FORWARD INDUSTRIES INC
Form 10KSB
November 18, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2005

[ ] 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	**13-1950672**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1801 Green Road, Suite E, Pompano Beach, FL	**33064**
(Address of principal executive offices)	(Zip Code

(954) 419-9544
(Issuer's Telephone Number, including Area Code)
Securities registered under Section 12(b) of the Exchange Act:

(Title of class)	Name of each exchange on which registered

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

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

Check whether the issuer: (1) 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 [**X**] 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 or any amendment to this Form 10-KSB. [ ]

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

The issuer's revenues for its most recent fiscal year: $51,868,962

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

Approximately $174,361,053 based on the average of the closing bid price ($23.93) and closing asked price ($23.97), as reported on the NASDAQ SmallCap Market on November 10, 2005.

As of November 10, 2005, 7,833,538 shares of the issuer's common stock, $.01 par value per share, were outstanding.

Transitional Small Business Disclosure Format: Yes [ ] No [**X**]

FORM 10-KSB ANNUAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005
FORWARD INDUSTRIES, INC.

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Note Regarding Use of Certain Terms

In this Annual Report on Form 10-KSB, unless the context otherwise requires, the terms "we", "our", and "the Company" refer to Forward Industries, Inc., a New York corporation, together with its consolidated subsidiaries; "Forward Industries" refers to Forward Industries, Inc.; "common stock" refers to the common stock, $.01 par value per share, of Forward Industries, Inc.; "Koszegi" refers to Forward Industries' wholly owned subsidiary Koszegi Industries, Inc., an Indiana corporation; "Koszegi Asia" refers to Forward Industries' wholly owned subsidiary Koszegi Asia Ltd., a Hong Kong corporation; "Forward Innovations" refers to Forward Industries' wholly owned subsidiary Forward Innovations GmbH, a Swiss corporation; "you" refers to holders of Forward's common stock that are not affiliates (as such term is defined in Rule 144(a)(1) under the Securities Act of 1933) of Forward; "Commission" refers to the United States Securities and Exchange Commission; "Securities Act" refers to the United States Securities Act of 1933; "Exchange Act" refers to the United States Securities Exchange Act of 1934; Fiscal 2005 refers to our fiscal year ended September 30, 2005; Fiscal 2004 refers to our fiscal year ended September 30, 2004; Fiscal 2003 refers to our fiscal year ended September 30, 2003; "EMEA Region" means the geographic area encompassing Europe, the Middle East and Africa; and APAC Region means the Asia Pacific Region, encompassing Australia, New Zealand, Hong Kong, Taiwan, China, South Korea, Japan, Singapore, Malaysia, Thailand, Indonesia, India, the Philippines and Vietnam.

Forward-Looking Statements

This Annual Report contains forward-looking statements that are not based on historical fact and that involve predictions of future events based on assessments of certain risks, developments, and uncertainties. Such forward looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, can be identified by the use of forward-looking terminology such as "may", "will", "should", "expect", "anticipate", estimate", "intend", "continue", or "believe", or the negatives or other variations of these terms or comparable terminology. Forward looking statements may include projections, forecasts, or estimates of future performance. Forward looking statements are based upon assumptions that we believe to be reasonable at the time such forward looking statements are made. Whether those assumptions will be realized will be determined by future factors, developments, and events, which are difficult to predict and may be beyond our control. Actual factors, developments, and events may differ materially from those assumed. Such uncertainties, contingencies, and developments, including those discussed in Item 6 in Management's Discussion and Analysis of Financial Condition and Results of Operations and in "Risk Factors", could cause our future operating results to differ materially from those set forth in any forward looking statement. Such factors include, among others, the following: our success in winning new business from our customers and against competing vendors; whether replacement "in box" programs that we win will be as successful as those that are replaced; levels of demand generally for cellular handsets and blood glucose monitoring devices for which we supply carry solutions; general economic and business conditions, nationally and internationally in the countries in which we do business; demographic changes; changes in technology, including developments in cellular handsets or the control of diabetes; increased competition; changes affecting, the loss of, one or more of our principal OEM customers; governmental regulations and changes in, or the failure to comply with, governmental regulations; and other factors included elsewhere in this Annual Report and our other reports filed with the Commission. Accordingly, there can be no assurance that any such forward looking statement, projection, forecast or estimate can be realized or that actual returns or results will not be materially lower than those that may be estimated.

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.

Please consider carefully the Risk Factors disclosure contained in Item 6 of this Annual Report.

PART I

ITEM 1 - DESCRIPTION OF BUSINESS

General

We design, market, and distribute carry solutions for hand held consumer electronics products, including soft-sided carrying cases, bags, clips, hand straps, decorative face plates, and other accessories for cellular telephones, medical monitoring and diagnostic kits, cameras, and other consumer electronic products. We sell these products in two different customer markets. Our principal customer market is original equipment manufacturers, or "OEMs", of these consumer electronic products, who ship our products as accessories "in box" with their product offerings, and to an increasing extent the contract manufacturing firms of these OEM customers. In Fiscal 2005, sales to OEM customers (or their contract manufacturers) accounted for 97% of our revenues.

Our second, and much smaller, customer market consists of wholesalers and retailers in the cell phone aftermarket to whom we sell carry solutions under non-exclusive licenses from Motorola, Inc. and SAGEM, respectively. Under the Motorola license, we have been granted the rights to market such carry solutions bearing Motorola's trademarks in the EMEA Region and in the APAC Region. Under the SAGEM license, we market such carry solutions bearing SAGEM's trademarks in the EMEA Region. In Fiscal 2005, sales of licensed products accounted for 3% of our revenues.

