FORWARD INDUSTRIES INC
Form 10-K
December 10, 2014

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, 2014

¨ 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.)

477 Rosemary Ave., West Palm Beach, FL 33401

(Address of principal executive offices, including zip code)

(561) 465-0030

(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.

xYes ¨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). ¨ Yes **x** 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 xNo

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: $11,422,633.

As of December 5, 2014, 8,443,046 shares of the Registrant's common stock were outstanding.

Documents Incorporated by Reference

The Proxy Statement for the 2014 Annual Meeting of Shareholders is incorporated by reference into Part III of this Annual Report on Form 10-K.

Forward Industries, Inc.

Table of Contents

	PART I	Page No.
Item 1.	Business	2
Item 1A.	Risk Factors	7
Item 1B.	Unresolved Staff Comments	12
Item 2.	Properties	12
Item 3.	Legal Proceedings	12
Item 4.	Mine Safety Disclosures	13
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	13
Item 6.	Selected Financial Data	14
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	21
Item 8.	Financial Statements and Supplementary Data	22
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	22
Item 9A.	Controls and Procedures	22
Item 9B.	Other Information	23
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	24
Item 11.	Executive Compensation	24
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	24
Item 13.	Certain Relationships and Related Transactions, and Director Independence	24
Item 14.	Principal Accountant Fees and Services	24

PART IV

Item 15. Exhibits and Financial Statement Schedules 25

Signatures 28

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:

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

"Common Stock" refers to the common stock, $.01 par value per share, of Forward Industries, Inc.;

"Forward US" refers to Forward Industries' wholly owned subsidiary Forward Industries (IN), Inc., an Indiana corporation;

"Forward HK" refers to Forward Industries' inactive wholly owned subsidiary Forward Industries HK, Ltd., a Hong Kong corporation;

"Forward Switzerland" refers to Forward Industries' wholly owned subsidiary Forward Industries (Switzerland) GmbH, a Swiss corporation;

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

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

"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 2014" refers to our fiscal year ended September 30, 2014;

"Fiscal 2013" refers to our fiscal year ended September 30, 2013;
"Europe" refers to the countries included in the European Union;
"EMEA Region" means the geographic area encompassing Europe, the Middle East and Africa;

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

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

"OEM" refers to Original Equipment Manufacturer;

"Retail" refers to the retail distribution channel; and

"Corporate" refers to the corporate distribution channel.

Note Regarding Presentation of Financial Information

Certain figures included in this Annual Report on Form 10-K have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

PART I

ITEM 1. **BUSINESS**

General

Forward Industries, Inc. was incorporated under the laws of the State of New York and began operations in 1961 as a manufacturer and distributor of specialty and promotional products. We design, market, and distribute carry and protective solutions, primarily for hand held electronic devices, including soft-sided carrying cases, bags, clips, hand straps, protective plates and other accessories made of leather, nylon, vinyl, plastic, PVC and other synthetic materials. Our principal customer market is original equipment manufacturers, or "OEMs" (or the contract manufacturing firms of these OEM customers), that either package our products as accessories "in box" together with their branded product offerings, or sell them through their retail distribution channels. Our OEM products include carrying cases and other accessories for blood glucose monitoring kits and a variety of other portable electronic and non-electronic products (such as sporting and recreational products, bar code scanners, smartphones, GPS and location devices, tablets, firearms and other products). Our carrying cases are designed to enable these devices to be stowed in a pocket, handbag, briefcase, or backpack, clipped to a belt or shoulder strap, or strapped to an arm, while protecting the consumer electronic or other product from scratches, dust, and mishandling. Our OEM customers are located in the Americas, the EMEA Region, and the APAC Region. We do not manufacture any of our OEM products and source substantially all of our OEM products from independent suppliers in China.

On June 21, 2012, we determined to exit our global retail business ("discontinued operations") and focus solely on growing our OEM business. Our decision to eliminate the Retail division was primarily driven by the longer than estimated path to bring it to profitability and the strong net sales growth and cost rationalizations in the OEM business. We have substantially completed the exit of our Retail business and have not had, and do not expect to have, any continuing involvement in the Retail business after this date.

Corporate History

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

In May 2001, we formed Forward Switzerland to facilitate distribution of aftermarket products under our licenses for cell phone cases with a major North American multinational and to further develop our OEM European business presence. After the expiration of the last of these licenses in March 2009, staff at Forward Switzerland was significantly reduced and in recent years has primarily served our OEM customers in Europe.

Products

Diabetic Products

We sell carrying cases for blood glucose diagnostic kits ("Diabetic Products") directly to OEMs (or their contract manufacturers) of these electronic monitoring kits made for use by diabetics. We typically sell these cases at prices ranging from approximately $0.50 to $6.00 per unit. Unit volumes are sold predominantly at the lower end of this price range. The OEM customer (or its contract manufacturer) packages our carry cases "in box" as a custom accessory for the OEM's blood glucose testing and monitoring kits, or to a much lesser extent, sells them through their retail distribution channels. These 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. For Fiscal 2014, our Diabetic Products accounted for approximately 79% of our total net sales.

Other Products

We also sell carrying and protective solutions to OEMs for a diverse array of other portable electronic and other products ("Other Products"), including sporting and recreational products, bar code scanners, smartphones, GPS and location devices, tablets, and firearms, on a made-to-order basis that are customized to fit the products sold by our OEM customers. Our selling prices for these products also vary across a broad range, depending on the size and nature of the product for which we design and sell the carry solution. For Fiscal 2014, our Other Products accounted for approximately 21% of our total net sales.

Product Development

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

Marketing, Distribution, and Sales

Geographic Sales Distribution

Through our wholly owned subsidiaries, Forward US and Forward Switzerland, we distribute and sell our products globally. The approximate percentages of net sales to OEM customers by their geographic location for Fiscal 2014 and Fiscal 2013 are as follows:

	Net Sales for the Fiscal Years Ended September 30,	
	2014	**2013**
Americas	30%	35%
APAC Region	35%	35%
EMEA Region	35%	30%
Total	100%	100%

The importance of the APAC Region is attributable to the fact that certain of our key customers outsource product manufacture to contract manufacturers located in China or elsewhere in Asia. In these instances, we ship product to, and product is packaged "in box" at, such contract manufacturer's facility. If payment to us is due from the contract manufacturer, we identify the sale to its geographic location rather than that of the customer for whom the contract manufacturer is supplying product. The decrease in the Americas Region's contribution to total net sales in Fiscal 2014 compared to Fiscal 2013 was primarily due to the decrease in revenue contribution from Diabetic Customer D and a major customer in the Other Product line within the Americas Region. The increase in the EMEA Region's contribution to total net sales in Fiscal 2014 compared to Fiscal 2013 was primarily due to increased revenue contribution from Diabetic Customers C and D. See "Item 7. – Management's Discussion and Analysis of Financial Condition and Results of Operations." See Note 15 to the audited consolidated financial statements included in Item 8 of this Annual Report.

Channels of Distribution

We primarily ship our products directly to our OEM customers (or their contract manufacturers), who package our accessory products “in box” with their branded products. Some of our customers also purchase certain of our products and offer them for sale as stand-alone accessories to complement their product offerings.

Sales by Product Line

Sales of carry and protective solutions for Diabetic Products and for Other Products (all products other than diabetic carry cases for blood glucose monitor kits) accounted for approximately the following percentages of total net sales in Fiscal 2014 and 2013:

	For the Fiscal Years Ended September 30,	
Sales:	**2014**	**2013**
Diabetic Products	79%	78%
Other Products	21%	22%
Totals	100%	100%

Sales Concentration

We have approximately 73 active OEM customers. Of these, four customers (including their affiliates and contract manufacturers) accounted for approximately 76% and 75% of our net sales from continuing operations in Fiscal 2014 and 2013, respectively. All four of these "major" customers are OEMs of diabetic monitoring kits. These customers package our carry and protective solutions "in box" with their branded products, or to a lesser extent, sell them through their retail distribution channels. The approximate percentages of net sales contributed by each of these four customers to continuing operations for Fiscal 2014 and Fiscal 2013 are as follows:

	For the Fiscal Years Ended September 30,	
Customer:	**2014**	**2013**
Diabetic Customer A	27%	24%
Diabetic Customer B	14%	13%
Diabetic Customer C	24%	24%
Diabetic Customer D	11%	14%
Totals	76%	75%

During Fiscal 2014 and 2013, all net sales of OEM products 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 arrangements with all of our major customers and several of our other OEM customers. These arrangements obligate us to supply our products to our customer's distribution hubs (may be multiple locations) where their products are manufactured, kitted, and/or warehoused pending sale, and where our products are packaged "in box" with the OEM customer's products or, to a much lesser extent, distributed for retail sale. The product quantities we are required to supply to each distribution hub are based on the OEM customer's purchase orders and forecasts. We do not recognize revenue for product shipped to a hub until we have been notified by our customer that our product has been withdrawn from the distribution hub and "consumed". Hub arrangements have had the general effect of extending financing for our customers' inventory build by extending the time between our placement of orders to our suppliers in order to ship and supply the hubs and the time that we are able to recognize revenue. The corollary effect is an increase in our inventory levels.

Credit Risk

We generally sell our OEM products on 30- to 120-day credit terms customary in the industry and without interest. Historically, we have not had significant credit problems with our customers. Our significant OEM customers are large, multinational companies with good credit histories. None of these customers is or has been in default to us, and payments from all customers are generally received from them on a timely basis. Four OEM customers (including their affiliates or contract manufacturers) accounted for approximately 77% of our accounts receivable at September 30, 2014, whereas, four OEM customers accounted for approximately 73% of our accounts receivable at September 30, 2013.

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

Product Supply

Manufacturing

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

Sourcing Agent

On March 12, 2012, we entered into a Buying Agency and Supply Agreement (the "Agreement") with Forward China. On March 13, 2014, we entered into Amendment No. 1 to the Agreement with Forward China, dated as of March 11, 2014. The Agreement, as amended, provides that upon the terms and subject to the conditions set forth therein, Forward China will act as our exclusive buying agent and supplier of Products (as defined in the Agreement) in the APAC Region. We purchase products at Forward China's cost and pay a service fee to Forward China. The Agreement, as amended, terminates on March 11, 2015, subject to renewal. Terence Wise, a director of the Company, is a principal of Forward China.

Suppliers

We procure substantially all our supply of carrying solutions products from independent suppliers in China through Forward China. Depending on the product, we may require several different suppliers to furnish component parts or pieces. We purchased approximately 95% and 92% of our OEM products from five and four such suppliers in Fiscal 2014 and Fiscal 2013, respectively. The approximate percentages of purchases of OEM products from each of these four suppliers with respect to continuing operations for Fiscal 2014 and Fiscal 2013 are as follows:

	Fiscal Year Ended September 30,	
	2014	**2013**
Supplier:		
OEM Supplier A	66%	0%
OEM Supplier B	20%	50%
OEM Supplier C	5%	19%
OEM Supplier D	3%	14%
OEM Supplier E	1%	9%
Totals	95%	92%

We place orders with one or more suppliers at the time we receive firm purchase orders and/or forecasts from our OEM customers for a particular product. Accordingly, we do not have minimum supply requirement agreements with our suppliers to guarantee us supply of finished product, nor have we made purchase commitments to purchase minimum amounts from any of our suppliers. However, from time to time, we may order products from our suppliers in advance of receiving a customer purchase order, or in quantities in excess of those forecasted to us by our customer, for which they are contractually obligated to us, in order to meet our customer's delivery demands. Starting September 1, 2013 we began making purchases directly from Forward China. As of September 30, 2014, the majority of our purchases are made directly through Forward China.

Quality Assurance

To ensure that our products manufactured by our Chinese suppliers meet our quality assurance standards our products are inspected by independent contractors in China, which may be affiliated with one or more of our suppliers. These contractors are subject to the control and supervision of Forward China's quality assurance employees based in Hong Kong (see "Item 1. Business – Product Supply – Sourcing Agent"). In July 2012, Forward China received its ISO 9001:2008 quality certification, which covers all ISO activities previously covered under Forward's ISO quality certification.

Logistics

Once our products are approved for shipment by our quality assurance procedures, our products are typically shipped to our customer's destination port in the Americas and EMEA Region on ocean-going container vessels, or by ground transport to our APAC Region customer's locations in China or Hong Kong. In certain cases, and primarily at our customer's request, we will expedite the shipment of our products by using air transportation. 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. EMEA Region destined shipments generally are routed via Rotterdam. See "Item 1A. – Risk Factors—*Our shipments of products via container freight to customers in the United States and Europe may become subject to delays or cancellation at port facilities due to work stoppages or slowdowns, damage caused by weather or terrorism and congestion due to inadequacy of equipment and other causes.*"

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 our 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, reliable product delivery and product quality, and competitive pricing. We believe that our ability to compete based on product quality assurance considerations is enhanced by Forward China's local presence and their 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, 2014, we had 20 full-time employees, of whom one is employed in an executive capacity, eleven are employed in sales and sales support capacities, three are employed in a design capacity, and five are employed in finance and administrative 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 a Professional Employer Organization ("PEO"). The objective of this arrangement is for the PEO to assume many of the legal and administrative responsibilities of human resources management, health benefits, workers' compensation, payroll, payroll tax compliance, 401(K) plan administration and unemployment insurance and to perform these functions at lesser expense than if we were to perform them directly.

Regulation and Environmental Protection

Our business is subject to various regulations in various jurisdictions, including the United States and member states of the European Community, that restrict the use or importation of products manufactured with compounds deemed to be hazardous. We work with our suppliers to ensure compliance with such regulations. In addition, from time to time one or more customers may require testing of our products to ensure compliance with applicable consumer safety rules and regulations or the customer's safety or packaging protocols. Because we do not manufacture the products that we sell and distribute, compliance with federal, state and local laws and regulations pertaining to the discharge of

materials into the environment, or otherwise relating to the protection of the environment, has not had, and is not anticipated to have, any direct material effect upon our capital expenditures, earnings, or competitive position. However, compliance with such laws and regulations on the part of our suppliers may result in increased costs of supply to us, particularly if domestic environmental regulation in China becomes more prevalent.

We have not been engaged in any environmental litigation or incurred any material costs related to compliance with environmental or other regulations. From time to time we incur chemical and/or safety laboratory testing expenses 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 Item 7. "Cautionary statement for purposes of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995" that appears on page 14 of this Annual Report on Form 10-K.

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

We have incurred losses and negative cash flows from operations in recent years. We incurred net losses of approximately $0.8 million and $0.2 million for the fiscal years ended September 30, 2014 and 2013, respectively, and had net cash provided by operating activities of approximately $0.2 million and $2.3 million for the fiscal years ended September 30, 2014 and 2013, respectively. 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 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.

In June 2012 we announced our plans to exit the global retail business and focus solely on growing our OEM business. In connection with exiting the global retail business we also commenced a restructuring of our business and implemented a variable, lower cost sourcing and quality assurance solution through a third party Asia-based sourcing agent. These restructuring plans have been substantially completed. While we believe these measures, along with other steps to be taken, will be sufficient to return the Company to sustainable profitability, there can be no assurance that this will be the case, or that additional steps will not be required. If additional steps are required, there can be no assurance that they will be properly implemented or will be successful, or that we will realize the cost savings and other anticipated benefits from any such additional restructuring steps.

Our OEM growth strategy will continue to require additional capital investment.

We have recently invested and expect to continue to invest incremental cash resources to execute our OEM 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, posing risks to our financial condition and results of operations compared to periods when revenue from customers from our two principal product lines were more balanced. 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 OEM customers accounted for approximately 79% of net revenues from continuing operations in Fiscal 2014. 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.

Our business is and has been characterized by a high degree of customer concentration. Our four largest customers accounted for approximately 76% and 75% of net sales from continuing operations in Fiscal 2014 and Fiscal 2013, respectively; the loss of, or material reduction in orders from, any of these customers would materially and adversely affect our results of operations and financial condition.

