. Miller also receives standard benefits which include health and dental insurance.

We have entered into an employment agreement, as amended, with our Chief Executive Officer, Chris L. Anthony. Pursuant to the terms of his employment agreement, Mr. Anthony is an "at-will" employee. Mr. Anthony is paid an annual salary of $201,600. Further, Mr. Anthony is entitled to a $10,000 end of fiscal year bonus for every $10,000,000 in sales with at least a 10% gross margin and a 20% salary bonus for every $20,000,000 in sales with at least a 10% gross margin. In the event Mr. Anthony is terminated for any reason other than criminal activity, we agree to provide Mr. Anthony with a severance payout equal to six (6) months of employment.

We have entered into an employment agreement with our Chief Financial Officer and Chief Operating Officer, Steve Jackson to be effective as of January 2, 2012. In connection with Mr. Jackson's services to our Company, on January 25, 2012, Mr. Jackson was granted options to purchase 886,411 shares of common stock, subject to the following vesting schedule: 25% shares vest after 12 months, and remaining shares vest monthly over 36 months. As of September 4, 2012, none of the options have vested. Pursuant to the terms of his employment agreement, Mr. Jackson is an "at-will" employee. Mr. Jackson is currently paid an annual salary of $170,400. Moreover, after reaching the booking/sales milestones listed below, Mr. Jackson will be entitled to quarterly compensation adjustments, both up and down, based on the previous quarter's sales as follows:

Quarterly Sales Milestones	Annualized Compensation
$3,000,000	$ 164,500
$5,000,000	$ 188,000
$10,000,000	$ 211,500
$15,000,000	$ 235,000

We have entered into an employment agreement with Steve Jackson that states that in the event Mr. Jackson is terminated after the Probation Period for any reason other than for cause, we agree to provide Mr. Jackson with a severance payout equal to six (6) months of employment. The only officer or employee who has contractual rights triggered by a change in control of the company is Mr. Jackson. Mr. Jackson's stock option agreement states that in the event of a change in control, after the effective date of the agreement, any and all unvested stock options held by Mr. Jackson shall become 100% vested and exercisable.

As of June 30, 2012 there were no performance based bonuses paid in fiscal years ended June 30, 2012 or 2011.

Compensation Committee Interlocks and Insider Participation

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

Director Independence

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

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

As used in this section, the term beneficial ownership with respect to a security is defined by Rule 13d-3 under the Securities Exchange Act of 1934, as amended, as consisting of sole or shared voting power (including the power to vote or direct the vote) and/or sole or shared investment power (including the power to dispose of or direct the disposition of) with respect to the security through any contract, arrangement, understanding, relationship or otherwise, subject to community property laws where applicable. As of September 4, 2012 we had a total of 46,364,587 shares of common stock outstanding.

The following table sets forth, as of September 4, 2012: (a) the names and addresses of each beneficial owner of more than five percent of our common stock known to us, the number of shares of common stock beneficially owned by each such person, and the percent of our common stock so owned; and (b) the names and addresses of each director and executive officer, the number of shares our common stock beneficially owned, and the percentage of our common stock so owned, by each such person, and by all of our directors and executive officers as a group. Unless otherwise indicated, the business address of each of our directors and executive officers is c/o Flux Power Holdings, Inc., 2240 Auto Park Way, Escondido, California 92029. Each person has sole voting and investment power with respect to the shares of our common stock, except as otherwise indicated. Beneficial ownership consists of a direct interest in the shares of common stock, except as otherwise indicated.

Name and Address of Beneficial Owner	**Amount and Nature of Beneficial Ownership** [(1)]		Percentage of Ownership	
Directors and Named Executive Officers				
Chris L. Anthony, Director and Executive Officer	11,996,551	(2)	25.7	%
Stephen G. Jackson, Chief Financial Officer	-		-	
Craig Miller, Chief Intellectual Property Officer	443,206	(3)	1.0	%
Michael Johnson	20,134,205	(4)	43.3	%
James Gevarges	6,057,143	(5)	13.04	%
All Officers & Directors as a Group (5 people)	38,600,925		83.0	%
5% Beneficial Owners				
Baytree Capital Associates, LLC [(6)]	3,572,777	(6)	7.15	%
40 Wall Street, 58th Floor				

New York, New York 1000

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

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(2) Includes 147,735 stock options, all of which are vested.

(3) Includes 443,206 stock options, all of which are vested. Options issued to Mr. Miller were granted while Mr. Miller was a contractor (non-employee) of Flux Power. Mr. Miller provided business and intellectual property related services to Flux Power. Mr. Miller has been our Chief Intellectual Property Officer since July 1, 2012 and our corporate secretary since June 14, 2012.

(4) Includes shares held by Esenjay Investments, LLC, a Texas limited liability company of which Mr. Johnson is the sole director and beneficial owner. Includes 147,735 stock options, all of which are vested. The options have been adjusted given effect to the Share Exchange Ratio.

(5) Includes 147,735 stock options, all of which are vested.

(6) Includes 1,035,000 shares held by Michael Gardner who is a principal of Baytree Capital Associates LLC, and 1,837,777 shares of common stock underlying warrants for a term of 5 years and at an exercise price of $0.41 per share of common stock for financial advisory services.

ITEM 13 — CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Transactions with Related Persons

In connection with the Reverse Acquisition, Mr. Anthony, our President, Chief Executive Officer, and director, Mr. Gevarges, our director, and Esenjay Investments, LLC, an entity which our director, Michael Johnson, is a director, severally agreed not to offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of any shares of our common stock or securities convertible into or exercisable or exchangeable into our common stock beneficially owned by such shareholder, for a period of eighteen (18) months from the closing date of the Reverse Acquisition, except during the period after the first anniversary of the closing date and a period of six (6) months thereafter, in such an amount which constitutes less than three percent (3%) in the aggregate of such shareholder's beneficial ownership of our common stock per month.

On June 14, 2012, we entered into an Advisory Agreement with Baytree Capital Associates, LLP. our affiliate which owns 2,285,000 shares of our common stock ("Baytree Capital") pursuant to which Baytree Capital will provide us with business and consulting services for 24 months in exchange for 100,000 restricted shares of our newly issued common stock at the commencement of each six month period in return for its services, which shares will have piggy-back registration rights, and a warrant to purchase 1,837,777 restricted shares of our common stock for a period of 5 years at an exercise price of $.41 per share.

Loans from Stockholder

(a) Loans Converted into Common Stock

During the fiscal year ended June 30, 2012, the Company had $200,000 outstanding on a $400,000 (Inventory Funding Loan) revolving note payable with a stockholder. The note had a stated interest rate of 8% per annum and was for inventory purchases. Interest accrued daily and was payable upon maturity or conversion as amended. Advances on the note were collateralized by substantially all assets of the Company.

The Company had another revolving note payable (Operating Capital Loan) in the amount of $1,000,000, due to the same stockholder. During the fiscal year ended June 30, 2012, the Company had $830,000 outstanding on this note. The note bore interest at 8% per annum and a maturity date of May 2012. The purpose of this note was to provide bridge capital for financing. Advances on the note are collateralized by substantially all of the assets of the Company.

In August 2011, the Company amended the terms of both the Inventory Funding Loan and Operating Capital Loan to provide for conversion feature of the notes payable into shares of the Company's common stock at $1 per share.

In September 2011, the Company entered into an additional note payable (Short-Term Loan) agreement with the same stockholder for $150,000. The note matured in May 2012 and bore interest at 8% per annum as amended, and is convertible into the Company's equity securities in the same terms as the above Loans.

In December 2011, the combined full outstanding principal balance of $1,180,000 on the Inventory Funding Loan, Operating Capital Loan and Short-Term notes payable together with $84,228 of accrued interest on these notes were converted into 3,735,419 (1,264,228 shares pre-reverse Acquisition) shares of common stock at a conversion price of $.34 ($1.00 per share pre-reverse Acquisition).

(b) Revolving Loans

In October 2011, we entered into a new revolving promissory note agreement (Secondary Operating Capital) with a stockholder for $1,000,000. The revolving promissory note bears interest at 8%, is due on September 30, 2013, as amended, and is secured by substantially all of the assets of the Company. As of June 30, 2012 the balance outstanding payable on the note was $600,000.