Our suppliers custom manufacture our carrying cases and related products to our order based on our designs and know-how and to our customers' specifications. Typically, we ship these products to our OEM customers to be packaged with their consumer products prior to distribution and sale. In the case of sale of carry solutions to our aftermarket customers under license, we ship these as stand alone stock units to wholesalers and retailers. We do not manufacture any of the products that we sell and distribute.

Forward Industries, Inc. was incorporated in 1961 under the laws of the State of New York. Until 1989, our primary business was the manufacture and distribution of advertising specialty and promotional products. In 1989, we acquired Koszegi Industries, Inc., or "Koszegi", an Indiana corporation that manufactured soft-sided carrying cases at its South Bend, Indiana, facility. Our carrying case business progressively increased to the point where it became the predominant part of our business. In September 1997, we sold the assets relating to the production of advertising specialty and promotional products and ceased operating in that business segment.

In May 1994, we formed Koszegi Asia Ltd., or "Koszegi Asia", as a wholly owned, Hong Kong-based subsidiary of Forward Industries to facilitate a more nimble and robust carrying case procurement and quality control infrastructure and to further enhance our foreign sourcing capabilities. With Koszegi Asia's ability to source quality cases in China on short lead times, we determined that our domestic production capability was unnecessary, and we now source all our product supply from Chinese suppliers. See "Product Supply."

In recent years we have focused on strengthening our sales and distribution network and commercial relationships with our key OEM customers. We have been creative in addressing and responding to our OEM customers' needs to facilitate their distribution requirements. In addition, we have sought to strengthen our presence in secondary markets. In July 2005, our license agreement with Motorola, renewed in October 2004, was amended to expand the licensed territory to include the APAC Region as well as the EMEA Region. In February 2005 we entered into a license agreement with SAGEM, a French multinational electronics firm, for the distribution of cell phone carry solutions bearing the SAGEM trademarks throughout the EMEA Region. In May 2001, we formed Forward Innovations GmbH, a wholly owned Swiss subsidiary of Forward Industries, or "Forward Innovations", to facilitate distribution of licensed products as well as to further develop our OEM European business presence. Forward Innovations has allowed us to better serve our European customers. See "Marketing and Distribution.

Products

Through our wholly owned subsidiaries, Koszegi and Forward Innovations, we design and market to our customers' orders carry solutions for hand held consumer electronics, including soft-sided carrying cases, bags, clips, hand straps, decorative faceplates, and other accessories made of leather, nylon, vinyl, plastic, PVC and other synthetic fabrics. Our products are used by consumers for carrying or transporting portable electronic products such as cellular telephones, blood glucose monitoring kits, cameras, and other consumer hand held electronic devices. Our carrying cases are designed to enable these devices to be stowed in a handbag, briefcase, or backpack, clipped to a belt, or carried in a pocket.

Cases for Cellular Handsets. We sell carrying cases and related accessory products for cellular telephone handsets to OEM handset suppliers and, under license, to retailers and wholesalers. These products include carry cases for cell phone handsets, cases for handset camera attachments, handset plastic belt clips, carrying case straps and bags, decorative faceplates, wrist straps, cleaning cloths, and other accessory products. Our selling prices for these products vary widely, depending on the specific product, terms of the order, quantity ordered, and distribution channel, and generally range from $.60 or less to $8.00 per unit in the case of licensed product sales. In the case of sales to OEM customers, the manufacturer or its contract supplier includes the cases or other accessories "in box" as a custom accessory for the cellular handset. In the case of sales of licensed products, we sell and ship these products as separately packaged, aftermarket accessories to third party distributors under our license agreements with Motorola and SAGEM.

Cases for Medical Kits. We sell our medical monitoring and diagnostic kit carrying cases directly to original equipment manufacturers of electronic blood glucose monitoring kits for personal use by diabetics. We typically sell these cases at prices ranging from $0.60 to $2.80 per unit. The manufacturer or its contract supplier includes the cases "in box" as a custom accessory for its blood glucose testing and monitoring kits. The kits typically include a small, electronic blood glucose monitor, testing strips, lancets for drawing a drop of blood and our carrying case, customized with the manufacturer's logo and designed to fit the glucose monitor, testing strips and lancets. We believe that users of these monitoring kits may purchase new kits as frequently as every two years, depending on advances made in the blood glucose measurement technology and functionality. As the kits and technology change, our carrying case designs change to accommodate the changes in size, shape and layout of the electronic monitoring device, strips and lancet.

Other Carrying Case Products. We also sell carrying cases, belt clips, and other carry and storage solutions for a diverse array of other portable electronic and other products, including cases for cameras, MP3 players, retail bar code scanners, and a variety of other products. Our selling prices for these products also vary across a broad range, depending on the size and nature of the product for which we design the carry solution.

Product Development. In our OEM business, typically we receive product orders in connection with our customer's introduction and rollout to market of a new product which the customer has determined to accessorize and customize with our products. Our OEM customers provide us with the desired functionality, size and other basic specifications for the carrying case or other product, including the OEM's identifying logo imprint on the product. Our in-house design and production staff develops detailed design options and more detailed product specifications for our customer's evaluation, and in conjunction with our customer we then engage in the process of refinement of design and specifications. Working with our suppliers, we furnish our customer with product samples. Once our customer approves a product sample for commercial introduction and order, we work with our suppliers to ensure conformity to the definitive product samples and specifications. Manufacture and delivery of products in production quantities is then coordinated with our OEM customer's manufacturing and shipment schedules so our carry solutions can be boxed with the consumer electronic product.

In the case of sales of branded products pursuant to our license agreements, we market carrying cases and related accessory products for cell phone handsets based on our own designs or designs furnished by our licensor. Our in-house design staff develops detailed design options and more detailed product specifications for the licensor's evaluation. We work with our licensors to refine design specifications and subsequently submit production samples for approval. Upon approval, we offer such products to retailers and other distributors in the licensed territory. Licensed products have, to date, been manufactured for both inventory and customer order.

