Forward Industries, Inc.
Form 10-Q
August 14, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

---

# FORM 10-Q

---

| | |
|---|---|
| **[X]** | **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** |
| | **For the quarterly period ended June 30, 2018** |
| | **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: 001-34780**

---

**FORWARD INDUSTRIES, INC.**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **New York** | **13-1950672** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**477 S. Rosemary Ave., Suite 219, West Palm Beach, FL 33401**
(Address of principal executive offices, including zip code)

**(561) 465-0030**
(Registrant s telephone number, including area code)

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

Yes [**X**] No [ ]

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

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

| | |
|---|---|
| Large accelerated filer [ ] | Accelerated filer [ ] |
| Non-accelerated filer [ ] | Smaller reporting company [**X**] |
| (Do not check if a smaller reporting company) | Emerging growth company [ ] |

If an emerging growth company, indicate by checkmark if the registrant has not elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

The number of shares outstanding of the registrant s common stock, par value $0.01 per share, on August 9, 2018, which is the latest practical date prior to the filing of this report, was 9,533,850 shares.

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**

**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:

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

Common stock refers to the common stock, $.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;

IPS refers to Forward Industries wholly owned subsidiary Intelligent Product Solutions, Inc., a New York corporation;

Forward China refers to Forward Industries Asia-Pacific Corporation (f/k/a Seaton Global Corporation), a British Virgin Islands registered corporation that is Forward s exclusive sourcing agent in the Asia Pacific Region;

U.S. GAAP refers to accounting principles generally accepted in the United States of America;

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 2018 refers to our fiscal year ending September 30, 2018;

Fiscal 2017 refers to our fiscal year ended September 30, 2017;

Europe refers to the countries included in the European Union;

EMEA Region refers to 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 America, Central America, and South America; and

OEM refers to Original Equipment Manufacturer.

## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | June 30, 2018 (Unaudited) | September 30, 2017 (Note 1) |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 4,341,590 | $ 4,622,981 |
| Accounts receivable, net | 9,003,310 | 6,218,563 |
| Inventories | 1,360,680 | 2,120,971 |
| Prepaid expenses and other current assets | 242,421 | 157,930 |
| Total current assets | 14,948,001 | 13,120,445 |
| Property and equipment, net | 326,525 | 20,658 |
| Intangible assets, net | 1,452,245 | - |
| Goodwill | 2,182,427 | - |
| Other assets | 63,550 | 12,843 |
| Total assets | $ 18,972,748 | $ 13,153,946 |
| | | |
| **Liabilities and shareholders' equity** | | |
| Current liabilities: | | |
| Line of credit | $ 550,000 | $ - |
| Accounts payable | 228,745 | 67,351 |
| Due to Forward China | 3,816,791 | 3,736,451 |
| Deferred income | 126,797 | 169,642 |
| Notes payable - short-term portion | 1,823,965 | - |
| Capital leases payable - short-term portion | 44,493 | - |
| Accrued expenses and other current liabilities | 743,563 | 213,117 |
| Total current liabilities | 7,334,354 | 4,186,561 |
| Other liabilities: | | |
| Notes payable - long-term portion | 78,571 | - |
| Capital leases payable - long-term portion | 40,113 | - |
| Deferred rent | 43,788 | 36,963 |
| Deferred consideration - long-term portion | 538,000 | - |
| Total other liabilities | 700,472 | 36,963 |
| Total liabilities | 8,034,826 | 4,223,524 |

| | | |
|---|---|---|
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Common stock, par value $0.01 per share; 40,000,000 shares authorized; | | |
| 9,533,850 and 8,920,830 shares issued and outstanding, respectively | 95,338 | 89,208 |
| Additional paid-in capital | 18,707,441 | 17,936,673 |
| Accumulated deficit | (7,864,857 ) | (9,095,459 ) |
| Total shareholders' equity | 10,937,922 | 8,930,422 |
| Total liabilities and shareholders' equity | $ 18,972,748 | $ 13,153,946 |

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

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

| | For the Three Months Ended June 30, | | For the Nine Months Ended June 30, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| **Net Revenues** | $ 9,539,539 | $ 7,332,722 | $ 24,888,433 | $ 18,456,846 |
| Cost of Sales | 7,625,846 | 6,054,812 | 20,197,054 | 15,304,021 |
| Gross Profit | 1,913,693 | 1,277,910 | 4,691,379 | 3,152,825 |
| **Operating expenses:** | | | | |
| Sales and marketing | 548,388 | 309,000 | 1,290,741 | 1,116,221 |
| General and administrative | 1,575,781 | 419,836 | 3,327,977 | 1,576,495 |
| Total operating expenses | 2,124,169 | 728,836 | 4,618,718 | 2,692,716 |
| **Income (loss) from operations** | (210,476 ) | 549,074 | 72,661 | 460,109 |
| Change in fair value of earn-out consideration | 510,000 | - | 510,000 | - |
| Change in fair value of deferred cash consideration | (12,000 ) | - | (12,000 ) | - |
| Interest expense | (46,504 ) | - | (77,411 ) | - |
| Other income (expense) | (5,536 ) | 2,851 | (9,648 ) | 5,778 |
| **Total Other income (expense)** | 445,960 | 2,851 | 410,941 | 5,778 |
| **Income before income taxes** | 235,484 | 551,925 | 483,602 | 465,887 |
| Benefit from income taxes | - | - | 747,000 | - |
| **Net Income** | $ 235,484 | $ 551,925 | $ 1,230,602 | $ 465,887 |
| **Net income per basic common share** | $ 0.02 | $ 0.06 | $ 0.13 | $ 0.05 |
| **Net income per diluted common share** | $ 0.02 | $ 0.06 | $ 0.13 | $ 0.05 |
| **Weighted average number of common and common equivalent shares outstanding:** | | | | |
| Basic | 9,482,842 | 8,855,885 | 9,176,390 | 8,716,030 |
| Diluted | 9,547,889 | 8,906,846 | 9,281,335 | 8,816,432 |