On March 7, 2012, we entered into an additional note payable agreement with the same stockholder for $250,000. The note is due on on March 7, 2014 and bears interest at 8% per annum. As of June 30, 2012 the balance outstanding payable on the note was $250,000.

On September 24, 2012, we entered into a certain Unrestricted and Line of Credit ("Line of Credit) with Esenjay Investments, LLC ("Esenjay") pursuant to which Esenjay agreed to provide us with a revolving line of credit for $1,500,000 ("Line of Credit"). Borrowings under the Line of Credit is secured by the assets of the Company and bears interest at 8% per annum, with all unpaid principal and accrued interest due and payable on September 24, 2014. There is no prepayment penalty under the Line of Credit. Proceeds from the Line of Credit can be used at the discretion of the Company and the Company intends to use it for working capital. As of September 28, 2012, the

Company has not borrowed any amounts under the Line of Credit. Esenjay is one of our major shareholders which beneficially own approximately 43% of our common stock. Mr. Michael Johnson, our director, is the director and shareholder of Esenjay.

We may require additional financing in the future. The timing of the Company's need for additional capital will depend in part on its future operating performance in terms of revenue growth and the level of operating expenses maintained.

However, there is no guarantee the Company will be able to obtain additional funds in the future or that funds will be available on terms acceptable to the Company. If such funds are not available, management will be required to curtail its investments in additional sales and marketing and product development resources, and capital expenditures, which may have an adverse effect on the Company's future cash flows and results of operations, and its ability to fund operations.

During 2009, the Flux Power entered into a cancelable Term Sheet agreement (the “Term Sheet Agreement”) with a LHV Power Corporation, an entity owned by James Gevarges, one of our major shareholders. Mr. Gevarges is also the Chief Executive Officer and President of LHV Power. Pursuant to the Term Sheet Agreement, Flux Power was appointed as a distributor of LHV Power battery charging products allowing Flux Power to sell the products either separately or as part of an energy storage solution. Additionally, Flux Power was required to develop a microprocessor control board, and the associated software to enable communication between the parties’ respective products (“MCB”) which entitles Flux Power to royalties for any such units sold by the related entity. Pursuant to the Term Sheet Agreement Flux Power may purchase the products at the then current price list for distributors. Further, under the Term Sheet Agreement, if LHV Power sells its products to a different distributor Flux Power is entitled to a distribution fee equal to 20% of the gross profits on such sale. This distribution fee and royalties are capped at a total of $200,000. The products defined in the Term Sheet were assigned Gevarges. Mr. Gevarges is also the Chief Executive Officer and President of Current Ways, Inc., Under the Term Sheet Agreement, it was agreed that upon completion of the MCB, and LHV Power’s sale of the MCB as part of its product offerings, LHV Power will pay Flux Power a royalty fee of $20 per MCB sold, with such royalty fees capped at $200,000. This distribution and royalties fees were capped at a total of $200,000. The parties also agreed that the obligation to pay the royalty fees and distribution fee would survive the termination or expiration of the Term Sheet Agreement and such obligation to make such payment would terminate once the total payments of the distribution and royalty fee reached $200,000 (“Distribution and Royalty Fee Obligation”). Once the Distribution and Royalty Fee Obligation has been satisfied, the parties agreed that Flux Power would no longer be required to provide any support for the MCB and the parties would negotiate a new support fee upon LHV Power’s request. This cap has not been satisfied and the Distribution and Royalty Fee Obligation still remains outstanding. The chargers are not currently under commercial production and therefore no Distribution and Royalty Fee has been received by Flux Power. Under the Term Sheet Agreement, LHV Power has ownership of all intellectual property concerning the software developed under the Term Sheet Agreement. On September 1, 2010, with our consent, LHV assigned the Term Sheet Agreement. The Term Sheet Agreement provides for automatic one-year renewals and remains in effect.to Current Ways, Inc., a different company that is owned by Mr. Gevarges. In connection with the assignment, Current Ways, Inc. assumed all of the rights and obligations of LHV Power under the Term Sheet Agreement. The Term Sheet Agreement expired pursuant to its terms on April 1, 2011. However, Current Ways, Inc. is still subject to the Distribution and Royalty Fee Obligation which will continue until the cap of $200,000 is satisfied or the parties agree otherwise. The parties are also subject to restrictions on the use and disclosure of confidential information of the other party until April 1, 2013. Pursuant to our standard purchase order terms and conditions, during the fiscal years ended June 30, 2012 and 2011, Flux Power purchased approximately $85,000 and $33,000 charger products from Current Ways, Inc., which purchases were not subject to the distribution fee or royalties under the Term Sheet Agreement.

On August 1, 2009, Flux Power entered into a Manufacturing Implementation Agreement (the “Manufacturing Agreement”) with LHV Power. Pursuant to the Manufacturing Agreement Flux Power granted LHV Power a right of first refusal to manufacture our battery management systems. Further, under the Manufacturing Agreement, Flux Power agreed to pay for any specialized tooling LHV Power may require to manufacture Flux Power’s battery management systems. Under the Manufacturing Agreement, Flux Power will retain ownership of all intellectual property developed under the Manufacturing Agreement. The Manufacturing Agreement expires on August 1, 2014. During the fiscal years ended June 30, 2012 and 2011, Flux Power paid approximately $263,000 and $130,000, respectively, to LHV Power pursuant to the Manufacturing Agreement.

On July 1, 2011, Flux Power entered into a Sublease Agreement with Epic Boats, LLC (“Epic Boats”). Chris Anthony, our Chief Executive Officer is also an R&D advisor to, and 35% owner of, Epic Boats. Pursuant to the Terms of the Sublease Agreement, Epic Boats has subleased approximately 7,200 square feet of Flux Power’s office space for a monthly payment of $6,640. The Sublease Agreement was terminated January 1, 2012. During fiscal years ended June 30, 2012 and 2011, Epic Boats reimbursed $53,000 and $7,000, respectively, to Flux Power under this Sublease Agreement.

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

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

As of this date, Flux Power began selling products to Epic Boats under Flux Power’s standard terms and conditions and has continued to sell products to Epic Boats as a customer. During the fiscal years ended June 30, 2012 and 2011, Flux Power sold approximately $1,135,000 and $149,000, respectively, of product to Epic Boats. The customer deposits balance received from Epic Boats at June 30, 2012 and June 30, 2011, is approximately $200,000 and $367,000, respectively. There were no receivables outstanding from Epic Boats as of June 30, 2012.

During the fiscal years ended June 30, 2012 and 2011, the Company sold approximately $1,000 and $29,000, respectively, of product to a company owned by another one of the Company’s major shareholders who is the Company’s former Chief Technology Officer. There were no receivables outstanding from this customer as of June 30, 2012 and June 30, 2011. As of June 30, 2012 this shareholder sold his shares and was no longer a shareholder of the Company.

Promoters and Certain Control Persons

The Reverse Acquisition resulted in a change of control by issuance of our securities to the following entities and individuals:

- ***Chris Anthony*****.** Mr. Anthony, our Chairman, Chief Executive Officer, and President, is one of our major shareholders which beneficially owns approximately 26% of our common stock.

- ***Esenjay Investments, LLC.*** Esenjay Investment, LLC is one of our major shareholders which beneficially own approximately 43% of our common stock. Mr. Michael Johnson, our director, is the director and shareholder of this entity.

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- ***James Gevarges***. Mr. Gevarges, our director, is one of our major shareholders who beneficially own approximately 13% of our common stock.

In connection with the Reverse Acquisition, Messrs. Anthony and Gevarges and Esenjay Investments LLC each agreed not to offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of any shares of our common stock or securities convertible into or exercisable or exchangeable into our common stock beneficially owned by such shareholder, for a period of eighteen (18) months from the closing date of the Reverse Acquisition, except during the period after the first anniversary of the closing date and a period of six (6) months thereafter, in such an amount which constitutes less than three percent (3%) in the aggregate of such shareholder's beneficial ownership of our common stock per month.

