

FORWARD INDUSTRIES INC  
Form 10-Q  
August 11, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2015.**

**OR**

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

**For the transition period from \_\_\_\_ to \_\_\_\_.**

**Commission File Number: 0-6669**

**FORWARD INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)



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The number of shares outstanding of the registrant's common stock, par value \$0.01 per share, on August 7, 2015, which is the latest practical date prior to the filing of this report, was 8,641,755 shares.

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**

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### **Note Regarding Use of Certain Terms**

In this Quarterly Report on Form 10-Q, unless the context otherwise requires, the following terms have the meanings assigned to them as set forth below:

“we”, “our”, and the “Company” refer to Forward Industries, Inc., a New York corporation, together with its consolidated subsidiaries;

“Forward” or “Forward Industries” refers to Forward Industries, Inc.;

“common stock” refers to the common stock, \$0.01 par value per share, of Forward Industries, Inc.;

“Forward US” refers to Forward Industries’ wholly owned subsidiary Forward Industries (IN), Inc., an Indiana corporation;

“Forward Switzerland” refers to Forward Industries’ wholly owned subsidiary Forward Industries (Switzerland) GmbH, a Swiss corporation;

“Forward UK” refers to Forward Industries’ former wholly owned subsidiary Forward Ind. (UK) Limited, a limited company of England and Wales;

“Forward China” refers to Forward Industries Asia-Pacific Corporation (f/k/a Seaton Global Corporation), Forward’s exclusive sourcing agent in the Asia-Pacific region;

“GAAP” refers to accounting principles generally accepted in the United States;

“Commission” refers to the United States Securities and Exchange Commission;

“Exchange Act” refers to the United States Securities Exchange Act of 1934, as amended;

“Fiscal 2014” refers to our fiscal year ended September 30, 2014;

“Fiscal 2015” refers to our fiscal year ending September 30, 2015;

“Europe” refers to the countries included in the European Union;

“EMEA Region” means the geographic area encompassing Europe, the Middle East and Africa;

“APAC Region” refers to the Asia Pacific Region, consisting of Australia, New Zealand, Hong Kong, Taiwan, China, South Korea, Japan, Singapore, Malaysia, Thailand, Indonesia, India, the Philippines and Vietnam;

“Americas” refers to the geographic area encompassing North, Central, and South America;

“OEM” refers to Original Equipment Manufacturer; and

“Retail” refers to the retail distribution channel.

### **Note Regarding Presentation of Financial Information**

Certain figures included in this Quarterly Report on Form 10-Q have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

**Part I. Financial Information****Item 1. Financial Statements****FORWARD INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2015 (Unaudited)</b>	<b>September 30, 2014 (Note 1)</b>
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$4,287,166	\$6,477,132
Marketable securities	-	1,051,230
Accounts receivable	5,327,398	6,124,871
Inventories	2,883,835	2,374,837
Prepaid expenses and other current assets	369,210	401,549
Total current assets	12,867,609	16,429,619
Property and equipment, net	90,284	98,990
Other assets	40,962	40,962
Total assets	\$12,998,855	\$16,569,571
<b><u>Liabilities and shareholders' equity</u></b>		
Current liabilities:		
Accounts payable, accrued expenses and other current liabilities	\$1,365,977	\$1,218,541
Due to Forward China	4,506,660	5,215,768
Total current liabilities	5,872,637	6,434,309
Other liabilities	119,231	115,202
Total liabilities	5,991,868	6,549,511
6% Senior Convertible Preferred Stock, par value \$0.01 per share; 1,500,000 shares authorized; 851,154 shares available; 0 and 648,846 shares issued and outstanding; aggregate liquidation value of \$0 and \$1,275,000; as of June 30, 2015 and September 30, 2014, respectively	-	833,365
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value \$0.01 per share; 4,000,000 shares authorized; 2,400,000 undesignated at June 30, 2015 and September 30, 2014		
Series A Participating Preferred stock, par value \$0.01; 100,000 shares authorized; no shares issued and outstanding	-	-

