

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB/A
Amendment No. 2

(Mark One)

- ☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934: For the fiscal year ended September 30, 1999
- ☐ TRANSITION REPORT UNDER 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.

(Name of small business issuer in its charter)

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

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

1801 Green Road Suite E. Pompano Beach FL
(Address of principal executive offices)

11590
(Zip Code)

(954) 360-6420
(Issuer's Telephone Number, including Area Code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.01 par value
(Title of class)

Check whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐.

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB/A or any amendment to this Form 10-KSB. ☒

The issuer's revenues for its most recent fiscal year were: \$20,553,192.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within the past 60 days was:

Approximately \$16,413,400 based on the average of the closing bid price (\$2.75) and closing asked price (\$2.63) as reported on the NASDAQ SmallCap Market on December 7, 1999.

As of December 7, 1999, 6,101,641 Shares of the issuer's Common Stock, \$.01 par value were outstanding.

Transitional Small Business Disclosure Format: Yes ☐ No ☒

The registrant hereby amends the following items of its amended Annual Report filed on Form 10-KSB, for the fiscal year ended September 30, 1999, as set forth in the pages attached hereto:

Explanatory note: The registrant is amending Part II, Items 6 and 7, of its Annual Report for the period ending September 30, 1999 as previously filed on Form 10-KSB/A, Amendment No. 1, to reflect additional stock based compensation expense in the amount of approximately \$201,000 associated with the issuance of warrants to consultants.

PART II

Item 6: Management's Discussion and Analysis or Plan of Operation

Item 7: Financial Statements

PART II

ITEM 6 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis should be read in conjunction with the Company's Financial Statements and the notes thereto appearing elsewhere in this Report as Item 7. This Report contains statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions that forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward-looking statements as a result of various factors, including those set forth under the caption on "Risk Factors".

The following discussion and analysis compares the results of the Company's continuing operations for the years ended September 30, 1999 ("Fiscal 1999"), 1998 ("Fiscal 1998") and 1997 ("Fiscal 1997"). The information and comparative data presented herein reflects the elimination of the Company's advertising specialties division (the "Advertising Specialties division").

As a result of an internal review of the accounting treatment accorded by the Company to the issuance of stock warrants to consultants in Fiscal 1999, the Company has restated its financial statements to include additional stock based compensation expense in the amount of \$201,093.

The inclusion of the stock based compensation had the following effects on previously reported net income.

<u>Years Ended</u> <u>September 30,</u> 1999	<u>Net Income (Loss)</u>		<u>Per Share Data</u>			
	<u>As Reported</u>	<u>Restated</u>	<u>Basic</u>		<u>Diluted</u>	
			<u>Reported</u>	<u>Restated</u>	<u>Reported</u>	<u>Restated</u>
	\$846,867	\$645,774	\$.14	\$.11	\$.14	\$.11

The cumulative effect of the restatement did not change total equity on the balance sheet at September 30, 1999. There was, however, an increase to both the accumulated deficit and paid-in capital of \$201,093 at September 30, 1999. All amounts presented herein have incorporated the change.

TWELVE MONTHS ENDED SEPTEMBER 30, 1999 (“FISCAL 1999”) COMPARED WITH TWELVE MONTHS ENDED SEPTEMBER 30, 1998 (“FISCAL 1998”).

NET INCOME

The Company’s net income increased from a net loss of \$1,328,700 in Fiscal 1998 to a profit of \$645,800 in Fiscal 1999, an increase of \$1,974,500. Basic and diluted earnings per share increased from a loss of \$.29 to a profit of \$.11 in Fiscal 1999.

REVENUES

In Fiscal 1999 net sales increased \$7,524,300 (58%) to \$20,553,200, from \$13,028,900 in Fiscal 1998. During the fourth quarter of Fiscal 1999, revenues were approximately \$9.1 million, representing 44% of the total Fiscal 1999 revenues. The increase in revenues for this quarter, over the prior Fiscal 1998 fourth quarter, was attributable to demand from the Company’s major customer that participates in the wireless telecommunications industry. The increase is attributable specifically to the Company’s expansion efforts in its European operations and customer accounts.

OPERATING INCOME

Consolidated income from continuing operations before tax increased by \$2,089,300 to a profit of \$1,040,800 in Fiscal 1999 from a loss of \$1,048,500 in Fiscal 1998. The increase related primarily to growth in sales as described above and the related increase in gross margin. In addition, during Fiscal 1998 the Company recorded two non-recurring charges to operations; the first, for \$897,400 relates to restructuring charges associated with the shutdown of the Company’s factory in South Bend, Indiana, and the second, for \$350,000 for severance amounts payable to the Company’s former Chief Executive Officer.

Gross profit increased by \$2,567,600 to \$6,245,400 in Fiscal 1999 from \$3,677,800 in Fiscal 1998. The gross profit percentage increased to 30% in Fiscal 1999 from 28% in Fiscal 1998. The increase in absolute dollars was attributable to higher sales described above, while the increase in margin percentage was attributable to the reduction in, the Company’s fixed costs associated with the plant restructuring, which occurred in Fiscal 1998.

Selling expenses increased by \$351,300 (24%) to \$1,791,000 in Fiscal 1999 from \$1,439,700 in Fiscal 1998. However, the ratio of selling expenses to net sales declined to 9% in Fiscal 1999 from 11% in Fiscal 1998. The increase in selling expenses in absolute dollars was primarily the result of the Company’s higher investment in the European sales effort, including salaries and manpower, travel expense, bonus based on performance, warehousing, rent and recruitment costs.

General and administrative expenses decreased as a percentage of net sales to 15% in Fiscal 1999 from 17% in Fiscal 1998, while the dollar amount increased \$747,700 (33%) to \$3,001,100 in Fiscal 1999 from \$2,253,400 in Fiscal 1998. The increase in the general and administrative expenses related primarily to compensation associated with the Company’s senior management, and particularly to bonuses, which were predicated on operating performance measures. In Fiscal 1999, the Company recorded a non-cash charge of approximately \$201,100 for stock based compensation relating to the issuance of warrants to consultants. No such expense was recorded in Fiscal 1998.

Restructuring charges of \$897,400 and officer’s severance of \$350,000 were incurred in the Fiscal 1998 in connection with the shutdown of the Company’s South Bend, Indiana production facility. No similar amounts were incurred in Fiscal 1999.

OTHER INCOME (DEDUCTIONS)

Total interest expense decreased by \$192,100 to \$337,600 in Fiscal 1999 from \$529,700 in Fiscal 1998. The decrease was due to lower interest rates, lower outstanding bank borrowings due to improved collections of accounts receivable, conversion of notes payable into common stock in Fiscal 1999 as discussed below, and the repayment of the mortgage on the Company's building in December, 1997.

Interest and other income – net decreased by \$839,500 in Fiscal 1999 from income of \$766,400 in Fiscal 1998 to the expense of \$73,100. The Company recorded a pretax gain on the sale of its Brooklyn, New York building of approximately \$669,000 in Fiscal 1998, accounting for the primary portion of the difference.

INCOME TAXES

In Fiscal 1999 the provision for income taxes increased by \$114,900 to \$395,000 from \$280,100 due to higher earnings, and was offset, in part, by a reduction in the valuation allowances for deferred tax assets. The effective tax rate for Fiscal 1999 was 38%.

CONVERSION OF PROMISSORY NOTES INTO COMMON STOCK

On December 4, 1998 the Company converted \$554,000 of its promissory notes into 1,108,000 shares of its common stock. In connection with this conversion, the Company recorded a non-cash, interest charge of approximately \$220,600. This amount represents a beneficial conversion feature and was calculated as the difference between the price at which the Company converted such shares, (\$.50) and the market price of the Company's stock on the date the debt was issued (\$1.81 weighted averaged), aggregated by the total shares issued. Current accounting rules limit the amount of the beneficial conversion feature to the face value of the notes (\$554,000), less the amount of discount on the notes previously recognized (\$333,400).

TWELVE MONTHS ENDED SEPTEMBER 30, 1998 (“FISCAL 1998”) COMPARED WITH TWELVE MONTHS ENDED SEPTEMBER 30, 1997 (“FISCAL 1997”).

The Company’s net profit (loss) decreased from \$101,200 in Fiscal 1997 to a loss of (\$1,328,700) in Fiscal 1998, a decrease of \$1,429,900. The decrease in Fiscal 1998 was primarily related to two non-recurring items, a restructuring charge of \$897,400 and officers severance of \$350,000, described below. Basic and diluted earnings per share decreased from a profit of \$.03 to a loss of \$.29 in Fiscal 1998.

REVENUES

Net sales increased \$292,600 (2%) to \$13,028,900 in Fiscal 1998, from \$12,736,300 in Fiscal 1997. Custom case sales increased by \$658,900, which was partially offset by a decrease of \$366,300 from the Company’s Terrapin line. The decrease in retail Terrapin® sales is partially the result of an initial stocking position ordered by one customer during Fiscal 1997 which did not reoccur in Fiscal 1998, however generally the sales of Terrapin have not met expectations. The Company is currently evaluating business strategies for its computer case product line. Higher custom case sales reflect increased demand primarily from two of the Company’s major customers, as well as selected new accounts.

OPERATING INCOME

Consolidated income (loss) from continuing operations before tax decreased by \$2,266,200 to a loss of (\$1,262,700) in Fiscal 1998 from a profit of \$1,003,500 in Fiscal 1997. The decrease relates, in part, to two non-recurring charges to operations; the first, for \$897,400 relates to restructuring charges associated with the shutdown of the Company’s factory in South Bend, Indiana, and the second, for \$350,000 for severance amounts payable to the Company’s Chief Executive Officer.