Director Independence

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

ITEM 14 — PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Independent Auditor

Prior to the Reverse Acquisition, Friedman LLP was our auditor. In connection with Reverse Acquisition, we dismissed Friedman LLP and engaged Mayer Hoffman McCann P.C. ("Mayer"). On August 9, 2012, our Board of Directors approved the dismissal of Mayer and our Board of Directors serving as the Audit Committee appointed Squar, Milner, Peterson, Miranda & Williamson, LLP ("Squar") as our independent auditor for the fiscal year ending June 30, 2012.

Fees Paid to Principal Independent Registered Public Accounting Firm(s)

The aggregate fees paid to our Independent Registered Public Accounting Firm(s), for fiscal years ended June 30, are as follows:

	2012	2011
Audit fees (1)	$181,000	$32,000
Audit related fees	—	—
Tax fees	—	—
All other fees	—	—
Total	$181,000	$32,000

(1) For 2012, fees paid to Squar is $37,000 and Mayer $144,000.

Audit Fees

Audit fees are the aggregate fees billed for professional services rendered by our independent auditors for the audit of our annual financial statements, the review of the financial statements included in each of our quarterly reports and services provided in connection with statutory and regulatory filings or engagements.

Audit Related Fees

Audit related fees are the aggregate fees billed by our independent auditors for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not described in the preceding category.

Tax Fees

Tax fees are billed by our independent auditors for tax compliance, tax advice and tax planning.

All Other Fees

All other fees include fees billed by our independent auditors for products or services other than as described in the immediately preceding three categories.

The Company's Board of Directors serves as the Audit Committee and has unanimously approved all audit and non-audit services provided by the independent auditors. The independent accountants and management are required to periodically report to the Board of Directors regarding the extent of services provided by the independent accountants, and the fees for the services performed to date. Currently the Board of Directors is in the process of identifying a tax preparer for the Company's tax compliance requirements. The Company has not adopted a Charter for the Audit Committee as of June 30, 2012.

PART IV

ITEM 15 — EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Financial Statement Schedules.

1. The following financial statements of Flux Power Holdings, Inc., and Reports of Squar, Milner, Peterson, Miranda & Williamson, LLP, and Mayer Hoffman McCann, P.C., independent registered public accounting firms, are included in this report:

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

3. See Subsection (b) below:

(b) Exhibits

The following exhibits are filed as part of this Report

Exhibit No.	Description
2.1	Securities Exchange Agreement dated May 18, 2012 (1)
2.2	Amendment No. 1 to the Securities Exchange Agreement dated June 13, 2012 (2)
3.1	Restated Articles of Incorporation (4)
3.2	Amended and Restated Bylaws of Flux Power Holdings, Inc. (3)
10.1	Esenjay Secondary Revolving Promissory Note for Operating Capital dated October 1, 2011 (2)
10.2	Esenjay Bridge Loan Promissory Note dated March 7, 2012 (2)
10.3	Amended and Restated Terms of Employment with Chris Anthony with an effective date of January 1, 2010 (2)
10.4	Terms of Employment with Steve Jackson dated January 12, 2012 (2)
10.5	Flux Power Holdings, Inc. 2010 Stock Plan (2)
10.6	Flux Power Holdings, Inc. 2010 Stock Plan: Form of Stock Option Agreement (2)
10.7	LHV Power Corporation Term Sheet dated June 19, 2009 (2)
10.8	LHV Manufacturing Implementation Agreement dated August 1, 2009 (2)
10.9	GreenTech Automotive, Inc. Purchase Order Terms and Conditions(5)(CT)
10.10	NACCO Materials Handling Group, Inc. Prototype Agreement dated February 6, 2012(5)(CT)
10.11	Baytree Capital Advisory Agreement dated June 14, 2012 (2)
10.12	Form of Warrant (5)

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Exhibit No.	Description
10.13	Form of Securities Purchase Agreement(5)
10.14	Form of Indemnification Agreement (2)
10.15	Vendor Agreement dated January 15, 2010(6)
10.16	ACP Agreement dated September 4, 2012*
10.17	Unrestricted and Open Line of Credit dated September 24, 2012(7)
21.1	Subsidiaries (2)
31.1	Certifications of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act.*
31.2	Certifications of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act.*
32.1	Certifications of the Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act.*
32.2	Certifications of the Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act.*
101.INS	XBRL Instance Document (8)
101.SCH	XBRL Taxonomy Extension Schema (8)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (8)
101.DEF	XBRL Taxonomy Extension Definition Linkbase (8)
101.LAB	XBRL Taxonomy Extension Label Linkbase (8)
101.FRE	XBRL Taxonomy Extension Presentation Linkbase (8)

* Filed herewith.

(1) Incorporated by reference to Form 8-K filed with the SEC on May 24, 2012

(2) Incorporated by reference to Form 8-K filed with the SEC on June 18, 2012

(3) Incorporated by reference to Form 8-K filed with the SEC on May 31, 2012

(4) Incorporated by reference to Form 8-K/A (Amendment No. 1) filed with the SEC on August 6, 2012

(5) Incorporated by reference to Form 8-K filed with the SEC on June 26, 2012

(6) Incorporated by reference to Form 8-K/A (Amendment No. 2) filed with the SEC on August 29, 2012

(7) Incorporated by reference to Form 8-K filed with the SEC on September 27, 2012

(8) XBRL Interactive Data File will be filed by amendment to this Form 10-K within 30 days of filing date of this Form 10-K, as permitted by Rule 405(f)(3) of Regulation S-T.

(CT) Application has been made to the SEC to seek confidential treatment of certain portions of Exhibits 10.9 and 10.10 under Rule 24b-2 of the Securities Exchange Act of 1934, as amended. Omitted material for which confidential treatment has been requested has been filed separately with the SEC.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and 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.
Dated: September 28, 2012	By: /s/ Chris L. Anthony Chris L. Anthony Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Chris L. Anthony Chris L. Anthony	Chief Executive Officer and Chairman of Board *(Principal Executive Officer)*	September 28, 2012
/s/ Stephen G. Jackson Stephen G. Jackson	Chief Financial Officer *(Principal Financial Officer and* *Principal Accounting Officer)*	September 28, 2012
Michael Johnson	Director	
/s/ James Gevarges James Gevarges	Director	September 28, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheet of Flux Power Holdings, Inc., (the "Company") as of June 30, 2012, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Flux Power Holdings, Inc., as of June 30, 2012, and the consolidated results of its operations and consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As more fully discussed in Note 1, effective June 14, 2012, the Company completed an acquisition of Flux Power, Inc. which has been accounted for as a recapitalization in the accompanying financial statements as of the beginning of the periods presented.

/s/ SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP

Newport Beach, California

September 28, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying balance sheet of Flux Power Holdings, Inc. (the “Company”), as of June 30, 2011, and the related statements of operations, and cash flows for the year ended June 30, 2011. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Flux Power Holdings, Inc. as of June 30, 2011, and the results of its operations and its cash flows for the year ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

/s/ MAYER HOFFMAN MCCANN, P.C.

