Flux Power Holdings, Inc.
Form 8-K/A
August 29, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

(Amendment No. 2)

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): (June 14, 2012)

FLUX POWER HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Nevada	**000-25909**	**86-0931332**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

2240 Auto Park Way, Escondido, California	**92029**
(Address of Principal Executive Offices)	(Zip Code)

877-505-3589

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

EXPLANATORY NOTE

On June 18, 2012, Flux Power Holdings, Inc., a Nevada corporation (the "Company"), filed a Current Report on Form 8-K (the "Original Filing") reporting the closing of a share exchange transaction with Flux Power, Inc., a California corporation ("Flux Power") and its shareholders that resulted in Flux Power becoming a wholly owned subsidiary and new operating business of the Company (the "Reverse Acquisition"). On August 6, 2012, the Company filed Amendment No. 1 to the Original Filing made in response to certain comments received from the Staff of the Securities and Exchange Commission. This Amendment No. 2 to Original Filing ("Form 8-K/A") is being made to respond to further comments received from the Staff of the Securities and Exchange Commission. For convenience and ease of reference, the Company is filing this Form 8-K/A in its entirety with applicable changes. Unless otherwise stated, all information contained in this Form 8-K/A is as of June 18, 2012, the filing date of the Original Filing. Except as stated herein, this Form 8-K/A does not reflect events or transactions occurring after such filing date or modify or update those disclosures in the Original Filing that may have been affected by events or transactions occurring subsequent to such filing date.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

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

Use of Certain Defined Terms

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

- the "Company," "FPH," "we," "us," and "our" refer to the combined business of Flux Power Holdings, Inc., formerly Lone Pi Holdings, Inc., a Nevada corporation and its subsidiary, Flux Power, Inc. ("Flux Power"), a California corporation;
- "Exchange Act" refers the Securities Exchange Act of 1934, as amended;
- "SEC" refers to the Securities and Exchange Commission; and
- "Securities Act" refers to the Securities Act of 1933, as amended.

Item 1.01 Entry Into A Definitive Agreement.

Amendment No. 1 to the Securities Exchange Agreement

On June 13, 2012, we entered into a certain Amendment No. 1 to the Securities Exchange Agreement ("Amendment") by and among Flux Power Holdings, Inc., formerly Lone Pine Holdings, Inc., a Nevada corporation (the "Company"), Flux Power, Inc., a California corporation ("Flux Power") and its shareholders, Mr. Chris Anthony, Esenjay Investments LLC, and Mr. James Gevarges (collectively the "Flux Shareholders"), pursuant to which the parties amended Section 2.3 of that certain Securities Exchange Agreement dated as of May 18, 2012 by and among the Company, Flux Power and the Flux Shareholders, to change the closing date to June 14, 2012 and amend the reference to the closing conditions

Advisory Agreement

On June 14, 2012, we entered into an Advisory Agreement ("Advisory Agreement") with Baytree Capital Associates, LLP ("Baytree Capital") pursuant to which Baytree Capital agreed to 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.

Indemnification Agreement

On June 14, 2012, in connection with the appointment of Mr. Chris Anthony as our director, Chief Executive Officer and President, and Mr. Steve Jackson as our Chief Financial Officer, and Mr. Craig Miller as our Secretary, we executed a standard form of indemnification agreement ("Indemnification Agreement") with each of them (the "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.

The foregoing description of the terms of the Amendment, Advisory Agreement and the Indemnification Agreement, is not complete and is qualified in its entirety by reference to the full text of the respective agreements filed as Exhibit 2.2, Exhibit 10.11 and Exhibit 10.12 to this report, and incorporated herein by reference thereto.

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Item 2.01 Completion of Acquisition or Disposition of Assets

On June 14, 2012, we completed the acquisition of Flux Power, Inc., a California corporation (the "Reverse Acquisition") pursuant to that certain Securities Exchange Agreement dated May 18, 2012 ("Exchange Agreement") by and among Flux Power, Inc., a California corporation (the "Flux Power") and its shareholders, Mr. Chris Anthony, Esenjay Investments, LLC, and Mr. James Gevarges (collectively the "Flux 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 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 Shareholders collectively own approximately 91% of the issued and outstanding shares of our common stock, and Flux Power became our wholly-owned operating subsidiary.

Upon the closing of the Reverse Acquisition (the "Closing"), Mr. Gianluca Cicogna Mozzoni, our Chief Executive Officer, President, Chief Financial Officer, Treasurer, Secretary and sole director, 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. In addition, our Board of Directors on June 14, 2012, increased the size of our Board of Directors to three directors and appointed Mr. Chris Anthony (Chairman) to fill the vacancy created by the increase in board size, effective as of the date of the Closing of the reverse acquisition. In addition, Messrs. Michael Johnson and James Gevarges were appointed to fill the vacancies created upon the effective resignation of Mr. Mozzoni and the increase in the size of the board, with such appointments and resignation to be effective in compliance with Section 14(f) of the Exchange Act.

