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FORM 10-K

FORWARD INDUSTRIES INC - FORD

Filed: December 16, 2008 (period: September 30, 2008)

Annual report with a comprehensive overview of the company

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(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, 2008

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 0-6669

FORWARD INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

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

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

1801 Green Rd., Suite E, Pompano Beach, FL 33064
(Address of principal executive offices, including zip code)

(954) 419-9544
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$0.01 par value per share

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

Yes No

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

Yes No

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of the last business day of the Registrant's most recently completed second fiscal quarter was: \$17,417,797.

As of November 19, 2008, 7,915,522 shares of the Registrant's common stock were outstanding.

Documents Incorporated by Reference

Certain specified portions of the registrant's proxy statement in respect of its annual meeting of shareholders expected to be held on or about February 11, 2009, are incorporated by reference into Part III (Items 10-14) of this Annual Report on Form 10-K to the extent described herein.

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Note Regarding Use of Certain Terms

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

- "we", "our", and the "Company" refer to Forward Industries, Inc., a New York corporation, together with its consolidated subsidiaries;
- "Forward" or "Forward Industries" refers to Forward Industries, Inc.;
- "common stock" refers to the common stock, \$.01 par value per share, of Forward Industries, Inc.;
- "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 (the name of this subsidiary was changed to "Forward Industries HK Limited" in October 2008);
- "Forward Innovations" refers to Forward Industries' wholly owned subsidiary Forward Innovations GmbH, a Swiss corporation; "Forward APAC" refers to Forward Industries' wholly owned subsidiary Forward Asia Pacific Limited, a Hong Kong corporation; "GAAP" refers to accounting principles generally accepted in the United States;
- "Commission" refers to the United States Securities and Exchange Commission;
- "Exchange Act" refers to the United States Securities Exchange Act of 1934, as amended;
- "Fiscal 2008" refers to our fiscal year ended September 30, 2008;
- "Fiscal 2007" refers to our fiscal year ended September 30, 2007;
- "Fiscal 2006" refers to our fiscal year ended September 30, 2006;
- "EMEA Region" means the geographic area encompassing Europe, the Middle East and Africa;
- "Europe" means the countries included in the European Union and also, in the context of the Motorola License territory, the following countries: Norway, Switzerland, Croatia, Russia, Ukraine, Albania, Belarus, Bosnia-Herzegovina, Macedonia, and Uzbekistan;
- "APAC Region" means the Asia Pacific Region, consisting of Australia, New Zealand, Hong Kong, Taiwan, China, South Korea, Japan, Singapore, Malaysia, Thailand, Indonesia, India, the Philippines and Vietnam;
- "Americas" refers to the geographic area encompassing North, Central, and South America

PART I

ITEM 1. 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 medical monitoring and diagnostic kits, cellular telephones, cameras, and other consumer electronic products. We sell these products in two primary customer markets. Our principal customer market is original equipment manufacturers, or "OEMs", of these consumer electronic products, who package our carry solution products as accessories "in box" together with their own product offerings and to an increasing extent the contract manufacturing firms of these OEM customers. In Fiscal 2008 and 2007 sales to OEM customers (or their contract manufacturers) accounted for approximately 98% and 91% of our net sales, respectively.

Our second, and much smaller, customer market consists of retailers and distributors in the cell phone products aftermarket to whom we sell Company branded products and carry solutions bearing the Motorola trademarks under a non-exclusive license from Motorola, Inc. Under the Motorola license, we have been granted the rights to market such carry solutions in the United States, Canada, and Europe. In Fiscal 2008 and Fiscal 2007 sales of products in aftermarket channels accounted for approximately 2% and 9% of our revenues, respectively. In prior fiscal years, sales of licensed products accounted for substantially higher percentages of revenue.

We do not manufacture any of the products that we sell and distribute. We source all products we market and distribute from independent Chinese suppliers. 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, or to their contract manufacturers, to be packaged with their consumer products prior to distribution and sale. In the case of sale of carry solutions to our aftermarket customers, we ship these as stand alone, separately packaged stock units to distributors and retailers.

Corporate History

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. The 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 October 2008 we changed the name of this subsidiary to "Forward Industries HK Limited".

In recent years in our OEM distribution channel we have focused on strengthening our sales and distribution network, and commercial relationships with our key OEM customers. We have been responsive to our OEM customers' distribution requirements by entering into seven distribution hub agreements with two of our OEM customers at their request to improve their tracking and control of accessory products packaged "in box" with their consumer electronics. During Fiscal 2006, we began to modify our quality control infrastructure by contracting part of this function away from our Hong Kong distribution and quality control facility directly to a third party provider. The predominant portion of our quality control function is now conducted in this manner. In addition, we have sought to strengthen our presence in secondary markets.

We have also sought to strengthen our aftermarket channel. 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, and this served us well under the 2001 and 2004 licenses. With the lengthy gap between expiration of the Motorola license in December 2007 and entry into the new license in May 2008, staff at Forward Innovations was temporarily reduced. Forward Innovations has also allowed us to better serve our

OEM European customers. See “Marketing, Distribution and Sales”.

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 while protecting the electronic device from scratches, dust, and mishandling.

Cases for Medical Kits

We sell our medical monitoring and diagnostic kit carrying cases directly to OEMs (or their contract manufacturers) of electronic blood glucose monitoring kits for personal use by diabetics. We typically sell these cases at prices ranging from \$0.40 to \$10.00 per unit. The predominant percentage of product sales by unit volumes are at the low to middle area of this price range. The OEM customer or its contract supplier packages 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 and secure the glucose monitor, testing strips and lancets in separate straps, pouches, and holders. 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.

Cases for Cellular Handsets

We engage in the sale and distribution of carrying cases and related accessory products for cellular telephone handsets to OEM handset suppliers and to retailers and wholesalers of cellular phone products and related accessories (typically bearing our licensor’s trademarks under our license agreements with them). 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, digital display 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 \$0.20 or less to \$13.00 per unit, with the higher prices in the range generally occurring in the case of licensed product sales. By unit volumes the predominant percentage of products sold sells at the low or lower-middle end of this price range, and this typically is the case for low cost/low price straps, cleaning cloths, or other accessories that complement a handset case. In the case of sales to OEM customers and their contract manufacturers, the manufacturer or its contract supplier packages our cases or other accessories “in box” as a custom accessory for the cellular handset. In the case of sales of aftermarket products, we sell and ship these products as separately packaged, aftermarket accessories to third party retailers and distributors.

Other Carrying Case Products

We also sell carrying cases, straps, 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.

Forward Industries, Inc.

Product Development

In our OEM business we typically receive invitations to submit product designs and receive product orders in connection with a customer’s introduction and rollout to market of a new product that the customer has determined to accessorize and customize with 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 placed “in box” 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 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. From time to time we file applications for and secure copyrights and other statutory intellectual property protection for carry case and other accessory designs we develop for sale to our customers (or to a much lesser extent for our own portfolio), but generally intellectual property protection is not significant to our business.

Marketing, Distribution, and Sales

Geographic Sales Distribution

We sell our products globally. The approximate percentages of net sales to customers by their geographic location for Fiscal 2008 and Fiscal 2007 are as follows:

Geographic Location:	Fiscal Years Ended September 30,	
	2008	2007
APAC	50%	50%
Americas	30%	30%
Europe	20%	20%
Totals	100%	100%

The importance of the Asia Pacific region, is attributable to the fact that increasingly our OEM customers have outsourced product manufacture to contract manufacturers located in China or elsewhere in Asia. In the case of outsourcing to Asian contract manufacturers, we ship product to, and it is packaged "in box" at, such contract manufacturer's facility. If payment to us is due from the contract manufacturer, we identify the sale to its geographic location rather than that of the OEM customer for whom the contract manufacturer is supplying product together with our cases "in box". See Note 13 to the audited consolidated financial statements included in Item 8 of this Annual Report.

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" on behalf of the OEM customer. The second distribution channel is to distributors and retailers to whom we ship our carry solution product accessories, either bearing our licensor's trademarks under our license agreement with it, or bearing our products marketed under our name and logo. In both cases, these carry solution products are separately packaged as stand alone stock units, for sale in the aftermarket. These two distribution channels accounted for approximately the following percentages of our net sales in Fiscal 2008 and Fiscal 2007:

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Distribution Channels:	Fiscal Year Ended	
	2008	2007
OEM	98%	91%
Aftermarket	2%	9%
Totals	100%	100%

We believe the significant decline in the aftermarket's relative revenue contribution as seen in the above table is the result of several factors: the strength of OEM diabetic sales on an absolute as well as relative basis; second, the expiration of the Motorola license on December 31, 2007 and the five month lapse of time before the new license agreement was concluded in May 2008; and the lack of execution as anticipated of approvals of new product samples for sale under the new license as well as sales initiatives with potential customers to advance our objectives under the new license by the end of Fiscal 2008, or thereafter.

OEM Product Sales

OEM products sales for blood glucose monitors, cellular phone handsets, and other products (i.e., other than cases and accessories for blood glucose monitoring kits and cellular phone handsets) accounted for approximately the following percentages of total net sales in Fiscal 2008 and Fiscal 2007:

OEM Product Sales:	Fiscal Year Ended	
	2008	2007
Diabetic Products	76%	49%
Other Products	16%	15%
Cell Phone Products	6%	27%
Totals	98%	91%

We believe that the significant decline in relative revenue contribution from cell phone product sales is the result of several factors. The most significant is the approximate 80% decline in net sales from cell phone product cases due to a steep drop off in OEM sales to Motorola, Inc. (approximately 74% of the decline) and to the absence of licensed sales under the Motorola license as the prior license expired after the first quarter of Fiscal 2008 (approximately 26% of the decline). Second, OEM revenues from sales of blood glucose monitor cases increased 40% in Fiscal 2008 compared to Fiscal 2007, and thus the relative contribution of cell phone product revenues declined, even as those revenues declined on an absolute basis.

Of our approximately 100 active customers, three customers, including their subsidiaries, affiliates, and contract manufacturers, accounted for approximately 75% of our net sales in Fiscal 2008. Our principal OEM customers include Lifescan, Inc. (“Lifescan”), a subsidiary of Johnson and Johnson, Abbott Laboratories (“Abbott”), and Roche Diagnostics (“Roche”), for carrying cases for diabetic monitoring kits. A fourth customer, Motorola Inc., contributed significantly to our net sales in Fiscal 2007 and prior fiscal years, but such sales have declined to insignificant levels. These customers package our cases or other accessories “in box” with their branded products or use them as promotional items. The approximate percentages of net sales contributed by each of these four customers for Fiscal 2008 and Fiscal 2007 are as follows:

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Customer:	Fiscal Year Ended	
	2008	2007
Lifescan	46%	32%
Abbott	20%	13%
Roche	9%	--
Motorola *	--	27%
Totals	75%	72%

* Excludes sales of Motorola-branded products to third parties under our license agreement.

The loss of any of the above named customers could have a material adverse effect on our business, results of operations and financial condition. See Item 1A. “Risk Factors— *Our business is characterized by a high degree of customer concentration. Our three largest customers accounted for approximately 75% and 72% of net sales in Fiscal 2008 and 2007, respectively; the loss of, or material reduction in orders from, any of these customers could materially and adversely affect our results of operations and financial condition*” and “*Our business could suffer if the services of any of the key personnel we rely on were lost to us.*”

Aftermarket Product Sales

We have entered into non-exclusive licenses with Motorola and SAGEM, each of which grants us the right to sell cell phone carry cases and other accessories branded with their respective trademarks in designated territories. Currently, sales under the licenses are minimal. See Item 1A, Risk Factors: “*We may not realize the benefits that we anticipated under the new license agreement.*”

In Fiscal 2007 and prior years, aftermarket product sales predominantly consisted of sales to third parties of licensed products under the Motorola agreement. These sales accounted for approximately 1% and 9% of our net sales in Fiscal 2008 (in the first quarter thereof under the expired license) and Fiscal 2007, respectively. We look to diversify aftermarket channels in the near future by development of our own line of products for sale to distributors and retailers or other initiatives.

Sales Force

During Fiscal 2008 and Fiscal 2007 approximately 100% of net sales were made directly by our employees, which are assigned key accounts and to defined geographic sales territories. . See “Risk Factors” in Item 1A. of this Annual Report - “*Our business could suffer if the services of any of the key personnel we rely on were lost to us.*”

Motorola License

Following the expiration of the prior license agreement on December 31, 2007, in May 2008, we entered into a new, non-exclusive license agreement with Motorola, Inc. (“Motorola”) that grants us the right to distribute certain Motorola trademarked carry solution accessory products to wholesale and retail customers in the United States, Canada, and Europe through March 31, 2009, subject to renewal by mutual agreement. The license agreement is effective retroactive to January 1, 2008. The grant under the expired license was limited to the EMEA Region and pertained to traditional Motorola branded handsets; the grant under the new license expands the licensed territory and covers a broader range of cell phone handsets, including Motorola’s “IDEN®” brand .

In consideration of the grant, we agreed to pay to Motorola a royalty based upon a percentage of actual net sales of branded accessory products, subject to payment of minimum royalties (irrespective of actual net sales) in the amount of \$650,000 over the 15-month term. In December 2008 Motorola and we reached an agreement under which Motorola waives payment of all minimum royalties due under the license and reduces the royalty rate in respect of the term which expires March 31, 2009. Both parties expect to memorialize this agreement by amending the license agreement in the very near term. To date, no material sales of licensed products have been recognized, and there can be no assurance that any will be. See Note 14 to the audited, consolidated Financial Statements included in Item 8 in Part II of this Annual Report.

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 1A. “Risk Factors - *Under our license agreement with Motorola we may become liable for certain indemnification or other liabilities and become exposed to certain risks*” of this Annual Report for a discussion of indemnification obligations, manufacturing compliance and certain other risks under the license agreement.

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OEM Distribution Hubs

During Fiscal 2008 and 2007 we operated under distribution hub agreements with three of our OEM customers. These agreements obligate us to supply carrying case accessory products to the customer's distribution hubs (often at multiple locations) where its products are manufactured, and/or warehoused pending sale and where our products are packaged with the OEM customer's electronics products. The product volumes we are required to supply to each distribution hub is based on our OEM customer's forecasts. Because product supply lead times with our suppliers may exceed those agreed upon with our OEM customers, we sometimes have to purchase product and stock inventory that ultimately exceeds our OEM customers' forecasted demand for which they are obligated to us. In particular, this may occur if the customer's forecast is revised downward during the period we are purchasing and stocking product for the hub. As a result, our inventory levels, liquidity, and results of operations may be adversely affected. We ship product to the hub but do not recognize revenue until we have been advised by our customer that product has been withdrawn from the distribution hub to be placed "in box". By historical standards in our business, these arrangements have had the general effect of financing our customers' inventory by extending the time between placement of our orders to our suppliers in order to supply the hubs and the time that revenue is recognized. The corollary effect is an increase in our inventory levels.

Credit Risk

We generally sell our products on 30- to 60-day credit terms customary in the industry. We have extended customary credit terms for certain major OEM customers, upon their request, up to 90-days. 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. Two customers, including their international affiliates or their contract manufacturers, accounted for approximately 74% and 75% of the Company's accounts receivable at September 30, 2008 and 2007, respectively. As part of what has become established industry practice, certain of our OEM customers request that we ship product to their designated contract manufacturer and invoice such manufacturers (and not the OEM customer) for the products to be included "in box" with the cellular handsets or blood glucose monitors that are manufactured, assembled and packaged by such contract manufacturers. In these cases, even though our order flows originate with and depend on our relationship with the OEM, our accounts receivable credit risk lies with the contract manufacturer. Our OEM customer does not guarantee the credit of the contract manufacturer to whom the OEM requests us to ship our carrying case products, and such 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 1A. "Risk Factors — *Product manufacture is increasingly being outsourced by our OEM customers to contract manufacturing firms in China and in Southeast Asia*" of this Annual Report.

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 and packaging 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. Accordingly, our payment and remittance arrangements with such customers may subject these arrangements to Chinese or other local currency regulations. 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 1A. "Risk Factors— *Payments to us by or on behalf of our customers of accounts receivable originated in China or other Asian nations may be subject to local regulations or moratorium that restrict the right to convert foreign currencies into U.S. dollars or U.S. dollars into foreign currencies,, or that prevent, delay, or restrict the ability to remit U.S. dollars to the United States*" of this Annual Report.

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Product Supply

Manufacturing

The manufacture of custom carrying cases and other carry solution products generally consists of die cutting fabrics, principally vinyl, nylon, and leather; and 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. Depending on the product, we may require several different suppliers to furnish component parts or pieces. We purchased approximately 95% and 69% of our products from seven such suppliers in Fiscal 2008 and Fiscal 2007, respectively. One supplier accounted for approximately 43% and 20% of our product purchases in Fiscal 2008 and 2007. See Note 1 (under the caption "Supplier Rebates") to the Consolidated Financial Statements set forth in Item 8 of this Annual Report.

We place orders with one or more suppliers at the time we receive firm orders from our OEM customers for a particular product. Accordingly, we do not have minimum supply requirement agreements with 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. If our customer cancels the order or we fail to receive the customer order, we may still be required to pay for the supply order, which could result in a loss to us as these are generally custom manufactured products unfit for sale to other customers.

With respect to aftermarket products, we estimate the product sell through rates of our distributor and retail customers in order to gauge the timing and size of inventory stocking orders to our suppliers.

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, 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 several times per product before approval for production is granted. Once the sampling process is completed for a specific product, which may range from weeks to many months, commercial orders may be received and accepted.

To ensure that product manufacturing by our foreign suppliers meets our quality assurance standards, products we sell and distribute are either inspected by our employees in our Hong Kong shipping and quality assurance center or by contracted third-parties in China that are overseen by Koszegi Asia employees.