In addition, gross profit decreased \$688,400 to \$3,707,600 in Fiscal 1998 from \$4,396,000 in Fiscal 1997. The gross profit percent decreased from 34.5% in Fiscal 1997 to 28.5% in Fiscal 1998. The decrease is attributable primarily to the Company’s Terrapin® line where competitive costs of retail selling, as well as selected inventory reserves caused a decrease in gross profit of \$409,000. The custom case line gross profit decreased \$279,400 as a result of certain inventory reserves in Fiscal 1998 due to certain high margin orders received in Fiscal 1997.

Selling expenses increased by \$68,300 (5%) from \$1,371,400 in Fiscal 1997 to \$1,439,700 in Fiscal 1998. The ratio of selling expenses to net sales was 11% in both Fiscal 1998 and 1997. The increase in selling expenses in Fiscal 1998 was primarily the result of an increase in commissions.

General and administrative expenses, increased as a percentage of net sales, from 16% in Fiscal 1997 to 17% in Fiscal 1998, while the amount increased \$268,800 (14%) to \$2,253,400 in Fiscal 1998 from \$1,984,600 in Fiscal 1997. The increase in general and administrative expenses is attributable, in part, to the accounting treatment related to the sale of the business which represented discontinued operations. This business was sold effective September 30, 1997. For accounting purposes, a portion of certain of Fiscal 1997 salaries, professional fees, telephone and other related administrative expenses were allocated to this business and included in the discontinued operations, not in general and administrative expenses. Upon the divestment of this business line, the remaining business absorbed all of such costs as general and administrative expenses. As a result, Fiscal 1998 numbers appear to increase substantially. In addition, there were increases in travel (\$42,000) relating to overseas business, and professional fees (\$77,000) in part due to employment contracts, potential acquisitions, and the MedCovers Inc. production contract.

Restructuring charges of \$897,400 were incurred in Fiscal 1998 relating to the shutdown of the Company’s South Bend, Indiana production facility. The majority of the Company’s products are manufactured overseas and the plant was operating at substantially below its capacity.

Severance expense to a co-founder of the Company was recorded in the amount of \$350,000 in Fiscal 1998 Fiscal; no comparable amount was included in Fiscal 1997 Fiscal.

OTHER INCOME

Total interest expenses increased by \$349,000 to \$529,700 in Fiscal 1998 from \$180,700 in Fiscal 1997. The increase is due to, interest associated with the indebtedness issued in connection with the Company's 1997 Private Placement including amortization of debt discount in Fiscal 1998 in the amount of \$249,900 and the Company's new bank credit line which are included in interest expense.

The Company's rental building in Brooklyn, New York was not leased during Fiscal 1997 or rented in Fiscal 1998. Rental income – net decreased to a loss of \$60,700 in Fiscal 1998 from a loss of \$106,200 in Fiscal 1997. This property was sold in December 1997.

Interest and other income – net increased \$835,800 in Fiscal 1998 from Fiscal 1997 resulting primarily from the sale of property described above. The Company recorded a pretax gain on this sale of approximately \$669,000.

INCOME TAXES

The Company incurred a loss before income taxes in Fiscal 1998 and should have recorded an income tax credit. Due to effects of temporary and permanent differences, the Company had taxable income before net operating loss carryforwards.

The provision for income taxes increased by \$35,600. Current income taxes increased by \$12,300. The Company accrued current taxes of \$18,700 which represented federal alternative tax and state and local taxes. In Fiscal 1997, current taxes amounted to \$6,400.

Deferred income taxes increased by \$23,300. Deferred income taxes decreased by \$456,300 as a result of applying the balance sheet approach of calculating deferred tax assets. The Company increased its valuation allowance by \$479,600 as it is uncertain if certain deferred tax assets will be fully utilized.

LIQUIDITY AND CAPITAL RESOURCES

In Fiscal 1999, \$700,200 of cash was generated by operating activities. This increase in operating funds resulted primarily from net income of \$835,800, an increase in accounts payable and accrued expenses of \$1,086,000; the add back of a beneficial interest charge of \$220,600; a decrease in deferred taxes of \$335,000 and a decrease in prepaid and other assets, net, of \$73,900. Offsetting these amounts was an increase in accounts receivable of \$1,842,600. Credit terms to customers are generally net thirty days from shipment of product to a customer. In certain situations, the Company may warehouse inventory at customer specified locations to expedite delivery and invoice upon issuance from the warehouse.

Net investing activities in Fiscal 1999 provided cash of \$50,500. The Company collected \$342,400 of notes receivable, which arose from the sale of its discontinued operations in 1997, \$32,300 of loans made to its officers, and received \$51,100 from the sale of assets. In Fiscal 1999, the Company purchased \$375,300 of property, plant and equipment.

Financing activities in Fiscal 1999 used cash of \$197,900. Funds were used for repayment of indebtedness under the bank credit line of \$248,300, note payments to a related party of \$42,700 and \$14,800 for expenses in connection with the note conversion described below and debt costs. The Company also repurchased 20,000 shares of its Common Stock in open market transactions, aggregating a cost of \$63,000. Offsetting these amounts were the exercise of Class B warrants into common shares. Prior to their expiration on September 30, 1999, 215,500 Class B Warrants were exercised at \$.50 per share, into 215,500 common shares aggregating \$107,800.

In December 1997, the Company consummated Fiscal 1997 Private Placement of Units. Each Unit was comprised of (i) 30,000 shares of Common Stock, (ii) one Private Placement Warrant to purchase up to 30,000 shares of Common Stock at \$4.00 per share and (iii) one unsecured convertible promissory note. The "Note" in the principal amount of \$10,000, bearing interest at a rate of 10% per annum (convertible at the sole option of the Company under certain circumstances, into 20,000 shares of Common Stock and one Private Placement Warrant) maturing on December 4, 1998. A total of 55.4 Units were sold for \$25,000 per unit, aggregating gross proceeds of \$1,385,000. Included in the Units sold was \$554,000 aggregate principal amount of debt which was discounted \$333,400. A commission in the amount of \$169,000 was paid by the Company in connection with such sales. The sales were made to accredited investors pursuant to Regulation D promulgated under the Securities Act of 1933, as amended. On December 4, 1998, the Company exercised its option to convert \$554,000 of debt into 1,108,000 shares of Common Stock and Warrants to purchase 1,662,000 shares of Common Stock (such Warrants expired on March 15, 1999 and are no longer outstanding), and paid accumulated interest on the Notes of approximately \$72,000. Upon conversion, the Company recorded a one time, non-cash interest charge of \$220,600 which reflects the beneficial conversion features of the transaction. Certain officers and directors participated in this transaction.

Forward and Koszegi Industries, Inc., a wholly-owned subsidiary of Forward ("Koszegi"), established a line of credit with a bank in April 1998 and are indebted to such bank for short-term borrowings and letters of credit. The total line is for \$4,500,000. The line of credit is scheduled to mature on March 31, 2001. Borrowing availability is determined based on a formula of accounts receivable and inventory. The interest rate on the line is the prime rate in effect, from time to time, plus three quarters of one percent. The Company secured this line of credit with all of its assets and those of Koszegi. The Company used the new credit availability to pay its outstanding indebtedness on its former credit line of \$937,000. In addition, the Company also used the facility to repay outstanding letters of credit financed by a third party. The new facility contains certain financial covenants for which the Company was in compliance. At September 30, no amounts were owed at the bank for direct borrowings but the Company was liable for bankers acceptances of \$995,900. In addition, the Company did have a contingent liability for letters of credit and bankers acceptances totaling \$2,434,400.

In September 1998, the Company commenced a plan intended to streamline its operations and reduce its cost structure over time. The Company announced a plan of restructuring, and recorded restructuring charges for its fiscal year ended September 30, 1998, pursuant to which it closed its South Bend, Indiana manufacturing operations on February 28, 1999, but continued to provide required domestic manufacturing through subcontractors. However, the vast majority of the Company's orders are now manufactured overseas. The Company sold to MedCovers Inc., of Raleigh, North Carolina certain key production equipment, and provided technical support and quality assurance personnel at MedCovers factory. The Company also uses other third party sources for such production as appropriate. The Company incurred cash expenditures during the current year related to the plant shutdown, which were accrued at September 30, 1998. Funds for such expenditures were paid from existing cash or cash generated by operations. The contract with MedCovers is currently being reevaluated and may be cancelled to provide an open arrangement where MedCovers would not be the primary contractor.

In addition, the Company renovated a building, which it owns, adjacent to its former leased factory in South Bend, to house its remaining sales staff, customer support and other administrative personnel who remain in Indiana. The renovation, which was completed at the end of February 1999, at a cost of approximately \$107,000, was paid from the Company's existing funds.

The Company, like many others which own computer software, was required to address the issue of software applications which are unable to recognize 'OO' in their program code. The Company evaluated alternatives to resolve this problem and concluded that acquiring a new data system, rather than upgrading its existing systems and applications, was of greater long-term value. The Company expended approximately \$150,000 during fiscal 1999, encompassing the cost of new hardware and software. Such amounts were paid from existing cash. The Company incurred internal staff costs associated with training. Cost of staff time was expensed as incurred, while cost of the new system is being capitalized and amortized over its useful life. The Company believes its data systems are Year 2000 compliant.