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 Flux Power 2010 Option Plan ("Plan") and all of the stock options of Flux Power outstanding as of the closing of the Reverse Acquisition, (d) each of the Flux 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 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 5 year warrants to purchase one share of our common stock at an exercise price of $0.41 per share (the "Private Placement"), 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 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. The assets and liabilities of the acquired

entity have been brought forward at their book value and no goodwill has been recognized.

Form 10 Disclosure

As disclosed elsewhere in this report, on June 14, 2012, we acquired Flux Power in a reverse acquisition transaction. Item 2.01(f) of Form 8-K states that if the registrant was a shell company, as we were immediately before the reverse acquisition transaction disclosed under Item 2.01, then the registrant must disclose the information that would be required if the registrant were filing a general form registration of securities on Form 10.

Accordingly, we are providing information that would be included in a Form 10 had we been required to file such form. Please note that the information provided below relates to the combined entity after the acquisition of Flux Power, except that information relating to periods prior to the date of the Exchange Agreement only relate to Flux Power unless otherwise specifically noted.

OVERVIEW OF FLUX POWER, INC., OUR WHOLLY-OWNED SUBSIDIARY

Flux Power, Inc., a California corporation, was founded in 2009 to design, develop and sell rechargeable advanced energy storage systems. We have developed an innovative high power battery cell management systems ("BMS") and have structured our business around this core technology. Our proprietary BMS provides three critical functions to our battery systems:

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

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

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

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

We sold our first product in the second quarter of 2010 and have since delivered over 14 mega watt-hours of advanced energy storage to clients such as Crown Equipment Corp., Damascus Corp., Columbia Parcar Corp., Wheego Electric Cars Inc., Epic Electric Vehicles, and TALHO. 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.

HISTORY OF FLUX POWER HOLDINGS, INC.

Flux Power Holdings, Inc., formerly Lone Pine Holdings, Inc. (“FPH”), through its former wholly owned subsidiary Integrated Forest Products Pty Ltd (“Integrated”), previously operated a saw mill in Australia which cut pine timber into building products to supply the commercial and residential industry along the eastern coast of Australia. In July 2007, Integrated’s wholly owned subsidiary in Australia was put into receivership and has formally discontinued its operations. In connection with the receivership, the receiver formed a new Australian wholly owned subsidiary, Australian Forest Industries, Ltd., and exchanged all of the shares of Integrated for Australian Forest Industries, Ltd. shares. On October 15, 2008, our Board of Directors approved the transfer of all the outstanding shares of Australian Forest Industries, Ltd., its operating subsidiary that had been placed in receivership, to the principal shareholders and directors, personally. Subsequent to the spin out, we became a non-operating shell company engaged in the business of seeking a suitable candidate for acquisition or merger.

In connection with the Reverse Acquisition, we changed our name from “Lone Pine Holdings, Inc.” to “Flux Power Holdings, Inc.” The name change was effective under Nevada corporate law on May 23, 2012 pursuant to Articles of Merger that was filed with the Nevada Secretary of State. Pursuant to such Articles of Merger, we merged with our wholly-owned subsidiary, Flux Power Holdings, Inc. In accordance with Section 92A.180 of the Nevada Revised Statutes, shareholder approval of the merger/name change was not required. The Articles of Merger provided that, upon the effective date of the merger effective, our Articles of Incorporation would be amended as of such date to change our name to "Flux Power Holdings, Inc."

REVERSE ACQUISITION OF FLUX POWER

On June 14, 2012, we completed the acquisition of Flux Power, Inc., a California corporation (the “Reverse Acquisition”) pursuant to that certain Securities Exchange Agreement dated May 18, 2012 (“Exchange Agreement”) by and among Flux Power, Inc., a California corporation (the “Flux Power”) and its shareholders, Mr. Chris Anthony, Esenjay Investments, LLC, and Mr. James Gevarges (collectively the “Flux 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 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 Shareholders collectively own approximately 91% of the issued and outstanding shares of our common stock, and Flux Power is our wholly-owned operating subsidiary.

Upon the closing of the Reverse Acquisition (the “Closing”), Mr. Gianluca Cicogna Mozzoni, our Chief Executive Officer, President, Chief Financial Officer, Treasurer, Secretary and a director, 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. In addition, our Board of Directors on June 14, 2012, increased the size of our Board of Directors to three directors and appointed Mr. Chris Anthony (Chairman) to fill the vacancy created by the increase in board size, effective as of the date of the Closing of the reverse acquisition. In addition, Messrs. Michael Johnson and James Gevarges were appointed to fill the vacancies created upon the effective resignation of Mr. Mozzoni and the increase in the size of the board, with such appointments and resignation to be effective in compliance with Section 14(f) of the Exchange Act.

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 Flux Power 2010 Option Plan (“Plan”) and all of the stock options of Flux Power outstanding as of the closing of the Reverse Acquisition, (d) each of the Flux Shareholders agreed not to offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of any shares of Exchange Shares or securities convertible into or exercisable or exchangeable into our common stock 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 will use our best efforts to conduct a private placement of our securities in an unregistered offering 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 5 year warrants to purchase one share of our common stock at an exercise price of $0.41 per share (the “Private Placement”), of which Baytree Capital, its designees or assignees, has committed to investing at least $1,000,000 in the Private Placement, and with the anticipation that the closing of the Private Placement will occur in the amount of at least $3,000,000 on or before June 15, 2012, with any remaining unsold portions of the Private Placement to close on or before June 30, 2012. 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 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. The assets and liabilities of the acquired entity have been brought forward at their book value and no goodwill has been recognized.

