FORWARD INDUSTRIES INC
Form 10-Q
May 13, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013.

OR

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

incorporation or organization)

477 Rosemary Ave., Suite 219, West Palm Beach, FL 33401

(Address of principal executive offices, including zip code)

(561) 465-0030

(Registrant s telephone number, including area code)

____

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 twelve 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

The number of shares outstanding of the registrant s common stock, par value $0.01 per share, at the latest practical date April 24, 2013, was 8,112,685 shares.

1

Forward Industries, Inc.

INDEX

2

Note Regarding Use of Certain Terms

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

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

Forward UK refers to Forward Industries 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), Forward s exclusive sourcing agent in the Asia-Pacific region;

SGC refers to Seaton Global Corporation, a British Virgin Islands registered corporation that is the exclusive buying agent for Forward in the APAC 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 2011 refers to our fiscal year ended September 30, 2011;

Fiscal 2012 refers to our fiscal year ended September 30, 2012;

Fiscal 2013 refers to our fiscal year ending 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.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Forward Industries, Inc.

CONSOLIDATED BALANCE SHEETS

	March 31, 2013 (Unaudited)	September 30, 2012 (Note 1)
Assets:		
Current assets:		
Cash and cash equivalents	$4,024,309	$4,608,246
Marketable securities	1,122,091	420,605
Accounts receivable, net	4,735,580	7,533,491
Inventories, net	2,449,337	3,380,813
Prepaid expenses and other current assets	306,922	367,552
Assets of discontinued operations	446,373	621,879
Total current assets	13,084,612	16,932,586
Property and equipment, net	132,697	138,774
Other assets	40,442	40,442
Total Assets	$13,257,751	$17,111,802
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	$2,725,251	$5,936,848
Accrued expenses and other current liabilities	617,625	1,725,185
Liabilities of discontinued operations	199,040	261,806
Total liabilities	3,541,916	7,923,839
Commitments and contingencies		
Shareholders equity:		

Preferred stock, par value $0.01 per share; 4,000,000 shares authorized;		
no shares issued and outstanding..	--	--
Common stock, par value $0.01 per share; 40,000,000 shares authorized, 8,819,095 and 8,811,595 shares issued; and		
8,112,685 and 8,105,185 shares outstanding, respectively...........................	88,191	88,116
Capital in excess of par value...	17,247,186	17,020,771
Treasury stock, 706,410 shares at cost...	(1,260,057)	(1,260,057)
Accumulated deficit..	(6,338,087)	(6,624,926)
Accumulated other comprehensive loss...	(21,398)	(35,941)
Total shareholders equity..	9,715,835	9,187,963
Total liabilities and shareholders equity..	$13,257,751	$17,111,802

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

4

Forward Industries, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	Three Months Ended March 31,		**Six Months Ended March 31,**	
	2013	**2012**	**2013**	**2012**
Net sales..	$7,786,726	$6,222,812	$14,760,096	$12,385,112
Cost of goods sold...	6,268,255	5,131,537	11,742,038	10,082,512
Gross profit..	1,518,471	1,091,275	3,018,058	2,302,600
Operating expenses:				
Sales and marketing..	541,461	352,489	1,018,842	642,338
General and administrative..	770,772	1,310,046	1,844,810	2,732,959
Total operating expenses....................................	1,312,233	1,662,535	2,863,652	3,375,297
Income (loss) from operations...	206,238	(571,260)	154,406	(1,072,697)
Other income (expense):				
Interest income (expense)..	(1,645)	6,928	(256)	49,055
Gain on marketable securities, net..............................	85,846	--	328,217	--
Other income (expense), net..	(3,514)	26,696	(14,182)	12,929
Total other income, net..	80,687	33,624	313,779	61,984
Income (loss) from continuing operations before income tax expense	286,925	(537,636)	468,185	(1,010,713)
Income tax expense..	432	1,534	507	1,315
Income (loss) from continuing operations	286,493	(539,170)	467,678	(1,012,028)
	(138,419)	(1,005,256)	(180,839)	

Loss from discontinued operations, net of tax of $2,055 and $3,120, and $2,975 and $4,979, respectively......				(2,045,578)
Net income (loss)..	148,074	(1,544,426)	286,839	(3,057,606)
Other comprehensive income (loss):				
Change in unrealized gains on marketable securities...	--	--	23,744	--
Translation adjustments...	(14,816)	(5,028)	(9,201)	(4,112)
Comprehensive income (loss)...	$133,258	$(1,549,454)	$301,382	$(3,061,718)
Net income (loss) per basic and diluted common share:				
Income (loss) from continuing operations....................	$0.04	$(0.07)	$0.06	$(0.12)
Loss from discontinued operations.................................	$(0.02)	$(0.12)	$(0.02)	$(0.25)
Net income (loss) per share...	$0.02	$(0.19)	$0.04	$(0.38)
Weighted average number of common and common equivalent shares outstanding				
Basic..	8,112,685	8,105,185	8,109,759	8,098,137
Diluted..	8,127,071	8,105,185	8,124,145	8,098,137

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

5

Forward Industries, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended	
	March 31, 2013	**2012**
Operating activities:		
Net income (loss)..	$286,839	$(3,057,606)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Realized gain on sales of marketable securities..	(328,217)	--
Share-based compensation..	226,490	323,720
Provision for doubtful accounts...	103,710	--
Depreciation and amortization..	36,094	60,536
Provision for obsolete inventory...	--	11,520
Loss on disposal of property and equipment..	--	739
Changes in operating assets and liabilities:		
Accounts receivable..	2,714,549	(1,872,084)
Inventories...	1,102,098	(745,644)
Prepaid expenses and other current assets..	44,658	(910,120)
Accounts payable..	(3,171,903)	241,785
Accrued expenses and other current liabilities..	(1,219,221)	414,028
Net cash used in operating activities	**(204,903)**	**(5,533,126)**
Investing activities:		
Purchases of marketable securities..	(38,496,126)	--
Proceeds from sales of marketable securities..	38,146,602	--
Purchases of property and equipment...	(29,510)	(59,263)
Proceeds from note receivable...	--	400,000
Net cash (used in) provided by investing activities	**(379,034)**	**340,737**
	(583,937)	**(5,192,389)**

Net decrease in cash and cash equivalents...		
Cash and cash equivalents at beginning of period..	**4,608,246**	**14,911,844**
Cash and cash equivalents at end of period..	**$4,024,309**	**$9,719,455**
Supplemental Disclosures of Cash Flow Information:		
Cash paid for:		
Income taxes..	$507	$--

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

6

Forward Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 10 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.

In the opinion of management, the accompanying consolidated financial statements presented in this Quarterly Report on Form 10-Q reflect all normal recurring adjustments necessary to present fairly the financial position and results of operations and cash flows for the interim periods presented herein, but are not necessarily indicative of the results of operations for the fiscal year ending September 30, 2013. These financial statements should be read in conjunction with the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the fiscal year ended September 30, 2012, and with the disclosures and risk factors presented herein and therein, respectively. The September 30, 2012 balance sheet has been derived from the audited consolidated financial statements.

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 and its wholly owned subsidiaries (Forward US, Forward Switzerland, Forward HK, Forward APAC, and Forward UK). All significant intercompany transactions and balances have been eliminated in consolidation.

Reclassifications

Certain prior period amounts have been reclassified, in addition to discontinued operations as disclosed in Note 3, to conform to the current period presentation.