In connection with its restructuring, the Company hired a new Chief Executive Officer and received the resignation of Mr. Theodore H. Schiffman, its co-founder and former Chief Executive Officer. Mr. Schiffman received a five-year consulting arrangement with annual consulting payments of \$200,000 per year and a severance package totaling \$350,000, of which \$200,000 was paid on January 1, 1999, \$35,000 was paid on September 30, 1999 and \$115,000 is scheduled to be paid on the 15th month anniversary thereof, January 1, 2000. Such amounts were and will be paid out of the Company's existing cash position or from internally generated funds.

The Company did not incur any other long-term debt in Fiscal 1999. At September 30, 1999, there was no long-term debt and all installment note and capital lease payments were made on a timely basis.

Deferred Income Taxes

The Company's balance sheet at September 30, 1999 includes \$1,414,000 of deferred income taxes as an asset. The Company was profitable in Fiscal 1999 and in Fiscal 1998, before restructuring charges associated with the non-recurring costs of the shutdown of its South Bend plant, and in Fiscal 1997. However, to the extent that the Company's operations may not be profitable in future periods, the Company would not be able to realize the benefit of its deferred tax assets. Without such deferred tax assets, at September 30, 1999, the Company's stockholder's equity at such date of would have been reduced by \$1,414,000 to a stockholder's equity of \$3,701,300 and the Company's working capital at September would have been reduced by \$502,600 from \$3,430,200 to \$2,927,600.

RISK FACTORS

Cautionary Statements Regarding Forward-Looking Statements

All cautionary statements made in this Annual Report on Form 10-KSB should be read as being applicable to all related forward-looking statements wherever they appear. Investors should consider the following risk factors as well as the risks described elsewhere in this Annual Report on Form 10-KSB.

Dependence on Significant Customers.

The Company currently has certain customers for its carrying cases that account for a significant percentage of the Company's business. For Fiscal 1999, one of the Company's customers, together with its international affiliates, accounted for approximately 60% of the Company's sales. In Fiscal 1998, two customers accounted for approximately 39% and 16%, respectively, of the Company's sales. The loss of the single largest customer (whether as a result of such customer purchasing its requirements from another manufacturer, deciding to manufacture its own carrying cases or eliminating the inclusion of carrying cases with its product) would have a material adverse effect on the Company.

Concentration of Credit Risk.

While the Company has not experienced significant losses in extending credit to customers, at September 30, 1999, one customer and its international affiliates accounted for approximately 79% of the Company's accounts receivable, and three customers and their international affiliates accounted for approximately 67% of the Company's accounts receivable at September 30, 1998. The failure of any of such customers to pay the Company such amounts when and as due would have a material adverse effect on the Company.

Dependence on Foreign Manufacturers.

During Fiscal 1999, 1998 and 1997, approximately 93%, 78%, and 63%, respectively, of the Company's carrying cases were manufactured overseas (primarily in Asia) by various contractors. The Company does not have any written agreements with any of such contractors to continue to supply the Company with finished product. In order to maintain competitive pricing, it is anticipated that the use of overseas contractors will maintain its current level or increase. During Fiscal 1999, the Company expanded the number of overseas contractors it utilizes to disperse its risk with any one of them. Any interruption in this source of supply would have a material adverse effect on the Company. Utilizing foreign sources of supply requires additional advanced planning and control and more rapid payment for merchandise, and such sources are subject to special risks such as potential political instability, unanticipated trade restrictions, war and shipping delays.

Possible Inability to Realize Benefit of Deferred Income Tax Assets.

The Company's balance sheet at September 30, 1999 includes deferred tax assets aggregating \$1,414,000 or approximately 14% of the Company's total assets, which \$502,600 is classified as current. To the extent that the Company's operations are not profitable, the Company would not be able to realize the benefit of its deferred tax assets. Without such deferred tax assets, at September 30, 1999, the Company's shareholders' equity at such date of \$5,115,300 would have been reduced by \$1,414,000 to a shareholders' equity of \$ 3,701,300.

The Company's belief that its deferred tax assets will be realized is based upon a number of factors. The Company has been in business for over 35 years. Although the Company sustained a loss from continuing operations during Fiscal 1996 and Fiscal 1995, the Company had net income in Fiscal 1997, Fiscal 1998 (before non-recurring adjustments for the shutdown of its South Bend plant and severance to an officer) and Fiscal 1999. The Company has continued to streamline its fixed operating costs through the sale of a building and shutdown

of its production facility. It believes its current operating conditions provides significantly more control of its costs. Given the significance of the Company's deferred tax assets, the failure of the Company to realize the benefit of its deferred tax assets would have a material adverse effect on the Company's working capital and net worth.

Intense Competition and Ease of Entry.

There is intense competition in the sale of carrying cases. Since no significant proprietary technology is involved in the production of the Company's products, others may enter the business with relative ease to compete with the Company.

Reliance on Key Personnel.

The Company is highly dependent on the personal efforts and services of Jerome E. Ball, Chairman and Chief Executive Officer, Michael Schiffman, President, and Theodore H. Schiffman, Chairman Emeritus. The Company has employment agreements with Jerome E. Ball for a term expiring September 30, 2000, a consulting agreement with Theodore H. Schiffman for a term expiring in 2003, and with Michael Schiffman for a term expiring September 30, 2001. The business of the Company would be materially and adversely affected if the Company lost the services of any of such individuals. The Company does not have key person life insurance as to any of such individuals.

Absence of Cash Dividends.

The Company has not paid any cash dividends in more than ten years. The payment of future cash dividends by the Company, if any, will depend upon the Company's short-term and long-term cash availability, working capital, working capital needs and other factors, as determined by the Company's Board. The Company is restricted from paying dividends under its new credit facility. The Company does not anticipate that cash dividends will be paid in the foreseeable future.

Control by Insiders.

Members of the Board, including the Company's Chief Executive Officer, Chairman-Emeritus, and President, together with its Chief Financial Officer and Secretary, directly or indirectly, beneficially own 2,494,152 shares of Common Stock, aggregating approximately 32% of the issued and outstanding capital stock of the Company. By virtue of their ownership of such Common Stock, such executive officers and directors or their affiliates may, collectively, be deemed to control the Company through the exercise of sufficient voting power to effectively control (or, at least, exercise a significant influence upon) the election of the Company's Board, direct the appointment of the Company's officers and, in general, significantly influence the outcome of any corporate transaction or other matter submitted to the Company's shareholders for approval, including mergers, consolidations and the sale of all or substantially all of the Company's assets, and to prevent or cause a change in control of the Company.

Effect of Outstanding Options and Warrants.

For the respective terms of outstanding options, warrants granted by the Company, the holders thereof are given an opportunity to profit from a rise in the market price of the Company's Common Stock. As of December 7, 1999, 2,266,875 shares of Common Stock (or an additional 34% of the outstanding Common Stock) are issuable upon the exercise or conversion of such securities at prices ranging from \$1.75 to \$3.25 per share. In November 1996, the Company's Board adopted, and in August 1997, the Company's shareholders approved, the Company's 1996 Stock Incentive Plan (the "Plan"), pursuant to which up to 8,000,000 shares of Common Stock may be issued to officers and employees of the Company upon the exercise of incentive stock options and nonqualified stock options. Options (including vested and non-vested options) to purchase up to 1,886,875 shares of Common Stock, included in the figure above, have been granted under such Plan as of December 7, 1999. The terms on which the Company may obtain additional financing during the respective terms of these stock options, warrants and other convertible securities may be adversely affected by their existence. The holders of

such stock options and warrants may exercise such securities at a time when the Company might be able to obtain additional capital through a new offering of securities or other form of financing on terms more favorable than those provided by such stock options and warrants.

Potential Anti-takeover Measures.

The Company is authorized to issue up to 4,000,000 shares of "blank check" preferred stock. The Board has the authority, without shareholder approval, to issue preferred stock in one or more series and to fix the relative rights and preferences thereof including their redemption, dividend and conversion rights. The ability of the Company to issue the authorized but unissued shares of preferred stock could be utilized to impede potential take-overs of the Company.

Risks of Low-Priced Stocks.

The Commission has adopted regulations which define a "penny stock" to be any equity security that has a market price (as therein defined) of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to any transaction in a penny stock, of a disclosure schedule prepared by the Commission relating to the penny stock market. Disclosure is also required to be made about commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. The foregoing penny stock restrictions will not apply to the Company's securities if such securities continue to be listed on the Nasdaq SmallCap Market, as to which there can be no assurance, and have certain price and volume information provided on a current and continuing basis or meet certain minimum net tangible assets or average revenue criteria. In any event, even if the Company's securities were exempt from such restrictions, it would remain subject to Section 15(b)(6) of the Exchange Act, which gives the Commission the authority to prohibit any person engaged in unlawful conduct while participating in a distribution of penny stock from associating with a broker-dealer or participating in a distribution of penny stock, if the Commission finds that such a restriction would be in the public interest. If the Company's securities were to be removed from listing on the Nasdaq SmallCap Market or otherwise become subject to the existing rules on penny stocks, the market liquidity for the Company's securities could be severely adversely affected.

Risk of Loss of Listed Status of Common Stock on the Nasdaq SmallCap Market.

The National Association of Securities Dealers listing requirements require, among other things, that all issuers of securities listed on the Nasdaq SmallCap Market maintain a continued minimum bid price per share of such securities of \$1.00. The per share price of the Company's Common Stock as of December 7, 1999 was \$2.75. There can be no assurances that the per share price of the Company's Common Stock will stay above \$1.00. A consequence of the failure to maintain a bid price per share of \$1.00 may be the de-listing of the Common Stock from the Nasdaq SmallCap Market, which may have a material adverse effect on the market value of the Common Stock and on the ability of the Company to obtain additional financing.

