

FORWARD INDUSTRIES INC  
Form S-8 POS  
September 16, 2016

As filed with the Securities and Exchange Commission on September 16, 2016

Registration No. 333-194510

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Post-Effective Amendment No. 1 to FORM S-8  
REGISTRATION STATEMENT  
Under  
The Securities Act of 1933

FORWARD INDUSTRIES, INC.

New York  
(State or other jurisdiction of incorporation or  
organization)

13-1950672  
(I.R.S. Employer Identification No.)

477 S. Rosemary Ave., Suite 219

33401  
(Zip Code)

West Palm Beach, FL  
(Address of principal executive offices)

Forward Industries, Inc. 2011 Long Term Incentive Plan

Forward Industries, Inc. 2007 Equity Incentive Plan, as amended

(Full title of the plan)

Michael Matte

Chief Financial Officer

Forward Industries, Inc.

477 S. Rosemary Ave., Suite 219

West Palm Beach, Florida 33401

(Name and address of agent for service)

**(561) 456-0030**

(Telephone number, including area code, of agent for service)

**With a copy to:**

**Brian S. Bernstein, Esq.**

**Nason Yeager Gerson White & Lioce, P.A.**

**3001 PGA Boulevard, Suite 305**

**Palm Beach Gardens, Florida 33410**

**(561) 471-3516**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small 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

**Additional Registration No.: 333-165075**

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## **EXPLANATORY NOTE**

Pursuant to Rule 429 of the Securities Act of 1933 (the “Securities Act”), this Post-Effective Amendment No. 1 to Registration Statement on Form S-8, File No. 333-194510, of Forward Industries, Inc. (“Forward,” the “Company,” “we,” “us” or “our”) also serves as a Post-Effective Amendment to the Registration Statement on Form S-8 of the Company identified by the following File No.: 333-165075.

This Post-Effective Amendment No. 1 to Form S-8 is being filed solely for the purpose of filing a revised reoffer prospectus that forms a part of this Post-Effective Amendment relating to the resale of control securities acquired or to be acquired by selling stockholders pursuant to the Company’s 2011 Long Term Incentive Plan (the “2011 Plan”) and the 2007 Equity Incentive Plan, as amended (the “2007 Plan”) (collectively, the “Plans”). The reoffer prospectus contained herein is intended to be a combined prospectus under Rule 429 of the Securities Act, and has been prepared in accordance with the requirements of General Instruction C of Form S-8 and Part I of Form S-3, to be used in connection with reoffers and resales of control securities that have been or will be acquired by the selling stockholders. The reoffer prospectus may be utilized for reofferings and resales of shares of Common Stock acquired pursuant to the Plans, the shares of which were previously registered.

## **PART I**

### **INFORMATION REQUIRED IN THE SECTION 10(a) PROSPECTUS**

The Company has sent or given or will send or give documents containing the information specified by Part I of this Registration Statement to participants in the Plans, as specified in Rule 428(b)(1)(i) promulgated by the Securities and Exchange Commission (the “SEC”) under the Securities Act. The Company is not filing such documents with the SEC, but these documents constitute (along with the documents incorporated by reference into this Registration Statement pursuant to Item 3 of Part II hereof) a prospectus that meets the requirements of Section 10(a) of the Securities Act.

Upon written or oral request, any of the documents incorporated by reference in Item 3 of Part II of this Registration Statement (which documents are incorporated by reference in this Section 10(a) Prospectus), and other documents required to be delivered to eligible employees, non-employee directors and consultants, pursuant to Rule 428(b) are available without charge by contacting:

Forward Industries, Inc.

477 S. Rosemary Ave., Suite 219

West Palm Beach, Florida 33401

Attention: Chief Financial Officer

**RESALE PROSPECTUS**

The material which follows, up to but not including the page beginning Part II of this Registration Statement, constitutes a prospectus, prepared on Form S-3, in accordance with General Instruction C to Form S-8, to be used in connection with resales of securities acquired under the Registrant's Plans by officers or directors of the Registrant, as defined in Rule 405 under the Securities Act of 1933.

**RESALE PROSPECTUS**

**1,650,000 SHARES OF COMMON STOCK**

**FORWARD INDUSTRIES, INC.**

**2011 LONG TERM INCENTIVE PLAN AND 2007 EQUITY INCENTIVE PLAN**

This prospectus relates to the reoffer and resale by certain selling stockholders of shares of Forward Industries, Inc. (“Forward”, the “Company”, “we”, “our” or “us”) that may be issued by us to the selling stockholders upon the exercise of stock options granted under our 2011 Plan and our 2007 Plan (the “Reoffer Prospectus”). In addition, this Reoffer Prospectus relates to 354,317 shares of restricted stock and shares underlying stock options held by the selling stockholders and which were issued under our 2011 Plan and 2007 Plan. This Reoffer Prospectus also relates to certain underlying options and shares of restricted stock that have not as of this date been granted. If and when such options or shares of restricted stock are granted to persons required to use the prospectus to reoffer and resell the shares underlying such options or the shares of restricted stock, we will distribute a prospectus supplement. The shares are being reoffered and resold for the account of the selling stockholders and we will not receive any of the proceeds from the resale of the shares.

The selling stockholders have advised us that the resale of their shares may be effected from time to time in one or more transactions on the Nasdaq Capital Market, in negotiated transactions or otherwise, at market prices prevailing at the time of the sale or at prices otherwise negotiated. See “Plan of Distribution.” We will bear all expenses in connection with the preparation of this prospectus.

Our Common Stock is listed on the Nasdaq Capital Market. On September 15, 2016, the closing price for the Common Stock, as reported by Nasdaq, was \$1.50.

*This investment involves risk. See “Risk Factors” beginning at page 5.*

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS DETERMINED WHETHER THIS REOFFER PROSPECTUS IS TRUTHFUL OR COMPLETE. THEY HAVE NOT MADE, NOR WILL THEY MAKE, ANY DETERMINATION AS TO WHETHER ANYONE SHOULD BUY THESE SECURITIES. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The date of this prospectus is September 16, 2016.



**TABLE OF CONTENTS**

	Page	
<u>PART I INFORMATION REQUIRED IN THE SECTION 10(a)</u>		
<u>PROSPECTUS</u>	1	
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	4	
<u>INCORPORATION BY REFERENCE</u>	4	
<u>ABOUT THIS PROSPECTUS</u>	5	
<u>RISK FACTORS</u>	5	
<u>THE COMPANY</u>	9	
<u>USE OF PROCEEDS</u>	9	
<u>SELLING STOCKHOLDERS</u>	10	
<u>PLAN OF DISTRIBUTION</u>	11	
<u>LEGAL MATTERS</u>	12	
<u>EXPERTS</u>	12	
<u>ADDITIONAL INFORMATION</u>	12	
<u>DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION</u>	12	
<u>FOR SECURITIES ACT LIABILITIES</u>		
<u>PART II INFORMATION REQUIRED IN THE REGISTRATION</u>		
<u>STATEMENT</u>		II-1

## WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-8 with the SEC for our common stock, \$0.01 par value per share (the “Common Stock”), offered in this offering. This Reoffer Prospectus does not contain all the information set forth in the Registration Statement. You should refer to the Registration Statement and its exhibits for additional information. Whenever we make references in this Reoffer Prospectus to any of our contracts, agreements or other documents, the references are not necessarily complete and you should refer to the exhibits to the Registration Statement for copies of the actual contracts, agreements or other documents.

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC’s public reference room located at 100 F Street, N.E., Washington, D.C. 20549. You may obtain further information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public over the Internet at the SEC’s website at <http://www.sec.gov>. You may also request copies of such documents, upon payment of a duplicating fee, by writing to the SEC at 100 F Street, N.E., Washington, D.C. 20549. Reports, proxy statements and other information concerning us can also be inspected at the Nasdaq Global Market Operations, 1735 K Street, N.W., Washington, D.C. 20006. You may also find recent documents we filed on our website at [www.forwardindustries.com](http://www.forwardindustries.com).

## INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information we incorporate by reference is considered to be part of this Reoffer Prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made by us with the SEC under Sections 13(a), 13(c), 14 or 15(d) (except with respect to information furnished but not filed with the SEC pursuant to Item 2.02 or 7.01 of Form 8-K only those reports that so indicate on the cover page thereof) of the Securities Exchange Act of 1934 (the “Exchange Act”), until the sale of all the shares of Common Stock that are part of this offering. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Reoffer Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Reoffer Prospectus. The documents we are incorporating by reference are as follows:

- (1) Our Annual Report on Form 10-K filed with the SEC on December 16, 2015 for the fiscal year ended September 30, 2015;
- (2) Our Quarterly Report on Form 10-Q filed with the SEC on August 12, 2016 for the quarter ended June 30, 2016, our Quarterly Report on Form 10-Q filed with the SEC on May 16, 2016 for the quarter ended March 31, 2016, and our Quarterly Report on Form 10-Q filed with the SEC on February 9, 2016 for the quarter ended December 31, 2015;



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- (3) Our Current Reports on Form 8-K filed with the SEC on August 12, 2016, May 16, 2016, February 9, 2016, January 22, 2016 and December 9, 2015 (other than portions of those documents designated as “furnished”); and
- (4) The description of our Common Stock contained in our registration statement on Form S-1, filed pursuant to Section 12 of the Exchange Act on March 26, 2014.

You may request a copy of these filings, excluding the exhibits to such filings which we have not specifically incorporated by reference in such filings, at no cost, by writing or telephoning us at the following address:

Forward Industries, Inc.  
477 S. Rosemary Ave., Suite 219  
West Palm Beach, Florida 33401  
Attention: Chief Financial Officer  
(561) 456-0030

## ABOUT THIS PROSPECTUS

This Reoffer Prospectus is part of a registration statement we filed with the SEC. You should rely only on the information provided or incorporated by reference in this Reoffer Prospectus or any related supplement. We have not authorized anyone else to provide you with different information. The selling stockholders will not make an offer of these shares in any state where the offer is not permitted. You should not assume that the information in this Reoffer Prospectus or any supplement is accurate as of any other date than the date on the front of those documents.

## RISK FACTORS

**We have a history of losses and negative cash flow from operations. We cannot assure you that we will sustain profitability in the future.**

We have incurred significant losses and negative cash flows from operations in recent years. We incurred net losses of approximately \$1.4 million and \$0.8 million for the fiscal years ended September 30, 2015 and 2014, respectively, and had net cash used in operating activities of approximately \$2.0 million for the fiscal year ended September 30, 2015 and net cash provided by operating activities of approximately \$0.2 million for the fiscal year ended September 30, 2014. Further, we may incur net losses in future reporting periods as we incur expenses associated with the continuation of our business as well as its subsequent development, which development cannot be guaranteed. There is no assurance our future operations will continue to be profitable. If we cannot generate sufficient revenues to operate profitably, we may be forced to cease or suspend operations, or we may be required to raise additional capital to maintain or grow our operations. There is no assurance that we will be able to raise such additional capital.

We expect to continue to invest incremental cash resources to execute our growth strategy. While we believe that our existing cash resources are sufficient to support our growth strategy, there can be no assurances that our growth strategy will be successful or that we will earn a return on these investments.

**Our business remains highly concentrated in our Diabetic Products line. If our Diabetic Products line were to suffer the loss of a principal customer or a material decline in or loss of sales, our business would be materially and adversely affected.**

Sales of Diabetic Products to Original Equipment Manufacturer (“OEM”) customers accounted for approximately 89% and 83% of net revenues from continuing operations in the nine months ended June 30, 2016 and fiscal 2015, respectively. As a result, our financial condition and results of operations are subject to higher risk from the loss of a major diabetic customer or changes in their business practices; for example, a decision to reduce or eliminate inclusion of cases in box with the electronic device or a decision to focus on insulin pumps instead of insulin by injection. In any such events, our business would be materially and adversely affected.

**The loss of any of, or a material reduction in orders from, our largest customers, would materially and adversely affect our results of operations and financial condition.**

Our business is and has been characterized by a high degree of customer concentration. Our four largest customers accounted for approximately 82% and 76% of net sales from continuing operations in fiscal 2015 and fiscal 2014, respectively. The loss of any of these customers, whether as a result of its purchase of its carry solution requirements from another vendor, its decision to manufacture its own carrying cases, its decision to award its orders to one of our competitors, or otherwise, would have a material adverse effect on our financial condition, liquidity and results of operations.

**If any one or more of our OEM customers elects to reduce or discontinue inclusion of cases “in box”, our results of operations and financial condition would be materially and adversely affected.**

The predominant percentage of our revenues is derived from sales of case accessories to our OEM customers who package our cases “in box” with their electronics. During recent years, there have been numerous federal legislative and administrative actions that have affected government programs, including adjustments that have reduced or increased payments to healthcare providers and patients. For example, the federal healthcare reform legislation that was enacted in March 2010 (known as the Patient Protection and Affordable Care Act of 2010 (“ACA”)) may reduce reimbursement for some healthcare providers and patients while increasing reimbursement for others. In addition, ACA mandates the implementation of various programs and value and quality-based reimbursement incentives that may impact the amount of reimbursement for healthcare providers and patients. In addition and more significantly, third-party payers, including governmental health administration authorities, managed care providers and private health insurers, have increasingly challenged the price and examined the cost effectiveness of medical products and services, which has affected the reimbursement of such products to patients. Due to this uncertainty in medical reimbursements, OEMs have experienced reductions in demand and, as a result, have sought continuously to reduce expenses. If one or more of our OEM customers generally begins to reduce or discontinue the practice of including carry case accessories “in box”, we would incur a significant decline in revenues and our results of operations and financial condition would be materially and adversely affected.

**We continue to encounter pressures from our largest OEM customers to maintain or even decrease prices or to supply lower priced carry solutions, and expect such pressure to persist. The effects of such price constraints on our business may be exacerbated by inflationary pressures that affect our costs of supply.**

We continue to experience significant pricing pressure from our largest OEM customers to maintain or even reduce the prices we charge them. When we are unable to extract comparable concessions from our suppliers on prices they charge us, our product sales margins erode. In addition, competitors may reduce their average selling prices faster than we are able to reduce costs, which can also accelerate the rate of decline of our selling prices.

In addition to margin compression from customers in general, we are encountering increased pricing from our Chinese suppliers who are reacting to inflationary increases in materials and labor costs incurred by them. In addition, prices that our Chinese vendors charge to us may reflect appreciation of the Chinese currency against the U.S. dollar, which can be passed through to us in the form of higher U.S. dollar prices. This in turn will tend to reduce gross profit if we are unable to raise our prices. Any decrease in demand for our products, coupled with pressure from the market and our customers to decrease our prices, would materially adversely affect our business, financial condition, and results of operations.

**Increasingly, our customers are requesting that we enter into supply agreements with them that have restrictive terms and conditions. These agreements typically include provisions that increase our financial exposure, which could result in significant costs to us.**

Increasingly, our customers are requesting that we enter into supply agreements with them. Recently, we entered into supply agreements with three customers. These agreements do not include minimum volume commitments, but do include provisions that generally serve to increase our exposure for product liability and limited sales returns, which could result in higher costs to us as a result of such claims. In addition, these agreements typically contain provisions that seek to limit our operational and pricing flexibility and extend payment terms, which could materially adversely affect our cash flow, business, financial condition, and results of operations.

**We depend on a single exclusive buying agent who, in turn, depends on a limited number of key suppliers.**

Our Chairman, Chief Executive Officer and largest shareholder is a principal of Forward China, which is our exclusive sourcing agent and is located in the Asia Pacific region (“APAC”). We have entered into a Buying Agency and Supply Agreement with Forward China whereby Forward China acts as the Company’s exclusive agent to arrange for sourcing, manufacturing and exporting the Company’s products. Forward China has relied on a limited number of suppliers to supply the component parts and pieces necessary for the production of our carry and protective solutions products. As a result, our ability to effectively push back against rising material costs may diminish. In addition, any inability to obtain supplies from a single or limited number of suppliers may result in difficulty obtaining the supplies necessary for our business and may restrict our ability to produce our carry and protective solutions products. Where practical, we intend to establish alternative sources to mitigate the risk that the failure of any single supplier will adversely affect our business. Nevertheless, a prolonged inability to obtain certain components or the failure of one of our suppliers could impair our ability to ship products and generate revenues, which could adversely affect our operating results and damage our customer relationships.

In addition, we depend significantly on Forward China as our exclusive buying agent for substantially all of our component parts in APAC. As a result, we have limited visibility as to our supplier base, making it difficult to forecast future events and to plan our operations. In addition, if Forward China fails to satisfactorily perform its obligations,

including payment obligations, to our suppliers or its duties to us as our exclusive buying agent as a result of financial or other difficulties or for any other reason, or if our relationship with Forward China were to suffer, we could suffer irreparable harm resulting in substantial harm to our business.

**Our business has benefited from OEMs deciding to outsource their carry and protective solutions assembly needs to us. If OEMs choose to provide these services in-house or select other providers, our business could suffer.**

Our future revenue growth partially depends on new outsourcing opportunities from OEMs. Current and prospective customers continuously evaluate our performance against other providers. They also evaluate the potential benefits of manufacturing their products themselves. To the extent that outsourcing opportunities are not available either due to OEM decisions to produce these products themselves or to use other providers, our financial results and future growth could be materially adversely affected.

**If we are unable to provide our customers with high-quality products, and responsive service, or if we are unable to deliver our products to our customers in a timely manner, our business, financial condition, and results of operations may be materially adversely affected.**

In order to maintain our existing customer base and obtain business from new OEM customers, we must demonstrate our ability to produce our products at the level of quality, responsiveness of service, timeliness of delivery, and cost that our customers require. If our products are of substandard quality, if they are not delivered on time, if we are not responsive to our customers' demands, or if we cannot meet our customers' requirements, our reputation as a reliable supplier of our products would likely be damaged. If we are unable to meet anticipated product and service standards, we may be unable to obtain new contracts or keep our existing customers, and this would have a material adverse effect on our business, financial condition, and results of operations.

**If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results. As a result, current and potential stockholders could lose confidence in our financial reporting, which could harm our business and the trading price of our stock.**

Effective internal control over financial reporting is necessary for us to provide reliable financial reports. If we cannot maintain effective controls and reliable financial reports, our business and operating results could be harmed. We continue to work on improvements to our internal controls over financial reporting. Any failure to implement and maintain internal controls over our financial reporting or difficulties encountered in the implementation of improvements in our controls, could cause us to fail to meet our reporting obligations. Any failure to improve our internal controls over financial reporting or to address identified weaknesses in the future, if they were to occur, could also cause investors to lose confidence in our reported financial information, which could have a negative impact on the trading price of our stock.

**If we are unable to manage our growth effectively, our business, financial condition, and results of operations could be materially adversely affected.**

We may experience growth in the scope and complexity of our operations. This growth may strain our managerial, financial, manufacturing, and other resources. In order to manage our growth, we may be required to continue to implement additional operating and financial controls and hire and train additional personnel. There can be no assurance that we will be able to do so in the future, and failure to do so could jeopardize our expansion plans and seriously harm our operations.