Research and development costs are not material to our business.

Marketing, Distribution, and Sales

Geographic Sales Distribution

We sell our products globally. The percentages of net sales to customers by their geographic location for the fiscal years ended September 30, 2005, 2004, and 2003 are as follows:

	Percentage of Net Sales by Geographic Location for the Fiscal Years Ended September 30,		
	2005	**2004**	**2003**
United States	23%	40%	60%
EMEA	41%	45%	38%
Other (primarily Asia)	36%	15%	2%
Total	**100%**	**100%**	**100%**

The variability of percentages of sales to customers by geographic location during these periods, and in particular the increasing importance of Asia, is attributable to fluctuations in order flow from our large OEM customers and, increasingly, the fact that, in certain cases, our OEM customers have outsourced product manufacture to contract manufacturers located in China or elsewhere in Asia. See Note 11 to the Consolidated Financial Statements included elsewhere in this Annual Report.

Sales Force

During the fiscal years ended September 30, 2005 and 2004, approximately 95% and 90%, respectively, of total net sales were made directly by our employees, who work on a salaried (plus incentive bonuses) and not a commission basis. Depending on their customer accounts and whether sales are made to OEM customers or under license, such employees are based in our executive offices in Florida, in Switzerland, or in Hong Kong. The remaining sales were made through independent sales representative organizations, which receive a commission averaging 5% of the net sales amount.

Channels of Distribution

We have two channels of distribution for our products: first, direct to our OEM customers, which package our carry solutions products in box with their products, although increasingly, we may ship directly to the OEM customer's contract manufacturer, which similarly packages our products in box The second distribution channel for our products is under our license agreements, as separately packaged carry solution accessories bearing our licensor's trademarks to distributors and retailers for sale in the aftermarket. In the three fiscal years ended September 30, 2005, 2004 and 2003, approximately 97%, 89%, and 88%, respectively, of our net sales were made to OEM customers (or their contract manufacturers), and sales of licensed products designed and developed by us under license accounted for approximately 3%, 11%, and 12%, respectively, of total net sales.

OEM Product Sales. In the three fiscal years ended September 30, 2005, 2004, and 2003, OEM products sales for cellular phone handsets accounted for 67%, 34%, and 30%, respectively, of our total net sales, and OEM product sales for blood glucose monitors accounted for approximately 23%, 43%, and 50%, respectively, of our total net sales. In the three fiscal years ended September 30, 2005, 2004, and 2003, approximately 7%, 11%, and 8%, respectively, of total net sales represented sales of carrying cases for products other than blood glucose monitoring kits or cellular phone handsets: these include custom cases for cameras, portable oxygen tanks, bar code scanners, MP3 players and other consumer electronic devices.

Of our approximately 200 active customers, five customers, including their subsidiaries, affiliates, or contract manufacturers, accounted for approximately 88% of our total net sales in Fiscal 2005. Our principal customers include Motorola, Inc. and Nokia Corp ("Nokia"), for cellular telephone carrying cases and accessories, and Abbott Laboratories ("Abbott"), Bayer Healthcare LLC, ("Bayer") and Lifescan, Inc. ("Lifescan"), a subsidiary of Johnson and Johnson, for carrying cases for diabetic monitoring kits. These customers package our cases or other accessories "in box" with their branded products, or use them as promotional items. Our three largest customers in terms of our net sales are Motorola, Inc., Lifescan, and Nokia. Motorola, Inc. (together with its respective international affiliates, "Motorola"), is our largest OEM customer, accounting for approximately 56% and 25%, respectively, of total net sales in the fiscal years ended September 30, 2005 and 2004, respectively (excluding sales of Motorola-branded products to third parties under our license agreement). In the fiscal years ended September 30, 2005 and 2004, sales of cases for Lifescan diabetic monitoring kits accounted for approximately 12% and 15%, respectively, of our total net sales. Nokia accounted for approximately 11% and 9%, respectively, of our total net sales in the fiscal years ended September 30, 2005 and 2004, primarily for carrying cases, hand straps and cleaning cloths. The loss of any of the above named customers would have a material adverse effect on our business, results of operations and financial condition. See "Item 6. Management's Discussion and Analysis-Variability of Revenues and Results of Operations;-Risk Factors-*Our business is characterized by a high degree of customer concentration. Three significant customers accounted for 79% of revenues in Fiscal 2005, and five customers accounted for 88% of revenues in Fiscal 2005; the loss of, or material reduction in orders from, any of these customers would materially and adversely affect our results of operations and financial condition*."

Licensed Product Sales. We have entered into non-exclusive licenses with each of Motorola and SAGEM which grant us the right to sell cell phone carry cases and other accessories branded with their respective trademarks in designated territories. The SAGEM license is not material to our revenue or expenses.

<u>Motorola License</u>. Effective October 1, 2004, we entered into a new license agreement with Motorola pursuant to which we are granted the non-exclusive right to sell cellular telephone handset carry cases and other carry solutions bearing Motorola trademarks in the EMEA Region. The license permits us to sell and distribute such licensed products based on our proprietary designs or Motorola designs directly to third party distributors, including wholesalers and retailers in the EMEA Region. This license agreement, which expires on December 31, 2007, unless earlier terminated in accordance with its terms, modifies and continues the arrangements to sell licensed products bearing Motorola trademarks in the EMEA Region under the initial license agreement that we entered into with Motorola effective January 2001 and which expired September 30, 2004. In July 2005 the current license was amended to expand the licensed territory to include the APAC Region in consideration of payment of additional royalties on actual sales in that territory.

