FORWARD INDUSTRIES INC
Form 10-K
December 09, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended September 30, 2009

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

For the transition period from __________ to __________

Commission File Number: 0-6669

FORWARD INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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

1801 Green Rd., Suite E, Pompano Beach, FL 33064

(Address of principal executive offices, including zip code)

(954) 419-9544

(Registrant s telephone number, including area code)

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

None

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

Common Stock, $0.01 par value per share

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

[ ] Yes [**X**] No

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

[ ] Yes [**X**] No

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of the last business day of the Registrant s most recently completed second fiscal quarter was: $13,936,537.

As of December 4, 2009, 7,937,188 shares of the Registrant s common stock were outstanding.

Documents Incorporated by Reference

Certain specified portions of the registrant s proxy statement in respect of its annual meeting of shareholders expected to be held on or about February 9, 2010, are incorporated by reference into Part III (Items 10-14) of this Annual Report on Form 10-K to the extent described herein.

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Forward Industries, Inc.

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Note Regarding Use of Certain Terms

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

"we", "our", and the "Company" refer to Forward Industries, Inc., a New York corporation, together with its consolidated subsidiaries;
Forward or Forward Industries refers to Forward Industries, Inc.;
common stock refers to the common stock, $.01 par value per share, of Forward Industries, Inc.;
"Koszegi" refers to Forward Industries wholly owned subsidiary Koszegi Industries, Inc., an Indiana corporation;

Forward HK refers to Forward Industries wholly owned subsidiary Forward Industries HK, Ltd., a Hong Kong corporation
(formerly Koszegi Asia Ltd.);

Forward Innovations refers to Forward Industries wholly owned subsidiary Forward Innovations GmbH, a Swiss corporation;

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

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

Commission refers to the United States Securities and Exchange Commission;

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

Fiscal 2009 refers to our fiscal year ended September 30, 2009;

Fiscal 2008 refers to our fiscal year ended September 30, 2008;

Fiscal 2007 refers to our fiscal year ended September 30, 2007;

Europe refers to the countries included in the European Union;

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

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

OEM refers to Original Equipment Manufacturer of certain consumer electronic products.

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Forward Industries, Inc.

PART I

ITEM 1. BUSINESS

General

We design, market, and distribute carry solutions primarily for hand held electronic devices, including soft-sided carrying cases, bags, clips, hand straps, protective face plates, and other accessories for medical monitoring and diagnostic kits, cellular telephones, and bar code scanners. We also design, market and distribute carry cases for other consumer products such as laptop computers, MP3 players, firearms and sporting, recreational, and aeronautical and products. Our principal customer market is original equipment manufacturers, or OEMs , of these products that package our carry solution products as accessories in box together with their product offerings or the contract manufacturing firms of these OEM customers. In Fiscal 2009 and Fiscal 2008 sales to OEM customers (or their contract manufacturers) accounted for approximately 100% and 98% of our net sales, respectively.

We do not manufacture any of the products that we design, market, and distribute. We source substantially all products we market and distribute from independent suppliers in Asia and an immaterial percentage in the United States. Our suppliers custom manufacture our carrying cases and related products to our order based on our designs and know-how and to our customers specifications. Typically, we ship these products to our OEM customers, or to their contract manufacturers, to be packaged with their consumer products prior to distribution and sale.

Corporate History

Forward Industries, Inc. was incorporated in 1961 under the laws of the State of New York. Our original business was the manufacture and distribution of advertising specialty and promotional products. In 1989, we acquired Koszegi Industries, Inc., a manufacturer of soft-sided carrying cases. The carrying case business became our predominant business, and in September 1997, we sold the assets relating to the production of advertising specialty and promotional products, ceasing to operate in that segment.

In May 1994, we formed Forward Industries HK Ltd. as a wholly owned, Hong Kong-based, subsidiary of Forward to facilitate a more nimble and robust carrying case procurement and quality control infrastructure, and to enhance our foreign sourcing capabilities. With Forward HK s ability to source quality cases in the APAC Region on short lead times, we determined that our domestic production capability was unnecessary, sold the related assets, and we now source substantially all our products from suppliers in the APAC Region. See "Product Supply".

In May 2001 we formed Forward Innovations GmbH, a wholly owned Swiss subsidiary of Forward, to facilitate distribution of aftermarket products and to further develop our OEM European business presence. After the expiration of successive retail/wholesale distribution licenses in December 2007 and March 2009, staff at Forward Innovations was significantly reduced and now primarily serves our OEM European customers. See Marketing, Distribution, and

Sales .

As previously disclosed, in connection with the decline in our cell phone accessory business and scaling back in demand from certain OEM customers in the diabetic case line during the current economic downturn, we adopted a strategy to diversify our business by means of acquisition. We are currently assessing potential acquisition and or investment targets.

Products

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

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Forward Industries, Inc.