**Our results of operations are subject to the risks of fluctuations in the values of foreign currencies relative to the U.S. Dollar.**

Our results of operations are expressed in U.S. dollars. When the U.S. dollar appreciates or depreciates in value against a currency in which all or a significant portion of revenues or other accounts receivable are denominated, such as the Euro, our results of operations can be adversely affected or benefited, respectively. The degree of impact is proportional to the amount of foreign currency expense or revenue, as the case may be, and the fluctuations in exchange rates over the period in which the effect is measured on our financial statements. In addition, such currency fluctuations may affect the comparability of our results of operations between financial periods.

**Future revenues are difficult to predict and are likely to show significant variability as a consequence of customer concentration.**

Because our revenues are highly concentrated in a few large customers, and because the volumes of these customers' order flows to us can fluctuate markedly in a short period of time, our quarterly revenues, and consequently our results of operations, may be highly variable and subject to significant changes over a relatively short period of time. Our largest OEM customers may keep consumer products with which our carry solutions are packaged "in-box" in active promotion for many months, or for a very short period of time, depending on various factors, including sales trends for the product, product development cycles, new product introductions, and our customers' competitors' product offerings. As demand for the consumer product relating to the in-box program matures and decreases, we may be forced to accept significant price and/or volume reductions in customer orders for our carry solutions, which will adversely affect revenue. These factors tend to lead to a high degree of variability in our quarterly revenue levels. Significant, rapid shifts in our operating results may occur if and when one or more of these customers increase or decrease the size(s) of, or eliminate, their orders from us by amounts that are material to our business.

**Our gross margins, and therefore our profitability, vary considerably by customer and by product, and if the contribution margin from one or more OEM customers or products changes materially, relative to total revenues, our gross profit percentage may fluctuate.**

Our gross profit margins on the products we sell can vary widely depending on the product type, customer and order size. Because of the broad variability in price ranges and product types, we anticipate that gross margins, and accordingly their impact on operating income or loss, may fluctuate depending on the relative contribution margin from each customer or product.

**Product manufacture is often outsourced by our OEM customers to contract manufacturing firms in China and in these instances it is the contract manufacturer to which we must look for payment.**

Contract manufacturing firms are performing manufacturing, assembly, and product packaging functions, including the bundling of our product accessories with the OEM customer's product. As a consequence of this business practice, we often sell our carry solution products directly to the contract manufacturing firm. This is particularly significant in the case of diabetic product sales to certain customers. In these cases, we invoice the contract manufacturing firm and not the OEM customer. Therefore, it is the contract manufacturing firm to which we must look for payment in such instances and not our OEM customer. This may alter the credit profile of our customer base and may involve significant purchase order volumes. In some, but not all cases, the manufacturing firm is itself a large, multinational entity with significant financial resources.

**Our dependence on foreign manufacturers creates quality control and other risks to our business. From time to time we may experience certain quality control, on-time delivery, cost, or other issues that may jeopardize customer relationships.**

Our reliance on foreign suppliers, manufacturers and other contractors involves significant risks, including risk of product quality issues and reduced control over quality assurance, manufacturing yields and costs, pricing, timely delivery schedules, the potential lack of adequate manufacturing capacity and availability of product, the lack of capital and potential misappropriation of our designs. In any such event, our reputation and our business will be harmed.

**Our shipments of products via container may become subject to delays or cancellation due to work stoppages or slowdowns, piracy, damage to port facilities caused by weather or terrorism, and congestion due to inadequacy of port terminal equipment and other causes.**



To the extent that there are disruptions or delays in loading container cargo in ports of origin or off-loading cargo at ports of destination as a result of labor disputes, work-rules related slowdowns, tariff or World Trade Organization-related disputes, piracy, physical damage to port terminal facilities or equipment caused by severe weather or terrorist incidents, congestion in port terminal facilities, inadequate equipment to load, dock and offload container vessels or energy-related tie-ups or otherwise, or for other reasons, product shipments to our customers will be delayed. In any such case, our customer may cancel or change the terms of its purchase order, resulting in a cancellation or delay of payments to us. A closure or partial closure of port facilities or other causes of delays in the loading, importation, offloading or movement of our products to the shipping destination agreed with our customer could result in increased expenses, as we try to avoid such delays, delayed shipments or cancelled orders, or all of the above. Depending on the severity of such consequences, this may have an adverse effect on our business.

**The OEM carrying solutions business is highly competitive and does not pose significant barriers to entry.**

There are many competitors in the sale of carry solutions products to OEMs, and competition is intense. Since little or no significant proprietary technology is involved in the design, production or distribution of the types of products we sell, others may enter the business with relative ease and compete against us. Such competition may result in the diminution of our market share or the loss of one or more major OEM customers, thereby adversely affecting our net sales, results of operations, and financial condition. Many of our competitors are larger, better capitalized and more diversified than we are and may be better able to withstand a downturn in the general economy or in the product areas in which we specialize. These competitors may also have less sales concentration than we do and be better able to withstand the loss of a key customer or diminution in its orders.

**Our business could suffer if the services of key sales personnel we rely on were lost to us.**

We are highly dependent on the efforts and services of certain key sales representatives who have account responsibility for, and have longstanding relationships with one or more of our largest customers. Our business could be materially and adversely affected if we lost the services of any such individual. If we lost the services of a key sales representative, we might experience a material reduction in orders from his customers, resulting in a loss of revenues, which would materially and adversely affect our results of operations and financial condition.

**We maintain cash balances in our bank accounts that exceed the FDIC insurance limits.**

We maintain our cash assets at commercial banks in the U.S. in amounts in excess of the Federal Deposit Insurance Corporation insurance limit of \$250,000 and in Europe in amounts that may exceed any applicable deposit insurance limits. In the event of a failure at a commercial bank where we maintain our deposits, or uninsured losses on money market or other cash equivalents in which we maintain cash balances, we may incur a loss to the extent such loss exceeds the insurance limits, which could have a material adverse effect upon our financial conditions and our results of operations.

**Our Chairman and Chief Executive Officer is a significant shareholder, which makes it possible for him to have significant influence over the outcome of all matters submitted to our shareholders for approval and which influence may be alleged to conflict with our interests and the interests of our other shareholders.**

Terence Wise, our Chairman and Chief Executive Officer, is a significant shareholder who beneficially owns approximately 18% of the outstanding shares of our common stock as of September 15, 2016. Mr. Wise has substantial influence over the outcome of all matters submitted to our shareholders for approval, including the election of our directors and other corporate actions. This influence may be alleged to conflict with our interests and the interests of our other shareholders. In 2014, Mr. Wise successfully launched a proxy contest to elect a different slate of directors than what our Company proposed to shareholders. In addition, such influence by Mr. Wise could have the effect of discouraging potential business partners or create actual or perceived governance instabilities that could adversely affect the price of our common stock.

## THE COMPANY

Forward Industries, Inc. is a designer and distributor of specialty and promotional products. The Company designs, markets, and distributes carry and protective solutions, primarily for hand held electronic devices. The Company's principal customer market is original equipment manufacturers, or "OEMs" (or the contract manufacturing firms of

these OEM customers), that either package their products as accessories “in box” together with their branded product offerings, or sell them through their retail distribution channels. The Company does not manufacture any of its OEM products and sources substantially all of its OEM products from independent suppliers in China. Our principal executive offices are located at 477 S. Rosemary Ave., Suite 219, West Palm Beach, Florida 33401. Our telephone number is (561) 456-0030.

## **USE OF PROCEEDS**

The shares of Common Stock offered hereby are being registered for the account of the selling stockholders identified in this Reoffer Prospectus. See “Selling Stockholders.” All net proceeds from the sale of the Common Stock will go to the stockholders who offer and sell their shares. We will not receive any part of the proceeds from such sales of Common Stock. We will, however, receive the exercise price of the options at the time of their exercise. Such proceeds will be contributed to working capital and will be used for general corporate purposes.

## SELLING STOCKHOLDERS

This Reoffer Prospectus relates to the reoffer and resale of shares issued or that may be issued to the selling stockholders under our 2011 Plan and 2007 Plan. The names of such individuals who may be selling stockholders from time to time are listed below, along with the number of shares of Common Stock currently owned by them and the number of shares offered for sale. The address of each individual is in care of Forward Industries, Inc. 477 S. Rosemary Ave., Suite 219, West Palm Beach, Florida 33401.

The following table shows, as of September 15, 2016:

- the name of each selling stockholder;
- how many shares the selling stockholder beneficially owns;
- how many shares the selling stockholder can resell under this prospectus; and
- assuming a selling stockholder sells all shares listed next to his or her name, how many shares the selling stockholder will beneficially own after completion of the offering.

We may amend or supplement this prospectus from time to time in the future to update or change this list of selling stockholders and shares that may be resold.

<b>Name</b>	<b>Number of shares of Common Stock Beneficially Owned (1)</b>	<b>Number of Shares to be Offered for Resale (1)</b>	<b>Number of shares of Common Stock Owned After Completion of the Offering</b>	<b>Percentage of Class to be Owned After Completion of the Offering</b>
Howard Morgan (2)	95,000	95,000	0	0%
Terence Wise (3)	1,608,541	60,000	1,548,541	17.7%
N. Scott Fine (4)	70,000	70,000	0	0%
Sharon Hrynkow (5)	54,317	54,317	0	0%

Michael Matte (6)	65,000	65,000	0	0%
Sangita Shah (7)	70,000	70,000	0	0%

- 
- (1) **Beneficial Ownership.** Applicable percentages are based on 8,782,496 shares outstanding as of the record date, adjusted as required by rules of the SEC. Beneficial ownership is determined under the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock underlying options and warrants and convertible notes currently exercisable or convertible, or exercisable or convertible within 60 days are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Unless otherwise indicated in the footnotes to this table, Forward believes that each of the shareholders named in the table has sole voting and investment power with respect to the shares of common stock indicated as beneficially owned by them. The table includes only vested options, or options that have or will vest and become exercisable within 60 days.
- (2) **Morgan.** Mr. Morgan is a director. Represents 10,000 stock options and 85,000 shares of common stock.
- (3) **Wise.** Mr. Wise is a director and executive officer. Represents 10,000 stock options and 50,000 shares of common stock.

- (4) **Fine.** Mr. Fine is a director. Represents shares of common stock.
- (5) **Hrynkow.** Ms. Hrynkow is a director. Represents shares of common stock.
- (6) **Matte.** Mr. Matte is an executive officer. Represents 15,000 stock options and 50,000 shares of common stock.
- (7) **Shah.** Ms. Shah is a director. Represents shares of common stock.

## PLAN OF DISTRIBUTION

This offering is self-underwritten; neither we nor the selling stockholders have employed an underwriter for the sale of Common Stock by the selling stockholders. We will bear all expenses in connection with the preparation of this Reoffer Prospectus. The selling stockholders will bear all expenses associated with the sale of the Common Stock.

The selling stockholders may offer their shares of Common Stock directly or through pledgees, donees, transferees or other successors in interest in one or more of the following transactions:

- On any stock exchange on which the shares of Common Stock may be listed at the time of sale
- In negotiated transactions
- In the over-the-counter market
- In a combination of any of the above transactions

The selling stockholders may offer their shares of Common Stock at any of the following prices:

- Fixed prices which may be changed
- Market prices prevailing at the time of sale
- Prices related to such prevailing market prices
- At negotiated prices

The selling stockholders may effect such transactions by selling shares to or through broker-dealers, and all such broker-dealers may receive compensation in the form of discounts, concessions, or commissions from the selling stockholders and/or the purchasers of shares of Common Stock for whom such broker-dealers may act as agents or to whom they sell as principals, or both (which compensation as to a particular broker-dealer might be in excess of customary commissions).

Any broker-dealer acquiring Common Stock from the selling stockholders may sell the shares either directly, in its normal market-making activities, through or to other brokers on a principal or agency basis or to its customers. Any

such sales may be at prices then prevailing on the Nasdaq or at prices related to such prevailing market prices or at negotiated prices to its customers or a combination of such methods. The selling stockholders and any broker-dealers that act in connection with the sale of the Common Stock hereunder might be deemed to be “underwriters” within the meaning of Section 2(11) of the Securities Act; any commissions received by them and any profit on the resale of shares as principal might be deemed to be underwriting discounts and commissions under the Securities Act. Any such commissions, as well as other expenses incurred by the selling stockholders and applicable transfer taxes, are payable by the selling stockholders.

The selling stockholders reserve the right to accept, and together with any agent of the selling stockholder, to reject in whole or in part any proposed purchase of the shares of Common Stock. The selling stockholders will pay any sales commissions or other seller’s compensation applicable to such transactions.

We have not registered or qualified offers and sales of shares of the Common Stock under the laws of any country, other than the United States. To comply with certain states’ securities laws, if applicable, the selling stockholders will offer and sell their shares of Common Stock in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states the selling stockholders may not offer or sell shares of Common Stock unless we have registered or qualified such shares for sale in such states or we have complied with an available exemption from registration or qualification.

The selling stockholders have represented to us that any purchase or sale of shares of Common Stock by them will comply with Regulation M promulgated under the Securities Exchange Act of 1934. In general, Rule 102 under Regulation M prohibits any person connected with a distribution of our Common Stock (a "Distribution") from directly or indirectly bidding for, or purchasing for any account in which he or she has a beneficial interest, any of our Common Stock or any right to purchase our Common Stock, for a period of one business day before and after completion of his or her participation in the Distribution (we refer to that time period as the "Distribution Period").

During the Distribution Period, Rule 104 under Regulation M prohibits the selling stockholders and any other persons engaged in the Distribution from engaging in any stabilizing bid or purchasing our Common Stock except for the purpose of preventing or retarding a decline in the open market price of our Common Stock. No such person may effect any stabilizing transaction to facilitate any offering at the market. Inasmuch as the selling stockholders will be reoffering and reselling our Common Stock at the market, Rule 104 prohibits them from effecting any stabilizing transaction in contravention of Rule 104 with respect to our Common Stock.

There can be no assurance that the selling stockholders will sell any or all of the shares offered by them hereunder or otherwise.

## **LEGAL MATTERS**

Certain legal matters in connection with the issuance of the shares of Common Stock offered hereby have been passed upon for the Company by Nason Yeager Gerson White & Lioce, P.A., 3001 PGA Boulevard, Suite 305, Palm Beach Gardens, Florida 33410.

## **EXPERTS**

The consolidated financial statements of Forward Industries, Inc. appearing in Forward Industries, Inc.'s Annual Report on Form 10-K for the year ended September 30, 2015 have been audited by CohnReznick LLP, independent registered public accounting firm, as set forth in their report thereon, included therein, and incorporated by reference herein. Such consolidated financial statements are incorporated by reference herein in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

## **ADDITIONAL INFORMATION**

We have filed with the SEC four Registration Statements on Form S-8 under the Securities Act (including this one) with respect to the shares of Common Stock offered hereby. For further information with respect to the Company and the securities offered hereby, reference is made to the Registration Statements. Statements contained in this Reoffer Prospectus as to the contents of any contract or other document are not necessarily complete, and in each instance, reference is made to the copy of such contract or document filed as an exhibit to the Registration Statements, each such statement being qualified in all respects by such reference.

## **DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT**



## **LIABILITIES**

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Company, the Company has been advised that it is the SEC's opinion that such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

## PART II

### INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

#### Item 3. Incorporation of Certain Documents by Reference

The SEC allows us to incorporate by reference the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information we incorporate by reference is considered to be part of this Reoffer Prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made by us with the SEC under Sections 13(a), 13(c), 14 or 15(d) (except with respect to information furnished but not filed with the SEC pursuant to Item 2.02 or 7.01 of Form 8-K, only those reports that so indicate on the cover page thereof) of the Exchange Act, until the sale of all the shares of Common Stock that are part of this offering. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Reoffer Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Reoffer Prospectus. The documents we are incorporating by reference are as follows:

- (1) Our Annual Report on Form 10-K filed with the SEC on December 16, 2015 for the fiscal year ended September 30, 2015;
- (2) Our Quarterly Report on Form 10-Q filed with the SEC on August 12, 2016 for the quarter ended June 30, 2016, our Quarterly Report on Form 10-Q filed with the SEC on May 16, 2016 for the quarter ended March 31, 2016, and our Quarterly Report on Form 10-Q filed with the SEC on February 9, 2016 for the quarter ended December 31, 2015;
- (3) Our Current Reports on Form 8-K filed with the SEC on August 12, 2016, May 16, 2016, February 9, 2016, January 22, 2016 and December 9, 2015 (other than portions of those documents designated as “furnished”); and
- (4) The description of our Common Stock contained in our registration statement on Form S-1, filed pursuant to Section 12 of the Exchange Act on March 26, 2014.

#### Item 4. Description of Securities

Not applicable.

#### Item 5. Interest of Named Experts and Counsel

None.

**Item 6. Indemnification of Officers and Directors**

Under the New York Business Corporation Law (“BCL”), a corporation may indemnify its directors and officers made, or threatened to be made, a party to any action or proceeding, except for stockholder derivative suits, if such director or officer acted in good faith, for a purpose which he or she reasonably believed to be in or, in the case of service to another corporation or enterprise, not opposed to, the best interests of the corporation, and, in criminal proceedings, had no reasonable cause to believe his or her conduct was unlawful. In the case of stockholder derivative suits, the corporation may indemnify a director or officer if he or she acted in good faith for a purpose which he or she reasonable believed to be in or, in the case of service to another corporation or enterprise, not opposed to the best interest of the corporation, except that no indemnification may be made in respect of (i) a threatened action, or a pending action which is settled or otherwise disposed of, or (ii) any claim, issue or matter as to which such person has been adjudged to be liable to the corporation, unless and only to the extent that the court in which action was brought, or, if no action was brought, any court of competent jurisdiction, determines upon application that, in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for such portion of the settlement amount and expenses as the court deems proper.

Any person who has been successful on the merits or otherwise in the defense of a civil or criminal action or proceeding will be entitled to indemnification. Except as provided in the preceding sentence, unless ordered by a court pursuant to the BCL, any indemnification under the BCL pursuant to the above paragraph may be made only if authorized in the specific case and after a finding that the director or officer met the requisite standard of conduct by (i) the disinterested directors if a quorum is available, (ii) the board upon the written opinion of independent legal counsel or (iii) the shareholders.

The indemnification described above under the BCL is not exclusive of other indemnification rights to which a director or officer may be entitled, whether contained in the certificate of incorporation or by-laws or when authorized by (i) such certificate of incorporation or by-laws, (ii) a resolution of shareholders, (iii) a resolution of directors or (iv) an agreement providing for such indemnification, provided that no indemnification may be made to or on behalf of any director or officer if a judgment or other final adjudication adverse to the director or officer establishes that his or her acts were committed in bad faith or were the result of active and deliberate dishonesty and were material to the cause of action so adjudicated, or that he or she personally gained in fact a financial profit or other advantage to which he or she was not legally entitled.

The foregoing statement is qualified in its entirety by reference to Sections 715, 717 and 721 through 725 of the BCL.