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

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**
**(UNAUDITED)**

| | Common Stock | | Additional Paid-In | Accumulated | |
|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | Total |
| **Balance - September 30, 2017** | 8,920,830 | $ 89,208 | $ 17,936,673 | $ (9,095,459 ) | $ 8,930,422 |
| Restricted stock award forfeitures | (82,056 ) | (821 ) | 821 | - | - |
| Share-based compensation | - | - | 276,898 | - | 276,898 |
| Stock issuance for IPS purchase | 401,836 | 4,018 | 495,982 | - | 500,000 |
| Restricted stock award issuance | 61,016 | 610 | (610 ) | - | - |
| Cashless warrant exercise | 232,224 | 2,322 | (2,322 ) | - | - |
| Net income | - | - | - | 1,230,602 | 1,230,602 |
| **Balance - June 30, 2018** | 9,533,850 | $ 95,338 | $ 18,707,441 | $ (7,864,857 ) | $ 10,937,922 |

(amounts may not add due to rounding)

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

5

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

| | For the Nine Months Ended June 30, | |
|---|---|---|
| | **2018** | **2017** |
| **Cash Flows From Operating Activities:** | | |
| Net income | $ 1,230,602 | $ 465,887 |
| Adjustments to reconcile net income to net cash | | |
| used in operating activities: | | |
| Share-based compensation | 276,898 | 96,616 |
| Depreciation and amortization | 157,792 | 16,914 |
| Bad debt expense | 62,385 | - |
| Deferred rent | 8,781 | (8,666 ) |
| Deferred tax asset | (747,000 ) | - |
| Change in FV of earn-out consideration | (510,000 ) | - |
| Change in FV of deferred cash consideration | 12,000 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (357,633 ) | (1,773,008 ) |
| Inventories | 760,291 | 743,964 |
| Prepaid expenses and other current assets | (32,865 ) | (63,927 ) |
| Accounts payable and due to Forward China | 86,435 | 70,780 |
| Deferred income | (310,177 ) | (139,929 ) |
| Accrued expenses and other current liabilities | (19,497 ) | (107,974 ) |
| **Net cash provided by (used in) operating activities** | 618,012 | (699,343 ) |
| | | |
| **Cash Flows From Investing Activities:** | | |
| Purchases of property and equipment | (38,652 ) | - |
| Cash acquired in IPS purchase | 600,435 | - |
| Cash used to purchase IPS | (1,930,000 ) | - |
| **Net cash uesd in investing activities** | (1,368,217 ) | - |
| | | |
| **Cash Flows From Financing Activities:** | | |
| Proceeds from Note issued to Forward China | 1,600,000 | - |
| Proceeds from Line of Credit borrowings | 550,000 | - |
| Repayment of Line of Credit borrowings | (950,000 ) | - |
| Repayment of notes payable | (219,700 ) | - |
| Repayments on capital equipment leases | (11,486 ) | - |
| Payment of deferred cash consideration | (500,000 ) | - |

| | | |
|---|---|---|
| **Net cash provided by financing activities** | 468,814 | - |
| | | |
| **Net decrease in cash** | (281,391 ) | (699,343 ) |
| **Cash at beginning of period** | 4,622,981 | 4,760,620 |
| **Cash at end of period** | $ 4,341,590 | $ 4,061,277 |
| | | |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Cash paid for interest | $ 77,411 | $ - |
| Cash paid for taxes | $ 2,073 | $ - |
| | | |
| **Supplemental Schedule of Non-Cash Investing and Financing Activities:** | | |
| Shares issued to Purchase IPS | $ 500,000 | $ - |

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**

**NOTE 1 OVERVIEW**

Forward Industries, Inc. ( Forward or the Company ) designs 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 and recreational products, bar code scanners, smartphones, GPS location devices, tablets, and firearms). The Company s OEM customers are located in: (i) the Asia-Pacific Region, which we refer to as the APAC Region ; (ii) Europe, the Middle East, and Africa, which we refer to as the EMEA Region ; and (iii) the Americas. The Company does not manufacture any of its OEM products and sources substantially all of its OEM products from independent suppliers in China, through Forward China (refer to Note 9 Buying Agency and Supply Agreement).