Forward Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 2 ACCOUNTING POLICIES (CONTINUED)

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 March 31, 2013, this amount was approximately $3.7 million. Historically, the Company has not experienced any losses due to such cash concentrations.

Marketable Securities

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, net of taxes, recognized in earnings. The fair value of marketable securities is determined based on quoted market prices at the consolidated balance sheet dates. The cost of marketable securities sold is determined by the specific identification method. At September 30, 2012, the Company classified its investments in marketable securities as available-for-sale . Securities that are classified as available-for-sale are recorded at fair value with the corresponding unrealized holding gains and losses, net of taxes, are recorded as a separate component of Accumulated Other Comprehensive Loss within shareholders equity.

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 ninety (90) days. The Company has not historically experienced significant credit or collection problems with its OEM customers or their contract manufacturers. The Company established an allowance for doubtful accounts with respect to its continuing operations of approximately $22,000 at March 31, 2013. The Company did not require an allowance for doubtful accounts with respect to its continuing operations at September 30, 2012.

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 income (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. The Company did not require an allowance for obsolete inventory with respect to its continuing operations at March 31, 2013. At September 30, 2012, the allowance for obsolete inventory of the Company s continuing operations was approximately $99,000.

Forward Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 2 ACCOUNTING POLICIES (CONTINUED)

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 three-month periods ended March 31, 2013 and 2012, the Company recorded approximately $19,000 and $22,000 of depreciation and amortization expense, respectively. For the six-month periods ended March 31, 2013 and 2012, the Company recorded approximately $36,000 and $44,000 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 carryforwards 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 7 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 income (loss) and include accrued interest and penalties within the accrued liabilities in its consolidated balance sheets, if applicable. For the three and six month periods ended March 31, 2013 and 2012, no income tax related interest or penalties were assessed or recorded.

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 associated with the Company s Asia-based distribution capability, as a component of cost of goods sold in the accompanying consolidated statements of operations and comprehensive income (loss).

Forward Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 2 ACCOUNTING POLICIES (CONTINUED)

Foreign Currency Transactions

The functional currency of the Company and its wholly-owned foreign subsidiaries is the U.S. dollar (except for Forward UK, which is the British Pound). 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 income (loss). The net gains or losses from foreign currency transactions for continuing operations was approximately a $4,000 loss and $13,000 gain for the three-month periods ended March 31, 2013 and 2012, respectively. For the six-month periods ended March 31, 2013 and 2012, the Company recorded approximately $14,000 and $20,000 in foreign currency transaction losses, respectively. Such foreign currency transaction gains and losses were primarily the result of Euro denominated sales to certain customers.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss, which is included as a component of Shareholders Equity, includes unrealized gains or losses on available-for-sale securities (as of September 30, 2012) and currency 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 Accounting Standard Codification (ASC) 320, Investments-Debt and Equity Securities (ASC 320) at fair value. The determination of fair value is based upon the fair value framework established by ASC 820. 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 Compensation

The Company recognizes share-based compensation in its consolidated statements of operations and comprehensive income (loss) at the grant-date fair value of stock options and other equity-based compensation. The determination of 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. 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. 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 6 Share-Based Compensation. In addition, the Company recognizes share-based compensation to non-employees based upon the fair value, using the Black-Scholes pricing model, determined at the deemed measurement dates over the related contract service period.

Forward Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 2 ACCOUNTING POLICIES (CONTINUED)

Comprehensive Income (Loss)

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update 2013-02 Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02). ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. ASU 2013-02 is effective for annual periods and interim periods within those periods beginning after December 15, 2012. ASU 2013-02 will be effective for the Company beginning in the first quarter of fiscal 2014 and is not expected to have a material impact on the Company s 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 top line 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 periods presented. Summarized operating results of discontinued operations are presented in the following table:

	For the Three-Month Periods Ended March 31,		**For the Six-Month Periods Ended March 31,**	
	2013	**2012**	**2013**	**2012**
Net sales...	$14,035	$941,949	$398,231	$1,663,178
Gross profit (loss)	(54,085)	253,219	98,022	439,443
Operating expenses............................	85,587	1,254,871	279,415	2,457,380
Other income (expense).....................	3,307	(483)	3,528	(22,113)
Loss from discontinued operations, net of tax of $2,055 and $3,120, $2,975 and $4,979 respectively.......	**$(138,419)**	**$(1,005,256)**		

	$(180,839)	**$(2,045,029)**

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

	March 31, 2013	**September 30, 2012**
Accounts receivable, net..	$5,838	$26,186
Inventories, net..	180,320	350,942
Prepaid assets and other current assets....................	260,215	244,751
Total assets of discontinued operations...........	**$446,373**	**$621,879**
Accounts payable..	$85,569	$45,874
Accrued liabilities	113,471	215,932
Total liabilities of discontinued operations.....	**$199,040**	**$261,806**

The above asset amounts include approximately $385,000 relating to an expected settlement in connection with the June 2012 Memorandum of Understanding entered into with G-Form LLC. The Company has substantially completed its exit of its Retail business as of March 31, 2013. The Company does not expect to have any continuing involvement in the Retail business after this date.

11

Forward Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 4 MARKETABLE SECURITIES

The Company classifies its marketable securities as either (i) held-to-maturity, (ii) trading, or (iii) available-for-sale. Effective October 1, 2012, the Company changed its classification of marketable equity securities and corporate bonds from available-for-sale to trading. As a result of this reclassification, a gross gain of $4,764 and a gross loss of $(28,508) was reclassed out of accumulated other comprehensive income (loss) and charged to earnings using a specific identification basis. 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. Corporate bonds are carried at amortized cost, which approximates market value. The corresponding unrealized holding gains or losses, net of taxes, are recognized in earnings. The Company s marketable securities are summarized in the table below:

	March 31, 2013	**September 30, 2012**
Trading:		
Cost..	$1,165,963	$--
Unrealized Gains...	57,502	--
Unrealized Losses...	(101,374)	--
Fair Value..	**$1,122,091**	$--
Available-for-sale:		
Cost..	$--	$444,349
Unrealized Gains...	--	4,764
Unrealized Losses...	--	(28,508)
Total Fair Value..	**$--**	**$420,605**

The net gain on marketable securities for the three and six-month periods ended March 31, 2013 was approximately $86,000 and $328,000, respectively, in the accompanying consolidated statements of operations and comprehensive income (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 March 31, 2013 and September 30, 2012:

	Level 1	**Level 2**	**Level 3**	**Total**
Equity securities..	$1,122,091	$--	$--	$1,122,091

Total assets at fair value at March 31, 2013................	**$1,122,091**	**$--**	**$--**	**$1,122,091**
Equity securities..	$420,605	$ --	$--	$420,605
Total assets at fair value at September 30, 2012........	**$420,605**	**$--**	**$--**	**$420,605**

12

Forward Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 5 SHAREHOLDERS EQUITY

Anti-takeover Provisions

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.

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, as of March 31, 2013, the Company had repurchased an aggregate of 172,603 shares at a cost of approximately $403,000, but none during the three and six-month periods ended March 31, 2013 and 2012.

