

FORWARD INDUSTRIES INC
Form 10-K
December 15, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended September 30, 2011

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)

New York

(State or other jurisdiction of
incorporation or organization)

13-1950672

(I.R.S. Employer Identification No.)

3110 Main Street, Suite 400, Santa Monica, CA 90405

(Address of principal executive offices, including zip code)

(954) 419-9544

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

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Common Stock, \$0.01 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 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 No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K.

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

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of the last business day of the Registrant's most recently completed second fiscal quarter was: \$22,912,322.

As of December 1, 2011, 8,087,886 shares of the Registrant's common stock were outstanding.

Documents Incorporated by Reference

The registrant intends to file, not later than January 28, 2012, a definitive proxy statement pursuant to Regulation 14A, promulgated under the Securities Exchange Act of 1934, as amended, to be used in connection with the registrant's annual meeting of stockholders. The information required in response to Part III (Items 10-14) of this Annual Report on Form 10-K is hereby incorporated by reference to such proxy statement.

Forward Industries, Inc.

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Note Regarding Use of Certain Terms

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

"we", "our", and the "Company" refers 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, \$.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 (formerly Koszegi Industries, Inc.);

Forward HK refers to Forward Industries wholly owned subsidiary Forward Industries HK, Ltd., a limited company of Hong Kong;

Forward Switzerland refers to Forward Industries wholly owned subsidiary Forward Industries (Switzerland) GmbH, a limited company of Switzerland (formerly Forward Innovations GmbH);

Forward APAC refers to Forward Industries wholly owned subsidiary Forward Asia Pacific Limited, a limited company of Hong Kong;

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

Forward JAFZA refers to Forward Industries registered branch office in the Jebel Ali Free Zone of Dubai, United Arab Emirates (UAE);

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 2011 refers to our fiscal year ended September 30, 2011;

Fiscal 2010 refers to our fiscal year ended September 30, 2010;

Europe refers to the countries included in the European Union;

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 of certain consumer electronic products

PART I

ITEM 1. BUSINESS

General

The Company designs, markets, and distributes carry and protective solutions primarily for hand held electronic devices, including soft-sided carrying cases, bags, clips, hand straps, protective plates and skins, and other accessories for medical monitoring and diagnostic kits, bar code scanners, GPS and location devices, and cellular telephones. The Company also designs, markets, and distributes carry and protective solutions for other consumer products such as laptop computers, MP3 players, firearms, sporting, recreational, and aeronautical products. The Company's principal customer market is original equipment manufacturers, or OEMs (or the contract manufacturing firms of these OEM customers), of these products that either package our products as accessories in box together with their product offerings or sell them through their retail distribution channels. OEM customers are located in Europe, the APAC Region, and the Americas.

In addition to our existing OEM business, we are currently engaged in building a multi-channel distribution capability to the retail, corporate and on-line markets, as well as expanding our OEM business. In our efforts to develop these channels, we have devoted considerable resources in the hiring of experienced sales, design, logistics, and operations professionals. At the same time, we are working with a number of prospective partners on multiple fronts to consummate licensing, distribution or straight purchase arrangements to develop a broadly diversified portfolio of intellectual property in the consumer electronics accessories market. We seek to identify the Company's brand with innovation in electronics accessories.

In executing the channel-building and product development elements of our strategy, we have incurred significantly increased selling, general, and administrative expenses as we devote resources to recruit, hire and compensate experienced sales, design, operations, and administrative professionals and to develop and/or acquire new product offerings. Insofar as most of our new personnel were hired in the second half of Fiscal 2011, the fourth quarter begins, and succeeding quarters will begin, to reflect more fully such investments in resources, while the anticipated benefits of those hires in the form of increased sales and profit will take significantly longer to be realized, if at all. At the same time, we are investing resources in bringing new products to market, particularly in terms of funding product development activities with prospective partners. We anticipate that the measure of success of our strategy as reflected in our results of operations will be determined by the strength of new distribution channels, by the speed in which we can bring new products to market, and by the success and acceptance of these products in the marketplace.

We do not manufacture any of the products that we design, market, and distribute. We source substantially all products we market and distribute from independent suppliers in China. Our suppliers custom manufacture our carrying solutions and related products to our order, based on our designs and know-how, and to our customers specifications.