At present the predominant percentage of our sales revenues is concentrated in four large diabetic 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.

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. 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 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.

Four customers accounted for approximately 77% of our accounts receivable at September 30, 2014, and four customers accounted for approximately 73% of our accounts receivable at September 30, 2013, 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.

We continue to encounter pressures from our largest OEM customers to maintain or even roll back 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.

During Fiscal 2014 and Fiscal 2013, we experienced 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, product sales margins erode. 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 prices. See "Item 7. – Management's Discussion and Analysis of Financial Condition and Results of Operations – Business Overview – Trends and Economic Environment."

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

Forward China, our exclusive sourcing agent in the Asia Pacific region, has not made progress in efforts to expand the supplier base during Fiscal 2014. However, there was no contraction of supplier base during Fiscal 2014. 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. See also "Note 15, Operating Segment Information—Supplier Concentration" to our audited consolidated financial statements included in Item 8 of this Annual Report.

In addition, we depend significantly on Forward China as our exclusive buying agent for substantially all of our component parts in the APAC region. 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, we could suffer irreparable harm resulting in reduced profits or, in some cases, significant losses for us.

If we fail to maintain an effective system of internal controls 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 controls over financial reporting are 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 and there can be no assurance that material weaknesses will not occur in the future. 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.

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 revenue contribution 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 revenue contribution from each customer or product.

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 our product accessories 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. 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 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.

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.

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 financial condition and results of operations.

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 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, net working capital, working capital needs and other factors, as determined by our Board of Directors. 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.

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, of which 648,846 shares have been issued as 6% convertible 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 the Company. Under certain circumstances, 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.

In addition, on April 26, 2013, our Board of Directors adopted a Shareholder Rights Plan, as set forth in the Rights Agreement dated as of April 26, 2013 (the "Rights Agreement"), between the Company and American Stock Transfer & Trust Company, LLC, as Rights Agent, in order to encourage anyone seeking to acquire us to negotiate with our Board of Directors prior to attempting a takeover. While the plan is designed to guard against coercive or unfair tactics to gain control of us, the plan may have the effect of making more difficult or delaying any attempts by others to obtain control of us. See Note 7 to our audited consolidated financial statements included in Item 8 of this Annual Report. 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.

Our business could be negatively affected as a result of a potential proxy contest for the election of directors at our annual meeting, and such proxy contest could distract our management, divert our resources and impact the trading value of the Company's securities.

On December 8, 2014, Terence Bernard Wise, a director of the Company, filed a definitive proxy statement nominating five director candidates for election to the Board of Directors at our 2014 annual meeting of shareholders (the "2014 Annual Meeting"). The Company believes Terence Bernard Wise, together with other participants (collectively, the "Wise Group"), failed to properly nominate its alternative slate of director candidates in compliance with the nomination procedures established in the Company's Amended and Restated By-Laws. As a result, the Company believes that any purported nomination by the Wise Group at the 2014 Annual Meeting is invalid. The Company sought declaratory and injunctive relief from a New York State court to prevent the Wise Group's invalid and improper solicitation. At a hearing on December 1, 2014, the court denied the Company's request for preliminary injunctive relief. The Company has filed a Notice of Appeal with respect to the court's ruling. Since the court determined the Wise Group nomination is valid, it is possible that the Wise-nominated directors could constitute a majority of the Board of Directors following the 2014 Annual Meeting.

A proxy contest would require us to incur significant legal fees and proxy solicitation expenses and require significant time and attention by management and the Board of Directors. Such activities could interfere with our ability to execute our strategic plan. The perceived uncertainties as to our future direction also could affect the market price and volatility of our securities, result in the loss of potential business opportunities and may make it more difficult to attract and retain qualified personnel and business partners, any of which could adversely affect our business and operating results.

We face risks related to litigation advanced by a current director and shareholder of ours and our former Chief Financial Officer.

On July 15, 2014, Terence Bernard Wise, a director of the Company, filed a derivative complaint in the Supreme Court of the State of New York, New York County, against directors Frank LaGrange Johnson, Robert Garrett, and John F. Chiste and then-directors (now former directors) Timothy Gordon and Owen P.J. King, also naming the Company as a nominal defendant, alleging breaches of fiduciary duty and seeking declaratory and injunctive relief (both preliminary and final), including a temporary restraining order (TRO), that would have prevented the Board of the Company from voting on proposals to raise capital or engage in any extraordinary transactions. The court rejected Mr. Wise s

request for a TRO and Mr. Wise then withdrew his request for preliminary injunctive relief. Mr. Wise then amended his complaint to add allegations of breach of fiduciary duties under various provisions of New York s Business Corporation Law. On December 4, 2014, Mr. Wise brought a new application to the court, once again seeking a TRO and a preliminary injunction that would enjoin his fellow Company directors from causing the Company to issue any Series B Senior Convertible Preferred Stock (the Preferred Stock), or take any antecedent or preparatory steps to effectuate such issuance, prior to the Company s 2014 annual meeting of shareholders (the 2014 Annual Meeting). The court granted the TRO, in part, by prohibiting the Company from issuing but not from taking antecedent or preparatory steps to issue such Preferred Stock prior to December 8, 2014. At a hearing on December 8, 2014, the court then granted Mr. Wise s motion for a preliminary injunction, enjoining the Company s issuance of the Preferred Stock prior to the Company s 2014 Annual Meeting. On December 8, 2014, the Company filed a notice of appeal of the court s order to the Supreme Court of the State of New York, Appellate Division, First Department. On December 9, 2014, the Company moved, before such appellate court, to vacate the lower court s injunction, which motion has not yet been decided. The case otherwise remains pending before the lower court.

On August 26, 2014, James McKenna, the Company's former Chief Financial Officer, filed a lawsuit in the U.S. District Court for the Southern District of New York against the Company and directors Frank LaGrange Johnson, Robert Garrett and John F. Chiste and then-directors (now former directors) Timothy Gordon and Owen P.J. King, alleging purported claims of retaliation for whistleblowing under the Dodd-Frank Act, breach of contract and breach of the covenant of good faith and fair dealing all as against the Company, and a single claim for tortious interference with contract as against the individual defendants. The complaint seeks an unspecified amount of monetary consequential damages and punitive damages. The case currently is pending before the court.

Although we believe the claims to be without merit, our operating results and share price may be negatively impacted due to the negative publicity, expenses incurred in connection with our defense, management distraction, and/or other factors related to this litigation. In addition, litigation of this nature may negatively impact our ability to attract and retain customers and strategic partners, as well as qualified board members and management personnel.

One of our current directors 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.

One of our directors, Terence Bernard Wise, is a significant shareholder who beneficially owns approximately 19.1% of the outstanding shares of our common stock as of December 1, 2014. Mr. Wise will have 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. Mr. Wise has also 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

In September 2012, we relocated our executive offices from Santa Monica, California to West Palm Beach, Florida, which consists of approximately 2,815 square feet, which we rent for approximately $6,200 per month under a lease agreement scheduled to expire in September 2020.

In April 2011, we relocated our executive offices from Pompano Beach, Florida to offices in Santa Monica, California, which consists of approximately 3,400 square feet, which we rent for approximately $14,000 per month under lease agreements, which expire in October 2016. Beginning in July 2013, we sub-leased this space for the remainder of our lease term at rates above those that we are contractually obligated to pay.

We sub-lease approximately 1,300 square feet of office space in Cham, Switzerland on a month-to-month basis from a tenant at the same location. We use this office as our EMEA Region headquarters from which we coordinate our sales and sales support activities throughout the EMEA Region.

On February 1, 2014, we began leasing office space in New York, New York for our Chief Executive Officer at a rate of $2,500 per month from LaGrange Capital Administration, L.L.C. (“LCA”). This lease is month-to-month and is cancellable by either us or LCA at any time. Effective April 1, 2014, LCA increased the monthly rental charge (inclusive of rent, allocable share of office assistant, and equipment leases) from $2,500 to approximately $12,700 per month.

We believe that each of the foregoing leased properties is adequate for the purposes for which it is used. All leases are with unaffiliated 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.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company may become a party to other legal actions or proceedings in the ordinary course of its business. As of September 30, 2014, 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.

On July 15, 2014, Terence Bernard Wise, a director of the Company, filed a derivative complaint in the Supreme Court of the State of New York, New York County, against directors Frank LaGrange Johnson, Robert Garrett, and John F. Chiste and then-directors (now former directors) Timothy Gordon and Owen P.J. King, also naming the Company as a nominal defendant, alleging breaches of fiduciary duty and seeking declaratory and injunctive relief (both preliminary and final), including a temporary restraining order (TRO), that would have prevented the Board of the Company from voting on proposals to raise capital or engage in any extraordinary transactions. The court rejected Mr. Wise s request for a TRO and Mr. Wise then withdrew his request for preliminary injunctive relief. Mr. Wise then amended his complaint to add allegations of breach of fiduciary duties under various provisions of New York s Business Corporation Law. On December 4, 2014, Mr. Wise brought a new application to the court, once again seeking a TRO and a preliminary injunction that would enjoin his fellow Company directors from causing the Company to issue any Series B Senior Convertible Preferred Stock (the Preferred Stock), or take any antecedent or preparatory steps to effectuate such issuance, prior to the Company s 2014 annual meeting of shareholders (the 2014 Annual Meeting). The court granted the TRO, in part, by prohibiting the Company from issuing but not from taking antecedent or preparatory steps to issue such Preferred Stock prior to December 8, 2014. At a hearing on December 8, 2014, the court then granted Mr. Wise s motion for a preliminary injunction, enjoining the Company s issuance of the Preferred Stock prior to the Company s 2014 Annual Meeting. On December 8, 2014, the Company filed a notice of appeal of the court s order to the Supreme Court of the State of New York, Appellate Division, First Department. On December 9, 2014, the Company moved, before such appellate court, to vacate the lower court s injunction, which motion has not yet been decided. The case otherwise remains pending before the lower court.

On July 16, 2014, the Company filed a lawsuit in the U.S. District Court for the Southern District of New York against Mr. Wise and his long-time business partner, Jenny P. Yu, alleging multiple violations of federal securities laws, including the filing with the Commission of deceptive and misleading Schedules 13D and proxy solicitation materials. Specifically, the Company alleged that Mr. Wise and Ms. Yu have been acting as an improperly undisclosed “group” engaged in an effort to replace the entire Board with Mr. Wise’s hand-picked candidates. The Company’s lawsuit seeks expedited injunctive and declaratory relief that would require Mr. Wise and Ms. Yu to comply with the federal securities laws and submit corrected, accurate disclosures in advance of any vote by the Company’s shareholders. On September 20, 2014, the Court granted Wise’s and Yu’s respective motions to dismiss the case, after which the Company filed an appeal to the United States Court of Appeals for the Second Circuit. The Company’s appeal currently is pending before the Court of Appeals.

On August 26, 2014, James McKenna, the Company s former Chief Financial Officer, filed a lawsuit in the U.S. District Court for the Southern District of New York against the Company and directors Frank LaGrange Johnson, Robert Garrett and John F. Chiste and then-directors (now former directors) Timothy Gordon and Owen P.J. King, alleging purported claims of retaliation for whistleblowing under the Dodd-Frank Act, breach of contract and breach of the covenant of good faith and fair dealing all as against the Company, and a single claim for tortious interference with contract as against the individual defendants. The complaint seeks an unspecified amount of monetary consequential damages and punitive damages. The case currently is pending before the court.

On November 13, 2014, the Company filed a lawsuit in the Supreme Court of the State of New York, Kings County, against Terence Bernard Wise, a director of the Company, and the following six individuals whom Mr. Wise claims that he has purportedly nominated to stand for election as directors at the Company s Annual Meeting: Howard Morgan, Michael Luetkemeyer, Eric Freitag, Sangita Shah, N. Scott Fine, and Darryl Keyes. The Company s complaint seeks a judicial declaration that Mr. Wise s purported nominations are invalid, as they were not received within the timeframe expressly provided by the Company s Bylaws for such nominations. The complaint also seeks injunctive relief from the court, enjoining Mr. Wise from soliciting proxies for his purported nominees to stand for election as directors at the 2014 annual meeting of shareholders. At a hearing on December 1, 2014, the court denied the Company s request for preliminary injunctive relief. On December 2, 2014, the Company filed a notice of appeal of the court s order to the Supreme Court of the State of New York, Appellate Division, Second Department and on December 3, 2014, the Company moved before such appellate court for the preliminary injunctive relief denied below. That motion remains pending, as does the case before the lower court.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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 2014		**Fiscal 2013**	
	High Bid	Low Bid	High Bid	Low Bid
First Quarter	$ 1.89	$ 1.41	$ 1.50	$ 1.08
Second Quarter	$ 2.10	$ 1.51	$ 2.17	$ 1.43
Third Quarter	$ 1.93	$ 1.15	$ 2.14	$ 1.70
Fourth Quarter	$ 1.73	$ 1.18	$ 1.99	$ 1.66

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

On December 1, 2014, the closing bid quotation for our common stock was $1.15.

Holders of common stock.

As of November 24, 2014, there were approximately 114 holders of record of our common stock, excluding approximately 6,456 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, net 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. See "—Recent sales of unregistered securities" below.

Recent sales of unregistered securities

On each of June 28, 2013, August 7, 2013 and August 14, 2013, the Company completed private placements to accredited investors of convertible preferred stock totaling 648,846 shares. See Note 7 to our audited consolidated financial statements.

Securities authorized for issuance under equity compensation plans.

Long-term equity based compensation is accomplished under the Forward Industries, Inc. 2007 Equity Incentive Plan, as amended (the "2007 Plan"), adopted by the Company and by its shareholders in May 2007 and amended February 2009, and the Forward Industries, Inc. 2011 Long Term Incentive Plan (the "2011 Plan"), adopted by the Company and by its shareholders in March 2011. Under the 2007 Plan, 800,000 shares of Common Stock were authorized for grants of awards of stock options and restricted stock, of which 130,015 shares remain available for grant as of September 30, 2014. Under the 2011 Plan, 850,000 shares of Common Stock were authorized for grants of awards of stock options and restricted stock, of which 185,647 shares remain available for grant as of September 30, 2014. There are options to purchase 30,000 shares of Common Stock outstanding under the 1996 Stock Incentive Plan.

Information relating to securities authorized for issuance under equity compensation plans as of September 30, 2014, is as follows:

Plan Category	**Number of securities to be issued upon exercise of outstanding options** (a)	**Weighted-average exercise price of outstanding options** (b)	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)** (c)
Equity compensation plans approved by security holders	778,500	$ 3.12	315,662
Equity compensation plans not approved by security holders	-	$ -	-
Total	778,500	$ 3.12	315,662

Purchase of equity securities

None.

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 Fiscal 2014 with those for Fiscal 2013, 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 looking to the future. 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 th terms or 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. Risks, 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. There can be no assurance that any such forward looking statement, projection, forecast or estimate contained can be realized or that actual returns, results, or business prospects will not differ materially from those set forth in any forward looking statement.

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.

Business Overview

Trends and Economic Environment

In June 2012, the Company made the strategic decision to focus solely on its core OEM business. Initially, we implemented several key restructuring measures in order to improve our operating performance and return the Company to profitability. These actions included replacing our legacy sourcing and quality assurance infrastructure with a variable lower cost solution through our use of an exclusive Asia-based sourcing agent (see Note 12 in our Notes to our Consolidated Financial Statements) and rationalizing our fixed operating expenses, including office closures and headcount reductions. Our financial results for Fiscal 2014 and Fiscal 2013, reflect the impact of these restructuring measures.