Article V of the Registrant's Amended and Restated Bylaws provides as follows:

“ARTICLE V. INDEMNIFICATION. Section 501. The Corporation shall, to the fullest extent permitted by applicable law, indemnify any person made or threatened to be made a party to any action or proceeding, whether civil, criminal, administrative or investigative (and whether or not (i) by or in the right of the Corporation to procure a judgment in its favor or (ii) by or in the right of any Other Entity (as defined below) which such person served in any capacity at the request of the Corporation, to procure a judgment in its favor), by reason of the fact that such person, or his or her testator or intestate, is or was a director or officer of the Corporation or served such Other Entity in any capacity at the request of the Corporation, against all judgments, fines, amounts paid in settlement and all expenses, including attorneys' and other experts' fees, costs and disbursements, actually and reasonably incurred by such person as a result of such action or proceeding, or any appeal therein, or actually and reasonably incurred by such person (a) in making an application for payment of such expenses before any court or other governmental body, or (b) in otherwise seeking to enforce the provisions of this Section 501, or (c) in securing or enforcing such person's rights under any policy of director or officer liability insurance provided by the Corporation, if such person acted in good faith, for a purpose which he or she reasonably believed to be in, or, in the case of services for any Other Entity, not opposed to, the best interests of the Corporation and, in criminal actions or proceedings, in addition, had no reasonable cause to believe that his or her conduct was unlawful. The termination of any action or proceeding by judgment, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not in itself create a presumption that such person did not act in good faith, for a purpose which he or she reasonably believed to be in, or, in the case of service for any Other Entity, not opposed to, the best interests of the Corporation or that he or she had reasonable cause to believe that his or her conduct was unlawful.

However, (i) no indemnification may be made to or on behalf of any such person if a judgment or other final adjudication adverse to such person establishes that his or her acts were committed in bad faith or were the result of active and deliberate dishonesty and were material to the cause of action so adjudicated, or that he or she personally gained in fact a financial profit or other advantage to which he or she was not legally entitled; (ii) no indemnification may be made if there has been a settlement approved by the court and the indemnification would be inconsistent with any condition with respect to indemnification expressly imposed by the court in approving the settlement; and (iii) in the event of a proceeding by or in the right of the Corporation to procure a judgment in its favor, no indemnification may be made if it is settled or otherwise disposed of or such person shall have been finally adjudged liable to the Corporation, unless (and only to the extent that) the court in which the action was brought, or if no action was brought, any court of competent jurisdiction, determines upon application that, in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnity for such portion of the settlement amount and expenses as the court deems proper.

Any expense described in the first paragraph of this Section 501 that is incurred by any person entitled to indemnification under this Section 501 shall be paid or reimbursed to such person by the Corporation in advance of the final disposition of any related action or proceeding upon receipt of an undertaking by or on behalf of such person to repay such amount to the Corporation to the extent, if any, that such person (i) is ultimately found not to be entitled to indemnification or (ii) receives reimbursement for such expenses under a policy of insurance paid for by the Corporation. Such advances shall be paid by the Corporation to such person within twenty days following delivery of a written request therefor by such person to the Corporation. No payment made by the Corporation pursuant to this paragraph shall be deemed or construed to relieve the issuer of any insurance policy of any obligation or liability which, but for such payment, such insurer would have to the Corporation or to any director or officer of the Corporation or other individual to whom or on whose behalf such payment is made by the Corporation.

The indemnification and advancement of expenses provided by this Section 501: (i) shall continue as to the person entitled to indemnification hereunder even though he or she may have ceased to serve in the capacity that entitles him or her to indemnification at the time of the action or proceeding and (ii) shall inure to the benefit of the heirs, executors and administrators of such person.

A person who has been successful, on the merits or otherwise, in the defense of a civil or criminal action or proceeding of the character described in this Section 501 shall be entitled to (i.e., has a legally binding right against the Corporation to) the indemnification authorized by this Section 501. Except as provided in the immediately preceding sentence, any indemnification provided for in this Section 501 (unless ordered by a court under Section 724 of the Business Corporation Law), shall be made by the Corporation only if authorized in the specific case:

(1) By the board of directors acting by a quorum consisting of directors who are not parties to such action or proceeding for which indemnification is sought, upon a finding that the person seeking indemnification has met the standard of conduct set forth in the first two paragraphs of this Section 501, or,

(2) If a quorum under the immediately preceding subparagraph is not obtainable or, even if obtainable, a quorum of disinterested directors so directs:

(A) by the board upon the opinion in writing of independent legal counsel that indemnification is proper in the circumstances because the applicable standard of conduct set forth in said first two paragraphs has been met by such person, or

(B) by the shareholders upon a finding that the person has met the applicable standard of conduct set forth in said first two paragraphs.

Notwithstanding any other provision hereof, no amendment or repeal of this Section 501, or any other corporate action or agreement which prohibits or otherwise limits the right of any person to indemnification or advancement or reimbursement of reasonable expenses hereunder, shall be effective as to any person until the 60th day following notice to such person of such action, and no such amendment or repeal or other corporate action or agreement shall deprive any person of any right hereunder arising out of any alleged or actual act or omission occurring prior to such 60th day.

The Corporation is hereby authorized, but shall not be required, to enter into agreements with any of its directors, officers or employees providing for rights to indemnification and advancement and reimbursement of reasonable expenses, including attorneys' fees, to the extent permitted by law, but the Corporation's failure to do so shall not in any manner affect or limit the rights provided for by this Section 501 or otherwise.

For purposes of this Section 501, the term "the Corporation" shall include any legal successor to the Corporation, including any corporation which acquires all or substantially all of the assets of the Corporation in one or more transactions, and the term "Other Entity" shall mean a corporation (other than the Corporation) of any type or kind, domestic or foreign, or any partnership, joint venture, trust, employee benefit plan or other enterprise. For purposes of this Section 501, the Corporation shall be deemed to have requested a person to serve an employee benefit plan where the performance by such person of his or her duties to the Corporation or any subsidiary thereof also imposes duties on, or otherwise involves services by, such person to the plan or participants or beneficiaries of the plan; excise taxes

assessed on a person with respect to an employee benefit plan pursuant to applicable law shall be considered fines; and action taken or omitted by a person with respect to any employee benefit plan in the performance of such person's duties for a purpose reasonably believed by such person to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is not opposed to the best interests of the Corporation.”

In addition the Registrant maintains Directors and Officers Liability insurance. We have also entered into Indemnification Agreements with our directors and officers which agreements are designed to indemnify them to the fullest extent permissible by law.

**Item 7. Exemption From Registration Claimed**

Not applicable.

**Item 8. Exhibits**

- 4.1 Forward Industries, Inc. 2011 Long Term Incentive Plan (incorporated by reference to Exhibit A to the Company's Proxy Statement, Definitive 14A as filed with the SEC on January 26, 2011).
- 4.2 Forward Industries, Inc. 2007 Equity Incentive Plan, as amended (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, as filed with the SEC on February 25, 2010).
- \*5.1 Opinion of Nason Yeager Gerson White & Lioce, P.A. as to the legality of the stock covered by this registration statement.
- \*23.1 Consent of CohnReznick LLP, independent registered public accounting firm.
- 23.2 Consent of Nason Yeager Gerson White & Lioce, P.A. (included in exhibit 5.1).
- 24.1 Powers of Attorney, included on the signature page to this Registration Statement.

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\* Filed herewith.

**Item 9. Undertakings.**

**A. The undersigned registrant hereby undertakes:**

- (1) **To file, during any period in which offers or sales are being made, a post effective amendment to this Registration Statement:**
  - (i) To include any prospectus required by Section 10(a)(3) of the Securities Act;
  - (ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement;
  - (iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement; provided, however, that paragraphs (i) and (ii) above do not apply if the information required to be included in a post effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the SEC by the registrant pursuant to Section 13 or 15(d) of the Exchange Act that are incorporated by reference in the Registration Statement;
- (2) **That, for the purposes of determining any liability under the Securities Act, each such post effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof; and**
- (3) **To remove from registration by means of a post effective amendment any of the securities being registered that remain unsold at the termination of the offering.**

**B. The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act (and, where applicable, each filing of an employee**

The undersigned registrant hereby undertakes:



**benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in this Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.**

C. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by a controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.





### POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints each of Terence Wise and Michael Matte his true and lawful attorneys-in-fact and agent, with full power of substitution and resubstitution, for and in his or her name, place and stead, in any and all capacities, to sign any or all amendments to this Registration Statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his or her substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the date indicated.

September 16, 2016

/s/ Terence Wise  
Terence Wise  
Principal Executive Officer and Director

September 16, 2016

/s/ Michael Matte  
Michael Matte  
  
Principal Financial Officer and Chief Accounting Officer

September 16, 2016

/s/ N. Scott Fine  
  
N. Scott Fine  
Director

September 16, 2016

/s/ Sangita Shah  
Sangita Shah  
Director

September 16, 2016

/s/ Sharon Hrynkow  
Sharon Hrynkow  
Director

September 16, 2016

/s/ Howard Morgan  
Howard Morgan  
Director



## EXHIBIT INDEX

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- \*5.1 Legal Opinion of Nason Yeager Gerson White & Lioce, P.A.
- \*23.1 Consent of CohnReznick LLP, independent registered public accounting firm.
- 23.2 Consent of Nason Yeager Gerson White & Lioce, P.A. (included in exhibit 5.1).
- 24.1 Powers of Attorney, included on the signature page to this Registration Statement.

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\* Filed herewith.

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at these stock options and warrants have remained and have become increasingly out-of-the-money through March 31, 2013, and have continued to expire, as time passes. Accordingly, the Company considered the fair value of the contingent consideration to be immaterial and therefore did not ascribe any value to such contingent consideration; if any such shares are ultimately issued to the former Pier stockholders, the Company will recognize the fair value of such shares as a charge to operations.

The Company agreed to file a registration statement on Form S-1 under the Securities Act of 1933, as amended, with the SEC within ninety days after the closing of the transaction covering the shares of common stock issued to the former Pier stockholders, as well as the contingent shares, and to take certain other actions to maintain the effectiveness of such registration statement for a period not exceeding three years. The Company has not filed this registration statement. The Agreement and Plan of Merger did not provide for any financial penalties in the event that the Company failed to comply with the registration statement filing requirements.

The Company accounted for the Pier transaction pursuant to ASC Topic 805, Business Combinations. The Company identified and evaluated the fair value of the assets acquired. Based on the particular facts and circumstances surrounding the history and status of Pier, including its business and intellectual property at the time of the merger transaction, the Company determined that the identifiable intangible assets were comprised solely of a contract-based

intangible asset, and that there was no measurable goodwill.

The intangible asset acquired in the Pier transaction consisted of the License Agreement. Unless terminated earlier, the License Agreement would terminate upon expiration or termination of all patent rights. The License Agreement defined patent rights as all of the University of Illinois' rights in the patents and patent applications, and (b) all of the University of Illinois' rights in all divisions, continuations, CIPs, reissues, renewals, re-examinations, foreign counterparts, substitutions or extensions thereof. Based upon the expiration date of the underlying patents, the License Agreement would be amortized on a straight-line basis over the remaining life of the underlying patents of 172 months from the date of acquisition.

F-14



The following table summarizes the fair value of the assets acquired and liabilities assumed by the Company at the closing of the Pier transaction on August 10, 2012.

Fair value of assets acquired:	
Cash	\$23,208
Other current assets	698
Equipment	3,463
License agreement	3,411,157
Total assets acquired	\$3,438,526
Consideration transferred by the Company:	
Fair value of common shares issued	\$3,271,402
Liabilities assumed	167,124
Total consideration paid	\$3,438,526

The following pro forma operating data presents the results of operations for the three months ended March 31, 2012, as if the merger had occurred on the first day of the period presented. The pro forma results are not necessarily indicative of the financial results that might have occurred had the merger transaction actually taken place on the first day of the period presented, or of future results of operations. Pro forma information for the three months ended March 31, 2012 is summarized as follows:

Total revenues	\$—
Net loss	\$(1,110,852 )
Net loss per common share - Basic and diluted	\$(0.01 )
Weighted average common shares outstanding - Basic and diluted	144,041,556

As a condition of the Pier transaction, positions for two of Cortex's executive officers were eliminated and thus the severance agreements for such executive officers were amended. As amended, the severance agreements provided for the grant of fully vested, ten-year options to purchase up to a total of 5,166,668 shares of the Company's common stock at an exercise price of \$0.06 per share, which was in excess of the closing price of the Company's common stock on the closing date of the Pier acquisition. The fair value of these options, as calculated pursuant to the Black-Scholes option-pricing model was determined to be \$310,000 (\$0.06 per share) and was charged to merger costs on August 10, 2012. The Black-Scholes option-pricing model utilized the following inputs: exercise price per share-\$0.06; stock price per share – \$0.056; expected dividend yield – 0.00%; expected volatility – 176%; average risk-free interest rate – 0.31%; expected life – 10 years. As amended, the severance agreements also required the payment of \$429,231 for various other amounts due the two executive officers. As of August 10, 2012, these amounts were accrued and charged to merger costs. As a result of the management change that occurred on March 22, 2013, these officers asserted claims against the Company (see Note 12).

Pier merger-related costs for the year ended December 31, 2012 are summarized as follows:

Direct merger costs	\$506,876
Merger-related severance and termination costs	739,231
Total	\$1,246,107

The License Agreement was terminated effective March 21, 2013 due to the Company's failure to make a required payment (see Note 5). New management subsequently opened negotiations with the University of Illinois, as a result of which the Company ultimately entered into a new license agreement with the University of Illinois on June 27, 2014 whose material terms were similar to the License Agreement that had been terminated on March 21, 2013 (see Note 12).

### **5. Impairment and Termination of University of Illinois License Agreement**

At December 31, 2012, the Company was obligated to pay a \$75,000 milestone fee to the University of Illinois under the License Agreement (see Note 4). At such date, due to the Company's distressed financial condition, lack of working capital and inability to raise additional operating capital, the Company was unable to make such payment on a timely basis, or within the 30-day cure period.

At December 31, 2012, the Company concluded that the License Agreement would be forfeited during the first quarter of the 2013 fiscal year. Accordingly, the License Agreement had no expected future value and was therefore impaired at December 31, 2012, as a result of which the Company recorded a charge to operations of \$3,321,678 at December 31, 2012 (reflecting the remaining unamortized carrying value of the License Agreement at December 31, 2012).

Subsequently, on February 19, 2013, the University of Illinois notified the Company that it had defaulted under the License Agreement due to non-payment of the \$75,000 milestone fee due December 31, 2012. On March 22, 2013, the University of Illinois notified the Company that the License Agreement had been terminated effective March 21, 2013 due to the Company's failure to make the required \$75,000 payment.

## **6. Note Payable to Related Party**

On June 25, 2012, the Company borrowed 465,000,000 Won (the currency of South Korea, equivalent to approximately \$400,000 US dollars) from and executed a secured note payable to SY Corporation Co., Ltd., formerly known as Samyang Optics Co. Ltd. ("SAMYANG"), an approximately 20% common stockholder of the Company at that time. The note accrues simple interest at the rate of 12% per annum and has a maturity date of June 25, 2013, although SAMYANG was permitted to demand early repayment of the promissory note on or after December 25, 2012. SAMYANG did not demand early repayment. The Company has not made any payments on the promissory note. At June 30, 2013 and subsequently, the promissory note was outstanding and in technical default, although SAMYANG had not issued a notice of default or a demand for repayment. The Company believes that SAMYANG is in default of its obligations under its January 2012 license agreement, as amended, with the Company, but the Company has not yet issued a notice of default. The Company and SAMYANG anticipate entering into discussions with a view toward a comprehensive resolution of the aforementioned matters.

Pursuant to the terms of this borrowing arrangement, SAMYANG was granted the right to designate a representative to serve on the Company's Board of Directors, pursuant to which SAMYANG designated Moogak Hwang, Ph.D. as its representative. In this regard, the Company elected Dr. Hwang to its Board of Directors on August 3, 2012.

The promissory note is secured by collateral that represents a lien on certain patents owned by the Company, including composition of matter patents for certain of the Company's high impact ampakine compounds and the low impact ampakine compounds CX2007 and CX2076, and other related compounds. The security interest does not extend to the Company's patents for its ampakine compounds CX1739 and CX1942, or to the patent for the use of ampakine compounds for the treatment of respiratory depression.

In connection with this financing, the Company issued to SAMYANG two-year detachable warrants to purchase 4,000,000 shares of the Company's common stock at a fixed exercise price of \$0.056 per share. The warrants have a call right for consideration of \$0.001 per share, in favor of the Company, to the extent that the weighted average closing price of the Company's common stock exceeds \$0.084 per share for each of ten consecutive trading days, subject to certain circumstances. Additionally, an existing license agreement with SAMYANG was expanded to include rights to ampakine CX1739 in South Korea for the treatment of sleep apnea and respiratory depression. The unexercised warrants expired on June 25, 2014.

The Company used the Black-Scholes option-pricing model to estimate the fair value of the two-year detachable warrants to purchase 4,000,000 shares of the Company's common stock at a fixed exercise price of \$0.056 per share. The Company applied the relative fair value method to allocate the proceeds from the borrowing to the note payable and the detachable warrants. The Company did not consider the expansion of the existing license agreement with Samyang to have any significant value. Consequently, approximately 64% of the proceeds of the borrowing were attributed to the debt instrument.

The 36% value attributed to the warrant was being amortized as additional interest expense over the life of the note. Additionally, financing costs aggregating \$21,370 incurred in connection with the transaction were also being amortized over the expected life of the note. In that repayment could be demanded after six months, that period was used as the expected life of the note payable for amortization purposes.

Note payable to Samyang consists of the following at March 31, 2013 and December 31, 2012:

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Principal amount of note payable	\$399,774	\$399,774
Accrued interest payable	37,333	25,340
Foreign currency transaction adjustment	19,410	40,278
	<b>\$456,517</b>	<b>\$465,392</b>

## **7. Furniture, Equipment and Leasehold Improvements**

During the year ended December 31, 2012, the Company disposed of furniture, equipment and leasehold improvements costing a total of \$1,170,849, in connection with the downsizing of the Company's operations. Of that amount, \$58,519 occurred during the three months ended March 31, 2012.

In March 2013, the Company vacated its operating facility prior to the scheduled termination of its lease agreement in May 2015. In May 2013, the Company received notice that it had been sued in the Superior Court of California in a complaint filed on March 28, 2013 by its former landlord, PPC Irvine Center Investment, LLC, seeking, among other things, \$57,535 in past due rent, termination of the lease agreement, and reasonable attorney's fees. On May 23, 2013, a settlement was reached with the landlord that provided for the Company to relinquish its security deposit in the amount of \$29,545, transfer title to its remaining furniture, equipment and leasehold improvements, and pay an additional \$26,000. The transfer of the Company's furniture, equipment and leasehold improvements resulted in a loss of \$39,126 which was recorded at December 31, 2012, as the Company had substantially abandoned these assets prior to December 31, 2012.

To estimate the fair value of the liability to be accrued with respect to the Company's potential liability under the abandoned lease at March 31, 2013, the Company considered various factors, including the current lease rates for similar office space in Irvine, California, the desirability of the area to businesses, and the estimated time that it would take to find a new tenant for the office space. Taking these factors into account, the Company concluded that the potential rental income from a sublease of its operating facility would equal or exceed the Company's remaining lease obligation. The Company also considered the negotiations with the landlord during May 2013, which indicated that a settlement for substantially less than the remaining payments under the lease was more likely than not to be successful.