Future Sales of Common Stock.

Of the 6,104,131 shares of Common Stock currently outstanding, approximately 26% of such shares are "restricted stock" as that term is defined under Rule 144 promulgated under the Securities Act and under certain circumstances may be sold without registration pursuant to such rule. The Company is unable to predict the effect that sales made under Rule 144, or otherwise, may have on the then prevailing market price of the Company's securities although any future sales of substantial amounts of securities pursuant to Rule 144 could adversely affect prevailing market prices.

Hong Kong - Transfer of Sovereignty.

A portion of the operations of the Company are currently located in Hong Kong. As a result, the Company's business, results of operations and financial condition may be influenced by the political situation in Hong Kong and by the general state of the Hong Kong economy. On July 1, 1997, sovereignty over Hong Kong transferred from the United Kingdom to the People's Republic of China, and Hong Kong became a Special Administrative Region of China (an "SAR"). As provided in the Sino-British Joint Declaration on the Question of Hong Kong and the Basic Law of the Hong Kong SAR of China (the "Basic Law"), the Hong Kong SAR will have a high degree of autonomy except in foreign and defense affairs. Under the Basic Law, the Hong Kong SAR is to have its own legislature, legal and judicial system and full economic autonomy for 50 years. However, there can be no assurance that the transfer of sovereignty and changes in political or other conditions will not result in an adverse impact on the Company's business, results of operations or financial condition.

ITEM 7 – FINANCIAL STATEMENTS

The financial statements and notes thereto can be found beginning with the "Index to Financial Statements", following Part II of this amendment no. 2 to the Annual Report on Form 10-KSB.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 15, 2002

FORWARD INDUSTRIES, INC.

By: /s/ Jerome E. Ball

Jerome E. Ball
Chief Executive Officer, and
Chairman of the Board

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

February 15, 2002

/s/Jerome E. Ball
Jerome E. Ball
Chief Executive Officer, and
Chairman of the Board
(Principal Executive Officer)

February 15, 2002

/s/Douglas W. Sabra
Douglas W. Sabra
Chief Financial Officer and Vice President
(Principal Financial Officer and
Principal Accounting Officer)

February 15, 2002

/s/Theodore H. Schiffman
Theodore H. Schiffman
Director

February 15, 2002

/s/Michael Schiffman
Michael Schiffman
President and Director

February 15, 2002

/s/Noah Fleschner
Noah Fleschner
Director

February 15, 2002

/s/Samson Helfgott
Samson Helfgott
Director

February 15, 2002

/s/Norman Ricken
Norman Ricken
Director

ITEM 7 - FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

**REPORT ON
CONSOLIDATED FINANCIAL STATEMENTS**

YEAR ENDED SEPTEMBER 30, 1999

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INDEPENDENT AUDITORS' REPORT

**THE BOARD OF DIRECTORS AND STOCKHOLDERS'
FORWARD INDUSTRIES, INC.
WESTBURY, NEW YORK**

We have audited the accompanying consolidated balance sheet of Forward Industries, Inc. and Subsidiaries as of September 30, 1999, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years ended September 30, 1999 and 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Forward Industries, Inc. and Subsidiaries as of September 30, 1999, and the results of their operations and their cash flows for the years ended September 30, 1999 and 1998 in conformity with generally accepted accounting principles.

We have audited Schedule II and Exhibit 11 of the Company for the year ended September 30, 1999 and 1998 included in Fiscal 1999 annual report of the Company on Form 10-KSB. In our opinion, the schedule and exhibit present fairly the information required to be set forth therein.

As discussed in Note 20, the accompanying financial statements for the year ended September 30, 1999 have been restated.

/s/ Patrusky, Mintz & Semel

PATRUSKY, MINTZ & SEMEL
CERTIFIED PUBLIC ACCOUNTANTS

NEW YORK, NEW YORK
December 7, 1999 except for
Note 20, as to which the
date is December 21, 2001

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 1999

ASSETS
(NOTE 8)

CURRENT ASSETS:

Cash and cash equivalents	\$ 1,210,762
Accounts receivable, less allowance for doubtful accounts of \$133,800	4,738,263
Inventories (Note 3)	992,064
Notes receivable - current portion (Note 4)	227,858
Notes and loans receivable - officers - current portion (Note 6)	28,490
Prepaid expenses and other current assets (Note 7)	441,002
Deferred income taxes (Note 11)	<u>502,632</u>

Total current assets	<u>8,141,071</u>
----------------------	------------------

PROPERTY, PLANT AND EQUIPMENT - net (Note 5)	<u>492,427</u>
--	----------------

OTHER ASSETS:

Deferred income taxes (Note 11)	911,395
Note receivable - net of current portion (Note 4)	126,284
Deferred debt costs	25,769
Notes and loans receivable - officers - net of current portion (Note 6)	55,471
Other assets	<u>73,764</u>

Total other assets	<u>1,192,683</u>
--------------------	------------------

TOTAL ASSETS	<u>\$9,826,181</u>
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The accompanying notes are an integral part of the consolidated financial statements.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEET
(CONTINUED)**

SEPTEMBER 30, 1999

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Acceptances due to bank (Note 8)	\$995,852
Accounts payable	2,301,557
Accrued expenses and other current liabilities (Note 10)	1,298,466
Accrued severance to officer	<u>115,000</u>
Total current liabilities	<u>4,710,875</u>

COMMITMENTS (Note 12)

STOCKHOLDERS' EQUITY:

Preferred stock, 4,000,000 authorized shares, par value \$.01; none issued	-
Common stock, 40,000,000 authorized shares, par value \$.01; issued 6,286,531 shares (including 184,890 held in treasury) (Note 14)	62,865
Paid-in capital	7,880,861
Accumulated deficit	(2,526,662)
Foreign currency adjustment	<u>(589)</u>
	5,416,475

Less: Cost of shares in treasury

Total stockholders' equity

TOTAL LIABILITES AND STOCKHOLDERS' EQUITY	<u>\$9,826,181</u>
--	---------------------------

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

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	<u>YEARS ENDED SEPTEMBER 30,</u>	
	<u>1999</u>	<u>1998</u>
NET SALES	\$20,553,192	\$13,028,888
COST OF GOODS SOLD	<u>14,307,809</u>	<u>9,351,053</u>
GROSS PROFIT	<u>6,245,383</u>	<u>3,677,835</u>
OPERATING EXPENSES		
Selling	1,791,043	1,439,734
General and administrative	3,001,104	2,253,370
Restructuring charge (Note 2)	---	897,383
Severance to officer (Note 12)	<u>---</u>	<u>350,000</u>
	<u>4,792,147</u>	<u>4,940,487</u>
INCOME (LOSS) FROM OPERATIONS	<u>1,453,236</u>	<u>(1,262,652)</u>
OTHER INCOME (DEDUCTIONS)		
Interest expense	(337,646)	(529,725)
Interest expense - related parties	(1,709)	(22,529)
Interest income	79,553	54,922
Rental income – net	-	(60,730)
Other income (deductions) – net	<u>(152,660)</u>	<u>772,186</u>
	<u>(412,462)</u>	<u>214,124</u>
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	1,040,774	(1,048,528)
PROVISION FOR INCOME TAXES (Note 11)	<u>395,000</u>	<u>280,148</u>
NET INCOME (LOSS)	<u>\$ 645,774</u>	<u>(\$1,328,676)</u>
NET INCOME (LOSS) PER COMMON AND COMMON EQUIVALENT SHARE (Note 17)		
Basic		
Income (loss)	<u>\$.11</u>	<u>\$ (.29)</u>
Diluted		
Income (loss)	<u>\$.11</u>	<u>\$ (.29)</u>
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (Note 17)		
BASIC	<u>5,751,266</u>	<u>4,650,641</u>
DILUTED	<u>5,821,554</u>	<u>4,650,641</u>
DIVIDENDS	<u>NONE</u>	<u>NONE</u>

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

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME**

	Years Ended September 30	
	1999	1998
NET INCOME (LOSS)	\$ 645,774	\$(1,328,676)
COMPREHENSIVE ADJUSTMENT-Foreign translation:	<u>17,128</u>	<u>(17,717)</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ 662,902</u>	<u>(1,346,393)</u>

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Year Ended September 30, 1998								
	Common Stock			Paid-in Capital	Retained Earnings (Accum. Deficit)	Foreign Currency Adjustment	Treasury Stock	
	Total	Number of Shares	Amount				Number of Shares	Amount
Balance								
October 1, 1997	4,391,802	4,303,031	\$ 43,030	\$6,430,643	\$(1,843,758)	---	(164,890)	\$(238,113)
Common stock issued in connection with private placement.....	424,612	585,000	5,850	418,762	---	---	---	---
Deferred offering costs	(94,774)	---	---	(94,774)	---	---	---	---
Exercise of options	121,500	75,000	750	120,750	---	---	---	---
Issuance of warrants for services rendered	9,730	---	---	9,730	---	---	---	---
Foreign currency translation adjustment.....	(17,717)	---	---	---	---	(17,717)	---	---
Net loss	(1,328,676)	---	---	---	(1,328,676)	---	---	---
Balance								
September 30, 1998.....	<u>\$ 3,506,477</u>	<u>4,963,031</u>	<u>\$ 49,630</u>	<u>\$ 6,885,111</u>	<u>\$(3,172,434)</u>	<u>\$(17,717)</u>	<u>(164,890)</u>	<u>\$(238,113)</u>
Year Ended September 30, 1999								
Balance								
October 1, 1998,	3,506,477	4,963,031	\$ 49,630	6,885,111	(3,172,434)	(17,717)	(164,890)	(238,113)
Stock based compensation – warrants issued to consultants	201,093	---	---	201,093	---	---	---	---
Common stock issued in connection with conversion of notes payable.....	554,000	1,108,000	11,080	542,920	---	---	---	---
Offering costs of conversion of debt to equity.....	(11,950)	---	---	(11,950)	---	---	---	---
Beneficial charge related to note conversion	220,592	---	---	220,592	---	---	---	---
Exercise of Class B Warrants..	107,750	215,500	2,155	105,595	---	---	---	---
Shares repurchased in open-market transactions.....	(63,056)	---	---	---	---	---	(20,000)	(63,056)
Reversal of warrants.....	(62,500)	---	---	(62,500)	---	---	---	---
Foreign currency translation adjustment.....	17,128	---	---	---	---	17,128	---	---
Net Income	645,774	---	---	---	645,774	---	---	---
Balance								
September 30, 1999.....	<u>\$ 5,115,306</u>	<u>6,286,531</u>	<u>\$ 62,865</u>	<u>\$ 7,80,861</u>	<u>\$(2,325,569)</u>	<u>\$(589)</u>	<u>(184,890)</u>	<u>\$(301,169)</u>

Note- Preferred stock is not shown as no shares have been issued.