With the restructuring behind us, we have turned our focus to protecting the strong competitive position we have built across several key product categories, especially our Diabetic Products line. We have reinvested a portion of the savings generated by the restructuring towards expanding and better incentivizing our sales, design and sales support teams, which we believe has improved our ability to provide proactive and responsive support to our existing customer base. We also believe that these investments are expanding our ability to provide innovative and differentiated solutions to our existing and prospective customers. As an example, the diabetic products sector seems to be undergoing significant changes that, we believe, present us with meaningful opportunities if managed proactively.

We remain challenged by a highly concentrated customer base and product offering, especially with respect to our Diabetic Products line, where we operate in a price sensitive environment in which we continue to experience volatility in demand and downward pricing pressure from our major Diabetic Products customers. We believe that the investments we are making in our sales, design and sales support teams increase our ability to expand and diversify our customer base, which we believe is essential to overcoming these challenges and the impact they have on our gross margins.

In addition to our investments to grow and diversify our business organically, we are conducting an active search process to identify attractive acquisition targets. We anticipate that this search process will be ongoing with the goal of identifying prospective target companies that, if acquired, would be accretive to our earnings.

We continue to be challenged by rising costs from our China-based supplier base, which causes our gross margins to narrow when we are not able to fully pass cost increases through to customers. Our dedicated Asia-based sourcing agent has made meaningful progress in areas such as quality assurance and overall operational performance, which has better positioned us with our customers. Our sourcing agent also made progress in expanding our supplier base during Fiscal 2013. However, there was no continued expansion during Fiscal 2014. As a result, our ability to effectively push back against such rising material costs may diminish.

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 discussion below is not intended to be comprehensive. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP, 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, see "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.

Accounts Receivable

Accounts receivable consist of unsecured trade accounts with customers or their contract manufacturers. We perform periodic credit evaluations of our customers including an evaluation of days outstanding, payment history, recent payment trends, and perceived creditworthiness, and believe that adequate allowances for any uncollectible receivables are maintained. Credit terms to customers generally range from net thirty (30) days to net one hundred and twenty (120) days. We have not historically experienced significant credit or collection problems with our OEM customers or their contract manufacturers. At September 30, 2014 and 2013, no allowance for doubtful accounts relating to our continuing operations was deemed necessary.

Inventories

Inventories consist primarily of finished goods and are stated at the lower of cost (determined by the first-in, first-out method) or market. Based on management's estimates, an allowance is made to reduce excess, obsolete, or otherwise un-saleable inventories to net realizable value. The allowance is established through charges to cost of goods sold in our consolidated statements of operations and comprehensive loss. As reserved inventory is disposed of, we charge off the associated allowance. In determining the adequacy of the allowance, management's estimates are based upon several factors, including analyses of inventory levels, historical loss trends, sales history and projections of future sales demand. Our estimates of the allowance may change from time to time based on management's assessments, and such changes could be material.

6% Senior Convertible Preferred Stock

Temporary Equity

In accordance with Accounting Standards Codification ("ASC") 480-10-s99 – Distinguishing Liabilities from Equity – Overall – SEC Materials and Accounting Series Release ("ASR") 268 – Presentation in Financial Statements of "Redeemable Preferred Stock", equity securities are required to be classified out of permanent equity and classified as temporary equity, as the redemption of the convertible preferred stock is not solely within our control since it is at the option of the holder.

Warrants

In accordance with ASC 815-40 – Derivatives and Hedging – Contracts in Entity's Own Equity, our warrants were initially classified as a liability, at fair value, as a result of a related registration rights agreement that contained certain requirements for registering the underlying common shares, but has no provision for penalties upon the failure to register. At each consolidated balance sheet date, this liability's fair value was re-measured and adjusted with the corresponding change in fair value recorded in the consolidated statements of operations and comprehensive loss. After we met the requirements for registering the underlying common shares in the fiscal year ended September 30, 2014, the warrants were reclassified to equity (additional paid-in capital). The liability associated with the warrants was initially included in "Accrued expenses and other current liabilities" in the consolidated balance sheet at September 30, 2013.

Preferred Stock Accretion

The carrying amount of the convertible preferred stock is less than the redemption value. As a result of our determination that redemption is probable, the carrying value will be increased by periodic accretions so that the carrying value will equal the redemption amount at the earliest redemption date. Such accretion is recorded as a preferred stock dividend.

Preferred Stock Beneficial Conversion Feature

On the date of issuance, the fair value, or carrying amount, of the securities could be converted into common stock at a discount to the market price of the underlying common stock at the conversion date. Such embedded “beneficial conversion feature”, which is equal to the difference between the accounting conversion price and the fair value of the common stock, is analogous to a dividend and has been recorded as a return to preferred stockholders as of the date of issuance, which is the earliest possible conversion date. As a result of the dividend being recorded upon issuance, there will be no future impact on our consolidated financial statements.

Revenue Recognition

We generally recognize revenue from product sales to our customers when: (1) title and risk of loss are transferred (in general, these conditions occur at either point of shipment or point of destination, depending on the terms of sale); (2) persuasive evidence of an arrangement exists; (3) we have no continuing obligations to the customer; and (4) collection of the related accounts receivable is reasonably assured.

Share-Based Payment Expense

We recognize employee and director share-based compensation in our consolidated statements of operations and comprehensive loss at the grant-date fair value of stock options and other equity-based compensation. The determination of grant-date fair value for stock option awards is estimated using the Black-Scholes option-pricing model, which includes variables such as the expected volatility of our share price, the exercise behavior of its grantees, interest rates, and dividend yields. These variables are projected based on our historical data, experience, and other factors. Changes in any of these variables could result in material changes to the valuation of options granted in future periods and increases in the expense recognized for share-based payments. In the case of awards with multiple vesting periods, we have elected to use the graded vesting attribution method, which recognizes compensation cost on a straight-line basis over each separately vesting portion of the award as if the award was, in-substance, multiple awards. See Note 8, Share-Based Compensation, in our Notes to our Consolidated Financial Statements. In addition, we recognize share-based compensation to non-employees based upon the fair value, using the Black-Scholes option pricing model, determined at the deemed measurement dates over the related contract service period.

Recent Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, “Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." This ASU addresses the requirements regarding the financial statement presentation of an unrecognized tax benefit within ASC Topic 740 for the purpose of providing consistency between the financial reporting of U.S. GAAP entities. Generally, this ASU provides guidance for the preparation of financial statements and disclosures when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2013 and is not expected to have a material impact on our consolidated financial statements or disclosures.

17

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” (“ASU 2014-09”). ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) 605 - Revenue Recognition and most industry-specific guidance throughout the ASC. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period," ("ASU 2014-12"). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in ASC Topic No. 718, "Compensation - Stock Compensation" as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in ASU 2014-12 either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. We do not anticipate that the adoption of ASU 2014-12 will have a material impact on our consolidated financial statements.

RESULTS OF OPERATIONS FOR FISCAL 2014 COMPARED TO FISCAL 2013

(Loss) Income from Continuing Operations

Loss from continuing operations was $0.5 million in Fiscal 2014 compared to income of $5 thousand in Fiscal 2013. The loss in Fiscal 2014 was primarily due to an increase in sales and marketing and general and administrative expenses, which were offset, in part, by an improvement in gross profit and a reduction in other expense, as reflected in the table below:

	(dollars in thousands)		
	For the Fiscal Years Ended September 30,		
	2014	**2013**	**Favorable (Unfavorable)**
Net Sales	$33,360	$ 30,911	$ 2,449
Gross profit	6,555	6,377	178
Sales and marketing expenses	(2,806)	(2,187)	(619)
General and administrative expenses	(3,848)	(3,484)	(364)
Other expense	(375)	(700)	325
Income tax expense	-	(1)	1
(Loss) income from continuing operations	$(474)	$ 5	$ (479)

Loss from continuing operations per basic and diluted share was $(0.08) and $(0.07) for Fiscal 2014 and 2013, respectively.

Net Sales

Net sales increased $2.5 million, or 8%, to $33.4 million in Fiscal 2014 from $30.9 million in Fiscal 2013 due to higher sales in both product lines. Sales in Diabetic Products increased $2.0 million and sales in Other Products increased $0.5 million. The tables below set forth sales by channel, product line and geographic location of our customers for the periods indicated:

	Fiscal Year Ended September 30, 2014 (millions of dollars)			
	APAC	**Americas**	**Europe**	**Total**
Diabetic Products	$ 9.9	$ 6.3	$ 10.1	$ 26.3
Other Products	1.8	3.5	1.8	7.1
Total net sales	$ 11.7	$ 9.8	$ 11.9	$ 33.4
	Net Sales for the Fiscal Year Ended September 30, 2013 (millions of dollars)			
	APAC	**Americas**	**Europe**	**Total**
Diabetic Products	$ 8.7	$ 7.2	$ 8.4	$ 24.3
Other Products	2.1	3.8	0.7	6.6
Total net sales	$ 10.8	$ 11.0	$ 9.1	$ 30.9

Diabetic Product Sales

We design to the order of, and sell carrying cases for blood glucose diagnostic kits directly to, OEMs (or their contract manufacturers). The OEM customer or its contract manufacturer packages our carry cases “in box” as a custom accessory for the OEM’s blood glucose testing and monitoring kits, or to a lesser extent, sell them through their retail distribution channels.

Sales of Diabetic Products increased $2.0 million to $26.3 million in Fiscal 2014 from $24.3 million in Fiscal 2013. This increase was primarily due to higher sales of legacy programs with our 3 largest Diabetic Products’ customers (Diabetic customers A, B, and C). The increase was offset, in part, by a decline in sales of legacy programs to a major Diabetic Products' customer (Diabetic customer D).

The following table sets forth our sales by Diabetic Products’ customers for the periods indicated:

	(millions of dollars) For the Fiscal Years Ended September 30,		
	2014	**2013**	**Increase (Decrease)**
Diabetic Customer A	$8.9	$ 7.6	$ 1.3
Diabetic Customer B	4.5	4.0	0.5
Diabetic Customer C	8.1	7.3	0.8
Diabetic Customer D	3.7	4.4	(0.7)
All other Diabetic Product Customers	1.1	1.0	0.1
Totals	$26.3	$ 24.3	$ 2.0

Sales of Diabetic Products represented 79% of our total net sales in Fiscal 2014 compared to 78% of our total net sales in Fiscal 2013.

Other Product Sales

We design and sell cases and protective solutions to OEMs for a diverse array of portable electronic devices (such as bar code scanners, GPS devices, cellular phones, tablets and cameras), as well as a variety of other products (such as sporting and recreational products and firearms) on a made-to-order basis that are customized to fit the products sold by our OEM customers.

Sales of Other Products increased $0.5 million to $7.1 million in Fiscal 2014 from $6.6 million in Fiscal 2013. The increase was primarily driven by sales to a new camera customer which provided an addition of $1.5 million of sales in Fiscal 2014. The increase was offset, in part, by a decline in sales of $0.4 million to a long-standing GPS customer and a decline in sales of $0.3 million to a barcode scanner customer in Fiscal 2014. Lesser fluctuations in several other customer accounts between Fiscal 2014 and Fiscal 2013 were not individually material.

Sales of Other Products represented 21% of our net sales in Fiscal 2014 compared to 22% of our total net sales in Fiscal 2013.

Gross Profit

Gross profit increased $0.2 million, or 3%, to $6.6 million in Fiscal 2014 from $6.4 million in Fiscal 2013. As a percentage of sales, our gross profit declined to 20% in Fiscal 2014, compared to 21% in Fiscal 2013.

The gross profit increase was driven primarily by a year over year increase in sales volume. Fiscal 2014 sales in Europe grew 29% to $11.9 million from a combination of new camera customer sales and volume growth in Diabetic Customer C. The sales growth in Europe contributed $0.4 million in incremental gross profit. This incremental gross profit was partially offset by a decrease of $0.2 million from a 10% decline in Americas sales, to $9.8 million, mostly due to competitive pricing that lead to lower average sales prices with a long-standing GPS customer.

The aforementioned 1% gross profit decline as a percentage of sales was mostly due to lower average margins from the new camera and long-standing GPS customers, partially offset by the margins on Diabetic Product sales.

Sales and Marketing Expenses

Sales and marketing expenses increased $0.6 million, or 28%, to $2.8 million in Fiscal 2014 compared to $2.2 million in Fiscal 2013, primarily to higher personnel costs. Personnel costs increased $0.5 million in Fiscal 2014 primarily as a result of expanding and restructuring our sales and sales support departments, including their respective compensation schemes. Fluctuations in other components of “Sales and Marketing Expenses” were not material individually or in the aggregate.

General and Administrative Expenses

General and administrative expenses increased $0.3 million, or 10%, to $3.8 million in Fiscal 2014 from $3.5 million in Fiscal 2013, due primarily to the following:

- $0.7 million increase in professional fees (primarily attorney’s fees) related to the legal support and representation surrounding the proxy defense and other legal matters;
- $0.2 million increase in professional fees (primarily consultants and attorneys) related to identifying and vetting targets for acquisition as part of management’s strategic vision; and
- Offset, in part, by a $0.5 million decrease in personnel costs due to a reduction of accrued executive bonuses and the forfeiture of share-based awards granted to the former Chief Financial Officer as a result of his termination in the 4th quarter of Fiscal 2014.

Fluctuations in other components of “General and Administrative Expenses” that aggregated a net decrease of $0.2 million were not individually material.

Other (Income) Expense

Other (income) expense, net, consisting primarily of realized and unrealized gains and losses on investments in marketable securities and the change in the fair market value of warrant liabilities, was $0.4 million of expense in Fiscal 2014 compared to $0.7 million of expense in Fiscal 2013.

RESULTS OF DISCONTINUED OPERATIONS FOR FISCAL 2014 COMPARED TO FISCAL 2013

On June 21, 2012, we determined to exit our global retail business and focus solely on growing our OEM business. The decision to eliminate the Retail division was primarily driven by the longer than estimated path to bring it to profitability and the strong net sales growth and cost rationalizations in the OEM business. We have substantially completed the exit of our Retail business and have not had, and do not expect to have, any continuing involvement in the Retail business after this date. Accordingly, the results of operations for the Retail division have been recorded as discontinued operations in the accompanying consolidated financial statements for the fiscal years presented.

Loss from discontinued operations was $0.3 million in Fiscal 2014 compared to $0.2 million in Fiscal 2013. The only remaining open item pertaining to discontinued operations is the collection of a receivable of $280 thousand which is presented as current assets from discontinued operations, against which we have recorded a full valuation allowance, on our accompanying audited consolidated financial statements. See Note 3 to our audited consolidated financial statements for an update on our collection efforts

LIQUIDITY AND CAPITAL RESOURCES

During Fiscal 2014, we generated $0.2 million of cash from operations, which is derived from a net loss of $0.8 million, adjusted by $0.9 million for non-cash items (primarily bad debt expense, realized and unrealized losses on marketable securities, share based compensation and the change in fair value of a warrant liability), and net cash provided by working capital items of $0.1 million. As to working capital items, cash provided by operating activities consisted primarily of an increase in accounts payable (including due to Forward China) of $2.3 million offset, in part, by cash used in operating activities, which consisted of increases in accounts receivable and inventories of $1.7 million and $0.3 million, respectively, and a decrease in accrued expenses and other current liabilities of $0.2 million.

The increase in accounts payable (including due to Forward China) is primarily due to the contraction of suppliers and more favorable payment terms. The increase in accounts receivable is primarily due to the timing and higher volume of sales recorded in the three-month period ended September 30, 2014 and the extension of payment terms to one of our major diabetic customers. The increase in inventories is primarily due to timing differences in inventory shipments enroute to and staged from our OEM customers' distribution hubs. The decrease in accrued expenses and other current liabilities is primarily due to the reduction of accrued bonuses for executives and the reduction of accrued professional fees.