Cases for Diabetic Products

We sell carrying cases for blood glucose diagnostic kits directly to OEMs (or their contract manufacturers) of these electronic, monitoring kits made for use by diabetics. We typically sell these cases at prices ranging from $0.40 to $9.00 per unit. Unit volumes are sold predominantly at the lower end of this price range. The OEM customer or its contract manufacturer packages our carry cases in box as a custom accessory for the OEM s blood glucose testing and monitoring kits. The kits typically include a small, electronic blood glucose monitor, testing strips, lancets for drawing a drop of blood and our carrying case, customized with the manufacturer s logo and designed to fit and secure the glucose monitor, testing strips, and lancets in separate straps, pouches, and holders. As the kits and technology change, our carrying case designs change to accommodate the changes in size, shape and layout of the electronic monitoring device, strips and lancet. Since the end of 2007, OEMs have sought to reduce the cost of these cases by simplifying their design.

Other Carrying Case Products

We also sell carrying solutions to OEMs for a diverse array of other portable electronic and other products, including cell phones, laptop computers, bar code scanners, cameras, binoculars, firearms, portable oxygen tanks, MP3 players, and a variety of other products on a made-to-order basis that are customized to fit the products sold by our OEM customers. Our selling prices for these products also vary across a broad range, depending on the size and nature of the product for which we design the carry solution.

Product Development

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

Marketing, Distribution, and Sales

Geographic Sales Distribution

Through our wholly owned subsidiaries, Koszegi and Forward Innovations, we sell our products globally. The approximate percentages of net sales to customers by their geographic location for Fiscal 2009 and Fiscal 2008 are as follows:

	Net Sales	
	Fiscal Years Ended September 30,	
Geographic Location:	**2009**	**2008**
Americas	40%	30%
APAC	38%	50%
Europe	22%	20%
Totals	**100%**	**100%**

The importance of the APAC region is attributable to the fact that certain of our key OEM customers outsource product manufacture to contract manufacturers located in China or elsewhere in Asia. In these instances, we ship product to, and product is packaged in box at, such contract manufacturer s facility. If payment to us is due from the contract manufacturer, we identify the sale to its geographic location rather than that of the OEM customer for whom the contract manufacturer is supplying product. The reduction in APAC contribution to net sales in Fiscal 2009 compared to Fiscal 2008 was due to the reduction in revenue from our largest diabetic case customer, which uses such a contract manufacturer. See Note 13 to the audited consolidated financial statements included in Item 8 of this Annual Report.

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Forward Industries, Inc.

Channels of Distribution

We primarily ship our products directly to our OEM customers or their contract manufactures, who package our carry solutions products in box with the OEM customer s products. Sales in the aftermarket distribution channel, which consisted primarily of sales of cell phone cases under license from Motorola, declined in recent years such that this channel became immaterial by Fiscal 2009.

Sales by Product Line

Sales of carry case accessories for Diabetic Products and for Other Products accounted for approximately the following percentages of total net sales in Fiscal 2009 and Fiscal 2008:

	Fiscal Year Ended	
Sales:	**2009**	**2008**
Diabetic Products	75%	76%
Other Products*	25%	24%
Totals	**100%**	**100%**

* Beginning with Fiscal 2009, we changed the manner of our presentation of sales by product line by combining Cell Phone Product sales with Other Product sales as the amounts of cell phone product revenues ceased to warrant separate presentation. Therefore, Fiscal 2008 percentages in the table above, for consistency of presentation with Fiscal 2009, are calculated to combine sales of Cell Phone Products with Other Products.

Sales Concentration

We have approximately 80 active customers. Of these, three customers, including their affiliates, and contract manufacturers, accounted for approximately 66% of our net sales in Fiscal 2009 and 75% in Fiscal 2008. All three are OEMs of diabetic monitoring kits. These customers package our carry case accessories in box with their branded products or use them as promotional items. The approximate percentages of net sales contributed by each of these three customers for Fiscal 2009 and Fiscal 2008 are as follows:

	Fiscal Year Ended	
Customer:	**2009**	**2008**
Customer-1	35%	46%
Customer-2	21%	20%
Customer-3	10%	9%
Totals	**66%**	**75%**

Sales Force

During Fiscal 2009 and Fiscal 2008 substantially all net sales were made directly by our employees, which are assigned key accounts or defined geographic sales territories. See Risk Factors in Item 1A. of this Annual Report - *Our business could suffer if the services of key sales personnel we rely on were lost to us.*

OEM Distribution Hubs

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

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Forward Industries, Inc.

Credit Risk

We generally sell our products on 60- to 90-day credit terms customary in the industry. .Historically, we have not had significant credit problems with our customers. Our significant OEM customers are large, multi-national companies with good credit histories. None of these customers is or has been in default to us, and payments are generally received from them on a timely basis. Two customers, including their affiliates or contract manufacturers, accounted for approximately 63% and 74% of the Company's accounts receivable at September 30, 2009 and 2008, respectively.