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Common stock, par value \$0.01 per share; 40,000,000 shares authorized; 8,606,755 and 9,159,796 shares issued;	86,068	91,598
8,606,755 and 8,453,386 shares outstanding; at June 30, 2015 and September 30, 2014, respectively		
Additional paid-in capital	17,483,710	18,747,371
Treasury stock, 0 and 706,410 shares at cost at June 30, 2015 and September 30, 2014, respectively	-	(1,260,057 )
Accumulated deficit	(10,541,765 )	(8,371,806 )
Accumulated other comprehensive loss	(21,026 )	(20,411 )
Total shareholders' equity	7,006,987	9,186,695
Total liabilities and shareholders' equity	\$12,998,855	\$16,569,571

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



## FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
<b>Net sales</b>	\$7,230,953	\$9,065,568	\$22,422,152	\$24,180,926
Cost of goods sold	5,883,174	7,399,430	18,160,131	19,265,957
Gross profit	1,347,779	1,666,138	4,262,021	4,914,969
<b>Operating expenses:</b>				
Sales and marketing	497,961	708,793	1,876,046	2,050,740
General and administrative	355,661	925,659	4,163,344	2,594,382
Total operating expenses	853,622	1,634,452	6,039,390	4,645,122
<b>Income (loss) from operations</b>	494,157	31,686	(1,777,369 )	269,847
<b>Other (income) expense:</b>				
Interest income	-	(8,037 )	(3,022 )	(25,767 )
(Gain) loss on marketable securities, net	-	(8,904 )	110,001	30,528
Loss on change in fair value of warrant liability	-	-	-	136,258
Other (income) expense, net	(953 )	7,401	8,994	23,403
Total other (income) expense, net	(953 )	(9,540 )	115,973	164,422
<b>Income (loss) from continuing operations</b>	495,110	41,226	(1,893,342 )	105,425
Income (loss) from discontinued operations, net	-	(21,317 )	198,963	(35,103 )
<b>Net income (loss)</b>	495,110	19,909	(1,694,379 )	70,322
Preferred stock dividends and accretion	-	(48,100 )	(475,580 )	(144,571 )
<b>Net income (loss) applicable to common equity</b>	\$495,110	\$(28,191 )	\$(2,169,959 )	\$(74,249 )
<b>Net income (loss)</b>	\$495,110	\$19,909	\$(1,694,379 )	\$70,322
<b>Other comprehensive income (loss):</b>				
Translation adjustments	1,091	111	(615 )	1,144
<b>Comprehensive income (loss)</b>	\$496,201	\$20,020	\$(1,694,994 )	\$71,466
<b>Net income (loss) per basic common share:</b>				
Income (loss) from continuing operations	\$0.06	\$(0.00 )	\$(0.28 )	\$(0.01 )
Income (loss) from discontinued operations	0.00	(0.00 )	0.02	(0.00 )
<b>Net income (loss) per basic common share</b>	\$0.06	\$(0.00 )	\$(0.26 )	\$(0.01 )
<b>Net income (loss) per diluted common share:</b>				
Income (loss) from continuing operations	\$0.06	\$(0.00 )	\$(0.28 )	\$(0.01 )

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Income (loss) from discontinued operations	0.00	(0.00	)	0.02	(0.00	)
<b>Net income (loss) per diluted common share</b>	<b>\$0.06</b>	<b>\$(0.00</b>	<b>)</b>	<b>\$(0.26</b>	<b>)</b>	<b>\$(0.01</b>

**Weighted average number of common and common equivalent shares outstanding:**

Basic	8,364,247	8,195,808	8,329,950	8,183,933
Diluted	8,373,336	8,195,808	8,329,950	8,183,933