Under the current agreement we are required to pay royalties to Motorola based on specified percentages of the revenue derived from the sale of licensed products to third parties, depending upon the terms of the sale, and we have guaranteed to pay Motorola minimum royalty payments over the following three contract periods relating to the EMEA Region (the discussion below does not include the minimum royalties payable in respect of sales in the APAC Region, which are calculated separate and apart from the royalties in respect of EMEA Region sales):

- Contract Period 1: October 1, 2004 to December 31, 2005
- Contract Period 2: January 1, 2006 to December 31, 2006
- Contract Period 3: January 1, 2007 to December 31, 2007

The minimum royalty payment to Motorola for Contract Period 1 is $375,000, or $300,000 annualized. Prior to the end of Contract Period 1 and Contract Period 2, the Company and Motorola have agreed that, at such times, they will establish new minimum royalty amounts for Contract Period 2 and Contract Period 3, respectively. If the Company is unable to reach agreement at either such time with Motorola on the minimum royalty payment for Contract Period 2 or Contract Period 3, as the case may be, then the parties have agreed that the minimum royalty payment for the ensuing relevant period may not be less than seventy-five per cent (75%) of the annualized royalties payable in respect of actual sales for the prior contract period, provided, however, that in no event shall the minimum royalty in such ensuing contract period be less than seventy-five percent (75%) nor more than one-hundred-twenty-five percent (125%) of the amount of the prior period's annualized minimum royalty.

As to APAC Region sales and royalties, which we do not believe will be material during the fiscal year ending September 30, 2006, we are currently engaged in market research in various Asian markets and are preparing to develop distribution channels in these markets.

Sales to third parties of licensed products under the Motorola agreement accounted for approximately 3% and 11% of our total net sales in the fiscal years ended September 30, 2005, and 2004, respectively.

In addition to other customary terms and conditions typical of agreements of this kind, we may be required to indemnify Motorola in respect of damage to its intellectual property, to cause our designated manufacturers to comply with certain terms of the manufacturing agreement to which they are a party pursuant to the license, or to incur costs and expenses in other respects. See "Item 6. Management's Discussion and Analysis-Risk Factors" for a discussion of indemnification obligations, manufacturing compliance and certain other risks under the license agreement.

Computer Carrying Case Initiative

In addition to marketing carry solutions to OEM customers in the cellular phone and blood glucose monitoring kit markets, we began an initiative in October 2003 to target OEM manufacturers and distributors of laptop, handheld, and notebook computers, a market for our independent product lines of cases that we previously exited in fiscal 2001. Our new strategy in this market is similar to that in our cellular phone and blood glucose kit markets-the distribution and sale of carrying cases to OEMs, as well as distributors, to their specifications. We believe that the laptop, handheld, and notebook computer market constitutes a natural complement for our existing markets and involves similar design, manufacturing, execution, and distribution competencies and characteristics. As a key part of this initiative, in October 2003 we hired a senior sales executive with extensive experience in the market for laptop, handheld, and notebook computer carrying cases to lead our development efforts in this regard. Because this carrying case market is characterized by longstanding relationships between the OEM and the carrying case supplier, we anticipate that this market will take time to develop before significant revenue contributions, if any, may be realized.

Credit Risk

We sell our products on credit terms customary in the industry. Historically we have not had significant credit problems with our customers. Our significant OEM customers are large, multi-national companies with good credit histories. None of these customers is or has been in default to us, and payments are generally received from them on a timely basis. Three customers, including their international affiliates, accounted for approximately 88% of the Company's accounts receivable at September 30, 2005. In recent quarters, certain of our OEM customers have requested that we ship product to their designated contract manufacturer and invoice such manufacturers for the products to be included in box with the cellular handsets or blood glucose monitors assembled by such contract manufacturers. In these cases, even though our order flows originate with and depend on our relationship with the OEM, our credit risk lies with the contract manufacturer. Our OEM customer does not guarantee the credit of the contract manufacturer to whom the OEM requests us to ship, and such orders may be significant in volume from time to time. In most cases, these contract manufacturers are themselves major multinational enterprises with good credit histories. Any failure of any such customer (or its contract manufacturer) to pay part or all the sums owed to us when due could have a material adverse effect on our liquidity, business prospects, and results of operations. See "Item 6. Management's Discussion and Analysis-Risk Factors."

Foreign Exchange Risk

Certain of our OEM customers have established sales and manufacturing operations in China. In addition, as noted above, certain of these or other OEM customers may outsource manufacturing of the products with which our carrying case solutions are packaged "in box" to contract manufacturers that are located in China or in Southeast Asia. Our payment and remittance arrangements with certain customers may subject these arrangements to Chinese or other local currency regulations. We may be required to invoice in local currency and take payment in local currency or U.S. dollars, in some cases through intermediaries that possess foreign exchange licenses. In the event that any foreign government were to impose regulatory restrictions on the ability to effect conversion of local currency into U.S. dollars, repatriation of U.S. dollars or other currencies to the United States, or payment in any form to foreign business entities, or were to impose or enforce tighter restrictions on foreign exchange license holders, our receipt or recognition of U.S. dollars in payment, directly or indirectly, of invoices for sales of our products could be delayed or otherwise affected. If this were to affect receipt or recognition of material amounts of revenues, our liquidity or results of operations could be materially and adversely affected. See "Item 6. Management's Discussion and Analysis-Risk Factors."

Product Supply

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

Suppliers. We procure all our supply of carrying solutions products from independent suppliers, each of which is a Chinese business entity located in China. We purchased approximately 82% and 81% of our products from five such suppliers in Fiscal 2005 and Fiscal 2004, respectively. One supplier accounted for approximately 35% and 40% of our product purchases in Fiscal 2005 and Fiscal 2004, respectively. See Note 1 to the Consolidated Financial Statements set forth in Item 7 of this Annual Report.