OUR CORPORATE STRUCTURE

We were organized by the filing of articles of incorporation with the Nevada Secretary of State on September 21, 1998 under the name Oleramma, Inc. The articles of incorporation authorized the issuance of 105,000,000 shares, consisting of 100,000,000 shares of common stock, par value $0.001 per share, and 5,000,000 shares of preferred stock, par value $0.001 per share.

On April 28, 1999, we changed our name to BuckTV.Com, Inc. on the basis that we would market consumer products through an interactive website. We again changed our name in November 2002 to Multi-Tech International, Corp. to pursue another venture.

On September 1, 2004, we entered into a share exchange agreement with Timbermans Group Pty Ltd, an Australian corporation and its wholly-owned subsidiary, Integrated Forest Products Pty Ltd, an Australian corporation. Pursuant to the share exchange agreement, we:

completed a 200-1 reverse stock split of our outstanding shares of common stock,
increased our authorized number of shares of common stock from 100,000,000 to 300,000,000 shares,
changed our name from Multi-Tech International, Inc. to Australian Forest Industries,
appointed five new directors to our Board of Directors, and
we issued 257,000,000 shares of our common stock to Timbermans pursuant to the terms of the share exchange agreement.

As a result, upon completion of the share exchange, Integrated became our wholly-owned subsidiary.

On July 31, 2007, PricewaterhouseCoopers Australia was appointed receiver and manager of both Integrated and Timbermans. On the same date, Deloitte was appointed liquidator of Timbermans. Romanis Cant was appointed liquidator of Integrated on October 18, 2007.

Business operations of Integrated were continued until November 30, 2007, when all the assets of Integrated were offered for sale as a going concern. No offers capable of acceptance by the receiver were submitted. As a result, the receiver entered into contracts to sell the land, plant and equipment of Integrated as individual assets.

Timbermans owned two major assets, a rural property and shares of our common stock. The rural property was sold by auction on March 14, 2008. Timbermans entered into a contract to sell its land and buildings for $9,556,357 and all of its manufacturing equipment for $964,403.

On July 31, 2007, both Timbermans and Integrated were put into administration, the Australian equivalent of receivership, and PricewaterhouseCoopers Australia was appointed each of their receiver and manager. In connection with the administration, the receiver formed a new Australian wholly-owned subsidiary, Australian Forest Industries, Ltd., and exchanged all of the shares of Integrated for Australian Forest Industries, Ltd. shares. On October 15, 2008, the Board of Directors of Australian Forest Industries approved the transfer of all the outstanding shares of Australian Forest Industries, Ltd. to the principal shareholders and directors, who were also the shareholders of Timbermans. As a result, the loan to Timbermans was removed from our books and there is currently no principal or interest due from us to Timbermans or any other related party.

In November 2008, Baytree Capital LLC (“Baytree”) obtained a controlling interest in the Company’s common shares pursuant to a Stock Purchase Agreement dated November 26, 2008 (the “Stock Purchase Agreement”). Under the Stock Purchase Agreement, Baytree purchased 2,385,000 shares of the Company’s common stock in exchange for $448,125. As a condition to the sale under the Stock Purchase Agreement, the Company’s directors and officers needed to resign, and Baytree arranged with those directors and officers to have William S. Rosenstadt appointed as sole director and executive officer. Subsequently, effective as of December 20, 2011, the Board of Directors of Lone Pine Holdings, Inc. accepted the voluntary resignation of William S. Rosenstadt as director and officer of the company. Concurrently with Mr. Rosenstadt's resignation, the Board of Directors appointed Gianluca Cicogna Mozzoni as its sole director, president, chief executive officer, chief financial officer, treasurer and secretary of the Company effective as of December 20, 2011.

Since early 2010, we have been looking for a merger candidate. Effective January 29, 2010, we:

amended our articles of incorporation to change our name from “Australian Forest Industries” to “Lone Pine Holdings, Inc.” Our management believes that the name change will disassociate us with our former business of operating a saw mill in Australia.

amended our articles of incorporation to decrease the number of authorized shares of capital stock from 305,000,000 to 150,000,000 shares. Prior to the amendment, the articles of incorporation authorized 300,000,000 shares of common stock and, after the amendment, the articles of incorporation authorize 145,000,000 shares of common stock. The articles of incorporation prior to the amendment and after the amendment both authorize 5,000,000 shares of preferred stock.

enacted a reverse stock split so that for every 100 shares of our common stock outstanding on the record date, shareholders received one share of common stock. Any fractional share of our common stock that would have existed as a result of the reverse stock split was rounded up to a whole share. Every 100 shares of common stock issued and outstanding immediately prior to the record date were reclassified as, and changed into, one share of common stock. Coupled with the decrease in our authorized share capital, the reverse stock split increased the number of authorized and unissued shares of common stock from 14.1% of our authorized shares prior to the amendment to 98.2% after the amendment.