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

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	<b>Nine Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash Flows From Operating Activities:</b>		
Net (loss) income	\$ (1,694,379 )	\$ 70,322
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Realized and unrealized loss on marketable securities	110,001	30,528
Share-based compensation	3,065	203,110
Depreciation and amortization	41,894	48,235
Change in fair value of warrant liability	-	136,258
Deferred rent	4,029	(19,369 )
Changes in operating assets and liabilities:		
Accounts receivable	797,473	(1,084,680 )
Inventories	(508,998 )	(345,977 )
Prepaid expenses and other current assets	32,339	(88,834 )
Accounts payable, due to Forward China, accrued expenses and other current liabilities	(562,287 )	1,726,936
<b>Net cash (used in) provided by operating activities</b>	<b>(1,776,863 )</b>	<b>676,529</b>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sales of marketable securities	952,127	5,563,050
Purchases of marketable securities	(10,898 )	(5,769,609 )
Purchases of property and equipment	(33,188 )	(16,048 )
<b>Net cash provided by (used in) investing activities</b>	<b>908,041</b>	<b>(222,607 )</b>
<b>Cash Flows From Financing Activities:</b>		
Redemption of 6% Senior Convertible Preferred Stock	(1,287,737 )	-
Dividends paid	(21,208 )	(57,217 )
Restricted stock repurchased and retired	(12,199 )	-
<b>Net cash used in financing activities</b>	<b>(1,321,144 )</b>	<b>(57,217 )</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(2,189,966 )</b>	<b>396,705</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>6,477,132</b>	<b>6,616,995</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,287,166</b>	<b>\$ 7,013,700</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Supplemental disclosure of non-cash investing and financing activities:		
Preferred stock accretion	\$ 454,372	\$ 87,354
Retirement of treasury stock	\$ 1,260,057	\$ -

Reclassification of warrant liability, net	\$ -	\$ 599,929
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The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

## **FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**

### **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

#### **NOTE 1 OVERVIEW**

Forward Industries, Inc. (“Forward” or the “Company”) was incorporated under the laws of the State of New York and began operations in 1961 as a manufacturer and distributor of specialty and promotional products. The Company designs, markets, and distributes carry and protective solutions, primarily for hand held electronic devices. The Company’s principal customer market is original equipment manufacturers, or “OEMs” (or the contract manufacturing firms of these OEM customers), that either package their products as accessories “in box” together with their branded product offerings, or sell them through their retail distribution channels. The Company’s OEM products include carrying cases and other accessories for medical monitoring and diagnostic kits and a variety of other portable electronic and non-electronic products (such as sporting & recreational products, bar code scanners, smartphones, GPS location devices, tablets, and firearms). The Company’s OEM customers are located in the Americas, the EMEA Region, and the APAC Region. The Company does not manufacture any of its OEM products and sources substantially all of its OEM products from independent suppliers in China (refer to Note 8 – Buying Agency and Supply Agreement).

On June 21, 2012, the Company determined to exit its global retail business and focus solely on growing its OEM business. The decision to eliminate the Retail division was primarily driven by the longer than estimated path to bring it to profitability and the strong top line growth and cost rationalizations in the OEM business. The Retail business is presented as discontinued operations.

On December 30, 2014, the Company held its 2014 annual meeting of shareholders (the “2014 Annual Meeting”) primarily for the purpose of electing either a slate of directors proposed by the then-incumbent board of directors or a slate of directors proposed by Terence Bernard Wise, a director and significant shareholder in the Company at the time. At the 2014 Annual Meeting, the Company’s shareholders voted for the election of the slate of directors proposed by Mr. Wise, which resulted in the turnover of a majority of the Company’s directors.

In the opinion of management, the accompanying condensed consolidated financial statements presented in this Quarterly Report on Form 10-Q reflect all normal recurring adjustments necessary to present fairly the financial position and results of operations and cash flows for the interim periods presented herein, but are not necessarily indicative of the results of operations for the year ending September 30, 2015. These condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements included in its

Annual Report on Form 10-K for the fiscal year ended September 30, 2014, and with the disclosures and risk factors presented herein and therein, respectively. The September 30, 2014 condensed consolidated balance sheet has been derived from the audited consolidated financial statements.