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Quality assurance and sourcing related expenses are reflected in cost of goods sold in our results of operations. In March 2007, our Hong Kong inspection facility renewed its ISO 9001:2000 quality certification.

Once our products are approved for shipment by Koszegi Asia's inspection and quality control procedures, 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 China or Hong Kong. Most ocean-going shipments bound for the United States are off-loaded at the port of Los Angeles or San Francisco, but certain customers arrange for shipments to East coast ports, such as Miami or Philadelphia. European shipments generally are routed via Rotterdam, 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, or other delays may delay shipments to our customers and cause re-routing of containers to ports with open facilities or shipment via air freight. Depending on the cause of delay and trade terms with our customer, we may be required in certain cases to bear the additional expense of such alternate routing or reliance on air freight. See "Item 1A."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*" of this Annual Report.

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

Employees

At September 30, 2008, we had 53 full-time employees, of whom two are employed in executive capacities, 5 are employed in administrative and clerical capacities, 19 are employed in sales and sales support and design capacities, and 27 are employed in sourcing, quality control, and warehouse capacities. 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 Total Source, a Professional Employer Organization. The objective of this arrangement is for ADP Total Source to assume many of the legal and administrative responsibilities of human resources management, health benefits, workers' compensation, payroll, payroll tax compliance, 401(K) plan administration and unemployment insurance.

Regulation and Environmental Protection

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

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

Forward Industries, Inc.

ITEM 1A. RISK FACTORS

Please read the note regarding "Cautionary statement for purposes of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995" that appears on pages 21-22 of this Annual Report on Form 10-K.

In our efforts to address and reverse the steep falloff in OEM and licensed cell phone case sales, we have adopted a strategy involving the dedication of significant resources to re-build and develop our sales and marketing capability in our cell phone product line and product sales generally. If this strategy does not succeed in generating a significant increase in sales revenues in the near to mid-term, our operating results may deteriorate from current levels..

In order to maximize our potential return of investment under the license and to expand our selling capability to the aftermarket generally, we have hired product development, marketing, selling, and administrative personnel to exploit the license opportunity and to develop our sales capability generally outside the license. With these resources our objective is to rebuild and strengthen our marketing and product development capabilities and to establish new sales channels in North America and the parts of Europe we did not access under the old license.

Accordingly, we anticipate that selling, general, and administrative expenses will increase significantly as our efforts in this regard continue. However, there can be no assurance that this strategy will result in a sufficient increase in revenues to achieve a return on our investments in personnel and royalty commitments. If we do not begin to recognize significant revenues from these efforts during the next two quarters to offset the increase in selling, general, and administrative expenses, our operating results may further weaken from present levels.

With the steep decline in cell phone revenue in Fiscal 2008, our business has become more highly concentrated in our blood glucose kit carry product line, thus increasing the risks to our financial condition and results of operations compared to periods when revenue from customers from our two principal product lines were more balanced. If our blood glucose kit carry product line were to suffer a decline in or loss of sales, our business would be materially and adversely affected.

In recent years, revenue from OEM customers in each of the two product lines fluctuated without one being consistently predominant. As a

consequence of the steep decline in revenues from sales of accessories for cellular handsets over the past two fiscal years, revenues from sales of carry solutions for diabetic monitoring cases from OEM customers accounted for approximately 76% of net revenues in Fiscal 2008. Our business is now characterized by increased product line as well as customer concentration. In such circumstances, our financial condition and results of operations are subject to higher risk from changes in the business practices of OEMs of blood glucose monitors, for example, a decision to reduce or eliminate inclusion of cases in box with the electronic device.

Our business could suffer if the services of any of the key personnel we rely on were lost to us.

We are highly dependent on the efforts and services of certain key sales representatives. Our business could be materially and adversely affected if we lost the services of such individuals. If we lost the services of these key sales representatives, we might experience a reduction in or significant loss of orders from their respective customers, resulting in a loss of revenues, which could materially and adversely affect our results of operations and financial condition.

Forward Industries, Inc.

We believe that Motorola's announcement in March 2008 that it intends to spin off its Mobile Devices business and the market developments leading up to that announcement may have contributed to the steep decline in cell phone product sales and increases the risk to our ongoing relationship with Motorola.

In March 2008 Motorola announced its intention to spin off its Mobile Devices business, which has been our OEM customer for over 10 years. During much of that 10-year period, Motorola was our largest customer by revenue, and the successes of its cell phone handset business anchored our revenue and earnings base. (More recently, Motorola has announced in its press releases that the disposal strategy might be reassessed.) The steady and deep decline in our OEM and licensed sales revenues from Motorola, and thus in our cell phone product business, since September 2006 is, we believe, reflective of the risks and challenges inherent in the highly competitive cell phone handset business generally. We cannot predict when, if at all, our cell phone carry case business with this customer will begin to improve. We cannot predict the further effects that a spin-off or other re-structuring of the Mobile Devices business might have upon our business. However, we do believe that any proposed restructuring of the Mobile Devices business increases the risks and uncertainties attendant to continuation of our long-standing relationship as a reliable, valuable supplier of carry solution accessories. At the very least, the proposed spin-off or other re-structuring of the Mobile Devices business increases the likelihood that a significant recovery in levels of revenue from Motorola may require more time and be subject to greater uncertainty than a recovery of such revenues would be in the absence of strategic changes affecting the Mobile Devices unit. On the other hand, if new management of the Mobile Devices business undertakes a sweeping reassessment of all business relationships and methods, which circumstances are beyond our control, the future scope and economics of "in-box" accessories and suppliers thereof, including the Company, may be at longer term and more significant risk. If our relationship with the Mobile Devices unit were weakened as a result of a spin-off, sale or other re-structuring, our business prospects, financial condition, and results of operations may continue to be materially and adversely affected, including the possible continuation of operating and net losses.

We may not realize the benefits that we anticipated under the new license agreement.

Sales of cell phone products under the Motorola license have tended, generally, to have higher margins than OEM sales of cell phone products. The absence of any contribution from sales of products under the license since the expiration of the prior license in December 2007 has contributed to the decline in gross profit percentage. For that reason, we determined that entry into the new license in May 2008 would positively affect our revenues and profitability. Entry into the license presented us with clear mutual objectives and challenges: to establish new distribution channels in the North American market and to re-establish distribution channels in Europe after expiration of the prior license, intending to in both cases to leverage the network of distributors and retailers of Motorola branded products; to submit new carry case accessories for an updated Motorola cell phone handset product line; and to establish ties with a new license team. On our part we determined to expend resources to fortify our selling and administrative resources to exploit the aftermarket opportunity.

To date these objectives have not been achieved to our satisfaction in the anticipated time frame, and we have realized a nominal amount of sales of licensed products under the new license. We believe that this result is due to the lack of execution as anticipated of approvals of new product samples for sale as well as the inability to implement sales initiatives with potential customers in the licensed territories. At this time, there can be no assurance that we will be able to achieve our objectives under the new license by the end of the first quarter of Fiscal 2009, or thereafter, or that the benefits to the parties under the license will be realized as we had envisioned. Failure to achieve our objectives under the license could have a material and adverse effect on our financial condition and results of operations.

Our business is and has been characterized by a high degree of customer concentration. Our three largest customers accounted for approximately 75% and 72% of net sales in Fiscal 2008 and Fiscal 2007, respectively; the loss of, or material reduction in orders from, any of these customers could materially and adversely affect our results of operations and financial condition.

Forward Industries, Inc.

The predominant percentage of our sales revenues is concentrated in three large OEM customers (including their international affiliates and/or their contract manufacturers). The loss of any of these key customers (whether as a result of such customers purchasing their carry solution requirements from another vendor, deciding to manufacture their own carrying cases, or eliminating the inclusion of our carrying cases with their products or otherwise) could have a material adverse effect on our financial condition, liquidity and results of operations.

At any time, a significant percentage of our accounts receivable risk may be concentrated in a small number of customers.

Two customers accounted for approximately 74% and 75% of our accounts receivable at September 30, 2008 and September 30, 2007, respectively. The failure to receive or collect such amounts when, and as, due could have a material adverse effect on our financial condition, liquidity, and results of operations.

If any one or more of our OEM customers elect to reduce or discontinue inclusion of cases "in-box", our results of operations and financial condition would be materially and adversely affected.

The predominant percentage of our revenues is derived from sales of case accessories to our OEM customers who package our cases "in-box" with their electronics. If OEMs generally begin to reduce or discontinue this practice, we would incur a significant decline in revenues and our results of operations and financial condition would be materially and adversely affected.

Our inventory levels have settled at elevated levels since September 2006 and may remain at historically high levels in future periods, primarily as a result of the support of hub agreements recently entered into with two large OEM customers.

During Fiscal 2006 we entered into hub agreements with two of our principal OEM customers, and during Fiscal 2007 and Fiscal 2008 entered into additional hub agreements covering additional distribution hubs with these customers. These arrangements require us to supply product to their distribution hubs based on our OEM customer's forecasts. Because product supply and stocking lead times may exceed those agreed upon with our OEM customers, during which time the customer's forecasted demand for the period may be reduced, we may purchase and stock inventory that exceeds our OEM customers' forecasted demand. It is only their forecast demand for which they are obligated to us. As a result, our inventory levels, liquidity, and results of operations may be adversely affected by such excess purchases. In addition, certain of these hub arrangements include terms of payment by the customer to compensate us in the event inventory stocks are not drawn down from a hub by the customer. The terms of payment vary and there can be no assurance that these arrangements will not result in a material increase in our inventory allowance, which could have a material adverse effect on our results of operations and financial condition.

We experienced severe erosion in our OEM product sales margins during Fiscal 2007 and Fiscal 2008, and it is not clear when these margins will begin to improve. We continue to encounter pressures from certain OEM customers to constrain or even roll back prices. This price constraint factor has been exacerbated by inflationary pressures that affect our costs of supply.

During Fiscal 2007 and Fiscal 2008, we have experienced significant pricing pressure from our OEM customers. We have been unable to extract comparable pricing concessions from our product suppliers across all product lines, and this has resulted in the erosion of product sales margins. We anticipate that pressures on our ability to maintain or increase prices as well as shifts in our product mix will continue to exert downward pressure on our gross profit percentage in the fiscal year ending September 30, 2009. During Fiscal 2008 and well into the first quarter of Fiscal 2009, we have faced more persistent increases in costs of goods sold, due to inflationary pressures affecting materials and labor costs incurred by our Chinese vendors and inflationary pressures generally on costs of energy and commodities. In addition, prices these vendors charge to us are reflecting the appreciation of Chinese currency against the US dollar, which are passed through to us in the form of higher US dollar prices. Other components of cost of goods sold, such as our Hong Kong/China inspection costs, which traditionally have been relatively fixed, are showing signs of wage-price inflation. During this period we also faced higher energy costs passed through to us in freight charges. When calculated on the basis of reduced sales volumes, these pressures are also contributing to reduced gross profit percentage. We cannot predict when, if at all, our overall product sales margins will begin to improve.

Forward Industries, Inc.

Our results of operations are subject to the risks of fluctuations in the values of foreign currencies relative to the U.S. Dollar; for example, if the recent trend of appreciation of the Chinese renminbi, in which a significant portion of our suppliers' costs are denominated, and depreciation of the US Dollar, in which most of our revenues are denominated, continues, our gross margins will be subject to further pressure.

Our results of operations are expressed in U.S. Dollars. When the U.S. Dollar appreciates or depreciates in value against a currency, such as the Chinese renminbi, our results will be benefited or adversely affected, respectively. If, for example, China were to permit the renminbi to float to a free market rate of exchange, it is widely anticipated that the U.S. Dollar would depreciate in value relative to the renminbi, which could materially increase our costs of

goods sold (in U.S. dollar terms) and adversely affect our results of operations if we cannot pass those costs along to our customers or if we cannot enter into financial arrangements that hedge or otherwise mitigate this risk. During Fiscal 2008 currency markets pushed the renminbi up and the U.S. Dollar down, having the effect described above. The opposite relationship would apply to sales revenues or other accounts receivable denominated in a foreign currency. When the U.S. Dollar appreciates or depreciates in value against a currency, such as the Euro, in which a significant part of our revenues is denominated, our results of operations can be adversely affected or benefited, respectively. The significant appreciation of the Euro against the U.S. Dollar since the beginning of 2003 has had the effect of increasing, in U.S. dollar terms, U.S. Dollar denominated sales on our statement of income in proportion to Euro-denominated sales revenues. A reversal of this trend could adversely affect our results of operations.

Future revenues are difficult to predict and are likely to show significant variability as a consequence of customer concentration.

Because our sales revenues are highly concentrated in a few large customers, and because the volumes of these customers' order flows to us are highly variable, and can fluctuate markedly in a short period of time, our quarterly revenues, and consequently our results of operations, are highly variable and subject to significant changes over a relatively short period of time.

Each of these customers launches many different products and may purchase products accessories, such as carrying cases, from many different competing vendors. When we are selected to supply a carry solution for a specific product and launch, we may not be in a position to know the frequency or volumes of our customers' orders, the duration of such orders (which will depend on the product's life cycle), or the pricing of such orders, 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 consumer electronic 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, new product introductions, and our customers' competitors' product offerings. As any consumer electronic product life (i.e., its continuing or waning popularity) and the related "in box" program mature, we may be forced to accept significant price reductions for our carry solutions, which will affect the level of our revenue. Short product life cycles are particularly characteristic of the cellular handset market, where new functionality is constantly introduced, competition between vendors is high, and industry technical standards are subject to continuing change.

All of this makes our quarterly revenue levels susceptible to a high degree of variability and 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 increase or decrease the size(s) of, or eliminate, their orders from us by amounts that are material to our business.

Our gross margins, and therefore our profitability, vary considerably by customer and therefore across our product lines, and if the relative revenue contribution from one or more OEM customers changes materially, relative to total revenues, our gross profit percentage may decline.

Our gross profit margins vary widely depending on the customer, order size, market in which the customer's products are sold and the types of carrying cases and related accessories sold. In addition, there is a broad range of selling prices within our soft-sided carrying cases product line, and there is also a broad range of selling prices between, for example, soft-sided carrying cases and other carry solutions such as straps, clips, and camera attachment cases. Because of the broad variability in price ranges and product types, we anticipate that gross margins, and accordingly net income, will continue to fluctuate depending on the relative revenue contribution by customer of carrying cases for cellular handsets and those for blood glucose monitors, as well as our OEM customers' order patterns and preferences for more or less expensive cases and or other accessories to be included as accessories "in box". Such fluctuations may have the effect of masking the impact of fluctuations in unit volume sale trends.

Forward Industries, Inc.

Product manufacture is often outsourced by our OEM customers to contract manufacturing firms in China and in Southeast Asia

Such firms are performing manufacturing, assembly and product packaging functions, including the bundling of product accessories such as ours with the OEM customer's product. As a consequence of this business practice, we often sell our carry solution products to the contract manufacturing firm. In these cases, we invoice the contract manufacturing firm and not the OEM customer. Therefore, it is the contract manufacturing firm's credit to which we must look for payment in such cases and not that of our OEM customer. This may alter the credit profile of our customer base and may involve significant purchase order volumes. In some, but not all cases, the manufacturing firm is itself a large, multinational entity with significant financial resources.

Under our license agreement with Motorola we may become liable for certain indemnification or other liabilities and become exposed to certain risks.

Each manufacturer selected by us to manufacture products for sale pursuant to our license agreement with Motorola is subject to Motorola's approval, and we are responsible for ensuring such manufacturer's compliance with the terms of the Manufacturer's Agreement (as defined in the License Agreement), in particular the proper use of the Motorola trademarks and compliance with applicable laws in the jurisdiction where the manufacturer is located. Failure of the manufacturer to comply with its obligations under such manufacturing agreement could result in termination of the license agreement, Motorola's demand that we enforce the terms of the Manufacturing Agreement against the manufacturer, at our cost and expense, or a claim for damages by Motorola against us, or a combination of the foregoing.

The License Agreement expires on March 31, 2009, but both parties have certain rights of termination customary for such agreements prior to such date, including, for example, in the case of violation of the agreement, insolvency or bankruptcy of one party, or breach of representations or covenants. If we elect to give notice to terminate the license agreement under certain conditions, as specified in the agreement, before its expiration on March 31, 2009, we will be required to pay minimum royalties for the two calendar quarters commencing after the date of notice plus the remainder of the minimum royalty, if any, for the quarter in which the notice was given. In addition, Motorola and we have agreed to certain cross-indemnification provisions, which, as applicable to us, obligate us to indemnify Motorola in respect of all third party suits, actions, claims, damages and liabilities and expense against, or incurred by, Motorola arising out of or connected with the licensed products, their method of manufacture, sale or distribution, the promotional or packaging of the products, or any breach by us of the License Agreement. The occurrence of any of the foregoing events, claims, obligations, or demands could subject us to make payments or incur expense, which could be material and adversely affect our results of operations and financial condition.

Payments to us by or on behalf of our customers of accounts receivable originated in China or other Asian nations may be subject to local regulations or moratorium that restrict the right to convert foreign currencies into U.S. dollars, or that prevent, delay, or restrict the ability to remit U.S. dollars to the United States.

Forward Industries, Inc.

Our payment and remittance arrangements with certain customers may subject these arrangements to Chinese or other local currency regulations. 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 or remittance of U.S. dollars to the United States, 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, including, for example, by a reduction in the effective exchange rate to our detriment, imposition of fees or expenses, a discounting of the amount of the account receivable, or a deferral of such accounts receivable into a future reporting period, or an outright cancellation of the payment. 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.

Our dependence on foreign manufacturers creates quality control, product cost, pricing, availability, and delivery risks. As a result, from time to time we experience certain quality control, on-time delivery, cost, or other issues that may threaten customer relationships.

