FORWARD INDUSTRIES INC
Form 10-K
December 15, 2011

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, 2011

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

For the transition period from __________ to __________

Commission File Number: 0-6669

FORWARD INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices, including zip code)

(954) 419-9544

(Registrant s telephone number, including area code)

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

None

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

Common Stock, $0.01 par value per share

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

[ ] Yes [**X**] No

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

[ ] Yes [**X**] No

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

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

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

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

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

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

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

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

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

Forward Industries, Inc.

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PART IV

Note Regarding Use of Certain Terms

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

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

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

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

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

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

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

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

Commission refers to the United States Securities and Exchange Commission;

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

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

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

Europe refers to the countries included in the European Union;

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

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

OEM refers to Original Equipment Manufacturer of certain consumer electronic products

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PART I

ITEM 1. BUSINESS

General

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

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

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

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

Corporate History

Forward Industries, Inc. was incorporated in 1961 under the laws of the State of New York as a manufacturer and 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 1994, we formed Forward HK to facilitate a more nimble and robust carrying case procurement and quality control infrastructure, and to enhance our foreign sourcing capabilities. Thereafter we determined that our domestic production capability was unnecessary, sold the related assets, and we now source substantially all our products from suppliers in the APAC Region. See "Product Supply".

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

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

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

Products

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

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

Diabetic Products

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

Other Products

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

Product Development

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

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

Marketing, Distribution, and Sales

Geographic Sales Distribution

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

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

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

Channels of Distribution

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

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

Sales by Product Line

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

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

Sales Concentration

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

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

* Tables may not total due to rounding.

Sales Force

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

OEM Distribution Hubs

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

Credit Risk

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

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

Product Supply

Manufacturing

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

Suppliers

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

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

Quality Assurance

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

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

Logistics

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

We ship our products to our customers by common carrier.

Insurance

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

Competition

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

Employees

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

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

Regulation and Environmental Protection

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

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

ITEM 1A. RISK FACTORS

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

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

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

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

Management continues to evaluate potential merger and acquisition targets, and given the right strategic opportunity pursuant to satisfactory terms and conditions, it will pursue a potential merger or acquisition if it is in the best interests of shareholders. There can be no assurance that we will be successful in our efforts to make any acquisition, or that any business that we do acquire or invest in will be profitable or accretive. There can be no assurance as to the timing of a transaction, or that the market price of our common stock will not decline in response to any such transaction as may be effected or not effected.

Our business strategy is to develop and grow our existing business and to expand into retail; to the extent that operating expenses continue to trend significantly higher before we realize higher revenues, our operating results may continue to be adversely and materially affected.

We are pursuing a more marketing-driven and product development-driven business model to grow our existing business and expand product offerings. In executing this strategy, we have incurred, and are likely to continue to incur, increased selling, general, and administrative expense as we devote increased resources to expanding product sales and development and to establish a retail distribution channel, including resources to recruit and compensate experienced sales and marketing professionals. Such increased expenses are likely to continue to impact our income statement and reduce cash and equivalents before such efforts result in increased revenues and profit, if at all, which may continue to materially and adversely affect our results of operations. We have hired 15 employees in connection with the potential retail channel business and have invested significant resources in bringing new products to market, particularly in terms of funding product development. As of September 30, 2011, no new products were available for market and there had been no sales in connection with the potential retail business. Realization of higher revenues and resulting improvement in our results of operations will depend on management s ability to execute successfully on its strategy and business plan, as to which there can be no assurance.

The cash investment required to execute our growth strategy is likely to be substantial relative to our cash resources.

We have recently invested and expect to continue to invest substantial incremental cash resources to execute our growth strategy to fund (i) operating losses reflecting the investment in our sales and distribution capabilities; (ii) investments in product development and other joint venture arrangements; and (iii) investments in working capital required to support new products and channels. 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.

In pursuing strategic partnerships, we may decide to advance funds to third parties for product development.