## **8. Project Advance**

In June 2000, the Company received \$247,300 from the Institute for the Study of Aging (the "Institute") to fund testing of CX516, the Company's ampakine in patients with mild cognitive impairment ("MCI"). Patients with MCI represent the earliest clinically-defined group with memory impairment beyond that expected for normal individuals of the same age and education, but such patients do not meet the clinical criteria for Alzheimer's disease. During 2002 and 2003, the Company conducted a double-blind, placebo-controlled clinical study with 175 elderly patients displaying MCI and issued a final report on June 21, 2004. CX516 did not improve the memory impairments observed in these patients.

Pursuant to the funding agreement, if the Company complied with certain conditions, including the completion of the MCI clinical trial, the Company would not be required to make any repayments unless and until the Company enters one of its ampakine compounds into a Phase 3 clinical trials for Alzheimer's disease. Upon initiation of such clinical trials, repayment would include the principal amount plus accrued interest computed at a rate equal to one-half of the prime lending rate. In the event of repayment, the Institute could elect to receive the outstanding principal balance and any accrued interest thereon in shares of the Company's common stock. The conversion price for such form of repayment was fixed at \$4.50 per share and was subject to adjustment if the Company paid a dividend or distribution in shares of common stock, effected a stock split or reverse stock split, effected a reorganization or reclassification of its capital stock, or effected a consolidation or merger with or into another corporation or entity. Included in the condensed consolidated balance sheets is principal and accrued interest with respect to this funding agreement in the amount of \$331,027 and \$330,022 at March 31, 2013 and December 31, 2012, respectively.

The Company entered into an agreement with the Institute on September 2, 2014 to settle this obligation by issuing 1,000,000 shares of the Company's restricted common stock (see Note 12). The note payable, including accrued interest, had an approximate balance of \$337,000 on such date.

## **9. Stockholders' Equity**

### *Preferred Stock*

The Company has authorized a total of 5,000,000 shares of preferred stock, par value \$0.001 per share. As of March 31, 2013 and December 31, 2012, 1,250,000 shares were designated as 9% Cumulative Convertible Preferred Stock (non-voting, "9% Preferred"); 37,500 shares were designated as Series B Convertible Preferred Stock (non-voting, "Series B Preferred"); 205,000 were designated as Series A Junior Participating Preferred Stock (non-voting, "Series A Junior Participating") and 3,507,500 shares were undesignated and may be issued with such rights and powers as the Board of Directors may designate.

None of the 9% Preferred shares or the Series A Junior Participating shares were outstanding during the three months ended March 31, 2013 and 2012.

Series B Preferred shares outstanding as of March 31, 2013 and December 31, 2012 consisted of 37,500 shares issued in a May 1991 private placement. Each share of Series B Preferred is convertible into approximately 0.09812 shares of common stock at an effective conversion price of \$6.795 per share of common stock, which is subject to adjustment under certain circumstances. As of March 31, 2013 and December 31, 2012, these shares of Series B Preferred outstanding are convertible into 3,679 shares of common stock. The Company may redeem the Series B Preferred for \$25,001, equivalent to \$0.6667 per share, an amount equal to its liquidation preference, at any time upon 30 days prior notice.

On March 14, 2014, the Company designated 1,700 shares of the previously undesignated shares of preferred stock as Series G Preferred Stock (see Note 12).

### ***Common Stock and Common Stock Purchase Warrants***

Under the terms of the Company's registered direct offering with several institutional investors in January 2007, the Company sold an aggregate of 5,021,427 shares of its common stock and warrants to purchase 3,263,927 shares of its common stock. The warrants had an exercise price of \$1.66 per share and were exercisable on or before January 21, 2012. During the year ended December 31, 2007, the Company received approximately \$443,000 from the partial exercise of such warrants. None of the remaining warrants to purchase 2,996,927 shares of the Company's common stock were exercised, and consequently, those unexercised warrants expired in January 2012.

Under the terms of the Company's registered direct offering with several institutional investors in August 2007, the Company sold an aggregate of 7,075,000 shares of its common stock and warrants to purchase 2,830,000 shares of its common stock. The warrants had an exercise price of \$2.64 per share and were exercisable on or before August 28, 2012. In addition, the Company issued warrants to purchase an aggregate of 176,875 shares of its common stock to the placement agents in that offering. The placement agent warrants had an exercise price of \$3.96 per share and were also exercisable on or before August 28, 2012. None of those investor or placement agent warrants were exercised, and consequently, those unexercised warrants to purchase 3,006,875 shares of the Company's common stock expired in August 2012.

In connection with the registered direct offering of the Company's 0% Series E Convertible Preferred Stock in April 2009, the Company issued warrants to purchase an aggregate of 6,941,176 shares of its common stock to a single institutional investor. The warrants had an exercise price of \$0.3401 per share and were exercisable on or before October 17, 2012. In February 2010, the exercise price of these warrants was reduced to \$0.2721 in exchange for the investor's consent and waiver with respect to the Company's completed financing transaction with Samyang in January 2010. The warrants were also subject to a call provision in favor of the Company. The Company also issued warrants to purchase an additional 433,824 shares of the Company's common stock to the placement agent for that transaction. These warrants had an exercise price of \$0.26 per share and were subject to the same exercisability term as the warrants issued to the investor. None of those investor or placement agent warrants were exercised, and consequently,

those unexercised warrants to purchase 7,375,000 shares of the Company's common stock expired in August 2012.

In connection with the private placement of the Company's Series F Convertible Preferred Stock in July 2009, the Company issued warrants to purchase an aggregate of 6,060,470 shares of its common stock to a single institutional investor. The warrants had an exercise price of \$0.2699 per share and were exercisable on or before January 31, 2013. The Company also issued warrants to purchase an additional 606,047 shares of the Company's common stock to the placement agent for that transaction. These warrants had an exercise price of \$0.3656 per share and were subject to the same exercisability term as the warrants issued to the investor. The warrants issued to the investor and the placement agent were subject to a call provision in favor of the Company. None of those investor or placement agent warrants were exercised, and consequently, those unexercised warrants to purchase 6,666,517 shares of the Company's common stock expired in January 2013.

In connection with the conversion of a promissory note issued to Samyang in June 2010, the Company issued to Samyang two-year warrants to purchase 4,081,633 shares of the Company's common stock at an exercise price of \$0.206 per share. None of those warrants were exercised, and consequently, those unexercised warrants to purchase 4,081,633 shares of the Company's common stock expired in June 2012.



In October 2011, the Company completed a private placement of \$500,000 in securities with Samyang Value Partners Co., Ltd., a wholly-owned subsidiary of Samyang. The transaction included the issuance of 6,765,466 shares of the Company's common stock and two-year warrants to purchase an additional 1,691,367 shares of its common stock. The warrants had an exercise price of \$0.1035 per share and a call right in favor of the Company. None of those warrants were exercised, and consequently, those unexercised warrants to purchase 1,691,367 shares of the Company's common stock expired in October 2013. Related to this private placement, the Company and Samyang entered into a non-binding memorandum of understanding ("MOU") regarding a potential license agreement for rights to the ampakine CX1739 for the treatment of neurodegenerative diseases in South Korea. The MOU also provided Samyang with rights of negotiation to expand its territory into other South East Asian countries, excluding Japan, Taiwan and China, and to include rights to the high impact ampakine CX1846 for the potential treatment of neurodegenerative diseases. The related license agreement was subsequently completed in January 2012.

In connection with a private placement of debt on June 25, 2012, the Company issued to Samyang two-year detachable warrants to purchase 4,000,000 shares of the Company's common stock at a fixed exercise price of \$0.056 per share (see Note 6). The warrants have a call right for consideration of \$0.001 per share, in favor of the Company, to the extent that the weighted average closing price of the Company's common stock exceeds \$0.084 per share for each of ten consecutive trading days, subject to certain circumstances.

A summary of warrant activity for the three months ended March 31, 2013 is presented below.

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (in Years)</b>
Warrants outstanding at December 31, 2012	12,357,884	0.182	
Issued	—	—	
Exercised	—	—	
Expired	(6,666,517 )	0.279	
Warrants outstanding at March 31, 2013	5,691,367	\$ 0.069	1.03
Warrants exercisable at December 31, 2012	12,357,884	\$ 0.182	
Warrants exercisable at March 31, 2013	5,691,367	\$ 0.069	1.03

The exercise prices of common stock warrants outstanding and exercisable are as follows at March 31, 2013:

Expiration Date

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Exercise Price	Warrants Outstanding (Shares)	Warrants Exercisable (Shares)	
\$ 0.056	4,000,000	4,000,000	June 25, 2014
\$ 0.100	1,691,367	1,691,367	October 20, 2013
	5,691,367	5,691,367	

Based on a fair market value of \$0.05 per share on March 31, 2013, there was no intrinsic value attributed to exercisable but unexercised common stock warrants at March 31, 2013.

***Stock Option and Stock Purchase Plan***

The Company's 1996 Stock Incentive Plan (the "1996 Plan"), which terminated pursuant to its terms on October 25, 2006, provided for the granting of options and rights to purchase up to an aggregate of 10,213,474 shares of the Company's authorized but unissued common stock to qualified employees, officers, directors, consultants and other service providers. Options granted under the 1996 Plan generally vested over a three-year period, although some options granted to officers included more accelerated vesting. Options previously granted under the 1996 Plan generally expire ten years from the date of grant, but some options granted to consultants expire five years from the date of grant. Pursuant to the 1996 Plan, options are generally forfeited three months from the date of termination of an optionee's continuous service if such termination occurs for any reason other than permanent disability or death.

On March 30, 2006, the Company's Board of Directors approved the 2006 Stock Incentive Plan (the "2006 Plan"), which subsequently was approved by the Company's stockholders on May 10, 2006. Upon the approval of the 2006 Plan, no further options were granted under the 1996 Plan. The 2006 Plan provides for the granting of options and rights to purchase up to an aggregate of 9,863,799 shares of the Company's authorized but unissued common stock (subject to adjustment under certain circumstances, such as stock splits, recapitalizations and reorganization) to qualified employees, officers, directors, consultants and other service providers.

Under the 2006 Plan, the Company may issue a variety of equity vehicles to provide flexibility in implementing equity awards, including incentive stock options, nonqualified stock options, restricted stock grants, stock appreciation rights, stock payment awards, restricted stock units and dividend equivalents. The exercise price of stock options offered under the 2006 Plan must be at least 100% of the fair market value of the common stock on the date of grant. If the person to whom an incentive stock option is granted is a 10% stockholder of the Company on the date of grant, the exercise price per share shall not be less than 110% of the fair market value on the date of grant. Vesting and expiration provisions for options granted under the 2006 Plan are similar to those under the 1996 Plan. Pursuant to the 2006 Plan, options are generally forfeited ninety days from the date of termination of an optionee's continuous service if such termination occurs for any reason other than permanent disability or death.

Subject to any restrictions under federal or securities laws, the Chief Executive Officer may award stock options to new non-executive officer employees and consultants, with a market value at the time of hire equivalent to up to 100% of the employee's annual salary or the consultant's anticipated annual consulting fees. The Chief Executive Officer shall have the discretion to increase or decrease such awards based on market and recruiting factors subject to a limit per person in each case of options to purchase 50,000 shares. Additionally, on an annual basis, the Chief Executive Officer may grant continuing employees and consultants, based upon performance and subject to meeting objectives, a stock option for that number of shares up to 40% of the employee's annual salary or the consultant's annual fees, but not to exceed 50,000 shares per person per year. Any option grant exceeding 50,000 shares per person per year requires approval by the Compensation Committee of the Board of Directors or the full Board of Directors. These options shall be granted with an exercise price equal to the fair market value of the Company's common stock on the date of issuance, have a ten-year term, vest annually over a three-year period from the dates of grant and have other terms consistent with the 2006 Plan.

Under the 2006 Plan, each non-employee director is automatically granted options to purchase 30,000 shares of common stock upon commencement of service as a director and, each non-employee director is automatically granted additional options to purchase 30,000 shares of common stock on the date of the first meeting of the Board of Directors for the relative calendar year. The nonqualified options to non-employee directors have an exercise price equal to 100% of the fair market value of the common stock on the date of grant, have a ten-year term and vest annually over a three-year period from the dates of grant.

On August 3, 2012, fully vested, ten-year options to purchase a total of 2,195,000 shares of the Company's common stock at an exercise price of \$0.06 per share, representing the closing price of the Company's common stock on the date of issue, were granted to directors of the Company for past services. The fair value of these options, as calculated

pursuant to the Black-Scholes option-pricing model, was determined to be \$131,700 (\$0.06 per share), which was charged to general and administrative expense on that date.

In July and August 2012, pursuant to severance agreements amended in connection with the merger transaction with Pier, fully-vested, ten-year options to purchase a total of 5,166,668 shares of the Company's common stock at an exercise price of \$0.06 per share, which was in excess of the closing price of the Company's common stock on the closing date of the merger, were granted to two of the Company's former executive officers. The fair value of these options, as calculated pursuant to the Black-Scholes option-pricing model, was determined to be \$310,000 (\$0.06 per share), which was charged to merger-related costs on the dates of grant.

The Company is no longer making awards under the 2006 Plan and has adopted, with stockholder approval, the 2014 Equity, Equity-Linked and Equity Derivative Incentive Plan (see Note 11).

As of March 31, 2013, options to purchase an aggregate of 9,860,001 shares of common stock were exercisable under the Company's stock option plans. During the three months ended March 31, 2013, the Company did not issue any options to purchase shares of common stock.

A summary of stock option activity for the three months ended March 31, 2013 is presented below.

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (in Years)</b>
Options outstanding at December 31, 2012	10,754,155	0.557	
Granted	—	—	
Expired	—	—	
Forfeited	(894,154 )	1.141	
Options outstanding at March 31, 2013	9,860,001	\$ 0.505	7.66
Options exercisable at December 31, 2012	10,754,155	\$ 0.557	
Options exercisable at March 31, 2013	9,860,001	\$ 0.505	7.66

As all stock options outstanding were fully vested at March 31, 2013, there is no compensation expense to be recognized in future periods.

The exercise prices of common stock options outstanding and exercisable were as follows at March 31, 2013:

<b>Exercise Price</b>	<b>Options Outstanding (Shares)</b>	<b>Options Exercisable (Shares)</b>	<b>Expiration Date</b>
\$ 0.060	1,238,333	1,238,333	August 3, 2022
\$ 0.060	3,083,334	3,083,334	July 17, 2022
\$ 0.060	2,083,334	2,083,334	August 10, 2022
\$ 0.130	90,000	90,000	March 1, 2021
\$ 0.160	90,000	90,000	March 3, 2021
\$ 0.200	940,000	940,000	August 22, 2019
\$ 0.290	90,000	90,000	June 5, 2019
\$ 0.540	300,000	300,000	January 18, 2018
\$ 0.860	90,000	90,000	February 13, 2018
\$ 0.970	200,000	200,000	August 13, 2018
\$ 1.120	75,000	75,000	February 6, 2017
\$ 1.300	400,000	400,000	December 18, 2016
\$ 2.350	180,000	180,000	December 1, 2015
\$ 2.680	150,000	150,000	December 16, 2014
\$ 2.760	100,000	100,000	December 9, 2013
\$ 2.950	750,000	750,000	January 30, 2016

9,860,001      9,860,001

Based on a fair market value of \$0.05 per share on March 31, 2013, there were no exercisable in-the-money stock options as of March 31, 2013.

For the three months ended March 31, 2013 and 2012, stock-based compensation costs included in the statements of operations consisted of general and administrative expenses of \$-0- and \$13,206, respectively, and research and development expenses of \$-0- and \$3,513, respectively.

As of March 31, 2013, the Company had reserved an aggregate of 3,679 shares for issuance upon conversion of the Series B Preferred; 5,691,367 shares for issuance upon exercise of warrants; 9,860,001 shares for issuance upon exercise of outstanding stock options; 8,784,587 shares for issuance upon exercise of stock options available for future grant pursuant to the 2006 Plan; and 6,367,912 shares issuable as contingent shares pursuant to the Pier merger (see Note 4). The Company expects to satisfy such stock obligations through the issuance of authorized but unissued shares of common stock.

F-21

### ***Stockholder Rights Plan***

On February 5, 2002, the Company's Board of Directors approved the adoption of a Stockholder Rights Plan to protect stockholder interests against takeover strategies that may not provide maximum stockholder value. A dividend of one Right (each, a "Right" and, collectively, the "Rights") for each outstanding share of the Company's common stock was distributed to stockholders of record on February 15, 2002. The Stockholder Rights Plan terminated and the related Rights expired by their terms on February 15, 2012.

### **10. Related Party Transactions**

In 2012, Aurora Capital LLC provided investment banking services to Pier, a company that the Company acquired by merger on August 10, 2012 (see Note 4). For those services, on August 10, 2012 Aurora Capital LLC received 2,971,792 shares of the Company's common stock in payment of its fee of \$194,950. Both Arnold Lippa and Jeff Margolis, officers and directors of the Company since March 22, 2013, have indirect ownership interests in Aurora Capital LLC through interests held in its members.

The Company accrued \$85,000 at March 31, 2013 as reimbursement for legal fees incurred by Aurora Capital LLC in conjunction with the removal of the Company's prior Board of Directors on March 22, 2013 (see Note 2).

See Notes 6 and 9 for a description of transactions with Samyang, a significant stockholder of the Company and a lender to the Company.

### **11. Commitments and Contingencies**

#### ***Pending or Threatened Legal Actions and Claims***

The Company is periodically the subject of various pending and threatened legal actions and claims. In the opinion of management of the Company, adequate provision has been made in the Company's financial statements with respect to such matters.

The Company's former Vice President and Chief Financial Officer has asserted certain claims for compensation against the Company through the date of her resignation from the Company on October 26, 2012. The Company is engaged in negotiations with this former officer to resolve this matter in its entirety to avoid litigation, but there can be no assurances that the Company will be successful in such endeavor. To the extent that the former officer files a formal complaint or other legal claim against the Company, the Company intends to defend itself through the appropriate legal process and will consider all available options, including filing legal counter-claims. In the opinion of management, the Company has made adequate provision for any liability relating to this matter in its financial statements at March 31, 2013.

### *Lease Commitment*

On May 14, 2012, the Company executed a three-year lease for office space beginning June 1, 2012 at a monthly rate of \$9,204. In March 2013, the Company vacated its operating facilities prior to the scheduled termination of the lease. In May 2013, a settlement with the landlord was reached and the lease was terminated (see Note 7).

### *University of California, Irvine License Agreements*

The Company entered into a series of license agreements in 1993 and 1998 with UCI that granted the Company proprietary rights to certain chemical compounds that acted as ampakines and their therapeutic uses. These agreements granted the Company, among other provisions, exclusive rights: (i) to practice certain patents and patent applications, as defined in the license agreement, that were then held by UCI; (ii) to identify, develop, make, have made, import, export, lease, sell, have sold or offer for sale any related licensed products; and (iii) to grant sub-licenses of the rights granted in the license agreements, subject to the provisions of the license agreements. The Company was required, among other terms and conditions, to pay UCI a license fee, royalties, patent costs and certain additional payments.