All of our products are manufactured by Chinese manufacturers in China. Our reliance on foreign suppliers, manufacturers, and other contractors involves significant risks, including reduced control over quality assurance, manufacturing yields and costs, delivery schedules, the potential lack of adequate capacity, the lack of capital, and potential misappropriation of our designs.

In Fiscal 2006, we transitioned the responsibility for quality assurance inspection of products from our Koszegi Asia facility to a third-party quality assurance provider. In the course of this transition we experienced a high level of turnover of Koszegi Asia quality control employees who oversee the activities of our quality assurance provider. In connection with these developments, certain quality control and delivery problems surfaced in Fiscal 2007 and other quality control issues have continued in Fiscal 2008. While we have dedicated additional management oversight to the quality control function and made it a higher priority, there can be no assurance that we will be successful in these efforts, and our failure to do so could result in the loss of a key customer, which could have an adverse effect on our results of operations and our business reputation.

Our shipments of products via container freight to customers in the United States and Europe are subject to delays or cancellation due to work stoppages or slowdowns, piracy, damage to port facilities caused by weather or terrorism, and congestion due to inadequacy of port terminal equipment and other causes.

Since all of our carrying solutions products are sourced from China, the carrying cases and other products we distribute and sell must be brought to our customers' markets. To the extent that there are disruptions or delays in loading cargo in Hong Kong or Chinese ports or off-loading cargo at ports of destination as a result of labor disputes, work-rules related slowdowns, tariff or World Trade Organization-related disputes, piracy, physical damage to port terminal facilities or equipment caused by severe weather or terrorist incidents, congestion in port terminal facilities, inadequate equipment to load, dock and offload container vessels or energy-related tie-ups or otherwise, or for other reasons, product shipments to our customers will be delayed. In any such case, our customer may cancel or change the terms of its purchase order, resulting in a cancellation or delay of payments to us. A closure or partial closure of Hong Kong, Chinese, United States or European port facilities or other causes of delays in the loading, importation, offloading or movement of our products could result in increased expenses, as we try to avoid such delays, delayed shipments or cancelled orders, or all of the above. Depending on the severity of such consequences, this may have an adverse effect on our financial condition and results of operations.

The carrying solutions business is highly competitive and does not pose significant barriers to entry.

There is intense competition in the sale of carry solutions products to original equipment manufacturers. Since little or no significant proprietary technology is involved in the design, production, or distribution of products similar to our products, others may enter the business with relative ease and compete against us. Such competition may result in the diminution of our market share, the loss of one or more major OEM customers, and adversely affect our net sales, results of operations, and financial condition. Many of our competitors are larger, better capitalized, and more diversified than we are and may be better able to withstand a downturn in the general economy or in the product areas in which we specialize. These competitors may also have less sales concentration than we do and be better able to withstand the loss of a key customer or diminution of a large customer's orders.

We do not pay dividends on our common stock.

We have not paid any cash dividends on our common stock since 1987. The payment in the future of cash dividends by us, if any, will depend upon our results of operations, short-term and long-term cash availability, working capital, working capital needs, and other factors, as determined by our Board of Directors. Applicable laws may also restrict the ability of a corporation to pay dividends, for example when such payment would render the corporation insolvent. We do not anticipate that cash dividends will be paid in the foreseeable future. The absence of dividend payments on a common stock might make such stock susceptible to greater market price swings.

Forward Industries, Inc.

We have in place anti-takeover measures and charter provisions that may prevent a hostile or unwanted effort to acquire Forward.

Our Board of Directors is authorized to issue up to 4,000,000 shares of "blank check" preferred stock. Our Board of Directors has the authority, without shareholder approval, to issue such preferred stock in one or more series and to fix the relative rights and preferences thereof including their redemption, dividend and conversion rights. Our ability to issue the authorized but unissued shares of preferred stock could be used to impede takeovers of our company. Under certain circumstance, the issuance of the preferred stock could make it more difficult for a third party to gain control of Forward, discourage bids for the common stock at a premium, or otherwise adversely affect the market price of our common stock. In addition, our certificate of incorporation requires the affirmative vote of two-thirds of the shares outstanding to approve a business combination such as a merger or sale of all or substantially all assets. Such provision and blank check preferred stock may discourage attempts to acquire Forward. Applicable laws that impose restrictions on, or regulate the manner of, a takeover attempt may also have the effect of deterring any such transaction. We are not aware of any attempt to acquire Forward.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable

ITEM 2. PROPERTIES

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 May 2012, the monthly rent is approximately \$12,000. We use this office space as our executive office and our United States sales office.

During Fiscal 2008, we leased approximately 9,000 square feet of warehouse and office space in Hong Kong, at a monthly rental of approximately \$12,000 through Koszegi Asia Ltd., our wholly owned subsidiary, under a lease that expired in November 2008. We used this space as a sourcing, quality assurance, and logistics facility for products purchased from our China suppliers. In October, 2008, we outsourced our warehousing operation to a third party logistics provider, terminated our existing lease and leased approximately 4,400 square feet of office space in Kowloon, Hong Kong, at a monthly rental of approximately \$13,000 also through Koszegi Asia Ltd, under an agreement that expires in October, 2011. As of November 2008, we have relocated all of our Asia-based sourcing, quality assurance, and logistics personnel to this new office space.

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. 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, 2008, 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 fiscal fourth quarter of 2008. We anticipate that the annual meeting of shareholders in respect of the fiscal year ended September 30, 2008, will be held in February 2009.

Forward Industries, Inc.

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.

	Bid Price Information for Common Stock*			
	Fiscal 2008		Fiscal 2007	
	<u>High Bid</u>	<u>Low Bid</u>	<u>High Bid</u>	<u>Low Bid</u>
First Quarter	\$3.58	\$2.22	\$ 6.09	\$ 4.10
Second Quarter	\$2.54	\$2.01	\$ 5.30	\$ 4.06
Third Quarter	\$2.80	\$2.17	\$ 4.25	\$ 3.21
Fourth Quarter	\$2.73	\$1.84	\$ 3.61	\$ 2.61

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

On November 19, 2008, the closing bid quotation for our common stock was \$2.11.

See Item 1A. of this Annual Report "Risk Factors—*If our common stock were to be de-listed from the NASDAQ SmallCap Market, the existing market prices for and liquidity of our common stock may decline*".

Holdings of common stock.

As of November 19, 2008, there were approximately 116 holders of record of our common stock, excluding approximately 7,000 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, if any, will depend upon our results of operations, as well as our short-term and long-term cash availability, working capital, working capital needs, and other factors, as determined by our Board of Directors. Currently, except as may be provided by applicable laws, there are no contractual or other restrictions on our ability to pay dividends if we were to decide to declare and pay them.

Recent sales of unregistered securities

During Fiscal 2008, 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 Part III, Item 11 of this Annual Report. "Executive Compensation" which is incorporated in this Annual Report on Form 10-K by reference to our 2009 Proxy Statement.

Forward Industries, Inc.

Purchase of Equity Securities

No repurchase of any common stock or other equity security was made during the fourth quarter of Fiscal 2008.

On September 27, 2002, our Board of Directors authorized the repurchase of up to 400,000 shares of our outstanding common stock (approximately 7% of the number of shares then outstanding). On January 21, 2004, our Board increased the amount of shares authorized for repurchase to 486,200. Under these authorizations, as of September 30, 2008, we had repurchased an aggregate of 172,603 shares at a cost of approximately \$0.4 million, including 70,000 shares in Fiscal 2007, but none during Fiscal 2008, leaving a balance of 313,597 shares (approximately 4% of the shares outstanding at September 30, 2008) under those authorizations. Separately, on March 5, 2008, we in effect purchased 72,917 outstanding shares of common stock held by our former Chairman of the Board and principal executive officer, by accepting such shares at their fair market value on such date as consideration for his exercise of options to purchase 100,000 shares of common stock as part of a cashless exercise.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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

The following discussion and analysis should be read in conjunction with our audited Consolidated Financial Statements and the notes thereto and other financial information appearing in Item 8 of this Annual Report on Form 10-K. This discussion and analysis compares our consolidated results of operations for the fiscal year ended September 30, 2008 ("Fiscal 2008"), with those of the fiscal year ended September 30, 2007 ("Fiscal 2007"), and compares our consolidated results of operations for Fiscal 2007 with those of the fiscal year ended September 30, 2006 ("Fiscal 2006") and is based on or derived from the audited Consolidated Financial Statements included in Item 8 in this Annual Report. All figures in the following discussion are presented on a consolidated basis. All dollar amounts and percentages presented herein have been rounded to approximate values.

Cautionary statement for purposes of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995

The following "management's discussion and analysis" includes forward-looking statements that are not based on historical fact and that involve assessments of certain risks, developments, and uncertainties in our business. 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 and developments. Forward looking statements contained in this Report are based upon assumptions and assessments that we believe to be reasonable at the time such forward looking statements are made. Whether those assumptions and assessments will be realized will be determined by future factors, developments, and events, which are difficult to predict and may be beyond our control. Actual results, factors, developments, and events may differ materially from those assumed and assessed. Such risk factors, uncertainties, contingencies, and developments, including those discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations and those identified in "Risk Factors" in Item 1A of this Annual Report, 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 ability to maintain constructive commercial relationships with our key Original Equipment Manufacturer ("OEM") customers, including during periods of economic downturns generally or in their business environments; our success in winning new business from our customers and against competing vendors; whether replacement programs that we win will be more or less successful or profitable than those that are replaced; the success or failure of our efforts under our license agreements; levels of demand and pricing generally for cellular handsets and blood glucose monitoring devices sold by our customers for which we supply carry solutions; variability in order flow from our OEM customers; the loss of one or more key sales employees upon whom relationships with key OEM customers depend; OEM customers decision to reduce or eliminate their practice of including carry case accessories in-box; general economic and business conditions, nationally and internationally in the countries in which we do business or the onset of a global economic recession; the failure of one or more of our suppliers; the need to add materially to our inventory allowance, including the impact on inventory levels or saleability of inventory arising out of hub agreements we have entered into with two of our OEM customers; demographic changes; changes in technology, including developments affecting cellular handsets; developments in the treatment or control of diabetes that affect the incidence of use and replacement rates of handheld blood glucose monitors by diabetics; increased competition in the business of distribution of carry solutions for handheld electronic devices generally or increased competition to include carry solutions with products manufactured by our OEM customers in particular; changes affecting the business or business prospects 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, results, or business prospects will not differ materially from those set forth in any forward looking statement.

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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.

Critical Accounting Policies and Estimates

We have identified the accounting policies and significant estimation processes below as critical to our business operations and the understanding of our results of operations. The listing is not intended to be a comprehensive list. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States, with no need for management's judgment of a particular transaction. In other cases, management is required to exercise judgment in the application of accounting principles with respect to particular transactions. The impact and any associated

risks related to these policies on our business operations is discussed throughout this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” where such policies affect reported and expected financial results. For a detailed discussion of the applications of these and other accounting policies, refer to Item 8. “Financial Statements and Supplementary Data” in this Annual Report. Our preparation of our consolidated financial statements requires us to make estimates and assumptions that are believed to be reasonable under the circumstances. There can be no assurance that actual results will not differ from those estimates and such differences could be significant.

Revenue Recognition

In accordance with the requirements of Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition in Financial Statements, the Company generally recognizes revenue from product sales to customers when: products that do not require further services by the Company are shipped; there are no uncertainties surrounding customer acceptance; and collectibility is reasonably assured.

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, analyses, and estimates must be made and used in connection with establishing this valuation account, based on a combination of factors: the age of receivable balances, our historical bad debts write-off experience, and our respective customer’s creditworthiness, among other factors. At September 30, 2008 and September 30, 2007, our allowance for doubtful accounts was approximately \$10,000 and \$47,000, respectively. Changes to this account are reflected in the general and administrative expense line of our consolidated statements of operations. Although we consider our allowance for doubtful accounts to be adequate and proper, changes in economic conditions, the assessments of new customers’ creditworthiness, changes in customer circumstances, or other factors could have a material effect on the recorded allowance.

Inventory Valuation

We make 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 OEM customers and held for our account or supplied to our OEM customers’ distribution hubs in anticipation of their draw-downs to fulfill orders. We also periodically stock inventory in anticipation of orders from our OEM customers when it appears to us commercially advantageous to do so. In addition, we hold inventory in support of sales to wholesalers and distributors in the aftermarket, including our license agreement with Motorola.

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At the end of each fiscal quarter, we evaluate our ending inventories, and we establish an allowance for inventory that is considered obsolete, slow moving, or otherwise un-saleable. This evaluation includes, among other factors, analyses of inventory levels, historical loss trends, sales history, and projections of future sales demand. We physically dispose of inventory once its marketability has been determined to be zero. Inventory allowances were approximately \$0.2 million and \$0.6 million at September 30, 2008 and 2007, respectively. The decrease in the allowance from September 30, 2007 to September 30, 2008, was due to the disposal of cell phone inventory determined to be obsolete or unsalable. Increases to this account are reflected in the cost of goods sold line of our consolidated statements of operations. See Note 14, Subsequent Events, to our audited, consolidated financial statements in Item 8 of Part II of this Annual Report on Form 10-K.

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, or returns inventory from its hub without payment in violation of the hub arrangements, 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 our consolidated financial statements, we are required to estimate income taxes in each of the jurisdictions in which we are subject to taxation. This process involves estimating actual current income tax expense as well as 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 \$0.4 million and \$0.3 million of net deferred tax assets at September 30, 2008 and 2007, 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.

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 (benefit) expense line of our consolidated statements of operations.

Variability of Revenues and Results of Operation

Because our sales revenues are highly concentrated in a few large customers, and because the volumes of these customers' order flows to us are highly variable, with short lead times, our quarterly revenues, and consequently our results of operations, are susceptible to significant variability over a relatively short period of time.

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We depend for the predominant proportion of our sales revenues on OEM orders from our three largest customers, each of which is a large, multinational corporation. Each of these customers launches different products and can purchase products accessories, such as carrying cases, from many different vendors. When we are selected to supply a carry solution "in-box" for a specific product and launch, we may not be in a position to know the frequency or volumes of our customers' orders, or the duration of such orders (which will depend on the OEM customer product's life cycle), 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. Product life cycles for blood glucose monitoring instruments and kits and related carry case accessories are subject to advances in the technology for measurement of blood sugars and insulin administration. Short product life cycles and/or significant variability in product pricing 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. When "in-box" programs end, and to the extent that the introduction of new programs does not include our products as an accessory "in-box", or such new programs do include our products as an accessory "in-box" but do not result in a comparable level of demand for our products, the level of our OEM product sales is susceptible to significant and rapid change.

All of this makes our quarterly revenue levels susceptible to a high degree of variability and difficult to predict. 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.

Trends in Results of Operations

We anticipate that OEM diabetic sales will continue to account for the predominant percentage of revenue and that net sales contributions from OEM cell phone sales and aftermarket distribution for the first half of Fiscal 2009 will be negligible. We believe OEM diabetic sales will continue to lead revenue generation. We will see negligible revenue from licensed sales or sales of our proprietary products in the aftermarket. See "Risk Factors" in Part II, Item 1A, of this Annual Report on Form 10-K for a discussion of recent developments relating to our relationship with Motorola.

We anticipate that gross profit and gross profit percentage may continue to be adversely impacted by product mix factors. The average gross margin for all diabetic product sales tends to be narrow compared to other OEM sales and aftermarket sales. With OEM diabetic product sales continuing to account for the predominant percentage of our total revenue mix, our overall gross profit margin will thus tend to be lower. Absent a material increase in revenues from our other product lines, we anticipate that our overall gross margin will remain compressed. Second, as relatively higher margin diabetic case programs mature, we expect to face increased pricing pressure from our largest OEM customers, and this will further impact gross profit.

Building inflationary pressures in or affecting China's economy contributed to rising costs of goods sold, which pressured gross profit. We cannot yet predict whether or when falling commodity prices observed in the first quarter of Fiscal 2009 will benefit cost of goods sold. We source 100% of the products we sell and distribute from vendors located in China. Rising labor, energy, and materials costs (particularly in South China, where we source the majority of our products), and the rising value of the Renminbi in comparison to the U.S. dollar in Fiscal 2008 adversely affected gross profit during Fiscal 2008. We had very little if any ability to pass higher costs on to our larger customers. The recent reversal of commodity prices and possibly labor inputs may benefit our cost of goods sold. But final prices to us are the subject of negotiation with our suppliers, and it is too early to predict whether lower inputs will be passed through to us.

Pre-tax net loss in recent and the current reporting periods would have been significantly larger but for the substantial level of "other income", which consists primarily of interest income on cash balances. Federal Reserve and European Central Bank reductions in the level of interest rates combined with slightly lower cash balances have and may continue to result in lower levels of other income and thus result in a smaller offset to operating losses.

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Results of Operations for Fiscal 2008 compared to Fiscal 2007

Net loss

Net loss in Fiscal 2008 increased \$0.3 million to \$0.9 million compared to \$0.6 million in Fiscal 2007. The deterioration in results was primarily due to a \$0.8 million, or 16%, reduction in gross profit, due primarily to a \$6.5 million decline in sales of cell phone carry solution products, and to a \$0.4 million, or 39%, decrease in other income, which consists primarily of interest income. These declines were partially offset by a decrease in selling, general and administrative expenses of \$0.9 million, or 14%, primarily due to lower personnel costs, royalty expense, and travel & entertainment costs. Basic and diluted per share data was (\$0.11) for Fiscal 2008, compared to (\$0.07) for Fiscal 2007. The decrease in earnings per share in Fiscal 2008 was due to the increase in the net loss.