Changes in Shareholders Equity

Changes in shareholders equity for the six-month period ended March 31, 2013 are summarized below:

		Common Stock				Treasury Stock		
	Total	**Number of Shares**	**Par Value**	**Additional Paid-in Capital**	**Retained Earnings (Accumulated Deficit)**	**Number of Shares**	**Amount**	**Accumulated Other Comprehensive Income (Loss)**
Balance at September 30, 2012	**$9,187,963**	**8,811,595**	**$88,116**	**$17,020,771**	**$(6,624,926)**	**706,410**	**$(1,260,057)**	**$(35,941)**
Share-based compensation	226,490	7,500	75	226,415	--	--	--	--
Comprehensive loss:								
Foreign currency translation	(9,201)	--	--	--	--	--	--	(9,201)

Net reclassification of adjustments on marketable securities	23,744	--	--	--	--	--	--	23,744
Net income	286,839	--	--	--	286,839	--	--	--
Balance at March 31, 2013	$9,715,835	8,819,095	$88,191	$17,247,186	$(6,338,087)	706,410	$(1,260,057)	$(21,398)

13

Forward Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 6 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. Under the 2011 Plan, as of March 31, 2013, the Compensation Committee of the Company s Board of Directors (the Compensation Committee) has approved awards of stock options to purchase an aggregate of 1,315,000 shares of common stock to certain of the Company s executive officers and employees (1,020,000 shares), a consultant (160,000 shares), non-employee directors (130,000 shares), and to a non-employee executive officer (5,000 shares). Of these awards, as of March 31, 2013, 530,500 shares were forfeited and reverted to, and 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 65,500 as of March 31, 2013. The prices at which equity awards may be granted and 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 2011 Plan. Options generally expire ten years after the date of grant and vest one year from the date of grant for non-employee directors, and, in the case of initial grants to officers and employees, vest over five years with 50%, 25% and 25% vesting on the third, fourth, and fifth anniversary of the grant date, respectively. Options granted under a consulting agreement in November 2011 expire three years after the grant date and vested equally over the term of the consulting agreement, which concluded February 29, 2012.

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. Under the 2007 Plan, the Compensation Committee approved awards of restricted common stock and stock options of 977,375, in the aggregate, to certain officers, employees and non-employee directors. Of these awards, as of March 31, 2013, 278,366 shares were forfeited and reverted to, and 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 100,991 as of March 31, 2013. The prices at which restricted common stock may be granted and 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, and in the case of non-employee directors, vest on the first anniversary of the date of grant. In the case of officers and employees, options either vest in equal amounts over three to five years or vest over five years with 50%, 25% and 25% vesting on the third, fourth, and fifth anniversary of the grant date, respectively. Restricted stock grants generally vest in equal proportions over three years.

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 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 and generally vest in equal proportions over three years. 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 March 31, 2013.

Forward Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 6 SHARE-BASED COMPENSATION (CONTINUED)

Stock Option Awards

Under the 2011 and 2007 Plans, the Compensation Committee has approved awards of stock options to purchase an aggregate of 1,737,500 shares of common stock to the Company s current and certain former non-employee directors, to certain key employees, to current and certain former Company officers, and to a consultant, of which awards covering 255,000 shares from the 2007 Plan and 530,500 shares from the 2011 Plan of common stock were forfeited, with such shares reverting to the respective plans and eligible for grant. The exercise prices of the awards granted was, in each case equal, to the closing market value of the Company s common stock on the Nasdaq Stock Market on the various grant dates.

The Company recognized approximately $92,000 and $107,000 of compensation expense in continuing operations for stock option awards in its consolidated statements of operations and comprehensive income (loss) for the three-month periods ended March 31, 2013 and 2012, respectively; and $128,000 and $251,000 for the six-month periods ended March 31, 2013 and 2012, respectively.

As of March 31, 2013, there was approximately $240,000 of total unrecognized compensation cost related to 481,500 shares of unvested stock option awards granted under the 2007 and 2011 Plans, which is expected to be recognized over the remainder of the weighted average vesting period (extending to August 2016).

The following table summarizes stock option activity under the 2011 Plan and 2007 Plan, from September 30, 2012 through March 31, 2013 (there was no activity during such period with respect to the 1996 Plan grants):

	Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (Years)**

				Aggregate Intrinsic Value
Outstanding at September 30, 2012	**1,142,000**	**$3.31**	**4.3**	**$ --**
Granted..	120,000	1.14	9.1	--
Exercised..	--	--	--	--
Forfeited..	(365,000)	3.43	--	--
Expired..	--	--	--	--
Outstanding at March 31, 2013	**897,000**	**$2.98**	**6.3**	**$ --**
			-	-
Options expected to vest at March 31, 2013................	**435,150**	**$2.90**	**8.7**	**--**
Options vested and exercisable at March 31, 2013....	**414,700**	**$3.04**	**4.6**	**--**

During the six-month period ended March 31, 2013, the Company granted 120,000 stock options at a weighted average grant date fair value of $0.61. During the six-month period ended March 31, 2012, the Company granted 280,000 stock options at a weighted average grant date fair value of $0.91.

15

Forward Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 6 SHARE-BASED COMPENSATION (CONTINUED)

Stock Option Awards (Continued)

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

		For the Six-Month Periods Ended March 31,		
		2013		**2012**
Expected term (in years)		5.0		3.0 to 5.0
Risk-free interest rate.........		0.6%-0.7%		0.04% to 0.83%
Expected volatility.............		70.0%-70.4%		63% to 69%
Expected dividend yield.....		0%		0%
Forfeiture rate.....................		5%		9.1%

The expected term represents the period over which the stock option awards are expected to be outstanding. 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. Accordingly, the Company used a dividend yield of zero in its assumptions. The Company estimates the expected term, volatility and forfeitures of share-based awards based upon historical data. The Company adjusted its estimated forfeiture rate effective October 1, 2011 and recognized a recovery of approximately $46,000 during the three-month period ended December 31, 2011.

Restricted Stock Awards

Under the 2011 Plan and 2007 Plan, the Compensation Committee has approved and granted awards of 554,875 shares of restricted stock, in the aggregate, to certain key employees. Of these awards, 160,134 have vested and 23,366 shares of restricted stock were forfeited and reverted to, and are eligible for re-grant under, the 2007 Plan. Vesting of restricted stock awards is generally subject to a continued service condition with one-third of the awards vesting each year on the three successive anniversary dates of the grant date, typically commencing on the first such anniversary date. The fair value of the awards granted was equal to the closing market value of the Company s common stock as quoted on the Nasdaq Stock Market on the grant date. During the three-month periods ended March 31, 2013 and 2012, the Company recognized approximately $59,000 and ($1,000), respectively, of compensation in its consolidated statements of operations and comprehensive income (loss) related to restricted stock awards; and approximately $98,000 and $3,000 for the six-month periods ended March 31, 2013 and 2012, respectively.

Forward Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 6 SHARE-BASED COMPENSATION (CONTINUED)

Restricted Stock Awards (Continued)

The following table summarizes restricted stock activity under the 2011 Plan and 2007 Plan from September 30, 2012, through March 31, 2013.

	Shares	**Weighted Average Grant Date Fair Value**
Non-vested balance at September 30, 2012...................	7,500	$2.02
Changes during the period:		
Shares granted..	371,375	1.16
Shares vested..	(7,500)	2.02
Shares forfeited...	--	--
Non-vested balance at March 31, 2013.........................	**371,375**	**$1.16**

As of March 31, 2013, there was approximately $289,000 of total unrecognized compensation cost related to 371,375 shares of unvested restricted stock awards (reflected in the table above) granted under the 2011 Plan and 2007 Plan. That cost is expected to be recognized over the remainder of the requisite service (vesting) periods. The total grant date fair value of restricted stock that vested during the six-month period ended March 31, 2013 was approximately $15,000.