When we ship product to our OEM customer s designated contract manufacturer and invoice such manufacturer (and not the OEM customer), even though our order flows originate with and depend on our relationship with the OEM, our accounts receivable credit risk lies with the contract manufacturer. Our OEM customer does not guarantee the credit of the contract manufacturer to whom the OEM requests us to ship our carrying case products, and such order volumes may be significant from time to time. In most cases, these contract manufacturers are themselves major multinational enterprises with good credit.

Foreign Exchange Risk

Certain OEM customers have established sales and manufacturing operations in China. In addition, as noted above, certain OEM customers may outsource manufacturing and packaging of the products with which our carrying case solutions are packaged in box to contract manufacturers located in China or in Southeast Asia. Accordingly, our payment and remittance arrangements with such customers may subject these arrangements to Chinese or other local currency regulations. See Item 1A. of this Annual Report on Form 10-K: Risk Factors *Payments to us by or on behalf of our customers of accounts receivable originated in China or other Asian nations may be subject to local regulations or moratorium that restrict the right to convert foreign currencies into U.S. dollars or U.S. dollars into foreign currencies, or that prevent, delay, or restrict the ability to remit U.S. dollars to the United States* .

Product Supply

Manufacturing

The manufacture of custom carrying cases and other carry solution products generally consists of die cutting fabrics and heat sealing, gluing, sewing, and decorating (affixing logos to) the cut-outs by means of silk screening, hot-stamping, embroidering or embossing. The principal materials used in the manufacture of our products are vinyl, nylon, leather, metal and plastic parts (for clips, buckles, loops, hinges and other hardware), foam padding and cardboard, all of which are obtained according to our specifications from suppliers. We do not believe that any of the component materials or parts used by our suppliers in the manufacture of our products is supply constrained. We believe that there are adequate available alternative sources of supply for all of the materials used to manufacture, package, and ship our products. We experienced some inflationary impact on prices we pay our suppliers during Fiscal 2008, but these forces appear to have abated for the most part in Fiscal 2009 and currently.

Suppliers

We procure substantially all our supply of carrying solutions products from independent suppliers in Asia, most of which are Chinese business entities located in China. Depending on the product, we may require several different suppliers to furnish component parts or pieces. We purchased approximately 90% and 95% of our products from seven such suppliers in Fiscal 2009 and Fiscal 2008, respectively. One China supplier accounted for approximately 54% and 43% of our product purchases in Fiscal 2009 and 2008.

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

Forward Industries, Inc.

Quality Assurance

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

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

Logistics

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

We ship our products to our customers by common carrier.

Insurance

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

Competition

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

Employees

At September 30, 2009, we had 30 full-time employees, of whom two are employed in executive capacities, four are employed in administrative and clerical capacities, seven are employed in sales and sales support, six are employed in design and product development capacities, and 11 are employed in sourcing, quality control, and warehouse capacities. We consider our employee relations to be satisfactory. None of our employees are covered by a collective bargaining agreement.

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

Regulation and Environmental Protection

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

Forward Industries, Inc.

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

ITEM 1A. RISK FACTORS

Please read the note regarding "Cautionary statement for purposes of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995" that appears on pages 15-16 of this Annual Report on Form 10-K.

Our business has become more highly concentrated in our Diabetic Products line, thus increasing the risks to our financial condition and results of operations compared to periods when revenue from customers from two principal product lines were more balanced. If our Diabetic Products line were to suffer the loss of a principal customer or a further decline in or loss of sales, our business would be materially and adversely affected.

From 2001-2006, revenue from customers in our diabetic and cell phone product lines fluctuated without one being consistently predominant. As a consequence of the steep decline in revenues from sales of cell phone accessories over the past several years, revenues from sales of diabetic cases from OEM customers now accounts for approximately 75% of net revenues. Our business is now characterized by very high product line as well as customer concentration. In such circumstances, our financial condition and results of operations are subject to higher risk from the loss of a diabetic case customer or from changes in the business practices of OEMs of blood glucose monitors, 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.

Our business is and has been characterized by a high degree of customer concentration. Our three largest customers accounted for approximately 66% and 75% of net sales in Fiscal 2009 and Fiscal 2008, respectively; the loss of, or material reduction in orders from, any of these customers could materially and adversely affect our results of operations and financial condition.

At present the predominant percentage of our sales revenues is concentrated in three large OEM customers, including their affiliates and/or their contract manufacturers. 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.

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.

Forward Industries, Inc.

If any one or more of our OEM customers elect 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. With the global financial crisis and recession, OEMs have sought to cut costs and reduce expenses. If one or more of our OEM customers generally begin 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.

At any time, a significant percentage of our accounts receivable risk may be concentrated in a small number of customers.

Two customers accounted for approximately 63% and 74% of our accounts receivable at September 30, 2009 and September 30, 2008, respectively. The failure to receive or collect such amounts when, and as, due could have a material adverse effect on our financial condition, liquidity, and results of operations.