We do not have minimum supply requirement agreements with these or other suppliers to guarantee us supply of finished product, nor have we made purchase commitments to purchase minimum amounts from any of these suppliers. However, from time to time, we may order products from our suppliers in anticipation of receiving a customer order to meet required delivery times and, if our customer cancels the order or we fail to receive the customer order, we may be required to comply with the supply order, which would result in a loss to us as these are generally custom manufactured products unfit for sale to other customers.

We believe that other suppliers could provide us similar products on comparable terms. However, a switch to a different supplier could delay shipment of product resulting in a loss of sales that could affect our operating results and adversely influence our relationship with the affected customer. In addition, under our license agreement with Motorola our selection of a new supplier to manufacture licensed products is subject to Motorola's approval.

Product Sampling and Quality Control. Upon award of an OEM order win, our design and production staff works closely with our customer to finalize product designs and specifications and with our suppliers to coordinate production schedules, conformity to design specifications, and quality control. Depending on the customer's requirements, the product involved, and time from sampling to commercial order, our production staff, working in conjunction with our marketing department, may submit samples and refinements thereof to the customer between one and three times per product before approval for production is granted. Once the sampling process is completed for a specific product, commercial orders may be received and accepted. For most orders, our Chinese suppliers deliver product to Koszegi Asia's Hong Kong warehouse. To ensure that product manufacturing by foreign contractors meets our standards, Koszegi Asia's quality control inspection facility in Hong Kong inspects incoming product. This facility is responsible for inspection of all our Asian outsourced, outbound production. In addition, insofar as some OEM customers have relocated certain of their manufacturing and shipping facilities to China, or have outsourced their manufacturing function to contract manufacturers in China, one of our China-based suppliers has begun to supplant our Hong Kong facility in the quality control and assurance function with respect to product destined for delivery in China in order to avoid unnecessary time, expense, and potential tax and custom issues that would arise in transshipment to Hong Kong and back to China. We have entered into arrangements with this supplier to reimburse it for expense incurred in the quality control and assurance function, which is conducted under supervision of employees of Koszegi Asia. These expenses are reflected in cost of goods sold in our results of operations. In January 2004, our Hong Kong inspection facility renewed its ISO 9001:2000 quality certification.

When Koszegi Asia's Hong Kong inspection and quality control facility approves carry solutions products for shipment, the products are typically shipped on container carrier vessels. In certain cases, at the customer's request, we will ship by air freight or transfer products to a customer's location in Hong Kong. Most ocean-going shipments bound for the Untied States are off-loaded at the port of Los Angeles or San Francisco, but certain customers arrange for shipments to East coast ports, such as Miami or Philadelphia. European shipments generally are routed via Rotterdam, Frankfurt, or London. Disruptions or delays in off-loading cargo at any of these domestic or foreign ports as a result of labor disputes, physical damage to port facilities or otherwise may delay shipments to our customers and cause re-routing of containers to ports with open facilities. See "Item 6. Management's Discussion and Analysis-Risk Factors-Our shipments of products via container freight to customers in the United States and Europe are subject to delays or cancellation at port facilities due to work stoppages or slowdowns, damage caused by weather or terrorism and congestion due to inadequacy of equipment and other causes."

We ship our products to our customers by common carrier.

Insurance

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

Competition

The business in which we engage is highly competitive in terms of product pricing, design, delivery terms, and customer service. In the production of carrying cases and related carry solutions for OEM products, we estimate that we compete with approximately 1,500 United States and foreign producers and distributors. Some of our competitors are substantially larger than we are and have greater financial and other resources. We believe that we sustain our competitive position through maintenance of an extensive product design capability, rapid response time to customer requests for proposals and product shipment, competitive pricing, reliable product delivery, and product quality. We believe that our ability to compete based on product quality assurance considerations is enhanced by the local presence of our Hong Kong and outsourced Chinese quality control and shipment facilities.

Employees

At September 30, 2005, we had 51 full-time employees, of whom 3 are employed in executive capacities, 7 are employed in administrative and clerical capacities, 15 are employed in sales and sales support capacities, and 26 are employed in sourcing, quality control, and warehouse capacities. In addition, we use full-time temporary workers, of whom there were 20 such temporary workers as of September 30, 2005, primarily quality control inspectors in our Hong Kong quality control facility. The number of temporary employees varies depending on production requirements. We consider our employee relations to be satisfactory. None of our employees is covered by a collective bargaining agreement.

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

Regulation and Environmental Protection

Our products are subject to various regulations in various jurisdictions, including the United States and member states of the European Community, that restrict the use or importation of products manufactured with compounds deemed to be hazardous. We work with our suppliers to ensure compliance with such regulations. In addition, from time to time one or more customers may require testing of our products to ensure compliance with applicable consumer safety rules and regulations. Compliance with federal, state and local laws and regulations pertaining to the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had, and is not anticipated to have, any material effect upon our capital expenditures, earnings, or competitive position. Under our license agreement with Motorola, we may be responsible for ensuring our Chinese suppliers' compliance with applicable regulations, including, among others, those relating to worker safety, child labor laws, and environmental protection.

We have not been engaged in any environmental litigation or incurred any material costs related to compliance with environmental or other regulations.

ITEM 2 - DESCRIPTION OF PROPERTY

We lease approximately 10,000 square feet of office and warehouse space at 1801 Green Road, Pompano Beach, Florida, through Koszegi Industries Inc., our wholly owned subsidiary. Under the terms of the lease, which expires in June 2007, the monthly rent is approximately $10,000. We use this office space as our executive office and our United States sales office.

We lease approximately 11,700 square feet of warehouse and office space in Hong Kong, at a monthly rental of approximately $8,000 through Koszegi Asia Ltd., our wholly owned subsidiary, under a lease that expires in May 2006. We use this space as our quality control inspection facilities for products purchased from our China suppliers.