San Diego, CA

April 23, 2012

FLUX POWER HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

For the Years Ended June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash	$812,000	$240,000
Accounts receivable, net	54,000	40,000
Inventories, net	736,000	1,974,000
Inventories, prepaid	—	56,000
Prepaid advisory fees, current portion	1,629,000	—
Other prepaid expenses and other current assets	39,000	54,000
Total current assets	3,270,000	2,364,000
Property, plant and equipment, net	135,000	105,000
Other assets:		
Prepaid advisory fees, net of current portion	1,561,000	—
Total assets	$4,966,000	$2,469,000
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$293,000	$9,000
Accrued expenses	342,000	87,000
Customer deposits	2,000	209,000
Customer deposits from related party	200,000	367,000
Warrant derivative liability	4,943,000	—
Deferred revenue	480,000	1,802,000
Stockholder notes payable, current portion	600,000	1,030,000
Total current liabilities	6,860,000	3,504,000
Long term liabilities:		
Stockholder notes payable	250,000	—
Stockholder notSres payable		
Total liabilities	7,110,000	3,504,000
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, $.001 par value: authorized 5,000,000 shares, none issued and outstanding	—	—

Common stock, $.001 par value: authorized 145,000,000 shares, 44,070,930 and 33,979,000 shares issued and outstanding (as adjusted), as of June 30, 2012 and June 30, 2011, respectively	44,000	34,000
Additional paid-in capital	2,140,000	874,000
Accumulated deficit	(4,328,000)	(1,943,000)
Total stockholders' deficit	(2,144,000)	(1,035,000)
Total liabilities and stockholders' deficit	$4,966,000	$2,469,000

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

FLUX POWER HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended June 30, 2012 and 2011

	2012			2011		
Net revenue [(1)]	$	5,930,000		$	984,000	
Cost of revenue		4,769,000			846,000	
Gross profit		1,161,000			138,000	
Operating expenses:						
Selling and administrative expenses		2,368,000			1,027,000	
Research and development		590,000			382,000	
Total operating expense		2,958,000			1,409,000	
Operating loss		(1,797,000	)		(1,271,000	)
Other income (expense):						
Loss on change in fair value of derivative liabilities		(526,000	)		-	
Interest expense, net		(62,000	)		(42,000	)
Net loss from operations	$	(2,385,000	)	$	(1,313,000	)
Net loss per share - basic and diluted	$	(0.06	)	$	(0.04	)
Weighted average number of common shares outstanding - basic and diluted		36,904,769			33,979,095	

(1) Includes sales to related parties of $ 1,135,000 and $ 149,000 in 2012 and 2011 respectively

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

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FLUX POWER HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

For the Years Ended June 30, 2012 and 2011

	Common Stock		**Additional** Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance at June 30, 2010 (1)	33,979,000	$34,000	$816,000	$(630,000)	$220,000
Net loss	—	—	—	(1,313,000)	(1,313,000)
Share-based compensation	—	—	58,000	—	58,000
Balance at June 30, 2011 (1)	33,979,000	34,000	874,000	(1,943,000)	(1,035,000)
Issuance of common stock – notes payable debt conversion	3,735,000	4,000	1,260,000	—	1,264,000
Issuance of common stock – Private Placement transactions, net	2,813,000	3,000	1,123,000	—	1,126,000
Reclassification of Warrant as a –derivative liability	—	—	(1,159,000)	—	(1,159,000)
Recapitalization of Common stock – Reverse Acquisition transactions	3,544,000	3,000	(3,000)	—	—
Share-based compensation	—	—	45,000	—	45,000
Net loss	—	—	—	(2,385,000)	(2.385,000)
Balance at June 30, 2012	44,071,000	44,000	2,140,000	(4,328,000)	(2,144,000)

(1) Shares outstanding have been adjusted to reflect the effect of the June 14, 2012 Reverse Acquisition, see Note 1.

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

FLUX POWER HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Net loss	$(2,385,000)	$(1,313,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	30,000	22,000
Amortization of prepaid advisory fees	68,000	—
Write-off of excess inventory	(26,000)	—
Change in fair value of warrant liability	526,000	—
Stock-based compensation	45,000	58,000
Changes in operating assets and liabilities:		
Accounts receivable	(13,000)	(40,000)
Inventories	1,263,000	(1,697,000)
Inventories, prepaid	56,000	550,000
Prepaid expenses and other current assets	15,000	(10,000)
Accounts payable	284,000	(6,000)
Accrued expenses	339,000	30,000
Customer deposits	(207,000)	(347,000)
Customer deposits from related party	(167,000)	208,000
Deferred revenue	(1,322,000)	1,802,000
Net cash used in operating activities	(1,494,000)	(743,000)
Cash flows from investing activities:		
Purchases of equipment	(60,000)	(14,000)
Net cash used in investing activities	(60,000)	(14,000)
Cash flows from financing activities:		
Issuance of common shares in financing	3,000	—
Proceeds from the sale of common stock and warrants, net of offering costs paid	1,123,000	—
Proceeds from issuance of stockholders note payable	1,000,000	930,000
Net cash provided by financing activities	2,126,000	930,000
Net increase in cash	572,000	173,000
Cash, beginning of period	240,000	67,000
Cash, end of period	$812,000	$240,000

Supplemental disclosures of Non-cash Investing and Financing Activities::

Conversion of debt	$1,264,000	$—
Issuance of warrants for advisory services	$3,258,000	$—
Issuance of warrants to investors	$1,159,000	$—
Supplemental disclosures of Cash Flow Information:		
Cash paid during the year for:		
Income taxes	$1,000	$—

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

FLUX POWER HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 and 2011

NOTE 1 - BASIS OF PRESENTATION AND NATURE OF BUSINESS

Nature of Business

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

Flux Power, Inc., ("Flux Power") a California corporation merged with Lone Pine Holdings a Nevada corporation ("LPH") and became a wholly owned subsidiary of LPH. The transaction has been reflected as a reverse merger where LPH was the surviving legal entity after the merger. On June 30, 2012, LPH changed its name to Flux Power Holdings, Inc. ("Flux" or "FPH"). Flux Power remained the accounting acquirer. The merger has been accounted for as a recapitalization as of the earliest period presented. Accordingly, the historical consolidated financial statements prior to June 30, 2012 are those of Flux.

Flux Power develops and sells rechargeable advanced energy storage systems. The Company has structured its business around its core technology, "The Battery Management System" ("BMS"). The Company's BMS provides three critical functions to their battery systems: cell balancing, monitoring and error reporting. Using its proprietary management technology, the Company is able to offer complete integrated energy storage solutions or custom modular standalone systems to their clients. The Company also developed a suite of complementary technologies and products that accompany their core products. Sales during the fiscal years ended June 30, 2012 and 2011 were primarily to customers located throughout the Unites States.

Reverse Acquisition of Flux Power Inc.

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

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

In connection with the Reverse Acquisition, (a) we adopted amended and restated Bylaws, (b) changed our name to "Flux Power Holdings, Inc." (c) we have assumed the 2010 Option Plan ("Plan") and all of the stock options of Flux Power's outstanding as of the closing of the Reverse Acquisition, and all 1,535,500 stock options of Flux Power's outstanding as of June 14, 2012, whether or not exercised and whether or not vested, were substituted by us with 4,536,948 new options based on a ratio of 2.9547039 ("Share Exchange Ratio") in a manner that complies with Sections 424(a) and 409A of the Internal Revenue Code. The new options substituted by us continue to have, and are subject to, the substantially the same terms and conditions as before, but are convertible into shares of our common stock, as adjusted given effect to the Share Exchange Ratio. However, we will not be able to grant additional options under the Option Plan (d) each of the Flux Power Shareholders agreed not to offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of any shares of Exchange Shares for a period of 18 months from the Closing except during the period after the first anniversary of the Closing and a period of 6 months thereafter, in such an amount which constitutes less than 3% in the aggregate of such Flux Shareholder's beneficial ownership of our common stock per month, and (e) we agreed to use our best efforts to conduct a private placement of our securities in a private placement to accredited investors. Pursuant to the Reverse Acquisition, the Company has completed the following capital transactions as described below:

(a) ***Private Placement - June and July 2012***

In June 2012, we conducted a private placement of our common stock and warrants to accredited investors to purchase up to 8 Units, at a price of $500,000 per Unit, with each Unit consisting of 1,207,185 shares of our common stock and 241,437 five (5) year warrants to purchase one share of our common stock at an exercise price of $0.41 per share of which Baytree Capital, its designees or assignees, has committed to investing at least $1,000,000 in the Private Placement. The securities offered and sold in the Private Placement will not be or have not been registered under the Securities Act of 1933, as amended ("Securities Act"), and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act. The Company issued 2,813,000 shares and 563,000 warrants raising approximately $1,123,000 in net proceeds through June 30, 2012. Additionally the Company issued 1,690,000 shares and 338,000 warrants in July 2012 raising approximately $680,000.