During Fiscal 2013, we generated $2.3 million of cash from operations, which is derived from a net loss of $0.2 million, adjusted by $1.3 million for non-cash items (primarily realized and unrealized losses on marketable securities and share based compensation), and net cash provided by working capital items of $1.2 million. As to working capital items, cash provided by operating activities consisted of decreases in accounts receivable, inventories, and prepaid expenses and other current assets of $2.9 million, $1.7 million, and $0.2 million, respectively. These changes were offset, in part, by cash used in operating activities, which consisted of decreases in accounts payable and accrued expenses and other current liabilities of $2.4 million and $1.1 million, respectively.

In Fiscal 2014, net cash used in investing activities was $0.3 million, which consisted of $5.8 million used for purchases of marketable equity securities, $5.6 million generated from sales of marketable equity securities, and $33 thousand used for purchases of property and equipment. In Fiscal 2013, net cash used in investing activities was $1.4 million, which consisted of $88.6 million used for purchases of marketable equity securities, $87.3 million generated from sales of marketable equity securities, and $74 thousand used for purchases of property and equipment.

In Fiscal 2014, net cash used in financing activities was $0.1 million, which consisted of $76 thousand used to pay dividends on 6% senior convertible preferred stock (see Note 7 to our Notes to Consolidated Financial Statements – "Shareholders Equity") and $47 thousand related to restricted stock that was repurchased and retired. In Fiscal 2013, net financing activities generated $1.2 million from the issuance of 6% senior convertible preferred stock and warrants, net of $15 thousand used to pay dividends on such senior convertible preferred stock. We raised these funds for general corporate purposes, including working capital, and in connection with potential acquisition targets if any were identified and acquired.

At September 30, 2014, our current ratio (current assets divided by current liabilities) was 2.6; our quick ratio (current assets less inventories divided by current liabilities) was 2.2; and our working capital (current assets less current liabilities) was $10.0 million (excluding current assets of discontinued operations). As of such date, we had no short or long-term debt outstanding.

Our primary sources of liquidity are our cash and cash equivalents and marketable securities on hand. The primary demands on our working capital currently are: i) operating losses, should they occur, and ii) accounts payable arising in the ordinary course of business, the most significant of which arise when we order products from our suppliers. Historically, our sources of liquidity have been adequate to satisfy working capital requirements arising in the ordinary course of business. We anticipate that our liquidity and financial resources for the next twelve months will be adequate to manage our operating and financial requirements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and notes thereto included in this Annual Report may be found beginning at page F-1 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Our management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that is designed to ensure that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In accordance with Exchange Act Rule 13a-15(b), our management, under the supervision and with the participation of our Principal Executive and Financial Officer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Report (the fourth quarter of Fiscal 2014). Based on that evaluation, the Company's Principal Executive and Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Report (the fourth quarter of 2014), to provide reasonable assurance that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

Management's Report on Internal Control Over Financial Reporting

Our Principal Executive and Financial Officer is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of management and our directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our Principal Executive and Financial Officer assessed the effectiveness of our internal control over financial reporting as of September 30, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") based on the 1992 framework in *Internal Control — Integrated Framework*. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of September 30, 2014.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the Commission that permit the Company to provide only management's report in this Annual Report.

This report shall not be deemed to be filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section, unless the registrant specifically states that the report is to be considered "filed" under the Exchange Act or incorporates it by reference into a filing under the Securities Act of 1933, as amended, or the Exchange Act.

Changes in Internal Control

Our management, with the participation of our Principal Executive and Financial Officer, performed an evaluation required by Rule 13a-15(d) of the Exchange Act as to whether any change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the last fiscal quarter of Fiscal 2014. Based on that evaluation, our Principal Executive and Financial Officer concluded that there were no changes in our internal control over financial reporting during the last fiscal quarter of Fiscal 2014.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The response to this item is incorporated by reference from the discussion responsive in the Company's Proxy Statement for the 2014 Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

The response to this item is incorporated by reference from the discussion responsive in the Company's Proxy Statement for the 2014 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The response to this item is incorporated by reference from the discussion responsive in the Company's Proxy Statement for the 2014 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The response to this item is incorporated by reference from the discussion responsive in the Company's Proxy Statement for the 2014 Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The response to this item is incorporated by reference from the discussion responsive in the Company's Proxy Statement for the 2014 Annual Meeting of Shareholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

3. Articles of Incorporation and By-Laws

3(i)	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3 to the Company's Annual Report on Form 10-K, as filed with the Commission on December 8, 2010).
3(ii)**	Third Amended and Restated By-Laws of Forward Industries, Inc., as of August 10, 2010, as amended on February 8, 2012 and May 28, 2014.
3(iii)	Certificate of Amendment of the Certificate of Incorporation of Forward Industries, Inc., as filed with the Department of State of the State of New York on April 26, 2013 (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K, as filed with the Commission on April 26, 2013).
3(iv)	Certificate of Amendment of the Certificate of Incorporation of Forward Industries, Inc. filed with the Department of State of the State of New York on June 28, 2013 (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K, as filed with the Commission on July 3, 2013).

4. Instruments Defining the Rights of Security Holders

4.1	Rights Agreement, dated as of April 26, 2013, by and between Forward Industries, Inc. and American Stock Transfer & Trust Company LLC, as Rights Agent (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K, as filed with the Commission on April 26, 2013).
4.2	Form of 6% Senior Convertible Preferred Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K, as filed with the Commission on July 3, 2013).
4.3	Form of Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.2 to the Company’s Current Report on Form 8-K, as filed with the Commission on July 3, 2013).

10. Material Contracts

10.1	1996 Stock Incentive Plan of Forward Industries, Inc. (incorporated by reference to Exhibit 4 to the Registration Statement on Form S-8 of the Company, as filed on April 25, 2003).
10.2	Forward Industries, Inc. 2007 Equity Incentive Plan, as amended (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-8 of the Company, Reg. File No. 333-165075, as filed with the Commission on February 25, 2010).
10.3	

	Retention Agreement, dated as of August 10, 2010, between Forward Industries, Inc. and James O. McKenna, (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, as filed with the Commission on August 16, 2010).
10.4	Amended Employment Agreement, dated as of April 1, 2011, between Forward Industries, Inc. and James O. McKenna, (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q, as filed with the Commission on May 11, 2011).
10.5†	Buying Agency and Supply Agreement between Forward Industries, Inc. and Seaton Global Corporation, a British Virgin Islands corporation, dated as of March 7, 2012 (incorporated by reference to the Form 10-Q, as filed with the Commission on May 10, 2012).

10.6† Amendment No. 1 to Amended and Restated Buying Agency and Supply Agreement, between Forward Industries, Inc. and Forward Industries (Asia-Pacific) Corporation (f/k/a Seaton Global Corporation), dated as of March 11, 2014 (incorporated by reference to Form 10-Q, as filed with the Commission on May 15, 2014).

10.7 Employment Agreement by and between Forward Industries, Inc. and Robert Garrett, Jr., effective as of March 1, 2012 (incorporated by reference to Form 8-K, as filed with the Commission on April 6, 2012).

10.8 Memorandum of Understanding, dated June 21, 2012, between Forward Industries, Inc. and G-Form LLC (incorporated by reference to Form 10-Q, as filed with the Commission on August 20, 2012).

10.9 Amended Employment Agreement, dated as of November 8, 2012, between Forward Industries, Inc. and James O. McKenna (incorporated by reference to the Annual Report on Form 10-K, as filed with the Commission on December 20, 2012).

10.10 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 Commission on January 26, 2011).

10.11 Form of Securities Purchase Agreement, dated as of June 28, 2013, between Forward Industries, Inc. and the investors signatory thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed with the Commission on July 3, 2013).

10.12 Form of Registration Rights Agreement, dated as of June 28, 2013, among Forward Industries, Inc. and the investors signatory thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, as filed with the Commission on July 3, 2013).

21. Subsidiaries of the Registrant

21.1 ** List of Subsidiaries of Forward Industries, Inc.

23. Consent of Independent Registered Public Accounting Firm

23.1 ** Consent of CohnReznick LLP

31. Certifications Pursuant to Rule 13a-14(a) (Section 302 of Sarbanes-Oxley)

31.1** Certification of Robert Garrett Jr.

32. Certifications Pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350 (Section 906 of Sarbanes-Oxley)

32.1* Certification of Robert Garrett Jr. (furnished herewith)

101.INS** XBRL Instance Document.

101.SCH** XBRL Taxonomy Extension Schema Document.

101.CAL** XBRL Taxonomy Calculation Linkbase Document.

101.DEF** XBRL Taxonomy Definition Linkbase Document.

101.LAB** XBRL Taxonomy Label Linkbase Document.

101.PRE** XBRL Taxonomy Presentation Linkbase Document.

* Furnished and not filed herewith

** Filed herewith

† Portions have been omitted pursuant to request for confidential treatment and the omitted portions have been separately filed with the Commission.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

Dated: December 9, 2014

FORWARD INDUSTRIES, INC.
(Registrant)

By: /s/ Robert Garrett Jr.

Robert Garrett Jr.
President and Chief Executive Officer
(Principal Executive, Financial and Accounting Officer)

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints jointly and severally, Frank LaGrange Johnson and Robert Garrett Jr., or either of them as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has executed this Power of Attorney as of the date indicated.

In accordance with the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

December 9, 2014	/s/ Robert Garrett Jr. Robert Garrett Jr. President, Chief Executive Officer and Director (Principal Executive, Financial and Accounting Officer)
December 9, 2014	/s/ John F. Chiste John F. Chiste Director
December 9, 2014	/s/ Joseph E. Mullin III Joseph E. Mullin III Director
December 9, 2014	/s/ Frank LaGrange Johnson Frank LaGrange Johnson Chairman of the Board
December 9, 2014	/s/ Robert M. Neal Robert M. Neal Director
December 9, 2014	_____ Howard Morgan Director
December 9, 2014	Terence Wise Director

29

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of September 30, 2014 and 2013	F-2
Consolidated Statements of Operations and Comprehensive Loss for the Years Ended September 30, 2014 and 2013	F-3
Consolidated Statements of Shareholders' Equity for the Years Ended September 30, 2014 and 2013	F-4
Consolidated Statements of Cash Flows for the Years Ended September 30, 2014 and 2013	F-5
Notes to Consolidated Financial Statements	F-6

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Forward Industries, Inc.

We have audited the accompanying consolidated balance sheets of Forward Industries, Inc. and Subsidiaries as of September 30, 2014 and 2013, and the related consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended. Forward Industries, Inc. and Subsidiaries' management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Forward Industries, Inc. and Subsidiaries as of September 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ CohnReznick LLP

Jericho, New York

December 9, 2014

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 6,477,132	$ 6,616,995
Marketable securities	1,051,230	1,080,747
Accounts receivable	6,124,871	4,382,406
Inventories	2,374,837	2,050,710
Prepaid expenses and other current assets	401,510	390,153
Current assets of discontinued operations	39	339,382
Total current assets	16,429,619	14,860,393
Property and equipment, net	98,990	129,987
Other assets	40,962	40,493
Total Assets	$ 16,569,571	$ 15,030,873
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 666,630	$ 3,433,408
Due to Forward China	5,215,768	107,785
Accrued expenses and other current liabilities	548,515	1,195,560
Current liabilities of discontinued operations	3,396	25,438
Total current liabilities	6,434,309	4,762,191
Other liabilities	115,202	157,708
Total Liabilities	6,549,511	4,919,899
6% Senior convertible preferred stock, par value $0.01 per share; 1,500,000 shares authorized; 648,846 shares issued and outstanding (aggregate liquidation value of $1,275,000 as of September 30, 2014 and 2013)	833,365	716,664
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value $0.01 per share; 4,000,000 shares authorized; 2,400,000 undesignated:		
Series A participating preferred stock, par value $0.01; 100,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value $0.01 per share; 40,000,000 shares authorized; 9,159,796 and 9,190,467 shares issued, plus 8,453,386 and 8,484,057 shares outstanding, at September 30, 2014 and 2013, respectively	91,598	91,905
Additional paid-in capital	18,747,371	17,961,613
Treasury stock, 706,410 shares at cost	(1,260,057)	(1,260,057)
Accumulated deficit	(8,371,806)	(7,378,700)
Accumulated other comprehensive loss	(20,411)	(20,451)
Total shareholders' equity	9,186,695	9,394,310
Total liabilities and shareholders' equity	$ 16,569,571	$ 15,030,873

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

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

		For the Fiscal Years Ended September 30,		
		2014		**2013**
Net sales	$	33,359,918	$	30,910,506
Cost of goods sold		26,805,193		24,533,154
Gross profit		6,554,725		6,377,352
Operating expenses				
Sales and marketing		2,805,643		2,187,315
General and administrative		3,847,759		3,484,222
Total operating expenses		6,653,402		5,671,537
(Loss) income from operations		(98,677)		705,815
Other (income) expense:				
Interest income		(33,916)		(4,626)
Loss on marketable securities, net		246,687		722,347
Loss (gain) on change in fair market value of warrant liabilities		136,258		(49,618)
Other expense, net		26,166		31,770
Total other expense, net		375,195		699,873
(Loss) income from continuing operations before income tax expense		(473,872)		5,942
Income tax expense		-		507
(Loss) income from continuing operations		(473,872)		5,435
Loss from discontinued operations, net of tax benefit of $0 and $(6,002), respectively		(326,034)		(212,321)
Net loss		(799,906)		(206,886)
Preferred stock dividends, accretion and beneficial conversion feature		(193,200)		(546,888)
Net loss applicable to common equity	$	(993,106)	$	(753,774)
Net loss	$	(799,906)	$	(206,886)
Other comprehensive income (loss):				
Change in unrealized gains on marketable securities, net of tax		-		23,744
Translation adjustments		40		(8,254)
Total other comprehensive income		40		15,490
Comprehensive loss	$	(799,866)	$	(191,396)
Net loss per basic and diluted common shares:				
Loss from continuing operations	$	(0.08)	$	(0.07)
Loss from discontinued operations		(0.04)		(0.02)
Net loss per share	$	(0.12)	$	(0.09)
Weighted average number of common and common equivalent shares outstanding				
Basic and diluted		8,186,926		8,111,226

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

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	Common Stock		Additional Paid-In	Treasury Stock		Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Shares	Amount	Deficit	Loss	Total
Balance - October 1, 2012	8,819,092	$ 88,191	$ 17,020,696	706,410	$ (1,260,057)	$ (6,624,926)	$ (35,941)	$ 9,187,963
Restricted stock award issuances	371,375	3,714	(3,714)	-	-	-	-	-
Share-based compensation	-	-	436,422	-	-	-	-	436,422
Preferred stock dividends	-	-	-	-	-	(14,527)	-	(14,527)
Preferred stock accretion	-	-	-	-	-	(24,152)	-	(24,152)
Beneficial conversion on preferred stock	-	-	508,209	-	-	(508,209)	-	-
Foreign currency translation	-	-	-	-	-	-	(8,254)	(8,254)
Net reclassification of adjustments on marketable securities	-	-	-	-	-	-	23,744	23,744
Net loss	-	-	-	-	-	(206,886)	-	(206,886)
Balance - September 30, 2013	9,190,467	91,905	17,961,613	706,410	(1,260,057)	(7,378,700)	(20,451)	9,394,310
Restricted stock award issuances	95,000	950	(950)	-	-	-	-	-
Restricted stock award forfeitures	(85,000)	(850)	850	-	-	-	-	-
Restricted stock repurchased and retired	(40,671)	(407)	(46,771)	-	-	-	-	(47,178)
Share-based compensation	-	-	232,700	-	-	-	-	232,700
Preferred stock dividends	-	-	-	-	-	(76,499)	-	(76,499)
Preferred stock accretion	-	-	-	-	-	(116,701)	-	(116,701)
Reclassification of warrant liability	-	-	599,929	-	-	-	-	599,929
Foreign currency translation	-	-	-	-	-	-	40	40
Net loss	-	-	-	-	-	(799,906)	-	(799,906)
Balance - September 30, 2014	9,159,796	$91,598	$ 18,747,371	706,410	$(1,260,057)	$(8,371,806)	$ (20,411)	$9,186,695