## NOTE 2 ACCOUNTING POLICIES

### Accounting Estimates

The preparation of the Company's condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates and assumptions.

### Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Forward Industries, Inc. and its wholly owned subsidiaries (Forward US, Forward Switzerland, Forward HK (inactive) and Forward UK (inactive)). All significant intercompany transactions and balances have been eliminated in consolidation.

### Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 2 ACCOUNTING POLICIES (CONTINUED)**

*Income Taxes*

The Company accounts for its income taxes in accordance with U.S. GAAP, which requires, among other things, recognition of future tax benefits and liabilities measured at enacted rates attributable to temporary differences between financial statement and income tax bases of assets and liabilities and to net tax operating loss carry-forwards to the extent that realization of these benefits is more likely than not. As of June 30, 2015, there was no change to our assessment that a full valuation allowance was required against all net deferred tax assets. Accordingly, any deferred tax provision was offset by an equal and opposite change to the valuation allowance.

*6% Senior Convertible Preferred Stock*

*Temporary Equity*

The 6% Senior Convertible Preferred Stock was classified as temporary equity in accordance with Accounting Standards Codification (“ASC”) 480-10-s99 - Distinguishing Liabilities from Equity – Overall – SEC Materials and Accounting Series Release (“ASR”) 268 – Presentation in Financial Statements of “Redeemable Preferred Stock”, as the redemption feature was not solely within the control of the Company.

*Warrants*

In accordance with ASC 815-40 – Derivatives and Hedging – Contracts in Entity’s Own Equity, the Company’s warrants were initially classified as a liability, at fair value, as a result of a related registration rights agreement that contained certain requirements for registering the underlying common shares, but had no provision for penalties upon the failure

to register. At each balance sheet date, this liability's fair value was re-measured and adjusted with the corresponding change in fair value recorded in the condensed consolidated statements of operations and comprehensive (loss) income. As of March 31, 2014, the underlying shares were registered and the liability was marked-to-the-market and reclassified to equity.

#### *Preferred Stock Accretion*

As of the issuance date, the carrying amount of the convertible preferred stock was less than the redemption value. As a result of the Company's determination that redemption was probable (See Note 4 – Shareholders' Equity – 6% Senior Convertible Preferred Stock and Warrants), the carrying value was increased by periodic accretions so that the carrying value would equal the redemption amount at the earliest redemption date. Such accretion is recorded as a preferred stock dividend.

#### Revenue Recognition

The Company generally recognizes revenue from product sales to its customers when: (1) title and risk of loss are transferred (in general, these conditions occur at either point of shipment or point of destination, depending on the terms of sale); (2) persuasive evidence of an arrangement exists; (3) the Company has no continuing obligations to the customer; and (4) collection of the related accounts receivable is reasonably assured.

#### Share-Based Payment Expense

The Company recognizes employee and director share-based compensation in its condensed consolidated statements of operations and comprehensive (loss) income at the grant-date fair value of stock options and other equity-based compensation. The determination of stock option grant-date fair value is estimated using the Black-Scholes option-pricing model, which includes variables such as the expected volatility of the Company's share price, the exercise behavior of its grantees, interest rates, and dividend yields. These variables are projected based on the Company's historical data, experience, and other factors. In the case of awards with multiple vesting periods, the Company has elected to use the graded vesting attribution method, which recognizes compensation cost on a straight-line basis over each separately vesting portion of the award as if the award was, in-substance, multiple awards. Refer to Note 5 – Share Based Compensation. In addition, the Company recognizes share-based compensation to non-employees based upon the fair value, using the Black-Scholes option pricing model, determined at the deemed measurement dates over the related contract service period.