Forward Innovations, our Swiss subsidiary, leases approximately 2,000 square feet of office space in Cham, Switzerland, at a monthly rental of approximately $2,000. This lease is on a month-to-month basis and can be cancelled by us with a six-months' notice. Our landlord cannot cancel the lease prior to October 2008. We use this facility as our EMEA sales and administrative office.

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

ITEM 3 - LEGAL PROCEEDINGS

From time to time, the Company may become a party to legal actions or proceedings in the ordinary course of its business. As of September 30, 2005, there were no such actions or proceedings, either individually or in the aggregate, that, if decided adversely to the Company's interests, the Company believes would be material to its business.

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

No matter was submitted to a vote of our security holders in the fourth quarter of our fiscal year ended September 30, 2005. We anticipate that the annual meeting of shareholders in respect of the fiscal year ended September 30, 2005, will be held in April 2006.

PART II

ITEM 5 - MARKET FOR COMMON STOCK, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for common stock. The principal market for our common stock is the NASDAQ SmallCap Market. Our common stock is traded under the symbol "FORD". The following table sets forth the high and low closing bid quotations for our common stock on the NASDAQ SmallCap Market for each quarter in the last two fiscal years. These represent prices between dealers, exclusive of retail markup, markdown, or commission and do not necessarily represent actual transactions.

	Bid Price Information for Common Stock*			
	Fiscal 2005		Fiscal 2004	
	High Bid	Low Bid	High Bid	Low Bid
First Quarter	$ 4.57	$ 2.02	$2.85	$2.08
Second Quarter	$13.45	$ 3.42	$3.15	$1.94
Third Quarter	$23.37	$10.27	$3.75	$2.08
Fourth Quarter	$29.81	$15.91	$2.88	$1.90

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

On November 10, 2005, the closing bid quotation for our common stock was $23.93.

As recently as October 2002, Nasdaq advised us that our common stock did not meet the minimum price requirements for continued listing on the Nasdaq SmallCap Market under the Nasdaq Marketplace Rules and that our common stock would be delisted for failing to maintain a minimum bid price of $1.00 in accordance with Marketplace Rule 4310(c)(4). Ultimately, we maintained our Nasdaq listing without interruption. As of November 10, 2005, we believe that the Company complies with the Nasdaq Marketplace Rules in all material respects. See "Item 6. Management's Discussion and Analysis-Risk Factors."

Holders of common stock. As of November 2, 2005, there were approximately 140 holders of record of our common stock, excluding approximately 14,000 beneficial holders whose shares are held in street name.

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

Recent sales of unregistered securities. During Fiscal 2005, we did not issue and sell any shares of common stock, or securities exercisable for or exchangeable into common stock, or any other securities that were not registered under the Securities Act of 1933.

Securities authorized for issuance under equity compensation plans. For information relating to this topic, see Item 11 of this Annual Report.

Purchase of Equity Securities

No repurchases of common stock were made in the open market under our previously announced corporate stock buyback program or otherwise during Fiscal 2005. Under the stock buyback program, which was announced in September 2002 and amended in January 2004, we repurchased 36,400 shares of our common stock in the open market during the first three quarters of Fiscal 2004. Of the 400,000 shares of common stock subject to repurchase under the program, increased to 486,200 in January 2004, we purchased an aggregate of 102,600 shares at an aggregate cost of approximately $171,000.

ITEM 6 - MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with our Financial Statements and the notes thereto appearing elsewhere in this Annual Report as Item 7. This Annual Report on Form 10-KSB contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We caution you that forward-looking statements are not guarantees of future performance, developments or events; such statements identify important risks and uncertainties; and actual results, developments and events may differ materially from those in the forward-looking statements as a result of various factors, including those set forth under the caption "Risk Factors." We disclaim any responsibility to update the forward looking statements contained herein. Please refer to the discussion of "Forward Looking Statements" set forth on page 3 of this Annual Report.

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements included elsewhere in this Annual Report, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and the related disclosure of contingent assets and liabilities. At each balance sheet date, management evaluates its estimates, including, but not limited to, those related to accounts receivable, inventories, and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances at the time the estimates are made. Actual results may differ from these estimates under different assumptions or conditions. The estimates and critical accounting policies that are most important in fully understanding and evaluating our financial condition and results of operations are discussed below.

Accounts Receivable

We record an allowance for doubtful accounts for all receivables judged by us to be unlikely to be collected. The effect of the allowance is to reduce the accounts receivable reported on our balance sheet to an amount that we believe will actually be collected. Significant management judgments and estimates must be made and used in connection with establishing this valuation account, based on a combination of factors: Specifically, we analyze the age of receivable balances, our historical bad debts write-off experience, and our customers' creditworthiness to determine the appropriate allowance for doubtful accounts. At September 30, 2005, our allowance for doubtful accounts was approximately $51,000 compared to $27,000 at September 30, 2004. Increases to this account are reflected in the general and administrative expense line of our statement of income and amounted to approximately $26,000 in Fiscal 2005. Decreases to this account are the result of bad debt write-offs against the allowance and not the result of a change in accounting estimate. Although we consider our allowance for doubtful accounts to be adequate and proper, changes in economic conditions, taking on new customers, changes in customer circumstances, or other factors could have a material effect on the required allowance.

Inventory Valuation

We use certain estimates and judgments to value our inventory. Our inventory is recorded at the lower of cost or market. The majority of our inventory consists of finished goods that are custom made by our suppliers based on firm orders from our customers and held for our account. We do, however, periodically stock inventory in anticipation of orders from our customers when it appears to us commercially advantageous to do so. We also hold inventory in support of our license agreements. Each quarter, we evaluate our ending inventories for obsolescence and excess quantities. This evaluation includes analyses of inventory levels, historical loss trends, sales history, and projections of future sales demand. We establish an allowance for inventory that is considered obsolete or slow moving and physically dispose of inventory once its marketability has been determined to be zero. Inventory allowances were approximately $0.1 million at September 30, 2005, and September 30, 2004. The cost of obsolete inventory is included in cost of goods sold on our statement of income and was approximately $0.1 million in Fiscal 2005 and Fiscal 2004.