In a price constrained global economy we continue to encounter pressures from certain OEM customers to maintain or even roll back prices or to supply lower priced carry solutions. The effects of price constraints on our business may from time to time be exacerbated by inflationary pressures that affect our costs of supply.

During Fiscal 2009 and Fiscal 2008, we experienced significant pricing pressure from our OEM customers. When we are unable to extract comparable pricing concessions from our suppliers, this has resulted in the erosion of product sales margins. From time to time we may encounter pressures from suppliers to raise their prices to us due to inflationary pressures affecting materials and labor costs incurred by our Chinese vendors and inflationary pressures generally on costs of energy and commodities. In addition, prices these vendors charge to us may reflect appreciation of Chinese currency against the US dollar, which is passed through to us in the form of higher US dollar prices. When calculated on the basis of reduced sales volumes, these pressures contribute to reduced gross profit percentage. We anticipate that pressures on our ability to maintain or increase prices as well as shifts in our product mix will continue to exert downward pressure on our gross profit percentage in the fiscal year ending September 30, 2010.

Our results of operations are subject to the risks of fluctuations in the values of foreign currencies relative to the U.S. Dollar; for example, if the factors tending to support appreciation of the Chinese renminbi, in which a significant portion of our suppliers costs are denominated, and depreciation of the US Dollar, in which most of our revenues are denominated, continue, our gross margins will be subject to further pressure.

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 our costs of goods sold are denominated or influenced, such as the Chinese renminbi, our results will be benefited or adversely affected, respectively. If, for example, China were to permit the renminbi to float to a free market rate of exchange, it is widely anticipated that the U.S. Dollar would depreciate in value relative to the renminbi, which would have the effect of increasing our costs of goods sold in U.S. dollar terms and adversely affecting our results of operations if we could not pass those increases along to our customers or enter into financial arrangements that hedged or otherwise mitigated this risk. During Fiscal 2009 currency markets pushed the renminbi up and the U.S. Dollar down, having the effect described above. The opposite relationship would apply to U.S. Dollar fluctuations with respect to a currency in which sales revenues or other accounts receivable are denominated. When the U.S. Dollar appreciates or depreciates in value against a currency, such as the Euro, in which a significant part of our revenues is denominated, our results of operations can be adversely affected or benefited, respectively. The significant appreciation of the Euro against the U.S. Dollar since the beginning of 2003 has had the effect of increasing, in U.S. dollar terms, U.S. Dollar denominated sales on our statement of income in proportion to Euro-denominated sales revenues. A reversal of this trend could adversely affect our results of operations.

Payments to us by or on behalf of our customers of accounts receivable originated in China or other Asian nations may be subject to local regulations or moratorium that restrict the right to convert foreign currencies into U.S. dollars or U.S. dollars into foreign currencies, or that prevent, delay, or restrict the ability to remit U.S. dollars to the United States.

Forward Industries, Inc.

In the event that any foreign government were to impose regulatory restrictions on the ability to effect conversion of local currency into U.S. dollars, repatriation of U.S. dollars or other currencies to the United States, or payment in any form to foreign business entities, or were to impose or enforce tighter restrictions on foreign exchange license holders, our receipt or recognition of U.S. dollars in payment, directly or indirectly, of invoices for sales of our products could be delayed or otherwise affected. If this were to affect receipt or recognition of material amounts of revenues, our liquidity or results of operations could be materially and adversely affected.

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

Because our sales 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 OEM customers may keep consumer electronic products for which our carry solutions have been selected to be packaged "in-box" in active promotion for many months, or for a very short period of time, depending on various factors, including the popularity of the product, product development cycles, new product introductions, and our customers' competitors' product offerings. As demand for the product related to the in-box program matures and decreases, we may be forced to accept significant price reductions 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 type, and if the relative revenue contribution from one or more OEM customers changes materially, relative to total revenues, our gross profit percentage may fluctuate or decline.

Our gross profit margins can vary widely depending on the customer, order size, market in which the customer's products are sold and the types of carrying cases and related accessories sold. In addition, there is a broad range of selling prices and profit margins within our soft-sided carrying cases product line, and there is also a broad range of selling prices and margins between, for example, soft-sided carrying cases and other carry solutions such as straps, clips, cleaning cloths, and camera attachment cases. Because of the broad variability in price ranges and product types, we anticipate that gross margins, and accordingly net income, may fluctuate depending on the relative revenue contribution by customer of carrying cases for blood glucose monitors compared to carry solutions for other products , as well as our OEM customers' order patterns and preferences for more or less expensive cases and or other accessories to be included as accessories "in box". Such fluctuations may have the effect of masking the impact of fluctuations in unit volume sale trends.

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

Such firms are performing manufacturing, assembly and product packaging functions, including the bundling of product accessories such as ours with the OEM customer's product. As a consequence of this business practice, we often sell our carry solution products to the contract manufacturing firm. In these cases, we invoice the contract manufacturing firm and not the OEM customer. Therefore, it is the contract manufacturing firm's credit to which we must look for payment in such cases and not that of 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, product cost, pricing, availability, and delivery risks. As a result, from time to time we experience certain quality control, on-time delivery, cost, or other issues that may threaten customer relationships.