On January 18, 2018, the Company acquired Intelligent Product Solutions, Inc. ( IPS ), a single source solution for the full spectrum of hardware and software product design and engineering services. The acquisition gives Forward the opportunity to introduce proprietary product to the market from concepts brought to them from a number of different sources. The Forward/IPS combination provides clients, both big and small, a true, authentic one-stop-shop for product design, development, manufacturing, and distribution.

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, 2018. 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, 2017, and with the disclosures and risk factors presented therein. The September 30, 2017 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 and recently acquired IPS from the date of acquisition). All significant intercompany transactions and balances have been eliminated in consolidation. Intercompany revenues of approximately $97,000 and $153,000 for the three and nine months ended June 30, 2018 related to design and marketing work performed by IPS for Forward has been eliminated in consolidation.

**Segment Reporting**

Operating segments are defined as components of an enterprise about which separate financial information is available that is regularly evaluated by a chief operating decision maker, or Forward management, in deciding how to allocate resources and in assessing performance. As a result of the acquisition of IPS, management conducts business through two distinct operating segments, which are also our reportable segments: distribution and design. Forward US and Forward Switzerland comprise the distribution operating segment and IPS is the design operating segment. It should be noted that the segment reporting for design for the nine months ended June 30, 2018 only covers the period following the closing of the acquisition of IPS on January 18, 2018 through third quarter end on June 30, 2018.

Organizing our business through two operating segments allows us to align our resources and manage the operations. Our management team regularly reviews operating segment revenue and operating income (loss) when assessing financial results of operating segments and allocating resources.

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 ACCOUNTING POLICIES (Continued)**

We measure the performance of our operating segments based upon operating segment revenue and operating income (loss). Segment operating income (loss) includes revenue and expenses incurred directly by the operating segment, including cost of sales and selling, marketing, and general and administrative costs.

**Goodwill**

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill was recognized as a result of the acquisition of IPS in January 2018.

Goodwill is reviewed for impairment at least annually, and when triggering events occur, in accordance with the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 350, Intangibles – Goodwill and Other. We have two reporting units for purposes of evaluating goodwill impairment and perform our annual goodwill impairment test on December 31. We have the option to perform a qualitative assessment to determine if an impairment is more likely than not to have occurred. If we can support the conclusion that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then we would not need to perform the two-step impairment test for the reporting unit. If we cannot support such a conclusion or do not elect to perform the qualitative assessment, then the first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of the reporting unit with its carrying amount, including goodwill.

If the fair value of the reporting unit exceeds its carrying value, then the second step of the impairment test (measurement) does not need to be performed. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the entity must perform the second step of the impairment test. Under the second step, an impairment loss is recognized for any excess of the carrying amount of the reporting unit’s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to an acquisition price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. A significant amount of judgment is required in performing goodwill impairment tests including estimating the fair value of a reporting unit and the implied fair value of goodwill. (See Notes 3 and 4 for further discussion of goodwill).

**Intangible assets**

Intangible assets include trademark and customer relationships, which were acquired as part of the acquisition of IPS in January 2018 and are recorded based on the estimated fair value in purchase price allocation. The intangible assets are amortized over their estimated useful lives, which are periodically evaluated for reasonableness.

Our intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability of our intangible assets, we must make estimates and assumptions regarding future cash flows and other factors to determine the fair value of the respective assets. These estimates and assumptions could have a significant impact on whether an impairment charge is recognized and also the magnitude of any such charge. Fair value estimates are made at a specific point in time, based on relevant information. These estimates are subjective in nature and involve uncertainties and matters of significant judgments and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. If these estimates or material related assumptions change in the future, we may be required to record impairment charges related to its intangible assets. (See Notes 3 and 4 for further discussion of intangible assets).

**Income Taxes**

The Company recognizes 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 carryforwards to the extent that realization of these benefits is more likely than not. As of June 30, 2018, 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 or benefit was offset by an equal and opposite change to the valuation allowance. However, a deferred income tax benefit was recorded in conjunction with the acquisition of IPS in the second quarter and related to deferred tax liabilities created upon acquisition of the subsidiary on January 18, 2018. This resulted in a reduction in the Company s valuation allowance for the existing deferred tax asset to offset the newly recorded deferred tax liability and accordingly a tax benefit has been recognized of $747,000.

No current book income tax provision was recorded against book net income due to the existence of significant net operating loss carryforwards.

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 ACCOUNTING POLICIES (Continued)**

On December 20, 2017, Congress passed the Tax Cuts and Jobs Act. This bill includes, among other things, a reduction of the U.S. corporate tax rate from 35% to 21%. The change in the tax rates resulted in a decrease in the deferred tax assets. However, Forward maintains a full valuation allowance and the decrease in the deferred tax assets are offset by an equal adjustment to the valuation allowance. As a result of the 2017 Tax Cuts and Jobs Act, we expect no tax impact to the financial statements stemming from: (i) the mandatory deemed repatriation of cumulative earnings and profits for a controlled foreign corporation; or (ii) the change in the corporate income tax rate.