Warrants

As of March 31, 2013, warrants to purchase 75,000 shares of the Company s common stock at an exercise price of $1.75 issued in fiscal year ended 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 Securities and Exchange Commission. As of March 31, 2013, no such registration statement has been filed with the Securities and Exchange Commission.

NOTE 7 INCOME TAXES

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

	For the Three-Month Periods Ended March 31,				For the Six-Month Periods Ended March 31,		
	2013		**2012**		**2013**		**2012**
Current:							
Federal.......................................	$--		$ --		$--		$ --
State...	--		--		75		--
Foreign.....................................	2,487		3,339		3,407		4,979
Deferred:							
Federal......................................	68,082		(391,585)		181,520		(811,529)
State..	3,886		(22,442)		10,358		(46,441)
Foreign.....................................	(2,844)		(36,390)		(12,750)		(44,152)
Change in valuation allowance...	(69,124)		451,732		(179,128)		903,437
Income tax expense......................	**$2,487**		**$ 4,654**		**$3,482**		**$ 6,294**

17

Forward Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 7 INCOME TAXES (CONTINUED)

Income taxes expense from discontinued operations of $2,000 and $3,000 recorded in the three-month periods ended March 31, 2013 and 2012, respectively, is attributable to Forward UK. Income taxes expense from discontinued operations of $3,000 and $5,000 recorded in the six-month period ended March 31, 2013 and 2012, respectively, is attributable to Forward UK. As of March 31, 2013, and September 30, 2012, the Company has no unrecognized income tax benefits. At March 31, 2013, the Company had available total net operating loss carryforwards for U.S. Federal and state income tax purposes of approximately $7,952,000 and $6,313,000, respectively, expiring through 2033, resulting in deferred tax assets in respect of U.S. Federal and state income taxes of approximately $2,575,000 and $220,000, respectively. In addition, at March 31, 2013, the Company had total available net operating loss carryforwards for foreign income tax purposes of approximately $5,010,000 resulting in a deferred tax asset of approximately $441,000, expiring through 2020. Total net deferred tax assets, before valuation allowances, was $3,639,000 and $3,818,000 at March 31, 2013 and September 30, 2012, 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 March 31, 2013, there were no accumulated earnings of any of the Company s foreign subsidiaries.

As of March 31, 2013, 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 March 31, 2013 and September 30, 2012, the valuation allowances were approximately $3,639,000 and $3,818,000, respectively. 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 (benefit) line item of the Company s consolidated statements of operations.

As of March 31, 2013 and September 30, 2012, 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 income (loss). For the periods presented in the accompanying consolidated statements of operations and comprehensive income (loss), no income tax related interest or penalties were assessed or recorded. All fiscal years prior to the fiscal year ended September 30, 2009 are closed to Federal and State examination, except with respect to net operating losses generated in prior fiscal years.

NOTE 8 INCOME (LOSS) PER SHARE

Basic 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 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 shares that would be issued upon the exercise of stock options and warrants, computed using the treasury stock method. Diluted loss per share data for the three and six-month periods ended March 31, 2013 excludes 1,286,741 of common equivalent shares as inclusion of such shares would be anti-dilutive as their exercise prices were above market value. Diluted loss per share data for the three and six-month periods ended March 31, 2012 excludes all outstanding common equivalent shares as inclusion of such shares would be anti-dilutive.

Forward Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 9 COMMITMENTS AND CONTINGENCIES

Employment and Agreements

Robert Garrett Jr. Employment Agreement

Under his employment agreement, which was effective as of March 1, 2012, Mr. Robert Garrett Jr. is currently employed as the Company s Chief Executive Officer at an annual salary of $250,000. In executing his employment agreement, Mr. Garrett received a signing bonus of $9,167. During Mr. Garrett s first year of employment he received a bonus of $50,000. In addition, during each year of his employment, Mr. Garrett is eligible to receive an annual bonus at the discretion of the Compensation Committee in a combination of cash or equity-based compensation. Mr. Garrett s employment agreement also entitles him to awards of stock options to purchase an aggregate of 200,000 shares of the Company s common stock pursuant to the 2011 Long Term Incentive Plan.

Mr. Garrett 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 Mr. Garrett s employment, depending on the circumstances, Mr. Garrett 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.

Mr. Garrett s employment agreement binds him to customary non-competition and non-solicitation covenants of up to one year following the expiration of the employment term.

James O. McKenna Employment Agreement

James O. McKenna serves as the Company s Chief Financial Officer, Treasurer and Assistant Secretary pursuant to an Amended Employment Agreement, dated as of April 1, 2011 (the Employment Agreement), between the Company and Mr. McKenna. On November 8, 2012, Mr. McKenna s Employment Agreement was further amended (the Amendment) in connection with the logistical coordination, planning and implementation of the move of the Company s executive offices to West Palm Beach, Florida from Santa Monica, California, and his relocation from California to Florida at the Company s request. Among other things, the Amendment reduced his base salary to $210,000 per annum from $225,000 per annum, eliminated his housing allowance of $90,000 per annum (paid pursuant to the Employment Agreement), and provided for a bonus payment in the amount of $172,456, less applicable withholdings and deductions, all subject to the provisions provided in the Amendment. Up to one half of such bonus payment may be applied to reduce future bonuses due to Mr. McKenna, if any, on or prior to September 2014, pursuant to the terms and provisions of the Amendment. The term of the Employment Agreement expires on December 31, 2013, with automatic renewal for successive terms of one year each. Pursuant to the Employment Agreement, Mr. McKenna is entitled to a payment equal to one year of his salary as severance in the event of his termination without cause and termination for good reason (as such terms are defined in the Employment Agreement).

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.

Forward Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Guarantee Obligation (Continued)

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 $96,000 as of March 31, 2013) 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, 2014, 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 $995,000 at March 31, 2013). As of March 31, 2013, the Company had not incurred a liability in connection with this guarantee.

NOTE 10 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), dated as of March 7, 2012. The Agreement provides that, upon the terms and subject to the conditions set forth therein, Forward China shall act as the Company s exclusive buying agent and supplier of Products (as defined in the Agreement) in the Asia Pacific region. The Company shall purchase products at Forward China s cost, and shall pay a service fee on the net purchase price. The Agreement shall terminate on March 11, 2014, subject to renewal. Terence Wise, a director of the Company, is a principal of Forward China. Jenny P. Yu, a Managing Director of Forward China, has filed a Schedule 13D disclosing that she beneficially owns 444,217 shares of the Company s common stock, representing approximately 5.48% of the Company s outstanding shares. During the three and six month periods ended March 31, 2013, the Company incurred $241,000 and $492,000, respectively, of Forward China service fees, which are included as a component of costs of goods sold in continuing operations in the accompanying consolidated statements of operations and comprehensive income (loss).

20

Forward Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 11 INVESTMENT MANAGEMENT AGREEMENT

On April 16, 2013, the Company entered into an Investment Management Agreement (the Agreement) with LaGrange Capital Administration, L.L.C. (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.

Pursuant to the Agreement, LCA is authorized, subject to supervision of the Investment Committee of the Board and the terms and conditions of the 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 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 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 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 Agreement, the Company may make a complete cash withdrawal from the Account immediately without LCA s consent.

The Agreement is effective as of February 1, 2013 and shall continue until the second anniversary of the effective date. Thereafter, the term of the Agreement shall automatically renew for additional one year terms unless terminated in accordance with the terms of the 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 Agreement at the end of the then current term.