(b) ***Private Placement– August 2012***

Subsequent to our private placement referred to above, in August 2012 the Company commenced a private placement of our common stock and warrants to accredited investors to purchase up to 8 Units for a purchase price of $250,000 per Unit for an aggregate amount of $2,000,000, with each Unit consists of 603,592 shares of our common stock and 120,718 warrants, with each warrant entitling the holder to purchase one share of common stock at an exercise price of $0.41 per share at any time for a period of up to five (5) years from the issuance date at which time the Warrant will expire. On August 31, 2012, we entered into a Securities Purchase Agreement with four (4) accredited investors pursuant to which we sold an aggregate of 603,594 shares of common stock and issued 120,719 five year warrants for an aggregate purchase price of $250,000.

The common stock purchased in the private placement and the common stock issued upon exercise of warrants have piggyback registration rights. The securities offered and sold in the private placement have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation and Consolidation

The Company’s consolidated financial statements have been prepared on a going concern basis in accordance with accounting principles generally accepted in the United States of America (“GAAP”). This contemplates the realization of assets and satisfaction of liabilities in the ordinary course of business.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the Flux Power Holdings, Inc. and its wholly-owned subsidiary Flux Power Inc. after elimination of all intercompany accounts and transactions.

Reclassifications

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

Use of Estimates in Financial Statement Preparation

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

Cash and Cash Equivalents

As of June 30, 2012, cash totaled approximately $812,000 and consists of funds held in a non-interest bearing bank deposit account. The Company considers all highly liquid short term investments with maturities of less than three months when acquired to be cash equivalents. The Company had no cash equivalents at June 30, 2012 and 2011.

Fair Values of Financial Instruments

The carrying amount of our accounts payable, accounts receivable, and accrued liabilities approximates their estimated fair values due to the short-term maturities of those financial instruments. The carrying amount of notes payable approximates their fair value due to the short maturity of the notes and as the interest approximates current market interest rates for the similar instruments. Derivative liabilities recorded in connection with warrants are reported at their estimated fair value, with changes in fair value being reported in results of operations (see Note 9).

Management has concluded that it is not practical to determine the estimated fair value of amounts due to related parties because the transactions cannot be assumed to have consummated at arm’s length, the terms are not deemed to be market terms, there are no quoted values available for these instruments, and an independent valuation would not be practical due to the lack of data regarding similar instruments, if any, and the associated potential costs.

Except for derivative liabilities as described in Note 9, we do not have any other assets or liabilities that are measured at fair value on a recurring basis and, during the fiscal years ended June 30, 2012 and 2011, did not have any other assets or liabilities that were measured at fair value on a nonrecurring basis

Accounts Receivable and Customer Deposits

Accounts receivable are carried at their estimated collectible amounts. The Company generally requires advance deposits from its customers prior to shipment of the ordered products.

The Company has not experienced collection issues related to its accounts receivable, and has not recorded an allowance for doubtful accounts at June 30, 2012 or June 30, 2011.

Inventories and Prepaid Inventory

Inventories consist primarily of battery management systems and the related subcomponents, and are stated at the lower of cost (first-in, first-out) or market. Prepaid inventory represents deposits made by the Company for inventory purchases. The Company evaluates inventories to determine if write-downs are necessary due to obsolescence or if the inventory levels are in excess of anticipated demand at market value based on consideration of historical sales and product development plans. Accordingly, the Company recorded a write-down for obsolete inventory during the year ended June 30, 2012 of approximately $26,000. There were no write-downs of inventory determined necessary during the fiscal year ended June 30, 2011.

Property, Plant and Equipment

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

Depreciation was approximately $30,000 and $22,000 for the fiscal years ended June 30, 2012 and 2011 respectively.

Stock-based Compensation

Pursuant to the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 718-10, *Compensation–Stock Compensation*, which establishes accounting for equity instruments exchanged for employee service, we utilize the Black-Scholes option pricing model to estimate the fair value of employee stock option awards at the date of grant, which requires the input of highly subjective assumptions, including expected volatility and expected life. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our share-based compensation. These assumptions are subjective and generally require significant analysis and judgment to develop. When estimating fair value, some of the assumptions will be based on, or determined from, external data and other assumptions may be derived from our historical experience with stock-based payment arrangements. The appropriate weight to place on historical experience is a matter of judgment, based on relevant facts and circumstances.

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

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, price is fixed or determinable and collectability of the selling price is reasonably assured. Delivery occurs when risk of loss is passed to the customer, as specified by the terms of the applicable customer agreements.

When a right of return exists, contractually or implied, the Company recognizes revenue on the sell through-method. Under this method, revenue is not recognized upon delivery of the inventory components. Instead, the Company records deferred revenue upon delivery and recognizes revenue when the inventory components are sold through to the end user.

Deferred revenue at June 30, 2012 and 2011 related to one customer and were $480,000 and $1,802,000, respectively representing units not yet sold through by our customer. The related product cost of $431,000 and $1,672,000 at June 30, 2012 and 2011, respectively, is included in inventory.

Sales Returns and Allowances

The Company evaluates its exposure to sales returns and allowances based on historical experience. The Company has not experienced returns during the fiscal years ended June 30, 2012 and 2011, and accordingly, the Company did not record sales returns and allowance.

Product Warranties

The Company evaluates its exposure to product warranty obligations based on historical experience. Our products are warrantied for two years unless modified by a separate agreement. The Company recorded a warranty liability of $11,750 during the fiscal year ended June 30, 2012. During the fiscal year ended June 30, 2011 the Company did not record warranty liability.

Shipping and Handling Costs

The Company records shipping and handling costs charged to customers as revenue and shipping and handling costs to cost of sales as incurred.

Impairment of Long-lived Assets

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

If impairment is indicated, the Company measures the amount of such impairment by comparing the carrying value of the asset to the present value of the expected future cash flows associated with the use of the asset. The Company believes future cash flows to be received from its long-lived assets held in use will exceed the assets' carrying values, and accordingly the Company has not recognized any impairment losses during the fiscal years ended June 30, 2012 and 2011.

Research and Development

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

Income Taxes

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

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

We follow the provisions of FASB ASC Topic No.740 relating to uncertain tax provisions and have commenced analyzing filing positions in all of the federal and state jurisdictions where the Company is required to file income tax returns, as well as all open tax years in these jurisdictions. As a result of adoption, no additional tax liabilities have been recorded. There are no unrecognized tax benefits as of June 30, 2012 or June 30, 2011.

Earnings or Loss Per Common Share

Basic earnings per common share equal net earnings or loss divided by the weighted average number of shares outstanding during the periods. Diluted earnings per share include the impact on dilution from all contingently issuable shares, including options, warrants and convertible securities. The common stock equivalents from contingent shares are determined by the treasury stock method. The Company incurred a net loss for the years ended June 30, 2012 and 2011 respectively and therefore, basic and diluted earnings per share for those periods are the same as the effect of contingently issuable shares would be anti-dilutive. Contingently issuable shares excluded an aggregate of approximately 6,937,000 options and warrants as of June 30, 2012.

Derivative Financial Instruments

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

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

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

The Company follows FASB ASC Topic No. 815, *Derivatives and Hedging* to classify and value warrant liabilities. Warrants classified as derivative liabilities are recorded at their fair values at the issuance date and are revalued at each subsequent reporting date, using a Monte Carlo simulation ("MCS"). A MCS model uses a simulation technique to generate multiple random price paths for the stock price to simulate many possible future outcomes which are then discounted at the risk-free rate. These simulated paths are then averaged to determine the fair value of the warrants.

Our outstanding warrants, more fully described below, offer the holders of such warrants protection against dilution whereby the exercise price of the warrants can be adjusted if the Company completes a subsequent round of financing at less than $1 per share. This provision requires the warrants described below be accounted for as derivative liabilities:

(a) Financing Warrant

In June 2012, the Company entered into Securities Purchase Agreements with certain investors. In connection with the Securities Purchase Agreements, the Company also issued five year warrants to purchase a total of 562,551 shares of the Company's common stock at an initial exercise price of $0.41 per share. Financing Warrants were determined to have a fair value per share of $2.06 and aggregate to $1,158,000 as of June 30, 2012.