**Revenue Recognition**

*Distribution Segment*

The Company generally recognizes revenue from its distribution segment from product sales to its customers when: (i) 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); (ii) persuasive evidence of an arrangement exists; (iii) the Company has no continuing obligations to the customer; and (iv) collection of the related accounts receivable is reasonably assured. The Company defers revenue when it receives consideration before achieving the criteria previously mentioned.

*Design Segment*

The Company generally recognizes revenue from design segment sales to customers based on: (i) time and material incurred; (ii) the performance of services as per the agreement; (iii) persuasive evidence that an arrangement exists and (iv) collection of the related accounts receivable is reasonably assured. The Company defers revenue when it receives consideration before achieving the criterion previously mentioned.

**Reclassifications**

We have reclassified deferred income of approximately $170,000 from accrued expenses and other current liabilities to deferred income within the current liabilities section of the balance sheet in the accompanying fiscal 2017 financial statements to conform to the fiscal 2018 presentation. These reclassifications did not affect total current liabilities, net income or accumulated deficit.

**Share-Based Compensation Expense**

The Company recognizes employee and director share-based compensation in its condensed consolidated statements of operations 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 6 - 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.

**Recent Accounting Pronouncements**

In August 2016, the Financial Accounting Standards Board ( FASB ) issued Accounting Standard Update ( ASU ) No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, providing additional guidance on several cash flow classification issues, with the goal of the update to reduce the current and potential future diversity in practice. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company early adopted ASU No. 2016-15 and the adoption did not have any impact on the Company s consolidated financial statements.

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 ACCOUNTING POLICIES (Continued)**

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendment allows an entity to elect to reclassify the stranded tax effects resulting from the change in income tax rate from the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. The amendments in this update are effective for periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of this new standard will have on its consolidated financial statements.

In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification ( ASC ) 605-Revenue Recognition and most industry-specific guidance throughout the ASC. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. In July 2015, the FASB deferred the effective date for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods). Early adoption is permitted to the original effective date for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods). The amendments may be applied retrospectively to each prior period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). The Company will adopt ASU 2014-09 in the first quarter of fiscal 2019. Because the Company's Distribution Segment s primary source of revenues is from the sale of finished goods, the Company does not anticipate that the adoption of ASU 2014-09 will have a material impact on this segment. However, the Company is evaluating the potential impact of the acquired IPS business and the resulting Design Segment and ultimately the Company s consolidated financial statements, disclosures and internal processes and controls. Management believes the adoption of the new standard may have an impact to the recognition of revenue as it relates to the fixed priced contracts with IPS customers. The materiality of the impact is unknown but management will have a better understanding once the evaluation is concluded. As of report date, management is actively assessing the potential impact and will have a conclusion before the fiscal year-end.

In February 2017, the FASB issued ASU 2017-02, Leases (Topic 842), which will require lessees to report most leases as assets and liabilities on the balance sheet, while lessor accounting will remain substantially unchanged. This ASU requires a modified retrospective transition approach for existing leases, whereby the new rules will be applied to the earliest year presented. The new standard is effective for reporting periods beginning after December 15, 2018 and early adoption is permitted. The Company is currently evaluating the potential impact of adopting this guidance on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Scope of Modification Accounting , to provide guidance on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. This ASU is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. Adoption of this ASU is prospective. The Company does not believe the adoption of this ASU will have a significant impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment* ( ASU 2017-04 ). ASU 2017-04 simplifies the accounting for goodwill impairments by eliminating the requirement to compare the implied fair value of goodwill with its carrying amount as part of step two of the goodwill impairment test referenced in Accounting Standards Codification ( ASC ) 350, *Intangibles -Goodwill and Other* ( ASC 350 ). As a result, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit s fair value. However, the impairment loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for annual reporting periods beginning after December 15, 2019, including any interim impairment tests within those annual periods, with early application permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We will perform future goodwill impairment tests according to ASU 2017-04.

**Business Combinations**

The Company allocates the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, the Company makes significant estimates and assumptions, especially with respect to intangible assets.

10

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 ACCOUNTING POLICIES (Continued)**

The Company recognizes the purchase of assets and the assumption of liabilities as an asset acquisition, if the transaction does not constitute a business combination. The excess of the fair value of the purchase price is allocated on a relative fair value basis to the identifiable assets and liabilities. No goodwill is recorded in an asset acquisition.

Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows from customer relationships and developed technology, discount rates and terminal values. Our estimate of fair value is based upon assumptions believed to be reasonable, but actual results may differ from estimates.

Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed.