In connection with the Reverse Acquisition, on May 23, 2012, we effected a merger with our wholly-owned subsidiary pursuant to which we changed our name from “Lone Pine Holdings, Inc.” to “Flux Power Holdings, Inc.” As a result of the Reverse Acquisition, all of our business operations are conducted through our wholly-owned subsidiary, Flux Power, Inc., a California corporation.

Flux Power was conceived in 2008 to develop technologies for the advanced energy storage market. We were incorporated in the second quarter of fiscal year 2010 and began shipping prototype product in the second quarter of 2010 while continuing to develop our intellectual property portfolio. In 2011, our customer, Wheego, obtained a

Federal Motor Vehicle Safety Standards validation for their electric vehicle which incorporated our batteries. In addition, we started shipping ancillary products to enhance our overall product line.

Our principal executive office is located at 2240 Autopark Way, Escondido, CA 92029. The telephone number at our principal executive office is (877)-505-3589 (FLUX).

DESCRIPTION OF BUSINESS OF FLUX POWER, OUR WHOLLY-OWNED SUBSIDIARY

Our Business

Flux Power, Inc. (“Flux Power”), a California corporation and our wholly-owned subsidiary, is in the business of energy storage and battery management. Flux Power was incorporated in October 2009 to develop technologies for the advanced energy storage market and began shipping prototype product in the second quarter of 2010 while continuing to develop our intellectual property portfolio. In 2011, we began shipping Federal Motor Vehicle Safety Standards validated products and then started shipping ancillary products to enhance our overall product line.

Industry Background for the Energy Storage Market

The energy storage market has grown over recent years from one mostly reliant on lead acid technologies created in the 1800s to one leveraging advanced chemistries and the corresponding ability to store more energy in less space. Back-up power has increasingly grown to depend on telematics to accurately gauge system health. Electric vehicles have adopted lighter weight energy storage to increase range and payload abilities and grid management applications have sought to increase the cycle life of their systems to assure better returns on their investments over the long term. We believe that all of these needs will cause the advanced energy storage market to grow exponentially over the next 5 to 10 years.

Electric Vehicles

Electric vehicles are displacing traditional combustion vehicles for utility and passenger vehicle needs at an ever-growing rate as electric vehicle technology becomes more advanced and costs come down. Utility vehicles like lift trucks and service vehicles are a natural fit for electric power as they are often operated in confined or congested spaces where excess emissions from combustion vehicles is difficult to manage. Moreover, lowering these combustion motor emissions is a goal of many Federal and state agencies, which has also spurred adoption of electric technologies in this space. This adoption is further assisted by increased environmental consciousness on the part of consumers, which has increased sales of both hybrid electric and all electric vehicles. With the decreased costs per mile of electric vehicles and greatly reduced emissions we believe that this market segment will see fast growth.

Grid Management Solutions

Grid management ranges from simple back-up power to devices that assure the performance and reliability of electric transmission and distribution grids. In simple back-up power systems, the longevity of the system is crucial to maintaining up times and decreasing maintenance costs. Typical lead acid battery back-up power systems need cell replacement every two years, whereas advanced energy storage systems can last as long as ten years. Advanced energy storage has seen gains in storage for peak-shaving to lower electricity costs and in shifting load demands in solar and wind power applications. Grid managements systems in transmission networks at every level need frequency regulation to adjust for minute-to-minute frequency fluctuations in the grid due to demand and supply changes. Buffering with advanced energy storage systems provide services that are more cost effective and efficient versus running power plants at sub-optimal operating levels to meet demand. This practice also frees up power plant capacity normally reserved for frequency regulation and standby to produce more electricity and correlated revenues.

Battery Types

The most common battery technologies currently available to address the electric vehicle and grid management markets include the following:

Lead Acid Batteries : Lead acid is one of the most developed battery technologies as it has been in use since the 1800s. It is relatively easy to manufacture and is an inexpensive and ubiquitous energy storage medium. Automobile manufacturers use lead acid for starter batteries and lead acid has been used widely in electric vehicle and grid management solutions. Unfortunately, lead-acid batteries weigh more per unit of stored energy and have less power output per unit mass versus advanced energy storage system technologies and thus are not well suited for advanced applications such as grid management devices and electric vehicles. In addition, lead can be hazardous to the environment and there are efforts in many countries to phase this legacy technology out over time.

Nickel Batteries : Nickel batteries, NiCd (nickel cadmium) or NiMH (nickel metal hydride) are durable and inexpensive technologies with relatively high power. Unfortunately, cadmium is not a safe material and exposure can result in health hazard to humans and damage to the environment. An alternative to the toxic NiCd battery is NiMH, which has greater energy versus lead-acid batteries and is more suitable to a wider range of applications. These NiMH were used in early electric vehicles and some other bulk storage applications. Unfortunately, these chemistries are not as energy dense as advanced lithium batteries and thus are now being leveraged out of the advanced energy storage system market by more energy dense chemistries.