Corporate History

Forward Industries, Inc. was incorporated in 1961 under the laws of the State of New York as a manufacturer and distributor of advertising specialty and promotional products. In 1989, we acquired Forward US (then known as Koszegi Industries, Inc.), a manufacturer of soft-sided carrying cases. The carrying case business became our

predominant business, and in September 1997, we sold the assets relating to the production of advertising specialty and promotional products, ceasing to operate in that segment.

In May 1994, we formed Forward HK to facilitate a more nimble and robust carrying case procurement and quality control infrastructure, and to enhance our foreign sourcing capabilities. Thereafter we determined that our domestic production capability was unnecessary, sold the related assets, and we now source substantially all our products from suppliers in the APAC Region. See "Product Supply".

In May 2001, we formed Forward Switzerland to facilitate distribution of aftermarket products under our licenses for cell phone cases with a major North American multinational and to further develop our OEM European business presence. After the expiration of the last of these licenses in March 2009, staff at Forward Switzerland was significantly reduced and in recent years has primarily served our OEM European customers. As part of our strategy to develop a global retail distribution capability, we are reinvesting in both staff and infrastructure at Forward Switzerland and have established it as our EMEA headquarters from which we are coordinating our sales and marketing activities throughout the EMEA region.

In April 2011, we formed Forward JAFZA to facilitate the development of our business presence and retail distribution channel in the Middle East and India region.

In July 2011, we formed Forward UK to facilitate a more capable and robust administrative and sales support infrastructure that is dedicated to supporting the development of our retail distribution strategy in the EMEA region and our EMEA based sales and marketing personnel.

Products

We design and market to our customers order, carry and protective solutions for hand held consumer electronics and other products, including soft-sided carrying cases, bags, clips, hand straps, protective plates, and other accessories made of leather, nylon, vinyl, plastic, PVC and other synthetic materials. Our products are used by consumers for protecting and carrying or transporting portable electronic and other products such as blood glucose monitoring kits, bar code scanners, GPS and location devices, cellular telephones, laptop computers, MP3 players, firearms, sporting and recreational products, and aeronautical products. Our carrying cases are designed to enable these devices to be stowed in a pocket, handbag, briefcase, or backpack, clipped to a belt or shoulder strap, or strapped to an arm, while protecting the consumer electronic or other product from scratches, dust, and mishandling.

At the same time, we are working with multiple prospective partners on multiple fronts to consummate licensing, distribution or straight purchase arrangements to develop a broadly diversified portfolio of intellectual property in the consumer electronics accessories market.

Diabetic Products

We sell carrying cases for blood glucose diagnostic kits directly to OEMs (or their contract manufacturers) of these electronic, monitoring kits made for use by diabetics. We typically sell these cases at prices ranging from approximately \$0.50 to \$3.00 per unit. Unit volumes are sold predominantly at the lower end of this price range. The OEM customer or its contract manufacturer packages our carry cases in box as a custom accessory for the OEM's blood glucose testing and monitoring kits, or to a much lesser extent, sells them through their retail distribution channels. The kits typically include a small, electronic blood glucose monitor, testing strips, lancets for drawing a drop of blood and our carrying case, customized with the manufacturer's logo and designed to fit and secure the glucose monitor, testing strips, and lancets in separate straps, pouches, and holders. As the kits and technology change, our carrying case designs change to accommodate the changes in size, shape and layout of the electronic monitoring device, strips and lancet. Since the end of 2007, OEMs have sought to reduce the cost of these cases by simplifying their design.

Other Products

We also sell carrying and protective solutions to OEMs for a diverse array of other portable electronic and other products, including bar code scanners, GPS and location devices, cellular telephones, laptop computers, MP3 players, firearms, sporting and recreational products, and aeronautical products on a made-to-order basis that are customized to fit the products sold by our OEM customers. Our selling prices for these products also vary across a broad range, depending on the size and nature of the product for which we design and sell the carry solution.