**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 2 ACCOUNTING POLICIES (CONTINUED)**

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (“FASB”) issued ASU 2013-11, “Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” This ASU addresses the requirements regarding the financial statement presentation of an unrecognized tax benefit within ASC Topic 740 for the purpose of providing consistency between the financial reporting of U.S. GAAP entities. Generally, this ASU provides guidance for the preparation of financial statements and disclosures when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2013 and did not have a material impact on the Company’s condensed consolidated financial statements or disclosures.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” (“ASU 2014-09”). ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) 605 - Revenue Recognition and most industry-specific guidance throughout the ASC. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 was further amended in July 2015 and is effective for annual periods and interim periods within those annual periods beginning after December 15, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory,” which applies to inventory that is measured using first-in, first-out (“FIFO”) or average cost. Under the updated guidance, an entity should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory that is measured using last-in, last-out (“LIFO”). This ASU is effective for annual and interim periods beginning after December 15, 2016, and should be applied prospectively with early adoption permitted at the beginning of an interim or annual reporting period. The Company is currently evaluating the impact of the adoption of ASU 2015-11 on its consolidated financial statements.

**NOTE 3 DISCONTINUED OPERATIONS**

On June 21, 2012, the Company determined to exit its global retail business and focus solely on growing its OEM business. The decision to eliminate the Retail division was primarily driven by the longer than estimated path to bring it to profitability and the strong net sales growth and cost rationalizations in the OEM business. Accordingly, the results of operations for the Retail division have been recorded as discontinued operations in the accompanying condensed consolidated financial statements for the periods presented. The Company has completed its exit of its Retail business. Summarized operating results of discontinued operations are presented in the following table:

	<b>For the Three Months Ended June 30, 2015</b>		<b>For the Nine Months Ended June 30, 2015</b>		<b>2014</b>
Net sales	\$-	\$-	\$-		\$-
Gross loss	-	-	-		(9,700 )
Operating expenses	-	(21,317)	(1,082 )		(25,403)
Other income	-	-	200,045		-
Income (loss) from discontinued operations, net	\$-	\$(21,317)	\$198,963		\$(35,103)

The Company had \$280,000 of accounts receivable relating to overdue payments pursuant to a Settlement Agreement and General Release (“Settlement Agreement”) executed on July 3, 2013 between the Company and G-Form LLC (“G-Form”) in exchange for certain retail inventories, the Company’s cooperation with certain administrative matters, and a mutual general release. Due to the age of the accounts receivable and G-Form’s non-responsiveness to the Company’s communication related to the matter, the Company established a full reserve for this receivable as of September 30, 2014. In December 2014, the Company recovered \$200,000 from a third party, which was recognized as other income during the nine months ended June 30, 2015.

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 4 SHAREHOLDERS' EQUITY**

**6% Senior Convertible Preferred Stock**

In the event of a liquidation (or deemed liquidation, as described below) of the Company, the holders of the Company's 6% Senior Convertible Preferred Stock, par value \$0.001 per share ("Convertible Preferred Stock"), shall receive in preference to the holders of common stock and any junior securities of the Company an amount (the "Liquidation Preference") equal to (i) \$1.965 (the "Original Issue Price") per each outstanding share of Convertible Preferred Stock (subject to adjustment upon the occurrence of certain customary events), plus (ii) any accrued but unpaid dividends. A Change of Control of the Company (as defined in the Certificate of Amendment) will be treated as a liquidation at the option of the holders of a majority of the Convertible Preferred Stock, provided that the amount paid to holders of Convertible Preferred Stock in such event will be equal to 101% of the Original Issue Price, plus accrued but unpaid dividends.

Dividends on the Convertible Preferred Stock were payable, on a cumulative basis, in cash, at the rate per annum of 6% of the Liquidation Preference (as defined below) and were payable quarterly, in arrears, on each March 31, June 30, September 30 and December 31, commencing on September 30, 2013. The Company was prohibited from paying any dividend with respect to shares of common stock or other junior securities in any quarter unless full dividends were paid on the Convertible Preferred Stock in such quarter.

