FORWARD INDUSTRIES INC
Form 10QSB
July 30, 2002

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the quarterly period ended June 30, 2002.

Or

[ ] TRANSITION REPORT UNDER 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)

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

1801 Green Rd., Suite E, Pompano Beach, FL	33064
(Address of principal executive offices)	(Zip Code)

(954) 360-6420
(Issuer's Telephone Number, including Area Code)

____
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ].

As of July 25, 2002, 5,825,641Shares of the issuer's Common Stock were outstanding.

Transitional Small Business Disclosure Format: Yes [ ] No [X]

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
FORM 10-QSB
NINE MONTHS ENDED JUNE 30, 2002
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PART I. ITEM 1. FINANCIAL STATEMENTS

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS	June 30, 2002 (Unaudited)	September 30, 2001
CURRENT ASSETS		
Cash and cash equivalents	$ 782,329	$ 1,376,572
Accounts receivable, less allowance for doubtful accounts of $39,115 and $86,500, respectively	3,096,049	2,541,391
Inventories	1,035,056	753,926
Notes and loans receivable - officers - current portion	34,200	20,300
Prepaid expenses and other current assets	170,035	269,728
Total current assets	5,117,669	4,961,917
Property, plant and equipment - net	365,741	457,132
Assets held for sale -net	--	179,475
Notes and loans receivable - officers - net of current portion	50,854	83,618
Other assets	53,992	38,558
Total Assets	$ 5,588,256	$ 5,720,700

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 2002 (Unaudited)	September 30, 2001
CURRENT LIABILITIES		
Accounts payable	$ 1,254,334	$ 1,051,609
Notes and acceptances payable under credit line	600,000	1,500,000
Current portion of capital lease obligations	27,300	26,030
Accrued expenses and other current liabilities	354,345	208,157
Total current liabilities	2,235,979	2,785,796
Long term portion of capital lease obligations	65,934	86,565
COMMITMENTS AND CONTINGENCIES	--	--

STOCKHOLDERS' EQUITY		
Preferred stock, 4,000,000 authorized shares, par value $.01; none issued........	--	--
Common stock, 40,000,00 authorized shares, par value $.01; 6,286,531 shares issued (including 460,890 held in treasury)..	62,865	62,865
Paid-in capital..	8,251,780	8,251,780
Accumulated deficit..	(4,346,415)	(4,784,419)
	3,968,230	3,530,226
Less: Cost of shares in treasury..	(681,887)	(681,887)
Total stockholders' equity...	3,286,343	2,848,339
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.............................	$ 5,588,256	$ 5,720,700

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

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2002	2001	2002	2001
Net sales	$ 4,051,225	$ 2,348,083	$ 12,279,901	$ 9,905,857
Cost of goods sold	2,492,811	1,710,402	7,969,936	6,574,396
Gross profit	1,558,414	637,681	4,309,965	3,331,461
Operating expenses:				
Selling	704,067	588,014	2,160,367	1,586,984
General and administrative	626,857	559,884	1,681,069	1,583,379
Total operating expenses	1,330,924	1,147,898	3,841,436	3,170,363
Income (loss) from operations	227,490	(510,217)	468,529	161,098
Other income (expense):				
Interest expense	(12,122)	(5,648)	(47,998)	(18,711)
Interest income	3,165	15,010	14,419	44,830
Other income (expense)	10,778	(8,370)	3,054	12,939
Total other income (expense)	1,821	992	(30,525)	39,058
Income (loss) before provision for income taxes	229,311	(509,225)	438,004	200,156
Provision (benefit) for income taxes	(19,400)	(203,690)	--	80,060
Net income (loss)	$ 248,711	$ (305,535)	$ 438,004	$ 120,096
NET INCOME (LOSS) PER COMMON AND COMMON EQUIVALENT SHARE				
Basic	$ 0.04	$ (0.05)	$ 0.08	$ 0.02
Diluted	$ 0.04	$ (0.05)	$ 0.08	$ 0.02

WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING				
Basic	5,825,641	5,825,641	5,825,641	5,935,919
Diluted	5,825,641	5,825,641	5,825,641	5,941,091

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

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

	Nine Months Ended June 30, 2002	Nine Months Ended June 30, 2001
OPERATING ACTIVITIES:		
Net income	$ 438,004	$ 120,096
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Loss on sale of property, plant and equipment	21,025	9,745
Amortization of deferred debt costs	--	3,054
Depreciation and amortization	95,497	99,385
Deferred taxes	--	80,060
Changes in operating assets and liabilities:		
Accounts receivable	(554,658)	82,840
Inventories	(281,130)	78,490
Prepaid expenses and other current assets	99,693	57,494
Other assets	(15,435)	13,224
Accounts payable	202,725	(368,064)
Accrued expenses and other current liabilities	146,188	(214,794)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	151,909	(38,470)
INVESTING ACTIVITIES:		
Proceeds from sale of property, plant and equipment	158,450	15,243
Proceeds from repayments of notes and loans receivable	--	125,000
Proceeds from officer loan repayments	18,864	309,837
Purchases of property, plant and equipment	(4,106)	(51,539)
NET CASH PROVIDED BY INVESTING ACTIVITIES	173,208	398,541
CASH FLOW FROM FINANCING ACTIVITIES:		
(Payments of) proceeds from short-term borrowings	(900,000)	200,000
Principal payments on capital lease obligations	(19,360)	(18,118)
Purchase of treasury shares	--	(326,187)
NET CASH (USED IN) FINANCING ACTIVITIES	(919,360)	(144,305)
EFFECT OF EXCHANGE RATE CHANGES	--	(8,798)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(594,243)	206,968
CASH AND CASH EQUIVALENTS - at beginning of period	1,376,572	840,532

CASH AND CASH EQUIVALENTS - at end of period................	$ 782,329	$ 1,047,500

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

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED JUNE 30, 2002 AND 2001
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine-month periods ended June 30, 2002 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2002.

The balance sheet at September 30, 2001 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

The accounting policies used in the preparation of this Form 10-QSB are the same as those set forth in the Company's annual report on Form 10-KSB for the fiscal year ended September 30, 2001 and should be read in conjunction with the disclosures presented therein.

Certain reclassifications of the prior period's financial statements have been made to conform to the current period's presentation.

The Company did not have any material amounts of comprehensive income other than net income (loss).

This quarterly report contains forward-looking statements which involve certain risks and uncertainties. Important factors could arise, including those discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in this quarterly report on Form 10-QSB and those identified in "Risk Factors" in the Company's annual report on Form 10-KSB for the year ended September 30, 2001, which could cause the Company's future operating results to differ materially from those contained in any forward looking statement.

2. BORROWINGS UNDER CREDIT LINE

The Company, through a subsidiary, renewed its credit facility with its bank effective March 31, 2002 until September 30, 2002. The credit facility provides for a maximum uncommitted line of credit totaling $2.5 million, including a $1.5 million sublimit for direct borrowings and bankers acceptances, and a $1.0 million sublimit for letters of credit. The credit line is renewable at the discretion of the bank and is secured by substantially all of the Company's assets. There are no financial ratios or other restrictive covenants associated with the credit facility. The Company is, however, required to submit to periodic bank examinations, obtain credit insurance on certain accounts receivable and maintain performance acceptable to the bank. Amounts drawn under the credit facility bear interest at the banks prime rate in effect from time-to-time plus one quarter of one percent. There are no fees in respect of undrawn balances under the facility. At June 30, 2002, the Company had $600 thousand of direct borrowings under the credit facility and did not have any commitments for outstanding letters of credit.