Legacy Lithium Chemistries : Lithium batteries are more energy dense versus lead-acid, NiCd or NiMH batteries and are more volumetrically and weight efficient. Introduced in the 1990s, lithium batteries made their way into portable

electronics devices like laptop computers and cell phones. Unfortunately, early lithium cobalt was prone to heat issues when arranged in large groups and if a battery cell were compromised a fire or explosion could result. This attribute made early lithium batteries unsuitable for large grid management devices and electric vehicles. The cobalt in these early cells was also a more expensive metal versus the compounds used in modern lithium batteries.

Advanced Energy Storage Lithium Batteries *:* The current generation of advanced energy storage lithium batteries was developed in the late 1990s. These new chemistries improve upon energy density, volumetrics and weight metrics. There have also been great enhancements to the safety of these modern lithium batteries and heat and catastrophic failure issues do not plague advanced energy storage systems today. There has also been a significant increase in modern lithium batteries' cycle life. This makes todays' advanced energy storage systems the most conducive to electric vehicle and grid management use.

Other Technologies : Ultra capacitors and fuel cells have been proposed as potential replacements to lithium batteries. Ultra capacitors deliver high power and have an extended cycle life but suffer from poor energy density. This makes them suitable for small burst power needs but not for grid storage and electric vehicle devices. Fuel cells generate energy converting a fuel, typically hydrogen to energy. Fuel cell systems offer good energy density but are poor performers in terms of power and cycle life. Fuel cell systems are suitable for devices with small power needs and short life spans but are generally not suitable for use in electric vehicles and grid management devices.

Current Advanced Energy Storage Application Needs

There are a number of features required of advanced energy storage applications today, such as:

Target application power needs *:* An advanced energy storage system must be able to deliver the electrical power required. Electrical power, measured in watts, is the rate at which electrical energy is delivered. Electric vehicles, in particular, need enough power to assure smooth acceleration through a systems discharge curve and grid management systems need enough power to meet load demands.

Duration of charge *:* An advanced energy storage system must be able to provide a certain total amount of electrical energy. Total electrical energy is measured in watt hours and is the product of power and time. Advanced energy storage systems with greater energy can perform for a longer duration when compared to legacy technologies. The total electrical energy of an advanced energy storage system determines an electric vehicle’s range per charge and a grid management device’s total power.

High power needs *:* The energy that an advanced energy storage system can provide in total depends on the power requirements of the device in which it is installed. When an advanced energy storage system delivers higher power, the available energy of the advanced energy storage system is less than if it was delivering lower power. Advanced energy storage systems are better suited to deliver high power versus legacy lead acid. For example, the higher power required to push a vehicle like an electrically propelled boat through the water would be detrimental to legacy power technologies because their lack of ability to operate as efficiently in high power applications. Advanced energy storage systems are able to supply a high power required without detriment to the energy storage system.

Safe Operation *:* For almost all electric vehicle and grid management solutions the safety of an advanced energy storage system is of upmost importance. Legacy lead acid batteries tend to get hot with heavy operation and the toxic nature of these legacy chemistries can be troublesome in the event of a cell breach. Advanced energy storage systems focus on chemistries that do not violently react with oxygen so a cell breach is less likely to result in an explosion or fire.

Extended Life : The cycle life of an advanced energy storage system is the total number of times the system can be charged and discharged while still performing to specification in the device installed. Legacy lead acid technologies often do not perform to specification past a few hundred cycles in electric vehicle or grid management devices. In comparison, an advanced energy storage system can last five to ten times as long in the same device.

Volumetrics and weight : The weight and size of advanced energy storage systems are of crucial importance to both electric vehicle and grid management devices. In electric vehicles, where packaging space is precious, a lightweight system can greatly enhance range. In grid management devices that seek to extend current back-up power time benefit from better volumetrics and devices that shift load or peak-shave for improved average energy costs benefit from small advanced energy storage systems that keep connections between cells at a minimum.

Lowest Cost : Advanced energy storage systems provide power dense solutions with extended cycle life which, together, equate to very cost conscious solutions for most applications in the electric vehicle and grid management market segments. We believe that, in our products, advanced energy storage systems can cost much less than legacy lead acid technologies over the course of device operation.

Our Products and Services

We seek to gain market share in the advanced energy storage segment with our system technologies that extend life, add much needed safety mechanisms, and communication and cycle life memory tools. We are focused on cell and system management tools. From our modular 12v energy storage solutions to stackable charging, we provide the building blocks to create custom systems designed for a diverse set of applications. Whether it is vehicle or grid storage systems, we provide capable systems that meet cost and performance targets which we believe, in many cases and based on the life cycle data of the lead acid batteries provided by the manufacturers, outperform traditional lead acid technologies on both metrics. Our systems use lithium-ion cells that are denser in energy than traditional lead acid batteries, which allows our batteries to hold more charge over the same weight. In addition, our Battery Management System protects the lithium-ion batteries enabling the lithium-ion batteries to reach their full life and cycle potential and outlasting lead acid based batteries which would have to be replaced and thereby adding additional costs over the same time period. Our systems manage individual cells and their charge cycles, which generally allows for more consistent discharge capability and ease of maintenance over an unmanaged battery. Through our Battery Management System, we have enhanced battery systems overall to provide safer, more reliable and extended life rechargeable energy storage systems for applications including motive, marine, industrial, military, stationary, and grid management markets. We believe that the benefits of our advanced BMS and cell technologies, and our worldwide intellectual property portfolio along with our experienced and seasoned management team and staff will allow us to become a global leader in advanced energy storage.