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

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>YEARS ENDED SEPTEMBER 30,</u>	
	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 645,774	\$(1,328,676)
Adjustments to reconcile net income (loss) to net cash provided by (used in) continuing operations:		
Beneficial interest charge	220,592	-
Stock based compensation	201,093	-
Gain on sale of property and equipment	(68,299)	(668,962)
Amortization of note discount	45,320	249,900
Depreciation and amortization	132,566	247,733
Deferred taxes	335,000	261,448
Reduction of property and equipment to net realizable value	-	202,096
Non-cash compensation (reversal)	(62,500)	9,730
Changes in assets and liabilities:		
Accounts receivable	(1,831,420)	(18,250)
Inventories	91,598	(148,650)
Prepaid expenses and other current assets	73,903	(182,134)
Other assets	(14,352)	52,836
Accounts payable	1,085,985	(721,327)
Accrued severance to officer	(235,000)	350,000
Accrued expenses and other current liabilities	<u>79,892</u>	<u>731,770</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>700,150</u>	<u>(962,286)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of division	-	492,785
Proceeds from sale of property and equipment	51,130	824,356
Proceeds from notes and loans receivable	342,446	275,436
Proceeds from collections from officers	32,312	53,083
Purchases of property, plant and equipment	<u>(375,335)</u>	<u>(160,159)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>50,553</u>	<u>1,485,501</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (payments of) short-term borrowings	(248,251)	(131,002)
Proceeds from long-term notes	-	10,000
Payments of long-term notes	-	(234,697)
Payments of mortgage	-	(1,057,748)
Payments of note payable - related party	(42,670)	(46,030)
Proceeds from issuance of stock	107,750	414,000
Purchase of Treasury Shares	63,056	--
Deferred offering costs	(11,950)	(27,832)
Deferred debt cost	<u>(2,812)</u>	<u>(93,469)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(197,933)</u>	<u>(1,166,778)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>17,128</u>	<u>(17,717)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	506,842	(661,280)
CASH AND CASH EQUIVALENTS – beginning	<u>703,920</u>	<u>1,365,200</u>
CASH AND CASH EQUIVALENTS – ending	<u>\$1,210,762</u>	<u>\$ 703,920</u>

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

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(CONTINUED)

YEARS ENDED SEPTEMBER 30,

1999

1998

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest	\$69,913	\$171,695
Income taxes	\$6,258	\$13,145

SCHEDULES OF NON-CASH ACTIVITIES:

Warrants issued (lapsed) for services rendered	\$(62,500)	\$9,730
Forgiveness of mortgage debt	-	55,529
Stock based compensation	201,093	-
Offset of deferred offering costs to be paid in capital	-	66,942
Issuance of promissory notes upon closing of private placement units.	-	185,000
Issuance of note receivable for amounts due on sale of division.	-	80,000
Conversion of debt into equity	554,000	-
Sale of property and equipment held for sale	171,369	-

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

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Forward Industries was incorporated under the laws of the State of New York and began operations in 1961. The Company is engaged in the design and marketing of custom-designed soft-sided carrying cases made from leather, nylon, vinyl and other synthetic fabrics. The cases are used primarily for the transport of portable devices such as cellular phones, medical devices and computers. The Company markets products either as a direct seller or as an other-equipment-manufacturer to customers in the United States, Europe, Asia and Australia. For the years ended September 30, 1999 and 1998, respectively, approximately 71% and 31% of its sales were to customers outside of the United States.

Basis of Consolidation

The consolidated financial statements include the accounts of Forward Industries, Inc. ("Forward") and its wholly- and majority-owned subsidiaries (together the "Company"). All significant intercompany transactions and balances have been eliminated in consolidation.

Revenue Recognition

Revenue is recognized upon the shipment of products.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash Equivalents

Cash equivalents consist of highly liquid money market accounts.

Credit Risk

Accounts Receivable - Trade

Accounts receivable consist of open trade accounts with various companies. The Company performs ongoing credit evaluations of its customers and believes that adequate allowances for any uncollectible receivables are maintained. Credit terms to customers are generally net thirty (30) days. The Company has not historically experienced significant losses in extending credit to customers.

One customer accounted for 79%, and three customers accounted for 67% of the company accounts receivable at September 30, 1999 and 1998, respectively. These customers are substantial companies with good credit worthiness. None of these customers are in default and payments are received from them on a timely basis. In 1999 one customer accounted for 60%, and in 1998, two customers accounted for 55% of net sales.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash

The Company maintains cash balances with financial institutions that at times may be in excess of the FDIC insurance limit.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Economic Dependence

The Company is dependent on one of its suppliers for the purchase of inventory. The Company purchased 36% and 46% of its inventory from this supplier in Fiscal 1999 and Fiscal 1998, respectively. Management believes that other suppliers could provide similar products on comparable terms. However, a change in an individual supplier could delay shipment of product resulting in a loss of sales which could affect operating results.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Expenditures for repairs and maintenance are charged to expense as incurred.

Deferred Offering and Deferred Debt Costs

Deferred offering costs represented amounts incurred in connection with obtaining equity in the Company's 1997 Private Placement (see Note 14). Such costs were charged against paid-in capital when the respective sales of the units were closed.

Deferred debt costs were incurred in connection with obtaining debt financing, either in the Company's 1997 Private Placement (see Note 14) or for the Company's bank credit facility (see Note 8.). The costs are amortized over the term of the debt issued. Amortization amounted to \$62,204 and \$107,192 for the years ended September 30, 1999 and 1998, respectively.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising costs amounted to \$49,680 and \$235,957 for the years ended September 30, 1999 and 1998, respectively.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Translation of Foreign Currency

The foreign currency financial statements of divisions operating outside the United States are translated in accordance with the requirements of the Financial Accounting Standards Board. All income and expense accounts are translated at average exchange rates; assets and liabilities, at current exchange rates; and stockholders' equity at historical exchange rates.

Income Taxes

The Company utilized SFAS No. 109, "Accounting for Income Taxes," which requires the use of the liability method of accounting for income taxes. The liability method measures deferred income taxes by applying statutory rates in effect at the balance sheet date to the differences between the tax base of assets and liabilities and their reported amounts in the financial statements. The resulting deferred tax assets or liabilities are adjusted to reflect changes in tax laws as they occur.

Earnings Per Share

The Company adopted SFAS No. 128, "Earnings Per Share" which establishes new standards for computing and presenting earnings per share. This statement also requires the restatement of all prior period earnings per share data presented. Earnings per share are based on the weighted average number of shares outstanding during each year presented. Common stock equivalents have not been included in 1998 as their effect would be antidilutive.

Comprehensive Income

The Company adopted SFAS No. 130, "Reporting Comprehensive Income" in fiscal 1999. Components of comprehensive income for the Company include items such as net income and foreign currency translation adjustments.

Reclassifications

Certain amounts have been reclassified to conform to the current year presentation.

NOTE 2 – RESTRUCTURING CHARGE IN FISCAL 1998

During Fiscal 1998, the Company commenced a plan to streamline its operations and improve the Company's cost structure. In August 1998, the Company entered into an agreement to sell certain production equipment of a wholly-owned subsidiary, Koszegi Industries, Inc. ("Koszegi") to MedCovers, Inc. of Raleigh, North Carolina, and to establish alternate sources of domestic production in order close its production facility, which had been operating at substantially less than capacity. The majority of Koszegi's orders are now produced overseas. Accordingly, the Company did not renew the lease for its production facility in South Bend, Indiana, upon its expiration in February 1999.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1999

NOTE 2 – RESTRUCTURING CHARGE IN FISCAL 1998 (CONTINUED)

In the fourth quarter of Fiscal 1998, the Company recorded a restructuring charge of approximately \$897,000 (\$.19 per basic share) in connection with the closing of its production facility. The primary components of that charge were severance and employee benefit costs for the elimination of manufacturing and administrative support positions \$360,000, the impairment of leasehold improvements to a leased building, \$131,000, and office equipment of \$71,000, factory related expenses incurred during the shutdown \$285,000 and other costs \$50,000. The building improvements were discarded upon termination of the lease and the office equipment was held for use, until disposed, in June, 1999. The Company used appraisals, which were prepared by third party valuation experts, to determine the realizable value for assets that were marked down to fair market value. Subsequent sales of such assets were based on this appraisal. Factory related expenses included property tax payments subsequent to the shutdown, and repairs to the building, which had no future economic value and were properly accrued. The total number of employees that were terminated as a result of the shutdown in February 1998 were sixty-two. All employees had been notified months prior to the impending shutdown and their severance and benefits were accrued. At September 30, 1999, all of the charges have been expended, except one item, which the Company believes will not exceed \$100,000. Such amount is fully reserved.