At the December 30, 2014 Annual Meeting, the shareholder vote resulted in the turnover of a majority of the Board members, which represented a Change of Control pursuant to the terms of the Convertible Preferred Stock. On December 31, 2014, the Company determined to recognize the balance of the accretion and bring the Convertible Preferred Stock carrying value up to its redemption value due to the likelihood of the holders requesting redemption. On January 9, 2015, the Company received a notice of deemed liquidation from a majority of the outstanding Convertible Preferred Stockholders in which they requested redemption of their Convertible Preferred Stock. On February 23, 2015 the Company paid an aggregate \$1,287,737 to the Convertible Preferred Stockholders, in order to redeem all of the outstanding shares of Convertible Preferred Stock.

Dividends on the Convertible Preferred Stock totaled approximately \$0 and \$19,000 for each of the three months ended June 30, 2015 and 2014, respectively, and totaled approximately \$21,000 and \$57,000 for the nine months ended June 30, 2015 and 2014, respectively. These dividends, in addition to the accretion, totaled approximately \$0 and \$48,000 for the three months ended June 30, 2015 and 2014, respectively, and \$476,000 and \$145,000 for the nine months ended June 30, 2015 and 2014, respectively. As of June 30, 2015 and September 30, 2014, the carrying value of the Convertible Preferred Stock was \$0 and approximately \$833,000, respectively, and is included on the Company's condensed consolidated balance sheets as temporary equity.

#### Stock Repurchase

In September 2002 and January 2004, the Board authorized the repurchase of up to an aggregate of 486,200 shares of outstanding common stock. Under those authorizations, through June 30, 2015, the Company repurchased an aggregate of 223,614 shares at a cost of approximately \$485,000. In November 2014, the Company repurchased and retired an aggregate of 10,340 shares of its outstanding restricted common stock at a cost of approximately \$12,000, in connection with the vesting of employee restricted stock awards, wherein certain employees surrendered a portion of their award in order to fund certain tax withholding obligations.

#### Retirement of Treasury Stock

On December 5, 2014, the Board of Directors approved the retirement of 706,410 shares of existing treasury stock.

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****NOTE 4 SHAREHOLDERS' EQUITY (CONTINUED)**

## Changes in Shareholders' Equity

Changes in shareholders' equity for the nine months ended June 30, 2015 are summarized below:

	<b>Common Stock Shares</b>	<b>Common Stock Amount</b>	<b>Additional Paid-In Capital</b>	<b>Treasury Stock Shares</b>	<b>Treasury Stock Amount</b>	<b>Accumulated Deficit</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Accumulated Other Comprehensive Total</b>
<b>Balance - September 30, 2014</b>	9,159,796	\$91,598	\$18,747,371	706,410	\$(1,260,057)	\$(8,371,806 )	\$(20,411)	\$9,186,695
Restricted stock award issuances	290,000	2,900	(2,900 )	-	-	-	-	-
Restricted stock award forfeitures	(126,291 )	(1,263 )	1,263	-	-	-	-	-
Restricted stock repurchased and retired	(10,340 )	(103 )	(12,096 )	-	-	-	-	(12,199 )
Treasury stock retired	(706,410 )	(7,064 )	(1,252,993 )	(706,410)	1,260,057	-	-	-
Share-based compensation	-	-	3,065	-	-	-	-	3,065
Preferred stock dividends	-	-	-	-	-	(21,208 )	-	(21,208 )
Preferred stock accretion	-	-	-	-	-	(454,372 )	-	(454,372 )