Based on our experience, we believe that, compared to our competitors, our expertise in the large format energy storage market segment is paving the way for lower cost and higher performance solutions.

Battery Management System (BMS). Our proprietary Battery Management System (BMS) product provides three critical functions for battery systems: cell balancing, monitoring parameters and reporting errors to the system. Our BMS monitors parameters and reports errors to other devices, which can then determine the best action to take to prevent failure. Another BMS function is system cell balancing. The BMS will analyze each battery cell in the system during charge and discharge to determine which cells to balance to prevent overcharging and allow the other batteries to catching up and equalize capacity throughout the system.

Battery Modules. We supply high-power, energy-dense advanced energy storage modules for the electrical vehicles, industrial, governmental and grid storage applications. Our primary product consists of the Flux Power 12 V lithium module and individual 3.2 volt cells in various sizes from 40ah to 300ah. We offer varying chemistries and configurations based on the applications. Our battery modules are designed for our BMS.

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Diagnostic. Our Handheld Diagnostic Units (HDU) is a handheld instrument that displays critical system information allowing the user to access necessary information and monitor overall system health. The HDU is also capable of programming system parameters, features and offsets. The HDU can be useful in the field for system programming or troubleshooting as well as day-to-day monitoring.

***Chargers*.** Our smart charging solutions are designed to interface with our battery management system. Our smart chargers consist of both air-cooled and liquid-cooled chargers. These modular chargers can be stacked from 3KW – 300KW.

Below is a summary of revenues derived from each of our products and end markets in which the sales were made during the period reference below:

Product	Revenues for Nine Month Ended March 31, 2012		Revenue for Fiscal Year Ended June 30, 2011		Revenues for year ended June 30, 2010		End Market
BMS and Access	15	%	30	%	11	%	Electric Vehicle
Battery	84	%	67	%	89	%	Electric Vehicle
Handheld	0	%	0	%	0	%	Electric Vehicle
Chargers	1	%	3	%	0	%	Electric Vehicle
Total	100	%	100	%	100	%	

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Technology

We believe our cell management and communication tools extend battery system life and improve system performance by managing individual cells in a system, communicating individual cell conditions to ancillary devices, and communicating individual cell conditions to other devices which either require or supply power. Whether it is vehicle or grid storage systems, we provide capable systems that meet cost and performance targets which we believe, in many cases and based on the life cycle data of the lead acid batteries provided by the manufacturers, outperform traditional lead acid technologies on both metrics. Our systems use lithium-ion cells that are denser in energy than traditional lead acid batteries, which allows our batteries to hold more charge over the same weight. In addition, our Battery Management System protects the lithium-ion batteries enabling the lithium-ion batteries to reach their full life and cycle potential and outlasting lead acid based batteries which would have to be replaced and thereby adding additional costs over the same time period. Our systems manage individual cells and their charge cycles, which generally allows for more consistent discharge capability and ease of maintenance over an unmanaged battery by:

- Managing individual cells within a system to maximize
  - Ø Life Cycles
  - Ø Discharge Rate
  - Ø Depth of Discharge Per Cycle

- Allowing Cells to Communicate their State of Health to
  - Ø Ensure Proper Charging
  - Ø Protect the Cells from Over Discharge
  - Ø Adjust System Parameters During Varying Temperature

- Enabling other system components to adjust their functions to
  - Ø Protect Drive Components from Damage
  - Ø Tie Properly to Grid Power Systems
  - Ø Optimize Charge Efficiency

Marketing and 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.

During the nine month period ended March 31, 2012, we had four major customers that represented more than 10% of our revenues on an individual basis, and combined represented 87% or $2,616,000 of our total revenues. The four major customers were Artisan Vehicle Systems, Epic Boats (a company founded and controlled by Chris Anthony, our chairman and president), Greentech Automotive, and Wheego Electric Cars, each representing more than 10% of our revenues. During the nine month period ended March 31, 2011 we had two major customers that accounted for 37% or $216,000 of our total revenues. The two major customers were Boulder Electric Vehicles, Inc. and Epic Boats (a related party), each representing more than 10% of our revenues.

For the year ended June 30, 2011, Wheego Electric Cars, Inc. and Epic Boats (a related party) accounted for 47% of total revenues, or $463,000. For the eight month period ended June 30, 2010, we had four customers that combined accounted for 79% of total revenues, or $164,000. The four major customers were APT Propulsion Systems, Inc., Dukes Garage, Epic Boats (a related party), and Wheego Electric Cars, Inc., each representing more than 10% of our revenues.