The vast majority of our production is made to customer specifications. If a customer elects not to accept delivery or defaults on a purchase order or commitment, additional inventory write-downs or reserves may be required and would be reflected in cost of goods sold in the period the revision is made. Historically, actual inventory valuation results have not deviated significantly from those previously estimated by us.

Deferred Income Taxes

In the preparation of our consolidated financial statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. This process involves estimating actual current income tax expense together with assessing temporary differences resulting from differing treatment of revenue and expense items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We had approximately $0.2 million and $0.8 million of deferred tax assets at September 30, 2005, and September 30, 2004, respectively. No valuation allowances were recorded in respect of these deferred tax assets as of such dates.

Management evaluates our deferred tax assets on a quarterly basis and assesses the need for valuation allowances. Our deferred tax assets are evaluated by considering historical levels of income, estimates of future taxable income, and the impact of our tax planning strategies. We record a valuation allowance to reduce deferred tax assets when it is determined, on a more likely than not basis, that we will not be able to use all or part of our deferred tax assets. During the fourth quarter of Fiscal 2004, as part of our periodic evaluation of the need for a valuation allowance against our deferred tax assets, which at that time consisted primarily of accumulated net operating losses in respect of prior years, we determined that the future realization of our entire deferred tax assets was more likely than not. Accordingly, we reduced the valuation allowance to zero at September 30, 2004, resulting in a net tax benefit in our statement of income for the fiscal year then ended.

In the event that it should be subsequently determined that we can not, on a more likely than not basis, realize all or part of our deferred tax assets, if any, in the future, an adjustment to establish (or record an increase in) the deferred tax asset valuation allowance would be charged to income in the period in which such determination is made. Changes in our deferred tax assets are reflected in the tax expense (benefit) line of our consolidated statements of income. See "Results of Operations-Trends in Results of Operations" below and Note 5 to the Financial Statements in Item 7 of this Annual Report.

Variability of Revenues and Results of Operations

Because the predominant percentage of our sales revenues is highly concentrated in a few large customers, and because the timing and volumes of these customers' order flow to us are highly variable, with short lead times, our quarterly revenues, and consequently our results of operations, are highly variable and subject to significant changes over a relatively short period of time.

We depend for the predominant proportion of our sales revenues on OEM orders from our five largest customers (or their contract manufacturers), each of which is a large, multinational corporation. Each of these customers launches many different products and purchases products accessories, such as carrying cases, from many different vendors. When we are selected to supply a carry solution for a specific product and launch, we may not know or be able to predict the frequency or volumes of our customers' orders, or the duration of such orders (which will depend on the product's life cycle, or acceptance in the market), all of which depend on our customers' ongoing assessments of the product's relative contribution to their businesses, as well as other factors. Our OEM customers may keep products for which our carry solutions have been selected to be packaged "in-box" in active promotion for many months, or for a very short period of time, depending on the popularity of the product, product development cycles and new product introductions, and our customers' competitors' product offerings. Short product life cycles are particularly characteristic of the cellular handset market, where new functionality is constantly introduced, competition among vendors is high, and industry technical standards are subject to continuing change.

Demand for our products depends on demand for our OEM customers' products as well as our customers' decisions to continue to bundle our "in-box" carry solution with their products. In Fiscal 2005, our results of operations were driven to higher than historical levels by the success of three "in box" programs containing our carry solutions. When these three "in-box" programs wind down and end, and to the extent that the introduction of new cell phone models do not include our products as an accessory "in-box", or such new models do include our products as an accessory "in-box" but do not result in a comparable level of demand for our products, factors that we can not predict and are beyond our control, the level of our OEM cell phone product sales may decline significantly and rapidly from current levels. It is generally difficult to assess the sustainability of the success of any in box program, and thus of any trend in revenues and results of operations, more than one quarter forward.

As a result, our quarterly revenue levels are susceptible to a high degree of variability and are difficult to predict more than a quarter into the future. Significant, rapid shifts in our operating results may occur if and when one or more of these customers increases or decreases the size(s) of, or eliminates, its orders from us by amounts that are material to our business. These factors make the increases in revenues and net income experienced in Fiscal 2005 not atypical of the volatility we can experience in our results of operations and can lead to equally large and rapid changes in periods of declining revenues.

Results of Operations

The following discussion and analysis should be read in conjunction with our Audited Consolidated Financial Statements and the notes thereto and other financial information appearing elsewhere in this Annual Report on Form 10-KSB for the fiscal year ended September 30, 2005. The following discussion and analysis compares our consolidated results of operations for the fiscal year ended September 30, 2005 ("Fiscal 2005"), with those for the fiscal year ended September 30, 2004 ("Fiscal 2004"), and our consolidated results of operations for Fiscal 2004 with those for the fiscal year ended September 30, 2003 ("Fiscal 2003"), and is based on or derived from such Audited Consolidated Financial Statements, or "financial statements", included elsewhere in this Annual Report. All figures in the following discussion are presented on a consolidated basis. All dollar amounts and percentages presented herein have been rounded to approximate values. There have been no material changes in critical accounting estimates since September 30, 2004.