**NOTE 3 ACQUISITION**

On January 18, 2018, the Company entered into a Stock Purchase Agreement (the Agreement ) by and among the Company, IPS, the holders of all of the common stock of IPS, Inc. (the Sellers ) and Mitchell Maiman, President of IPS, representing the Sellers. In consideration for the acquisition of all of IPS outstanding securities, the Company: (i) paid approximately $1.9 million in cash; (ii) assumed approximately $1.5 million of outstanding debt; (iii) issued a total of 401,836 shares of the Company s common stock to the two owners of IPS; (iv) agreed to pay $1,000,000 of deferred cash consideration (with the first payment of $500,000 due and paid on May 31, 2018, the second payment of $200,000 due on September 30, 2019, and third payment of $300,000 due on September 30, 2020); and (v) agreed to pay up to $2.2 million of earnout payments based upon IPS meeting certain EBITDA milestones (as defined in the Agreement) over a three-year period. Additionally, the Company entered into three-year employment agreements with both Mitchell Maiman and Paul Severino (Chief Operating Officer of IPS), and agreed to pay them each $256,000 per year. In order to fund the acquisition of IPS, the Company issued a $1.6 million promissory note payable to Forward China Industries (Asia-Pacific) Corporation ( Forward China ) due January 18, 2019. The promissory note bears an interest rate of 8% per annum and requires monthly interest payments commencing February 18, 2018. Forward China is an entity which is principally owned by the Company s Chairman and Chief Executive Officer. As part of the Agreement, IPS entered into at-will employment agreements with two additional key employees. Pursuant to the employment agreements, the employees were issued a total of 40,184 shares of the Company s common stock of which 40% vested immediately with the remainder vesting in two equal increments on the six-month and twelve-month anniversary of the grant date, subject to continued employment on such vesting dates.

At the date of acquisition, the purchase consideration consists of cash, equity in Forward s ( Buyer s ) stock, deferred cash and contingent consideration based on earn-out performance over a three-year period. Acquisition-related costs were expensed as incurred and are included in the general and administrative expenses within the condensed consolidated statements of operations. The purchase consideration components are summarized in the table below:

| | | |
|---|---|---|
| Cash at closing (1) | $ | 1,930 |
| Value of Equity in Buyer Common Stock (2) | | 500 |
| Fair Value of Earn-Out Consideration (3) | | 600 |
| Fair Value of Deferred Cash Consideration (4) | | 936 |
| Total Purchase Consideration | $ | 3,966 |

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 ACQUISITION (Continued)**

(1) Cash paid by Forward at closing funded, in part, by a $1.6 million promissory note issued to Forward China, a related party of Forward. The remainder of the cash was funded by Forward s operating cash account.

(2) Forward issued 401,835 shares of common stock valued at the January 18, 2018 closing price of $1.24 per share for an aggregated value of approximately $500,000.

(3) Fair Value of the Earn-Out consideration is measured using the Black-Scholes option pricing method. Earn-Out is to be paid in cash only upon meeting certain EBITDA milestones over a three-year period.

(4) Fair value of the Deferred Cash consideration is the present value of the $1,000,000 payable in three increments with an applied discount rate ranging between 4.73% and 5.33%.

The following table summarizes the allocation of the assets acquired and liabilities assumed based on their estimated fair values on the acquisition date and the related estimated useful lives of the amortizable intangible assets acquired (in thousands, except for estimated useful life):

| | | Estimated useful life |
|---|---|---|
| Current Assets: | | |
| Cash and Equivalents | $ 600 | |
| Accounts Receivable | 2,489 | |
| Other Current Assets | 52 | |
| Total Current Assets | 3,142 | |
| Current Liabilities: | | |
| Accounts Payable | (149 ) | |
| Deferred Revenue | (267 ) | |
| Accrued and Other Current Liabilities | (548 ) | |
| Total Current Liabilities | (964 ) | |
| Property and Equipment | 346 | |
| Other Long-Term Assets | 51 | |
| Deferred TaxLiability | (747 ) | |
| Assumed Debt | (1,568 ) | |
| Finite-Lived Intangible Assets: | | |
| Trademark | 475 | 15 years |
| Customer Relationships | 1,050 | 8 years |
| Total Intangible Assets | 1,525 | |
| Goodwill | 2,182 | |
| Total | $ 3,966 | |

(amounts may not add due to rounding)

*Pro Forma Impact*

The following unaudited pro forma condensed consolidated financial information has been prepared to illustrate the effects of the acquisition of IPS as if the acquisition occurred on October 1, 2017 and 2016. The historical consolidated financial information has been adjusted in the unaudited pro forma condensed combined financial statements to give effect to pro forma events that are directly attributable to the acquisition, factually supportable and, with respect to the condensed consolidated statements of operations, expected to have a continuing impact on the results of operations.

The unaudited pro forma condensed consolidated statements of operations does not reflect future events that may occur after the completion of the acquisitions, including, but not limited to, the anticipated realization of ongoing savings from operating synergies and certain one-time charges the Company expects to incur in connection with the acquisition, including, but not limited to, costs in connection with integrating the operations of IPS.