Under such license agreements, the Company was required to make minimum annual royalty payments of approximately \$70,000. The Company was also required to spend a minimum of \$250,000 per year to advance the ampakine compounds until the Company began to market an ampakine compound. The commercialization provisions in the agreements with UCI required the Company to file for regulatory approval of an ampakine compound before October 2012. In March 2011, UCI agreed to extend the required date for filing regulatory approval of an ampakine compound to October 2015. At December 31, 2012, the Company was not in compliance with its minimum annual payment obligations and believed that this default constituted a termination of the license agreements.



### ***University of Alberta License Agreement***

On May 8, 2007, the Company entered into a license agreement, as amended, with the University of Alberta granting the Company exclusive rights to practice patents held by the University of Alberta claiming the use of ampakines for the treatment of various respiratory disorders. The Company agreed to pay the University of Alberta a licensing fee and a patent issuance fee, which were paid, and prospective payments consisting of a royalty on net sales, sublicense fee payments, maintenance payments and milestone payments. The prospective maintenance payments commence on the enrollment of the first patient into the first Phase 2B clinical trial and increase upon the successful completion of the Phase 2B clinical trial. As the Company does not at this time anticipate scheduling a Phase 2B clinical trial, no maintenance payments are currently due and payable to the University of Alberta. In addition, no other prospective payments are currently due and payable to the University of Alberta.

## **12. Subsequent Events**

### ***Termination of University of California, Irvine License Agreements***

On April 15, 2013, the Company received a letter from UCI indicating that the license agreements between UCI and the Company had been terminated due to the Company's failure to make certain payments required to maintain the agreements. Since the patents covered in these license agreements had begun to expire and the therapeutic uses described in these patents were no longer germane to the Company's new focus on respiratory disorders, the loss of these license agreements is not expected to have a material impact on the Company's current drug development programs. In the opinion of management, the Company has made adequate provision for any liability relating to this matter in its condensed consolidated financial statements at March 31, 2013.

### ***Working Capital Advances***

On June 25, 2013, the Arnold Lippa Family Trust, an affiliate of Dr. Lippa, the Company's Chairman and Chief Executive Officer, began advancing funds to the Company in order to meet minimum operating needs. Such advances reached a maximum of \$150,000 on March 3, 2014 and were due on demand with interest at a rate per annum equal to the "Blended Annual Rate", as published by the U.S. Internal Revenue Service, approximately 0.22% for period outstanding. In March 2014, the Company repaid the working capital advances, including accrued interest of \$102, with the proceeds from the private placement of its Series G Preferred Stock described below.

### ***Series G Preferred Stock Placement***

On March 14, 2014, the Company filed a Certificate of Designation, Preferences, Rights and Limitations, (the “Certificate of Designation”) of its Series G Preferred Stock (“Series G Preferred Stock”) with the Secretary of State of the State of Delaware to amend the Company’s certificate of incorporation. The number of shares designated as Series G Preferred Stock is 1,700 (which shall not be subject to increase without the written consent of a majority of the holders of the Series G Preferred Stock or as otherwise set forth in the Certificate of Designation). The Stated Value of each share of Series G Preferred Stock is \$1,000.

The Company shall pay a stated dividend on the Series G Preferred Stock at a rate per share (as a percentage of the Stated Value per share) of 1.5% per annum, payable quarterly within 15 calendar days of the end of each fiscal quarter of the Company, in duly authorized, validly issued, fully paid and non-assessable shares of Series G Preferred Stock, which may include fractional shares of Series G Preferred Stock.

The Series G Preferred Stock shall be convertible, beginning 60 days after the last share of Series G Preferred Stock is issued in the Private Placement, at the option of the holder, into common stock at the applicable conversion price, at a rate determined by dividing the Stated Value of the shares of Series G Preferred Stock to be converted by the conversion price, subject to adjustments for stock dividends, splits, combinations and similar events as described in the form of Certificate of Designation. The stated value of the Series G Preferred Stock is \$1,000 per share, and the fixed conversion price is \$0.0033. Accordingly, at the option of the holder, each share of Series G Preferred Stock is convertible commencing on the date that is 60 calendar days after the date on which the last share of Series G Preferred Stock is issued pursuant to a Purchase Agreement, into 303,030 shares of common stock. In addition, the Company has the right to require the holders of the Series G Preferred Stock to convert such shares into common stock under certain enumerated circumstances as set forth in the Certificate of Designation.

Upon either (i) a Qualified Public Offering (as defined in the Certificate of Designation) or (ii) the affirmative vote of the holders of a majority of the Stated Value of the Series G Preferred Stock issued and outstanding, all outstanding shares of Series G Preferred Stock, plus all accrued or declared, but unpaid, dividends thereon, shall mandatorily be converted into such number of shares of common stock determined by dividing the Stated Value of such Series G Preferred Stock (together with the amount of any accrued or declared, but unpaid, dividends thereon) by the Conversion Price (as defined in the Certificate of Designation) then in effect. If not earlier converted, the Series G Preferred Stock shall be redeemed by conversion on the two year anniversary of the date the last share of Series G Preferred Stock is issued in the Private Placement at the then applicable Conversion Price.

Except as described in the Certificate of Designation, holders of the Series G Preferred Stock will vote together with holders of the Company common stock on all matters, on an as-converted to common stock basis, and not as a separate class or series (subject to limited exceptions).

In the event of any liquidation or winding up of the Company prior to and in preference to any Junior Securities (including common stock), the holders of the Series G Preferred Stock will be entitled to receive in preference to the holders of the Company common stock a per share amount equal to the Stated Value, plus any accrued and unpaid dividends thereon.

On March 18, 2014, the Company entered into Securities Purchase Agreements with various accredited investors (the "Initial Purchasers"), pursuant to which the Company sold an aggregate of 753.22 shares of its Series G Preferred Stock for a purchase price of \$1,000 per share, or an aggregate purchase price of \$753,220. This financing represents the initial closing on a private placement of up to \$1,500,000 (the "Private Placement"). The Initial Purchasers in this tranche of the Private Placement consisted of (i) Arnold S. Lippa, the Company's Chairman, Chief Executive Officer and a member of the Company's Board of Directors, who invested \$250,000 for 250 shares of Series G Preferred Stock, and (ii) new, non-affiliated, accredited investors. Neither the Series G Preferred Stock nor the underlying shares of common stock have any registration rights.

The placement agents and selected dealers in connection with the initial tranche of the Private Placement received cash fees totaling \$3,955 as compensation and warrants totaling approximately 5.6365% of the shares of common stock into which the Series G Preferred Stock may convert, exercisable for five years at a price that is 120% of the conversion price at which the Series G Preferred Stock may convert into the Company's common stock. Aurora Capital LLC was one of the placement agents.

On April 17, 2014, the Company entered into Securities Purchase Agreements with various accredited investors (together with the Initial Purchasers, the "Purchasers"), pursuant to which the Company sold an aggregate of 175.28 shares of its Series G Preferred Stock, for a purchase price of \$1,000 per share, or an aggregate purchase price of \$175,280. This was the second and final closing on the Private Placement. The Purchasers in the second and final tranche of the Private Placement consisted of new, non-affiliated, accredited investors and non-management investors

who had also invested in the first closing. One of the investors in this second and final closing was an affiliate of an associated person of Aurora Capital LLC. Neither the Series G Preferred Stock nor the underlying shares of common stock have any registration rights.

The placement agents and selected dealers in connection with the second tranche of the Private Placement received cash fees of \$3,465 as compensation and warrants totaling approximately 12% of the shares of common stock into which the Series G Preferred Stock may convert, exercisable for five years at a fixed price of \$0.00396, which is 120% of the conversion price at which the Series G Preferred Stock may convert into the Company's common stock. Aurora Capital LLC was one of the placement agents.

The stated value of the Series G Preferred Stock is \$1,000 per share, and the fixed conversion price is \$0.0033. Accordingly, at the option of the holder, each share of Series G Preferred Stock is convertible commencing on the date that is sixty calendar days after the date on which the last share of Series G Preferred Stock is issued pursuant to a Purchase Agreement, into 303,030 shares of common stock. The aggregate of 928.5 shares of Series G Preferred Stock sold in the Private Placement are convertible into a total of 281,363,634 shares of common stock. The Company had 144,041,556 shares of common stock, plus an additional 57,000,000 shares of common stock issued to management on April 14, 2014, issued and outstanding immediately prior to the closing of the Private Placement of Series G Preferred Stock described herein.

The warrants that the placement agents and selected dealers received in connection with the Private Placement represent the right to acquire 19,251,271 shares of common stock exercisable for five years at a fixed price of \$0.00396, which is 120% of the conversion price at which the Series G Preferred Stock may convert into the Company's common stock.

Purchasers in the Private Placement of the Series G Preferred Stock have executed written consents in favor of (i) approving and adopting an amendment to the Company's certificate of incorporation that increases the number of authorized shares of the Company to 1,405,000,000, 1,400,000,000 of which are shares of common stock and 5,000,000 of which are shares of preferred stock, and (ii) approving and adopting the Cortex Pharmaceuticals, Inc. 2014 Equity, Equity-Linked and Equity Derivative Incentive Plan.

The shares of Series G Preferred Stock were offered and sold without registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance on the exemptions provided by Section 4(a)(2) of the Securities Act as provided in Rule 506(b) of Regulation D promulgated thereunder. The shares of Series G Preferred Stock and the Company's common stock issuable upon conversion of the shares of Series G Preferred Stock have not been registered under the Securities Act or any other applicable securities laws, and unless so registered, may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act.

### ***Convertible Note and Warrant Financing***

On November 5, 2014, the Company entered into a Convertible Note and Warrant Purchase Agreement (the "Purchase Agreement") with various accredited, non-affiliated investors (each, a "Purchaser"), pursuant to which the Company sold an aggregate principal amount of \$238,500 of its (i) 10% Convertible Notes due September 15, 2015 (each a "Note", and together, the "Notes") and (ii) Warrants to purchase shares of common stock (the "Warrants"). This financing represents the initial closing on a private placement of up to \$1,000,000, and the Company may close on one or more additional tranches of this private placement in the near future. Unless otherwise provided for in the Notes, the outstanding principal balance of each Note and all accrued and unpaid interest is due and payable in full on September 15, 2015. At any time, each Purchaser may elect, at its option and in its sole discretion, to convert the outstanding principal amount into a fixed number of shares of the Company's common stock equal to the quotient obtained by dividing the outstanding principal amount by \$0.035 (an aggregate of 6,814,286 shares), plus any accrued and unpaid interest under the Note, which is treated in the same manner as the outstanding principal amount. In the case of a Qualified Financing (as defined in the Purchase Agreement), the outstanding principal amount and accrued and unpaid interest under the Notes automatically convert into common stock at a common stock equivalent price of \$0.035. In the case of an Acquisition (as defined in the Purchase Agreement), the Company may elect to either: (i) convert the outstanding principal amount and all accrued and unpaid interest under the Notes into shares of common stock or (ii) accelerate the maturity date of the Notes to the date of closing of the Acquisition. Each Warrant to purchase shares of common stock shall be exercisable into a fixed number of shares of common stock of the Company calculated as each Purchaser's investment amount divided by \$0.035 (an aggregate of 6,814,286 shares). The Warrants do not have any cashless exercise provisions and are exercisable through September 15, 2015 at a fixed price of \$0.035 per share.

Placement agent fees, brokerage commissions, finder's fees and similar payments were made in the form of cash and warrants to qualified referral sources in connection with the sale of the Notes and Warrants. A total of \$16,695 of such fees was paid in cash, based on 7% of the aggregate principal amount of the Notes issued to such referral sources. The fees paid in warrants (the "Placement Agent Warrants") consisted of 477,000 warrants, reflecting warrants for that number of shares equal to 7% of the number of shares of common stock into which the corresponding Notes are convertible. The Placement Agent Warrants have cashless exercise provisions and are exercisable through September 15, 2015 at a fixed price of \$0.035 per share.

The Notes and Warrants were offered and sold without registration under the Securities Act in reliance on the exemptions provided by Section 4(a)(2) of the Securities Act as provided in Rule 506 of Regulation D promulgated thereunder. The Notes and Warrants and the shares of common stock issuable upon conversion of the Notes and exercise of the Warrants have not been registered under the Securities Act or any other applicable securities laws, and unless so registered, may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act.

F-25

***Exercise of Placement Agent and Selected Dealer Warrants***

Effective August 25, 2014, a warrant issued on April 17, 2014 in conjunction with the Private Placement of the Series G Preferred Stock, representing the right to acquire a total of 2,112,879 shares of common stock, was exercised in full on a cashless basis, resulting in the net issuance of 1,942,124 shares of common stock.

Effective September 5, 2014, a warrant issued on April 17, 2014 in conjunction with the Private Placement of the Series G Preferred Stock, representing the right to acquire a total of 2,412,878 shares of common stock, was exercised in part (50%) on a cashless basis, resulting in the net issuance of 1,126,814 shares of common stock.

Effective September 26, 2014, a warrant issued on April 17, 2014 in conjunction with the Private Placement of the Series G Preferred Stock, representing the right to acquire a total of 1,400,000 shares of common stock, was exercised in full on a cashless basis, resulting in the net issuance of 1,326,080 shares of common stock.

***Increase in Authorized Common Shares***

The holders of the Series G Preferred Stock approved and adopted an amendment to increase the number of authorized shares of the Company to 1,405,000,000, 1,400,000,000 of which are shares of common stock and 5,000,000 of which are shares of preferred stock. The Company also sought, and on April 17, 2014 obtained by written consent, sufficient votes of the holders of its common stock, voting as a separate class, to effect the amendment. A certificate of Amendment to the Company's Certificate of Incorporation to effect the increase in the authorized shares was filed with the Secretary of State of the State of Delaware on April 17, 2014.

***2014 Equity, Equity-Linked and Equity Derivative Incentive Plan***

In connection with the Private Placement, effective March 18, 2014, the stockholders of the Company holding a majority of the votes to be cast on the issue approved the adoption of the Company's 2014 Equity, Equity-Linked and Equity Derivative Incentive Plan (the "Plan"), which had been previously adopted by the Board of Directors of the Company, subject to stockholder approval. The Plan permits the grant of options and restricted stock with respect to up to 105,633,002 shares of common stock, in addition to stock appreciation rights and phantom stock, to directors, officers, employees, consultants and other service providers of the Company.

*Awards to Officers and Directors as Compensation*

On April 14, 2014, the Board of Directors of the Company awarded a total of 57,000,000 shares of common stock of the Company, including awards of 15,000,000 shares to each of the Company's three executive officers, who are also directors of the Company, and 12,000,000 shares to certain other parties, one of whom is an associated person of Aurora Capital LLC. These awards were made under the Plan and were awarded as compensation for those individuals through March 31, 2014. None of the officers or directors of the Company had received any cash compensation from the Company since joining the Company in March and April 2013.

On July 17, 2014, the Board of Directors of the Company awarded stock options to purchase a total of 15,000,000 shares of common stock of the Company, consisting of options for 5,000,000 shares to each of the Company's three executive officers, who are also directors of the Company. The stock options were awarded as compensation for those individuals through December 31, 2014. The awarded stock options vest in three equal installments on July 17, 2014 (at issuance), September 30, 2014, and December 31, 2014, and expire on July 17, 2019. The exercise price of the stock options of \$0.05 per share was in excess of the closing market price of a share of the Company's common stock on the date of issuance. The Company believes and intends that a portion of the stock options awarded qualify as incentive stock options under the Internal Revenue Code of 1986, as amended. The issuance of incentive stock awards is restricted as to amount as set forth in the Plan, and the form of award of the awarded stock options reflects this intention and the limits under the Plan.

In connection with the appointment of James Sapirstein and Kathryn MacFarlane as directors of the Company on September 3, 2014, the Board of Directors awarded an aggregate of 4,000,000 shares of common stock of the Company to the new directors, 2,000,000 to each new director, vesting 50% upon appointment to the Board of Directors, 25% on September 30, 2014 and 25% on December 31, 2014. These awards were made under the Company's 2014 Equity, Equity-Linked and Equity Derivative Incentive Plan.



### ***Debt Settlements***

During the three months ended March 31, 2014, the Company executed settlement agreements with four former executives that resulted in the settlement of potential claims totaling approximately \$1,336,000 for a total of approximately \$118,000 in cash, plus the issuance of options to purchase 4,300,000 shares of common stock exercisable at \$0.04 per share for periods ranging from five to ten years. In addition to other provisions, the settlement agreements included mutual releases.

During the three months ended June 30, 2014, the Company also executed settlement agreements with certain former service providers that resulted in the settlement of potential claims totaling approximately \$591,000 for a cost of approximately \$155,000 in cash, plus the issuance of options to purchase 1,250,000 shares of common stock exercisable at \$0.04 per share for a period of five years. In addition to other provisions, the settlement agreements included mutual releases.

The aforementioned agreements resulted in the settlement of potential claims totaling approximately \$1,927,000 for a cost of approximately \$273,000 in cash, plus the issuance of options to purchase 5,550,000 shares of common stock exercisable at \$0.04 per share for periods ranging from five to ten years. The Company continues to explore ways to reduce its indebtedness, and might in the future enter additional settlements of potential claims, including, without limitation, those by other former executives or third party creditors.

### ***Settlement with the Institute for the Study of Aging***

On September 2, 2014, the Company entered into a Release Agreement (the "Release Agreement") with the Institute for the Study of Aging (the "Institute") to settle an outstanding promissory note, dated May 30, 2000, issued by the Company in favor of the Institute for the principal amount of \$247,300 (the "Note"), which was made pursuant to an Agreement to Accept Conditions of Loan Support, also dated May 30, 2000 (the "Loan Support Agreement"). At August 31, 2014, the amount owed under the Note, including accrued interest, was approximately \$337,000. Pursuant to the terms of the Release Agreement, the Institute received 1,000,000 restricted shares of the Company's common stock as settlement of all obligations of the Company under the Note and the Loan Support Agreement. Such common shares are "restricted securities" as defined under Rule 144 promulgated under the Securities Act of 1933, as amended, and are not subject to any registration rights. The Release Agreement also includes a mutual release between the Company and the Institute, releasing each party from all claims up until the date of the Release Agreement.

### ***University of Illinois 2014 Exclusive License Agreement***

On June 27, 2014, the Company entered into an Exclusive License Agreement (the “2014 License Agreement”) with the University of Illinois whose material terms were similar to the License Agreement between the parties that had been previously terminated on March 21, 2013. The 2014 License Agreement became effective on September 18, 2014, upon the completion of certain conditions set forth in the 2014 License Agreement, including (i) the payment by the Company of a \$25,000 licensing fee, (ii) the payment by the Company of certain outstanding patent costs (not to exceed \$16,000), and (iii) the assignment to the University of Illinois of certain rights the Company holds in certain patent applications. In exchange for certain milestone and royalty payments, the 2014 License Agreement granted the Company (i) exclusive rights to several issued and pending patents in numerous jurisdictions and (ii) the non-exclusive right to certain technical information that is generated by the University of Illinois in connection with certain clinical trials as specified in the 2014 License Agreement, all of which relate to the use of cannabinoids for the treatment of sleep related breathing disorders. The Company is developing dronabinol ( $\Delta^9$ -tetrahydrocannabinol), a cannabinoid, for the treatment of OSA, the most common form of sleep apnea.