NOTE 12 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 March 31, 2013, 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.

NOTE 13 OPERATING SEGMENT INFORMATION

As of March 31, 2013, the Company reported and managed 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 Europe. 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, which commenced during the three-month period ended December 31, 2011, 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 Company has substantially completed its exit of its Retail business as of March 31, 2013 and does not expect to have any continuing involvement in the Retail business after this date.

Forward Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 13 OPERATING SEGMENT INFORMATION (CONTINUED)

Revenues from External Customers

The following table presents net sales by geographic region.

	(dollars in millions) **For the Three-Month Periods Ended March 31,**		*(dollars in millions)* **For the Six-Month Periods Ended March 31,**	
	2013	**2012**	**2013**	**2012**
Americas:				
United States....................................	$2.5	$1.7	$5.4	$3.4
Other..	0.4	0.1	.4	0.4
Total Americas...........................	**$2.9**	**$1.8**	**$5.8**	**$3.8**
APAC:				
Hong Kong......................................	$1.4	$2.4	$2.6	$4.8
Other...	0.8	0.4	$1.7	0.8
Total APAC................................	**$2.2**	**$2.8**	**$4.3**	**$5.6**
Europe:				
Germany...	$1.6	$1.1	$3.6	$2.1
Poland...	1.1	0.5	$1.1	0.5
Other..	--	--	--	0.3
Total Europe..............................	**$2.7**	**$1.6**	**$4.7**	**$2.9**
Total net sales*.....................................	**$7.8**	**$6.2**	**$14.8**	**$12.4**

* Table may not total due to rounding.

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

Identifiable long-lived assets, consisting predominately of property and equipment, by geographic region are as follows:

	(dollars in thousands) **As of March 31, 2013**	**As of September 30, 2012**
Americas	$172	$178
Europe	1	1
Total Long-Lived Assets (net)	**$173**	**$179**

22

Forward Industries, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 14 SUBSEQUENT EVENTS

On April 26, 2013, the Board 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. 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 Preferred Stock), at an exercise price of $4.00 per one one-thousandth of a share of Preferred Stock, subject to adjustment.

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 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.

Forward Industries, Inc.

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

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements, and the notes thereto, and other financial information appearing elsewhere in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012. The following discussion and analysis compares our consolidated results of operations for the three months ended March 31, 2013 (the 2013 Quarter), with those for the three months ended March 31, 2012 (the 2012 Quarter) and our consolidated results of operations for the six months ended March 31, 2013 (the 2013 Period) with the six months ended March 31, 2012 (the 2012 Period). 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 Quarterly Report on Form 10-Q are based upon assumptions and assessments that we believe to be reasonable as of the date of this Quarterly Report on Form 10-Q. 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 Forward s Annual Report on Form 10-K for the fiscal year ended September 30, 2012, 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, in connection with our strategic decision to focus solely on growing our OEM business, we embarked on an operational restructuring of the Company in which we implemented several key measures 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 (refer to Note 10 in our Notes to Consolidated Financial Statements) and rationalizing our operating expenses. With regard to our operating expenses; we have closed our offices in London, Dubai, and Saarbrucken, and relocated our corporate headquarters from Santa Monica, California to West Palm Beach, Florida where our costs of operation are lower; we have significantly reduced headcount through elimination of personnel dedicated to our Retail business; and we have taken action with regard to other components of our operating expenses in accordance with a rigorous cost rationalization plan. A portion of the savings generated by these actions were reinvested towards incentivizing, restructuring, and expanding our sales and sales support teams that are focused on growing our OEM business. Although we continued to confront some legacy costs associated with the closure of our retail division and relocation of our corporate headquarters in the 2013 Quarter, we believe that our restructuring is substantially complete as of March 31, 2013. Our challenge for the remainder of Fiscal 2013 shall be to sustain such operating improvements, although there can be no assurance that we will be successful in doing so.

Forward Industries, Inc.

Our financial results for the first half of Fiscal 2013 more fully reflect the effects of our operational restructuring. With the restructuring substantially complete, we turned our full focus to increasing sales volume and improving our gross margin. We have dedicated our newly restructured and expanded sales support team to providing more proactive and responsive support to our existing customer base, which we believe will create efficiencies for our sales team and accelerate new account development. 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 very 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 expansion of our customer base is essential to overcoming these challenges and the impact they have on our gross margins.

In addition to reducing customer concentration, we believe that supplier diversification is a key component to achieving our objective of restoring our gross margins to levels consistent with those realized in fiscal 2010. 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. However, our dedicated Asia-based sourcing agent is making meaningful progress in diversifying our supplier base, as well as in other areas such as quality assurance and overall operational performance, which we believe will better position us to overcome these challenges.

In connection with the exit of our retail business, we entered into a second Memorandum of Understanding (the New MOU) with G-Form in June 2012. We continue to negotiate with G-Form to settle on the amount of funds owed to us under the New MOU as a result of the net effect of certain transactions between G-Form and us.

Variability of Revenues and Results of Operations

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

This management s discussion and analysis of financial condition and results of operations is based upon or derived from the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these 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.

We discuss the material accounting policies that are critical in making these estimates and judgments in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012, under the caption Management s Discussion and Analysis Critical Accounting Policies and Estimates . There has been no material change in critical accounting policies or estimates since September 30, 2012, except those described below.

Forward Industries, Inc.

Marketable Securities

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, net of taxes, recognized in earnings. The fair value of marketable securities is determined based on quoted market prices at the consolidated balance sheet dates. The cost of marketable securities sold is determined by the specific identification method. At September 30, 2012, the Company classified its investments in marketable securities as available-for-sale . Securities that are classified as available-for-sale are recorded at fair value with the corresponding unrealized holding gains and losses, net of taxes, are recorded as a separate component of Accumulated Other Comprehensive Loss within shareholders equity. Refer to Note 4 Marketable Securities to our consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The notes to our audited consolidated financial statements contained in our Annual Report on Form 10-K for the year ended September 30, 2012, and the notes to our unaudited consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q contain additional information related to our accounting policies and should be read in conjunction with the following discussion and analysis relating to our overall financial performance, operations and financial position.

RESULTS OF OPERATIONS FOR THE 2013 QUARTER COMPARED TO THE 2012 QUARTER

Income (loss) from Continuing Operations

Income from continuing operations was $0.3 million in the 2013 Quarter compared to a loss from continuing operations of $0.5 million in the 2012 Quarter. The improvement is primarily due to increased gross profit on a higher sales base, lower general and administrative expenses, and higher other income, which were offset, in part, by higher selling and marketing expenses, as reflected in the table below:

	Main Components of Net Income (Loss) from Continuing Operations (thousands of dollars)		
	2013 Quarter	2012 Quarter	Increase (Decrease)
Net Sales...	$7,787	$6,222	$1,565

Gross Profit..	1,518	1,091	427
Sales and Marketing Expenses...	(541)	(352)	189
General and Administrative Expenses.....................	(771)	(1,310)	(539)
Other Income, net...	81	33	48
Income Tax Expense..	--	(2)	2
Income (loss) from continuing operations*...........	**$286**	**$(539)**	826

* Table may not total due to rounding.

Income (loss) from continuing operations per basic and diluted share was $0.04 and $(0.07) for the 2013 Quarter and 2012 Quarter, respectively.