Forward Industries, Inc.

Substantially, all of our products are manufactured by Chinese manufacturers in China. 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, delivery schedules, the potential lack of adequate capacity, the lack of capital, and potential misappropriation of our designs.

Our shipments of products via container freight to customers in the United States and Europe are 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.

Substantially all of our carrying solutions products are sourced from China or elsewhere in Asia. To the extent that there are disruptions or delays in loading container cargo in Asian ports 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 Hong Kong, Chinese, United States or European 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 financial condition and results of operations.

The 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.

We have announced our intention to diversify our business by means of acquisition or other business combination.

We believe that, as a result of the global financial crisis and recession, certain of our large OEM customers have embarked on cost cutting and expense reduction strategies that have reduced our revenue and adversely affected our gross margin and net profit. Our business has not generated operating or net profit in 11 quarters. As a consequence, our Board of Directors directed management to pursue expansion and/or diversification by means of acquisition or other business combination, and management has for more than the past year carefully evaluated a number of acquisition opportunities brought to us by our financial advisers. There can be no assurance as to the type of business that we may determine holds promise for our shareholders, the cost in cash or securities of such an acquisition or other combination, the potential dilution to existing shareholders if our securities are issued as part of transaction consideration, or the business risks that accompany any such transaction and/or our entry into an additional business segment. There can be no assurance that we will be successful in our efforts to make an acquisition or that any business that we do acquire or invest in will be profitable. There can be no assurance as to the timing of a transaction, or that the market price of our common stock will not decline in response to any such transaction as may be effected.

We do not pay dividends on our common stock.

We have not paid any cash dividends on our common stock since 1987. The payment in the future of cash dividends by us, if any, will depend upon our results of operations, short-term and long-term cash availability, working capital, working capital needs, and other factors, as determined by our Board of Directors. Applicable laws may also restrict the ability of a corporation to pay dividends, for example when such payment would render the corporation insolvent. We do not anticipate that cash dividends will be paid in the foreseeable future. The absence of dividend payments on a common stock might make such stock susceptible to greater market price swings.

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We have in place anti-takeover measures and charter provisions that may prevent a hostile or unwanted effort to acquire Forward.

Our Board of Directors is authorized to issue up to 4,000,000 shares of "blank check" preferred stock. Our Board of Directors has the authority, without shareholder approval, to issue such preferred stock in one or more series and to fix the relative rights and preferences thereof including their redemption, dividend and conversion rights. Our ability to issue the authorized but unissued shares of preferred stock could be used to impede takeovers of our company. Under certain circumstance, the issuance of the preferred stock could make it more difficult for a third party to gain control of Forward, discourage bids for the common stock at a premium, or otherwise adversely affect the market price of our common stock. In addition, our certificate of incorporation requires the affirmative vote of two-thirds of the shares outstanding to approve a business combination such as a merger or sale of all or substantially all assets. Such provision and blank check preferred stock may discourage attempts to acquire Forward. Applicable laws that impose restrictions on, or regulate the manner of, a takeover attempt may also have the effect of deterring any such transaction. We are not aware of any attempt to acquire Forward.

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

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 limitation, which could have a material adverse effect upon our financial conditions and our results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable

ITEM 2. PROPERTIES

We lease approximately 9,400 square feet of office and warehouse space at 1801 Green Road, Pompano Beach, Florida under an agreement that expires in May 2012. We use this office space as our executive office and our United States sales office. During a portion of Fiscal 2009, the Company subleased approximately 3,100 square feet of this space to a non-affiliated company as an expense reduction measure. On November 5, 2009, we terminated this agreement effective retroactive to October 1, 2009, and entered into a sub-lease with a tenant at the same premises for 5,300 square feet of office and warehouse space at a lower rent on a month to month basis, in consideration for a lease termination payment to the landlord. See Note 14 to the Audited Consolidate Financial Statements set forth in this Annual Report on Form 10-K.

In November 2008, Forward HK entered into a three year lease commitment for approximately 4,400 square feet of office space in Kowloon, Hong Kong, which extends through October, 2011. We use this office space as our sourcing, quality assurance, and logistics center.

Forward Innovations leases approximately 1,300 square feet of office space in Cham, Switzerland, which we use as our European sales and administrative office. This lease can be cancelled by us either party with a six-month notice.

We believe that each of the foregoing leased properties is adequate for the purposes for which it is used. All leases are with independent third parties. We believe that the loss of any lease would not have a material adverse effect on our operations as we believe that we could identify and lease comparable facilities upon approximately equivalent terms.