We are aggressively pursuing business relationships with unrelated third parties (via potential joint sales, joint venture, licensing, or other arrangements) by which we are seeking to expand our sales base, access new customer markets, and/or develop new products to distribute and sell. In certain cases, from time to time, we may deem it in the Company s best interests to participate in the funding of new product development by extending short-term loans for working capital, product development, or related uses. In general, a significant ancillary purpose of such loans might include enhancing the likelihood of our securing the business relationship with such third party that we deem advantageous to our business development efforts, as well as acceleration of the development timetable for the product. Such lending may not be on a secured basis. Our business experience does not encompass bank lending expertise in the assessment of the creditworthiness of borrowers, and such lending on our part does not represent a core element of our business expertise.

There is a risk that the funds we loaned or advanced to third parties will not be repaid.

On January 5, 2011, the Company entered into a loan agreement with Flash Ventures, Inc., an unrelated entity, to provide a credit facility of up to $1,000,000, due December 1, 2011. Pursuant to the agreement Flash executed an unsecured, unsubordinated term note in favor of the Company, bearing interest at 11% per annum on any unpaid principal, payable quarterly commencing March 31, 2011. On January 6, 2011 and January 19, 2011, Flash drew $600,000 and $400,000, respectively, in funds under the note, leaving no further funding available. Flash was late in making the interest payment due March 31, 2011, eventually making payment in full, and made timely payment thereafter. Effective December 1, 2011, the terms of the loan were amended to, among other things, extend the maturity date to April 1, 2012 and to provide for the loan to be secured. In connection with such amendment Flash made a principal payment of $250,000 on December 1, 2011.

As of September 30, 2011, we had advanced $500,000, in funds to a prospective joint venture participant in consideration as a prepaid royalty.

As with any debt obligation, there is a risk that the borrower will default and we as lender may not receive repayment in full of the funds loaned and interest thereon. This risk is increased by virtue of the fact that many of these loans were made on an unsecured basis. If this were to occur, it could have a material, adverse effect on our financial condition and reduce the amount of funds available to support our growth initiatives and other capital requirements.

Our business remains highly concentrated in our OEM - Diabetic Products line, posing risks to our financial condition and results of operations compared to periods when revenue from customers from two principal product lines were more balanced. If our OEM - 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 cases to OEM customers accounted for approximately 73% of net revenues in Fiscal 2011. While OEM sales of other products reflect new customer adds and improved revenues in recent years, our business remains characterized by high product line as well as customer concentration. In such circumstances, our financial condition and results of operations are subject to higher risk from the loss of a OEM diabetic case customer or from changes in the business practices of OEMs of blood glucose monitors, for example, a decision to reduce or eliminate inclusion of cases in box with the electronic device or a decision to focus on insulin pumps instead of insulin by injection.

Our business is and has been characterized by a high degree of customer concentration. Our three largest customers accounted for approximately 70% and 73% of net sales in Fiscal 2011 and Fiscal 2010, 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 three large OEM customers for our diabetic blood glucose carry cases, 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. With the global recession and weak recovery, OEMs 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.

Three customers accounted for approximately 71% of our accounts receivable at September 30, 2011, and three customers accounted for approximately 75% of our accounts receivable at September 30, 2010. 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 2011 and 2010, 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, from time to time we may encounter increased prices from our Chinese suppliers who are reacting to inflationary increases in materials and labor costs incurred by them. We believe that Fiscal 2011 and the present represent a period of such inflationary pressures. In addition, prices that our Chinese vendors charge to us may reflect appreciation of the Chinese currency against the US dollar, which can be passed through to us in the form of higher US dollar prices. This in turn will tend to reduce gross profit percentage if we are unable to raise prices. We anticipate that constraints on our ability to maintain or increase prices to our major customers will continue to exert downward pressure on our gross profit percentage in the fiscal year ending September 30, 2012. This is particularly the situation with respect to our large diabetic customers for existing as well as new programs.