3. BUSINESS SEGMENT INFORMATION

The Company operates in a single segment providing carrying solutions for portable electronic devices. The Company designs and markets its products primarily to manufacturers of electronic devices such as wireless telecommunications devices, medical equipment and computers. The Company's principal decision maker monitors Company performance by geographic locations. Geographic locations are determined based primarily on the location of the customer. Information by geographic location is as follows:

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO FORM 10-QSB
NINE MONTHS ENDED JUNE 30, 2002 AND 2001
(UNAUDITED)

(All amounts in thousands of dollars)

	Three Months Ended June 30,		Nine Months Ended June 30,	
Sales	2002	2001	2002	2001
United States............................	$ 1,815	$ 1,553	$ 4,725	$ 4,368
Europe.....................................	1,810	786	6,865	5,508
Other.......................................	426	9	690	30
Total sales...........................	$ 4,051	$ 2,348	$ 12,280	$ 9,906
Operating income (loss)				
United States...........................	$ 395	$ (14)	$ 487	$ 87
Europe....................................	321	(14)	1,338	1,573
Other......................................	160	(5)	249	(2)
Corporate unallocated.............	(649)	(477)	(1,605)	(1,497)
Income (loss) from operations	$ 227	$ (510)	$ 469	$ 161

Identifiable Assets:

Identifiable assets by segment are as follows:

(All amounts in thousands of dollars)

	June 30, 2002	September 30, 2001
United States..........................	$ 2,991	$ 3,341
Europe..................................	2,191	1,862
Other....................................	406	112
Corporate unallocated...........	--	406
Total assets.......................	$ 5,588	$ 5,721

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED JUNE 30, 2002 AND 2001
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4. EARNINGS PER SHARE

Basic earnings per share is computed using the weighted-average number of common shares outstanding during each period. Diluted earnings per share is computed using the weighted-average number of common and dilutive common-equivalent shares outstanding during the period. Dilutive common-equivalent shares consist of shares that would be issued upon the exercise of stock options and warrants (computed using the treasury stock method). The average prices for the Company's common stock for the three and nine-month periods ended June 30, 2002 were $0.84 and $0.92, respectively, which were below the exercise price of any options outstanding. Accordingly, no exercise or dilution is presumed to have occurred.

Calculation of earnings per share is as follows:

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	Nine Months Ended June 30, 2002	Nine Months Ended June 30, 2001
Numerator:				
Net income (loss).....................	$ 248,711	$ (305,535)	$ 438,004	$ 120,096
Denominator:				
Denominator for basic earnings per share - weighted average shares...........	5,825,641	5,825,641	5,825,641	5,935,919
Dilutive stock options and warrants - treasury stock method.............	**	**	**	5,172
Denominator for diluted earnings per share - weighted average shares..........	5,825,641	5,825,641	5,825,641	5,941,091
Net income(loss) per common share				
Basic....................................	$ 0.04	$ (0.05)	$ 0.08	$ 0.02
Diluted...................................	$ 0.04	$ (0.05)	$ 0.08	$ 0.02

** Not included because the average stock price was below the exercise price of all outstanding options and warrants.

5. INCOME TAXES

The Company's income tax provision (benefit) consists of the following:

	Three Months Ending June 30,		Nine Months Ending June 30,	
US Federal and State	2002	2001	2002	2001
Current...........	$ 33,700	$ (203,690)	$ 29,100	$ 80,060
Deferred..........	(33,700)	--	(29,100)	--
Foreign:				
Current...........	12,400	--	$ 31,800	--
Deferred..........	(31,800)	--	(31,800)	--
Income tax provision	$ (19,400)	$ (203,690)	$ --	$ 80,060

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FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO FORM 10-QSB
NINE MONTHS ENDED JUNE 30, 2002 AND 2001
(UNAUDITED)

INCOME TAXES (CONTINUED)

In June 2001, the Company established a wholly owned foreign subsidiary in Switzerland to engage in marketing and distribution activities throughout Europe, the Middle East and Africa. In the subsidiary's first partial fiscal year ended September 30, 2001, the subsidiary generated net operating losses totaling $434,000. Due to the uncertainty of the subsidiary's ability to generate sufficient taxable income to use those losses, the Company established a full valuation allowance against the associated deferred tax asset. For the nine months ended June 30, 2002, the subsidiary has generated sufficient taxable income such that, it is more likely than not, the losses will be utilized. The Company has therefore reduced its valuation allowance to the extent that net operating loss carryforwards are expected to be utilized to offset current year's taxable income. The Company considers its investment in the subsidiary to be permanent. Accordingly, no provision has been made for U.S. federal income taxes on undistributed foreign earnings.