F-27

***Appointment of New Directors***

On September 3, 2014, James Sapirstein and Kathryn MacFarlane were appointed as new directors of the Company. These two new directors are considered to be independent directors. In connection with those appointments and in conformity with its corporate policy of indemnifying all directors and officers, the Board of Directors also agreed at that time to enter into indemnification agreements for all directors and officers of the Company, namely, each existing director of the Company, Arnold S. Lippa, Jeff E. Margolis, and Robert N. Weingarten, each of whom is also an officer of the Company, and with the two new directors. Pursuant to the indemnity agreements, the Company will indemnify each director or officer when such individual is a party or threatened to become a party, by virtue of being a director or officer of the Company, from the costs and expenses, fines and certain other amounts in connection with certain proceedings, including proceedings in the right of the Company, so long as such director or officer acted in good faith and reasonably believed that such actions were in the best interests of the Company.

***Appointment of Chairman of the Company's Scientific Advisory Board***

On September 18, 2014, John Greer, Ph.D. was appointed to the position of Chairman of the Company's Scientific Advisory Board, which is currently being formed. Dr. Greer is the Director of the Neuroscience and Mental Health Institute at the University of Alberta. He holds two grants regarding research into neuromuscular control of breathing and is the inventor on the use patents licensed by the Company with respect to ampakines. Dr. Greer is expected to assist the Company in forming the rest of its Scientific Advisory Board.

In connection with the appointment of Dr. Greer as Chairman of the Company's Scientific Advisory Board on September 18, 2014, the Board of Directors awarded 2,000,000 shares of common stock of the Company to Dr. Greer, (through his wholly-owned consulting company, Progress Scientific, Inc.), vesting 25% upon appointment, 25% on September 30, 2014, 25% on December 31, 2014, and 25% on March 31, 2015. This award was made under the Company's 2014 Equity, Equity-Linked and Equity Derivative Incentive Plan.

***Appointment of Senior Vice President of Research and Development***

Richard Purcell was appointed as the Company's Senior Vice President of Research and Development effective October 15, 2014. Mr. Purcell's commitment to the Company is for 30 hours per week in order to allow him to comply with his previous professional commitments. Mr. Purcell provides his services to the Company through his consulting firm, DNA Healthlink, Inc., with which the Company has contracted for his services.

*National Institute on Drug Abuse Grant*

On September 18, 2014, the Company entered into a contract with the National Institute on Drug Abuse, which is a division of the National Institutes of Health. The funding is a Phase 1 award granted under the Small Business Innovation Research Funding Award Program. The purpose of the project is to determine the most useful injectable route of administration for CX1942, the Company's proprietary, soluble ampakine molecule, a potential rescue medication for drug-induced respiratory depression and lethality. The grant is entitled "Novel Treatment of Drug-Induced Respiratory Depression" and is valued at \$148,583, which is to be paid in increments over the expected six-month duration of the study which commenced in October 2014. The study will measure the potency, latency to onset and duration of action of CX1942 administered to rats. The data obtained from the study will be used to finalize preclinical studies in preparation for initiating Phase 1 clinical studies. The preclinical studies will be performed in collaboration with Dr. David Fuller of the University of Florida and Dr. John Greer of the University of Alberta.

F-28

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Overview**

The Company was formed in 1987 to engage in the discovery, development and commercialization of innovative pharmaceuticals for the treatment of neurological and psychiatric disorders. In 2011, prior management conducted a re-evaluation of the Company's strategic focus and determined that clinical development in the area of respiratory disorders, particularly respiratory depression and sleep apnea, provided the most cost-effective opportunities for potential rapid development and commercialization of the Company's compounds. Accordingly, the Company narrowed its clinical focus at that time and abandoned other avenues of scientific inquiry. This re-evaluation provided the impetus for the Company's acquisition of Pier Pharmaceuticals, Inc. ("Pier") in August 2012, as described below.

On March 22, 2013, the Company received a written consent of stockholders holding a majority of the Company's common stock signed by Origin Ventures II LP, Illinois Emerging Technologies Fund, LP, Illinois Ventures LLC, Samyang Optics Co. Ltd., Samyang Value Partners Co., Ltd., Steven Chizzik, Kenneth M. Cohen, Peter Letendre, David W. Carley and Aurora Capital LLC (the "Written Consent") (i) removing Charles J. Casamento, M. Ross Johnson, John F. Benedik and Mark A. Varney from their positions as directors of the Company, and (ii) appointing each of Arnold S. Lippa, Ph.D. and Jeff E. Margolis to fill two of the vacancies created, each to hold such office until the next annual meeting of the stockholders and until their successors have been duly elected and qualified. The Written Consent did not remove Moogak Hwang, Ph.D., a representative of Samyang Optics Co. Ltd., a lender to and significant stockholder of the Company, from the Board of Directors. Dr. Hwang continued to serve as a director until his resignation from the Board of Directors effective September 30, 2013.

Following the delivery of the Written Consent, the Board of Directors, acting by unanimous written consent dated March 22, 2013, removed all officers of the Company and appointed Dr. Lippa, as Chairman of the Board, President and Chief Executive Officer and Mr. Margolis, as Vice President, Treasurer and Secretary. On April 29, 2013, Robert N. Weingarten was appointed as a director, Vice President and Chief Financial Officer.

Since new management's appointment in March 2013, new management has continued to implement this revised strategic focus, including seeking the capital to fund such efforts. As a result of the Company's scientific discoveries and the acquisition of strategic, exclusive license agreements (including a new license agreement with the University of Illinois), management believes that the Company is now a leader in the discovery and development of innovative pharmaceuticals for the treatment of respiratory disorders.

Since its formation in 1987, the Company has been engaged in the research and clinical development of a class of compounds referred to as ampakines. By acting as positive allosteric modulators of AMPA glutamate receptors, ampakines increase the excitatory effects of the neurotransmitter glutamate. Preclinical research suggested that these ampakines might have therapeutic potential for the treatment of certain respiratory disorders, as well as cognitive disorders, depression, attention deficit disorder and schizophrenia.

In its early stages, the Company entered into a series of license agreements in 1993 and 1998 with the University of California, Irvine (“UCI”) that granted the Company proprietary rights to certain chemical compounds that acted as ampakines and their therapeutic uses. These agreements granted the Company, among other provisions, exclusive rights: (i) to practice certain patents and patent applications, as defined in the license agreement, that were then held by UCI; (ii) to identify, develop, make, have made, import, export, lease, sell, have sold or offer for sale any related licensed products; and (iii) to grant sub-licenses of the rights granted in the license agreements, subject to the provisions of the license agreements. The Company was required, among other terms and conditions, to pay UCI a license fee, royalties, patent costs and certain additional payments.

At December 31, 2012, the Company was not in compliance with its minimum annual payment obligations and believed that this default constituted a termination of the license agreements. On April 15, 2013, UCI notified the Company that these license agreements were terminated due to the Company’s failure to make its obligatory payments. Since the patents covered in these license agreements had begun to expire and the therapeutic uses described in these patents were no longer germane to the Company’s new focus on respiratory disorders, the loss of these license agreements is not expected to have a material impact on the Company’s current or future drug development programs.

The Company also owns patents and patent applications for certain families of chemical compounds, including ampakines, which claim the chemical structures and their use in the treatment of various disorders. These patents cover, among other compounds, the Company's lead ampakines CX1739 and CX1942, and extend through at least 2028.

On May 8, 2007, the Company entered into a license agreement, as subsequently amended, with the University of Alberta granting the Company exclusive rights to practice patents held by the University of Alberta claiming the use of ampakines for the treatment of various respiratory disorders. These patents, along with the Company's own patents claiming chemical structures, comprise the Company's principal intellectual property supporting the Company's research and clinical development program in the use of ampakines for the treatment of respiratory disorders. The Company has completed preclinical studies indicating that several of its ampakines, including CX717, CX1739 and CX1942, were efficacious in treating drug induced respiratory depression caused by opiates or certain anesthetics without offsetting the analgesic effects of the opiates or the anesthetic effects of the anesthetics. In two clinical Phase 2 studies, one of which was published in a peer-reviewed journal, CX717, a predecessor compound to CX1739 and CX1942, antagonized the respiratory depression produced by fentanyl, a potent narcotic, without affecting the analgesia produced by this drug. In addition, the Company has conducted a Phase 2A clinical study in which patients with sleep apnea were administered CX1739, the Company's lead clinical compound. Preliminary results suggested that CX1739 might have use for the treatment of central and mixed sleep apnea, but not obstructive sleep apnea.

In order to expand the Company's respiratory disorders program, the Company acquired 100% of the issued and outstanding equity securities of Pier effective August 10, 2012 pursuant to an Agreement and Plan of Merger, as described below.

#### ***Loan from SY Corporation Co., Ltd.***

On June 25, 2012, the Company borrowed 465,000,000 Won (the currency of South Korea, equivalent to approximately \$400,000 US dollars) from and executed a secured note payable to SY Corporation Co., Ltd., formerly known as Samyang Optics Co. Ltd. ("SAMYANG"), an approximately 20% common stockholder of the Company at that time. The note accrues simple interest at the rate of 12% per annum and has a maturity date of June 25, 2013, although SAMYANG was permitted to demand early repayment of the promissory note on or after December 25, 2012. SAMYANG did not demand early repayment. The Company has not made any payments on the promissory note. At June 30, 2013 and subsequently, the promissory note was outstanding and in technical default, although SAMYANG had not issued a notice of default or a demand for repayment. The Company believes that SAMYANG is in default of its obligations under its January 2012 license agreement, as amended, with the Company, but the Company has not yet issued a notice of default. The Company and SAMYANG anticipate entering into discussions with a view toward a comprehensive resolution of the aforementioned matters.

#### ***Merger with Pier Pharmaceuticals, Inc.***

The Company acquired 100% of the issued and outstanding equity securities of Pier effective August 10, 2012 pursuant to an Agreement and Plan of Merger. Pier was formed in June 2007 (under the name SteadySleep Rx Co.) as a clinical stage pharmaceutical company to develop a pharmacologic treatment for the respiratory disorder known as obstructive sleep apnea and had been engaged in research and clinical development activities since formation.

In connection with the merger transaction with Pier, the Company issued 58,417,893 newly issued shares of its common stock with an aggregate fair value of \$3,271,402 (\$0.056 per share), based upon the closing price of the Company's common stock on August 10, 2012. The shares of common stock were issued to stockholders, convertible note holders, warrant holders, option holders, and certain employees and vendors of Pier in satisfaction of their interests and claims. The common stock issued by the Company represented approximately 41% of the 144,041,556 common shares outstanding immediately following the closing of the transaction.

Through the merger, the Company gained access to an Exclusive License Agreement, as amended (the "License Agreement"), that Pier had entered into with the University of Illinois on October 10, 2007. The License Agreement covered certain patents and patent applications in the United States and other countries claiming the use of certain compounds referred to as cannabinoids, of which dronabinol is a specific example, for the treatment of sleep related breathing disorders (including sleep apnea). Dronabinol is a synthetic derivative of the naturally occurring substance in the cannabis plant, otherwise known as  $\Delta$ 9-THC ( $\Delta$ 9-tetrahydrocannabinol). Pier's business plan was to determine whether dronabinol would significantly improve subjective and objective clinical measures in patients with obstructive sleep apnea ("OSA"). In addition, Pier intended to evaluate the feasibility and comparative efficacy of a proprietary formulation of dronabinol.



The License Agreement granted Pier, among other provisions, exclusive rights: (i) to practice certain patents and patent applications, as defined in the License Agreement, that were then held by the University of Illinois; (ii) to identify, develop, make, have made, import, export, lease, sell, have sold or offer for sale any related licensed products; and (iii) to grant sub-licenses of the rights granted in the License Agreement, subject to the provisions of the License Agreement. Pier was required under the License Agreement, among other terms and conditions, to pay the University of Illinois a license fee, royalties, patent costs and certain milestone payments.

Prior to the merger, Pier conducted a 21 day, randomized, double-blind, placebo-controlled dose escalation Phase 2 clinical study in 22 patients with obstructive sleep apnea, in which dronabinol produced a statistically significant reduction in the Apnea-Hypopnea Index (“AHI”), the primary therapeutic end-point, and was observed to be safe and well tolerated. Dronabinol is currently under investigation, at the University of Illinois and other centers, in a potentially pivotal 120 patient, double-blind, placebo-controlled Phase 2B OSA clinical trial, fully funded by the National Institutes of Health.

Dronabinol is a Schedule III, controlled generic drug with a relatively low abuse potential that is approved by the U.S. Food and Drug Administration (“FDA”) for the treatment of AIDS-related anorexia and chemotherapy induced emesis. The use of dronabinol for the treatment of OSA is a novel indication for an already approved drug and, as such, the Company believes that it would only require approval by the FDA of a supplemental new drug application.

The Company accounted for the Pier transaction pursuant to ASC Topic 805, Business Combinations. The Company identified and evaluated the fair value of the assets acquired. Based on the particular facts and circumstances surrounding the history and status of Pier, including its business and intellectual property at the time of the merger transaction, the Company determined that the identifiable intangible assets were comprised solely of contract-based intangible assets, and that there was no measurable goodwill.

The intangible asset acquired in the Pier transaction consisted of the License Agreement. Unless terminated earlier, the License Agreement would terminate upon expiration or termination of all patent rights. The License Agreement defined patent rights as all of the University of Illinois’ rights in the patents and patent applications, and (b) all of the University of Illinois’ rights in all divisions, continuations, CIPs, reissues, renewals, re-examinations, foreign counterparts, substitutions or extensions thereof. Based upon the expiration date of the underlying patents, the License Agreement would be amortized on a straight-line basis over the remaining life of the underlying patents of 172 months from the date of acquisition.

The following table summarizes the fair value of the assets acquired and liabilities assumed by the Company at the closing of the Pier transaction on August 10, 2012.

Fair value of assets acquired:	
Cash	\$23,208
Other current assets	698
Equipment	3,463
License agreement	3,411,157
Total assets acquired	\$3,438,526

Consideration transferred by the Company:	
Fair value of common shares issued	\$3,271,402
Liabilities assumed	167,124
Total consideration paid	\$3,438,526

The License Agreement was terminated effective March 21, 2013 due to the Company's failure to make a required payment. New management subsequently opened negotiations with the University of Illinois, as a result of which the Company ultimately entered into a new license agreement with the University of Illinois on June 27, 2014 whose material terms were similar to the License Agreement that had been terminated on March 21, 2013.

Additional information with respect to the Pier transaction, including the impairment of the License Agreement that resulted in the Company recording an impairment charge to operations of \$3,321,678 at December 31, 2012, is included in Notes 4 and 5 to the Company's condensed consolidated financial statements for the three months ended March 31, 2013 and 2012, which is included elsewhere in this document.

## **Significant Developments Subsequent to March 31, 2013**

### ***Working Capital Advances***

On June 25, 2013, the Arnold Lippa Family Trust, an affiliate of Dr. Lippa, the Company's Chairman and Chief Executive Officer, began advancing funds to the Company in order to meet minimum operating needs. Such advances reached a maximum of \$150,000 on March 3, 2014 and were due on demand with interest at a rate per annum equal to the "Blended Annual Rate", as published by the U.S. Internal Revenue Service, approximately 0.22% for period outstanding. In March 2014, the Company repaid the working capital advances, including accrued interest of \$102, with the proceeds from the private placement of its Series G Preferred Stock described below.

### ***Series G Preferred Stock Placement***

On March 14, 2014, the Company filed a Certificate of Designation, Preferences, Rights and Limitations, (the "Certificate of Designation") of its Series G Preferred Stock ("Series G Preferred Stock") with the Secretary of State of the State of Delaware to amend the Company's certificate of incorporation. The number of shares designated as Series G Preferred Stock is 1,700 (which shall not be subject to increase without the written consent of a majority of the holders of the Series G Preferred Stock or as otherwise set forth in the Certificate of Designation). The Stated Value of each share of Series G Preferred Stock is \$1,000.

The Company shall pay a stated dividend on the Series G Preferred Stock at a rate per share (as a percentage of the Stated Value per share) of 1.5% per annum, payable quarterly within 15 calendar days of the end of each fiscal quarter of the Company, in duly authorized, validly issued, fully paid and non-assessable shares of Series G Preferred Stock, which may include fractional shares of Series G Preferred Stock.

The Series G Preferred Stock shall be convertible, beginning 60 days after the last share of Series G Preferred Stock is issued in the Private Placement, at the option of the holder, into common stock at the applicable conversion price, at a rate determined by dividing the Stated Value of the shares of Series G Preferred Stock to be converted by the conversion price, subject to adjustments for stock dividends, splits, combinations and similar events as described in the form of Certificate of Designation. The stated value of the Series G Preferred Stock is \$1,000 per share, and the fixed conversion price is \$0.0033. Accordingly, at the option of the holder, each share of Series G Preferred Stock is convertible commencing on the date that is 60 calendar days after the date on which the last share of Series G Preferred Stock is issued pursuant to a Purchase Agreement, into 303,030.3 shares of common stock. In addition, the Company has the right to require the holders of the Series G Preferred Stock to convert such shares into common stock under certain enumerated circumstances set forth in the Certificate of Designation.

Upon either (i) a Qualified Public Offering (as defined in the Certificate of Designation) or (ii) the affirmative vote of the holders of a majority of the Stated Value of the Series G Preferred Stock issued and outstanding, all outstanding shares of Series G Preferred Stock, plus all accrued or declared, but unpaid, dividends thereon, shall mandatorily be converted into such number of shares of common stock determined by dividing the Stated Value of such Series G Preferred Stock (together with the amount of any accrued or declared, but unpaid, dividends thereon) by the Conversion Price (as defined in the Certificate of Designation) then in effect. If not earlier converted, the Series G Preferred Stock shall be redeemed by conversion on the two year anniversary of the date the last share of Series G Preferred Stock is issued in the Private Placement at the then applicable Conversion Price.

Except as described in the Certificate of Designation, holders of the Series G Preferred Stock will vote together with holders of the Company common stock on all matters, on an as-converted to common stock basis, and not as a separate class or series (subject to limited exceptions).

In the event of any liquidation or winding up of the Company prior to and in preference to any Junior Securities (including common stock), the holders of the Series G Preferred Stock will be entitled to receive in preference to the holders of the Company common stock a per share amount equal to the Stated Value, plus any accrued and unpaid dividends thereon.

On March 18, 2014, the Company entered into Securities Purchase Agreements with various accredited investors (the "Initial Purchasers"), pursuant to which the Company sold an aggregate of 753.22 shares of its Series G Preferred Stock for a purchase price of \$1,000 per share, or an aggregate purchase price of \$753,220. This financing represents the initial closing on a private placement of up to \$1,500,000 (the "Private Placement"). The Initial Purchasers in this tranche of the Private Placement consisted of (i) Arnold S. Lippa, the Company's Chairman, Chief Executive Officer and a member of the Company's Board of Directors, who had not previously owned common stock in the Company and who invested \$250,000 for 250 shares of Series G Preferred Stock, and (ii) new, non-affiliated, accredited investors. Neither the Series G Preferred Stock nor the underlying shares of common stock have any registration rights.

The placement agents and selected dealers in connection with the initial tranche of the Private Placement received cash fees totaling \$3,955 as compensation and warrants totaling approximately 5.6365% of the shares of common stock into which the Series G Preferred Stock may convert, exercisable for five years at a fixed price of \$0.00396, which is 120% of the conversion price at which the Series G Preferred Stock may convert into the Company's common stock. Aurora Capital LLC was one of the placement agents.