(b) Baytree Warrant

On June 14, 2012, as part of the payment of an advisory agreement with Baytree, the Company was obligated to issue a five year warrant to purchase a total of 1,837,777 shares of its common stock at an initial exercise price of $0.41 per share. The Baytree Warrant has the same Anti-Dilution feature as the Financing Warrants above. The Baytree Warrant was determined to have a fair value per share of $1.77 and aggregates to $3,258,000 as of June 14, 2012.

At June 30, 2012, derivative liabilities relating to the Financing Warrant and Baytree warrant approximately $4,943,000 on the Company's balance sheet. The change in fair value of the warrant liabilities from date of issuance through June 30, 2012 was $526,000 and included as other income in the 2012 statement of operations.

New Accounting Standards

In September 2011, the FASB issued Accounting Standards Update ("ASU") 2011-08, *Intangibles - Goodwill and Other,* which allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. ASU 2011-08 will be effective for the Company in fiscal 2013, with early adoption permitted. The Company does not expect the adoption of this ASU will have a material effect on its financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income,* providing guidance regarding the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new standard also requires presentation of adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. The updated guidance of ASU 2011-05 is effective on a retrospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning with the Company’s fiscal 2013 year. The adoption of this update is not expected to have a material effect on our financial statements.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement,* providing additional guidance on fair value measurements that clarifies the application of existing guidance and disclosure requirements changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The updated guidance of ASU 2011-04 is effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning with the Company's fiscal 2012 year. The adoption of this update did not have a material effect on its financial statements.

NOTE 3 – LIQUIDITY

The Company has evaluated the expected cash requirements over the next twelve months, which includes, but is not limited to, investments in additional sales and marketing and product development resources, capital expenditures, and working capital requirements. The Company believes it has sufficient funds for the next twelve months from the balance sheet date, as it expects to cover its anticipated operating expenses through cash on hand, additional customer billings, and borrowings under its stockholder note payable.

As discussed in Note 1, through June 30, 2012, the Company issued 2,813,000 shares of common stock and 563,000 warrants as part of its Private Placement. The Company additionally issued 2,294,000 shares of common stock and 468,000 warrants during July and August 2012 for a total approximating $924,000 net proceeds.

On September 24, 2012, the Company entered into a new revolving promissory note agreement (Unrestricted Line of Credit) with a stockholder for $1,500,000. The revolving promissory note bears interest at 8% per annum, all principal and accrued interest are due and payable on September 24, 2014. See Notes 5 and 12.

We may require additional financing in the future. The timing of the Company's need for additional capital will depend in part on its future operating performance in terms of revenue growth and the level of operating expenses incurred.

However, there is no guarantee the Company will be able to obtain additional funds in the future or that funds will be available on terms acceptable to the Company. If such funds are not available, management will be required to curtail its investments in additional sales and marketing and product development resources, and capital expenditures, which may have an adverse effect on the Company's future cash flows and results of operations, and its ability to fund operations.

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

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

	June 30, 2012	June 30, 2011
Vehicles	$59,000	$47,000
Machinery and equipment	59,000	46,000
Office equipment	53,000	21,000
Furniture and equipment	25,000	22,000
Leasehold improvements	1,000	1,000
	197,000	137,000
Less: Accumulated depreciation	(62,000)	(32,000)
Property, plant and equipment, net	$135,000	$105,000

Depreciation expense was approximately $30,000 and $22,000, for fiscal 2012 and 2011, respectively.

NOTE 5 - STOCKHOLDER NOTES PAYABLE

(a) ***Loans Converted into Common Stock***

Prior to conversion in December 2011, the Company had $200,000 outstanding on a $400,000 (Inventory Funding Loan) revolving note payable with a stockholder. The note had a stated interest rate of 8% per annum and was for inventory purchases. Interest accrued daily and was payable upon maturity or conversion as amended. Advances on the note were collateralized by substantially all assets of the Company.

The Company had another revolving note payable (Operating Capital Loan) in the amount of $1,000,000, due to the same stockholder. Prior to conversion in December 2011, the Company had $830,000 outstanding on this note. The note bore interest at 8% per annum and a maturity date of May 2012. The purpose of this note was to provide bridge capital for financing. Advances on the note are collateralized by substantially all of the assets of the Company.

In August 2011, the Company amended the terms of both the Inventory Funding Loan and Operating Capital Loan to provide for conversion feature of the notes payable into shares of the Company's common stock at $1 per share.

In September 2011, the Company entered into an additional note payable (Short-Term Loan) agreement with the same stockholder for $150,000. The note matured in May 2012 and bore interest at 8% per annum as amended, and is convertible into the Company's equity securities in the same terms as the above Loans.

In December 2011, the combined full outstanding principal balance of $1,180,000 on the Inventory Funding Loan, Operating Capital Loan and Short-Term notes payable together with $84,228 of accrued interest on these notes were converted into 3,735,419 (1,264,228 shares pre-reverse Acquisition) shares of common stock at a conversion price of $.34 ($1.00 per share pre-reverse Acquisition).

(b) ***Revolving Loans***

In October 2011, we entered into a new revolving promissory note agreement (Secondary Operating Capital) with a stockholder for $1,000,000. The revolving promissory note bears interest at 8%, is due on September 30, 2013, as amended, and is secured by substantially all of the assets of the Company. As of June 30, 2012 the balance outstanding payable on the note was $600,000.

On March 7, 2012, we entered into an additional note payable agreement with the same stockholder for $250,000. The note is due on on March 7, 2014 and bears interest at 8% per annum. As of June 30, 2012 the balance outstanding payable on the note was $250,000.

On September 24, 2012, the Company entered into a new revolving promissory note agreement (Unrestricted Line of Credit) with a stockholder for $1,500,000. The revolving promissory note bears interest at 8% per annum, all principal and accrued interest are due and payable on September 24, 2014. See Note 12.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

From time to time, we may be involved in litigation relating to claims arising out of our operations. We are not a party to any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on its business, financial condition or operating results.

Effective July 1, 2011, the Company completed its long-term office space lease agreement and instead entered into a month-to-month agreement for its office space. The agreement provides for monthly payments of approximately $13,000. Currently management is seeking other office space rental options in proximity to the current offices.

In July of 2011 the Company entered into a sublease with a related party for approximately $6,600 per month for a portion of this space. The sublease was terminated on January 1, 2012. The Company recorded rent expense, net of sublease income during the fiscal years ended June 30, 2012 and 2011, of approximately $106,000 and approximately $133,000, respectively.

In March 2011, the Company entered into a brokerage agreement with a management consulting firm to provide investors to the Company. The term of the agreement was for a period of one year. The compensation to the consulting firm includes a monthly fee with additional compensation based on a percentage of the amount raised. The Company recorded expense of $13,000 and $4,000 related to the brokerage agreement during fiscal years ended June 30, 2012 and 2011, respectively.

In August 2011, the Company entered into an agreement and term sheet with an entity to assist the Company in its merger efforts with a public company. The agreement and term sheet expired during February 2012 and it obligated the Company to pay legal expenses of the investors not to exceed $25,000 and due diligence expenses of the entity of $15,000.

NOTE 7 - STOCKHOLDERS' EQUITY

At June 30, 2012 the Company had 145,000,000 shares of common stock, par value of $0.001 authorized for issuance.

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

Holders of common stock are entitled to receive dividends, when, as, and if declared by the Board of Directors, out of any assets legally available to the Company. Dividends are declared and paid in an equal per-share amount on the outstanding shares of each series of common stock. During fiscal years ended June 30, 2012 and 2011, the Board of Directors neither declared nor paid common stock dividends to shareholders.

Sale of Common Stock and Warrants

As discussed in Note 1, in connection with the Reverse Acquisition, we purchased 100% of the issued and outstanding shares of common stock of Flux Power Inc. from the Flux Power Shareholders in exchange for 37,714,514 newly issued Exchange Shares based on an exchange ratio of 2.9547039.

As discussed in Note 1, through June 30, 2012, the Company issued 2,813,000 shares of common stock and 563,000 warrants as part of its Private Placement. The Company additionally issued 2,294,000 shares of common stock and 468,000 warrants during July and August 2012 for a total approximating $924,000 net proceeds.