NOTE 3 – INVENTORIES

Inventories at September 30, 1999 are comprised of the following:

Finished goods	\$957,402
Raw materials and supplies	<u>34,662</u>
	<u>\$992,064</u>

NOTE 4 – NOTES RECEIVABLE

Notes receivable consist of the following at September 30, 1999:

Two non-interest bearing promissory notes received as part of the sale of the Company's Advertising Specialties division on September 30, 1997; originally payable in equal monthly installments of \$23,611 commencing in October 1997, and \$2,879 commencing January 1998, through September 2000. In July 1999, remaining amounts were combined into monthly installments of \$14,733 over 24 months. Interest on the notes has been imputed at a rate of 12 ½% per annum. The note is secured by the assets sold by the Company, and a personal guarantee of \$200,000. \$277,355

Subordinated note received as part of the sale of certain assets of its Republic division in April 1994; originally payable in monthly installments of \$5,833 plus interest at the prime rate (not to exceed 9%) through May 2000. Revised in January 1999 to 12 monthly installments of \$2,917 commencing in April 1999, with a balloon payment of \$59,288 in May 2000. 76,787

	354,142
Less: current maturities	<u>227,858</u>
	<u>\$126,284</u>

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1999

NOTE 4 – NOTES RECEIVABLE (CONTINUED)

Maturities of notes receivable are as follows:

FISCAL YEAR ENDING <u>SEPTEMBER 30</u>	<u>AMOUNT</u>
2000	\$227,858
2001	<u>126,284</u>
	<u>\$354,142</u>

Interest income on the above notes receivable amounted to \$57,051 and \$105,211 for the years ended September 30, 1999 and 1998, respectively.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at September 30, 1999 consists of the following:

		<u>ESTIMATED USEFUL LIVES</u>
Land	\$ 25,000	
Building and building improvements	215,341	10 – 20 years
Furniture, fixtures, and computer equipment	290,919	5 – 10 years
Leasehold improvements	64,988	*
Transportation equipment	<u>63,067</u>	3 years
	659,315	
Less: Accumulated depreciation and amortization	<u>166,888</u> <u>\$492,427</u>	

1999 Leasehold improvements are amortized on the straight-line method over the terms of the leases or the estimated lives of the improvements, if shorter.

Depreciation expense amounted to \$70,362 and 140,541 for the years ended September 30, 1999 and 1998, respectively.

NOTE 6 – NOTES AND LOANS RECEIVABLE - OFFICERS

At September 30, 1999 notes and loans receivable – officers consist of the following amounts, which had been provided to officers for personal needs and not for the acquisition of stock or options:

Note receivable in amounts of \$10,000 per year, paid by the end of each fiscal year from September 1996 through September 2000 plus interest at 7% per annum	\$10,000
Note receivable in amounts of \$18,490 per year, paid by the end of each fiscal year from September 1999 until such balance is paid plus interest at 6% per annum	<u>73,961</u> 83,961
Less: Current maturities	<u>28,490</u> <u>\$55,471</u>

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1999

NOTE 6 – NOTES AND LOANS RECEIVABLE – OFFICERS (CONTINUED)

Maturities of notes and loans receivable – officers are as follows:

FISCAL YEAR ENDING <u>SEPTEMBER 30,</u>	
2000	\$28,490
2001	18,490
2002	18,490
2003	<u>18,491</u>
	<u>\$83,961</u>

Interest income on the above notes and loans amounted to \$6,597 and \$10,433 for the years ended September 30, 1999 and 1998, respectively.

NOTE 7 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets at September 30, 1999 consist of the following:

Non-trade receivables	\$ 298,800
Prepaid insurance	116,832
Sundry others	<u>25,370</u>
	<u>\$ 441,002</u>

NOTE 8 – DEBT

Borrowings Under Credit Line – Bank

In April 1998, the Company established a credit facility with a bank which provides for a maximum line of credit for working capital of \$4.5 million, including letters of credit. Borrowing availability under this credit line is determined by a formula of accounts receivable and inventory. The interest rate on the borrowings is prime plus three quarters of one percent. The line is scheduled to mature on March 31, 2001. At September 30, 1999 the Company was liable for acceptances totaling \$995,852. In April 1998, the Company paid its prior bank approximately \$937,000, which represented all amounts owed under its former credit facility. In addition, at September 30, 1999 the Company was contingently liable under the letters of credit in the amount of \$2,434,360.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1999

NOTE 8 – DEBT (CONTINUED)

Prior to the establishment of the current line of credit, the Company periodically borrowed on letters of credit from a corporation controlled by a relative of certain principal stockholders. At September 30, 1999, no amount was owed.

Interest expense on the bank debt amounted to \$61,068 and \$94,588 for the years ended September 30, 1999 and 1998, respectively. Interest to the controlled corporation amounted to \$-0- and \$14,529 for the years ended September 30, 1999 and 1998, respectively.

On December 4, 1998, the Company converted promissory notes, which were issued in connection with the Company's 1997 Private Placement into common stock (Note 14). Interest expense on that debt amounted to \$10,666 and \$51,967 for the years ended September 30, 1999 and 1998, respectively.

NOTE 9 – MORTGAGE PAYABLE

The Company owned a building in Brooklyn, New York which was sold in December 1997. The proceeds of \$830,000 and working capital were used to repay the balance of the mortgage. The Company recognized a profit of approximately \$669,000 on the sale. Interest expense on the mortgage amounted to \$31,493, for fiscal ended September 30, 1998.

Depreciation on the building, which is included in rental income, amounted to \$4,130 for fiscal year ended September 30, 1998.

NOTE 10 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities at September 30, 1999 consist of the following:

Accrued expenses related to restructuring	\$ 152,334
Accrued expenses to vendors and others	526,717
Accrued vacation	64,107
Accrued bonuses	495,308
Income taxes payable	<u>60,000</u>
	<u>\$1,298,466</u>

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1999

NOTE 11- INCOME TAXES

The components of the deferred tax assets and liabilities at September 30, 1999 are as follows:

Current:	
Accounts receivable	\$ 45,492
Inventory	197,380
Accrued expenses	259,760
Valuation allowance	<u>—</u>
	<u>502,632</u>
Non-current:	
Net operating losses	1,260,357
Stock Warrants	76,400
Property, plant and equipment	24,438
Contribution carryover	13,600
Valuation allowance	<u>(463,400)</u>
	<u>911,395</u>
Net deferred tax asset	<u>\$1,414,567</u>

At September 30, 1999 a valuation allowance is provided as it is uncertain if certain deferred tax assets will be fully utilized.

Provision (credit) for income taxes for the years ended September 30, consists of the following:

	1999	<u>1998</u>
Current tax expense	\$ 60,000	\$ 18,700
Deferred tax expense	528,000	(218,164)
Change in valuation allowance	<u>(193,000)</u>	<u>479,612</u>
	395,000	280,148

Reconciliation of statutory rate to effective income tax rate is as follows:

	<u>YEARS ENDED SEPTEMBER 30,</u>	
	<u>1999</u>	<u>1998</u>
Continuing operations:		
At federal statutory rate	34.0%	34.0%
Effect of:		
Temporary and permanent differences	(5.2)	(65.7)
Net operating loss carryforwards	(17.1)	31.7
Deferred income taxes	22.2	32.7
Miscellaneous	<u>4.1</u>	<u>2.4</u>
	<u>38.0%</u>	<u>35.1%</u>

At September 30, 1999, the Company has unused net operating loss carryforwards of approximately \$3,448,000 expiring through September 30, 2011.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1999

NOTE 12 – COMMITMENTS

The Company rents certain of its facilities under leases expiring at various dates through July 2001. In addition, the Company is leasing four warehouse facilities on a month-to-month basis. Total rent expense for the years ended September 30, 1999 and 1998 amounted to \$221,465 and \$407,814, respectively.

Minimum rental commitments under such leases for future fiscal years are summarized below:

YEARS ENDED SEPTEMBER 30,

2000	\$186,128
2001	63,528
2002	<u>47,646</u>
	<u>\$297,302</u>

Employment Contracts

Effective October 1, 1997, the Company entered into an employment agreement with its chief executive officer through September 30, 2000. The agreement provided for an annual salary of \$275,000 plus annual bonus compensation generally equal to 5% of net pre-tax annual income of the Company in excess of \$1,000,000. Effective December 11, 1998, this employment agreement was terminated and the Company entered into a consulting agreement with the officer, with payments under the new agreement beginning January 1 1999. Pursuant to this agreement, the officer receives an annual consulting fee of \$200,000 for a period of five years, ending December 10, 2003. The officer also received severance payments totaling \$350,000, of which \$200,000 was paid on January 1, 1999, \$35,000 on September 30, 1999, and \$115,000 is payable on the fifteen months anniversary, January 1, 2000. In addition, effective December 11, 1998, the exercise price of his 450,000 options was reduced to \$1.10 per share.