Net Sales

Net sales decreased \$2.2 million, or 10%, to \$20.0 million in Fiscal 2008 compared to \$22.2 million in Fiscal 2007 due to lower sales of cell phone products, which declined \$6.5 million, or 80%. This decrease was offset, in part, by higher sales of carry cases for diabetic products, which increased \$4.4 million, or 40%. The tables below set forth approximate net sales by product line and geographic location of our customers for the periods indicated.

Net Sales for Fiscal 2008 (millions of dollars)

	APAC	Americas	EMEA	Total
Diabetic Products	\$9.0	\$3.1	\$3.2	\$15.3
Cell Phone Products	0.5	0.6	0.5	1.6
Other Products	0.5	2.4	0.1	3.1
Totals*	\$10.0	\$6.1	\$3.9	\$20.0

Net Sales for Fiscal 2007 (millions of dollars)

	APAC	Americas	EMEA	Total
Diabetic Products	\$7.2	\$2.1	\$1.6	\$10.9
Cell Phone Products	3.3	2.0	2.8	8.1
Other Products	0.4	2.6	0.1	3.1
Totals*	\$10.9	\$6.7	\$4.5	\$22.2

* Tables may not total due to rounding.

Diabetic Product Sales

We design to the order of and sell directly to our OEM customers carrying cases used by diabetics to carry their personal electronic, blood glucose monitoring kits. In Fiscal 2008, OEM customers for these carrying cases included Lifescan, Abbott Labs, and Roche Diagnostics (including their subsidiaries, affiliates and contract manufacturers) as well as other customers. Our carrying cases are packaged as an accessory "in-box" with the monitoring kits that are sold by our OEM customers.

Sales of cases and related accessories for blood glucose monitoring kits increased \$4.4 million to \$15.3 million in Fiscal 2008, or 40% higher than Fiscal 2007. These results were driven by higher sales to our three largest customers for Fiscal 2008, which increased by \$2.0 million, \$1.1 million, and \$1.2 million, respectively, in Fiscal 2008. The increase in sales was attributable to higher volumes of in-box sales from existing programs and increased contributions from new programs.

Sales of carrying cases for blood glucose monitoring kits represented 76% of our total net sales in Fiscal 2008 compared to 49% of our total net sales in Fiscal 2007 due primarily to the continuing significant decline in cell phone product sales as well as the increase in OEM sales of cases and accessories for the blood glucose monitors.

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Other Product Sales

We design and sell a number of carrying solutions for items such as cameras, portable oxygen tanks, bar code scanners, MP3 players, and other carrying solutions for an assortment of products on a made-to-order basis that are customized to meet the individual needs of our smaller OEM customers. By the nature of our distribution in this market, sales of these customized products to order in their product category vary from period to period without necessarily reflecting a significant trend in overall demand for these items.

Sales of other products were \$3.1 million for both Fiscal 2008 and Fiscal 2007, which represented 16% and 14% of our total sales, respectively.

Cell Phone Product Sales

Our cell phone carry solutions products include carrying cases for handsets and camera attachments, plastic belt clips, carrying case straps and bags, screen cleaners, decorative faceplates, and other attachments used to carry or enhance the appearance of cellular telephone handsets. We design to the order of and sell these products directly to cell phone handset original equipment manufacturers. Our cases are packaged as an accessory "in-box" with the handsets

that are sold by our OEM customers. Motorola was our only OEM cell phone customer in Fiscal 2008 and Fiscal 2007.

In addition to our “in-box” business with OEM customers, we engage in the sale of carry solution products as separately packaged accessories directly to wholesalers (for re-sale to retail outlets) and retailers (for re-sale to retail consumers), a distribution channel we sometimes refer to as the “aftermarket”. Products in this channel include products bearing the Motorola logo, for which we have licensed the non-exclusive rights in the United States, Canada, and Europe. Product and channel development for these products are underway as we are committing resources to strengthen (and establish, in the case of North American markets) our sales and marketing capability. We don’t expect to see revenue contribution, if any, from these markets until the second fiscal quarter of Fiscal 2009.

See “Risk Factors” in Item 1A of Part I of this Annual Report on Form 10-K for a discussion of the risks relating to OEM customer Motorola.

Total sales of cell phone products in Fiscal 2008 declined \$6.5 million to \$1.6 million, to a level one-fourth of that compared to Fiscal 2007. Sales of such products in Fiscal 2008 were predominantly OEM sales to Motorola, which decreased \$4.8 million, to \$1.2 million, or to a level approximately one-fifth the level attained in Fiscal 2007.

Aftermarket sales of cell phone products, consisting primarily of licensed sales of Motorola branded products, declined to \$0.4 in Fiscal 2008, \$1.5 million lower than “aftermarket” sales in Fiscal 2007, which consisted entirely of Motorola branded products sold under the expired license.

Sales of carry solutions for cell phone products represented 8% of our total net sales in Fiscal 2008 compared to 36% in Fiscal 2007, due primarily to the decline in cell phone sales and to a lesser extent the significant increase in diabetic product sales.

Gross Profit

Gross profit decreased \$0.8 million, or 16%, to \$4.0 million in Fiscal 2008 from \$4.8 million in Fiscal 2007. As a percentage of net sales, gross profit decreased to 20% in Fiscal 2008 from 22% in Fiscal 2007. These decreases were due to several factors. First, net sales decreased \$2.2 million due to the steep decline in our cell phone products line. Second, average gross margin on diabetic product sales, which accounted for 76% total net sales in Fiscal 2008 compared to 49% in Fiscal 2007, tend to be lower than other product lines, and thus, adversely affected our gross profit percentage. Third, higher labor and materials costs due to inflation and currency factors, all contributed to restrain gross profit and gross profit percentage. Lastly, the cost of operating our Hong Kong facility, which constitutes part of our cost of goods sold on our statements of operations, increased due to higher quality and compliance measures implemented in Fiscal 2008, which on a lower revenue base, acted as a drag on our gross profit percentage. Compared to the above figures, Fiscal 2008 gross profit and gross profit percentage would have been \$3.8 million and 19%, respectively, but for the agreement of a customer to pay \$250,000 to us that has the effect of reducing Fiscal 2008 cost of goods sold by that amount. The payment, which is in settlement of a larger amount of unpaid invoices to the customer in respect of product included as part of our inventory allowance in Fiscal 2008 and Fiscal 2007, had the effect of significantly improving fiscal fourth quarter gross profit and gross profit percentage, thereby improving the full-year figures to the extent described above. See Note 14, Subsequent Events, to the audited consolidated financial statements in Item 8 of Part II of this Annual Report.

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Selling, General, and Administrative Expenses

Selling, general, and administrative expenses decreased \$0.9 million, or 14%, to \$5.7 million in Fiscal 2008 from \$6.6 million in Fiscal 2007. This decrease was due to reductions in selling personnel costs and general administrative personnel costs of \$0.3 million and \$0.1 million, respectively, primarily due to the expiration at December 31, 2007, of employment agreements of two executives, one in each area. In addition, Royalty expenses were lower by \$0.3 million as a result of the elimination of the minimum royalty obligations under the new License Agreement. Travel and entertainment costs incurred by selling personnel also decreased \$0.1 million in Fiscal 2008. Other components of our operating expenses also declined in Fiscal 2008, the most significant of which was “other general and administrative costs”, which decreased \$0.1 million primarily due to lower depreciation expense, share-based compensation for our directors, and investor relations fees. Royalty and commission expense declined \$30,000 in Fiscal 2008 compared to Fiscal 2007 due to lower sales of licensed products.

Other Income (Expense)

Other income, primarily interest income on cash balances, declined 39% to \$0.6 million, due to sharply lower average interest rates in Fiscal 2008 on slightly lower cash balances compared to Fiscal 2007. The second component of “other income” consists of gain or loss from foreign currency transactions, as to which we recorded a \$6,000 loss in Fiscal 2008 compared to an \$11,000 gain in Fiscal 2007.

Pre-tax Income

Pre-tax income decreased \$0.2 million to a pre-tax loss of \$1.0 in Fiscal 2008 from a pre-tax loss of \$0.8 million in Fiscal 2007 as a result of the changes as described above.

Income Taxes

Our effective income tax benefit rate was 15% in Fiscal 2008 compared to 31% in Fiscal 2007 as a result of the higher relative contribution of taxable

loss from the EMEA Region, which bears a lower benefit rate than United States taxable loss. This had a disproportionate impact on an overall smaller taxable loss base. Our effective tax benefit rate does not approximate the United States statutory federal income tax rate primarily due to tax rate differentials in respect of state and foreign taxes, to which income recorded by Forward Innovations is subject. Benefit from income taxes decreased \$94,000 to \$156,000 in Fiscal 2008 from \$250,000 in Fiscal 2007. The income tax benefit consists primarily of estimated U.S. federal income taxes, and to a lesser extent, current state and foreign income taxes. See Note 9 to the Financial Statements in Item 8 of this Annual Report.

We consider the earnings of our foreign subsidiaries indefinitely invested and, accordingly, have not recorded a provision for U.S. income taxes on their un-repatriated earnings. At September 30, 2008, those cumulative earnings were \$4.3 million.

Liquidity and Capital Resources

During Fiscal 2008, we used \$0.4 million of cash in operations compared to generating \$1.9 million from operations in Fiscal 2007. Our operating cash flows in Fiscal 2008 consisted of a net loss of \$0.9 million, offset in part by \$0.5 million for non-cash items, and \$0.1 million for net changes in working capital items. Non-cash items consisting of provision for obsolete inventory, share-based compensation expense, and depreciation expense reduced our net loss by \$0.3 million, \$135,000, and \$65,000, respectively. In addition, non-cash items consisting of deferred tax expense and bad debt expense of \$99,000 and \$20,000, respectively, contributed to our net loss. Working capital items consisted primarily of cash generated by changes in accounts receivable, accounts payable, and prepaid and other current assets of \$0.5 million, \$0.3 million, and \$0.3 million, respectively, offset, in part, by \$0.8 million in cash used to increase inventory. Accounts receivable decreased as a result of the lower levels of sales in Fiscal 2008 compared to Fiscal 2007. Accounts payable increased as a result of the increase in our inventory balances between September 30, 2008 and 2007. Prepaid and other current assets is primarily attributable to federal and state income taxes that were prepaid at September 30, 2007, and were subsequently refunded in Fiscal 2008 with no corresponding income tax prepayments made as of September 30, 2008.

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Investing activities used \$29,000 in Fiscal 2008 for purchases of property, plant and equipment, primarily computer and telecommunications hardware and software. In Fiscal 2007, investing activities used \$61,000 for purchases of property, plant and equipment, primarily computer and telecommunications hardware and software.

Financing activities provided \$39,000 in Fiscal 2008 from the issuance of common stock upon the exercise of stock options to purchase 22,000 shares under our 1996 Stock Incentive Plan. In Fiscal 2007, financing activities used \$140,000, consisting of \$232,000 used to purchase 70,000 shares of the Company's common stock in open market purchases offset in part by \$93,000 generated from the issuance of common stock upon the exercise of stock options to purchase 53,000 shares under our 1996 Stock Incentive Plan.

At September 30, 2008, our current ratio (current assets divided by current liabilities) was 10.6; our quick ratio (current assets less inventories divided by current liabilities) was 10.1; and our working capital (current assets less current liabilities) was \$23.1 million. As of such date, we had no short or long-term debt outstanding.

Our primary source of liquidity is our cash on hand. The primary demands on our working capital are: operating losses and accounts payable arising in the ordinary course of business, the most significant of which arise when our customers place orders and we order from our suppliers. Historically, our sources of liquidity have been adequate to satisfy working capital requirements arising in the ordinary course of business. We anticipate that our liquidity and financial resources for the ensuing fiscal year will be adequate to manage our financial requirements. See "Trends in Results of Operations" for a discussion of anticipated increases in selling, general, and administrative expense.

In March 2008, Forward and its wholly-owned U.S. subsidiary, Koszegi Industries, Inc. elected not to renew their credit facility with a U.S. bank that provided for a committed line of credit in the maximum amount of \$3.0 million, including a \$1.5 million sub-limit for letters of credit. Accordingly, this credit facility expired March 30, 2008. There were no borrowings or letter of credit obligations outstanding under this facility during the fiscal year ended September 30, 2008. See Notes 5 and 6 to the audited consolidated Financial Statements.

In February 2003, Forward Innovations established a credit facility with a Swiss bank that provides for an uncommitted line of credit in the maximum amount of \$400,000. Amounts borrowed under the facility may be structured as a term loan or loans, with a maximum repayment period of 12 months, or as a guarantee facility, or any combination of the foregoing. Either party may terminate the facility at any time; however, such termination would not affect the stated maturity of any term loan outstanding under the facility. Amounts borrowed other than as a term loan must be settled periodically or converted into term loans. In connection with this facility, Forward Innovations has agreed to certain financial covenants. Amounts drawn under this credit facility bear interest at variable rates established by the bank (5.35% at exchange rates as of September 30, 2008). At September 30, 2008, Forward Innovations is contingently liable to the bank under a letter of credit issued on its behalf in the amount of €224,000 (equal to approximately \$327,000 at exchange rates as of September 30, 2008) in favor of Forward Innovations' freight forwarder and customs agent in connection with its logistics operations in The Netherlands. The effect of the issuance of the letter of credit is to reduce the availability of the credit line in an amount equal to the face amount of the letter of credit. See Notes 5 and 6 to the audited consolidated Financial Statements.

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On September 27, 2002, our Board of Directors authorized the repurchase of up to 400,000 shares of our outstanding common stock, or approximately 7% of the number of shares then outstanding. On January 21, 2004, our Board increased the amount of shares authorized for repurchase to 486,200. Under that authorization, as of September 30, 2008, we had repurchased an aggregate of 172,603 shares at a cost of approximately \$0.4 million but none during Fiscal 2008, compared to 70,000 shares purchased in Fiscal 2007 at a cost of \$232,000. In addition, in connection with an exercise of outstanding stock options, 72,917 shares were purchased during the 2008 Period in a non-cash transaction by the tender of such shares valued at market in consideration for the exercise price, which was outside the foregoing authorizations.

Contractual Obligations and Commercial Commitments

The Company has entered into various contractual obligations and commercial commitments that, under accounting principles generally accepted in the United States are not recorded as a liability. The following is a summary of such contractual cash obligations as of September 30, 2008:

Contractual Obligation or Commitment	Oct 08 – Sep 09	Oct 09- Sep 11	Oct 11 – Sep 13	Thereafter
Employment Agreements	\$340,000	\$85,000	\$ --	\$ --
Operating Leases	319,000	544,000	105,000	--
Totals	\$659,000	\$629,000	\$105,000	\$ --

The Company has not guaranteed the debt of any unconsolidated entity and does not engage in derivative transactions or maintain any off-balance sheet special purpose entities. See Note 5 to the audited consolidated Financial Statements set forth at Item 8 of Part II of this Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and notes thereto and supplementary data included in this Annual Report may be found at pages 38 to 58 of this Annual Report.

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

None

ITEM 9A. CONTROLS AND PROCEDURES

Not applicable

ITEM 9A(T). CONTROLS AND PROCEDURES

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

In accordance with Exchange Act Rule 13a-15(b), our management, under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Report (the fourth fiscal quarter of Fiscal 2008 in the case of this Annual Report on Form 10-K). Based on that evaluation, the Company's Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of the end of the period covered by this Report (the fourth fiscal quarter of Fiscal 2008 in the case of this Annual Report on Form 10-K), to provide reasonable assurance that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

Management's Report on Internal Controls Over Financial Reporting

Our Principal Executive Officer and our Principal Financial Officer are responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

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

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

Our Principal Executive Officer and our Principal Financial Officer assessed the effectiveness of our internal control over financial reporting as of September 30, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control — Integrated Framework.

Based on our assessment, our Principal Executive Officer and our Principal Financial Officer believe that, as of September 30, 2008, our internal control over financial reporting is effective based on those criteria.

This report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report on internal control in this annual report.

This report shall not be deemed to be filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section, unless the

registrant specifically states that the report is to be considered “filed” under the Exchange Act or incorporates it by reference into a filing under the Securities Act or the Exchange Act.

Changes in internal controls

Our management, with the participation our Principal Executive Officer and Principal Financial Officer, performed an evaluation required by Rule 13a-15(d) of the Exchange Act as to whether any change in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the last fiscal quarter of Fiscal 2008. Based on that evaluation, our Principal Executive Officer and our Principal Financial Officer concluded that no change occurred in the Company's internal controls over financial reporting during the last fiscal quarter of Fiscal 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item regarding directors and executive officers is incorporated to this Annual Report on Form 10-K by reference to our Definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Stockholders to be held in 2009 (the “2009 Proxy Statement”) under the heading “Election of Directors”, “Structure and Practices of the Board of Directors”, and “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters;—Section 16(a) Beneficial Ownership Reporting Compliance”. Information regarding executive officers also incorporated to this Annual Report on Form 10-K by reference to the 2009 Proxy Statement under the caption “Executive Officers.” The information required by this item relating to Corporate Governance, including Code of Ethics, is incorporated to this Annual Report on Form 10-K by reference to the 2009 Proxy Statement under the heading “Structure and Practices of the Board of Directors.”

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated to this Annual Report on Form 10-K by reference to the 2009 Proxy Statement under the heading “Executive Compensation and Related Information.”

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

The information required by this item is incorporated to this Annual Report on Form 10-K by reference to the 2009 Proxy Statement under the headings “Executive Compensation and Related Information—Securities Authorized for Issuance Under Equity Compensation Plans” and “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.”

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

The information required by this item is incorporated to this Annual Report on Form 10-K by reference to the 2009 Proxy Statement under the headings “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters—“Certain Relationships, Director Independence, and Related Transactions” and “Structure and Practices of the Board of Directors;—Board of Directors and Director Independence”.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated to this Annual Report on Form 10-K by reference to the 2009 Proxy Statement under the heading “Matters Relating to Independent Registered Public Accountants;—Principal Accountant Fees and Services.”