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 ACQUISITION (Continued)**

These unaudited pro forma condensed consolidated financial statements are for informational purposes only. They do not purport to indicate the results that would actually have been obtained had the acquisition been completed on October 1, 2017 and 2016 or which may be realized in the future. There can be no assurance that such finalization will not result in material changes from the preliminary accounting for the IPS Acquisition included in the below pro forma condensed consolidated financial information.

| | For the Three Months Ended June 30, | | For the Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Net revenues** | $ 9,539,539 | $ 10,834,566 | $ 24,888,433 | $ 28,499,946 |
| **Gross profit** | 1,913,693 | 2,026,842 | 4,691,379 | 5,505,984 |
| | | | | |
| **Operating expenses** | 2,114,528 | 1,608,855 | 4,698,870 | 5,187,961 |
| **Operating income (loss)** | (200,835 ) | 417,987 | (7,491 ) | 318,023 |
| **Other income (expense), net** | 434,960 | 200,499 | 368,276 | (391,256 ) |
| **Income before income taxes** | 234,125 | 618,486 | 360,785 | (73,233 ) |
| **Provision for income taxes (expense)** | - | (3,211 ) | 747,000 | (11,874 ) |
| **Net income (loss)** | $ 234,125 | $ 615,275 | $ 1,107,785 | $ (85,107 ) |
| | | | | |
| **Earnings (loss) per share:** | | | | |
| Basic | $ 0.02 | $ 0.07 | $ 0.12 | $ (0.01 ) |
| Diluted | $ 0.02 | $ 0.07 | $ 0.12 | $ (0.01 ) |

**NOTE 4 FAIR VALUE MEASUREMENTS**

We perform fair value measurements in accordance with the guidance provided by ASC 820. ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at their fair values, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the assets or liabilities, such as inherent risk, transfer restrictions, and risk of nonperformance.

ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. An asset's or liability's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3: unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities.

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 FAIR VALUE MEASUREMENTS (Continued)**

The long-term portion of deferred cash consideration of $538,000 on our balance sheet includes a deferred cash component of $448,000 and an earn-out consideration component with a fair value of $90,000 measured using the Black-Scholes option pricing method, a Level 3 valuation technique. The value of the deferred cash consideration and the fair value of the earn-out consideration component at March 31, 2018 was $436,000 and $600,000, respectively. The fair value of the earn-out consideration was deemed to be only $90,000 at June 30, 2018 due to the low likelihood of reaching the projected actual EBITDA milestones as a result of lower gross margins and higher operating expenses than initially projected. Projected actual EBITDA in future earn-out periods are expected to fall short as cross-selling opportunities and cost synergies have not materialized as fast as expected. Per the guidance under ASC 805 Business Combinations and Contingent Consideration, for contingent consideration classified as an asset or liability, any measured change in fair value shall be recognized in earnings. The fair value adjustments amount to $498,000 and are itemized under the Other income (expense) portion of the condensed consolidated statement of operations. The shortfall in expected EBITDA was also considered a triggering event with regards to the evaluation of the June 30, 2018 carrying value of our trademark and customer relationship intangible assets as well as the goodwill resulting from the acquisition of IPS. As such, the Company performed an assessment of the carrying values considering specific qualitative facts and circumstances, macroeconomic factors and utilizing the initial inputs and projections that supported the initial fair value valuations of the intangible assets acquired from IPS. Based on these assessments, the Company concluded that the trademark, customer list and goodwill were not impaired at June 30, 2018.

The following table presents the placement in the fair value hierarchy and summarizes the change in fair value of the deferred cash consideration during the quarter ended June 30, 2018:

| | | Fair value measurement at reporting date using | | |
|---|---|---|---|---|
| | **Balance** | **Quoted prices in active markets for identical assets (Level 1)** | **Significant other observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** |
| **September 30, 2017:** | $ - | $ - | $ - | $ - |
| Fair Value at date of acquisition - January 18, 2018 | 600,000 | - | - | 600,000 |
| **March 31, 2018:** | $ 600,000 | $ - | $ - | $ 600,000 |
| Decrease in fair value of earn-out consideration | (510,000 ) | - | - | (510,000 ) |
| **June 30, 2018:** | $ 90,000 | $ - | $ - | $ 90,000 |

The fair value of the deferred cash consideration will be measured on a recurring basis at each reporting date. The following table provides the unobservable inputs and assumptions used to measure the deferred cash consideration at June 30, 2018:

| Description | Valuation technique | Unobservable Inputs | Range |
|---|---|---|---|
| Earn-out consideration | Black-Scholes | Volatility | 30% - 45% |
| | | Risk free interest rate | 2.05% - 2.57% |
| | | Expected term, in years | 0.42 - 2.42 |
| | | Dividend yield | 0.00% |

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 SEGMENT INFORMATION**

The Company, post IPS acquisition, conducts its business through two operating segments, which are also its reportable segments:

- Distribution and
- Design

Segment operating income (loss) reflects results before shared corporate and unallocated administrative expenses and income taxes. Shared corporate and unallocated administrative expenses principally consist of costs for corporate and administrative support functions.