On April 17, 2014, the Company entered into Securities Purchase Agreements with various accredited investors (together with the Initial Purchasers, the "Purchasers"), pursuant to which the Company sold an aggregate of 175.28 shares of its Series G Preferred Stock, for a purchase price of \$1,000 per share, or an aggregate purchase price of \$175,280. This was the second and final closing on the Private Placement. The Purchasers in the second and final tranche of the Private Placement consisted of new, non-affiliated, accredited investors and non-management investors who had also invested in the first closing. Neither the Series G Preferred Stock nor the underlying shares of common stock have any registration rights.

The placement agents and selected dealers in connection with the second tranche of the Private Placement received cash fees of \$3,465 as compensation and warrants totaling approximately 12% of the shares of common stock into which the Series G Preferred Stock may convert, exercisable for five years at a fixed price of \$0.00396, which is 120% of the conversion price at which the Series G Preferred Stock may convert into the Company's common stock. Aurora Capital LLC was one of the placement agents.

The stated value of the Series G Preferred Stock is \$1,000 per share, and the fixed conversion price is \$0.0033. Accordingly, at the option of the holder, each share of Series G Preferred Stock is convertible commencing on the date that is sixty calendar days after the date on which the last share of Series G Preferred Stock is issued pursuant to a Purchase Agreement, into 303,030.3 shares of common stock. The aggregate of 928.5 shares of Series G Preferred Stock sold in the Private Placement are convertible into a total of 281,363,634 shares of common stock. The Company had 144,041,556 shares of common stock, plus an additional 57,000,000 shares of common stock issued to management on April 14, 2014, issued and outstanding immediately prior to the closing of the Private Placement of Series G Preferred Stock described herein.

The warrants that the placement agents and selected dealers received in connection with the Private Placement represent the right to acquire 19,251,271 shares of common stock exercisable for five years at a fixed price of \$0.00396, which is 120% of the conversion price at which the Series G Preferred Stock may convert into the Company's common stock.

Purchasers in the Private Placement of the Series G Preferred Stock have executed written consents in favor of (i) approving and adopting an amendment to the Company's certificate of incorporation that increases the number of authorized shares of the Company to 1,405,000,000, 1,400,000,000 of which are shares of common stock and 5,000,000 of which are shares of preferred stock, and (ii) approving and adopting the Cortex Pharmaceuticals, Inc.

2014 Equity, Equity-Linked and Equity Derivative Incentive Plan.

The shares of Series G Preferred Stock were offered and sold without registration under the Securities Act of 1933, as amended, in reliance on the exemptions provided by Section 4(a)(2) of the Securities Act as provided in Rule 506(b) of Regulation D promulgated thereunder. The shares of Series G Preferred Stock and the Company's common stock issuable upon conversion of the shares of Series G Preferred Stock have not been registered under the Securities Act or any other applicable securities laws, and unless so registered, may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act.

Capitalized terms in this section that are not otherwise defined have the meanings ascribed to them in the Stock Purchase Agreements, the form of which was previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 24, 2014.

### ***Convertible Note and Warrant Financing***

On November 5, 2014, the Company entered into a Convertible Note and Warrant Purchase Agreement (the “Purchase Agreement”) with various accredited, non-affiliated investors (each, a “Purchaser”), pursuant to which the Company sold an aggregate principal amount of \$238,500 of its (i) 10% Convertible Notes due September 15, 2015 (each a “Note”, and together, the “Notes”) and (ii) Warrants to purchase shares of common stock (the “Warrants”). This financing represents the initial closing on a private placement of up to \$1,000,000, and the Company may close on one or more additional tranches of this private placement in the near future. Unless otherwise provided for in the Notes, the outstanding principal balance of each Note and all accrued and unpaid interest is due and payable in full on September 15, 2015. At any time, each Purchaser may elect, at its option and in its sole discretion, to convert the outstanding principal amount under the Note into a fixed number of shares of the Company’s common stock equal to the quotient obtained by dividing the outstanding principal amount by \$0.035 (an aggregate of 6,814,286 shares), plus any accrued and unpaid interest under the Note, which is treated in the same manner as the outstanding principal amount. In the case of a Qualified Financing (as defined in the Purchase Agreement), the outstanding principal amount and accrued and unpaid interest under the Notes automatically convert into common stock at a common stock equivalent price of \$0.035. In the case of an Acquisition (as defined in the Purchase Agreement), the Company may elect to either: (i) convert the outstanding principal amount and all accrued and unpaid interest under the Notes into shares of common stock or (ii) accelerate the maturity date of the Notes to the date of closing of the Acquisition. Each Warrant to purchase shares of common stock shall be exercisable into a fixed number of shares of common stock of the Company calculated as each Purchaser’s investment amount divided by \$0.035 (an aggregate of 6,814,286 shares). The Warrants do not have any cashless exercise provisions and are exercisable through September 15, 2015 at a fixed price of \$0.035 per share.

Placement agent fees, brokerage commissions, finder’s fees and similar payments were made in the form of cash and warrants to qualified referral sources in connection with the sale of the Notes and Warrants. A total of \$16,695 of such fees was paid in cash, based on 7% of the aggregate principal amount of the Notes issued to such referral sources. The fees paid in warrants (the “Placement Agent Warrants”) consisted of 477,000 warrants, reflecting warrants for that number of shares equal to 7% of the number of shares of common stock into which the corresponding Notes are convertible. The Placement Agent Warrants have cashless exercise provisions and are exercisable through September 15, 2015 at a fixed price of \$0.035 per share.

The Notes and Warrants were offered and sold without registration under the Securities Act in reliance on the exemptions provided by Section 4(a)(2) of the Securities Act as provided in Rule 506 of Regulation D promulgated thereunder. The Notes and Warrants and the shares of common stock issuable upon conversion of the Notes and exercise of the Warrants have not been registered under the Securities Act or any other applicable securities laws, and unless so registered, may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act.

### ***Debt Settlements***

During the three months ended March 31, 2014, the Company executed settlement agreements with four former executives that resulted in the settlement of potential claims totaling approximately \$1,336,000 for a total of approximately \$118,000 in cash, plus the issuance of options to purchase 4,300,000 shares of common stock exercisable at \$0.04 per share for periods ranging from five to ten years. In addition to other provisions, the settlement agreements included mutual releases.

During the three months ended June 30, 2014, the Company also executed settlement agreements with certain former service providers that resulted in the settlement of potential claims totaling approximately \$591,000 for a cost of approximately \$155,000 in cash, plus the issuance of options to purchase 1,250,000 shares of common stock exercisable at \$0.04 per share for a period of five years. In addition to other provisions, the settlement agreements included mutual releases.

The aforementioned agreements resulted in the settlement of potential claims totaling approximately \$1,927,000 for a cost of approximately \$273,000 in cash, plus the issuance of options to purchase 5,550,000 shares of common stock exercisable at \$0.04 per share for periods ranging from five to ten years. The Company continues to explore ways to reduce its indebtedness, and might in the future enter additional settlements of potential claims, including, without limitation, those by other former executives or third party creditors.



### ***University of Illinois 2014 Exclusive License Agreement***

On June 27, 2014, the Company entered into an Exclusive License Agreement (the “2014 License Agreement”) with the University of Illinois whose material terms were similar to the License Agreement between the parties that had been previously terminated on March 21, 2013. The 2014 License Agreement became effective on September 18, 2014, upon the completion of certain conditions set forth in the 2014 License Agreement, including (i) the payment by the Company of a \$25,000 licensing fee, (ii) the payment by the Company of certain outstanding patent costs (not to exceed \$16,000), and (iii) the assignment to the University of Illinois of certain rights the Company holds in certain patent applications. In exchange for certain milestone and royalty payments, the 2014 License Agreement granted the Company (i) exclusive rights to several issued and pending patents in numerous jurisdictions and (ii) the non-exclusive right to certain technical information that is generated by the University of Illinois in connection with certain clinical trials as specified in the 2014 License Agreement, all of which relate to the use of cannabinoids for the treatment of sleep related breathing disorders. The Company is developing dronabinol ( $\Delta^9$ -tetrahydrocannabinol), a cannabinoid, for the treatment of OSA, the most common form of sleep apnea.

### ***Settlement with the Institute for the Study of Aging***

On September 2, 2014, the Company entered into a Release Agreement (the “Release Agreement”) with the Institute for the Study of Aging (the “Institute”) to settle an outstanding promissory note, dated May 30, 2000, issued by the Company in favor of the Institute for the principal amount of \$247,300 (the “Note”), which was made pursuant to an Agreement to Accept Conditions of Loan Support, also dated May 30, 2000 (the “Loan Support Agreement”). At August 31, 2014, the amount owed under the Note, including accrued interest, was approximately \$337,000. Pursuant to the terms of the Release Agreement, the Institute received 1,000,000 restricted shares of the Company’s common stock as settlement of all obligations of the Company under the Note and the Loan Support Agreement. Such common shares are “restricted securities” as defined under Rule 144 promulgated under the Securities Act of 1933, as amended, and are not subject to any registration rights. The Release Agreement also includes a mutual release between the Company and the Institute, releasing each party from all claims up until the date of the Release Agreement.

### ***Appointment of New Directors***

On September 3, 2014, James Sapirstein and Kathryn MacFarlane were appointed as new directors of the Company. These two new directors are considered to be independent directors. In connection with those appointments and in conformity with its corporate policy of indemnifying all directors and officers, the Board of Directors also agreed at that time to enter into indemnification agreements for all directors and officers of the Company, namely, each existing director of the Company, Arnold S. Lippa, Jeff E. Margolis, and Robert N. Weingarten, each of whom is also an officer of the Company, and with the two new directors. Pursuant to the indemnity agreements, the Company will indemnify each director or officer when such individual is a party or threatened to become a party, by virtue of being a director or officer of the Company, from the costs and expenses, fines and certain other amounts in connection with

certain proceedings, including proceedings in the right of the Company, so long as such director or officer acted in good faith and reasonably believed that such actions were not opposed to the best interests of the Company.

***Appointment of Chairman of the Company's Scientific Advisory Board***

On September 18, 2014, John Greer, Ph.D. was appointed to the position of Chairman of the Company's Scientific Advisory Board, which is currently being formed. Dr. Greer is the Director of the Neuroscience and Mental Health Institute at the University of Alberta. He holds two grants regarding research into neuromuscular control of breathing and is the inventor on the use patents licensed by the Company with respect to ampakines. Dr. Greer is expected to assist the Company in forming the rest of its Scientific Advisory Board.

***Appointment of Senior Vice President of Research and Development***

Richard Purcell was appointed as the Company's Senior Vice President of Research and Development effective October 15, 2014. Mr. Purcell's commitment to the Company is for 30 hours per week in order to allow him to comply with his previous professional commitments. Mr. Purcell provides his services to the Company through his consulting firm, DNA Healthlink, Inc., with which the Company has contracted for his services.

***National Institute on Drug Abuse Grant***

On September 18, 2014, the Company entered into a contract with the National Institute on Drug Abuse, which is a division of the National Institutes of Health. The funding is a Phase 1 award granted under the Small Business Innovation Research Funding Award Program. The purpose of the project is to determine the most useful injectable route of administration for CX1942, the Company's proprietary, soluble ampakine molecule, a potential rescue medication for drug-induced respiratory depression and lethality. The grant is entitled "Novel Treatment of Drug-Induced Respiratory Depression" and is valued at \$148,583, which is to be paid in increments over the expected six-month duration of the study which commenced in October 2014. The study will measure the potency, latency to onset and duration of action of CX1942 administered to rats. The data obtained from the study will be used to finalize preclinical studies in preparation for initiating Phase 1 clinical studies. The preclinical studies will be performed in collaboration with Dr. David Fuller of the University of Florida and Dr. John Greer of the University of Alberta.

## Going Concern

The Company's condensed consolidated financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has incurred net losses of \$837,386 for the three months ended March 31, 2013 and \$7,572,244 for the fiscal year ended December 31, 2012, negative operating cash flows of \$144,592 for the three months ended March 31, 2013 and \$1,861,870 for the fiscal year ended December 31, 2012, and incurred additional net losses and negative operating cash flows in the remainder of the 2013 and 2014 fiscal years. The Company expects to continue to incur net losses and negative operating cash flows for several more years thereafter. As a result, management and the Company's auditors believe that there is substantial doubt about the Company's ability to continue as a going concern.

The Company is currently, and has for some time, been in significant financial distress. It has limited cash resources and current assets and has no ongoing source of revenue. Beginning in late 2012, the Company's business activities were reduced to minimal levels, and the prior Board of Directors of the Company, which was removed by the written consent of stockholders holding a majority of the outstanding shares on March 22, 2013, had retained bankruptcy counsel to assist the Company in preparations to file for liquidation under Chapter 7 of the United States Bankruptcy Code. New management, which was appointed during March and April 2013, has evaluated the status of numerous aspects of the Company's existing business and obligations, including, without limitation, debt obligations, financial requirements, intellectual property, licensing agreements, legal and patent matters and regulatory compliance, and has raised new capital to fund its business activities.

From June 2013 through March 2014, the Company's Chairman and Chief Executive Officer advanced short-term loans to the Company aggregating \$150,000 in order to meet its minimum operating needs. In March and April 2014, the Company completed a private placement by selling 928.5 shares of its Series G Preferred Stock for gross proceeds of \$928,500 (see Note 12) and repaid the aggregate advances. The Company's Chairman and Chief Executive Officer invested \$250,000 in the Series G Preferred Stock private placement. On November 5, 2014, the Company sold convertible notes (with warrants) in a private placement with an aggregate principal amount of \$238,500 to various accredited, non-affiliated investors (see Note 12). The Company intends to continue this financing until it has sold an aggregate principal amount of \$1,000,000 of such Notes, although there can be no assurances that the Company will be successful in this regard.

The Company will need to raise additional capital to be able to pay its liabilities and fund its business activities going forward. As a result of the Company's current financial situation, the Company has limited access to external sources of debt and equity financing. Accordingly, there can be no assurances that the Company will be able to secure additional financing in the amounts necessary to fully fund its operating and debt service requirements. If the Company is unable to access sufficient cash resources, the Company may be forced to discontinue its operations entirely and liquidate.

## Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2014-08 (ASU 2014-08), *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360)*. ASU 2014-08 amends the requirements for reporting discontinued operations and requires additional disclosures about discontinued operations. Under ASU 2014-08, only disposals representing a strategic shift in operations or that have a major effect on the Company’s operations and financial results should be presented as discontinued operations. ASU 2014-08 is effective for annual periods beginning after December 15, 2014. As the Company is engaged in research and development activities, the Company does not expect the adoption of this guidance to have any impact on the Company’s financial statement presentation or disclosures.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers*. ASU 2014-09 will eliminate transaction- and industry-specific revenue recognition guidance under current U.S. GAAP and replace it with a principle based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. ASU 2014-09 also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for reporting periods beginning after December 15, 2016, and early adoption is not permitted. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. As the Company does not expect to have any operating revenues for the foreseeable future, the Company does not expect the adoption of this guidance to have any impact on the Company’s financial statement presentation or disclosures.

In June 2014, the FASB issued Accounting Standards Update No. 2014-10 (ASU 2014-10), *Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation*. ASU 2014-10 eliminated the requirement to present inception-to-date information about income statement line items, cash flows, and equity transactions, and clarifies how entities should disclose the risks and uncertainties related to their activities. ASU 2014-10 also eliminated an exception provided to development stage entities in Consolidations (ASC Topic 810) for determining whether an entity is a variable interest entity on the basis of the amount of investment equity that is at risk. The presentation and disclosure requirements in Topic 915 will no longer be required for interim and annual reporting periods beginning after December 15, 2014, and the revised consolidation standards will take effect in annual periods beginning after December 15, 2015. Early adoption is permitted. The adoption of ASU 2014-10 is not expected to have any impact on the Company's financial statement presentation or disclosures.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15 (ASU 2014-15), *Presentation of Financial Statements – Going Concern (Subtopic 205-10)*. ASU 2014-15 provides guidance as to management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. In connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued (or at the date that the financial statements are available to be issued when applicable). Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or available to be issued). ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company is currently evaluating the impact the adoption of ASU 2014-15 on the Company's financial statement presentation and disclosures.

Management does not believe that any other recently issued, but not yet effective, authoritative guidance, if currently adopted, would have a material impact on the Company's financial statement presentation or disclosures.

### **Concentration of Risk**

The Company's research and development efforts and potential products rely on licenses from research institutions and if the Company loses access to these technologies or applications, its business could be substantially impaired.

Under the Company's agreements with The Regents of the University of California, the Company had exclusive rights to certain ampakine compounds for all applications for which the University had patent rights, other than endocrine modulation. The license securing these rights has since been terminated.

Under a patent license agreement with The Governors of the University of Alberta, the Company has exclusive rights to the use of certain ampakine compounds to prevent and treat respiratory depression induced by opiate analgesics, barbiturates and anesthetic and sedative agents.

On May 8, 2007, the Company entered into a license agreement, as subsequently amended, with the University of Alberta granting the Company exclusive rights to practice patents held by the University of Alberta claiming the use of ampakines for the treatment of various respiratory disorders. The Company agreed to pay the University of Alberta a licensing fee and a patent issuance fee, which were paid, and prospective payments consisting of a royalty on net sales, sublicense fee payments, maintenance payments and milestone payments. The prospective maintenance payments commence on the enrollment of the first patient into the first Phase 2B clinical trial and increase upon the successful completion of the Phase 2B clinical trial. As the Company does not at this time anticipate scheduling a Phase 2B clinical trial, no maintenance payments are currently due and payable to the University of Alberta. In addition, no other prospective payments are currently due and payable to the University of Alberta.

Through the merger with Pier, the Company gained access to the License Agreement that Pier had entered into with the University of Illinois on October 10, 2007. The Pier License Agreement covered certain patents and patent applications in the United States and other countries claiming the use of certain compounds referred to as cannabinoids for the treatment of sleep related breathing disorders (including sleep apnea), of which dronabinol is a specific example of one type of cannabinoid. Dronabinol is a synthetic derivative of the naturally occurring substance in the cannabis plant, otherwise known as  $\Delta 9$ -THC ( $\Delta 9$ -tetrahydrocannabinol). Dronabinol is currently approved by the FDA and is sold generically for use in refractory chemotherapy-induced nausea and vomiting, as well as for anorexia in patients with AIDS. Pier's business plan was to determine whether dronabinol would significantly improve subjective and objective clinical measures in patients with obstructive sleep apnea. In addition, Pier intended to evaluate the feasibility and comparative efficacy of a proprietary formulation of dronabinol. The Pier License Agreement was terminated effective March 21, 2013 due to the Company's failure to make a required payment and on June 27, 2014, the Company entered into a new license agreement with the University of Illinois whose material terms were similar to the Pier License Agreement that had been terminated. If the Company is unable to comply with the terms of the new license agreement, such as required payments thereunder, the Company risks the new license agreement being terminated.

### **Critical Accounting Policies and Estimates**

The Company prepared its condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company's condensed consolidated financial statements.