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a. Financial Statements and Schedules

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets

Consolidated Statements of Operations
Consolidated Statements of Shareholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

Financial statement schedules other than those listed above have been omitted because they are either not required, not applicable or the information is otherwise included in the notes to the consolidated financial statements.

b. Exhibits

3. ARTICLES OF INCORPORATION AND BY-LAWS

- 3(i).1 Certificate of Incorporation of the Company as amended (incorporated by reference to Exhibit 2(a) to the Form 10-SB)
- 3(i).2 Certificate of Amendment of Certificate of Incorporation filed by the New York Department of State on August 22, 1997 (incorporated by reference to the Company's Annual Report on Form 10-KSB for the period ended September 30, 1997)
- 3(ii).1 By-Laws (incorporated by reference to Exhibit 2(b) to the Form 10-SB) (now superseded by the Amended and Restated By-Laws)
- 3(ii).2 Amendment to By-Laws (Article I, Section 2) (incorporated by reference to Exhibit 3(c) to the Company's Registration Statement on Form SB-2 filed November 13, 1995 (Reg. No. 33-99338) (the "1995 SB-2 Registration Statement") (now superseded by the Amended and Restated By-Laws)
- 3(ii).3 Amended and Restated By-Laws of Forward Industries, Inc., as of February 13, 2008

10. MATERIAL CONTRACTS

- 10.1 License Agreement, effective as of October 1, 2004, between Motorola, Inc. and the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed October 18, 2004).
- 10.2 1996 Stock Incentive Plan of Forward Industries, Inc. (incorporated by reference to Exhibit 4 to the Registration Statement on Form S-8 of the Company, as filed on April 25, 2003).

- 10.3 Amendment One to Employment Agreement effective as of July 12, 2005 between the Company and Douglas W. Sabra (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 12, 2005).
- 10.4 Employment Agreement effective as of October 1, 2005 between the Company and Jerome E. Ball (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 28, 2005).
- 10.5 Employment Agreement effective as of October 1, 2005 between the Company and Michael M. Schiffman (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 28, 2005).
- 10.6 Employment Agreement effective as of October 1, 2005 between the Company and Douglas W. Sabra (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on December 28, 2005).
- 10.7 Forward Industries, Inc. 2007 Equity Incentive Plan (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-8 of the Company, as filed on July 10, 2007).
- 10.8 Consulting Agreement, dated August 15, 2007, between Jerome E. Ball and Forward Industries, Inc. (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K of the Company as filed on August 16, 2007).
- 10.9 Amendment to Employment Agreement, dated as of January 1, 2008, between the Company and Douglas W. Sabra (incorporated by reference to Exhibit 10.9 to the Current Report on Form 8-K of the Company as filed on February 13, 2008)
- 10.10 Severance and Release Agreement, dated as of December 31, 2007, between the Company and Michael M. Schiffman (incorporated by reference to Exhibit 10.10 to the Current Report on Form 8-K of the Company as filed on February 13, 2008).
- 10.11 License Agreement, dated as of May 22, 2008, between Motorola, Inc. and Forward Industries, Inc.
- 10.12 Amended and Restated Employment Agreement, dated as of August 12, 2008, between the Company and Douglas W. Sabra (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K as filed on August 12, 2008).

- 10.13 Employment Agreement, dated as of August 12, 2008, between the Company and James O. McKenna (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K as filed on August 12, 2008).

21. SUBSIDIARIES OF THE REGISTRANT

- 21.1 List of Subsidiaries of Forward Industries, Inc.

23. CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

- 23.1 Consent of Kaufman, Rossin & Co., P.A. relating to 1996 Stock Incentive Plan

31. CERTIFICATIONS PURSUANT TO RULE 13a-14(a) (Section 302 of Sarbanes-Oxley)

- 31.1 Certification of Douglas W. Sabra
31.2 Certification of James O. McKenna

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32. CERTIFICATIONS PURSUANT TO RULE 13a-14(b) (Section 906 of Sarbanes-Oxley)

- 32.1 Certifications of Douglas W. Sabra and James O. McKenna

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Forward Industries, Inc. (the Company) as of September 30, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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. at September 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

KAUFMAN, ROSSIN & CO., P.A.

FORWARD INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2008 AND 2007

	September 30, 2008	September 30, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$19,862,426	\$20,267,791
Accounts receivable, net	3,659,553	4,135,117
Inventories, net	1,363,862	1,072,360
Prepaid expenses and other current assets	586,632	628,786
Deferred tax asset	49,449	279,741
Total current assets	25,521,922	26,383,795
Property, plant, and equipment, net	124,854	160,644
Deferred tax asset	359,681	29,898
Other assets	98,259	57,538
Total assets	\$26,104,716	\$26,631,875
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$2,206,630	\$1,904,946
Accrued expenses and other current liabilities	189,827	303,185
Total current liabilities	2,396,457	2,208,131
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value \$0.01 per share; 4,000,000 shares authorized; no shares issued	--	--
Common stock, par value \$0.01 per share; 40,000,000 shares authorized, 8,621,932 and 8,488,932 shares issued, respectively (including 706,410 and 633,493 held in treasury, respectively)	86,219	84,889
Capital in excess of par value	15,893,480	15,546,046
Treasury stock, 706,410 and 633,493 shares at cost, respectively	(1,260,057)	(1,085,057)
Retained earnings	8,988,617	9,877,866
Total shareholders' equity	23,708,259	24,423,744
Total liabilities and shareholders' equity	\$26,104,716	\$26,631,875

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

FORWARD INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Fiscal Years Ended September 30,	
	2008	2007
Net sales	\$19,973,869	\$22,150,513
Cost of goods sold	15,946,020	17,346,913
Gross profit	4,027,849	4,803,600
Operating expenses:		
Selling	2,868,092	3,641,000
General and administrative	2,824,962	2,977,660
Total operating expenses	5,693,054	6,618,660
Loss from operations	(1,665,205)	(1,815,060)
Other income:		
Interest income	625,959	1,001,091
Other (expense) income, net	(5,623)	11,130
Total other income	620,336	1,012,221
Loss before income tax benefit	(1,044,869)	(802,839)
Income tax benefit	(155,620)	(249,380)
Net loss	\$ (889,249)	\$ (553,459)
Net loss per common and common equivalent share		
Basic	\$ (0.11)	\$ (0.07)
Diluted	\$ (0.11)	\$ (0.07)
Weighted average number of common and common equivalent shares outstanding		
Basic	7,888,727	7,844,376
Diluted	7,888,727	7,844,376

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

FORWARD INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	Common Stock				Retained Earnings	Treasury Stock	
	Total	Number of Shares	Par Value	Additional Paid-in Capital		Number of Shares	Amount
Balance at September 30, 2006	\$24,950,367	8,424,931	\$84,249	\$15,287,952	\$10,431,325	563,493	(\$853,159)
Common stock issued upon exercise of stock options	92,750	53,000	530	92,220	--	--	--

Share-based compensation	165,984	11,001	110	165,874	--	--	--
Repurchases of common stock	(231,898)	--	--	--	--	70,000	(231,898)
Net loss	(553,459)	--	--	--	(553,459)	--	--
Balance at September 30, 2007	24,423,744	8,488,932	84,889	15,546,046	9,877,866	633,493	(1,085,057)
Common stock issued upon exercise of stock options	213,500	122,000	1,220	212,280	--	--	--
Share-based compensation	135,264	11,000	110	135,154	--	--	--
Repurchases of common stock	(175,000)	--	--	--	--	72,917	(175,000)
Net loss	(889,249)	--	--	--	(889,249)	--	--
Balance at September 30, 2008	\$23,708,259	8,621,932	\$86,219	\$15,893,480	\$8,988,617	706,410	(\$1,260,057)

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

FORWARD INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Fiscal Years Ended September 30,	
	2008	2007
Operating activities:		
Net loss	(\$889,249)	(\$553,459)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Provision for obsolete inventory	281,801	613,109
Share-based compensation	135,264	165,984
Deferred income taxes	(99,491)	(226,639)
Depreciation and amortization	64,782	89,955
Recovery of bad debt expense	(20,033)	--
Changes in operating assets and liabilities:		
Accounts receivable	495,597	1,933,941
Inventories	(823,303)	763,596
Prepaid expenses and other current assets	292,154	(299,325)
Other assets	(40,721)	(5,606)
Accounts payable	301,684	(236,245)
Accrued expenses and other current liabilities	(113,358)	(387,228)
Net cash (used in) provided by operating activities	(414,873)	1,858,083
Investing activities:		
Purchases of property, plant, and equipment	(28,992)	(60,515)
Net cash used in investing activities	(28,992)	(60,515)
Financing activities:		
Proceeds from exercise of stock options	38,500	92,750
Purchases of treasury stock	--	(231,898)
Net cash provided by (used in) financing activities	38,500	(139,148)
Net (decrease) increase in cash and cash equivalents	(405,365)	1,658,420
Cash and cash equivalents at beginning of period	20,267,791	18,609,371

Cash and cash equivalents at end of period	\$19,862,426	\$20,267,791
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the fiscal year for:		
Interest	--	--
Income Taxes	\$11,476	\$ 239,079

During the fiscal year ended September 30, 2008, the Company accepted 72,917 shares of common stock valued at fair market value on the date of the transaction from a director as consideration to exercise options to purchase 100,000 shares of common stock as part of a cashless exercise.

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

FORWARD INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 OVERVIEW

Forward Industries, Inc. was incorporated under the laws of the State of New York and began operations in 1961. The Company is engaged in the design, marketing, and distribution of custom-designed, soft-sided carrying cases and other carry solutions products made from leather, nylon, vinyl, and other synthetic fabrics. The cases and other products are used primarily by consumers for the protection and transport of portable electronic devices such as medical devices and cellular phones. The Company markets its products as a direct seller to original-equipment-manufacturers ("OEMs") and as a distributor to retailers and wholesalers. Sales to OEM customers are made in Europe, the APAC Region (meaning the Asia Pacific Region, encompassing Australia, New Zealand, Hong Kong, Taiwan, China, South Korea, Japan, Singapore, Malaysia, Thailand, Indonesia, India, the Philippines and Vietnam), and the Americas (meaning the geographic area, encompassing North, Central, and South America). Sales to retailers and distributors are made, in the case of Company branded products, in Europe and, under a non-exclusive license bearing the Motorola trademarks, in the United States, Canada, and Europe.

NOTE 2 ACCOUNTING POLICIES

Accounting Estimates

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

Basis of Presentation

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

Cash Equivalents

Cash and cash equivalents consist primarily of cash on deposit, highly liquid money market accounts, and certificates of deposit with original contractual maturities of three months or less. The Company minimizes its credit risk associated with cash and cash equivalents by investing in high quality instruments and by periodically evaluating the credit quality of the primary financial institution issuers of such instruments. The Company holds cash and cash equivalents at major financial institutions in the United States, which cash amounts often exceed FDIC insured limits, and in Europe. Historically, the Company has not experienced any losses due to such cash concentrations.

Accounts Receivable

Accounts receivable consist of unsecured trade accounts with various customers. The Company performs ongoing credit evaluations of its customers and believes that adequate allowances for any uncollectible receivables are maintained. Credit terms to the majority of our customers are generally net thirty (30) days to net sixty (60) days, however, certain customers, particularly the Company's largest, have extended payment terms up to 90 days. The Company has not historically experienced significant losses in extending credit to customers. At September 30, 2008 and 2007, the allowance for doubtful accounts was approximately \$10,000 and \$47,000, respectively.

NOTE 2 ACCOUNTING POLICIES (CONTINUED)**Inventories**

Inventories consist primarily of finished goods and are stated at the lower of cost (determined by the first-in, first-out method) or market. Based on management's estimates, an allowance is made to reduce excess, obsolete, or otherwise un-saleable inventories to net realizable value. The allowance is established through charges to cost of goods sold on the Company's consolidated statements of operations. Reserved inventory that is disposed of is charged against the allowance. Management's estimates in determining the adequacy of the allowance are based upon several factors, including analyses of inventory levels, historical loss trends, sales history, and projections of future sales demand. The Company's estimates of the allowance, as well as recoveries of reserved inventory, may change from time to time based on management's assessments, and such changes could be material. At September 30, 2008 and 2007, the allowance for obsolete inventory was approximately \$168,000 and \$558,000, respectively.

Property, Plant and Equipment

Property, plant and equipment consist of furniture, fixtures and equipment, and leasehold improvements and are recorded at cost. Expenditures for major additions and improvements are capitalized, and minor replacements, maintenance, and repairs are charged to expense as incurred. When property, plant and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. The estimated useful life for furniture, fixtures and equipment ranges from three to ten years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. For the fiscal years ended September 30, 2008 and 2007, the Company recorded approximately \$65,000 and \$90,000 of depreciation expense, respectively.

Income Taxes

The Company accounts for its income taxes in accordance with the provisions of Statement of Financial Accounting Standard (SFAS) No. 109, *Accounting for Income Taxes* (SFAS 109), which requires, among other things, recognition of future tax benefits and liabilities measured at enacted rates attributable to temporary differences between financial statement and income tax bases of assets and liabilities and to tax net operating loss carryforwards to the extent that realization of these benefits is more likely than not. The Company periodically evaluates the realizability of its net deferred tax assets.

Revenue Recognition

In accordance with the requirements of Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition in Financial Statements, the Company generally recognizes revenue from product sales to customers when: products that do not require further services by the Company are shipped, there are no uncertainties surrounding customer acceptance, and collectibility is reasonably assured.

Supplier Rebates

Emerging Issues Task Force (EITF) Issue No. 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor, permits recognition of a rebate or refund of a specified amount of cash consideration that is payable if the customer completes a specified cumulative level of purchases. The Company has entered into agreements with several of its suppliers that grant the Company a rebate based on its level of purchases made during each fiscal quarter. In lieu of a cash payment from these suppliers the Company generally receives a credit memo. The Company reduces accounts payable to the supplier, inventory, and cost of goods sold each quarter as the Company earns the rebates. For the fiscal years ended September 30, 2008 and 2007, the cumulative amounts of such quarterly rebates were approximately \$451,000 and \$504,000, respectively. The quarterly rebates are net of amounts allocated to unsold inventories and are reflected in the accompanying consolidated statements of operations as a reduction of cost of goods sold.

NOTE 2 ACCOUNTING POLICIES (CONTINUED)**Shipping and Handling Costs**

The Company expenses shipping and handling costs as a component of cost of goods sold.

Advertising Expenses

Advertising costs, consisting primarily of samples and product brochures, are expensed as incurred. Advertising costs are included in selling expenses in the accompanying consolidated statements of operations and amounted to approximately \$60,000 and \$80,000 for the years ended September 30, 2008 and 2007, respectively.

Foreign Currency Transactions

The functional currency of the Company and its wholly owned foreign subsidiaries is the U.S. dollar. Foreign currency transactions may generate receivables or payables that are fixed in terms of the amount of foreign currency that will be received or paid. Fluctuations in exchange rates between the functional currency and the currency in which a transaction is denominated increases or decreases the expected amount of functional currency cash flows upon settlement of the transaction. These increases or decreases in expected functional currency cash flows are foreign currency transaction gains or losses that are included in "other income (expense), net" in the accompanying consolidated statements of operations. The net (loss) gain from foreign currency transactions and translations was approximately (\$9,000) and \$11,000 for the fiscal years ended September 30, 2008 and 2007, respectively.

Comprehensive Loss

For the fiscal years ended September 30, 2008 and 2007, the Company did not have any components of comprehensive loss other than net loss.

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after December 15, 2007. The Company is in the process of evaluating the impact, if any, of adoption of SFAS No. 157 will have on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), which gives companies the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is in the process of evaluating the impact, if any, of adoption of SFAS No. 159 will have on its consolidated financial statements.

NOTE 2 ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) requires that the fair value of the purchase price of an acquisition including the issuance of equity securities be determined on the acquisition date; requires that all assets, liabilities, noncontrolling interests, contingent consideration, contingencies, and in-process research and development costs of an acquired business be recorded at fair value at the acquisition date; requires that acquisition costs generally be expensed as incurred; requires that restructuring costs generally be expensed in periods subsequent to the acquisition date; and requires that changes in deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. SFAS 141(R) also expands disclosures related to business combinations. SFAS 141(R) will be applied prospectively to business combinations occurring after the beginning of the Company's fiscal year 2010, except that business combinations consummated prior to the effective date must apply SFAS 141(R) income tax requirements immediately upon adoption. The Company is currently evaluating the impact of SFAS 141(R) related to future acquisitions, if any, on its financial position, results of operations and cash flows.

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and related accumulated depreciation and amortization are summarized in the table below:

For the Fiscal Years Ended September 30,

	2008	2007
Furniture, fixtures and equipment	\$980,469	\$951,478
Leasehold improvements	170,280	170,280
Property, plant and equipment, cost	1,150,749	1,121,758
Less accumulated depreciation and amortization	(1,025,895)	(961,114)
Property, plant and equipment, net	\$124,854	\$160,644

NOTE 4 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

For the Fiscal Years Ended September 30,

2008	2007
------	------

Accrued compensation	\$153,757	\$137,457
Accrued expenses	21,053	76,479
Accrued taxes	12,872	--
Accrued royalties and commissions	2,145	89,249
Accrued expenses and other current liabilities	\$189,827	\$303,185

NOTE 5 DEBT

In March 2008, Forward and its wholly-owned U.S. subsidiary, Koszegi Industries, Inc., elected not to renew their credit facility with a U.S. bank that provided for a committed line of credit in the maximum amount of \$3.0 million, including a \$1.5 million sub-limit for letters of credit. Accordingly, this credit facility expired March 30, 2008. There were no borrowings or letter of credit obligations outstanding at any time under this facility during the fiscal years ended September 30, 2008 and 2007.