| | For the Three Months Ended June 30, 2018 | For the Three Months Ended June 30, 2017 | For the Nine Months Ended June 30, 2018 | For the Nine Months Ended June 30, 2017 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Distribution | $ 5,910,120 | $ 7,332,722 | $ 18,441,016 | $ 18,456,846 |
| Design | 3,629,419 | - | 6,447,417 | - |
| **Total Revenue** | 9,539,539 | 7,332,722 | 24,888,433 | 18,456,846 |
| **Cost of Sales** | | | | |
| Distribution | 4,936,676 | 6,054,812 | 15,420,002 | 15,304,021 |
| Design | 2,689,170 | - | 4,777,052 | - |
| **Total Cost of Sales** | 7,625,846 | 6,054,812 | 20,197,054 | 15,304,021 |
| **Segment Operating Income (loss)** | | | | |
| Distribution | (165,626 ) | 549,074 | 33,627 | 460,109 |
| Design | (44,850 ) | - | 39,034 | - |
| **Total Income (loss) from operations** | (210,476 ) | 549,074 | 72,661 | 460,109 |
| **Other Income (expenses)** | | | | |
| Distribution | 460,463 | 2,851 | 435,017 | 5,778 |
| Design | (14,502 ) | - | (24,076 ) | - |
| **Total Other income (expense)** | 445,961 | 2,851 | 410,941 | 5,778 |
| **Income before income taxes** | $ 235,485 | $ 551,925 | $ 483,602 | $ 465,887 |

The following table presents total assets by operating segment:

| | June 30, 2018 | September 30, 2017 |
|---|---|---|

| | | | | |
|---|---|---|---|---|
| Distribution | $ | 11,857,762 | $ | 13,153,946 |
| Design | | 7,114,986 | | - |
| **Total assets** | $ | 18,972,748 | $ | 13,153,946 |

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 SHARE-BASED COMPENSATION**

**Stock Options**

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model that uses the following assumptions. 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 expected volatility used is based on the historical price of the Company s stock over the most recent period commensurate with the expected term of the award. The risk-free interest rate used is based on the implied yield of U.S. Treasury zero-coupon issues with a remaining term equivalent to the award s expected term. 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 estimated annual forfeiture rate is based on management s expectations and will reduce expense ratably over the vesting period. The forfeiture rate will be adjusted periodically based on the extent to which actual option forfeitures differ, or are expected to differ, from the previous estimate, when it is material.

In applying the Black-Scholes option pricing model to options granted, the Company used the following assumptions:

| | For the Three Months Ended June 30, | | For the Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Expected term (years) | 2.50-5.00 | n/a | 2.50-5.00 | n/a |
| Expected volatility | 80.0%-85.0% | n/a | 80.0%-103.1% | n/a |
| Risk free interest rate | 2.57%-2.84% | n/a | 2.45%-2.84% | n/a |
| Expected dividends | 0.00% | n/a | 0.00% | n/a |
| Estimated annual forfeiture rate | 10% | n/a | 10% | n/a |

On February 23, 2018, the Company granted five-year options to employees to purchase an aggregate of 68,000 shares of common stock at an exercise price of $1.67 per share. The shares vest ratably over three years on the grant date anniversaries. The options had had an aggregate grant date fair value of $77,128, which is being amortized over the vesting period of the options.

On April 25, 2018, the Company granted immediately vested ten-year options to purchase an aggregate of 40,816 shares of common stock to two former directors and immediately vested five-year options to purchase 214,000 shares of common stock to a director, all at an exercise price of $1.44 per share. The options had had an aggregate grant date fair value of $190,890, which was recognized immediately.

There were no options granted during the nine months ended June 30, 2017.

The options granted during the three and nine months ended June 30, 2018 had a weighted average grant date value per share of $0.75 and $0.83, respectively.

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 SHARE-BASED COMPENSATION (Continued)**

The following table summarizes stock option activity during the nine months ended June 30, 2018:

| | Number of Options | | Weighted Average Exercise Price | Weighted Average Remaining Life In Years | | Intrinsic Value |
|---|---|---|---|---|---|---|
| Outstanding, September 30, 2017 | 246,000 | $ | 2.19 | | | |
| Granted | 322,816 | | 1.49 | | | |
| Exercised | - | | - | | | |
| Forfeited | (21,750 ) | | 2.16 | | | |
| Expired | - | | - | | | |
| Outstanding, June 30, 2018 | 547,066 | $ | 1.78 | 4.6 | $ | 46,875 |
| | | | | | | |
| Exercisable, June 30, 2018 | 478,314 | $ | 1.80 | 4.6 | $ | 45,049 |

The Company recognized compensation expense of approximately $203,000 and $2,000 during the three months ended June 30, 2018 and 2017, respectively, and approximately $208,000 and $5,000 during the nine months ended June 30, 2018 and 2017, respectively, for stock option awards in its condensed consolidated statements of operations.

As of June 30, 2018, there was approximately $61,000 of total unrecognized compensation cost related to nonvested stock option awards that is expected to be recognized over a weighted average period of 1.7 years.