Net Sales

Net sales increased $1.6 million, or 25%, to $7.8 million in the 2013 Quarter from $6.2 million in the 2012 Quarter due to higher sales of Diabetic Products. The tables below set forth sales by channel, product line, and geographic location of our customers for the periods indicated.

26

Forward Industries, Inc.

Net Sales for 2013 Quarter

(millions of dollars)

	Americas	**APAC**	Europe	Total*
Diabetic products............................	$2.0	$1.7	$2.7	$6.3
Other products.................................	0.9	0.5	--	1.5
Total net sales............................	**$2.9**	**$2.2**	**$2.7**	**$7.8**

Net Sales for 2012 Quarter

(millions of dollars)

	Americas	**APAC**	Europe	Total*
Diabetic products............................	$0.8	$2.6	$1.3	$4.7
Other products................................	1.1	0.2	0.3	1.5
Total net sales............................	**$1.8**	**$2.8**	**$1.6**	**$6.2**

* 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 Diabetic products increased $1.6 million, or 34%, to $6.3 million in the 2013 Quarter, from $4.7 million in the 2012 Quarter. This increase was primarily due to higher sales in respect of new and replacement programs with a long-standing, major, Diabetic products customer (Diabetic Customers C), as well as a larger sales contribution in the 2013 Quarter from a new major Diabetic products customer (Diabetic Customer D), which had just begun to contribute in the 2012 Quarter. To a lesser extent, higher sales in respect of new and replacement programs from a second long-standing, major, Diabetic products customer (Diabetic Customer B), also contributed to the overall sales increase. These increases were offset, in part, by lower sales to our historically largest Diabetic products customer (Diabetic Customer A).

The following table sets forth our sales by Diabetic Products customer for the periods indicated.

		(millions of dollars)	
	2013 Quarter	**2012 Quarter**	**Increase (Decrease)**
Diabetic Customer A...	$1.4	$2.6	$(1.2)

Diabetic Customer B	1.2	0.9	0.4
Diabetic Customer C	2.2	0.8	1.3
Diabetic Customer D	1.3	0.1	1.2
All other Diabetic Customers	0.2	0.3	(0.1)
Totals*	**$6.3**	**$4.7**	**$1.6**

* Table may not total due to rounding.

Sales of carrying cases for blood glucose monitoring kits represented 81% of our total net sales in the 2013 Quarter compared to 76% of our total net sales in the 2012 Quarter.

Other Product Sales

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

27

Forward Industries, Inc.

Sales of Other Products were $1.5 million in the 2013 Quarter and 2012 Quarter. Fluctuations in several customer accounts that in the aggregate, served to offset each other, were not individually material. Sales of Other Products represented 19% of our net sales in the 2013 Quarter compared to 24% of our total net sales in the 2012 Quarter.

Gross Profit

Gross profit increased $0.4 million, or 39%, to $1.5 million in the 2013 Quarter from $1.1 million in the 2012 Quarter. As a percentage of sales, our gross profit improved to 20% in the 2013 Quarter from 18% in the 2012 Quarter.

This improvement was driven primarily by cost savings realized in the 2013 Quarter from the restructure of our Asia-based sourcing and quality assurance operations (refer to Note 10 - Buying Agency and Supply Agreement to our consolidated financial statements), which were initiated in March 2012 and substantially completed as of September 30, 2012. Such sourcing and quality assurance costs were 4% of our net sales in the 2013 Quarter compared to 9% of net sales in the 2012 Quarter. To a lesser extent, new customer accounts, as well as changes in product mix, within our Other products division also contributed to the improvement in our gross margin.

These improvements to our gross margin, were offset, in part, by a decline in the overall gross margin of our Diabetic Products business, and in particular, factors specific to two major Diabetic customers. Whereas, our net sales to Diabetic Customers B and C increased 46% and 156%, respectively, in the 2013 Quarter from the 2012 Quarter; our average sales prices in respect of certain new and replacement programs for these customers were significantly lower than the average sales prices of predecessor programs in the 2012 Quarter. In addition, our average purchase costs for certain of these successor programs were significantly higher than the average purchase costs of predecessor programs in the 2012 Quarter. As a result, our overall gross margin on net sales to Diabetic Customers B and C compressed by approximately 4% and 6%, respectively, in the 2013 Quarter.

Sales and Marketing Expenses

Sales and marketing expenses increased $0.2 million, or 54%, to $0.5 million in the 2013 Quarter compared to $0.4 million in the 2012 Quarter due primarily to higher personnel costs. The increase in personnel costs of $0.2 million in the 2013 Quarter was primarily as a result of our restructuring and expansion of our sales and sales support teams and their respective compensation schemes. Lesser fluctuations in other components of sales and marketing expenses, none of which were individually material, served to offset each other.

General and Administrative Expenses

General and administrative expenses decreased $0.6 million, or 44%, to $0.7 million in the 2013 Quarter from $1.3 million in the 2012 Quarter due primarily to the following:

- $0.3 million decrease in professional fees resulting primarily from consulting fees, expense reimbursements, and equity compensation paid to our Chief Executive Officer prior to his appointment to such position while serving as a strategic consultant to the Company during the 2012 Quarter, as well as, lower legal fees.
- $0.2 million decrease in personnel costs resulting primarily from restructuring our finance and information technology departments, which included headcount reductions and salary decreases made in conjunction with

the relocation of our corporate headquarters from California to Florida.

- Decreases in telecommunications, travel and entertainment, public, office, and other general and administrative expenses, which were individually immaterial, were $0.1 million in the aggregate and were offset, in part, by increases in occupancy and other general and administrative costs, which were immaterial.

Forward Industries, Inc.

Other Income, net

Other income, net, consisting of realized and unrealized gains and losses on investments in marketable securities, foreign currency transaction gains and losses, and interest income on cash and cash equivalent balances, increased to $81 thousand in the 2013 Quarter from $34 thousand in the 2012 Quarter. This increase was due primarily to $86 thousand of net realized and unrealized gains on investments in marketable securities in the 2013 Quarter for which there was no such activity in the 2012 Quarter. These gains were offset, in small part, by a decrease in interest income and an unfavorable change in foreign transaction losses.

Results of DISCONTINUED Operations for THE 2013 QUARTER compared to THE 2012 QUARTER

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 top line 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.

Loss from Discontinued Operations

Loss from discontinued operations was $0.1 million in the 2013 Quarter compared to $1.0 million in the 2012 Quarter. This improvement was due primarily to decreases in operating expenses in the 2013 Quarter of $1.0 million. Loss from discontinued operations per basic and diluted share was $(0.02) and $(0.12) for the 2013 Quarter and 2012 Quarter, respectively.

Net Sales

Net sales from discontinued operations were $14 thousand in the 2013 Quarter compared to $0.9 million in the 2012 Quarter, which were net of sales returns, discounts, markdowns, and co-op advertising programs of $0.1 million and $0.3 million, respectively.

Gross Loss

Gross loss from discontinued operations of $54 thousand in the 2013 Quarter reflects our continued liquidation of our Retail inventory, whereby the net realizable value of certain inventories exceeded their selling price in the 2013 Quarter. Gross profit from discontinued operations was $0.3 million in the 2012 Quarter.

Operating Expenses

Operating expenses of discontinued operations decreased $1.2 million to $0.1 million in the 2013 Quarter from $1.3 million in the 2012 Quarter. This decrease was due primarily to lower personnel expenses, which decreased $0.7 million in the 2013 Quarter; and to a lesser extent, decreases in travel and entertainment and occupancy costs of $0.3 million. Lesser fluctuations in other components of operating expenses were not material.