Foreign currency translation	-	-	-	-	-	-	(615 )	(615 )
Net loss	-	-	-	-	-	(1,694,379 )	-	(1,694,379)
<b>Balance - June 30, 2015</b>	8,606,755	\$86,068	\$17,483,710	-	\$-	\$(10,541,765)	\$(21,026)	\$7,006,987

NOTE 5            SHARE-BASED  
                          COMPENSATION

Stock Option Awards

Effective January 15, 2015, in connection with the Company's former Chief Executive Officer's voluntary termination, previously outstanding unvested stock options to purchase an aggregate of 83,334 shares of common stock at exercise prices ranging from \$1.59 to \$5.31 per share that would have been forfeited pursuant to their original terms were modified such that the options vested on January 28, 2015. In connection with the "improbable to probable" modification, the Company recorded a credit of approximately \$0 and \$(31,000) during the three and nine months ended June 30, 2015, respectively. See Note 7 for additional details in connection with the termination.

On June 25, 2015, the Company granted a ten-year incentive stock option to purchase 50,000 shares of common stock at an exercise price of \$0.64 per share to an executive of the Company, pursuant to the 2011 Plan. The option vests as follows: 15,000 shares on the date of grant, 15,000 shares on the two year anniversary of the date of grant and 20,000 shares on the three year anniversary of the date of grant. The option had a grant date value of \$19,000.

The fair value of each stock option on the date of grant was estimated using the Black-Scholes option-pricing formula applying the following assumptions:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30, 2015</b>	<b>2014</b>	<b>June 30, 2015</b>	<b>2014</b>
Risk free interest rate	1.92 %	n/a	1.92 %	1.86 %
Expected term (years)	5.90	n/a	5.90	6.00
Expected volatility	64.4 %	n/a	64.4 %	63.2 %
Expected dividends	0 %	n/a	0 %	0 %
Estimated annual forfeiture rate	10 %	n/a	10 %	10 %

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During the three and nine months ended June 30, 2015, the Company granted 50,000 stock options at a weighted average grant date fair value of \$0.38 per share. There were no options granted during the three months ended June 30, 2014. During the nine months ended June 30, 2014, the Company granted 32,500 stock options at a weighted average grant date fair value of \$0.90 per share.

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 5 SHARE-BASED COMPENSATION (CONTINUED)**

**Stock Option Awards (continued)**

The expected term represents the period over which the stock option awards are expected to be outstanding. The Company utilizes the “simplified” method to develop an estimate of the expected term of “plain vanilla” employee option grants. The Company based the risk-free interest rate used in its assumptions on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the award’s expected term. The volatility factor used in the Company’s assumptions is based on the historical price of its stock over the most recent period commensurate with the expected term of the award. The Company historically has not paid any dividends on its common stock and had no intention to do so on the date the share-based awards were granted.

The Company recognized compensation expense of approximately \$1,000 and \$13,000 in continuing operations for stock option awards in its condensed consolidated statements of operations and comprehensive (loss) income for the three months ended June 30, 2015 and 2014, respectively, and \$(36,000) and \$79,000 for the nine months ended June 30, 2015 and 2014, respectively.

As of June 30, 2015, there was approximately \$24,000 of total unrecognized compensation cost related to unvested stock option awards, which is expected to be recognized over the remainder of the weighted average vesting period of 1.5 years.

The following table summarizes stock option activity during the nine months ended June 30, 2015:

	<b>Weighted</b>	<b>Weighted</b>	<b>Average</b>
	<b>Average</b>	<b>Remaining</b>	
	<b>Exercise</b>	<b>Life</b>	<b>Intrinsic</b>



	<b>Number of Options</b>	<b>Price</b>	<b>In Years</b>	<b>Value</b>
Outstanding, September 30, 2014	778,500	\$ 3.12		
Granted	50,000	0.64		
Exercised	-	-		
Forfeited	(550,000)	3.17		
Outstanding, June 30, 2015	278,500	\$ 2.59	5.5	\$ 2,500
Exercisable, June 30, 2015	234,875	\$ 2.84	4.8	\$ 750