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ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company may become a party to legal actions or proceedings in the ordinary course of its business. As of September 30, 2009, there were no such actions or proceedings, either individually or in the aggregate, that, if decided adversely to the Company s interests, the Company believes would be material to its business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our security holders in the fourth quarter of Fiscal 2009. We anticipate that the annual meeting of shareholders in respect of the fiscal year ended September 30, 2009, will be held in February 2010.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Common Stock

The principal market for our common stock is the NASDAQ SmallCap Market. Our common stock is traded under the symbol "FORD". The following table sets forth the high and low closing bid quotations for our common stock on the NASDAQ SmallCap Market for each quarter in the last two fiscal years.

	Bid Price Information for Common Stock*			
	Fiscal 2009		Fiscal 2008	
	High Bid	Low Bid	High Bid	Low Bid
First Quarter	$3.30	$1.51	$3.58	$2.22
Second Quarter	$2.38	$1.55	$2.54	$2.01
Third Quarter	$1.85	$1.55	$2.80	$2.17
Fourth Quarter	$1.79	$1.40	$2.73	$1.84

*High and low bid price information as furnished by The NASDAQ Stock Market Inc.

On November 12, 2009, the closing bid quotation for our common stock was $2.04.

Holders of common stock.

As of November 12, 2009, there were approximately 123 holders of record of our common stock, excluding approximately 10,087 beneficial holders of common stock whose shares are held in street name.

Dividends

We have not paid any cash dividends on our common stock since 1987 and do not plan to pay cash dividends in the foreseeable future. The payment of dividends in the future, if any, will depend upon our results of operations, as well as our short-term and long-term cash availability, working capital, working capital needs, and other factors, as determined by our Board of Directors. Currently, except as may be provided by applicable laws, there are no contractual or other restrictions on our ability to pay dividends if we were to decide to declare and pay them.

Recent sales of unregistered securities

During Fiscal 2009, we did not sell any shares of common stock, or securities exercisable for or exchangeable into common stock, or any other securities that were not registered under the Securities Act of 1933.

Securities authorized for issuance under equity compensation plans.

For information relating to this topic, see Part III, Item 11 of this Annual Report. Executive Compensation Securities Authorized for Issuance under Equity Compensation Plans , which is incorporated in this Annual Report on Form 10-K by reference to our 2010 Proxy Statement.

Purchase of Equity Securities

No repurchase of any shares of our common stock or other equity security was made by or on behalf of the Company during the fourth quarter of Fiscal 2009.

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In September 2002 and January 2004, our Board of Directors authorized the repurchase of up to an aggregate of 486,200 shares of our common stock. Under those authorizations, as of September 30, 2009, we had repurchased an aggregate of 172,603 shares at a cost of approximately $0.4 million, leaving a balance of 313,597 shares (approximately 4% of the shares outstanding at September 30, 2009) under those authorizations, but none during Fiscal 2009 or Fiscal 2008. Separately from the foregoing authorizations, in Fiscal 2008 in connection with the exercise of stock options to purchase 100,000 shares of common stock by a former officer in a non-cash transaction, we accepted the tender of 72,917 shares valued at market on the date of exercise as consideration for payment of the exercise price of such options.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our audited Consolidated Financial Statements and the notes thereto and other financial information appearing in Item 8 of this Annual Report on Form 10-K. This discussion and analysis compares our consolidated results of operations for the fiscal year ended September 30, 2009 ("Fiscal 2009"), with those for the fiscal year ended September 3 0, 2008 ("Fiscal 2008"), and is based on or derived from the audited Consolidated Financial Statements included in Item 8 in this Annual Report. All figures in the following discussion are presented on a consolidated basis. All dollar amounts and percentages presented herein have been rounded to approximate values.

Cautionary statement for purposes of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995

The following management s discussion and analysis includes forward-looking statements (as such term is used within the meaning of the Private Securities Litigation Reform Act of 1995). These forward-looking statements are not based on historical fact and involve assessments of certain risks, developments, and uncertainties in our business. Such forward looking statements can be identified by the use of forward-looking terminology such as may , will , should , expect , anticipate , estimate , intend , continue , or believe , or the negatives or other variations of thes comparable terminology. Forward looking statements may include projections, forecasts, or estimates of future performance and developments. Forward looking statements contained in this Annual Report are based upon assumptions and assessments that we believe to be reasonable as of the date of this Annual Report. Whether those assumptions and assessments will be realized will be determined by future factors, developments, and events, which are difficult to predict and may be beyond our control. Actual results, factors, developments, and events may differ materially from those we assumed and assessed. Such risk factors, uncertainties, contingencies, and developments, including those discussed in this Management s Discussion and Analysis of Financial Condition and Results of