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. For Fiscal 2011, there was not a significant depreciation of the Euro to affect our results of operations. 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.

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 sales channel, customer and by product type, and if the revenue contribution from one or more OEM customers changes materially, relative to total revenues, our gross profit percentage may fluctuate or decline.

Our gross profit margins on the products we sell can vary widely depending on the sales channel, product type, customer, order size, and market in which the customer's products are sold. 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's credit to which we must look for payment in such cases and not that of our OEM customer. This may alter the credit profile of our customer base and may involve significant purchase order volumes. In some, but not all cases, the manufacturing firm is itself a large, multinational entity with significant financial resources.

Our dependence on foreign manufacturers creates quality control 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, 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. Our Board of Directors has the authority, without shareholder approval, to issue such preferred stock in one or more series and to fix the relative rights and preferences thereof including their redemption, dividend and conversion rights. Our ability to issue the authorized but unissued shares of preferred stock could be used to impede takeovers of our company. Under certain 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. We are not aware of any attempt to acquire Forward.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable

ITEM 2. PROPERTIES

We sub-leased approximately 5,300 square feet of office and warehouse space at 1801 Green Road, Pompano Beach, Florida on a month-to-month basis from a tenant at the same premises. We used this office space as our executive office and our United States sales office until April 2011. This sub-lease expired on November 30, 2011.

In April 2011, the Company relocated its executive offices from Pompano Beach, Florida to offices in Santa Monica, California, which consists of approximately 3,400 square feet for which the Company rents at $13,500 per month under lease agreements, which expire in October 2016.

In May 2011, the Company, under a license granted by the Jebel Ali Free Zone Authority (JAFZA), established a registered branch office in the Jebel Ali Free Zone (JAFZ) of the United Arab Emirates. Under the license, the Company rents approximately 638 square feet of office space at annual rate of AED118,580 (approximately $32,300 at September 30, 2011) through May 2012. We use this office space to facilitate product sales in the Middle-East and India region.

In July 2011, Forward HK renewed its lease for approximately 4,400 square feet of office space in Kowloon, Hong Kong, which extends through October 2014 at a monthly rate of $15,000. We use this office space as our APAC headquarters from which we coordinate and conduct our Asia-based sourcing, quality assurance, and logistics activities.

In October 2011, the Company, entered into a lease for approximately 1,000 square feet of office space in London, England at $8,000 per month, which extends through September 2012. We use this office space to perform administrative and sales support (such as accounting, operational, and customer service functions) to our EMEA based sales team.

Forward Innovations sub-leases 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 headquarters from which we coordinate our sales and marketing activities throughout the EMEA region.

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

ITEM 3. LEGAL PROCEEDINGS

Targus Group International, Inc., et al. v., Forward Industries, Johnson, et al.

On September 19, 2011, the Company, Brett Johnson (our President and Chief Executive Officer), and one of our employees were named in a Complaint filed in Orange County Superior Court by Targus Group International, Inc. and two of its affiliates. The Complaint alleged a claim for breach of contract against Mr. Johnson. The Complaint further alleged a "breach of fiduciary duty/duty of loyalty" against the employee, and it asserted claims against Mr. Johnson and the Company for allegedly aiding and abetting that breach. The Complaint also asserted a cause of action against all Defendants for unfair competition. An Amended Complaint was filed on October 11, 2011. In addition to the claims asserted the in the original Complaint, the Amended Complaint added an additional Targus affiliate as a plaintiff and named an additional employee of the Company as a defendant. The Amended Complaint asserted a claim against that employee for breach of contract and for "breach of fiduciary duty/duty of loyalty," and it added new claims against the Company and Mr. Johnson for allegedly inducing the breach of and interfering with that employee's contract and for allegedly aiding and abetting his breach of duty. The claim for unfair competition in the Amended Complaint relies on these new allegations as well. All of the claims asserted in this action arise out of the decisions of former employees of one or more of the plaintiffs to accept offers of employment with the Company. The amount of damages sought is not specified. The Company believes it has substantial defenses to these claims and intends to vigorously defend the action.