Other Expense

Operating income (expense) from discontinued operations was not material in the 2013 or 2012 Quarter.

Results of Operations for the 2013 PERIOD compared to the 2012 PERIOD

Income (loss) from Continuing Operations

Income from continuing operations was $0.5 million in the 2013 Period compared to a loss from continuing operations of $1.0 million in the 2012 Period. The improvement is primarily due to increased gross profit on a higher sales base, lower general and administrative expenses, and higher other income, which were offset, in part, by higher selling and marketing expenses, as reflected in the table below:

29

Forward Industries, Inc.

Main Components of Net Income (Loss) from Continuing Operations
(thousands of dollars)

	2013 Period	**2012 Period**	**Increase (Decrease)**
Net Sales..	$14,760	$12,385	$2,375
Gross Profit...	3,018	2,303	715
Sales and Marketing Expenses..............................	(1,019)	(642)	377
General and Administrative Expenses...................	(1,845)	(2,733)	(888)
Other Income, net...	314	62	252
Income Tax Expense..	--	(1)	(1)
Income (loss) from continuing operations*........	**$468**	**$(1,012)**	1,480

* Table may not total due to rounding.

Income (loss) from continuing operations per basic and diluted share was $0.06 and $(0.12) for the 2013 Period and 2012 Period, respectively.

Net Sales

Net sales increased $2.4 million, or 19%, to $14.8 million in the 2013 Period from $12.4 million in the 2012 Period due to higher sales of Diabetic Products, which increased $2.8 million. The increase in sales of Diabetic products was offset, in part, by lower sales of Other Products, which decreased $0.3 million. The tables below set forth sales by channel, product line, and geographic location of our customers for the periods indicated

Net Sales for 2013 Period

(millions of dollars)

	Americas	**APAC**	Europe	Total*
Diabetic products..........................	$3.7	$3.3	$4.5	$11.5
Other products...............................	2.0	1.0	0.2	3.3
Total net sales...........................	**$5.8**	**$4.3**	**$4.7**	**$14.8**

Net Sales for 2012 Period

(millions of dollars)

	Americas	**APAC**	Europe	Total*

Diabetic products............................	$1.3	$5.2	$2.2	$8.7
Other products.................................	2.5	0.4	0.7	3.6
Total net sales............................	**$3.8**	**$5.6**	**$2.9**	**$12.4**

* Tables may not total due to rounding.

Diabetic Product Sales

Sales of Diabetic products increased $2.7 million, or 31%, to $11.5 million in the 2013 Period, from $8.7 million in the 2012 Period. This increase was primarily due to higher sales in respect of new and replacement programs with a long-standing, major, Diabetic products customer (Diabetic Customers C), as well as a larger sales contribution in the 2013 Period from a new major Diabetic products customer (Diabetic Customer D), which had just begun to contribute in the 2012 Period. To a lesser extent, higher sales in respect of new and replacement programs from a second long-standing, major, Diabetic products customer (Diabetic Customer B), also contributed to the overall sales increase. These increases were offset, in part, by lower sales to our historically largest Diabetic products customer (Diabetic Customer A).

Forward Industries, Inc.

The following table sets forth our sales by Diabetic Products customer for the periods indicated.

(millions of dollars)			
	2013 Period	**2012 Period**	**Increase (Decrease)**
Diabetic Customer A...	$2.7	$5.0	$(2.3)
Diabetic Customer B...	2.2	1.4	0.8
Diabetic Customer C...	3.7	1.6	2.1
Diabetic Customer D...	2.5	0.1	2.4
All other Diabetic Customers................................	0.4	0.6	(0.2)
Totals*..	**$11.5**	**$8.7**	**$2.7**

* Table may not total due to rounding.

Sales of carrying cases for blood glucose monitoring kits represented 78% of our total net sales in the 2013 Period compared to 71% of our total net sales in the 2012 Period.

Other Product Sales

Sales of Other Products decreased $0.3 million, or 9%, to $3.3 million in the 2013 Period from $3.6 million in the 2012 Period. This decrease was primarily driven by lower sales to a long-standing cellular customer, which decreased $0.9 million to $62 thousand in the 2013 Period, as well as lesser decreases in several other customer accounts, none of which were individually material. These decreases were offset, in part, by the addition of a camera customer, which contributed $0.8 million of new sales in the 2013 Period, as well as increases in several other customer accounts, none of which were not individually material.

Sales of Other Products represented 22% of our net sales in the 2013 Period compared to 29% of our total net sales in the 2012 Period.

Gross Profit

Gross profit increased $0.7 million, or 31%, to $3.0 million in the 2013 Period from $2.3 million in the 2012 Period. As a percentage of sales, our gross profit improved to 20% in the 2013 Period from 19% in the 2012 Period.

This improvement was driven primarily by cost savings realized in the 2013 Period from the restructure of our Asia-based sourcing and quality assurance operations (refer to Note 10 - Buying Agency and Supply Agreement to our consolidated financial statements), which were initiated in March 2012 and substantially completed as of September 30, 2012. Such sourcing and quality assurance costs were 4% of our net sales in the 2013 Period compared to 8% of net sales in the 2012 Period. To a lesser extent, new customer accounts, as well as changes in product mix, within our Other products division also contributed to the improvement in our gross margin.

These improvements to our gross margin, were offset, in part, by a decline in the overall gross margin of our Diabetic Products business, and in particular, factors specific to two major Diabetic customers. Whereas, our net sales to Diabetic Customers B and C increased 60% and 135%, respectively, in the 2013 Quarter from the 2012 Quarter; our average sales prices in respect of certain new and replacement programs for these customers were significantly lower than the average sales prices of predecessor programs in the 2012 Period. In addition, our average purchase costs for certain of these successor programs were significantly higher than the average purchase costs of predecessor programs in the 2012 Period. As a result, our overall gross margin on net sales to Diabetic Customers B and C compressed by approximately 4% and 6%, respectively, in the 2013 Period.

Sales and Marketing Expenses

Sales and marketing expenses increased $0.4 million, or 59%, to $1.0 million in the 2013 Period compared to $0.6 million in the 2012 Period due primarily to higher personnel costs. The increase in personnel costs of $0.3 million in the 2013 Period was primarily as a result of our restructuring and expansion of our sales and sales support teams and their respective compensation schemes. Lesser fluctuations in other components of sales and marketing expenses, none of which were individually material, served to offset each other.

Forward Industries, Inc.

General and Administrative Expenses

General and administrative expenses decreased $0.9 million, or 33%, to $1.8 million in the 2013 Period from $2.7 million in the 2012 Period due primarily to the following:

- $0.4 million decrease in professional fees resulting primarily from consulting fees, expense reimbursements, and equity compensation paid to our Chief Executive Officer prior to his appointment to such position while serving as a strategic consultant to the Company during the 2012 Period, as well as, lower legal fees. These decreases were offset, in part, by higher accounting fees in the 2013 Period.
- $0.3 million decrease in personnel costs resulting primarily from restructuring our finance and information technology departments, which included headcount reductions and salary decreases made in conjunction with the relocation of our corporate headquarters from California to Florida.
- Decreases in telecommunications, public, and office expenses, which were individually immaterial, were $0.1 million in the aggregate and were offset, in small part, by a increases in travel and entertainment, occupancy, and other general and administrative costs.