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

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Fiscal Years Ended September 30,	
	2014	**2013**
Cash Flows From Operating Activities:		
Net loss	$ (799,906)	$ (206,886)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Realized and unrealized loss on marketable securities	246,687	722,347
Share-based compensation	232,700	436,422
Depreciation and amortization	64,482	75,188
Bad debt expense	280,034	35,028
Change in fair value of warrant liability	136,258	(49,618)
Loss on disposal of property and equipment	-	9,486
Deferred rent	(42,506)	74,492
Changes in operating assets and liabilities:		
Accounts receivable	(1,742,465)	2,862,208
Inventories	(324,127)	1,681,045
Prepaid expenses and other current assets	47,952	161,103
Other assets	(469)	(51)
Accounts payable and due to Forward China	2,319,203	(2,416,091)
Accrued expenses and other current liabilities	(183,374)	(1,173,710)
Other liabilities	-	39,449
Net cash provided by operating activities	234,469	2,250,412
Cash Flows From Investing Activities:		
Sales of marketable securities	5,566,758	87,275,809
Purchases of marketable securities	(5,783,928)	(88,634,554)
Purchases of property and equipment	(33,485)	(74,187)
Net cash used in investing activities	(250,655)	(1,432,932)
Cash Flows From Financing Activities:		
Proceeds from issuance of convertible preferred stock and warrants, net	-	1,205,796
Dividends paid	(76,499)	(14,527)
Restricted stock repurchased and retired	(47,178)	-
Net cash (used in) provided by financing activities	(123,677)	1,191,269
Net (decrease) increase in cash and cash equivalents	(139,863)	2,008,749
Cash and cash equivalents at beginning of year	6,616,995	4,608,246
Cash and cash equivalents at end of year	$ 6,477,132	$ 6,616,995
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the fiscal year for:		
Income taxes	$ 6,449	$ 5,962
Supplemental disclosure of non-cash financing activities:		
Preferred stock accretion	$ 116,701	$ 24,152
Reclassification of warrant liabilities to equity	$ 599,929	$ -

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

F-5

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 OVERVIEW

Forward Industries, Inc. ("Forward" or the "Company") was incorporated under the laws of the State of New York and began operations in 1961 as a manufacturer 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 its products as accessories "in box" together with their branded product offerings, or sell them through their retail distribution channels. The Company's OEM products include carrying cases and other accessories for medical monitoring and diagnostic kits and a variety of other portable electronic and non-electronic products (such as sporting & recreational products, bar code scanners, smartphones, GPS location devices, tablets, and firearms). The Company's OEM customers are located in the Americas, the EMEA Region, and the APAC Region. The Company does not manufacture any of its OEM products and sources substantially all of its OEM products from independent suppliers in China (refer to Note 12 – Buying Agency and Supply Agreement).

On June 21, 2012, the Company determined to exit its global retail business and focus solely on growing its OEM business. The decision to eliminate the Retail division was primarily driven by the longer than estimated path to bring it to profitability and the strong top line growth and cost rationalizations in the OEM business. The Retail business is presented as discontinued operations.

NOTE 2 ACCOUNTING POLICIES

Accounting Estimates

The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates and assumptions.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Forward Industries, Inc. and its wholly owned subsidiaries (Forward US and Forward Switzerland; Forward HK and Forward UK are inactive). All significant intercompany transactions and balances have been eliminated in consolidation.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash on deposit and highly liquid money market accounts, short-term bonds, and certificates of deposit with original contractual maturities of three months or less, predominately in U.S. dollar denominated instruments. The Company may purchase these short-term bonds with anticipated maturity of 90 days or less at a premium or discount. The Company records these investments as cash and cash equivalents net of amortization of premium or discount. The Company minimizes its credit risk associated with cash and cash equivalents by investing in high quality instruments and by periodically evaluating the credit quality of the primary financial institution issuers of such instruments. The Company holds cash and cash equivalents at major financial institutions in the United States, at which cash amounts may significantly exceed the Federal Deposit Insurance Corporation’s insured limits. At September 30, 2014 and 2013, this amount was approximately $6.3 million (which includes $1.7 million in a foreign bank) and $6.5 million (which includes $1.4 million in a foreign bank), respectively. Historically, the Company has not experienced any losses due to such cash concentrations.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 ACCOUNTING POLICIES (CONTINUED)

Marketable Securities

At September 30, 2014 and 2013, the Company has investments in marketable securities that are classified as trading and are recorded at fair value with the corresponding unrealized holding gains or losses recognized in earnings. The fair value of marketable securities is determined based on quoted market prices. The cost of marketable securities sold is determined by the specific identification method. The Company classifies its realized and unrealized gains and losses as non-operating income (expense) in its consolidated statements of operations and comprehensive loss. In addition, the Company classifies the cash flows from the trading of these marketable securities as investing activities in its consolidated statements of cash flows.

Accounts Receivable

Accounts receivable consist of unsecured trade accounts with customers or their contract manufacturers. The Company performs periodic credit evaluations of its customers including an evaluation of days outstanding, payment history, recent payment trends, and perceived creditworthiness, and believes that adequate allowances for any uncollectible receivables are maintained. Credit terms to customers generally range from net thirty (30) days to net one hundred and twenty (120) days. The Company has not historically experienced significant credit or collection problems with its OEM customers or their contract manufacturers. At September 30, 2014 and 2013, no allowance for doubtful accounts relating to the Company's continuing operations was deemed necessary.

Inventories

Inventories consist primarily of finished goods and are stated at the lower of cost (determined by the first-in, first-out method) or market. Based on management's estimates, an allowance is made to reduce excess, obsolete, or otherwise un-saleable inventories to net realizable value. The allowance is established through charges to cost of goods sold in the Company's consolidated statements of operations and comprehensive loss. As reserved inventory is disposed of, the Company charges off the associated allowance. In determining the adequacy of the allowance, management's estimates are based upon several factors, including analyses of inventory levels, historical loss trends, sales history and projections of future sales demand. The Company's estimates of the allowance may change from time to time based on management's assessments, and such changes could be material.

Property and Equipment

Property and equipment consist of furniture, fixtures, and equipment and leasehold improvements and are recorded at cost. Expenditures for major additions and improvements are capitalized, and minor replacements, maintenance, and

repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method. The estimated useful life for furniture, fixtures and equipment ranges from three to ten years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. For the fiscal years ended September 30, 2014 and 2013, the Company recorded approximately $64,000 and $75,000 of depreciation and amortization expense from continuing operations, respectively.

Income Taxes

The Company accounts for its income taxes in accordance with accounting principles generally accepted in the United States of America, which requires, among other things, recognition of future tax benefits and liabilities measured at enacted rates attributable to temporary differences between financial statement and income tax bases of assets and liabilities and to net tax operating loss carry-forwards to the extent that realization of these benefits is more likely than not. The Company periodically evaluates the realizability of its net deferred tax assets. See Note 9 to these Notes to Consolidated Financial Statements. The Company's policy is to account for interest and penalties relating to income taxes, if any, in "income tax expense" in its consolidated statements of operations and comprehensive loss and include accrued interest and penalties within "accrued liabilities" in its consolidated balance sheets, if applicable. For fiscal years ended September 30, 2014 and 2013, no income tax related interest or penalties were assessed or recorded.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 ACCOUNTING POLICIES (CONTINUED)

6% Senior Convertible Preferred Stock

Temporary Equity

The 6% Senior Convertible Preferred Stock has been classified as temporary equity in accordance with Accounting Standards Codification ("ASC") 480-10-s99 - Distinguishing Liabilities from Equity – Overall – SEC Materials and Accounting Series Release ("ASR") 268 – Presentation in Financial Statements of "Redeemable Preferred Stock", as the redemption feature is not solely within the control of the Company.

Warrants

In accordance with ASC 815-40 – Derivatives and Hedging – Contracts in Entity's Own Equity, the Company's warrants were initially classified as a liability, at fair value, as a result of a related registration rights agreement that contained certain requirements for registering the underlying common shares, but has no provision for penalties upon the failure to register. At each consolidated balance sheet date, this liability's fair value was re-measured and adjusted with the corresponding change in fair value recorded in the consolidated statements of operations and comprehensive loss. After the Company met the requirements for registering the underlying common shares in the fiscal year ended September 30, 2014, the warrants were reclassified to equity (additional paid-in capital). The liability associated with the warrants was included in "Accrued expenses and other current liabilities" in the accompanying consolidated balance sheet at September 30, 2013.

Preferred Stock Accretion

The carrying amount of the convertible preferred stock is less than the redemption value. As a result of the Company's determination that redemption is probable, the carrying value will be increased by periodic accretions so that the carrying value will equal the redemption amount at the earliest redemption date. Such accretion is recorded as a preferred stock dividend.

Preferred Stock Beneficial Conversion Feature

On the date of issuance, the fair value, or carrying amount, of preferred stock was convertible into common stock at a discount to the market price of the underlying common stock at the conversion date. Such embedded "beneficial conversion feature", which was equal to the difference between the accounting conversion price and the fair value of the common stock, is analogous to a dividend and was recorded as a return to preferred shareholders as of the date of issuance, which was the earliest possible conversion date.

Revenue Recognition

The Company generally recognizes revenue from product sales to its customers when: (1) title and risk of loss are transferred (in general, these conditions occur at either point of shipment or point of destination, depending on the terms of sale); (2) persuasive evidence of an arrangement exists; (3) the Company has no continuing obligations to the customer; and (4) collection of the related accounts receivable is reasonably assured.

Shipping and Handling Costs

The Company classifies shipping and handling costs, including inbound and outbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs and other costs, as a component of cost of goods sold in the accompanying consolidated statements of operations and comprehensive loss.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 ACCOUNTING POLICIES (CONTINUED)

Foreign Currency Transactions

Foreign currency transactions may generate receivables or payables that are fixed in terms of the amount of foreign currency that will be received or paid. Fluctuations in exchange rates between such foreign currency and the functional currency increase or decrease the expected amount of functional currency cash flows upon settlement of the transaction. These increases or decreases in expected functional currency cash flows are foreign currency transaction gains or losses that are included in "other income (expense), net" in the accompanying consolidated statements of operations and comprehensive loss. The approximate net losses from foreign currency transactions for continuing operations was approximately $28,000 and $16,000 for the fiscal years ended September 30, 2014 and 2013, respectively. Such foreign currency transaction losses were primarily the result of Euro denominated sales to certain customers.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss as of September 30, 2014 and 2013, which is included as a component of shareholders' equity, represents translation adjustments related to the Company's foreign subsidiaries.

Fair Value of Financial Instruments

For certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and other accrued liabilities, the carrying amount approximates fair value due to the short-term maturities of these instruments. The Company records its financial instruments that are accounted for under ASC 320, "Investments-Debt and Equity Securities" ("ASC 320") at fair value. In addition, the Company recorded its warrant liability at fair value, prior to its reclassification to equity. The determination of fair value is based upon the fair value framework established by ASC 820 "Fair Value Measurement". ASC 820 provides that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The fair value hierarchy is broken down into three levels based on the source of inputs as follows: (a) Level 1 – valuations based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities; (b) Level 2 – valuations based on quoted prices in markets that are not active, or financial instruments for which all significant inputs are observable; either directly or indirectly; and (c) Level 3 – valuations based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable, thus, reflecting assumptions about the market participants.

Share-Based Payment Expense

The Company recognizes employee and director share-based compensation in its consolidated statements of operations and comprehensive loss at the grant-date fair value of stock options and other equity-based compensation. The determination of stock option grant-date fair value is estimated using the Black-Scholes option-pricing model, which includes variables such as the expected volatility of the Company's share price, the exercise behavior of its grantees, interest rates, and dividend yields. These variables are projected based on the Company's historical data, experience, and other factors. In the case of awards with multiple vesting periods, the Company has elected to use the graded vesting attribution method, which recognizes compensation cost on a straight-line basis over each separately vesting portion of the award as if the award was, in-substance, multiple awards. Refer to Note 8 – Share Based Compensation. In addition, the Company recognizes share-based compensation to non-employees based upon the fair value, using the Black-Scholes option pricing model, determined at the deemed measurement dates over the related contract service period.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, “Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." This ASU addresses the requirements regarding the financial statement presentation of an unrecognized tax benefit within ASC Topic 740 for the purpose of providing consistency between the financial reporting of U.S. GAAP entities. Generally, this ASU provides guidance for the preparation of financial statements and disclosures when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2013 and is not expected to have a material impact on the Company’s consolidated financial statements or disclosures.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” (“ASU 2014-09”). ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) 605 - Revenue Recognition and most industry-specific guidance throughout the ASC. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period," ("ASU 2014-12"). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in ASC Topic No. 718, "Compensation - Stock Compensation" as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in ASU 2014-12 either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The Company does not anticipate that the adoption of ASU 2014-12 will have a material impact on its consolidated financial statements.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 DISCONTINUED OPERATIONS

On June 21, 2012, the Company determined to exit its global retail business and focus solely on growing its OEM business. The decision to eliminate the Retail division was primarily driven by the longer than estimated path to bring it to profitability and the strong net sales growth and cost rationalizations in the OEM business. Accordingly, the results of operations for the Retail division have been recorded as discontinued operations in the accompanying consolidated financial statements for the fiscal years presented. The Company has substantially completed its exit of its Retail business. Summarized operating results of discontinued operations are presented in the following table:

	For the Fiscal Years Ended September 30,	
	2014	**2013**
Net sales	$ -	$ 655,658
Gross (loss) profit	(9,700)	181,039
Operating expenses	(316,404)	(406,297)
Other income	70	6,935
Loss from discontinued operations, net of tax benefit of $0 and $(6,002), respectively	$ (326,034)	$ (212,321)

Summarized assets and liabilities of discontinued operations are presented in the following table:

	As of September 30,	
	2014	**2013**
Accounts receivable	$-	$ 280,034
Prepaid assets and other current assets	39	59,348
Total assets of discontinued operations	$39	$ 339,382
Accounts payable	$3,396	$ 25,438
Total liabilities of discontinued operations	$3,396	$ 25,438

The above accounts receivable relate to overdue payments pursuant to a Settlement Agreement and General Release (Settlement Agreement) executed on July 3, 2013 between the Company and G-Form LLC (G-Form) in exchange for certain retail inventories, the Company s cooperation with certain administrative matters, and a mutual general release. On November 12, 2014, a U.S. District Court entered a Judgment compelling G-Form to remit $331,282 (includes legal fees and interest) to Forward. The Company is currently working to enforce the Court s Order. However, due to the age of the account receivable and G-Form s non-responsiveness to the Company s communications on the subject, the Company has fully reserved for the $280,034 receivable as of September 30, 2014.

NOTE 4 MARKETABLE SECURITIES

Effective October 1, 2012, the Company changed its classification of marketable equity securities from available-for-sale to trading. As a result of this reclassification, an unrealized net loss of $23,744 was reclassified out of accumulated other comprehensive loss and charged to earnings. Marketable equity securities are carried at fair value, as determined by quoted market prices, which is a Level 1 input, as established by the fair value hierarchy under ASC 820. The corresponding unrealized holding gains or losses of securities classified as trading are recognized in earnings. The Company's marketable securities are summarized in the table below:

	For the Fiscal Years Ended September 30,	
	2014	**2013**
Trading:		
Cost	$ 1,320,816	$ 954,053
Unrealized gains	48,560	174,940
Unrealized losses	(318,146)	(48,246)
Total fair value	$ 1,051,230	$ 1,080,747

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 MARKETABLE SECURITIES (CONTINUED)

Realized gains and losses on marketable securities for the fiscal year ended September 30, 2014 were $606,000 and ($583,000), respectively and are included in the accompanying consolidated statements of operations and comprehensive loss. Realized gains and losses on marketable securities for the fiscal year ended September 30, 2013 were approximately $3,146,000 and $(3,868,000), respectively and are included in the accompanying consolidated statements of operations and comprehensive loss.