Other Litigation

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, 2011, there were no such actions or proceedings, either individually or in the aggregate, that, if decided adversely to the Company s interests, the Company believes would be material to its business.

ITEM 4. RESERVED

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 2011		Fiscal 2010	
	High Bid	Low Bid	High Bid	Low Bid
First Quarter	$4.06	$2.89	$2.15	$1.69
Second Quarter	$4.10	$3.02	$3.20	$1.96
Third Quarter	$4.59	$2.52	$5.60	$2.96
Fourth Quarter	$3.11	$2.01	$4.59	$2.90

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

On December 1, 2011, the closing bid quotation for our common stock was $1.62

Holders of common stock.

As of December 1, 2011, there were approximately 115 holders of record of our common stock, excluding approximately 8,720 beneficial holders of common stock whose shares are held in street name.

Dividends

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

Recent sales of unregistered securities

During Fiscal 2011, we did not sell any shares of common stock, or securities exercisable for or exchangeable into common stock, or any other securities that were not registered under the Securities Act of 1933.

Securities authorized for issuance under equity compensation plans.

For information relating to this topic, see Part III, Item 11 of this Annual Report. Executive Compensation Securities Authorized for Issuance under Equity Compensation Plans , which is incorporated in this Annual Report on Form 10-K by reference to our 2011 Proxy Statement.

Purchase of Equity Securities

No repurchase of any shares of our common stock or other equity security was made by or on behalf of the Company during Fiscal 2011.

In September 2002 and January 2004, our Board of Directors authorized the repurchase of up to an aggregate of 486,200 shares of our common stock. Under those authorizations, as of September 30, 2011, we have repurchased an aggregate of 172,603 shares at a cost of approximately $0.4 million, leaving a balance of 313,597 shares (approximately 3.9% of the shares outstanding at September 30, 2011) under those authorizations, but none during Fiscal 2011 or Fiscal 2010. Separate from the foregoing authorizations, in Fiscal 2010 in connection with exercises of stock options to purchase 50,000 shares in the aggregate of common stock by two non-employee directors and an officer, such persons received, net, an aggregate of 24,030 shares in transactions valuing such shares at market on the respective dates of exercise in lieu of payment of the exercise price of such options. Under applicable authority, such transactions are not deemed to constitute purchases by us of our common stock.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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

The following discussion and analysis should be read in conjunction with our audited Consolidated Financial Statements and the notes thereto and other financial information appearing in Item 8 of this Annual Report on Form 10-K. This discussion and analysis compares our consolidated results of operations for the Fiscal year ended September 30, 2011 ("Fiscal 2011"), with those for the Fiscal year ended September 30, 2010 ("Fiscal 2010"), 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 variatio 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 executing the channel-building and product development elements of our strategy, during Fiscal 2011 we have incurred, and we intend to continue to incur, significantly increased selling, general, and administrative expenses as we devote resources to recruit, hire and compensate experienced sales, design, operations, and administrative professionals, and to develop and/or acquire new product offerings. Insofar as most of our new personnel were hired in the second half of Fiscal 2011, with further investment in personnel planned for the first quarter of Fiscal 2012, the fourth quarter of Fiscal 2011, and succeeding reporting periods will begin to reflect more fully our investments in resources, while the anticipated benefits of such hires in the form of increased sales and profit will take significantly longer to be realized, if at all. At the same time, we are investing resources in bringing new products to market, particularly in terms of funding product development activities with prospective partners. We anticipate that the measure of success of our strategy as reflected in our results of operations will be determined by the strength of new distribution channels, by the speed in which we can bring new products to market, and by the success and acceptance of these products in the marketplace.