Operations and those identified in Risk Factors in Item 1A of this Annual Report on Form 10-K, could cause our future operating results to differ materially from those set forth in any forward looking statement. Such factors include, among others, the following: our ability to maintain constructive commercial relationships with our key customers, including during periods of economic downturns generally or downturns/volatility in their specific businesses; the loss of key sales employees upon whom relationships with key OEM customers depend; our success in winning new business from our customers and against competing vendors; whether replacement programs that we win will be more or less successful or profitable than those that are replaced; levels of demand and pricing generally for blood glucose monitoring devices sold by our customers for which we supply carry solutions; variability in order flow from our OEM customers; OEM customers decisions to reduce or eliminate their practice of including carry case accessories in-box; the impacts on our financial condition, results of operations, and business prospects arising from making an acquisition or failing to make an acquisition; general economic and business conditions, nationally and internationally in the countries in which we do business; the continuation of a global economic recession; the failure of one or more of our suppliers; failures in our ability to maintain adequate quality control in our products; demographic changes; changes in technology, including developments in the treatment or control of diabetes that adversely affect the incidence of use and replacement rates of handheld blood glucose monitors by diabetics; increased competition in the business of distribution of carry solutions for handheld electronic devices generally or increased competition to include carry solutions with products manufactured by our OEM customers in particular; changes affecting the business or business prospects of one or more of our principal OEM customers; governmental regulations and changes in, or the failure to comply with, governmental regulations; and other factors included elsewhere in this Annual Report and our other reports filed with the Commission. Accordingly, there can be no assurance that any such forward looking statement, projection, forecast or estimate can be realized or that actual returns, results, or business prospects will not differ materially from those set forth in any forward looking statement.

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Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments. See Part I, Item IA. Risk Factors in this Annual Report.

Business Overview

Trends and Economic Environment

We believe that the poor economy, high unemployment, tight credit markets, and heightened uncertainty in financial markets during the past two years have adversely impacted discretionary consumer spending, including spending on the types of electronic devices that are accessorized by our products. In response to the economic recession certain of our major diabetic case customers have significantly reduced their sales forecasts to us for blood glucose diagnostic kits, with which our products are packaged in box, therefore implying reduced sales revenues from these customers in future periods. We expect this challenging business environment to continue in the near term.

Our response to current conditions has been to cut operating expenses and reduce headcount; and we have attempted to limit increases in operating expenses except where we think increases are critical to potential future growth.

In response to increasing customer and sales concentration, we have focused marketing efforts on expanding our customer base. These efforts are meeting with some preliminary success, although the degree of success will not become apparent until we are deeper into Fiscal 2010. We have received small, initial orders from first time customers. The key question in Fiscal 2010 will be whether our overall net sales and net profit will primarily reflect revenue contribution from new customers or the decline in revenues from existing customers that have indicated reduced order flow in Fiscal 2010. See Part I, Item IA. of this Annual Report, Risk Factors , including *We have announced our intention to diversify our business by means of acquisition or other business combination.*

Variability of Revenues and Results of Operation

Because a high percentage of our sales revenues is highly concentrated in a few large customers, and because the volumes of these customers order flows to us are highly variable, with short lead times, our quarterly revenues, and consequently our results of operations, are susceptible to significant variability over a relatively short period of time.

Critical Accounting Policies and Estimates

We have identified the accounting policies and significant estimation processes below as critical to our business operations and the understanding of our results of operations. The listing is not intended to be a comprehensive list. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States, with no need for management s judgment of a particular transaction. In other cases, management is required to exercise judgment in the application of accounting principles with respect to particular transactions. The impact and any associated risks related to these policies on our business operations are discussed throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations where such policies affect reported and expected financial results. For a detailed discussion of the applications of these and other accounting policies, refer to Item 8. Financial Statements and Supplementary Data in this Annual Report. Our preparation of our consolidated financial statements requires us to make estimates and assumptions that are believed to be reasonable under the circumstances. There can be no assurance that actual results will not differ from those estimates and such differences could be significant.

Revenue Recognition

In accordance with generally accepted accounting principles in the U.S., we generally recognize revenue from product sales to customers when: (1) title and risk of loss are transferred; (2) persuasive evidence of an arrangement exists; (3) we have no continuing obligations to the customer; and (4) the collection of related accounts receivable is probable.

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Accounts Receivable

We record an allowance for doubtful accounts for all receivables judged by us to be unlikely to be collected. The effect of the allowance is to reduce the accounts receivable reported on our balance sheet to an amount that we believe will actually be collected. Significant management judgments, analyses, and estimates must be made and used in connection with establishing this valuation account, based on a combination of factors: the age of receivable balances, our historical bad debts write-off experience, and our respective customer s creditworthiness, among other factors. At September 30, 2009 and September 30, 2008, our allowance for doubtful accounts was approximately $25,000 and $10,000, respectively. Changes to this account are reflected in the general and administrative expense line of our consolidated statements of operations. Although we consider our allowance for doubtful accounts to be adequate and proper, changes in economic conditions, the assessments of new customers creditworthiness, changes in customer circumstances, or other factors could have a material effect on the recorded allowance.

Inventory Valuation

We make estimates and judgments to value our inventory. Our inventory is recorded at the lower of cost or market. The majority of our inventory consists of finished goods that are custom made by our suppliers based on firm orders from our OEM customers and held for our account or supplied to our OEM customers distribution hubs in anticipation of their draw-downs to fulfill orders. We also periodically stock inventory in anticipation of orders from our OEM customers when it appears to us commercially advantageous to do so.