On June 14, 2012, the Company entered into an Advisory Agreement (“Advisory Agreement”) with Baytree Capital Associates, LLP (“Baytree Capital”) pursuant to which Baytree Capital agreed to provide business and advisory services for 24 months in exchange for 100,000 restricted shares of our newly issued common stock at the commencement of each six month period in return for its services, and a warrant to purchase 1,837,777 restricted shares of our common stock for a period of five (5) years at an exercise price of $.41 per share. We recorded a prepaid asset totaling $3,258,000 based on the value of the warrants and a corresponding liability which is included as part of derivative liabilities since the warrants have anti-dilution protection features.

The common stock purchased in the Private Placement and the common stock issuable upon exercise of warrants have piggyback registration rights. The securities offered and sold in the Private Placement have not been registered under the Securities Act of 1933, as amended (“Securities Act”), and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.

Warrant Activity

Warrant activity during the fiscal year ended June 30, 2012 and related balances outstanding as of that date are reflected below:

	Number	Average Purchase Price Per Share	
Shares purchasable under outstanding warrants at July 1, 2010	—	$	—
Shares purchasable under outstanding warrants at June 30, 2011	—	$	—
Stock purchase warrants issued	2,400,328	$	0.41
Stock purchase warrants exercised	—	$	
Shares purchasable under outstanding warrants at June 30, 2012	2,400,328	$	0.41

Stock-based Compensation

Flux Power has adopted the 2010 Stock Option Plan (“Option Plan”) which reserved 2,000,000 shares of common stock for issuance upon exercise of options. As of June 14, 2012, the number of shares of common stock outstanding under the Option Plan was 1,535,500, and as of June 30, 2011, the number of shares of common stock outstanding under the Option Plan was 710,000 (as adjusted 2,097,841).

As part of the Reverse Acquisition, we adopted the Flux Power Option Plan and all stock options of Flux’s outstanding as of June 14, 2012, whether or not exercised and whether or not vested were substituted by us with 4,536,949 new Company options based on the Share Exchange Ratio. The new options substituted by us shall continue to have, and be subject to, the substantially the same terms and conditions as before, but will be convertible into shares of our common stock, as adjusted given effect to the Share Exchange Ratio. However, we will not be able to grant additional options under the Option Plan.

Stock option activity during the fiscal year ended June 30, 2012 and 2011 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 July 1 ,2010, as adjusted*	2,097,841	$ 0.04	
Outstanding at June 30, 2011, as adjusted*	2,097,841	$ 0.04	
Granted	2,734,578	0.25	
Exercised	-	-	
Forfeited and cancelled	(295,470)	0.04	
Outstanding at June 30, 2012	4,536,949	$ 0.17	7.61
Exercisable at June 30, 2012	1,916,712	$ 0.04	5.54

(*based on a ratio of 2.9547039- See Note 1)

The following table summarizes by price range the number, weighted average exercise price and weighted average life (in years) of options outstanding and the number and weighted average exercise price of exercisable options as of June 30, 2012.

Price Range	Total Outstanding			Total Exercisable	
	Number of Shares	Weighted Average Exercise Price	Life	Number of Shares	Weighted Average Exercise Price
$0.04 – $0.410	4,536,949	$0.17	7.61	1,916,712	$ 0.04
Total	4,536,949	$0.17	7.61	1,916,712	$ 0.04

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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:

	2012	2011
Expected volatility	100%	100%
Risk free interest rate	0.8% to 3.0%	3.0%
Forfeiture rate	5%	5%
Dividend yield	0%	0%
Expected term	5-10 years	10 years

During the fiscal year ended June 30, 2012, total stock-based compensation expense included in the statement of operations was approximately $45,000. Approximately $37,000 of this expense was recorded to selling, general and administrative expense and approximately $8,000 was recorded to research and development expense.

During the fiscal year ended June 30, 2011, total stock-based compensation expense included in the statement of operations was approximately $58,000. Of this expense $22,000 was recorded to general and administrative expense and approximately $36,000 was recorded to research and development expense.

NOTE 8 – INCOME TAXES

Pursuant to the provisions of FASB ASC Topic 740 *Income Taxes* deferred income taxes reflect the net effect of (a) temporary difference between carrying amounts of assets and liabilities for financial purposes and the amounts used for income tax reporting purposes, and (b) net operating loss carryforwards. No net provision for refundable Federal income taxes has been made in the accompanying statement of operations because no recoverable taxes were paid previously. Significant components of the Company’s net deferred tax assets at June 30, 2012 and 2011 are shown below. A valuation allowance of $1.45 million and $774,000 has been established to offset the net deferred tax assets as of June 30, 2012 and 2011, respectively, due to uncertainties surrounding the Company’s ability to generate future taxable income to realize these assets.

The Company has not filed federal or state income tax returns but it is in the process of preparing the appropriate forms and submitting them to appropriate governmental agency. Additionally, we have not performed a Section 382 analysis as of June 30, 2012.

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

	Year Ended June 30,	
	2012	2011
Deferred Tax Assets:		
Net operating loss carryforwards	$1,275,000	$653,000
Depreciation and amortization	—	(11,000)
Other, net	178,000	132,000
Total deferred tax assets	1,453,000	774,000
Valuation allowance	(1,453,000)	(774,000)
Net deferred tax assets	$—	$—

At June 30, 2012, the Company had unused net operating loss carryovers of approximately $3,200,000 and $3,170,000 that are available to offset future federal and state taxable income respectively. These operating losses begin to expire in 2030. Both the federal and state net operating loss carryovers at June 30, 2012 may be adjusted once tax returns are filed.

The provision for income taxes on earnings subject to income taxes differs from the statutory federal rate at June 30, 2012 and 2011, due to the following (in thousands):

	Year Ended June 30,	
	2012	2011
Federal income taxes at 34%	$(811,000)	$(407,000)
State income taxes, net of federal benefit	(139,000)	(116,000)
Change in FMV of Derivative	210,000	—
Other True Ups	61,000	—
Change in valuation allowance	679,000	523,000
Provision for income taxes	$—	$—

As of June 30, 2012, we have not yet completed our analysis of the deferred tax assets relating to federal and state net operating losses.

Pursuant to Internal Revenue Code Sections 382, use of our net operating loss carryforwards could be limited if a cumulative change in ownership of more than 50% occurs within a three-year period. We plan to complete a Section 382 analysis regarding whether there are limitations of the net operating loss prior to utilizing any net operating losses.

On July 13, 2006, the FASB issued FIN 48, subsequently codified in ASC 740, Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under ASC 740, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, ASC 740 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. ASC 740 is effective for fiscal years beginning after December 15, 2006.

We follow the provisions of ASC 740 relating to uncertain tax provisions and have commenced analyzing filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. As a result of adoption, no additional tax liabilities have been recorded. There are no unrecognized tax benefits as of June 30, 2012 or June 30, 2011.

The Company is subject to taxation in the U.S. and state jurisdictions. The Company’s tax years for 2009 and forward, when filed, will be subject to examination by the IRS and tax years 2009 and forward are subject to examination by California tax authorities. The Company is currently not under examination by any taxing authorities.

NOTE 9 – FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

The fair value of our recorded derivative liabilities is determined based on unobservable inputs that are not corroborated by market data, which is a level 3 classification. We record derivative liabilities on our balance sheet at fair value with changes in fair value recorded in our consolidated statements of operations. Our fair value measurements at the reporting date were as follows:

At June 30, 2012:

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Liabilities	$ -	$ -	$ 4,943,000
Total Liabilities	$ -	$ -	$ 4,943,000

The Company did not have derivative liabilities related to warrant activity in fiscal year ended June 30, 2011.

NOTE 10 – RELATED PARTY TRANSACTIONS

Common Stock

In connection with the Reverse Acquisition, Mr. Anthony, our President, Chief Executive Officer, and director, Mr. Gevarges, our director, and Esenjay Investments, LLC, an entity in which our director, Michael Johnson, is a director, severally agreed not to offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of any shares of our common stock or securities convertible into or exercisable or exchangeable into our common stock beneficially owned by such shareholder, for a period of eighteen (18) months from the closing date of the Reverse Acquisition, except during the period after the first anniversary of the closing date and a period of six (6) months thereafter, in such an amount which constitutes less than three percent (3%) in the aggregate of such shareholder’s beneficial ownership of our common stock per month.