Production process

Except for some of the charger components, we design all of our own products in-house and outsource manufacturing and assembly when possible.

Batteries. Historically, Global Fluid Power Solutions, LLC ("Global") has supplied all of our batteries based on our specifications and needs. However, in order to respond to fluctuations in demand and product cycles, Global is not our exclusive battery supplier and we are free to outsource to other batteries manufacturers that can meet our requirements and specifications. In addition, since our battery management system and battery modules are not tied to any specific lithium-ion battery chemistry, we can source our batteries from a variety of manufacturers to meet our needs as well as our customer's. needs. We continue to consider and negotiate with other vendors for better terms, and may purchase our batteries from other vendors if their terms are more favorable.

Battery Modules and Packs. We design all of our battery modules and packs in-house. In addition, we occasionally design and assemble prototype battery packs and storage systems for our customers.

Charger. We currently buy our chargers from Current Ways, Inc., an entity owned by James Gevarges, one of our major shareholders. Mr. Gevarges is also the Chief Executive Officer and President of LHV Power Corporation ("LHV Power"). During 2009, the Flux Power entered into a cancelable Term Sheet agreement (the "Term Sheet Agreement") with a 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. 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 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 nine month periods ended March 31, 2012 and 2011, Flux Power purchased approximately $52,000 and $35,000 of prototype chargers products from Current Ways, Inc., which purchases were not subject to the distribution fee or royalties pursuant to the Term Sheet Agreement. During 2011 and 2010, Flux Power purchased approximately $33,000 and $26,000 prototype charger products from Current Ways, Inc., which purchases were not subject to the distribution fee or royalties under the Term Sheet Agreement. In addition, we continue to purchase prototype chargers products from Current Ways, Inc. pursuant to our standard purchase order terms and conditions.

BMS. 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 2011 and 2010, Flux Power paid approximately $131,000 and $1,000, respectively, to LHV Power pursuant to the Manufacturing Agreement. During the nine month periods ended March 31, 2012 and 2011, Flux Power paid approximately $258,000 and $130,000, respectively, to LHV Power pursuant to the Manufacturing Agreement. Although there are a limited number of manufacturers which could produce the battery management system, we believe other manufacturers could produce the products on comparable terms. A change in manufacturer, however, could cause a delay in manufacturing.

In-House Product Assembly:

BMS units, Chargers and CAN Current Sensors : Units are outsourced and programmed and tested at our facility before shipping.

12v Modules: We receive completed 12v module cases and lids. Cells are packed in the module cases, connected to BMS, and secured in place. Lids with BMS installed are programmed and calibrated. Each full unit is sealed and tested before shipping.

Hand Held Diagnostic Units: We receive cases and build these HDUs in small batches. HDUs are programmed and tested before shipping.

Strategic Relationship with LHV Power: LHV Power is one of our early business supporters. LHV Power's Chief Executive Officer, President and owner, James Gevarges, sits on our Board of Directors and is one of our major shareholders. LHV Power has an advanced engineering team that has produced products for Hewlett Packard, Dell, Black and Decker, Train, and Carrier. LHV has several contracts with manufacturing facilities in China and Taiwan. Currently our BMS units and CAN Current Sensor Builds are outsourced to LHV Power where they are built to industry standards. In addition, LHV assists us with manufacturing assessments of our other products. Our relationship with LHV gives us an enhanced ability to produce validated volume manufacturing designs and the ability to scale quickly to meet our customers' volume and cost targets. Our relationship with LHV Power is governed by the Manufacturing Agreement with LHV Power as described above under section titled "Production Process." We rely on our relationship with LHV for the manufacturing of our BMS, however, we may outsource the manufacturing of our BMS to other manufacturers after providing LHV its right of first refusal under the terms of the Manufacturing Agreement. For the nine months period ended March 31, 2012 and 2011, year ended June 30, 2011, and eight months ended June 30, 2010, approximately 5%, 24%, 19% and 7% of our sales, respectively, were attributable to products

manufactured by LHV Power.

Volume sales will enable cost reductions by:

Manufacturability Optimization: We are currently building products to be as robust and full-featured as possible to meet prototype and small quantity needs that are not cost-sensitive. With investment in design, these premium components hopefully can be value-engineered with the goal to continue to offer full-featured devices at less than 50% of the cost.

Low Cost Version Designs*:* We will have a growing number of clients that do not need full-featured devices to make their products perform well. With working capital, we believe that we can design low cost options for customers which can be marketed at a deeper discount to our current full-featured products.

Advanced Manufacturing Capabilities: We currently leverage our relationship with LHV Power for manufacturing resources. We intend to seek out other advanced manufacturing relationships to further enhance our abilities.