Other Income, net

Other income, net, consisting of realized and unrealized gains and losses on investments in marketable securities, foreign currency transaction gains and losses, and interest income on cash and cash equivalent balances, increased to $0.3 million in the 2013 Period from $62 thousand in the 2012 Period. This increase was due primarily to $0.3 million of net realized and unrealized gains on investments in marketable securities in the 2013 Period for which there was no such activity in the 2012 Period. These gains were offset, in small part, by a decrease in interest income and an unfavorable change in foreign transaction losses.

Results of DISCONTINUED Operations for THE 2013 PERIOD compared to THE 2012 PERIOD

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 top line 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.

Loss from Discontinued Operations

Loss from discontinued operations was $0.2 million in the 2013 Period compared to $2.0 million in the 2012 Period. This improvement was due primarily to decreases in operating expenses in the 2013 Period of $1.9 million. Income (loss) from discontinued operations per basic and diluted share was $(0.02) and $(0.25) for the 2013 Period and 2012 Period, respectively.

Net Sales

Net sales from discontinued operations were $0.4 million in the 2013 Period compared to $1.7 million in the 2012 Period, which were net of sales returns, discounts, markdowns, and co-op advertising programs of $60 thousand and $0.4 million, respectively.

Forward Industries, Inc.

Gross Profit

Gross profit from discontinued operations of $98 thousand in the 2013 Period reflects our continued liquidation of our Retail inventory, whereby in certain cases the net realizable value of this inventory has exceeded its selling price in the 2013 Period. Gross profit from discontinued operations was $0.3 million in the 2012 Quarter.

Operating Expenses

Operating expenses of discontinued operations decreased $2.2 million to $0.3 million in the 2013 Period from $2.5 million in the 2012 Period. This decrease was due primarily to:

- lower personnel expenses, which decreased $1.4 million in the 2013 Period;
- lower travel and entertainment expenses, which decreased $0.4 million in the 2013 Period;
- lower product development and design costs, which decreased $0.1 million in the 2013 Period;
- lower advertising, promotion, and sampling costs, which decreased $0.1 million in the 2013 Period; and
- lower occupancy costs, which decreased $0.1 million in the 2013 Period.

Lesser fluctuations in other components of operating expenses were not material.

Other Expense

Operating income (expense) from discontinued operations was not material in the 2013 Period. In the 2012 Period, other expense of discontinued operations, consisting of foreign currency losses, was $22 thousand.

LIQUIDITY AND CAPITAL RESOURCES

During the 2013 Period, we used $0.2 million of cash in operations, which consisted of net income of $0.3 million adjusted by $68 thousand for non-cash items (primarily realized and unrealized gains on marketable securities and share based compensation), and a net use in working capital items of $0.5 million. As to working capital items, cash used in operating activities consisted of decreases in accounts payable and accrued expenses of $3.1 million and $1.2 million, respectively. These changes were offset, in part, by decreases in accounts receivable, inventories, and prepaid and other current assets of $2.7 million, $1.1 million, and $44 thousand, respectively. The decrease in accounts receivable was primarily due in part to the timing and lower volume of sales recorded in the 2013 Quarter compared to the three-month period ended September 30, 2012, and in part to an improvement in our cash collections cycle. The decrease in accounts payable is due in part to lower materials purchases made in support of the lower sales level in the 2013 Quarter compared to the three month-period ended September 30, 2012, and in part to a decrease in our average days payable outstanding driven by changes in our payment terms with certain of our suppliers. The decrease in accrued expenses and other current liabilities is primarily due to payment of certain accrued expenses including professional fees incurred in connection with the settlement of the Targus lawsuit, and severances incurred in connection with our restructuring.

In the 2012 Period, we used $5.5 million of cash in operations, which consisted of a net loss of $3.1 million, adjusted by $0.4 million for non-cash items (primarily share-based compensation), and a net use in working capital items of $2.9 million. As to working capital items, cash used in operating activities consisted of increases in accounts receivable, inventories, and prepaid and other current assets of $1.9 million, $0.7 million, and $0.9 million, respectively. These changes were offset, in part, by increases in accounts payable and accrued expenses and other current liabilities of $0.2 million and $0.4 million, respectively, which had the effect of generating cash from operating activities.

In the 2013 Period, net investing activities used $0.4 million of cash, which consisted of $30.9 million used for purchases of marketable equity securities, $30.5 million generated from sales of marketable equity securities, and $30 thousand used for purchases of property and equipment. In the 2012 Period, net investing activities generated $0.3 million of cash, which consisted of $0.4 million in payments received on a loan made to a prospective strategic partner and $59 thousand used for purchases of property and equipment.

Forward Industries, Inc.

There were no financing activities in the 2013 Period or 2012 Period.

At March 31, 2013, our current ratio (current assets divided by current liabilities) was 3.7; our quick ratio (current assets less inventories divided by current liabilities) was 3.0; and our working capital (current assets less current liabilities) was $9.5 million. As of such date, we had no short or long-term debt outstanding.

Our primary source of liquidity is 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. We have substantially completed our exit of our Retail business as of March 31, 2013 and do not expect to have any continuing involvement in the Retail business after this date.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. 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 Officer and Principal Financial Officer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Company's Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of the end of the 2013 Quarter, 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.

Changes in internal control

Our management, with the participation of our Principal Executive Officer and Principal 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 2013 Quarter. Based on that evaluation, our Principal Executive Officer and our Principal Financial Officer concluded that no change occurred in the Company's internal control over financial reporting during the 2013 Quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

34

Forward Industries, Inc.

From time to time, the Company may become a party to legal actions or proceedings in the ordinary course of its business. As of March 31, 2013, there were no other 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 1A. RISK FACTORS

Please review our Annual Report on Form 10-K for the fiscal year ended September 30, 2012, for a complete statement of Risk Factors that pertain to our business. Please refer to ITEM 2. Cautionary statement for purposes of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995 on page 24 of this Quarterly Report on Form 10-Q as well as Management s Discussion and Analysis of Financial Condition and Results of Operations for further discussion of certain of such risk factors.

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

During the 2013 Quarter we did not issue or sell any securities that were not registered under the Securities Act of 1933. During the 2013 Quarter we did not purchase any common stock or other equity securities pursuant to publicly announced plans or programs or otherwise.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

3.1 Certificate of Amendment of the Certificate of Incorporation of Forward Industries, Inc., filed on April 26, 2013 (incorporated herein by reference to Exhibit 3.1 to the Form 8-K filed with the Commission on April 26, 2013).

4.1

	Rights Agreement, dated as of April 26, 2013, by and between Forward Industries, Inc. and American Stock Transfer & Trust Company, LLC (incorporated herein by reference to Exhibit 4.1 to the Form 8-K filed with the Commission on April 26, 2013).
10.2	Investment Management Agreement, dated as of February 1, 2013 by and between Forward Industries, Inc. and Lagrange Capital Administration, L.L.C. (incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed with the Commission on April 19, 2013).
31.1	Certification of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of the Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002

Forward Industries, Inc.

SIGNATURES

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

Dated: May 13, 2013

FORWARD INDUSTRIES, INC.
(Registrant)

By: /s/ Robert Garrett Jr.
Robert Garrett Jr.
Chief Executive Officer
(Principal Executive Officer)

By: /s/ James O. McKenna
James O. McKenna
Chief Financial Officer
(Principal Financial and Accounting Officer)