NOTE 5 DEBT (CONTINUED)

In 2003, Forward's wholly-owned Swiss subsidiary, Forward Innovations GmbH (Forward Innovations), established a credit facility with a Swiss bank that provides for an uncommitted line of credit in the maximum amount of \$400,000. Amounts borrowed under the facility may be structured as a term loan or loans, with a maximum repayment period of 12 months, as a letter of credit facility, or as a guarantee facility, or any combination of the foregoing. Either party may terminate the facility at any time; however, such termination would not affect the stated maturity of any term loans outstanding. Amounts borrowed other than as a term loan must be settled quarterly or converted into term loans. In connection with this facility, Forward Innovations agreed to certain covenants. Amounts drawn under this credit facility bear interest at variable rates established by the bank (5.35% and 5.5% as September 30, 2008 and 2007, respectively). At September 30, 2008, Forward Innovations is contingently liable to the bank in respect of a letter of credit issued on its behalf in the amount of €224,000 (equal to approximately \$327,000 and \$315,000 at currency exchange rates on September 30, 2008 and 2007, respectively) in favor of Forward Innovations' freight forwarder and customs agent in connection with its logistics operations in The Netherlands. The effect of the issuance of the letter of credit is to reduce the availability of the credit line in an amount equal to the face amount of the letter of credit. See Note 6, "Commitments and Contingencies—Guarantee Obligation"

NOTE 6 COMMITMENTS AND CONTINGENCIES

Royalty Commitments

In May 2008, the Company entered into a non-exclusive license agreement with Motorola, Inc. ("Motorola") that grants the Company the right to distribute certain Motorola trademarked carry solution accessory products to wholesale and retail customers in the United States, Canada, and Europe through March 31, 2009, subject to renewal by mutual agreement. The license agreement is effective retroactive to January 1, 2008, following the expiration of a prior license agreement on December 31, 2007. The grant under the expired license was limited to the EMEA Region and pertained to traditional Motorola branded handsets; the grant under the new license expands the licensed territory (although limited to Europe and not the Middle East or Africa) and covers a broader range of cell phone handsets, including Motorola's "IDEN®" brand.

In consideration of the grant, the Company agreed to pay to Motorola a royalty based upon a percentage of actual net sales of branded accessory products, subject to payment of minimum royalties (irrespective of actual net sales) in the amount of \$650,000 over the initial 15-month term of the agreement. See Note 14 Subsequent Events.

The Company recorded royalty expense of approximately \$103,000 (which is attributable to the expired license) for the fiscal year ended September 30, 2008, which represents the minimum royalties accrued in respect of such period. For the fiscal year ended September 30, 2007, the Company recorded royalty expense of \$404,000, which represent royalties paid in respect of actual sales and in excess (and in lieu) of the minimum royalties otherwise payable to Motorola in respect of such period. The minimum royalty for the fiscal year ended September 30, 2007, was \$336,000. Royalty expense amounts are included in selling expenses in the accompanying consolidated statements of operations.

NOTE 6 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Guarantee Obligation

In July 2002, Forward Innovations and its European logistics provider (freight forwarding and customs agent) entered into a Representation Agreement whereby, among other things, the European logistics provider agreed to act as such subsidiary's fiscal representative in The Netherlands for the purpose of providing services in connection with any value added tax matters. As part of this agreement, the subsidiary agreed to provide an undertaking to the logistics provider with respect to any value added tax liability arising in The Netherlands that the logistics provider paid on the subsidiary's behalf. Accordingly, in February 2004 such subsidiary entered into a guarantee agreement with a Swiss bank relating to the repayment of any amount up to €224,000 (equal to approximately \$327,000 and \$315,000 at currency exchange rates on September 30, 2008 and 2007, respectively) paid by such bank to the logistics provider pursuant to a letter of credit that was issued by the bank in favor of the logistics provider in order to satisfy such undertaking. The subsidiary would be required to perform under the guarantee only in the event that: (i) a value added tax liability is imposed on the Company's sales in The Netherlands, (ii) the logistics provider asserts that it has been called upon in its capacity as surety by the Dutch Receiver of Taxes to pay such taxes, (iii) the subsidiary or the Company on its behalf fails or refuses to remit the amount of value added tax due to the logistics provider, and (iv) the logistics provider makes a drawing under the letter of credit. Commencing December 31, 2004, and on each anniversary thereafter until December 31, 2009, it is intended that the bank letter of credit will be renewed automatically for one-year periods. The subsidiary has agreed to keep a letter of credit guarantee in place for five years following the date its relationship terminates with the logistics provider to satisfy any value added tax liability arising prior to expiration of the Representation Agreement but asserted by The Netherlands after expiration. As of September 30, 2008, the Company has not incurred a liability in connection with this guarantee.

Employment Agreements

The Company has entered into employment agreements with Douglas W. Sabra, its President (chief executive officer), and James O. McKenna, its chief financial officer.

Under his amended and restated employment agreement, Mr. Sabra is employed as the Company's President (Chief Executive Officer) at an annual salary of \$250,000 until December 31, 2009. The agreement provides for successive one-year renewal terms, unless either party provides written notice of its intention not to renew the agreement not later than 90 days prior to the end of the term (or renewal period). If Forward gives such notice and no cause for termination exists and no change of control (as defined in the agreement) has occurred, subject to certain conditions, Mr. Sabra would be entitled to receive salary at the then prevailing rate for the greater of six months or the balance of the term as severance. In connection with his succession to the office of President in January 2008, the Compensation Committee of the Company's Board of Directors determined to grant Mr. Sabra 20,000 shares of restricted stock under the 2007 Plan, with a grant date of January 2, 2008, vesting in equal proportions over three years from the grant date.

Under his amended and restated agreement, if in circumstances that do not constitute a change of control (as this term is defined in his agreement) Mr. Sabra terminates the agreement for good reason, he is entitled to severance of six months at the prevailing salary rate (or that before reduction thereof if that is the basis of good reason), or if his employment is terminated without cause, he is entitled to salary at his prevailing rate for the greater of six months or the balance of the term as severance. Under his amended and restated agreement, if Mr. Sabra's employment is terminated without cause, or if he terminates his employment for good reason (as defined in the Amended Agreement), in either case within one year of a change of control (as defined), he is entitled to receive severance equal to 12 months of salary and immediate vesting of any unvested options and restricted stock pursuant to applicable equity compensation plans. He would not be able to terminate for good reason after a change of control as long as he was one of the three most senior and highly compensated executives in the entity that survives after a change of control.

Under his agreement Mr. McKenna is employed as the Company's Chief Financial Officer at an annual salary of \$175,000 per annum until December 31, 2009. The agreement provides for successive one-year renewal terms, unless either party provides written notice of its intention not to renew the agreement not later than 90 days prior to the end of the term (or renewal period). If Forward gives such notice and no cause for termination exists and no change of control (as defined in the agreement) has occurred, subject to certain conditions, Mr. McKenna would be entitled to receive salary at the then prevailing rate for six months as severance.

NOTE 6 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Employment Agreements (continued)

Mr. McKenna is also entitled to six months of severance for termination without cause in circumstances other than non-renewal and termination for good reason (as defined in the Agreement) in either case in circumstances not involving a change in control (as this term is defined in the agreement). If Mr. McKenna's employment is terminated without cause, or if he terminates his employment for good reason, in either case within one year of a change of control, he is entitled to receive severance equal to 12 months of salary and immediate vesting of any unvested options and restricted stock (or other unvested grants) pursuant to Company equity compensation plans. He would not be entitled to terminate for good reason after a change of control if he is serving as an executive in the financial department of the surviving entity after a change of control.

Under their agreements Mr. Sabra and Mr. McKenna are eligible to earn bonus compensation in each year of the term of their agreements based on

achieving applicable financial targets established in the first fiscal quarter during the term by the Compensation Committee. Both Mr. Sabra and Mr. McKenna are entitled to receive customary benefits including health, life and disability insurance, auto allowances and participation in the Company's 401K retirement plan. Under their agreements, Mr. Sabra and Mr. McKenna are subject to the terms of restrictive covenants that prohibit them individually from competing against the Company, soliciting its employees, or soliciting its customers, in each case for a period one year after expiration of the term or any renewal thereof. They are also bound not to disclose material, non-public information pertaining to the Company after expiration of the term.

Other Agreements

Effective October 1, 2005, the Company entered into an employment agreement with each of Jerome E. Ball and Michael M. Schiffman to secure their services to Forward as its Chief Executive Officer/Chairman of the Board and President/Chief Operating Officer, respectively, during the terms of their respective agreements. These agreements expired in accordance with their terms on December 31, 2007.

In connection with expiration of his agreement and retirement as Chief Executive Officer, Mr. Ball entered into an agreement under which the Company was paying him a consulting fee of \$10,000 per month and a separate fee for serving as Chairman of the Board of approximately \$2,100 per month at the time of his death in April 2008. In addition, under the terms of this agreement, his estate was entitled to payment of a death benefit of one-half the monthly consulting payments remaining if he died during the term. Accordingly, the Company made a payment of \$100,000 to his estate on May 9, 2008. During the fiscal year ended September 30, 2008 under this agreement, Mr. Ball received an aggregate of \$40,000 in consulting fees (separate and apart from the death benefit of \$100,000) and approximately \$6,250 for services as Chairman of the Board. These amounts are in addition to salary and other benefits paid to him during such fiscal year under his employment agreement and in addition to director's fees Mr. Ball received in respect of Board meetings held in February 2008.

Unexercised stock options to purchase 10,000 shares of common stock granted to Mr. Ball pursuant to the 2007 Equity Incentive Plan in February 2008 were subject to a vesting period of one year. On May 1, 2008, the Compensation Committee caused such shares to immediately vest in order to permit his estate to exercise the options within one year of the date of his death if the estate elects to do so.

In connection with expiration of his agreement, Mr. Schiffman entered into a severance agreement with the Company under which Mr. Schiffman was granted a severance package consisting of \$162,500 (paid in full upon execution of the agreement) and a release by the Company of potential claims. In return, Mr. Schiffman released the Company from potential claims and agreed to certain modifications of the non-competition and non-solicitation covenants contained in the employment agreement.

NOTE 6 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Lease Commitments

The Company rents certain of its facilities under leases expiring at various dates through May 2012. Total rent expense for the years ended September 30, 2008 and 2007, amounted to approximately \$313,000 and \$280,000, respectively. Minimum future rental commitments under such leases are summarized below:

Fiscal Year Ended September 30,	Amount
2009	\$ 319,000
2010	269,000
2011	276,000
2012	105,000
2013	--
Thereafter	--
Total lease commitments	\$969,000

NOTE 7 SHAREHOLDERS' EQUITY

Anti-takeover Provisions

The Company is authorized to issue up to 4,000,000 shares of "blank check" preferred stock. The Board of Directors has the authority and discretion, without shareholder approval, to issue preferred stock in one or more series for any consideration it deems appropriate, and to fix the relative rights and preferences thereof including their redemption, dividend and conversion rights.

Stock Repurchase

On September 27, 2002, the Company's Board of Directors authorized the repurchase of up to 400,000 shares of the Company's outstanding common stock (approximately 7% of the number of shares then outstanding). On January 21, 2004, the Company's Board increased the amount of shares authorized for repurchase to 486,200. Under these authorizations, as of September 30, 2008, the Company had repurchased an aggregate of 172,603 shares at a cost of approximately \$0.4 million, including 70,000 shares in fiscal 2007, but none during fiscal 2008, leaving a balance of 313,597 shares (approximately 4% of the shares outstanding at September 30, 2008) under those authorizations. Separate and apart from these announced repurchase programs, in March 2008, the Company in effect purchased 72,917 outstanding shares of common stock held by the Company's former Chairman of the Board and principal executive

officer, by accepting such shares at their fair market value on such date as consideration for his exercise of options to purchase 100,000 shares of common stock as part of a cashless exercise. See Note 8.

NOTE 8 STOCK BASED COMPENSATION

In May 2007, shareholders of the Company approved the Forward Industries, Inc. 2007 Equity Incentive Plan (the 2007 Plan), pursuant to which up to 400,000 shares of common stock can be issued to officers, employees, and non-employee directors of the Company in the form of grants of restricted common stock and stock options to such persons. This plan was adopted by the Board of Directors in February 2007. The price at which restricted common stock may be granted and the exercise price of stock options granted may not be less than the fair market value of the common stock at the date of grant. The Company's Compensation Committee administers the plan. Options generally expire ten years after the date of grant and restricted stock grants generally vest in equal proportions over three years. As of September 30, 2008, 250,000 shares of common stock remain available for grants under the 2007 Plan.

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NOTE 8 STOCK BASED COMPENSATION (CONTINUED)

The Company's 1996 Stock Incentive Plan (the 1996 Plan) expired in accordance with its terms in November 2006. The exercise price of incentive options granted under the 1996 Plan to officers, employees, and non-employee directors of the Company were required by its provisions to be equal at least to the fair market value of the common stock at the date of grant. Options expire ten years after the date of grant and generally vest in equal proportions over three years. Unexercised options granted pursuant to the 1996 Plan prior to expiration remain outstanding until the earlier of exercise or option expiration. Under the 1996 Plan 30,000 fully vested stock options remain outstanding and unexercised, all at exercise prices higher than the fair market value of the stock at September 30, 2008.

Stock Option Awards

In February 2008 and August 2007, the Compensation Committee granted stock option awards to purchase 60,000 shares of common stock and 40,000 shares of common stock, respectively, in the aggregate, to the Company's non-employee directors under the 2007 Plan. These awards are subject to a continued service condition and vest on the anniversary date the awards were granted. Accordingly, the Company recognized approximately \$66,000 and \$99,000 of compensation cost related to these stock option awards in its consolidated statements of operations for the fiscal years ended September 30, 2008 and 2007, respectively.

The following table summarizes stock option activity under the 2007 Plan and the 1996 Plan during the fiscal years ended September 30, 2008 and 2007:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at September 30, 2006	248,750	\$4.15		
Granted	40,000	2.85		
Exercised	(53,000)	1.75		
Forfeited	--	--		
Expired	(3,750)	2.00		
Outstanding at September 30, 2007	232,000*	\$4.51		
Granted	60,000*	2.20		
Exercised	(122,000)*	1.75		
Forfeited**	--	--		
Expired	(60,000)*	8.26		
Outstanding at September 30, 2008	110,000	\$4.26	8.35	\$0
Options vested and exercisable at September 30, 2008	60,000	\$5.98	6.66	--

*Of these amounts, 30,000 stock options were outstanding, no options were granted, 122,000 options were exercised, 40,000 options expired pursuant to the 1996 Plan.

**Options to purchase 10,000 shares of common stock granted to a non-employee director who died in April 2008 would under normal terms of the grant have lapsed upon death. The Compensation Committee determined to waive that forfeiture provision for a period of one year from the date of death.

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NOTE 8 STOCK BASED COMPENSATION (CONTINUED)

Stock Option Awards (continued)

The table below provides additional information regarding stock option awards that were outstanding and exercisable at September 30, 2008.

Stock Options Outstanding and Exercisable				
Range of Exercise Prices	Outstanding at September 30, 2008	Weighted Average Remaining Contractual Term (Years)	Weighted Average Exercise Price	
\$2.20 to \$2.85	30,000	6.08	\$2.63	
\$6.02	20,000	7.59	\$6.02	
\$15.91	10,000	6.56	\$15.91	
	<u>60,000</u>			

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

	For the Fiscal Years Ended September 30,	
	2008	2007
Expected term (in years)	5.0	5.0
Risk-free interest rate	3.78%	5.24%
Expected volatility	80.2%	86.1%
Expected dividend yield	0%	0%

The expected term represents the period over which the stock option awards are expected to be outstanding. The Company based the risk-free interest rate used in its assumptions on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the award's expected term. The volatility factor used in the Company's assumptions is based on the historical price of its stock over the most recent period commensurate with the expected term of the award. The Company historically has not paid any dividends on its common stock and had no intention to do so on the date the share-based awards were granted. Accordingly, the Company used a dividend yield of zero in its assumptions. The Company estimates the expected term, volatility and forfeitures of share-based awards based upon historical data.

Restricted Stock Awards

Under the 2007 Plan during the fiscal years ended September 30, 2008 and 2007, the Compensation Committee approved and granted 36,500 and 33,000 restricted stock awards, respectively, or 69,500 shares of restricted stock, in the aggregate, to certain key employees, one of whom also serves as a director. Vesting of the restricted stock is generally subject to a continued service condition with one-third of the awards vesting each year on the anniversary date the awards were granted typically commencing on the first such anniversary date. The fair value of the awards granted was equal to the market value of the Company's common stock on the grant date. During the fiscal years ended September 30, 2008 and 2007, the Company recognized approximately \$70,000 and \$67,000, respectively, of compensation cost in its consolidated statements of operations related to restricted stock awards.

NOTE 8 STOCK BASED COMPENSATION (CONTINUED)

Restricted Stock Awards (continued)

The following table summarizes restricted stock activity under the 2007 Plan during the fiscal years ended September 30, 2008 and 2007.

	Shares	Weighted Average Grant Date Fair Value
Non-vested balance at September 30, 2006	--	--
Changes during the period:		
Shares granted	33,000	\$3.49
Shares vested	(11,001)	\$3.49
Shares forfeited	--	--
Non-vested balance at September 30, 2007	<u>21,999</u>	<u>\$3.49</u>

Changes during the period:		
Shares granted	36,500	\$2.37
Shares vested	(11,001)	\$3.49
Shares forfeited	--	--
Non-vested balance at September 30, 2008	47,498	\$2.65

As of September 30, 2008, there was approximately \$66,000 of total unrecognized compensation cost related to 47,498 shares of unvested restricted stock awards (reflected in the table above) granted under the 2007 Equity Incentive Plan. That cost is expected to be recognized over the remainder of the requisite service (vesting) period.