The following table presents the Company's fair value hierarchy for assets, consisting of marketable securities, measured at fair value on a recurring basis at September 30, 2014 and 2013:

	Level 1	Level 2	Level 3	Total
Equity securities	$ 1,051,230	$ -	$ -	$ 1,051,230
Total assets at fair value at September 30, 2014	$ 1,051,230	$ -	$ -	$ 1,051,230
Equity securities	$ 1,080,747	$ -	$ -	$ 1,080,747
Total assets at fair value at September 30, 2013	$ 1,080,747	$ -	$ -	$ 1,080,747

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation and amortization of continuing operations are summarized in the table below:

	As of September 30, 2014	2013
Furniture, fixtures and equipment	$ 436,120	$ 404,871
Leasehold improvements	99,854	97,618
Property and equipment, cost	535,974	502,489
Less: accumulated depreciation and amortization	(436,984)	(372,502)
Property and equipment, net	$ 98,990	$ 129,987

NOTE 6 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities of continuing operations are summarized in the table below:

	As of September 30,

	2014	2013
Warrants, net of unamortized transaction cost of $29,452	$ -	$ 463,671
Personnel cost	277,430	372,766
Taxes	-	44,128
Professional fees	32,762	11,000
Accrued legal settlement	150,000	139,500
Other	88,323	164,495
Accrued expenses and other current liabilities	$ 548,515	$ 1,195,560

NOTE 7 SHAREHOLDERS' EQUITY

"Blank Check" Preferred Stock

The Company is authorized to issue up to 4,000,000 shares of "blank check" preferred stock. The Board of Directors (the "Board") has the authority and discretion, without shareholder approval, to issue preferred stock in one or more series for any consideration it deems appropriate, and to fix the relative rights and preferences thereof including their redemption, dividend and conversion rights. Of these shares, 1,500,000 shares have been authorized as the 6% Senior Convertible Preferred Stock and 100,000 shares have been authorized as the Series A Participating Preferred Stock.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 SHAREHOLDERS' EQUITY (CONTINUED)

6% Senior Convertible Preferred Stock and Warrants

On June 28, 2013, the Company completed the sale of (i) 381,674 shares of its newly authorized 6% Senior Convertible Preferred Stock, par value $0.01 per share (the "Convertible Preferred Stock") and (ii) warrants to purchase a total of 381,674 shares of the Company's common stock ("Common Stock") (the "Warrants" and together with the Convertible Preferred Stock, the "Securities") to accredited investors in a private placement pursuant to the terms of securities purchase agreements, dated June 28, 2013, by and between the Company and each investor. The June 28, 2013 private placement included purchases of Securities by two directors of the Company that, in the aggregate, purchased 114,502 shares of Convertible Preferred Stock and Warrants.

On August 7, 2013, the Company completed the sale of (i) an additional 216,282 shares of its Convertible Preferred Stock and (ii) Warrants to purchase a total of 216,282 shares of the Company's Common Stock to accredited investors in a private placement pursuant to the terms of a securities purchase agreement, dated August 7, 2013, by and between the Company and such accredited investors.

On August 14, 2013, the Company completed the sale of (i) an additional 50,890 shares of its Convertible Preferred Stock and (ii) Warrants to purchase a total of 50,890 shares of the Company's Common Stock to accredited investors in a private placement pursuant to the terms of a securities purchase agreement, dated August 14, 2013, by and between the Company and such accredited investors.

The total aggregate purchase price paid by accredited investors via the June 28, 2013, August 7, 2013 and August 14, 2013 private placements (together, the "Investors") for each share of Convertible Preferred Stock and Warrant was $1.965. The June 28, 2013, August 7, 2013 and August 14, 2013 private placements (together, the "Private Placements") resulted in gross proceeds of approximately $1,275,000 to the Company. The Company has sold a total of 648,846 shares of Convertible Preferred Stock and Warrants to purchase 648,846 shares of Common Stock through these Private Placements.

The total purchase price paid by the Investors for each share of Convertible Preferred Stock and Warrant purchased in the Closing was $1.965, consisting of (i) fair values ranging from $1.105 to $1.145 in respect of the Convertible Preferred Stock, plus (ii) fair values ranging from $0.82 to $0.86 in respect of the Warrant. The Warrants have an initial exercise price of $1.84 per share, subject to adjustment upon the occurrence of certain customary events. The Warrants are exercisable at any time on or after January 1, 2014 (the "Initial Exercise Date") and terminate on the 10-year anniversary of the Initial Exercise Date. Each share of Convertible Preferred Stock is convertible into one share of Common Stock at an initial conversion price of $1.84 per share, subject to adjustment upon the occurrence of certain customary events (the "Conversion Price"). At the initial Conversion Price, the total of 648,846 shares of Convertible Preferred Stock issued in the Private Placement as of the date of the Closing are convertible into an

aggregate of 692,919 shares of Common Stock. The proceeds from these Private Placements of $1,275,000 have been allocated to the Convertible Preferred Stock and the Warrants based upon their fair values assigned (net of issuance costs of approximately $69,000) of approximately $693,000 and $513,000, respectively, as of the dates of issuance.

As of September 30, 2014 and September 30, 2013, the carrying value of the Convertible Preferred Stock was approximately $833,000 and $717,000, respectively, and is included on the Company's consolidated balance sheets as temporary equity. The change in the carrying value, or accretion, of the Convertible Preferred Stock from the issuance dates to September 30, 2014 is classified as a preferred stock dividend and is included as a component of "net loss applicable to common equity" in calculating loss per share, which was approximately $117,000 and $24,000 for the fiscal years ended September 30, 2014 and 2013, respectively. As a result of the Convertible Preferred Stock containing a beneficial conversion feature, whereby the accounting conversion price is lower than the fair value of the common stock, the Company recorded a preferred stock dividend in the amount of approximately $508,000 for the fiscal year ended September 30, 2013. This amount has been recorded as an increase to additional paid-in capital.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 SHAREHOLDERS' EQUITY (CONTINUED)

6% Senior Convertible Preferred Stock and Warrants (continued)

Dividends on the Convertible Preferred Stock are payable, on a cumulative basis, in cash, at the rate per annum of 6% of the Liquidation Preference (as defined below) and are payable quarterly, in arrears, on each March 31, June 30, September 30 and December 31, commencing on September 30, 2013. The Company is prohibited from paying any dividend with respect to shares of Common Stock or other junior securities in any quarter unless full dividends are paid on the Convertible Preferred Stock in such quarter. Dividends on the Convertible Preferred Stock totaled approximately $76,000 and $15,000 for the fiscal years ended September 30, 2014 and 2013. These dividends, in addition to the accretion and beneficial conversion feature, totaled approximately $193,000 and $547,000 for the fiscal years ended September 30, 2014 and 2013, respectively.

In the event of a liquidation (or deemed liquidation, as described below) of the Company, the holders of the Convertible Preferred Stock shall receive in preference to the holders of Common Stock and any junior securities of the Company an amount (the "Liquidation Preference") equal to (i) $1.965 (the "Original Issue Price") per each outstanding share of Convertible Preferred Stock (subject to adjustment upon the occurrence of certain customary events), plus (ii) any accrued but unpaid dividends. A Change of Control of the Company (as defined in the Certificate of Amendment) will be treated as a liquidation at the option of the holders of a majority of the Convertible Preferred Stock; provided that the amount paid to holders of Convertible Preferred Stock in such event will be equal to 101% of the Original Issue Price, plus accrued but unpaid dividends.

Each share of Convertible Preferred Stock is convertible at any time, at the option of the holder, into shares of Common Stock at the then applicable Conversion Price. In addition, upon the consent of 80% of the holders of the Convertible Preferred Stock, the Convertible Preferred Stock automatically will be converted to shares of Common Stock at the then-applicable Conversion Price.

On or after June 28, 2018, the Company may, at its option and upon at least 30 days prior written notice to the holders of the Convertible Preferred Stock, redeem all or any portion of the outstanding Convertible Preferred Stock in cash at a redemption price equal to the full Liquidation Preference as of the redemption date. In addition, at any time on or after June 28, 2023, each holder of the Convertible Preferred Stock will have the right to require the Company to redeem (provided that funds are legally available to do so) all or any portion of such holder's outstanding Convertible Preferred Stock at a redemption price equal to the full Liquidation Preference of such shares of Convertible Preferred Stock as of the redemption date.

The Convertible Preferred Stock will vote together with the Common Stock on an as-converted basis on all matters except as required by law. In addition, for so long as 50% of the shares of Convertible Preferred Stock remains outstanding, without the approval of the holders of a majority of the Convertible Preferred Stock, voting as a separate class, the Company may not: (i) authorize or issue any equity security senior to the Convertible Preferred Stock; (ii) declare or pay any dividends on the Common Stock or any series of preferred stock that ranks junior to the Convertible Preferred Stock; (iii) increase or decrease the total number of authorized shares of Convertible Preferred Stock; (iv) alter or change the rights, preferences or privileges of the Convertible Preferred Stock so as to affect materially and adversely the Convertible Preferred Stock; or (v) increase the authorized capitalization of the

Company, or otherwise amend its certificate of incorporation or bylaws in a manner which adversely affects the rights or preferences of the Convertible Preferred Stock.

During the quarter ended March 31, 2014, the Company met the requirements of the registration rights agreement for registering the underlying common shares and the convertible preferred stock warrant liabilities with fair value of $599,000 (net of issuance costs) were reclassified to equity (additional paid-in capital). As of September 30, 2013, the liability associated with the Warrants was approximately $464,000 (net of issuance costs) and was included in "Accrued expenses and other current liabilities" in the Company's consolidated balance sheet.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 SHAREHOLDERS' EQUITY (CONTINUED)

6% Senior Convertible Preferred Stock and Warrants (continued)

The fair value of the Warrants was determined using a Black-Scholes closed-form call option pricing model, which is considered a level 3 instrument under the fair value hierarchy. The fair value of the Warrants were estimated using the following weighted average assumptions during the fiscal years ended September 30, 2014 and 2013:

	Fiscal Years Ended September 30,	
	2014	**2013**
Risk free interest rate	2.7%	2.6%
Expected term (years)	9.8	10.3
Expected volatility	32.9%	30.0%
Expected dividends	0.0%	0.0%

The change in the fair value of the convertible preferred stock warrant liability (net of issuance costs) for the years ended September 30, 2014 and 2013 is summarized below:

	Warrant Liabilities
Balance - September 30, 2012	$ -
Issuance of convertible preferred stock warrant	542,741
Change in fair value	(49,618)
Balance - September 30, 2013	493,123
Change in fair value	136,258
Reclassification of warrants to equity	(629,381)
Balance - September 30, 2014	$ -

The following table presents the Company's fair value hierarchy for warrant liabilities measured at fair value and prior to issuance costs, on a recurring basis at September 30, 2013:

As of September 30, 2013

	Level 1	Level 2	Level 3	Total
Liabilities:				
Warrant liabilities	$ -	$ -	$ 493,123	$ 493,123
Total liabilities	$ -	$ -	$ 493,123	$ 493,123

Anti-takeover Provisions

Shareholder Rights Plan

On April 26, 2013, the Board adopted a Shareholder Rights Plan, as set forth in the Rights Agreement between the Company and American Stock Transfer & Trust Company, LLC, as Rights Agent. Pursuant to the Rights Agreement, the Board declared a dividend distribution of one Right (a "Right") for each outstanding share of Company Common Stock, par value $0.01 per share (the "Common Stock") to shareholders of record at the close of business on May 6, 2013, which date will be the record date, and for each share of Common Stock issued (including shares distributed from treasury) by the Company thereafter and prior to the Distribution Date (as described below and defined in the Rights Agreement). Each Right entitles the registered holder, subject to the terms of the Rights Agreement, to purchase from the Company one one-thousandth of a share of Series A Participating Preferred Stock, $0.01 par value per share (the "Series A Preferred Stock"), at an exercise price of $4.00 per one one-thousandth of a share of Series A Preferred Stock, subject to adjustment.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 SHAREHOLDERS' EQUITY (CONTINUED)

Anti-takeover Provisions (continued)

Shareholder Rights Plan (continued)

Initially, no separate Rights certificates will be distributed and instead the Rights will attach to all certificates representing shares of outstanding Common Stock. Subject to certain exceptions specified in the Rights Agreement, the Rights will separate from the Common Stock and become exercisable on the distribution date (the "Distribution Date"), which will occur on the earlier of (i) the 10th business day (or such later date as may be determined by the Board) after the public announcement that an Acquiring Person (as defined in the Rights Agreement) has acquired beneficial ownership of 20% or more of the Common Stock then outstanding or (ii) the 10th business day (or such later date as may be determined by the Board) after a person or group announces a tender or exchange offer that would result in a person or group of affiliated and associated persons beneficially owning 20% or more of the Common Stock then outstanding.

"Blank Check" Preferred Stock

As discussed above, the Company is authorized to issue up to 4,000,000 shares of "blank check" preferred stock. The Board has the authority and discretion, without shareholder approval, to issue preferred stock in one or more series for any consideration it deems appropriate, and to fix the relative rights and preferences thereof including their redemption, dividend and conversion rights. Of these shares, 1,500,000 shares have been authorized as the 6% Senior Convertible Preferred Stock and 100,000 shares have been authorized as the Series A Participating Preferred Stock.

Stock Repurchase

In September 2002 and January 2004, the Board authorized the repurchase of up to an aggregate of 486,200 shares of outstanding common stock. Under those authorizations, through September 30, 2014, the Company repurchased an aggregate of 213,274 shares at a cost of approximately $473,000. The Company repurchased and retired an aggregate of 40,671 shares at a cost of approximately $47,000 during the fiscal year ended September 30, 2014, in connection with the vesting of employee restricted stock awards, wherein certain employees surrendered a portion of their award in order to fund certain tax withholding obligations. No shares were repurchased during the fiscal year ended September 30, 2013. See Note 16 – Subsequent Events.

NOTE 8 SHARE BASED COMPENSATION

2011 Long Term Incentive Plan

In March 2011, shareholders of the Company approved the 2011 Long Term Incentive Plan (the "2011 Plan"), which authorizes 850,000 shares of common stock for grants of various types of equity awards to officers, directors, employees, consultants, and independent contractors. Forfeited awards are eligible for re-grant under the 2011 Plan. The total shares of common stock available for grants of equity awards under the 2011 Plan was 185,647 as of September 30, 2014. The exercise prices of stock options granted may not be less than the fair market value of the common stock as quoted at the close on the Nasdaq Stock Market on the grant date. The Compensation Committee administers the plan. Options generally expire ten years after the date of grant.

2007 Equity Incentive Plan

The 2007 Equity Incentive Plan (the "2007 Plan"), which was approved by shareholders of the Company in May 2007, and, as amended, in February 2010, authorizes an aggregate of 800,000 shares of common stock for grants of restricted common stock and stock options to officers, employees, and non-employee directors of the Company. Forfeited awards are eligible for re-grant under the 2007 Plan. The total shares of common stock available for grants of equity awards under the 2007 Plan was 130,015 as of September 30, 2014. The exercise price of stock options granted may not be less than the fair market value of the common stock as quoted at the close on the Nasdaq Stock Market on the grant date. The Compensation Committee administers the 2007 Plan. Options generally expire ten years after the date of grant.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 SHARE BASED COMPENSATION (CONTINUED)

1996 Stock Incentive Plan

The Company's 1996 Stock Incentive Plan (the "1996 Plan") expired in accordance with its terms in November 2006. The exercise price of incentive stock options granted under the 1996 Plan to officers, employees, and non-employee directors of the Company was required by 1996 Plan provisions to be equal at least to the fair market value of the common stock at the date of grant. In general, options under this plan expire ten years after the date of grant. Unexercised options granted prior to 1996 Plan expiration remain outstanding until the earlier of exercise or option expiration. Under the 1996 Plan, 30,000 fully vested common stock options are the only awards that remain outstanding and unexercised, all at exercise prices higher than the fair market value of the common stock at September 30, 2014.