6. COMMITMENTS

Royalty Commitments

Effective January 1, 2001, the Company entered into a license agreement with Motorola to sell certain Motorola branded products directly to distributors and retailers located in the European, Middle East and Africa ("EMEA") region. Under the terms of the license agreement, the Company is required to pay Motorola a royalty based upon a percentage of the Company's net sales to third parties of licensed products within the EMEA Region. The license, as it has been amended, requires the Company to make minimum royalty payments to Motorola over three contract periods as follows:

1. $850,000 for the contract period July 1, 2001 to September 30, 2002,
2. $960,000 for the contract period October 1, 2002 to September 30, 2003 and
3. $1,000,000 for the contract period October 1, 2003 to September 30, 2004.

Motorola has not guaranteed a minimum amount of revenues the Company will receive from the sale of the licensed products, and the Company cannot guarantee that it will generate sufficient revenues to recoup the minimum royalty payments that the Company is obligated to pay to Motorola. For the nine-month period ended June 30, 2002, the Company recorded sales of approximately $1.95 million from the sale of the licensed products and recorded royalty expenses of $510 thousand. The Company is currently engaged in negotiations with Motorola regarding certain aspects of the license agreement, including the minimum royalty amounts to be paid by the Company to Motorola. To protect its rights under the license agreement consistent with its understanding of the terms thereof, while those negotiations are in progress, the Company issued a notice of termination of the agreement to Motorola on June 28, 2002 that will become effective September 30, 2002 for contract periods two and three unless this notice is rescinded. As of June 30, 2002 the negotiations are ongoing and, if resolved to the mutual satisfaction of both parties, it is the Company's intention to rescind its termination notice and enter into a new or amended license agreement with Motorola. Although the Company believes that the negotiations will be satisfactorily concluded, there can be no assurance that such will be the case.

Legal Proceedings

In October 2001, the Company initiated action against Royal Industries, Inc. (Royal) in the Kings County Supreme Court of New York, asserting causes of action for conversion and unjust enrichment. The Company alleges that, without consent or authority of the Company, and with full knowledge of the Company's rights under a security agreement, Royal wrongfully took possession of certain assets in which the Company had a properly perfected security interest. The Company seeks compensatory damages of $1 million. Royal has filed a counterclaim against the Company alleging abuse of process and harassment, and is seeking an award of punitive damages in the amount of $1 million. Discovery is in the preliminary stage, but management believes the counterclaim is without merit and intends to vigorously defend the Company against these allegations.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO FORM 10-QSB
NINE MONTHS ENDED JUNE 30, 2002 AND 2001
(UNAUDITED)

PART I. ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis should be read in conjunction with the Company's Financial Unaudited Statements and the notes thereto appearing elsewhere in this Report. This Report contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions that forward-looking statements are not guarantees of future performance and involve risks and uncertainties, (including those identified in "Risk Factors" in the Company's Form 10-KSB for the year ended September 30, 2001) and that actual results may differ materially from the estimates or forecasts contained in the statements that constitute forward-looking statements as a result of various factors.

The following discussion and analysis compares the results of the Company's operations for the Three and Nine months ended June 30, 2002, and the Three and Nine months ended June 30, 2001.

Results of Operations for the Three Months Ended June 30, 2002 (the "2002 Quarter") Compared to the Three Months Ended June 30, 2001 (the "2001 Quarter")

Net income in the 2002 Quarter was $249 thousand compared to a net loss of $3