Warrants

As of September 30, 2008, warrants to purchase 75,000 shares of the Company's common stock at an exercise price of \$1.75 were outstanding. By their terms these warrants expire 90 days after a registration statement registering common stock (other than pursuant to employee benefit plans) is declared effective by the Securities and Exchange Commission. As of September 30, 2008, no such registration statement has been filed with the Securities and Exchange Commission.

NOTE 9 INCOME TAXES

For the fiscal years ended September 30, 2008 and 2007, the Company recorded a benefit from income taxes of approximately \$156,000 and \$249,000, respectively. The Company's income tax benefit consists of the following United States and foreign components:

	For the Fiscal Years Ended September 30,	
	2008	2007
U.S. Federal and State		
Current	\$ --	\$ --
Deferred	(110,167)	(229,843)
Foreign:		
Current	--	--
Deferred	(45,453)	(19,537)
Income tax benefit	(\$155,620)	(\$249,380)

NOTE 9 INCOME TAXES (CONTINUED)

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

	As of September 30,	
	2008	2007
Deferred tax assets:		
Net operating losses	\$351,565	\$146,737
Excess tax over book basis in inventory	101,759	202,950
Share-based compensation	20,618	45,577
Allowance for doubtful accounts	--	7,156
	473,942	402,420
Deferred tax liabilities:		
Prepaid insurance	(52,310)	(77,102)
Depreciation	(12,502)	(15,679)
	(64,812)	(92,781)
Net deferred tax assets	\$409,130	\$309,639

The Company believes that it is more likely than not that the deferred tax assets will be realized through future taxable income. Accordingly, the Company has not recorded a valuation allowance against its deferred tax assets as of September 30, 2008. The Company had cumulative net operating losses of approximately \$795,000 and \$882,000 for United States and foreign income tax purposes, respectively, as of September 30, 2008.

The significant elements contributing to the difference between the federal statutory tax rate and the Company's effective tax rate are as follows:

For the Fiscal Years Ended September 30,	
2008	2007

Statutory federal income tax rate	34.0%	34.0%
State taxes, net of federal benefit	1.8%	1.8%
Non-deductible items	(1.1%)	(1.1%)
Foreign tax rate differential	(21.5%)	(7.9%)
Other	1.8%	4.3%
Effective tax rate	15.0%	31.1%

Effective June 2001, undistributed earnings of the Company's Swiss subsidiary are considered to be permanently invested; therefore, in accordance with SFAS No. 109, no provision for U.S. Federal and state income taxes on those earnings has been provided. At September 30, 2008 and 2007, the Company's Swiss subsidiary had approximately \$4,303,000 and \$4,774,000 of accumulated undistributed earnings, respectively.

NOTE 10 LOSS PER SHARE

Basic per share data for each period presented is computed using the weighted-average number of shares of common stock outstanding during each period. Diluted per share data is computed using the weighted-average number of common and dilutive common-equivalent shares outstanding during each period. Dilutive common-equivalent shares consist of shares that would be issued upon the exercise of stock options and warrants, computed using the treasury stock method. Loss per share data for the fiscal years ended September 30, 2008 and 2007, excludes all outstanding common equivalent shares as inclusion of such shares would be anti-dilutive.

NOTE 10 LOSS PER SHARE (CONTINUED)

In accordance with the contingently issuable shares provision of SFAS 128, 47,498 and 21,999 shares of service-based common stock awards ("restricted stock") were excluded from the calculation of diluted loss per share for the fiscal year ended September 30, 2008 and 2007, respectively.

NOTE 11 401(K) PLAN

The Company maintains a 401(k) benefit plan allowing eligible U.S.-based employees to contribute a portion of their salary in an amount up to the annual maximum amounts as set periodically by the Internal Revenue Service. In accordance with the Safe Harbor provisions, the Company has elected to match 100% on the first 4% of eligible contributions by its employees. The Company's matching contributions were approximately \$48,000 and \$75,000 for the years ended September 30, 2008 and 2007, respectively, and are reflected in the accompanying consolidated statements of operations. The Company's contributions vest immediately.

NOTE 12 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, 2008, there were no such actions or proceedings, either individually or in the aggregate, that, if decided adversely to the Company's interests, the Company believes would be material to its business.

NOTE 13 OPERATING SEGMENT INFORMATION

The Company operates in a single segment: the supply of carrying solutions for portable electronic devices. This carrying-solution segment includes the design, marketing, and distribution of products to its customers that include manufacturers of consumer hand held wireless telecommunications and medical monitoring devices. The Company's carrying solution segment operates in geographic regions that include primarily the APAC, the Americas, and Europe. Geographic regions are defined based primarily on the location of the customer.

Revenues from External Customers

The following table presents net sales related to these geographic segments.

	<i>(dollars in thousands)</i>	
	Year Ended September 30,	
	2008	2007
APAC	\$10,026	\$10,945
Americas	6,080	6,690
Europe*	3,868	4,516
Total net sales	\$19,974	\$22,151

*In the fiscal year ended September 30, 2007, net sales in Europe also included EMEA sales, Europe, Middle East, and Africa.

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

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

(dollars in thousands)

Year Ended September 30,

	2008	2007
APAC	\$25	\$39
Americas	94	110
Europe	6	12
Total long-lived assets (net)	\$125	\$161

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NOTE 13 OPERATING SEGMENT INFORMATION (CONTINUED)

Supplier Concentration

The Company procures all of its supply of carrying solutions products from independent suppliers, each of which is a Chinese business entity located in China. Depending on the product, the Company may require several different suppliers to furnish component parts or pieces. The Company purchased approximately 95% and 69% of its products from seven such suppliers in the fiscal years ended September 30, 2008 and 2007, respectively. One supplier accounted for approximately 43% and 20% of the Company's product purchases in the fiscal years ended September 30, 2008 and 2007, respectively.

Major Customers

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

	Fiscal Year Ended September 30, 2008			Total Company
	Americas	EMEA	APAC	
Lifescan, Inc	5%	2%	88%	46%
Abbott Laboratories	40%	35%	2%	20%
Roche Diagnostics	--	47%	--	9%
Intermec Corporation	12%	--	5%	6%

	Fiscal Year Ended September 30, 2007			Total Company
	Americas	EMEA	APAC	
Lifescan, Inc	--%	--%	64%	32%
Motorola Inc. *	29%	19%	30%	27%
Abbott Laboratories	27%	22%	1%	13%

* Motorola percentages do not include the sale of licensed Motorola products made by the Company to third parties under its license agreement with Motorola. Other than the customers presented in the table above, no other single customer comprised more than 10% of the Company's net sales.

Two customers accounted for approximately 74% and 75% of the Company's accounts receivable at September 30, 2008 and September 30, 2007, respectively.

NOTE 14 SUBSEQUENT EVENTS

As of September 30, 2008, the Company and Motorola were in negotiations to amend the license agreement with respect to royalty provisions. In December 2008 the Company and Motorola reached an agreement under which Motorola waives payment of all minimum royalties due under the license and reduces the royalty rate in respect of the term that expires March 31, 2009. Both parties expect to memorialize this agreement by amending the license agreement in the very near term. Minimum royalties under the license amounted to \$650,000, of which the Company had accrued approximately \$271,000 as of September 30, 2008. However, as a result of the agreement reached in December 2008, the Company reduced this payable to zero with a corresponding adjustment to its selling expenses on its statement of operations for fiscal year ended September 30, 2008.

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NOTE 14 SUBSEQUENT EVENTS (CONTINUED)

As of September 30, 2008, the Company and Motorola were also in negotiations regarding the Company's claim that Motorola was obligated to the Company for certain inventory that the Company manufactured to order and in some cases stored at Motorola's hubs. As of September 30, 2008, the Company had fully reserved for this inventory and disposed of it with Motorola's consent. In December 2008 the Company and Motorola reached a settlement

of these issues under which Motorola has agreed to pay us \$250,000 in respect of the inventory. Both parties expect to memorialize and perform this agreement in the very near term. Accordingly, the Company has recorded a receivable for the settlement amount on its balance sheet as of September 30, 2008, a reduction to its obsolete inventory expense in its consolidated statements of operations as of September 30, 2008, and corresponding adjustments in its Statement of Cash Flows for the fiscal year ended September 30, 2008.

SIGNATURES

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

Dated: December 15, 2008

FORWARD INDUSTRIES, INC.
(Registrant)

By: /s/ Douglas W. Sabra
Douglas W. Sabra
President and Acting Chairman
(Principal Executive Officer)

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

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

December 15, 2008 /s/Douglas W. Sabra
Douglas W. Sabra
Chief Executive Officer and
Acting Chairman of the Board
(Principal Executive Officer)

December 15, 2008 /s/James O. McKenna
James O. McKenna
Chief Financial Officer and Vice President
(Principal Financial Officer and

Principal Accounting Officer)

December 15, 2008 /s/John Chiste
John Chiste
Director

December 15, 2008 /s/Bruce Galloway
Bruce Galloway
Director

December 15, 2008 /s/Fred Hamilton
Fred Hamilton
Director

December 15, 2008 /s/Louis Lipschitz
Louis Lipschitz
Director

December 15, 2008 /s/Michael Schiffman
Michael Schiffman
Director

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Exhibit Index

3. ARTICLES OF INCORPORATION AND BY-LAWS

- 3(i).1 Certificate of Incorporation of the Company as amended (incorporated by reference to Exhibit 2(a) to the Form 10-SB)
- 3(i).2 Certificate of Amendment of Certificate of Incorporation filed by the New York Department of State on August 22, 1997 (incorporated by reference to the Company's Annual Report on Form 10-KSB for the period ended September 30, 1997)
- 3(ii).1 By-Laws (incorporated by reference to Exhibit 2(b) to the Form 10-SB) (now superseded by the Amended and Restated By-Laws)
- 3(ii).2 Amendment to By-Laws (Article I, Section 2) (incorporated by reference to Exhibit 3(c) to the Company's Registration Statement on Form SB-2 filed November 13, 1995 (Reg. No. 33-99338) (the "1995 SB-2 Registration Statement") (now superseded by the Amended and Restated By-Laws)
- 3(ii).3 Amended and Restated By-Laws of Forward Industries, Inc., as of February 13, 2008

10. MATERIAL CONTRACTS

- 10.1 License Agreement, effective as of October 1, 2004, between Motorola, Inc. and the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed October 18, 2004).
- 10.2 1996 Stock Incentive Plan of Forward Industries, Inc. (incorporated by reference to Exhibit 4 to the Registration Statement on Form S-8 of the Company, as filed on April 25, 2003).
- 10.3 Amendment One to Employment Agreement effective as of July 12, 2005 between the Company and Douglas W. Sabra (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 12, 2005).
- 10.4 Employment Agreement effective as of October 1, 2005 between the Company and Jerome E. Ball (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 28, 2005).
- 10.5 Employment Agreement effective as of October 1, 2005 between the Company and Michael M. Schiffman (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 28, 2005).
- 10.6 Employment Agreement effective as of October 1, 2005 between the Company and Douglas W. Sabra (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on December 28, 2005).
- 10.7 Forward Industries, Inc. 2007 Equity Incentive Plan (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-8 of the Company, as filed on July 10, 2007).

- 10.8 Consulting Agreement, dated August 15, 2007, between Jerome E. Ball and Forward Industries, Inc. (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K of the Company as filed on August 16, 2007).
- 10.9 Amendment to Employment Agreement, dated as of January 1, 2008, between the Company and Douglas W. Sabra (incorporated by reference to Exhibit 10.9 to the Current Report on Form 8-K of the Company as filed on February 13, 2008)

- 10.10 Severance and Release Agreement, dated as of December 31, 2007, between the Company and Michael M. Schiffman (incorporated by reference to Exhibit 10.10 to the Current Report on Form 8-K of the Company as filed on February 13, 2008).
- 10.11 License Agreement, dated as of May 22, 2008, between Motorola, Inc. and Forward Industries, Inc.
- 10.12 Amended and Restated Employment Agreement, dated as of August 12, 2008, between the Company and Douglas W. Sabra
- 10.13 Employment Agreement, dated as of August 12, 2008, between the Company and James O. McKenna

21. SUBSIDIARIES OF THE REGISTRANT

- 21.1 List of Subsidiaries of Forward Industries, Inc.

23. CONSENT OF INDEPENDENT REGISTERED ACCOUNTING FIRM

- 23.1 Consent of Kaufman, Rossin & Co., P.A. relating to 1996 Stock Incentive Plan

31. CERTIFICATIONS PURSUANT TO RULE 13a-14(a) (Section 302 of Sarbanes-Oxley)

- 31.1 Certification of Douglas W. Sabra
- 31.2 Certification of James O. McKenna

32. CERTIFICATIONS PURSUANT TO RULE 13a-14(b) (Section 906 of Sarbanes-Oxley)

- 32.1 Certifications of Douglas W. Sabra and James O. McKenna

LICENSE AGREEMENT
BETWEEN
MOTOROLA, INC.
AND
FORWARD INDUSTRIES, INC.

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EXHIBITS

- A. Products, Territory, Rates and Term
 - B. Trademarks
 - C. Trademark Use Guidelines
 - D. Specifications
 - E. Sample Manufacturer's Agreement
 - F. Product Warranty
 - G. Licensor Exclusive Accounts
 - H. Compliance with Laws and Ethical Standards
-

LICENSE AGREEMENT

THIS AGREEMENT is made between:

- (1) MOTOROLA, INC., a Delaware corporation, having its principal office at 1303 East Algonquin Road, Schaumburg, Illinois 60196, USA (including its subsidiaries and affiliates, “**Motorola**” or “**Licensor**”); and
- (2) FORWARD INDUSTRIES, INC., a New York corporation, having its principal office at 1801 Green Road, Pompano Beach, Florida 33064, (“**Licensee**”).

with reference to the following recitals:

- A. Motorola is the owner of certain Trademarks, including MOTOROLA and the Stylized M logo. The Trademarks constitute valuable rights owned and used by Motorola in conducting its business and designating the origin or sponsorship of distinctive branded products by Motorola;
- B. Motorola wishes to license certain Trademarks for use in connection with accessories for cellular telephones;
- C. Licensee wishes to use the Trademarks upon and in connection with the manufacture, sale, marketing, and distribution of certain accessories for cellular telephones;
- D. Motorola desires to protect the integrity of its Trademarks and to preserve its right to label its products with its Trademarks so as to avoid consumer confusion and to distinguish its products from those of its competitors;
- E. Motorola and Licensee are parties to a license agreement entered into as of October 1, 2004, that expired by its terms December 31, 2007 (the “Prior Agreement”); and
- F. Licensee and Motorola agree that certain restrictions on Licensee’s use of the Trademarks are necessary to ensure that the Trademarks are not diluted or subjected to disrepute in the course of Licensee’s use of the Trademarks, that Motorola’s reputation is not subjected to disrepute, and that Motorola’s rights in the Trademarks and ownership of the Trademarks are preserved.

NOW, THEREFORE, in consideration of the mutual promises of this Agreement, the parties agree as follows:

1. DEFINITIONS

- 1.1 In this Agreement:
-

“Affiliates” means affiliated, associated or subsidiary companies of Motorola or Licensee (as applicable) or persons or other entities with a common ownership, common management, or interest in or interlocking directorate with, Licensee or Motorola.

“Approved Sample” means Product or Product Materials which have been delivered to and approved in writing by Motorola’s Representative as provided in Section 3 of this Agreement.

“Approved Manufacturer” means a contract manufacturer or supplier to Licensee of the Product or Product Materials that has been approved by Motorola and that has executed a Manufacturer’s Agreement incorporating all of the terms of the Manufacturer’s Agreement set forth in Exhibit E.

“Business Day” means a day that is not a Saturday or Sunday or a legal holiday and on which banks are not required or permitted by law or other governmental action to close in Illinois or Florida.

“Days” means calendar days.

“Derivative Works” means any computer program, work, industrial design, ornamental design, product, service, improvement, supplement, modification, alteration, addition, revision, enhancement, new version, new edition, remake, sequel, translation, adaptation, design, plot, theme, character, story line, concept, scene, audio-visual display, interface element or aspect, in any medium, format, use or form whatsoever, whether interactive or linear and whether now known or unknown (including but not limited to sound recordings, phonorecords, computer-assisted media, games, books, magazines, periodicals, merchandise, animation, home videos, radio, motion pictures, cable and television), that is derived directly or indirectly, from any Motorola Intellectual Property, or any part or aspect of any thereof, or that uses or incorporates any of the Motorola Intellectual Property, or any part or aspect of any thereof.

“Effective Date” means January 1, 2008.

“Gross Sales” means the total amount billed by Licensee for Products sold to its customers, other than Motorola, its subsidiaries and its affiliates.

“Intellectual Property Rights” means any and all (by whatever name or term known or designated) tangible and intangible and now known or hereafter existing: (i) rights associated with works of authorship throughout the universe, including but not limited to copyrights (including without limitation the sole and exclusive right to prepare Derivative Works of copyrighted works and to copy, manufacture, reproduce, lend, distribute copies of, modify, publicly perform and publicly display the copyrighted work and all derivative works thereof), moral rights (including without limitation any right to identification of authorship and any limitation on subsequent modification) and mask-works; (ii) rights in and relating to the protection of trademarks, service marks, trade names, goodwill, rights in packaging, rights of publicity, merchandising rights, advertising rights and similar rights; (iii) rights in and relating to the protection of trade secrets and confidential information; (iv) patents, designs, algorithms and other industrial property rights and rights associated therewith; (v) other intellectual and industrial property and proprietary rights (of every kind and nature throughout the universe and however designated) relating to intangible property that are analogous to any of the foregoing rights (including without limitation logos, character rights, “rental” rights and rights to remuneration), whether arising by operation of law, contract, license or otherwise; (vi) registrations, applications, renewals, extensions, continuations, divisions or reissues thereof now or hereafter in force throughout the universe (including without limitation rights in any of the foregoing); and (vii) rights in and relating to the sole and exclusive possession, ownership and use of any of the foregoing throughout the universe, including without limitation the right to license and sublicense, franchise, assign, pledge, mortgage, sell, transfer, convey, grant, gift over, divide, partition and use (or not use) in any way any of the foregoing now or hereafter (including without limitation any claims and causes of action of any kind with respect to, and any other rights relating to the enforcement of, any of the foregoing).