Stock Option Awards

On October 1, 2012, the Company granted a ten-year incentive stock option to purchase 60,000 shares of common stock at exercise prices ranging from $3.77 to $5.31 per share to an executive of the Company, pursuant to the 2011 Plan. The option vests on April 3, 2015. The option had a grant date value of $30,000.

On October 16, 2012, the Company granted ten-year non-qualified stock options to purchase an aggregate of 60,000 shares of common stock at an exercise price of $1.23 per share to directors of the Company, pursuant to the 2011 Plan. The options vested on the first anniversary of the date of grant. The options had an aggregate grant date value of $42,600.

On December 11, 2013, the Company granted ten-year incentive stock options to purchase an aggregate of 32,500 shares of common stock (25,000 shares were granted pursuant to the 2007 Plan and 7,500 shares were granted pursuant to the 2011 Plan) at an exercise price of $1.59 per share to executives of the Company. The options vest ratably over three years on the anniversaries of the date of grant. The options had an aggregate grant date value of $29,250.

The fair value of each stock option on the date of grant was estimated using a Black-Scholes option-pricing formula applying the following assumptions for each respective period:

	Fiscal Years Ended September 30,	
	2014	**2013**
Risk free interest rate	1.86%	0.06% to 0.70%
Expected term (years)	6.00	5.00
Expected volatility	63.2%	70% to 70.4%
Expected dividends	0%	0%
Estimated annual forfeiture rate	10%	0% to 10%

During the fiscal years ended September 30, 2014 and 2013, the Company granted 32,500 and 120,000 stock options at weighted average grant date fair values per share of $0.90 and $0.61, respectively.

The expected term represents the period over which the stock option awards are expected to be outstanding. The Company utilizes the “simplified” method to develop an estimate of the expected term of “plain vanilla” employee option grants. The Company based the risk-free interest rate used in its assumptions on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the award’s expected term. The volatility factor used in the Company’s assumptions is based on the historical price of its stock over the most recent period commensurate with the expected term of the award. The Company historically has not paid any dividends on its common stock and had no intention to do so on the date the share-based awards were granted.

The Company recognized approximately $43,000 and $220,000 of compensation expense in continuing operations for stock option awards in its consolidated statements of operations and comprehensive loss for the fiscal years ended September 30, 2014 and 2013, respectively.

As of September 30, 2014, there was approximately $50,574 of total unrecognized compensation cost related to unvested stock option awards, which is expected to be recognized over the remainder of the weighted average vesting period of 1.08 years.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 SHARE BASED COMPENSATION (CONTINUED)

Stock Option Awards (continued)

The following table summarizes stock option activity during the fiscal years ended September 30, 2014 and 2013:

	Number of Options		Weighted Average Exercise Price	Weighted Average Remaining Life In Years		Intrinsic Value
Outstanding, September 30, 2012	1,142,000	$	3.31			
Granted	120,000		3.14			
Exercised	-		-			
Forfeited	(365,000)		3.43			
Outstanding, September 30, 2013	897,000	$	3.24			
Granted	32,500		1.59			
Exercised	-		-			
Forfeited	(151,000)		3.50			
Outstanding, September 30, 2014	778,500	$	2.70	5.4	$	12,000
Exercisable, September 30, 2014	642,582	$	2.96	4.5	$	6,000

The table below provides additional information regarding stock option awards that were outstanding and exercisable at September 30, 2014:

Options Outstanding		Options Exercisable	
Exercise Price	Outstanding Number of Options	Weighted Average Remaining Life In Years	Exercisable Number of Options
$1.23 to $1.80	105,000	7.180,000	
$2.02 to $2.85	271,000	2.0268,000	
$3.00 to $3.79	322,500	6.5264,582	
$5.31	50,000	--	
$6.02	20,000	1.620,000	
$15.91	10,000	0.610,000	
	778,500		642,582

Restricted Stock Awards

On November 8, 2012, the Company granted an aggregate of 371,375 shares of restricted stock (141,375 shares were granted pursuant to the 2007 Plan and 230,000 shares were granted pursuant to the 2011 Plan) to executives and employees of the Company. The shares vest ratably over three years on the anniversaries of the date of grant. The aggregate grant date value of $430,795 will be recognized proportionate to the vesting period.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 SHARE BASED COMPENSATION (CONTINUED)

Restricted Stock Awards (continued)

On December 11, 2013, the Company granted an aggregate of 90,000 shares of restricted stock to directors of the Company, pursuant to the 2007 Plan. The shares vest on the first anniversary of the date of grant. The aggregate grant date value of $143,100 will be recognized proportionate to the vesting period.

On January 9, 2014, the Company granted 5,000 shares of restricted stock to an employee of the Company, pursuant to the 2011 Plan. The shares vest ratably on each of November 11, 2014, November 11, 2015 and November 11, 2016. The grant date value of $8,350 will be recognized proportionate to the vesting period.

For the fiscal years ended September 30, 2014 and 2013, the Company recognized approximately $189,000 and $217,000 of compensation, net of forfeitures, from continuing operations in its consolidated statements of operations and comprehensive loss related to restricted stock awards.

As of September 30, 2014, there was approximately $112,000 of unrecognized compensation cost related to shares of unvested restricted stock that will be recognized over the weighted average remaining vesting period 0.51 years.

The following table summarizes restricted stock activity during the fiscal years ended September 30, 2014 and 2013:

	Number of Shares	Weighted Average Grant Date Fair Value	Total Grant Date Fair Value
Non-vested, September 30, 2012	7,500	$ 2.02	$ 15,150
Granted	371,375	1.16	430,795
Vested	(7,500)	2.02	(15,150)
Forfeited	-	-	-
Non-vested, September 30, 2013	371,375	$ 1.16	$ 430,795
Granted	95,000	1.59	151,450
Vested	(123,794)	1.16	(143,601)
Forfeited	(85,000)	1.16	(98,600)
Non-vested, September 30, 2014	257,581	$ 1.32	$ 340,044

Warrants

As of September 30, 2014, warrants to purchase 75,000 shares of the Company's common stock at an exercise price of $1.75 issued in the fiscal year ended September 30, 1999 were outstanding. By their terms these warrants expire 90 days after a registration statement registering common stock (other than pursuant to employee benefit plans) is declared effective by the United States Securities and Exchange Commission (the "Commission"). As of September 30, 2014, no such registration statement has been filed with the Commission.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 INCOME TAXES

The Company's provision (benefit) for income taxes consists of the following United States federal and state, and foreign components:

	For The Fiscal Years Ended September 30,	
	2014	**2013**
Current:		
Federal	$ -	$ -
State	-	75
Foreign	-	(5,570)
Deferred:		
Federal	(364,106)	89,832
State	(21,418)	(107,296)
Foreign	11,669	(5,598)
	(373,855)	(28,557)
Change in valuation allowance	373,855	23,062
Income tax provision (benefit)	$ -	$ (5,495)

Income tax benefit from discontinued operations of approximately $0 and $(6,000) in the fiscal years ended September 30, 2014 and 2013, respectively, is attributable to Forward UK.

The deferred tax expense (benefit) is the change in the deferred tax assets and liabilities representing the tax consequences of changes in the amounts of temporary differences, net operating loss carry forwards and changes in tax rates during the fiscal year. The Company's deferred tax assets and liabilities are comprised of the following:

	As of September 30,	
	2014	**2013**
Deferred tax assets:		
Net operating losses	$ 3,338,494	$ 3,213,001
Realized losses on securities	321,557	304,586
Unrealized losses on securities	105,139	-
Share-based compensation	361,337	303,164
Alternative minimum tax credit	99,757	99,757
Excess tax over book basis in inventory	64,682	87,381

Other		34,437		2,369
		4,325,403		4,010,258
Valuation allowance		(4,214,813)		(3,840,958)
Net deferred tax assets		110,590		169,300
Deferred tax liabilities:				
Prepaid insurance		(89,721)		(92,602)
Unrealized gains on securities		-		(44,950)
Excess book over tax basis in fixed assets		(20,869)		(31,748)
		(110,590)		(169,300)
Total	$	-	$	-

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 INCOME TAXES (CONTINUED)

As of September 30, 2014 and 2013, the Company has no unrecognized income tax benefits. At September 30, 2014, the Company had available total net operating loss carryforwards for U.S. federal and state income tax purposes of approximately $7,809,000 and $5,009,000, respectively, expiring through 2034, resulting in deferred tax assets in respect of U.S. Federal and state income taxes of approximately $2,655,000 and $262,000, respectively. In addition, at September 30, 2014, the Company had total available net operating loss carryforwards for foreign income tax purposes of approximately $4,796,000 resulting in a deferred tax asset of approximately $422,000, expiring through 2021. Total net deferred tax assets, before valuation allowances, was $4,215,000 and $3,841,000 at September 30, 2014 and 2013, respectively. Undistributed earnings of the Company s foreign subsidiaries are considered to be permanently invested; therefore, in accordance with U.S. generally accepted accounting principles, no provision for U.S. Federal and state income taxes would result. As of September 30, 2014, there were no accumulated earnings of any of the Company s foreign subsidiaries.

As of September 30, 2014, as part of its periodic evaluation of the necessity to maintain a valuation allowance against its 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 the Company s cumulative losses in recent years), the Company determined that, on a more likely than not basis, it would not be able to use its remaining deferred tax assets (except in respect of United States income taxes in the event the Company elects to effect the repatriation of certain foreign source income of its Swiss subsidiary, which income is currently considered to be permanently invested and for which no United States tax liability has been accrued). Accordingly, the Company has determined to maintain a full valuation allowance against its total deferred tax assets. As of September 30, 2014 and 2013, the valuation allowances were approximately $4,215,000 and $3,841,000, respectively. In the future, the utilization of the Company's net operating loss carryfowards could be subject to certain change of control limitations. If the Company determines in a future reporting period that it will be able to use some or all of its deferred tax assets, the adjustment to reduce or eliminate the valuation allowance would reduce its tax expense and increase after-tax income. Changes in deferred tax assets and valuation allowance are reflected in the Income tax expense line item of the Company s consolidated statements of operations and comprehensive loss.

The significant elements contributing to the difference between the United States Federal statutory tax rate and the Company’s effective tax rate are as follows:

	For The Fiscal Years Ended September 30,	
	2014	**2013**
US federal statutory rate	34.0%	34.0%
State tax rate, net of federal benefit	5.0%	1.9%
Permanent differences:		
- Share-based compensation	(0.4%)	(20.0%)
- Other	(7.4%)	(2.8%)
Foreign rate differential	5.0%	(5.6%)
Other	10.5%	(2.0%)
Change in valuation allowance	(46.7%)	(8.1%)
Income tax provision (benefit)	0.0%	(2.6%)

As of September 30, 2014 and 2013, the Company has not accrued any interest and penalties related to uncertain tax positions. It is the Company's policy to recognize interest and/or penalties, if any, related to income tax matters in income tax expense in the consolidated statements of operations and comprehensive loss. For the periods presented in the accompanying consolidated statements of operations and comprehensive loss, no income tax related interest or penalties were assessed or recorded. All fiscal years prior to the fiscal year ended September 30, 2011 are closed to federal and state examination, except with respect to net operating losses generated in prior fiscal years.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 LOSS PER SHARE

Basic loss per share data for each period presented is computed using the weighted-average number of shares of common stock outstanding during each such period. Diluted loss per share data is computed using the weighted-average number of common and dilutive common-equivalent shares outstanding during each period. Dilutive common-equivalent shares consist of (a) shares that would be issued upon the exercise of stock options and warrants, computed using the treasury stock method, (b) shares that would be issued upon the conversion of convertible preferred stock and (c) shares of non-vested restricted stock. Net loss from continuing operations per basic and diluted share for the fiscal years ended September 30, 2014 and 2013 includes preferred stock cash dividends and accretion, plus a beneficial conversion feature in the fiscal year ended September 30, 2013.

The following securities are excluded from the calculation of weighted average dilutive common shares because their inclusion would have been anti-dilutive:

	As of September 30,	
	2014	**2013**
Options	778,500	897,000
Warrants	723,846	723,846
Convertible preferred stock	692,919	692,919
Non-vested restricted stock	257,581	371,375
Total potentially dilutive shares	2,452,846	2,685,140

The calculation of basic and diluted loss per share for the fiscal years ended September 30, 2014 and 2013 was as follows:

	For the Fiscal Years Ended September 30,			
		2014		**2013**
Numerator:				
Net loss	$	(799,906)	$	(206,886)
Preferred stock dividends, accretion and beneficial conversion feature		(193,200)		(546,888)
Net loss to common shareholders	$	(993,106)	$	(753,774)
Denominator:				
Weighted average basic common shares		8,186,926		8,111,226

Effect of dilutive securities [1]		-		-
Weighted average diluted common shares		8,186,926		8,111,226
Basic loss per share	$	(0.12)	$	(0.09)
Diluted loss per share [1]	$	(0.12)	$	(0.09)

(1) Due to the net loss to common shareholders in each of the years presented above, diluted earnings per share was computed without consideration to potentially dilutive instruments as their inclusion would have been antidilutive. Potentially dilutive instruments include stock options, warrants, convertible preferred stock and non-vested restricted stock.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 COMMITMENTS AND CONTINGENCIES

Employment Agreement

An executive's employment agreement provides for successive one-year renewal terms, unless either party provides written notice of its intention not to renew the agreement not later than 90 days prior to the end of the term (or renewal period). In the event of the termination of the executive's employment, depending on the circumstances, the executive could be entitled to receive a severance payment which could be up to (12) twelve months of his salary, and under certain circumstances, the immediate vesting of any unvested options pursuant to applicable equity compensation plans, as well as any accrued discretionary bonus.

Guarantee Obligation

In February 2010, Forward Switzerland and its European logistics provider (freight forwarding and customs agent) entered into a Representation Agreement (the "Representation Agreement") whereby, among other things, the European logistics provider agreed to act as Forward Switzerland's fiscal representative in The Netherlands for the purpose of providing services in connection with any value added tax matters. As part of this agreement, which succeeds a substantially similar agreement (except as to the amount and term of the undertaking) between the parties that expired June 30, 2009, Forward Switzerland agreed to provide an undertaking (in the form of a bank letter of guarantee) to the logistics provider with respect to any value added tax liability arising in The Netherlands that the logistics provider is required to pay to Dutch tax authorities on its behalf.

As of February 1, 2010, Forward Switzerland entered into a guarantee agreement with a Swiss bank relating to the repayment of any amount up to €75,000 (equal to approximately $95,000 as of September 30, 2014) paid by such bank to the logistics provider in order to satisfy such undertaking pursuant to the bank letter of guarantee. Forward Switzerland would be required to perform under the guarantee agreement only in the event that: (i) a value added tax liability is imposed on the Company's sales in The Netherlands, (ii) the logistics provider asserts that it has been called upon in its capacity as surety by the Dutch Receiver of Taxes to pay such taxes, (iii) Forward Switzerland or the Company on its behalf fails or refuses to remit the amount of value added tax due to the logistics provider upon its demand, and (iv) the logistics provider makes a drawing under the bank letter of guarantee. Under the Representation Agreement, Forward Switzerland agreed that the letter of guarantee would remain available for drawing for three years following the date that its relationship terminates with the logistics provider to satisfy any value added tax liability arising prior to expiration of the Representation Agreement but asserted by The Netherlands after expiration.