At the end of each fiscal quarter, we evaluate our ending inventories, and we establish an allowance for inventory that is considered obsolete, slow moving, or otherwise un-saleable. This evaluation includes, among other factors, analyses of inventory levels, historical loss trends, sales history, and projections of future sales demand. We physically dispose of inventory once its marketability has been determined to be zero. Inventory allowances were approximately $33,000 and $0.2 million at September 30, 2009 and 2008, respectively. The decrease in the allowance from September 30, 2008 to September 30, 2009, was due to the disposal of cell phone inventory determined to be obsolete or unsalable. Increases to this account are reflected in the cost of goods sold line of our consolidated statements of operations.

Our production is made to customer specifications. If a customer elects not to accept delivery, or defaults on a purchase order or commitment, or returns inventory from its hub without payment in violation of the hub arrangements, additional inventory write-downs or reserves may be required and would be reflected in cost of goods sold in the period the revision is made.

Deferred Income Taxes

In our consolidated financial statements, we are required to estimate income taxes in each of the jurisdictions in which we are subject to taxation. This process involves estimating actual current income tax expense as well as assessing temporary differences resulting from differing treatment of revenue and expense items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are reflected in our consolidated balance sheets. We had approximately $0.6 million and $0.4 million of deferred tax assets at September 30, 2009, and September 30, 2008, respectively. The increase in deferred tax assets results primarily from net loss incurred in respect of the 2009 Period and accumulated temporary differences between book and tax income.

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During Fiscal 2009, as part of our periodic evaluation of the need for a valuation allowance against our deferred tax assets, and after consideration of all factors, both positive and negative (including, among others, projections of future taxable income, current year net operating loss carryforward utilization and the extent of our cumulative losses in recent years), we determined that, on a more likely than not basis, we would not be able to use any of our deferred tax assets, except in respect of United States income taxes arising from the certain foreign source income earned by our Swiss subsidiary, Forward Innovations, in the event we elect to effect the repatriation of such income. Such foreign source income is currently considered to be permanently invested and for which no United States income tax liability has been accrued. Accordingly, we established a full valuation allowance against our deferred tax assets. As of September 30, 2009, the valuation allowance was approximately $0.6 million. If we determine that we will be able to realize some or all of our deferred tax assets, the adjustment to reduce or eliminate the valuation allowance would reduce our tax expense and increase after-tax income. Changes in deferred tax assets and valuation allowance are reflected in the Provision for (benefit from) income taxes line item of our consolidated statements of operations. No such valuation allowance was recorded as of September 30, 2008. See Note 8 to our audited consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K.

Results of Operations for Fiscal 2009 compared to Fiscal 2008

Net loss

We incurred a net loss of $1.4 million in Fiscal 2009 compared to net loss of $0.9 million in Fiscal 2008. The $0.5 million higher net loss is primarily the result of the incurrence of a provision for income tax in Fiscal 2009 compared to an income tax benefit in Fiscal 2008 (attributable to the effect of establishment of the valuation allowance in respect of deferred tax assets, discussed above in Critical Accounting Policies and Estimates Deferred Income Taxes and Note 8 to the Consolidated Financial Statements), lower gross profit in Fiscal 2009,and lower other income (primarily interest income) in Fiscal 2009, offset in part by lower selling, general and administrative expenses, as reflected in the table below:

(thousands of dollars)

	Fiscal 2009	Fiscal 2008	Increase (Decrease)
Net Sales..	$17,440	$19,974	($2,534)
Gross Profit..	3,582	4,028	(446)
Selling, General and Administrative Expenses..	(4,932)	(5,693)	(761)
Other Income..	256	620	(364)
(Provision for) benefit from Income Taxes...	**(300)**	156	456
Net Loss*..	**($1,394)**	**($889)**	**$505**

Basic and diluted loss per share data was ($0.18) for the Fiscal 2009, compared to ($0.11) for the Fiscal 2008. The increase in loss per share in the 2009 Period was due to the increase in net loss.

Net Sales

Net sales decreased $2.5 million, or 13%, to $17.4 million in Fiscal 2009 compared to $20.0 million in Fiscal 2008 due primarily to lower diabetic product sales, which declined $2.3 million, or 15%. Sales of Other Products (which includes cell phone product sales), decreased $0.3 million, or 6%, to $4.4 million in Fiscal 2009 compared to Fiscal 2008. The tables below set forth net sales by product line and geographic location of our customers for the periods indicated.

Forward Industries, Inc.

Net Sales for Fiscal 2009

(millions of dollars)

	APAC	**Americas**	**Europe**	**Total**
Diabetic Products..	$5.9	$3.5	$3.6	$13.0
Other Products...	0.8	3.5	0.1	4.4
Totals*..	**$6.7**	**$7.0**	**$3.7**	**$17.4**

Net Sales for Fiscal 2008

(millions of dollars)

APAC	**Americas**	**Europe**