#### ***License Agreement***

The License Agreement with the University of Illinois acquired in the Pier transaction was an acquired intangible asset recorded at cost of \$3,411,157 (based on the fair value ascribed to the License Agreement in August 2012) and was being amortized on a straight-line basis over the remaining life of its underlying patents of 172 months from the date of acquisition.

Due to the Company's inability to make a required payment under the License Agreement of \$75,000 at December 31, 2012, the Company determined that the carrying value of the License Agreement had no expected future value and was therefore impaired at such date. Accordingly, the Company recorded an impairment charge to operations of \$3,321,678 at December 31, 2012 to write-off the License Agreement.

### ***Research Grant Revenue***

The Company records research grant revenues when the expenses related to the grant projects are incurred. Amounts received under research grants are nonrefundable, regardless of the success of the underlying research, to the extent that such amounts are expended in accordance with the approved grant project.

### ***Research and Development***

Research and development costs consist primarily of fees paid to consultants and outside service providers, patent fees and costs, and other expenses relating to the acquisition, design, development and testing of the Company's treatments and product candidates.

Research and development costs are expensed as incurred over the life of the underlying contracts on the straight-line basis, unless the achievement of milestones, the completion of contracted work, or other information indicates that a different expensing schedule is more appropriate. Payments made pursuant to research and development contracts are initially recorded as advances on research and development contract services in the Company's balance sheet and then charged to research and development costs in the Company's statement of operations as those contract services are performed. Expenses incurred under research and development contracts in excess of amounts advanced are recorded as research and development contract liabilities in the Company's balance sheet, with a corresponding charge to research and development costs in the Company's statement of operations. The Company reviews the status of its research and development contracts on a quarterly basis.



### ***Patent Costs***

Due to the significant uncertainty associated with the successful development of one or more commercially viable products based on the Company's research efforts and any related patent applications, all patent costs, including patent-related legal and filing fees, are expensed as incurred.

### ***Stock-Based Compensation***

The Company periodically issues stock options to officers, directors and consultants for services rendered. Options vest and expire according to terms established at the grant date.

The Company accounts for stock-based payments to officers and directors by measuring the cost of services received in exchange for equity awards based on the grant date fair value of the awards, with the cost recognized as compensation expense on the straight-line basis in the Company's financial statements over the vesting period of the awards. The Company accounts for stock-based payments to consultants by determining the value of the stock compensation based upon the measurement date at either (a) the date at which a performance commitment is reached or (b) at the date at which the necessary performance to earn the equity instruments is complete.

Options granted to members of the Company's Scientific Advisory Board and to outside consultants are revalued each reporting period to determine the amount to be recorded as an expense in the respective period. As the options vest, they are valued on each vesting date and an adjustment is recorded for the difference between the value already recorded and the then current value on the date of vesting.

The fair value of stock-based compensation is determined utilizing the Black-Scholes option-pricing model, and is affected by several variables, the most significant of which are the life of the equity award, the exercise price of the security as compared to the fair market value of the common stock on the grant date, and the estimated volatility of the common stock over the term of the equity award. Estimated volatility is based on the historical volatility of the Company's common stock. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant.

The Company recognizes the fair value of stock-based compensation awards in general and administrative costs and in research and development costs, as appropriate, in the Company's statement of operations.

The Company issues new shares to satisfy stock option exercises.

*Income Taxes*

The Company accounts for income taxes under an asset and liability approach for financial accounting and reporting for income taxes. Accordingly, the Company recognizes deferred tax assets and liabilities for the expected impact of differences between the financial statements and the tax basis of assets and liabilities.

The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. In the event the Company was to determine that it would be able to realize its deferred tax assets in the future in excess of its recorded amount, an adjustment to the deferred tax assets would be credited to operations in the period such determination was made. Should the Company determine that it would not be able to realize all or part of its deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to operations in the period such determination was made.

## Results of Operations

### Three Months Ended March 31, 2013 and 2012

Revenues. The Company had no revenues during the three months ended March 31, 2013 and 2012.

General and Administrative. For the three months ended March 31, 2013, general and administrative expenses were \$759,289, an increase of \$27,916 or approximately 4%, as compared to \$731,373 for the three months ended March 31, 2012. The increase in general and administrative expenses for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, is primarily the result of accrued severance costs of \$585,000 relating to the termination of certain corporate officers in March 2013, offset by cost reductions realized during the quarter as a result of the Company's efforts to reduce facility and personnel costs, which had begun in May 2012. General and administrative expenses for the three months ended March 31, 2013 included an accrual of \$85,000 for the reimbursement of legal fees incurred by Aurora Capital LLC in conjunction with the removal of the Company's old Board of Directors on March 22, 2013.

Through May 31, 2012, the Company leased approximately 32,000 square feet of research laboratory, office and expansion space. Effective June 1, 2012, the Company entered into a new operating lease agreement for approximately 5,000 square feet. Additionally, on June 15, 2012, each of the Company's executive officers at that time agreed to defer 50% of their base salary, effective June 1, 2012, until the Company secured sufficient capital or certain corporate transactions occurred, in an effort to preserve the Company's financial resources.

Commencing in October 2012, the Company ceased payment of all salaries and consulting fees, and by March 31, 2013, all officers, management and employees had either resigned or been terminated.

For the three months ended March 31, 2013 and 2012, stock-based compensation costs included in general and administrative expenses were \$-0- and \$13,206, respectively.

Research and Development. For the three months ended March 31, 2013, research and development expenses were \$83,928, a decrease of \$119,053 or approximately 59%, as compared to \$202,981 for the three months ended March 31, 2012. The decrease in research and development expenses for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, reflects the Company's efforts to reduce facility, personnel costs, outside experts and consultants, which had begun in May 2012.

The research and development costs incurred during the three months ended March 31, 2013 consisted of costs related to the UCI license agreements and other patent costs and legal fees, reduced by a reversal of previously accrued patent legal fees of approximately \$20,000.

Through May 31, 2012, the Company leased approximately 32,000 square feet of research laboratory, office and expansion space. Effective June 1, 2012, the Company executed a new operating lease agreement for approximately 5,000 square feet. Additionally, on June 15, 2012, each of the Company's executive officers at that time agreed to defer 50% of their base salary, effective June 1, 2012, until the Company secured sufficient capital or certain corporate transactions occurred, in an effort to preserve the Company's financial resources.

Commencing in October 2012, the Company ceased payment of all salaries and consulting fees, and by March 31, 2013, all officers, management and employees had either resigned or been terminated.

For the three months ended March 31, 2013 and 2012, stock-based compensation costs included in research and development expenses were \$-0- and \$3,513, respectively.

Interest Income. Interest income was \$-0- for the three months ended March 31, 2013, as compared to \$57 for the three months ended March 31, 2012.

Interest Expense. During the three months ended March 31, 2013, interest expense was \$15,037 (including \$11,993 to Samyang, a related party), an increase of \$14,032, as compared to \$1,005 for the three months ended March 31, 2012. The increase consisted primarily of accrued interest of \$11,993 on the Company's note payable to Samyang, which had been funded on June 25, 2012.

Foreign Currency Transaction Loss. Foreign currency transaction gain was \$20,868 for the three months ended March 31, 2013, reflecting the \$399,774 loan from Samyang in June 2012 being denominated in the South Korean currency. There was no foreign currency transaction gain or loss for the three months ended March 31, 2012, as the loan from Samyang was funded in June 2012.

Gain on Sale of Assets. The Company realized a gain on sale of assets of \$1,532 during the three months ended March 31, 2012. There were no gains or losses from the sale of assets during the three months ended March 31, 2013.

Net Loss. For the three months ended March 31, 2013, the Company incurred a net loss of \$837,386, as compared to a net loss of \$933,770 for the three months ended March 31, 2012.

### **Liquidity and Capital Resources – March 31, 2013**

The Company's condensed consolidated financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company incurred net losses of \$837,386 for the three months ended March 31, 2013 and \$7,572,244 for the fiscal year ended December 31, 2012, negative operating cash flows of \$144,592 for the three months ended March 31, 2013 and \$1,861,870 for the fiscal year ended December 31, 2012, and incurred additional net losses from operations and negative operating cash flows in the remainder of the 2013 fiscal year and for the 2014 fiscal year. The Company expects to continue to incur net losses and negative operating cash flows for several more years thereafter. As a result, management and the Company's auditors believe that there is substantial doubt about the Company's ability to continue as a going concern.

At March 31, 2013, the Company had a working capital deficit of \$3,858,626 as compared to working capital deficit of \$3,021,240 at December 31, 2012, a decrease in working capital of \$837,386 for the three months ended March 31, 2013. At March 31, 2013, the Company had cash and cash equivalents aggregating \$7,587, as compared to \$152,179 at December 31, 2012, a decrease of \$144,592 for the three months ended March 31, 2013. The decrease in working capital and cash and cash equivalents during the three months ended March 31, 2013 was the result of cash utilized by the Company to fund its operating activities.

The Company is currently, and has for some time, been in significant financial distress. It has limited cash resources and current assets and has no ongoing source of revenue. Beginning in late 2012, the Company's business activities were reduced to minimal levels, and the prior Board of Directors of the Company, which was removed by the written consent of stockholders holding a majority of the outstanding shares on March 22, 2013, had retained bankruptcy counsel to assist the Company in preparations to file for liquidation under Chapter 7 of the United States Bankruptcy Code. New management, which was appointed during March and April 2013, has evaluated the status of numerous aspects of the Company's existing business and obligations, including, without limitation, debt obligations, financial requirements, intellectual property, licensing agreements, legal and patent matters and regulatory compliance, and has raised new capital to fund its business activities.

From June 2013 through March 2014, the Company's Chairman and Chief Executive Officer advanced short-term loans to the Company aggregating \$150,000 in order to meet its minimum operating needs. In March and April 2014, the Company completed a private placement by selling 928.5 shares of its Series G Preferred Stock for gross proceeds of \$928,500 and repaid the aggregate advances. The Company's Chairman and Chief Executive Officer invested \$250,000 in the Series G Preferred Stock private placement. On November 5, 2014, the Company sold convertible notes (with warrants) in a private placement with an aggregate principal amount of \$238,500 to various accredited, non-affiliated investors. The Company intends to continue this financing until it has sold an aggregate principal amount of \$1,000,000 of such Notes, although there can be no assurances that the Company will be successful in this regard.

The Company will need to raise additional capital to be able to pay its liabilities and fund its business activities going forward. As a result of the Company's current financial situation, the Company has limited access to external sources of debt and equity financing. Accordingly, there can be no assurances that the Company will be able to secure additional financing in the amounts necessary to fully fund its operating and debt service requirements. If the Company is unable to access sufficient cash resources, the Company may be forced to discontinue its operations entirely and liquidate.

Operating Activities. For the three months ended March 31, 2013, operating activities utilized cash of \$144,592, as compared to utilizing cash of \$837,640 for the three months ended March 31, 2012, to support the Company's ongoing operations, including research and development activities.

Investing Activities. There were no investing activities during the three months ended March 31, 2013. For the three months ended March 31, 2012, investing activities generated cash of \$5,135 from sales of equipment.

Financing Activities. There were no financing activities during the three months ended March 31, 2013 and 2012.

## **Principal Commitments**

### *Lease Commitment*

On May 14, 2012, the Company executed a three-year lease for office space beginning June 1, 2012 at a monthly rate of \$9,204. In March 2013, the Company vacated its operating facilities prior to the scheduled termination of the lease. In May 2013, a settlement with the landlord was reached and the lease was terminated.

### *University of California, Irvine License Agreements*

The Company entered into a series of license agreements in 1993 and 1998 with the University of California, Irvine (“UCI”) that granted the Company proprietary rights to certain chemical compounds that acted as ampakines and their therapeutic uses. These agreements granted the Company, among other provisions, exclusive rights: (i) to practice certain patents and patent applications, as defined in the license agreement, that were then held by UCI; (ii) to identify, develop, make, have made, import, export, lease, sell, have sold or offer for sale any related licensed products; and (iii) to grant sub-licenses of the rights granted in the license agreements, subject to the provisions of the license agreements. The Company was required, among other terms and conditions, to pay UCI a license fee, royalties, patent costs and certain additional payments.

Under such license agreements, the Company was required to make minimum annual royalty payments of approximately \$70,000. The Company was also required to spend a minimum of \$250,000 per year to advance the ampakine compounds until the Company began to market an ampakine compound. The commercialization provisions in the agreements with UCI required the Company to file for regulatory approval of an ampakine compound before October 2012. In March 2011, UCI agreed to extend the required date for filing regulatory approval of an ampakine compound to October 2015. At December 31, 2012, the Company was not in compliance with its minimum annual payment obligations and believed that this default constituted a termination of the license agreements.

On April 15, 2013, the Company received a letter from UCI indicating that the license agreements between UCI and the Company had been terminated due to the Company’s failure to make certain payments required to maintain the agreements. Since the patents covered in these license agreements had begun to expire and the therapeutic uses described in these patents were no longer germane to the Company’s new focus on respiratory disorders, the loss of these license agreements is not expected to have a material impact on the Company’s current drug development programs. In the opinion of management, the Company has made adequate provision for any liability relating to this matter in its financial statements at March 31, 2013.

***University of Alberta License Agreement***

On May 8, 2007, the Company entered into a license agreement, as amended, with the University of Alberta granting the Company exclusive rights to practice patents held by the University of Alberta claiming the use of ampakines for the treatment of various respiratory disorders. The Company agreed to pay the University of Alberta a licensing fee and a patent issuance fee, which were paid, and prospective payments consisting of a royalty on net sales, sublicense fee payments, maintenance payments and milestone payments. The prospective maintenance payments commence on the enrollment of the first patient into the first Phase 2B clinical trial and increase upon the successful completion of the Phase 2B clinical trial. As the Company does not at this time anticipate scheduling a Phase 2B clinical trial, no maintenance payments are currently due and payable to the University of Alberta. In addition, no other prospective payments are currently due and payable to the University of Alberta.

**Off-Balance Sheet Arrangements**

At March 31, 2013, the Company did not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements.



### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

Not applicable.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **(a) Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") that are designed to ensure that information required to be disclosed in the reports that the Company files with the Securities and Exchange Commission (the "SEC") under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, to allow for timely decisions regarding required disclosures.

The Company carried out an evaluation, under the supervision and with the participation of its management, consisting of its principal executive officer and principal financial officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based upon that evaluation, the Company's principal executive officer and principal financial officer concluded that, as of the end of the period covered in this report, the Company's disclosure controls and procedures were not effective to ensure that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to the Company's management, consisting of the Company's principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. In particular, the Company failed to complete and file its September 30, 2012 Quarterly Report on Form 10-Q and its December 31, 2012 Annual Report on Form 10-K, as well as its March 31, 2013 Quarterly Report on Form 10-Q, in a timely manner because the Company's accounting and financial staff had resigned by October 26, 2012 and its financial and accounting systems had been shut-down at December 31, 2012.

However, as there was a change in the Company's management in March and April 2013, new management has been focusing on developing replacement controls and procedures that are adequate to ensure that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to the Company's management, consisting of the Company's principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

The Company's management, consisting of its principal executive officer and principal financial officer, does not expect that its disclosure controls and procedures or its internal controls will prevent all error or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Furthermore, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. In addition, as conditions change over time, so too may the effectiveness of internal controls. However, management believes that the financial statements included in this report fairly present, in all material respects, the Company's financial condition, results of operations and cash flows for the periods presented.

(b) Changes in Internal Controls over Financial Reporting

The Company's management, consisting of its principal executive officer and principal financial officer, has determined that a change in the Company's internal control over financial reporting (as that term is defined in Rules 13(a)-15(f) and 15(d)-15(f) of the Securities Exchange Act of 1934) occurred during or subsequent to the end of the period covered in this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Under the direction of the Board of Directors, prior management, which had shut-down the Company and was preparing to cause it to file for liquidation under Chapter 7 of the United States Bankruptcy Code, was replaced on March 22, 2013 in conjunction with the change in control of the Board of Directors on that date. Since then, new management has instituted a program to reestablish the Company's accounting and financial staff and install new accounting and internal control systems.

As described above, there were changes in the Company's internal control over financial reporting during the fourth quarter of 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

In response to such changes, the Company's new management has retained accounting personnel, established accounting and internal control systems, addressed the preparation of delinquent financial statements, and been diligently working to bring delinquent SEC filings current as promptly as reasonably possible under the circumstances. However, as of the date of the filing of this Quarterly Report on Form 10-Q, the Company had not yet completed the process to establish adequate internal controls over financial reporting.

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

The Company's former Vice President and Chief Financial Officer has asserted certain claims for compensation against the Company through the date of her resignation from the Company on October 26, 2012. The Company is engaged in negotiations with this former officer to resolve this matter in its entirety to avoid litigation, but there can be no assurances that the Company will be successful in such endeavor. To the extent that the former officer files a formal complaint or other legal claim against the Company, the Company intends to defend itself through the appropriate legal process and will consider all available options, including filing legal counter-claims. In the opinion of management, the Company has made adequate provision for any liability relating to this matter in its financial statements at March 31, 2013.

The Company is periodically the subject of various pending and threatened legal actions and claims. In the opinion of management of the Company, adequate provision has been made in the Company's condensed consolidated financial statements with respect to such matters.

Additional information with respect to certain legal matters is provided at "ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Significant Developments Subsequent to March 31, 2013 – Debt Settlements."

### **ITEM 1A. RISK FACTORS**

Not applicable.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not applicable.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

On June 25, 2012, the Company borrowed 465,000,000 Won (the currency of South Korea, equivalent to approximately \$400,000 US dollars) from and executed a secured note payable to SY Corporation Co., Ltd., formerly known as Samyang Optics Co. Ltd. ("SAMYANG"), an approximately 20% common stockholder of the Company at that time. The note accrues simple interest at the rate of 12% per annum and has a maturity date of June 25, 2013, although SAMYANG was permitted to demand early repayment of the promissory note on or after December 25, 2012. SAMYANG did not demand early repayment. The Company has not made any payments on the promissory note. At June 30, 2013 and subsequently, the promissory note was outstanding and in technical default, although SAMYANG had not issued a notice of default or a demand for repayment. The Company believes that SAMYANG is in default of its obligations under its January 2012 license agreement, as amended, with the Company, but the Company has not yet issued a notice of default. The Company and SAMYANG anticipate entering into discussions with a view toward a comprehensive resolution of the aforementioned matters.

#### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

#### **ITEM 5. OTHER INFORMATION**

Not applicable.

#### **ITEM 6. EXHIBITS**

A list of exhibits required to be filed as part of this report is set forth in the Index to Exhibits, which is presented elsewhere in this document, and is incorporated herein by reference.

**SIGNATURES**

In accordance with the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CORTEX PHARMACEUTICALS, INC.  
(Registrant)

Date: November 24, 2014 By: /s/ *ARNOLD S. LIPPA*  
Arnold S. Lippa  
President and Chief Executive Officer

Date: November 24, 2014 By: /s/ *ROBERT N. WEINGARTEN*  
Robert N. Weingarten  
Vice President and Chief Financial Officer

**INDEX TO EXHIBITS**

The following documents are filed as part of this report:

Exhibit Number	Description of Document
31.1*	Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Officer's Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Officer's Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

\* Filed herewith.