The initial term of the bank letter of guarantee expired February 28, 2011, but renews automatically for one-year periods until February 28, 2015 (as amended), unless Forward Switzerland provides the Swiss bank with written notice of termination at least 60 days prior to the renewal date. It is the intent of Forward Switzerland and the logistics provider that the bank letter of guarantee amount be adjusted annually. In consideration of the issuance of the letter of

guarantee, Forward Switzerland has granted the Swiss bank a security interest in all of its assets on deposit with, held by, or credited to Forward Switzerland's accounts with, the Swiss bank (approximately $1,741,000 at September 30, 2014). As of September 30, 2014, the Company had not incurred a liability in connection with this guarantee.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Lease Commitments

The Company rents certain of its facilities under leases expiring at various dates through September 2020. Total rent expense included in continuing operations for the years ended September 30, 2014 and 2013, amounted to approximately $179,000 and $252,000 (net of $185,000 and $46,000 of rental income from a sub-lease), respectively. The following table summarizes the future minimum lease payments required under these leases (exclusive of future minimum sublease rental receipts in the aggregate of approximately $397,000 due under non-cancelable subleases).

Fiscal Years Ended September 30,		Amount
2015	$	268,000
2016		267,000
2017		85,000
2018		87,000
2019		90,000
Thereafter		93,000
Total lease commitments	$	890,000

NOTE 12 RELATED PARTY TRANSACTIONS

New York Office Rent

On February 1, 2014, the Company began leasing office space in New York, New York for its Chief Executive Officer at a rate of $2,500 per month from LaGrange Capital Administration, L.L.C. (LCA). Frank LaGrange Johnson, the Company s Chairman of the Board, serves as the Managing Member of LCA. This lease is month-to-month and is cancellable by either the Company or LCA at any time. Effective April 1, 2014, LCA increased the monthly rental charge (inclusive of rent, allocable share of office assistant, and equipment leases) from $2,500 to approximately $12,700 per month. During the fiscal year ended September 30, 2014, the Company recognized approximately $81,000 of rent expense related to the New York office.

Buying Agency and Supply Agreement

On March 12, 2012, the Company, entered into a Buying Agency and Supply Agreement (the “Agreement”) with Forward Industries Asia-Pacific Corporation (f/k/a Seaton Global Corporation), a British Virgin Islands corporation (“Forward China”). On March 13, 2014, the Company entered into Amendment No. 1 to the Sourcing Agreement with

Forward China, dated as of March 11, 2014. The Agreement, as amended, provides that, upon the terms and subject to the conditions set forth therein, Forward China will act as the Company's exclusive buying agent and supplier of Products (as defined in the Agreement) in the Asia Pacific region. The Company purchases products at Forward China's cost and pays a service fee to Forward China. The service fee is calculated at $100K monthly plus 4% of "Adjusted Gross Profit." "Adjusted Gross Profit" gross profit is defined as the selling price less the cost from Forward China. The Agreement, as amended, terminates on March 11, 2015, subject to renewal. Terence Bernard Wise, a director of the Company, is a principal of Forward China. In addition, Jenny P. Yu, a Managing Director of Forward China, owns shares of the Company's common stock. The Company incurred approximately $1,406,000 and $1,292,000, respectively, during the fiscal years ended September 30, 2014 and 2013, in service fees paid to Forward China, which are included as a component of costs of goods sold in continuing operations in the accompanying consolidated statements of operations and comprehensive loss.

Investment Management Agreement

On April 16, 2013, the Company entered into an Investment Management Agreement (the "Investment Management Agreement") with LCA, pursuant to which the Company retained LCA to manage certain investment accounts funded by the Company (collectively, the "Account"). Frank LaGrange Johnson, the Company's Chairman of the Board, serves as the Managing Member of LCA.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 RELATED PARTY TRANSACTIONS (CONTINUED)

Investment Management Agreement (continued)

Pursuant to the Investment Management Agreement, LCA is authorized, subject to supervision of the Investment Committee of the Board and the terms and conditions of the Investment Management Agreement, to take all actions and make all decisions regarding the investment and reinvestment of the assets of the Account utilizing the Investment Strategy (as defined in the Investment Management Agreement). As compensation for its services to the Company, LCA shall be entitled to advisory fees, comprised of an asset-based fee and a performance fee, as provided in the Investment Management Agreement. The asset-based fee will equal 1% per annum of the average Account Net Asset Value ("Account NAV"). The performance fee will equal 20% of the increase (if any) in the Account NAV over an annual period. No performance fee will be payable for any annual period in which the Account NAV at the end of such annual period is below the highest Account NAV at the end of any previous annual period. In addition to such advisory fees, the Company will reimburse LCA for certain investment and operational expenses. Under the Investment Management Agreement, the Company or its designees may make cash withdrawals from the Account on March 31, June 30, September 30 or December 31 of each year upon 45 days' prior written notice to LCA; provided, that, in the event of a breach of certain terms of the Investment Management Agreement, the Company may make a complete cash withdrawal from the Account immediately without LCA's consent. During the fiscal years ended September 30, 2014 and 2013, the Company recognized approximately $12,000 and $13,000, respectively, of expense in continuing operations in its consolidated statements of operations and comprehensive loss related to asset based advisory fees. The Company has not recorded any expense related to performance based advisory fees during the fiscal years ended September 30, 2014 and 2013.

The Investment Management Agreement is effective as of February 1, 2013 and shall continue until the second anniversary of the effective date. Thereafter, the term of the Investment Management Agreement shall automatically renew for additional one year terms unless terminated in accordance with the terms of the Investment Management Agreement or if a party provides notice to the other party no less than 60 days prior to the end of a term of its decision to terminate the Investment Management Agreement at the end of the then current term.

The amount of new funds invested with LCA during the fiscal years ended September 30, 2014 and 2013 were $0 and $1,200,000, respectively.

During the fiscal years ended September 30, 2014 and 2013, the Company purchased approximately $5,800,000 and $88,600,000 of marketable securities, respectively. During the fiscal years ended September 30, 2014 and 2013, the Company sold approximately $5,600,000 and $87,300,000 of marketable securities, respectively. As a result of these activities, the Company recognized approximately $247,000 and $722,000 of net investment losses during the fiscal years ended September 30, 2014 and 2013, respectively.

NOTE 13 LEGAL PROCEEDINGS

From time to time, the Company may become a party to other legal actions or proceedings in the ordinary course of its business. As of September 30, 2014, 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.

On July 15, 2014, Terence Bernard Wise, a director of the Company, filed a derivative complaint in the Supreme Court of the State of New York, New York County, against directors Frank LaGrange Johnson, Robert Garrett, and John F. Chiste and then-directors (now former directors) Timothy Gordon and Owen P.J. King, also naming the Company as a nominal defendant, alleging breaches of fiduciary duty and seeking declaratory and injunctive relief (both preliminary and final), including a temporary restraining order (TRO), that would have prevented the Board of the Company from voting on proposals to raise capital or engage in any extraordinary transactions. The court rejected Mr. Wise s request for a TRO and Mr. Wise then withdrew his request for preliminary injunctive relief. Mr. Wise then amended his complaint to add allegations of breach of fiduciary duties under various provisions of New York s Business Corporation Law. On December 4, 2014, Mr. Wise brought a new application to the court, once again seeking a TRO and a preliminary injunction that would enjoin his fellow Company directors from causing the Company to issue any Series B Senior Convertible Preferred Stock (the Preferred Stock), or take any antecedent or preparatory steps to effectuate such issuance, prior to the Company s 2014 annual meeting of shareholders (the 2014 Annual Meeting). The court granted the TRO, in part, by prohibiting the Company from issuing but not from taking antecedent or preparatory steps to issue such Preferred Stock prior to December 8, 2014. At a hearing on December 8, 2014, the court then granted Mr. Wise s motion for a preliminary injunction, enjoining the Company s issuance of the Preferred Stock prior to the Company s 2014 Annual Meeting. On December 8, 2014, the Company filed a notice of appeal of the court s order to the Supreme Court of the State of New York, Appellate Division, First Department. On December 9, 2014, the Company moved, before such appellate court, to vacate the lower court s injunction, which motion has not yet been decided. The case otherwise remains pending before the lower court.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 LEGAL PROCEEDINGS (CONTINUED)

On July 16, 2014, the Company filed a lawsuit in the U.S. District Court for the Southern District of New York against Mr. Wise and his long-time business partner, Jenny P. Yu, alleging multiple violations of federal securities laws, including the filing with the Commission of deceptive and misleading Schedules 13D and proxy solicitation materials. Specifically, the Company alleged that Mr. Wise and Ms. Yu have been acting as an improperly undisclosed "group" engaged in an effort to replace the entire Board with Mr. Wise's hand-picked candidates. The Company's lawsuit seeks expedited injunctive and declaratory relief that would require Mr. Wise and Ms. Yu to comply with the federal securities laws and submit corrected, accurate disclosures in advance of any vote by the Company's shareholders. On September 20, 2014, the Court granted Wise's and Yu's respective motions to dismiss the case, after which the Company filed an appeal to the United States Court of Appeals for the Second Circuit. The Company's appeal currently is pending before the Court of Appeals.

On August 26, 2014, James McKenna, the Company s former Chief Financial Officer, filed a lawsuit in the U.S. District Court for the Southern District of New York against the Company and directors Frank LaGrange Johnson, Robert Garrett and John F. Chiste and then-directors (now former directors) Timothy Gordon and Owen P.J. King, alleging purported claims of retaliation for whistleblowing under the Dodd-Frank Act, breach of contract and breach of the covenant of good faith and fair dealing all as against the Company, and a single claim for tortious interference with contract as against the individual defendants. The complaint seeks an unspecified amount of monetary consequential damages and punitive damages. The case currently is pending before the court.

NOTE 14 401(K) PLAN

The Company maintains a 401(k) benefit plan allowing eligible United States-based employees to contribute a portion of their salary in an amount up to the annual maximum amounts as set periodically by the Internal Revenue Service. There were no matching contributions during the fiscal year ended September 30, 2013. In accordance with applicable Safe Harbor provisions, the Company made matching contributions related to its continuing operations for the fiscal year ended September 30, 2014 of approximately $69,000, which are reflected in the accompanying consolidated statements of operations and comprehensive loss. The Company's contributions vest immediately.

NOTE 15 OPERATING SEGMENT INFORMATION

The Company reports and manages its continuing operations based on a single operating segment: the design and distribution of carry and protective solutions, primarily for hand held electronic devices. Products designed and distributed by this segment include carrying cases and other accessories for medical monitoring and diagnostic kits, portable consumer electronic devices (such as smartphones, tablets, personnel computers, notebooks, and GPS devices), and a variety of other portable electronic and non-electronic products (such as firearms, sporting, and other recreational products). This segment operates in geographic regions that include primarily APAC, the Americas, and EMEA. Geographic regions are defined by reference primarily to the location of the customer or its contract

manufacturer.

On June 21, 2012, the Company determined to wind down its Retail segment and focus solely on growing its OEM business. The decision to eliminate the Retail division was primarily driven by the longer than estimated path to bring it to profitability and the strong net sales growth and cost rationalizations in the OEM business. The Company has substantially completed its exit of its Retail business.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 OPERATING SEGMENT INFORMATION – (CONTINUED)

Revenues from External Customers

The following table presents net sales by geographic region.

	(dollars in thousands)			
	Fiscal Years Ended September 30,			
	2014		**2013**	
Americas:				
United States	$	9,382	$	9,424
Other		467		1,538
Total Americas		9,849		10,962
APAC Region:				
Hong Kong		8,608		7,491
Other		3,043		3,273
Total APAC		11,651		10,764
EMEA Region:				
Germany		7,238		5,097
Poland		3,955		3,525
Other		667		563
Total Europe		11,860		9,185
Total net sales	$	33,360	$	30,911

Long-Lived Assets (Net of Accumulated Depreciation and Amortization)

Identifiable long-lived assets, consisting predominately of property, plant and equipment, were located in the Americas at September 30, 2014 and 2013.

Supplier Concentration

The Company procures substantially all its supply of carrying solutions products from independent suppliers in China through Forward China. Depending on the product, the Company may require several different suppliers to furnish component parts or pieces. The Company purchased approximately 94% and 90% of its OEM products from four such suppliers in Fiscal 2014 and 2013, respectively. The approximate percentages of purchases of OEM products from each of these four suppliers with respect to continuing operations for Fiscal 2014 and Fiscal 2013 are as follows:

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 OPERATING SEGMENT INFORMATION – (CONTINUED)

Supplier Concentration (continued)

	Fiscal Year Ended September 30,	
	2014	**2013**
Supplier:		
OEM Supplier A	66%	0%
OEM Supplier B	20%	50%
OEM Supplier C	5%	19%
OEM Supplier D	3%	14%
OEM Supplier E	1%	9%
Totals	95%	92%

Major Customers

The following customers or their affiliates or contract manufacturers accounted for more than ten percent of the Company's net sales, by geographic region.

	Fiscal Year Ended September 30, 2014			
	Americas	**APAC Region**	**EMEA Region**	**Total Company**
Diabetic Customer A	-%	87%	4%	27%
Diabetic Customer B	24%	3%	19%	14%
Diabetic Customer C	24%	-%	58%	24%
Diabetic Customer D	14%	2%	22%	11%

	Fiscal Year Ended September 30, 2013			
	Americas	**APAC Region**	**EMEA Region**	**Total Company**
Diabetic Customer A	-%	70%	1%	24%
Diabetic Customer B	21%	3%	15%	13%
Diabetic Customer C	24%	-%	51%	24%
Diabetic Customer D	18%	2%	24%	14%

Four customers (including their affiliates or contract manufacturers) accounted for approximately 77% and 73% of the Company's accounts receivable at September 30, 2014 and 2013, respectively.

NOTE 16 SUBSEQUENT EVENTS

Stock Repurchase

In November 2014, the Company repurchased and retired an aggregate of 10,340 shares of its outstanding Common Stock at a cost of approximately $12,000, in connection with the vesting of employee restricted stock awards, wherein certain employees surrendered a portion of their award in order to fund certain tax withholding obligations.

Legal Proceedings

On November 13, 2014, the Company filed a lawsuit in the Supreme Court of the State of New York, Kings County, against Terence Bernard Wise, a director of the Company, and the following six individuals whom Mr. Wise claims that he has purportedly nominated to stand for election as directors at the Company s Annual Meeting: Howard Morgan, Michael Luetkemeyer, Eric Freitag, Sangita Shah, N. Scott Fine, and Darryl Keyes. The Company s complaint seeks a judicial declaration that Mr. Wise s purported nominations are invalid, as they were not received within the timeframe expressly provided by the Company s Bylaws for such nominations. The complaint also seeks injunctive relief from the court, enjoining Mr. Wise from soliciting proxies for his purported nominees to stand for election as directors at the 2014 annual meeting of shareholders. At a hearing on December 1, 2014, the court denied the Company s request for preliminary injunctive relief. On December 2, 2014, the Company filed a notice of appeal of the court s order to the Supreme Court of the State of New York, Appellate Division, Second Department and on December 3, 2014, the Company moved before such appellate court for the preliminary injunctive relief denied below. That motion remains pending, as does the case before the lower court.

NOTE 16 SUBSEQUENT EVENTS (CONTINUED)

Restricted Stock

Subsequent to September 30, 2014, as a result of the resignation of two directors of the Company, an aggregate of 30,000 shares of restricted stock were forfeited. On December 5, 2014, the Board granted an aggregate of 30,000 shares of restricted stock to two new directors of the Company.

Treasury Stock Retirement

On December 5, 2014, the Board of Directors approved the retirement of 706,410 shares of treasury stock.