Trends in Results of Operations

- Net sales increased $31.8 million or 158%, to $51.9 million in Fiscal 2005 from $20.1 million in Fiscal 2004, reflecting a fiscal year-long trend of sharp, sequential quarterly revenue increases in cell phone product sales that began with the first quarter of Fiscal 2005. This trend of increases in revenues and net income to higher-than-historical levels has been largely driven by three "in-box" programs, which accounted for 60% of our total net sales in Fiscal 2005. One of these in-box programs accounted for 47% of total net sales in Fiscal 2005. As reflected above under "Variability of Revenues and Results of Operations", our revenues and net income are subject to a high level of variability in the ordinary course. Based on current confirmed and anticipated orders for these "in-box" programs received in respect of the first quarter of the fiscal year ending September 30, 2006, as well as orders in the rest of our cell phone, medical monitoring kit and other product lines, we anticipate that these three "in-box" programs will continue to be the predominant driver of our results of operations for such quarter, resulting in higher sales than those recorded in the first quarter of Fiscal 2005, but not approaching the exceptional levels of sales achieved in the fourth quarter of Fiscal 2005. We do not anticipate that the projected sales levels for the first quarter of the fiscal year ending September 30, 2006, will necessarily establish a permanent reversal of the trend established in Fiscal 2005. See "Risk Factors" below for a discussion of product concentration risk.

- As previously reported, and updated for purposes of this Annual Report, as of November 17, 2005, 236,650 shares of common stock (equal to an additional 3% of the number of shares of common stock issued and outstanding on such date) are issuable upon the exercise of stock options granted under our 1996 Stock Incentive Plan at exercise prices ranging from $1.75 to $15.91 per share to one or more of our executive officers, directors and employees. Assuming the continuation of present market conditions in respect of the price of our common stock, we anticipate that employees who hold such stock options, including our two most highly compensated executive officers (who hold options covering an aggregate of 200,000 of the above stated number of such shares), will exercise all of the stock options they hold, including, in particular, options covering 25,000 shares of common stock that are due to expire on or before December 31, 2005. In Fiscal 2005, employees and directors exercised an aggregate of 1,607,100 options of a total of 1,843,750 options outstanding at the beginning of Fiscal 2005, increasing shares issued and outstanding by 26% during the period.
- We believe, under applicable regulations and precedents, that the tax benefits accruing to the Company associated with the exercise of the options discussed in the foregoing paragraph are limited. Under such regulations and precedents, because of limited compliance with Internal Revenue Code Section 162(m) criteria existing in respect of the terms and conditions of the Company's 1996 Stock Incentive Plan, and the circumstances of the grants of such options, we will be unable to claim full deductions in respect of the exercise of these employee stock options under Section 162(m) of the Internal Revenue Code, to the effect of $16.7 million in foregone deductions, equal to an after-tax amount of approximately $5.9 million. See the discussion under "Liquidity and Capital Resources".
- As discussed at Note 5 to the consolidated financial statements included herein, and above under "Deferred Income Taxes", at September 30, 2004, we reduced the valuation allowance against our deferred income tax assets to zero. Accordingly, for Fiscal 2005 and future periods, assuming that we continue to generate U.S. taxable income, our results of operations will not reflect any tax benefit attributable to the reduction of the allowance against deferred tax assets (as was the case in Fiscal 2004 and Fiscal 2003), and, instead, our consolidated statements of income show and will show United States Federal (as well as applicable state and foreign) income tax expense at our effective tax rate applied to the amount of income before income taxes.
- Our OEM customers' manufacturing and sourcing operations in respect of accessories for their products are changing and becoming more complex. Product manufacture is increasingly being outsourced by them to contract manufacturing firms in China and in Southeast Asia. In addition, increasingly, such firms are performing assembly and product packaging functions, including the bundling of product accessories such as ours with the product. As a consequence of this trend, we are increasingly distributing our carry solution products to the contract manufacturing firm on behalf of our OEM customer. In some cases, depending on our sales and payment arrangements with our OEM customers, we may invoice the contract manufacturing firm and not the OEM customer. Therefore, it is the contract manufacturing firm's credit to which we must look for payment in such cases and not that of our OEM "customer". This may alter the credit profile of our customer base and may involve significant purchase order volumes. In some, but not all cases, the manufacturing firm is itself a large, multinational entity with significant financial resources. A second result of this trend toward origination of orders from Asia is an increase in gross profit percentage because of the reduction in freight, duties, and customs costs. See the discussion of gross profit below. A third result is that Asia has in recent periods accounted for an increasing percentage of our sales revenues, as seen in the tables below.

Results of Operations for Fiscal 2005 Compared to Fiscal 2004

Net Income

Net income in Fiscal 2005 was $9.4 million compared to net income of $1.9 million in Fiscal 2004, an increase of $7.5 million or 395%. The increase was due to higher gross profit, predominantly as a result of the increase in sales of cell phone carrying case products, offset in part by a significant increase in provision for income taxes. Basic and diluted earnings per share were $1.37 and $1.26, respectively, for Fiscal 2005, compared to basic and diluted earnings per share of $0.32 and $0.30 respectively, for Fiscal 2004.

Net Sales

Net sales increased $31.8 million or 158% to $51.9 million in Fiscal 2005 compared to $20.1 million in Fiscal 2004. The increase in net sales was due to higher sales of cell phone carrying case solutions products, which increased $27.3 million or 294%, and, to a much lesser extent, higher sales of carrying cases for blood glucose monitoring kits for diabetics, which increased $3.2 million or 37%, as well as higher sales of other products. The tables below set forth approximate sales by product line and geographic locations of our customers for the periods indicated.

Net Sales for Fiscal 2005
(millions of dollars)

	US	Europe	Asia	Total
Cell Phone Products	$5.0	$18.9	$12.7	$ 36.6
Diabetic Products	3.7	2.4	5.7	11.8
Other Product Sales	3.0	--	0.5	3.5
Total*	**$11.7**	**$21.3**	**$18.9**	**$ 51.9**

Net Sales for Fiscal 2004
(millions of dollars)

	US	Europe	Asia	Total
Cell Phone Products	$2.7	$5.3	$1.3	$ 9.3
Diabetic Products	3.3	3.7	1.5	8.6
Other Product Sales	2.0	0.1	0.2	2.3