Product Development

In our OEM business, the product life cycle in distributing and selling our technology solutions to our OEM customers is as follows. We typically receive requests to submit product designs in connection with a customer's introduction and rollout to market of a new product that the customer has determined to accessorize and customize with a carry solution. Our OEM customers furnish the desired functionality, size and other basic specifications for the carrying solutions or other product, including the OEM's identifying logo imprint on the product. Our in-house design and production staff develops more detailed product specifications and design options for our customer's evaluation. We then furnish the customer with product samples. Working with our suppliers and the customer, samples are modified and refined. Once approved for commercial introduction and order by our customer, we work with our suppliers to ensure conformity of commercial production to the definitive product samples and specifications. Manufacture and delivery of products in production quantities are coordinated with the customer's manufacturing and shipment schedules so that our carry solution products are available with the OEM's product (and included in box , as the case may be) prior to shipment and sale, or to a lesser extent sold by the OEM through its retail distribution channels.

We are currently developing new products for our retail channel business. The focus of such product development is on cases and accessories for consumer electronic devices. In furtherance thereof, on August 30, 2011, we entered into a binding Memorandum of Understanding (MOU) with G-Form LLC, a manufacturer of consumer and athletic products incorporating proprietary extreme protective technology. The MOU contemplates that we will launch new distinctive Forward branded products exclusively utilizing the licensed technology for sale to consumer electronics retailers, original equipment manufacturers and other business to business channels other than sport related or lifestyle stores and military or military channels. Prior to launch of our own products, we may sell current G-Form branded electronic protection products in the Company's territory.

Marketing, Distribution, and Sales

Geographic Sales Distribution

Through our wholly owned subsidiaries, Forward US and Forward Switzerland, we distribute and sell our products globally. The approximate percentages of net sales to customers by their geographic location for Fiscal 2011 and 2010 are as follows:

	Net Sales	
	Fiscal Years Ended September 30,	
Geographic Location:	2011	2010
APAC.....	46%	43%
Americas.....	28%	33%
Europe.....	26%	24%
Totals.....	100%	100%

The importance of the APAC region is attributable to the fact that certain of our key customers outsource product manufacture to contract manufacturers located in China or elsewhere in Asia. In these instances, we ship product to, and product is packaged in box at, such contract manufacturer's facility. If payment to us is due from the contract manufacturer, we identify the sale to its geographic location rather than that of the customer for whom the contract manufacturer is supplying product. The increase in APAC contribution to net sales in Fiscal 2011 compared to Fiscal 2010 was due to the increase in revenue from our largest diabetic case customer, which uses such a contract manufacturer. See Note 14 to the audited consolidated financial statements included in Item 8 of this Annual Report.

Channels of Distribution

We primarily ship our products directly to our OEM customers or their contract manufacturers, who package our carry solutions products in box with the OEM customer's products. Certain OEMs that became our customers in Fiscal 2011 or 2010 also purchase our carry and protective solution products and offer them for sale as stand-alone accessories to complement their product offerings.

In addition to expanding our existing OEM business, we are currently engaged in building a multi-channel distribution capability to the retail, corporate and on-line markets, although there is no assurance that we will be successful.

Sales by Product Line

Sales of carry and protective solutions for Diabetic Products and for Other Products, i.e., all products other than diabetic carry cases for blood glucose monitor kits, accounted for approximately the following percentages of total net sales in Fiscal 2011 and 2010:

Sales:	Fiscal Year Ended	
	2011	2010
Diabetic Products.....	73%	74%
Other Products	27%	26%
Totals	100%	100%

Sales Concentration

We have approximately 80 active customers. Of these, three customers, including their affiliates and contract manufacturers, accounted for approximately 69% of our net sales in Fiscal 2011 and 73% in Fiscal 2010. All three are OEMs of diabetic monitoring kits. These customers package our carry and protective solutions in box with their branded products, or to a lesser extent, sell them through their retail distribution channels. The approximate percentages of net sales contributed by each of these three customers for Fiscal 2011 and Fiscal 2010 are as follows:

Customer:	Fiscal Year Ended	
	2011	2010
Diabetic Customer A.....	37%	39%
Diabetic Customer B.....	16%	19%
Diabetic Customer C.....	16%	15%
Totals*	69%	73%

* Tables may not total due to rounding.