The following table provides additional information regarding stock option awards that were outstanding and exercisable at June 30, 2018:

| Options Outstanding | | | | Options Exercisable | | | |
|---|---|---|---|---|---|---|---|
| Exercise Price | | Weighted Average Exercise Price | Outstanding Number of Options | | Weighted Average Exercise Price | Weighted Average Remaining Life In Years | Exercisable Number of Options |
| $0.64 to $1.23 | $ | 0.80 | 77,500 | $ | 0.80 | 6.3 | 74,998 |
| $1.44 to $1.80 | | 1.51 | 341,066 | | 1.47 | 5.3 | 274,816 |
| $2.20 to $2.85 | | 2.48 | 66,000 | | 2.48 | 1.9 | 66,000 |
| $3.73 to $3.79 | | 3.74 | 62,500 | | 3.74 | 2.6 | 62,500 |
| | | | 547,066 | | | 4.6 | 478,314 |

**Restricted Stock Awards**

On January 18, 2018, the Company granted 40,184 shares of restricted stock to two employees. The shares vest as follows: 16,072 shares vested immediately, 12,056 shares vest on July 18, 2018 and 12,056 shares vest on January 18, 2019. The awards had an aggregate grant date value of $49,828, which is been recognized over the vesting period of the awards.

On April 25, 2018, the Company granted 20,832 shares of immediately vested restricted stock to two former directors. The awards had an aggregate grant date value of $29,998, which was recognized immediately.

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 SHARE-BASED COMPENSATION (Continued)**

The Company recognized compensation expense of approximately $33,000 and $15,000 during the three months ended June 30, 2018 and 2017, respectively, and approximately $69,000 and $92,000 during the nine months ended June 30, 2018 and 2017, respectively, for restricted stock awards in its condensed consolidated statements of operations. As of June 30, 2018, there was approximately $6,000 of total unrecognized compensation cost related to non-vested restricted stock awards that is expected to be recognized over a weighted average period of 0.4 years.

The following table summarizes restricted stock activity during the nine months ended June 30, 2018:

| | Number of Shares | Weighted Average Grant Date Fair Value | Total Grant Date Fair Value |
|---|---|---|---|
| Non-vested, September 30, 2017 | 160,000 | $ 1.02 | $ 162,600 |
| Granted | 61,016 | 1.31 | 79,826 |
| Vested | (126,904 ) | 1.08 | (137,627 ) |
| Forfeited | (82,056 ) | 1.09 | (89,849 ) |
| Non-vested, June 30, 2018 | 12,056 | $ 1.24 | $ 14,950 |

**NOTE 7 EARNINGS PER SHARE**

Basic earnings 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 earnings 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: (i) shares that would be issued upon the exercise of stock options and warrants, computed using the treasury stock method; and (ii) shares of nonvested restricted stock. The Company calculated the potential diluted earnings per share in accordance with ASC 260, as follows:

| | For the Three Months Ended June 30, | | For the Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Numerator: | | | | |
| Net income (numerator for basic and diluted earnings per share) | $ 235,484 | $ 551,925 | $ 1,230,602 | $ 465,887 |
| Weighted average shares outstanding (denominator for basic earnings per share) | 9,482,842 | 8,855,885 | 9,176,390 | 8,716,030 |
| Effects of dilutive securities: | | | | |
| Assumed exercise of stock options, treasury stock method | 36,558 | 20,165 | 35,674 | 21,404 |
| Assumed vesting of restricted stock, treasury stock method | 28,489 | 30,796 | 69,271 | 78,998 |
| Dilutive potential common shares | 65,047 | 50,961 | 104,945 | 100,402 |

| | | | | |
|---|---|---|---|---|
| Denominator for diluted earnings per share - weighted average shares and assumed potential common shares | 9,547,889 | 8,906,846 | 9,281,335 | 8,816,432 |
| Basic earnings per share | $ 0.02 | $ 0.06 | $ 0.13 | $ 0.05 |
| Diluted earnings per share | $ 0.02 | $ 0.06 | $ 0.13 | $ 0.05 |

**FORWARD INDUSTRIES, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7 EARNINGS PER SHARE (Continued)**

The following securities were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive:

| | As of June 30, | |
|---|---|---|
| | **2018** | **2017** |
| Options | 469,566 | 198,500 |
| Warrants | 151,335 | 723,846 |
| Total potentially dilutive shares | 620,901 | 922,346 |

**NOTE 8 CONCENTRATIONS**

**Concentration of Revenues and Accounts Receivable**

For the three and nine months ended June 30, 2018 and 2017, the Company had significant customers with individual percentage of total segment revenues equaling 10% or greater. The concentrations outlined below for the design segment for the nine month period ended June 30, 2018 is a shortened period commencing on January 19, 2018, the date of acquisition. The concentration of revenues and accounts receivable for each reporting segment are as follows:

*Distribution Segment*

| | For the Three Months Ended June 30, | | For the Nine Months Ended June 30, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Customer 1 | 24.3 % | 26.3 % | 27.9 % | 23.5 % |
| Customer 2 | 29.8 % | 22.2 % | 26.0 % | 22.5 % |
| Customer 3 | 17.2 % | 21.8 % | 20.1 % | 24.7 % |
| Customer 4 | 12.4 % | 11.8 % | 10.5 % | 11.8 % |
| Totals | 83.7 | | | |