With regard to our OEM business, we have recently been awarded several large programs by two major diabetic customers. We anticipate that these programs will begin to contribute meaningfully to revenues beginning in late Fiscal 2012. While these new programs will increase our sales volume, we anticipate that gross margins on certain of these new or prospective programs will be lower than the gross margins seen in the first part of Fiscal 2011. Our business remains highly concentrated by customer and product type, especially in the diabetic case product line. However, as we indicated in previous reports, we intended to build on the 10% growth in revenue that was contributed by other products in Fiscal 2010, and in Fiscal 2011 we have exceeded such targets. Accordingly, even as diabetic product sales continue to increase, we believe that we are making progress in diversifying the customer base.

We continue to operate in a very challenging pricing and gross margin environment with our OEM customers. The global economy continues to face headwinds, and our OEM customers remain very price sensitive. As reflected in the gross profit discussions below, we are encountering higher costs from our China-based suppliers due to materials and labor price increases, placing continuing pressure on profit margins. As the expected launch of new and replacement diabetic programs increasingly replace mature programs, we anticipate that the impact of materials and labor cost increases from our China-based suppliers will become more evident in this product line and gross profit generally. Product mix factors may exacerbate this trend. In many cases, we are not able to pass higher costs through to customers, particularly when replacement program products resemble their predecessor or historically similar products for which customers have become accustomed to a narrow price range. See Risk Factors in Item 1.A of this Annual Report. We are actively looking at alternative sources of supply, as well as other geographic regions to expand and diversify our manufacturing capabilities in order to mitigate this trend.

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

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash on deposit and highly liquid money market accounts. 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, the amounts of which may significantly exceed FDIC insured limits, and in Europe. At September 30, 2011, this amount was approximately $10.5 million. Historically, the Company has not experienced any losses due to such cash concentrations.

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 credit worthiness, and believes that adequate allowances for any uncollectible receivables are maintained. Credit terms to the majority of customers are generally net thirty (30) days to net sixty (60) days; however, the Company typically extends to its largest customers payment terms up to 90 days. The Company has not historically experienced significant credit or collection problems with its OEM customers or their contract manufacturers. None of these customers or their contract manufacturers is or has been in default to the Company, and payments are generally received from them on a timely basis. Three customers, including their affiliates and contract manufacturers, accounted for approximately 71% and 75% of the Company s accounts receivable at September 30, 2011 and 2010, respectively. At September 30, 2011 and 2010, the allowance for doubtful accounts was approximately $14,000 and $19,000, respectively.

Inventory Valuation

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 on the Company s consolidated statements of operations. 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. At September 30, 2011, the Company did not record an allowance for obsolete inventory. At September 30, 2010, the allowances for obsolete inventory was approximately $28,000.

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 for financial statement purposes. 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. The Company recorded approximately $74,000 and $54,000 of depreciation and amortization expense in Fiscal 2011 and 2010, respectively. Depreciation and amortization for production related property and equipment is included as a component of costs of goods sold in the accompanying consolidated statements of operations. Depreciation and amortization for selling and general and administrative related property and equipment, is included as a component of operating expenses in the accompanying consolidated statements of operations.

Revenue Recognition

We generally recognize revenue from product sales to 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.

<u>Shipping and Handling Costs</u>

We classify shipping and handling costs (including inbound and outbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs, and other costs associated with our Hong Kong distribution facility and network) as a component of cost of goods sold in the accompanying consolidated statements of operations. This classification may not be comparable to similar companies within our industry.

<u>Income Taxes</u>

We account 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 carryforwards to the extent that realization of these benefits is more likely than not. We periodically evaluate the realizability of our net deferred tax assets. See Note 8 to the Notes to Consolidated Financial Statements. Our policy is to account for interest and penalties relating to income taxes, if any, in income tax expense in the statement of operations. For the fiscal years presented in the accompanying consolidated statements of operations no income tax related interest or penalties were assessed or recorded.