Sales Force

During Fiscal 2011 and 2010, all net sales were made directly by our employees, which are assigned key accounts or defined geographic sales territories. See Risk Factors in Item 1A. of this Annual Report - *Our business could suffer if the services of key sales personnel we rely on were lost to us.*

OEM Distribution Hubs

We have distribution hub arrangements with three OEM customers. These arrangements obligate us to supply our products to the customer's distribution hubs (may be multiple locations) where its products are manufactured and/or warehoused pending sale and where our products are packaged in-box with the OEM customer's products or, to a much lesser extent, distributed for retail sale. The product quantities we are required to supply to each distribution hub are based on the OEM customer's forecasts. We do not recognize revenue for product shipped to a hub until we have been advised by our customer that product has been withdrawn from the distribution hub to be placed in box. Hub arrangements have had the general effect of extending financing for our customers' inventory build by extending the time between our placement of orders to our suppliers in order to ship and supply the hubs and the time that we are able to recognize revenue. The corollary effect is an increase in our inventory levels.

Credit Risk

We generally sell our OEM products on 60- to 90-day credit terms customary in the industry. Historically, we have not had significant credit problems with our customers. Our significant OEM customers are large, multi-national companies with good credit histories. None of these customers is or has been in default to us, and payments from all customers are generally received from them on a timely basis. Three customers, including their affiliates or contract manufacturers, accounted for approximately 71% of our accounts receivable at September 30, 2011. Three customers, including their affiliates or contract manufacturers, accounted for approximately 75% of our accounts receivable at September 30, 2010.

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When we ship products to our OEM customer's designated contract manufacturer and invoice such manufacturer (and not the OEM customer), even though our order flows originate with and depend on our relationship with the OEM, our accounts receivable credit risk lies with the contract manufacturer. Our OEM customer does not guarantee the credit of the contract manufacturer to whom the OEM requests us to ship our carrying case products, and such order volumes may be significant from time to time. In most cases, these contract manufacturers are themselves major multinational enterprises with good credit. See Item 1A of this Annual Report on Form 10-K: Risk Factors .

Product Supply

Manufacturing

The manufacture of custom carrying cases and other carry and protective solutions generally consists of die cutting fabrics and heat sealing, gluing, sewing, and decorating (affixing logos to) the cut-outs by means of silk screening, hot-stamping, embroidering or embossing. The principal materials used in the manufacture of our products are vinyl, nylon, leather, metal and plastic parts (for clips, buckles, loops, hinges and other hardware), foam padding and cardboard, all of which are obtained according to our specifications from suppliers. We do not believe that any of the component materials or parts used by our suppliers in the manufacture of our products is supply constrained. We believe that there are adequate available alternative sources of supply for all of the materials used to manufacture, package, and ship our products.

Suppliers

We procure substantially all our supply of carrying solutions products from independent suppliers in China. We purchased approximately 90% of our products from four such suppliers in Fiscal 2011 and 88% from four such suppliers in Fiscal 2010. One China supplier accounted for approximately 58% and 67% of our product purchases in Fiscal 2011 and 2010. Depending on the product, we may require several different suppliers to furnish component parts or pieces. During Fiscal 2011 and currently we are experiencing higher price quotes, which we believe are attributable in significant degree to inflationary impacts on the suppliers' labor and materials costs that they are attempting to pass on to us.

We place orders with one or more suppliers at the time we receive firm orders from our OEM customers for a particular product. Accordingly, we do not have minimum supply requirement agreements with our suppliers to guarantee us supply of finished product, nor have we made purchase commitments to purchase minimum amounts from any of our suppliers. However, from time to time, we may order products from our suppliers in anticipation of receiving a customer order to meet required delivery times.

Quality Assurance

To ensure that product manufacturing by our Chinese suppliers meets our quality assurance standards, products we sell and distribute are inspected by independent contractors in China, which may be affiliated with one or more of our suppliers. These contractors are subject to the control and supervision of our quality assurance employees based in Hong Kong.

Quality assurance and sourcing-related expenses are reflected in cost of goods sold in our results of operations. In January 2009, our Hong Kong inspection facility renewed its ISO 9001:2000 quality certification.