Stockholder Agreements

During 2009, the Company entered into a cancelable Term Sheet agreement (the “Term Sheet Agreement”) with a LHV Power Corporation, an entity owned by James Gevarges, one of our major shareholders. Mr. Gevarges is also the Chief Executive Officer and President of LHV Power. Pursuant to the Term Sheet Agreement, Flux was appointed as a distributor of LHV Power battery charging products allowing Flux to sell the products either separately or as part of an energy storage solution. Additionally, Flux was required to develop a microprocessor control board, and the associated software to enable communication between the parties’ respective products (“MCB”) which entitles Flux to royalties for any such units sold by the related entity. Pursuant to the Term Sheet Agreement Flux may purchase the products at the then current price list for distributors. Further, under the Term Sheet Agreement, if LHV Power sells its products to a different distributor Flux is entitled to a distribution fee equal to 20% of the gross profits on such sale. This distribution fee and royalties are capped at a total of $200,000. The chargers are not currently under commercial production and therefore no Distribution and Royalty Fee has been received by Flux. On September 1, 2010, with our consent, LHV assigned the Term Sheet Agreement to Current Ways Inc. a different company that is owned by Mr. Gevarges. The parties are also subject to restrictions on the use and disclosure of confidential information of the other party until April 1, 2013.

Pursuant to our standard purchase order terms and conditions, during the fiscal years ended June 30, 2012 and 2011, Flux purchased approximately $85,000 and $33,000 charger products from Current Ways, Inc., which purchases were not subject to the distribution fee or royalties referred to above under the Term Sheet Agreement.

On August 1, 2009, the Company entered into a Manufacturing Implementation Agreement (the “Manufacturing Agreement”) with LHV Power pursuant to which Flux granted LHV Power a right of first refusal to manufacture our battery management systems and agreed to pay for any specialized tooling LHV Power may require to manufacture Flux’s battery management systems. Under the Manufacturing Agreement, Flux will retain ownership of all intellectual property developed as part of the Manufacturing Agreement, which expires on August 1, 2014. During the fiscal years ended June 30, 2012 and 2011, the Company paid approximately $263,000 and $130,000, respectively, to LHV Power pursuant to the Manufacturing Agreement.

On July 1, 2011, the Company entered into a Sublease Agreement with Epic Boats, LLC (“Epic Boats”). Chris Anthony, our Chief Executive Officer is also an R&D advisor to, and 35% owner of, Epic Boats. Pursuant to the Terms of the Sublease Agreement, Epic Boats has subleased approximately 7,200 square feet of Flux’s office space for a monthly payment of $6,640. The Sublease Agreement was terminated January 1, 2012. During fiscal years ended June 30, 2012 and 2011, Epic Boats reimbursed $53,000 and $7,000, respectively, to the Company under this Sublease Agreement.

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

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

As of this date, the Company began selling products to Epic Boats under the Company's standard terms and conditions and has continued to sell products to Epic Boats as a customer. During the fiscal years ended June 30, 2012 and 2011, the Company sold approximately $1,135,000 and $149,000, respectively, of product to Epic Boats. Epic Boat's customer deposit balance received from this company at June 30, 2012 and June 30, 2011, is approximately $200,000 and $367,000, respectively. There were no sales receivables outstanding from Epic Boats as of June 30, 2012. As of June 30, 2011, sales receivables from Epic Boats totaled $29,000

Customer

During the fiscal years ended June 30, 2012 and 2011, the Company sold approximately $1,000 and $29,000, respectively, of product to a company owned by another one of the Company's major shareholders who is the Company's former Chief Technology Officer. There were no receivables outstanding from this customer as of June 30, 2012 and June 30, 2011. As of June 30, 2012 this shareholder is no longer a shareholder of the Company.

NOTE 11 – CONCENTRATIONS

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and unsecured trade accounts receivable. The Company maintains cash balances at a financial institution in San Diego, California. Accounts at this institution are secured by the Federal Deposit Insurance Corporation. As of June 30, 2012, cash totaled approximately $812,000, which consists of funds held in a non-interest bearing bank deposit account. The Company has not experienced any losses in such accounts. Management believes that the Company is not exposed to any significant credit risk with respect to its cash.

Customer- Concentrations

During the fiscal years ended June 30, 2012 and 2011, the Company had one related party major customer that accounted for 19% and 15%, respectively, of the Company's total sales.

We currently sell products direct or through one of several retail distributors in North America. Our direct customers are mostly large companies while our distributors primarily distribute to smaller retail customers.

For the fiscal year ended June 30, 2012, the Company had four major customers that represented more than 10% of its revenues on an individual basis, and combined represented 81% or approximately $4,798,000 of the Company's total revenues.

The four major customers were Greentech Automotive, Inc., which represented 34% of the total revenue, Epic Boats (a company founded and controlled by Chris Anthony, our chairman and president), represented 19% of the total revenue, Artisan Vehicle Systems, which represented 18% of the total revenues, and Boulder EV, represented 10% of the total revenue.

For the fiscal year ended June 30, 2011, the Company had two major customers represented more than 10% of its revenues on an individual basis, and combined represented 47% or approximately $463,000 of the Company's total revenues.

The two major customers were Wheego Electric Cars, which represented 32% of the total revenue, Epic Boats (a company founded and controlled by Chris Anthony, our chairman and president), represented 15% of the total revenue.

Suppliers/Vendor

During the fiscal years ended June 30, 2012 and 2011, we had one supplier, Global Fluid Power Solutions, LLC accounted for 56% and 65% of our total purchases.

We entered into a four year supply agreement with Global Fluid Power Solutions Inc. and Mahomann Corp. (collectively “Global”) on January 15, 2010. Under the supply agreement, we are not obligated to purchase any minimum number of products nor are we required to purchase its batteries exclusively from Global. We can negotiate and purchase our batteries from other vendors at any time. Accordingly, we are not dependent on Global for the products. The supply agreement terminates upon the earlier occurrence of a breach by Global, insolvency, or upon mutual agreement.

NOTE 12 – SUBSEQUENT EVENTS

Private Placement Transactions (See Note 1)

In July, 2012, we sold an additional 1,690,063 shares of common stock and issued 338,013 five year Warrants for an aggregate purchase price of $700,000 to ten (10) accredited investors.

In August 2012 we sold an aggregate of 603,594 shares of common stock and issued 120,719 five year Warrants for an aggregate purchase price of $250,000 to four (4) accredited investors.

The common stock purchased in the private placement and the common stock issued upon exercise of warrants has piggyback registration rights. The securities offered and sold in the private placement have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.

On September 4, 2012, the Company entered into an agency agreement with American Capital Partners (ACP), a Financial Industry Regulatory Authority (FINRA) registered broker-dealer for the purpose of advising and assisting the Company, on a best efforts basis, with the $2,000,000 private placement of our common stock and warrants. The agreement expires February 25, 2014. The terms of the agreement require the Company to pay a total cash fee of nine percent (9%) of the value received from each investor. Additionally the Company agreed to issue shares to ACP equal to seven percent (7%) of the shares placed by ACP. The Company will also reimburse ACP for legal fees up to $10,000 incurred in connection with this placement by ACP.

Revolving Line of Credit

On September 24, 2012, Flux Power, Inc., entered into a certain Unrestricted and Line of Credit (“Line of Credit) with Esenjay Investments, LLC (“Esenjay”) pursuant to which Esenjay agreed to provide us with a revolving line of credit for $1,500,000 (“Line of Credit”). Borrowings under the Line of Credit is secured by the assets of the Company and bears interest at 8% per annum, with all unpaid principal and accrued interest due and payable on September 24, 2014. There is no prepayment penalty under the Line of Credit. Proceeds from the Line of Credit can be used at the discretion of the Company and the Company intends to use it for working capital. As of September 24, 2012, the Company has not borrowed any amounts under the Line of Credit. Esenjay is one of our major shareholders which beneficially own approximately 43% of our common stock. Mr. Michael Johnson, our director, is the director and shareholder of Esenjay.