<u>Share-Based Payment Expense</u>

We recognize share-based equity compensation in our consolidated statements of operations at the grant-date fair value of our stock options and other equity-based compensation. The determination of grant-date fair value is estimated using an option-pricing model, which includes variables such as the expected volatility of our share price, the exercise behavior of our employees, 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 increases to the valuation of options granted in future periods and increases in the expense recognized for share-based payments. Refer to Note 7 Share-Based Compensation of this Annual Report.

Results of Operations for Fiscal 2011 compared to Fiscal 2010

Net loss

We incurred a net loss of $2.9 million in Fiscal 2011 compared to net loss of $1.7 million in Fiscal 2010. The increase in net loss is primarily the result of higher sales and marketing expenses, as well as higher general and administrative expenses, which were offset, in part, by an increased gross profit on higher sales and other income (primarily interest income) in Fiscal 2011, as reflected in the table below:

(thousands of dollars)

	Fiscal 2011	Fiscal 2010	Increase (Decrease)
Net sales..	$22,777	$18,997	3,780
Gross profit...	5,065	4,232	833
Sales and marketing expenses..	(3,391)	(2,167)	1,224
General and administrative expenses..	(4,688)	(3,636)	1,052
Other income	58	10	48

Income taxes	56	(124)	180
Net loss*	**($2,900)**	**($1,686)**	1,214

* Table may not total due to rounding.

Basic and diluted loss per share was ($0.36) for Fiscal 2011, compared to ($0.21) for Fiscal 2010. The increase in loss per share in Fiscal 2011 was due to the increase in net loss, which was offset, in small part, by the increase in weighted average shares outstanding in Fiscal 2011.

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Net Sales

Net sales increased $3.8 million, or 20%, to $22.8 million in Fiscal 2011 from $19.0 million in Fiscal 2010 due to higher sales of diabetic products, which increased $2.5 million, or 18%, and higher sales of Other Products , which increased $1.2 million, or 26%. The tables below set forth net sales by product line and geographic location of our customers for the periods indicated.

Net Sales for Fiscal 2011

(millions of dollars)

	APAC	**Americas**	**Europe**	Total*
Diabetic Products..	$9.1	$2.6	$5.0	$16.7
Other Products...	1.4	3.8	1.0	6.1
Totals*...	**$10.4**	**$6.4**	**$5.9**	**$22.8**

Net Sales for Fiscal 2010

(millions of dollars)

	APAC	**Americas**	**Europe**	Total*
Diabetic Products..	$7.4	$3.0	$3.8	$14.1
Other Products...	0.9	3.2	0.8	4.9
Totals*...	**$8.2**	**$6.2**	**$4.6**	**$19.0**

* Tables may not total due to rounding.

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 cases and related accessories for blood glucose monitoring kits increased $2.5 million, or 18%, to $16.7 million in Fiscal 2011 from $14.1 million in Fiscal 2010. This increase was due primarily to higher sales to two of our major diabetic customers, as presented in the table below, which sets forth our sales by diabetic customer for the periods indicated.

(millions of dollars)

	Fiscal 2011	**Fiscal 2010**	**Increase (Decrease)**
Diabetic Customer A...	$8.4	$7.4	$1.0
Diabetic Customer B...	3.7	3.6	0.1
Diabetic Customer C...	3.7	2.8	0.9
All other Diabetic Customers..	0.8	0.3	0.5
Totals*...	**$16.7**	**$14.1**	**$2.5**

* Table may not total due to rounding.

Sales of carrying cases for blood glucose monitoring kits represented 73% of our total net sales in Fiscal 2011 compared to 74% of our total net sales in Fiscal 2010.

Other Product Sales

We design and sell carrying solutions primarily to OEMs for a diverse array of other portable electronic and other products, including bar code scanners, GPS and location devices, cellular telephones, lap