Logistics

Once our products are approved for shipment by our inspection and quality control procedures, the products are typically shipped to our customer's destination port on ocean-going container vessels. In certain cases, at the customer's request, we will ship products by air freight or ground transport to a customer's location in China or Hong Kong. Most ocean-going shipments bound for the United States are off-loaded at the port of Los Angeles or San Francisco, but certain customers arrange for shipments to East coast ports, such as Miami or Philadelphia. European shipments generally are routed via Rotterdam. See Item 1A. in this Annual Report Risk Factors *Our shipments of products via container freight to customers in the United States and Europe may become subject to delays or cancellation at port facilities due to work stoppages or slowdowns, damage caused by weather or terrorism and congestion due to inadequacy of equipment and other causes.*

We ship our products to our customers by common carrier.

Insurance

We maintain commercial loss and liability, business interruption, and general claims and other insurance customary for our business. We do not maintain credit insurance for our trade accounts receivable.

Competition

The business in which we engage is highly competitive in terms of product pricing, design, delivery terms, and customer service. In the production of carry and protective solutions for OEM products, we compete with numerous United States and foreign producers and distributors. Some of our competitors are substantially larger than we are and have greater financial and other resources. We believe that we sustain our competitive position through maintenance of an effective product design capability, rapid response time to customer requests for proposals and product shipment, competitive pricing, reliable product delivery, and product quality. We believe that our ability to compete based on product quality assurance considerations is enhanced by the local presence of our Hong Kong and outsourced Chinese based quality control and shipment capabilities. See Item 1A. in this Annual Report on Form 10-K: Risk Factors - *The carrying solutions business is highly competitive and does not pose significant barriers to entry.*

Employees

At September 30, 2011, we had 45 full-time employees, of whom two are employed in executive capacities, nine are employed in administrative and clerical capacities, thirteen are employed in sales and sales support, six are employed in design and product development capacities, and fifteen are employed in sourcing, quality control, and warehouse capacities. We consider our employee relations to be satisfactory. None of our employees are covered by a collective bargaining agreement. Of these employees, fifteen have been hired in connection with our potential retail channel business.

Since June 2003, we have employed our U.S. employees through a co-employment agreement with ADP Total Source, a Professional Employer Organization. The objective of this arrangement is for ADP Total Source to assume many of the legal and administrative responsibilities of human resources management, health benefits, workers' compensation, payroll, payroll tax compliance, 401(K) plan administration and unemployment insurance and to perform these functions at lesser expense than if we were to perform them directly.

Regulation and Environmental Protection

Our business is subject to various regulations in various jurisdictions, including the United States and member states of the European Community, that restrict the use or importation of products manufactured with compounds deemed to be hazardous. We work with our suppliers to ensure compliance with such regulations. In addition, from time to time one or more customers may require testing of our products to ensure compliance with applicable consumer safety rules and regulations or the customer's safety or packaging protocols. Because we do not manufacture the products that we sell and distribute, compliance with federal, state and local laws and regulations pertaining to the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had, and is not anticipated to have, any direct material effect upon our capital expenditures, earnings, or competitive position. However, compliance with such laws and regulations on the part of our suppliers may result in increased costs of supply to us, particularly if domestic environmental regulation in China becomes more prevalent.

We have not been engaged in any environmental litigation or incurred any material costs related to compliance with environmental or other regulations. From time to time we incur chemical and/or safety laboratory testing expense in order to address customer requests regarding our product materials or method of manufacture or regarding their packaging methods and standards.

ITEM 1A. RISK FACTORS

Please read the note regarding "Cautionary statement for purposes of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995" that appears on pages 17 of this Annual Report on Form 10-K.

We previously announced our intention to diversify our business by means of merger, acquisition or other business combination.

Our business strategy is to grow our OEM business, expand product offerings and technology solutions, and develop or acquire retail distribution capability. Consistent with this approach, in December 2010, we announced entry into a letter of intent to acquire Flash Ventures Inc., a distributor of consumer electronics peripherals and accessories (Flash). In April 2011 we elected to terminate such letter of intent and not make such acquisition.

Without completing such a merger or acquisition to acquire a retail channel and product development capability, the time required to implement our growth strategy is likely to increase. This growth strategy represents a significant shift in the Company's strategy, and there can be no assurance that we will be successful in our efforts to achieve our goals.