Effective October 1, 1998, the Company entered into an employment agreement with an officer pursuant to which the officer is employed as chief executive officer and vice chairman, and six months thereafter, as chairman, through September 30, 2000. The agreement provides for an annual salary of \$201,600 plus an annual bonus equal to ten percent (10%) of the pre-tax operating profit (before the impact of other bonuses) in excess of \$675,000. During Fiscal 1999 the Company made a prepayment of \$20,000 and accrued \$140,000 for this bonus. In addition, the officer received options to purchase 250,000 shares of common stock at an exercise price of \$1.75 per share, which shares became exercisable during Fiscal 1999. The agreement also provides that the Company grant the officer options to purchase up to an additional 250,000 shares of common stock at an exercise price of \$2.00 per share if the Company's stock price averages \$3.50 for a 180 day period.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1999

NOTE 12 – COMMITMENTS (CONTINUED)

Effective November 1, 1997, the Company entered into an employment agreement with its executive vice president through October 31, 2000 at an annual salary of \$150,000, plus annual bonus compensation generally equal to 7.5% of net annual pre-tax income of the Company in excess of \$1,000,000. In April 1998, the officer was elected president (see below). Effective October 1, 1998, the Company and this executive agreed to a new contract which contained the following provisions; annual salary of \$230,000, bonus equal to 3 percent of sales above \$13,000,000, and additional stock options vested based on sales performance levels during the term of the agreement. Such options are priced at marked value on the date of vesting and can be a maximum of 600,000 if sales levels of \$21,000,000 are reached. During the fiscal year ended September 30, 1999, the Company made prepayments of \$25,828 and accrued \$194,172 in connection with this bonus, and 200,000 options vested at a price of \$1.88 (vested on the date sales reached \$16,000,000) and 200,000 at \$3.25 (vested on the date sales reached \$18,500,00).

Effective October 14, 1996, the Company entered into a two-year agreement contract with its former president. The officer received an annual base salary of \$150,000, a signing bonus of \$30,000 and an annual bonus based on the Company's pre-tax income. The officer also received an option to purchase 150,000 shares of common stock vesting in four equal semi-annual installments commencing October 14, 1996 provided that officer continues to be employed by the Company. The officer resigned in April 1998. At the time of his resignation, the officer held vested and exercisable options for the purchase of 75,000 shares of common stock, all of which have since been exercised.

Amounts incurred under employment and severance agreements amounted to \$1,275,767 and \$525,779 for the years ended September 30, 1999 and 1998, respectively (including accrued bonus obligations).

NOTE 13 – RELATED PARTY TRANSACTIONS

Note Payable

During Fiscal 1999, a note payable to a related party was paid in full in the amount of \$42,670. Interest amounted to \$1,709 and \$8,000 for the years ended September 30, 1999 and 1998, respectively.

Other

For the years ended September 30, 1999 and 1998, the Company incurred consulting fees totaling \$71,500 and \$40,000 respectively to a corporation which is controlled by a principal stockholder of the Company.

NOTE 14 – STOCKHOLDERS' EQUITY

Common and Preferred Stock

On January 13, 1997, the Company increased the number of authorized shares from fourteen million (14,000,000) to forty-four million (44,000,000), of which four million have been designated as preferred stock.

On January 13, 1997, the Board of Directors declared a one-for-two reverse stock split which became effective as of December 23, 1997. All share data and per share amounts have been adjusted to reflect the reverse stock split on a retroactive basis.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1999

NOTE 14-STOCKHOLDER'S EQUITY (CONTINUED)

Private Placement

Between May and December 1997, the Company sold through a Private Placement, 55.4 units at a price of \$25,000 per unit. Each unit consisted of the following:

- 1999 30,000 shares of common stock.
- 1999 A warrant to purchase up to 30,000 shares of common stock at \$4.00 per share through March 15, 1999.
- 1999 An unsecured 10% convertible promissory note in the amount of \$10,000 payable on December 4, 1998. The notes are convertible, at the sole option of the Company, into 20,000 shares of common stock and one warrant (same terms as described in #2). If the Company exercised its option to convert any outstanding notes, then it must convert all of the notes.

On December 4, 1998, the Company paid approximately \$72,000 of accrued interest and converted all the \$554,000 of convertible promissory notes into 1,108,000 common shares and warrants to purchase 1,662,000 common shares. These warrants expired on March 15, 1999 without exercise.

In connection with this conversion, the Company recorded a non-cash, interest charge of approximately \$220,600. This amount represents a beneficial conversion feature and was calculated as the difference between the price at which the Company converted such shares (\$.50), and the market price of the Company's stock on the date the debt was issued (\$1.81 weighted averaged), aggregated by the total shares issued. Current accounting rules limit the amount of the beneficial conversion feature to the face value of the notes (\$554,000), less the amount of discount on the notes previously recognized (\$333,400). No tax benefit was recorded in connection with this interest charge as it is not deductible for federal income taxes.

Warrants

In February 1995, the Company issued warrants to a financial consultant to purchase 100,000 shares at \$2.00 per share pursuant to the terms of a four-year agreement. Based on a market valuation of \$3.00 per share, the expense to be recognized over the life of the agreement is \$100,000. During the year ended September 30, 1996, 12,500 shares were purchased. In 1997 and 1998, no shares were purchased. For the year ended September 30, 1998, the amount charged to operations and credited to paid-in capital was \$9,730. The unexercised warrants expired on January 31, 1999 and operations for the year ended September 30, 1999 were credited for 62,500 representing the reversal of the related expense.

In December 1994, the Company issued 500,000 units which included one Class A warrant and one Class B warrant under the terms of a private placement. The terms of the warrants are as follows:

	NUMBER OF SHARES PER WARRANT	EXERCISE PRICE	EXPIRATION DATE
Class A	1	\$3.50	December 31, 1996
Class B	1	.50	September 30, 1999

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1999

NOTE 14 – STOCKHOLDERS' EQUITY (CONTINUED)

The Class A and Class B warrants have expired. No warrants were exercised in Fiscal 1998 or 1997. In Fiscal 1999, 215,500 Class B warrants were exercised.

During Fiscal 1999 the Company issued warrants to three consultants as partial consideration for services in such areas as investment banking and stockholder matters. In Fiscal 1999 the Company recorded approximately \$201,000 of compensation expense associated the issuance of these warrants.

A summary of warrants outstanding at September 30, 1999, follows:

<u>ISSUE</u>	<u>OUTSTANDING WARRANTS</u>	<u>EXERCISE PRICE</u>	<u>EXPIRATION DATE</u>	<u>VESTED</u>
Consultant	300,000	\$1.75*	May 20, 2002	75,000
Consultant	75,000	\$1.75	February 28, 2004	75,000
Consultant	<u>5,000</u>	\$1.50	July 23, 2001	5,000
	<u>380,000</u>			

*Reflects average exercise price for all warrants granted at prices of \$1.50, \$1.75 and \$2.00 for three tiers each of 100,000 warrants.

Options

In October 1994, the Company granted options for two officers of the Company to purchase 150,000 shares of common stock each at a price of \$1.50 per share, which was in excess of market value at that time. On December 11, 1998, as part of a new consulting agreement with one of the officers, the exercise price was reduced to \$1.10 per share. The options are exercisable over a five year period commencing December 1, 1995. No options were exercised in Fiscal 1999 and 1998.

In December 1996, the Board of Directors adopted the 1996 Stock Incentive Plan, pursuant to which up to four million (4,000,000) shares of common stock may be issued to officers and employees of the Company upon the exercise of incentive stock options and nonqualified stock options. The exercise price of the incentive options may not be less than the fair market value of the common stock at the date the option is granted. The exercise price of the nonqualified options is established by the stock option committee. All options expire ten years after the date of grant and generally vest as follows; 37% after one year, 67% after two years and fully vest after three years. In the years ended September 30, 1999 and 1998, the Company issued an aggregate of 863,750 options including 725,000 options to three of the Company's officers. During the year ended September 30, 1998, a former officer of the Company exercised 75,000 options providing proceeds to the Company of \$121,500.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1999

NOTE 14 – STOCKHOLDERS’ EQUITY (CONTINUED)

A summary of stock option activity follows for the respective fiscal years:

	<u>1999</u>		<u>1998</u>	
	<u>Shares</u>	<u>Exercise Prices</u>	<u>Shares</u>	<u>Exercise Prices</u>
Balance Beginning of Year	1,051,875	\$1.10 - \$3.00	1,173,125	\$1.01 - \$2.00
Granted	835,000	\$1.75 - \$3.25	28,750	\$2.00 - \$3.00
Exercised	-		(75,000)	\$1.62
Canceled	-		(75,000)	\$1.62
Balance End of Year	<u>1,886,875</u>	\$1.10 - \$3.25	<u>1,051,875</u>	\$1.10 - \$3.00

Of the total outstanding options at September 30, 1999, 300,000 options expire in Fiscal 2000, 723,125 in Fiscal 2007 and 28,750 in Fiscal 2008 and 835,000 in Fiscal 2009.

NOTE 15 – 401(K) PLAN

The Company has a 401(k) profit sharing plan covering substantially all employees who meet eligibility requirements.

Profit sharing expense amounted to \$25,354 and \$24,866 for the years ended September 30, 1999 and 1998, respectively.

NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts at which cash and cash equivalents, accounts receivable, long-term debt, accounts payable and accrued expenses and other current liabilities are presented in the balance sheet approximate their fair value due to their short maturities.