Suppliers

For the nine month period ended March 31, 2012, and 2011, we had one supplier who accounted for more than 10% of our total purchases. Global Fluid Power Solutions, LLC accounted for 53% and 79%, respectively, of our total purchases. For the year ended June 30, 2011, and for the eight month period ended June 30, 2010, we had one supplier who accounted for more than 10% of our total purchases. Global Fluid Power Solutions, LLC accounted for 67% and 70%, respectively, of 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, Global became our exclusive supplier of Thundersky brand of batteries as well as our non-exclusive supplier of other batteries based on our specification. Soon after our entry into the supply agreement, Global elected to discontinue their sale of the Thundersky brand of batteries and as such Global became our non-exclusive supplier of batteries. There are no minimum purchase amount under the supply agreement. Payment is made as follows: 40% is made in advance at the time of the order, 40% at time of test, and 20% at shipment of the products. The supply agreement terminates upon the earlier occurrence of a breach by Global, insolvency, or upon mutual agreement. Historically we have purchased all of our batteries from Global, however, we are not dependent on Global for any of our products. We are free to outsource to other batteries manufacturers that can meet our requirements and specifications. In addition, since our battery management system and battery modules are not tied to any specific lithium-ion battery chemistry, we can source our batteries from a variety of manufacturers to meet our needs as well as our customer's needs.

Research and Development

Research and development expenses for the nine months ended March 31, 2012 and 2011 were approximately $400,000 and $316,000, respectively. Such expenses consist primarily of materials, supplies, salaries and personnel related expenses, consulting costs and other expenses. For the years ended June 30, 2011, and for the eight month period ended June 30, 2010, we incurred $382,064 and $197,478, respectively, on research and development.

On October 29, 2010, we entered into an Agreement for Services with the California Center for Sustainable Energy (CCSE) in connection with a grant awarded by the Plug-In Hybrid Electric Vehicle Research Center, a division of the Institute of Transportation Studies at the University of California, Davis, for a study researching the repurposing of

advanced energy storage systems from electric vehicles to household energy storage. For the year ended June 30, 2011, we completed the grant work and received approximately $52,606 under the contract. Under the terms of the contract, CCSE retain the ownership of the studies and we retained all intellectual property rights developed under the contract. We will continue to seek out grant work that is compelling and aligns with our growth efforts.

We currently perform our research and development at our facility in Escondido, California. We seek to develop innovative new and improved products for cell and system management along with associated communication, display, current sensing and charging tools.

Cell and System Management Tools : We will continue to innovate with lower cost, less power consuming and more capable devices. Some of these devices will be specialized for certain market segments.

Communication : We will continue to innovate tools for remote and local communication with our energy storage and ancillary components. These devices and software components will be applicable in both motive and stationary storage markets.

Display : We will continue to innovate new and more user friendly tools to accurately and quickly display information on our energy storage metrics.

Current Sensing : We will continue to innovate with more accurate and detailed current data capability with our sensing modules. These devices will become ever more important to an industry that depends on accurate state of charge calculations to make decisions on power use and creation.

Charging : Together with our suppliers, we will continue to innovate with new charging solutions for both AC voltage for electric vehicles and DC to DC power conversion for grid, solar, wind, and back-up power solutions.

Competition

Our competitors are major domestic and international companies such as LG Chem, Matsushita Industrial Co., Ltd. (Panasonic), Sony, Toshiba and SAFT, A123 Systems, Valence, Dow - Kokam, Thundersky. Winston Battery, Altair Nanotechnologies, and Ener1. A123 Systems and Ener1 have received significant financial support from private investors, public offerings and Federal, state, and local grants, subsidies, and incentives and have heavily invested in manufacturing capacity for their chosen markets. Our competitors, in general, have more funding and bigger sales, marketing and research efforts than we do.

We believe that we have several technological and business advantages over our competitors, which will lead to our success in the advanced energy storage market. Our concentration on cell and system management tools has allowed us to compete with a much lower capitalization structure. Further, since our BMS are not based on any specific cell chemistries, we can source cells from different manufacturers based on the performance needs and cost. This flexibility in cell sourcing allows us to provide complete storage systems at much lower cost versus our current competition.

Our pricing advantages over industry comparable are illustrated below:

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Source: www.seekingalfa.com

Growth Strategy

We currently sell into the motive, marine, industrial, and stationary markets, some of which are replacing their lead acid solution with our products and are positioned for aggressive growth and volume. We will seek to soon move into the military and grid management markets segments. We plan to accomplish this through an aggressive sales effort and by seeding products with customers who require our technologies but who are slow to move on integration. Considering the size of the grid management market segment, we believe we can grow considerably over the next two years.

Our marketing and sales strategy is to actively pursue the following market segments:

Electric Vehicles : Our products' cost advantage, easy integration, automotive quality design, and Federal Motor Vehicle Safety Standards ("FMVSS") compliance make the Electric Vehicles Segment a desirable target. After small volume manufacturers, we will push into larger manufacturers.

Military and Municipal : Our products' longevity, easy integration and telematics make it a fit for energy storage applications for both the military and municipal markets. These markets have longer integration timelines but will become a healthy addition to our revenue mix over the next two years.

Grid Management Solutions : Our products' telematics, modularity, longevity and low cost solutions fit with smart grid management solutions, peak shaving devices, bulk storage, back-up power, and frequency modulation devices at every level of grid management. These devices have the longest integration timelines, but have the potential to become our largest revenue component over time.

Intellectual Property

Our success depends, at least in part, on our ability to protect our core technology and intellectua