The table below provides additional information regarding stock option awards that were outstanding and exercisable at June 30, 2015:

<b>Exercise Price</b>	<b>Options Outstanding</b>		<b>Options Exercisable</b>		
	<b>Weighted Average Exercise Price</b>	<b>Outstanding Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Life In Years</b>	<b>Exercisable Number of Options</b>
\$0.64 to \$1.99	\$ 1.03	90,000	\$1.28	6.7	55,000
\$2.00 to \$2.99	2.46	96,000	2.46	4.1	95,500
\$3.00 to \$3.99	3.74	72,500	3.74	5.6	64,375
\$4.00 to \$6.02	6.02	20,000	6.02	0.8	20,000
		278,500		4.8	234,875

#### Restricted Stock Awards

On December 5, 2014, the Company granted an aggregate of 30,000 shares of restricted stock to directors of the Company, pursuant to the 2011 Plan. The shares were scheduled to vest on the one-year anniversary from the date of grant.

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 5 SHARE-BASED COMPENSATION (CONTINUED)**

The aggregate grant date value of \$34,800 was scheduled to be recognized proportionate to the vesting period. On January 5, 2015, the aggregate of 30,000 shares of restricted stock were forfeited and retired when the shareholders did not elect these directors.

On February 23, 2015, the Company granted an aggregate of 210,000 shares of restricted stock, of which 175,000 shares went to current directors and 35,000 went to a former officer (see Note 7 – Commitments and Contingencies – Former CFO Agreement) of the Company, of which 140,000 shares and 70,000 shares were pursuant to the 2007 Plan and 2011 Plan, respectively. The shares vest as follows: (i) 35,000 shares vest immediately, and (ii) 175,000 shares vest on the one-year anniversary from the date of grant. The aggregate grant date value of \$193,200 will be recognized proportionate to the vesting period.

On June 25, 2015, the Company granted 50,000 shares of restricted stock to an executive of the Company, pursuant to the 2011 Plan. The shares vest as follows: 15,000 shares on the date of grant, 15,000 shares on the two year anniversary of the date of grant and 20,000 shares on the three year anniversary of the date of grant. The grant date value of \$32,000 will be recognized proportionate to the vesting period.

The Company recognized compensation expense of approximately \$42,000 and \$62,000 in continuing operations for restricted stock awards in its condensed consolidated statements of operations and comprehensive (loss) income for the three months ended June 30, 2015 and 2014, respectively, and \$39,000 and \$124,000 for the nine months ended June 30, 2015 and 2014, respectively.

As of June 30, 2015, there was approximately \$143,000 of unrecognized compensation cost related to shares of unvested restricted stock, which is expected to be recognized over the remainder of the weighted average vesting period of 0.9 years.

The following table summarizes restricted stock activity during the nine months ended June 30, 2015:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>	<b>Total Grant Date Fair Value</b>
Non-vested, September 30, 2014	257,581	\$ 1.32	\$ 340,044
Granted	290,000	0.90	260,000
Vested	(192,958 )	1.21	(234,281 )
Forfeited	(126,291 )	1.26	(159,398 )
Non-vested, June 30, 2015	228,332	\$ 0.90	\$ 206,365

#### NOTE 6 INCOME (LOSS) PER SHARE

Basic income (loss) per share data for each period presented is computed using the weighted-average number of shares of common stock outstanding during each such period. Diluted income (loss) per share data is computed using the weighted-average number of common and dilutive common-equivalent shares outstanding during each period. Dilutive common-equivalent shares consist of (a) shares that would be issued upon the exercise of stock options and warrants, computed using the treasury stock method, (b) shares that would be issued upon the conversion of convertible preferred stock and (c) shares of non-vested restricted stock. Net income (loss) from continuing operations per basic and diluted share for the three and nine months ended June 30, 2015 and 2014 is net of preferred stock cash dividends and accretion.