The following table presents the carrying amounts and fair values at September 30, for the following:

	<u>1999</u>		<u>1998</u>	
	<u>CARRYING AMOUNT</u>	<u>FAIR VALUE</u>	<u>CARRYING AMOUNT</u>	<u>FAIR VALUE</u>
Notes receivable	\$354,142	\$358.150	\$696,598	\$687,257
Notes and loans receivable –officers	83,961	66,429	116,273	90,658

The fair values of the above items have been determined based on discounted cash flow using a market rate of interest at the balance sheet date as applicable to comparable items.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1999

NOTE 17 – ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company has adopted the disclosure-only provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” but applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for the stock options granted. No expense was recognized in the year ended September 30, 1999 and 1998. If the Company had elected to recognize expense in the year ended September 30, 1999 and 1998 for the stock options granted based on the fair value at the date of grant consistent with the method prescribed by SFAS No. 123, net income and income per share would have been changed to the pro forma amounts indicated below:

	<u>1999</u>		<u>1998</u>	
	<u>AS REPORTED</u>	<u>PRO FORMA</u>	<u>AS REPORTED</u>	<u>PRO FORMA</u>
Net income (loss)	\$645,774	\$246,367	\$(1,328,676)	\$(1,340,869)
Income (loss) per share \$.11	.04	(.29)	(.29)

The fair value of the stock options used to compute pro forma net loss and loss per share disclosures is the estimated present value at grant date using the Black-Scholes option-pricing model with the following weighted average assumptions: expected volatility of 38% (1997- 25%); risk-free interest rate of 6.0% (1998- 4.3%); and an expected holding period of five years.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1999

NOTE 18- BUSINESS SEGMENT INFORMATION

The Company adopted SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information" which establishes standards for reporting information about operating segments, and requires disclosures about products, geographic areas and major customers.

The Company operates in a single segment that provides soft-sided carrying solutions for portable electronic devices. This Carrying-Solution Segment designs and markets products to its customers that include wireless telecommunications, medical and computer companies. The carrying solution segment operates in geographic regions that include the United States and Europe. Other geographic sales include Australia and Asia. Prior to 1999 the Company did organize its business geographically and, as such, no prior year information is available. Segments are defined based primarily on the location of the customer. :

Segment information is as follows (in thousands):

	<u>1999</u>
Sales:	
United States.....	\$ 5,827
Europe	13,958
Other foreign countries.....	768
Total sales.....	<u>\$ 20,553</u>
Operating income (loss):	
United States.....	\$ 72
Europe	4,483
Other foreign countries.....	(101)
Corporate – unallocated.....	<u>(3,001)</u>
Total operating income	<u>\$ 1,453</u>

ALLOCATION OF EXPENSES:

The Company operates a procurement and quality control center in Hong Kong. The cost of operating the center is allocated to segments based on their percentage of sales. The Company does not allocate taxes, other income, other expense, interest income, interest expense or general and administrative expenses to individual segments.

IDENTIFIABLE ASSETS:

Identifiable assets by segment are as follows (in thousands):

	<u>1999</u>
United States.....	\$ 1,366
Europe.....	4,583
Other foreign countries	273
Unallocated Corporate	<u>3,604</u>
Total Assets	<u>\$ 9,826</u>

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1999

NOTE 19 - YEAR 2000 COMPLIANCE

The Company addressed the issue of software applications which were unable to recognize 'OO' in their program code. The Company evaluated its alternatives and elected to acquire a new data system, rather than upgrade its existing systems and applications. During Fiscal 1999, the Company expended approximately \$150,000 to install new hardware and software. Internal staff costs associated with training were expensed as incurred, while cost of the new system is being capitalized and amortized over its useful life. The Company believes that its data and other systems are Year 2000 compliant.

NOTE 20- RESTATEMENT

The consolidated financial statements, as previously reported, for the year ended September 30, 1999 have been restated to include stock-based compensation expense in the amount of \$201,093 associated with the issuance of stock warrants to consultants. See Note 14 for a description of the warrants.

The impact of the restatement on previously reported amounts is as follows:

	Year Ended September 30, 1999	
	As Reported	As Restated
Net income (loss)	\$846,867	\$645,774
Per Share Amounts:		
Basic	\$.14	\$.11
Diluted	\$.14	\$.11
Accumulated deficit	(\$2,325,569)	(\$2,526,662)
Additional paid in capital	\$7,679,768	\$7,880,861

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

<u>COLUMN A</u>	<u>COLUMN B</u>	<u>COLUMN C</u>	<u>COLUMN D</u>	<u>COLUMN E</u>
<u>DESCRIPTION</u>	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO OPERATIONS	DEDUCTIONS	BALANCE AT END OF YEAR
Allowance for doubtful accounts				
Year ended September 30, 1997	\$50,000	\$41,333	\$ -	\$91,333
Year ended September 30, 1998	91,333	19,467	-	110,800
Year ended September 30, 1999	110,800	23,000	-	133,800

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

EXHIBIT 11 - COMPUTATION OF INCOME PER COMMON SHARE

	<u>YEARS ENDED SEPTEMBER 30,</u>		
	<u>1999</u>		<u>1998</u>
NUMERATOR			
Income (loss) from continuing operations:			
Income (loss) from discontinued operations	\$645,774		\$(1,328,676)
Preferred dividends	<u>-</u>		<u>-</u>
	645,774	BASIC	(1,328,676)
Impact of potential common shares:			
Convertible debt	<u>-</u>		<u>N/A</u>
	<u>\$645,774</u>	DILUTED	<u>(\$1,328,876)</u>
DENOMINATOR			
Weighted average number of common shares outstanding – see schedule	5,751,266	BASIC	4,650,641
Impact of potential common shares:			
Stock options and warrants	<u>70,288</u>		<u>N/A</u>
	<u>5,821,554</u>	DILUTED	<u>4,650,641</u>
BASIC EPS			
Net Income per share	<u>\$.11</u>		<u>\$(.29)</u>
DILUTED EPS			
Net Income per share	<u>\$.11</u>		<u>\$(.29)</u>

NOTE - For the year ended September 30, 1998, common stock equivalents have not been included as their effect would be antidilutive. Common stock equivalents include stock options and warrants and convertible debt.

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

EXHIBIT 11 - COMPUTATION OF INCOME PER COMMON SHARE

CALCULATIONS

	<u>YEARS ENDED SEPTEMBER 30</u>	
	<u>1999</u>	<u>1998</u>
1. STOCK OPTIONS		
<u>TREASURY STOCK METHOD APPLIED TO</u> <u>STOCK OPTIONS</u>		
SALE OF COMMON STOCK		
TOTAL OPTIONS AND WARRANTS OUTSTANDING	450,000	1,121,250
AVERAGE PRICE	<u>\$1.10</u>	<u>\$1.87</u>
TOTAL	<u>\$495,000</u>	<u>\$2,091,719</u>
REPURCHASE OF COMMON STOCK		
PROCEEDS	\$495,000	\$2,091,719
AVERAGE STOCK PRICE	<u>\$1.30</u>	<u>\$2.48</u>
SHARES REPURCHASED	<u>379,712</u>	<u>845,058</u>
NET INCREASE IN SHARES		
SHARES SOLD	450,000	1,121,250
SHARES REPURCHASED	<u>379,712</u>	<u>845,058</u>
<u>INCREASE IN SHARES</u>	<u>70,288</u>	<u>276,192</u>
2. CONVERTIBLE DEBT		
TERMS:		
INTEREST RATE	-	10%
PAR	-	10,000
CONVERTIBLE INTO SHARES	-	20,000
CONVERSION PRICE	-	N/A
# OF UNITS	-	55.4
TOTAL DEBT	-	\$554,000
<u>IF CONVERTED METHOD APPLIED TO CONVERTIBLE DEBT</u>		
NUMERATOR INCREASE – INTEREST SAVINGS		
ASSUMING A 40% TAX RATE	<u>\$ -</u>	<u>\$ 33,240</u>
DENOMINATOR INCREASE – ASSUMING CONVERSION	<u>-</u>	<u>1,108,000</u>

FORWARD INDUSTRIES, INC. AND SUBSIDIARIES

EXHIBIT 11 - COMPUTATION OF INCOME PER COMMON SHARE

Computation of Weighted Average Number of Common Shares Outstanding

YEAR ENDED SEPTEMBER 30, 1999			
<u>Dates Outstanding</u>	<u>Shares Outstanding</u>	<u>Fraction of Period</u>	<u>Weighted Average Shares</u>
October through November	4,798,141	2 / 12	799,690
Conversion of debt to Common stock in February	<u>1,108,000</u>		
December through February	5,906,141	3 / 12	1,476,535
Conversion of Class B Warrants in March	<u>22,000</u>		
March through May	5,928,141	3 / 12	1,482,035
Conversion of Class B Warrants in June	<u>10,000</u>		
June through August	5,938,141	3 / 12	1,484,536
Conversion of Class B Warrants in September	183,500		
Purchase of Treasury Shares	<u>(20,000)</u>		
September	6,101,641	1 / 12	508,470
Weighted Average Shares Fiscal 1999			<u>5,751,266</u>

YEAR ENDED SEPTEMBER 30, 1998			
<u>Dates Outstanding</u>	<u>Shares Outstanding</u>	<u>Period Held in Days</u>	<u>Weighted Average Shares</u>
October through November	4,138,141	2 / 12	689,690
Common stock issued in connection with private placement in December	<u>585,000</u>		
December through May	4,723,141	6 / 12	2,361,571
Exercise of stock options into common stock in June	<u>75,000</u>		
June through September	4,798,141	4 / 12	<u>1,599,380</u>
Weighted Average Shares Fiscal 1998			<u>4,650,641</u>