“Laws” mean any and all applicable published laws, rules, regulations, including, but not limited to, local and national laws, rules and regulations, treaties, ministerial guidance or guidelines, generally accepted voluntary industry standards, association laws, codes, etc. pertaining to any activities of Motorola or any third party engaged by Motorola in connection with the performance of the obligations arising under this Agreement.

“Manufacturer’s Agreement” means an agreement among Motorola, Licensee and a manufacturer or supplier of the Product or Product Materials incorporating all of the terms of the Manufacturer’s Agreement set forth in Exhibit E.

“Net Sales” means Gross Sales, less refunds, credits and allowances actually allowed to customers for returned Products.

“Product” or **“Products”** means specific products or product categories as established in Exhibit A for which the Licensee is authorized under this Agreement and which have been approved by Motorola as provided in this Agreement and which bear the Trademarks.

“Product Materials” means to the extent required by this Agreement, warranty statement, user guide, packaging and marketing materials, including but not limited to point-of-sale materials, publicity, advertising, signs, catalogs, product brochures and other in-box materials relating to the Products.

“Promptly” means a reasonable effort to perform within 10-15 business days.

“Sales Year” or **“Sales Years”** means a period of time that is twelve months or less in time, as defined in Exhibit A, during which sales of Products are measured.

“Specifications” means the Cosmetic Specifications and Materials and Methods Specifications attached hereto as Exhibit D.

“Territory” means the authorized counties referred to in Exhibit A subject to the restrictions in Section 13.

“Trademarks” means one or more of the trademarks, trade names, logos, trade dress, and service marks referred to in Exhibit B.

“**Trademark Use Guidelines**” shall be those Motorola guidelines for use of the Trademarks, as provided in Exhibit C.

2. GRANT OF LICENSE

2.1 Motorola grants to Licensee, subject to the terms and conditions of this Agreement, the non-exclusive right to use the Trademarks upon the Products and in connection with the manufacture, sale, marketing and distribution of the Products in the Territory.

2.2 Licensee may manufacture Products or have Products manufactured for it anywhere in the world subject to the terms of this Agreement including the restrictions and obligations of Sections 3, 13 and 19 of this Agreement.

2.3 Licensee is further authorized to use in the Territory the Trademarks in Product Materials directly related to Products including in publicity, advertising, signs, catalogs, product brochures, packaging, point-of-sale materials and other forms of advertising, subject to the terms and conditions of this Agreement.

3. SAMPLES; QUALITY CONTROL

3.1 Motorola shall provide Licensee with artistic renderings of the Trademarks and with Trademark Use Guidelines identified in Exhibit C. Licensee shall use the Trademarks only as provided in the artistic renderings provided by Motorola and shall comply with the Trademark Use Guidelines provided by Motorola.

3.2 Motorola will attend a quarterly meeting with Licensee to provide information and strategize regarding the future planned launch of Motorola mobile phones and accessories for which Licensee might plan to make compatible Products.

3.3 Samples. Licensee shall produce and submit to Motorola samples of any Product(s) it proposes to market or sell under this Agreement. Motorola agrees to Promptly review the sample(s) and notify Licensee of its decision in writing to designate the sample(s) as approved or not approved. Motorola may approve or disapprove any sample in its sole discretion.

3.4 Technical Specifications. All products must comply with the Materials and Methods and Cosmetic Specifications (“Specifications”) attached hereto as Exhibit D.

3.5 Final Production Samples. Licensee must also obtain Motorola’s written approval of final production samples of each Product and all Product Materials, prior to the sale, publication, distribution or use of such Product and/or Product Materials. Licensee shall furnish, at no cost to Motorola, three final production samples of each Product and corresponding Product Materials to Motorola’s Representative who may retain such final samples at Motorola’s discretion. Licensee acknowledges that Motorola may perform SAR tests on the production samples and that no production sample will be approved unless it passes SAR testing. Motorola agrees to Promptly after submission of Product samples notify Licensee in writing if it approves of such final production samples of each Product and final production samples of Product Materials. If such Product and/or Product Materials are not approved, Motorola will in such notice advise Licensee of the reasons, including corrections required by Motorola. Licensee shall make all such corrections at its expense, or withdraw the proposed Product and/or Product Materials from consideration. Any review and/or approval by Motorola shall not relieve Licensee from its obligations provided in this Agreement. Sections 3.2 and 3.4 shall not apply to Products sold in the Territory pursuant to the Prior Agreement and which have not been modified by Licensee or at Motorola’s direction subsequent to their final approval for production and sale under that license. Licensee shall not manufacture any Product until it has received written approval from Motorola.

3.6 Licensee agrees that, once approved, it will not make any changes to an approved Product or Product Materials without seeking new approval from Motorola. Individual Approved Products may not be bundled together without separate approval of the bundle and its Product Materials. . Each Product and the Product Materials shall at all times: (i) conform to the terms of this Agreement; (ii) conform to the Trademark Use Guidelines and the Specifications and (iii) be the same in appearance, form, fit, function, quality and regulatory compliance to the Approved Sample of the Product or Product Materials. If at any time the Product and/or Product Materials fail to meet these requirements, Licensee shall Promptly, but in no event later than thirty (30) days of becoming aware of such failure, make all changes necessary to bring such Product and/or Product Materials into conformance, or cease using the Trademarks on a nonconforming Product and/or Product Materials, or cease selling the Product. In addition, Licensee may be required by Motorola within ten (10) business days after becoming aware of such nonconformance, take steps to withdraw any nonconforming Products and/or Product Materials from the market if reasonably determined by Motorola to be a nonconformance creating significant safety, quality, customer satisfaction or negative brand impact issues.

3.7 If requested by Motorola due to reasonable concerns over nonconformance with the Approved Samples, Licensee shall, at its own expense, submit to Motorola's Representative the results of inspections and tests that have been performed by an independent testing laboratory approved by Motorola on randomly selected samples of each Product to show conformance. In addition, Motorola may require Licensee, at Licensee's own expense, to perform tests at an independent laboratory approved by Motorola to show conformance of the Product with the Approved Samples. At its sole discretion, Motorola may purchase the Product, at its own expense, from retail outlets or from distributors and review the Product and Product Materials to ensure that they conform in appearance, form, fit, function, quality and regulatory compliance to the Approved Samples, the Specifications and the Trademark Use Guidelines.

3.8 Upon five (5) business days' notice to Licensee, Motorola shall have the right to conduct or have conducted, during regular business hours, an examination of Products manufactured by or for Licensee (including those assembled or tested) at Licensee's facilities to determine compliance of such Products with the Approved Sample(s) and the Trademark Use Guidelines and the Specifications.

3.9 Costs. Motorola and Licensee shall each bear their own costs, including, but not limited to, reasonable and necessary travel and inspection services associated with the inspection and testing of Products for conformance with the requirements of this Section 3 , except that Licensee alone shall bear any costs associated with the inspection and testing of Products that are conducted by an independent testing laboratory as referenced in Section 3.7 and shall bear the cost of the samples referenced in this Agreement.

4. **APPROVED MANUFACTURERS**

4.1 Licensee must obtain Motorola's written consent prior to using any third party to manufacture or to supply Licensee with any Product. Licensee shall forward to Motorola a written list of proposed manufacturers or suppliers and the Products that each is to manufacture or supply and the location(s) where such Products shall be manufactured. Motorola may request any additional business or credit information regarding the proposed manufacturer or supplier it deems necessary to make a determination. Motorola agrees to Promptly review the list and to notify Licensee of its decision, and, if not approved, to advise Licensee, in writing stating the reasons why such manufacturer or supplier is not acceptable. A manufacturer or supplier who is so approved is an Approved Manufacturer for only that Product for which it is approved and only after executing a Manufacturer's Agreement.

4.2 Prior to manufacturing any Product or using any manufacturer to manufacture any Product, Licensee shall have the proposed manufacturer execute a Manufacturer's Agreement that has terms that are legally enforceable in the jurisdiction in which the Products are manufactured or supplied and includes at least the same terms and conditions as those set out in the Manufacturer's Agreement in Exhibit E. Licensee may include additional terms in the Manufacturer's Agreement provided they do not result, in the opinion of Motorola, in a reduction in the protections and remedies available to Motorola under the terms in Exhibit E. A copy of the executed Manufacturer's Agreement shall be delivered to Motorola before the Licensee or any Approved Manufacturer may commence the manufacture or supply of any Product.

4.3 Should either party become aware of any applicable published laws or regulations in any jurisdiction in the Territory that are inconsistent with the provisions and intent of the Manufacturer's Agreement, it shall notify the other party within five (5) days of becoming aware of such inconsistency.

4.4 If Motorola determines that an Approved Manufacturer has breached any Manufacturer's Agreement in any material respect, Motorola shall advise the Licensee of the breach in reasonable detail and, instruct Licensee to enforce the Manufacturer's Agreement against the breaching Approved Manufacturer. If Licensee determines that an Approved Manufacturer has breached any Manufacturer's Agreement in any material respect, Licensee shall immediately give notice to Motorola of such breach. In either case Licensee will use commercially reasonable efforts to enforce the Manufacturer's Agreement against the breaching Approved Manufacturer by obtaining a cure of the breach or terminating the Manufacturer's Agreement within thirty (30) days. If the Licensee or the Approved Manufacturer fails within this thirty (30) day period to (i) cure such breach to the satisfaction of Motorola or (ii) to suspend the manufacture of Products under the Manufacturer's Agreement pending cure of such breach to the satisfaction of Motorola, all rights to manufacture Product under this Agreement are immediately terminated and that Approved Manufacturer shall immediately be terminated as an Approved Manufacturer.

4.5 Licensee acknowledges that any failure by Licensee to enforce or terminate any Manufacturer's Agreement against a breaching Approved Manufacturer in accordance with this Article 4 is a material breach of this Agreement, and that such failure will cause irreparable harm and damages to Motorola.

4.6 If Licensee fails or refuses to immediately comply with or enforce the Manufacturer's Agreement against the breaching Approved Manufacturer in accordance with Section 4.4, Motorola shall have the right commencing three business days after written notice to Licensee to enforce the provisions of the Manufacturer's Agreement against the Licensee or the breaching Approved Manufacturer. In such cases, the cost of enforcing the Manufacturer's Agreement, including but not limited to attorneys fees, shall be paid by Licensee, whether the Manufacturer's Agreement is enforced by Motorola or Licensee. Licensee agrees to cooperate fully with Motorola, at Licensee's own expense, in all actions to enforce a Manufacturing Agreement.

4.7 Upon seven (7) business days' notice to the Approved Manufacturer, Motorola shall have the right to inspect or have inspected, at Motorola's expense, the manufacturing facilities of the Approved Manufacturer during regular business hours to determine compliance with the terms of the Manufacturer's Agreement and compliance of the Products and the Product Materials with the Approved Samples, the Specifications and the Trademark Use Guidelines. If at any time the Products and/or Product Materials fail to conform to the Trademark Use Guidelines, or the Specifications or are not the same in appearance, form, fit, function, quality and regulatory compliance to the Approved Sample(s), Motorola or its authorized representative shall so notify Licensee. Upon such notification, Licensee shall Promptly, but in no event later than thirty (30) business days, work with the Approved Manufacturer to make all changes necessary to bring such Products and/or Product Materials into conformance, or cease using the Trademarks on such nonconforming Products and/or Product Materials, or cease selling such Products. In addition, Licensee may be required by Motorola within ten (10) business days after becoming aware of such nonconformance, take steps to withdraw any nonconforming Products and/or Product Materials from the market if reasonably determined by Motorola to be a nonconformance creating significant safety, quality, customer satisfaction or negative brand impact issues.

5. APPEARANCE OF TRADEMARKS; TRADEMARK NOTICES

5.1 All products and Product materials shall comply with the Trademark use Guidelines. Motorola may change the Trademarks Use Guidelines regarding the style, appearance and manner of use of the Trademarks as necessary, in its sole discretion. If Motorola requires Licensee to implement such changes, it shall give written notice to Licensee of any such change(s). Licensee shall Promptly implement the revised Trademarks Use Guidelines on a running change basis, but in no event later than one hundred twenty (120) business days of Licensee's receipt of Motorola's notification of any change in the Trademarks Use Guidelines. Licensee shall be permitted in accordance with the terms of this Agreement, to sell, in the ordinary course of business, Product inventory that exists at the time of receipt of such notice.

5.2 Motorola may require, where practicable, that the following notices, all or in part, be used on the Products and/or Product Materials to identify the licensed use under the Agreement and the proprietary rights of Motorola:

Motorola TM attribution statement for Licensee packaging :

Manufactured, distributed or sold by "FORWARD INDUSTRIES, INC.", official licensee for this product. Motorola, the Stylized M Logo, and other Motorola trademarks and trade dress are owned by Motorola, Inc. and are used under license from Motorola, Inc. MOTOROLA and the Stylized M Logo are registered in the US Patent & Trademark Office. All other product or service names are the property of their respective owners. © Motorola, Inc. 200X. (with X being the date of publication). All rights reserved.

Please contact customer service at 800-872-3935 for questions/comments, warranty, support or service related to this product.

Motorola TM attribution statement for Licensee Collateral :

Motorola, the Stylized M Logo, and other Motorola trademarks and trade dress are owned by Motorola, Inc. and are used under license from Motorola, Inc. MOTOROLA and the Stylized M Logo are registered in the U.S. Patent & Trademark Office. All other products or service names are the property of their respective owners. © Motorola, Inc. 200X. (with X being the date of publication) All rights reserved.

5.3 Motorola may require through written notice and a reasonable time for implementation that Licensee adopt and use different Trademarks and/or Product Materials specifications for different countries in the Territory, and Licensee agrees to be bound by such requirements of Motorola.

6. PROTECTION OF TRADEMARKS

6.1 Licensee acknowledges that Motorola is the exclusive owner of the Trademarks and any trademark incorporating all or any part of the Trademarks. Without limiting the foregoing, Licensee hereby assigns to Motorola all right, title and interest in the Trademarks, together with the goodwill attaching thereto that may inure to Licensee in connection with this Agreement or from its use of the Trademarks hereunder. Licensee agrees to execute and deliver such documents as necessary for Motorola to register Licensee as registered user or permitted user in any country, or to withdraw Licensee as a registered user or permitted user, of the Trademarks. All use of the Trademarks by Licensee shall inure to the sole benefit of Motorola. Licensee shall cooperate and shall execute all papers reasonably requested by Motorola to affect further registration, maintenance and renewal of the Trademarks at the sole expense of Motorola.

6.2 Licensee will not encourage or assist a third party to register, or attempt in any country to register the copyright, or to register as a trademark, service mark, design patent or industrial design, any portion of the Motorola Intellectual Property Rights or derivations or adaptations thereof, or any work, symbol or design that is so similar thereto as to suggest association with or sponsorship by Motorola. In the event of any breach of the foregoing, Licensee agrees to terminate the unauthorized registration activity and to execute and deliver, or cause to be delivered, to Motorola such assignments and other documents as Motorola may require to transfer to Motorola all rights to the registrations, patents or applications involved. Licensee will not, nor will it encourage or assist a third party to, challenge the validity or ownership of any patent, copyright, trademark, or other Intellectual Property Rights or registrations of Motorola.

6.3 If Licensee learns of any infringement of the Trademarks or of the existence, use or promotion of any mark or design similar to the Trademarks, Licensee shall Promptly notify Motorola. Motorola shall have the sole right and discretion to decide what legal proceedings or other action, if any, shall be taken, by whom, how such proceedings or other action shall be conducted. Any legal proceedings instituted pursuant to this Section 6.3 shall be for the sole benefit of Motorola. Licensee shall, at the request of Motorola, cooperate and assist Motorola in any such suit or action, provided that Motorola will reimburse Licensee for all documented reasonable costs, including attorneys' fees.

6.4 In the performance of this Agreement, Licensee shall comply with applicable laws and regulations, and those laws and regulations particularly pertaining to the proper use and designation of trademarks in the countries of the Territory. Should Licensee be or become aware of any applicable laws or regulations that are inconsistent with the provisions of this Agreement, Licensee shall Promptly notify Motorola of such inconsistency. The parties then, shall in good faith, negotiate a modification to this Agreement such that it complies with applicable law and regulations or Motorola may terminate the license and rights granted hereunder in that jurisdiction, and the Territory set forth in Exhibit B shall be appropriately amended.

7. PRODUCT WARRANTY AND SUPPORT

7.1 Licensee shall provide a warranty and support service plan for the Products. Licensee must obtain Motorola's written approval of the warranty and support service plan prior to the manufacture of any Product for each country in the Territory. Such warranty shall, at a minimum, provide a one-year warranty period and comply with the requirements set forth in Exhibit F, unless otherwise approved in writing by Motorola. Motorola agrees to Promptly notify Licensee if it approves the warranty and support plan or, if not approved, Motorola will advise the Licensee of corrections required by Motorola for the warranty and support service to be approved. Once the warranty and support service plan is approved, Licensee may use it with all Products. However, if Licensee makes any modifications to the warranty and support service plan, it must re-submit the plan to Motorola for a new approval. Any approval by Motorola shall not relieve Licensee from its obligations set forth in this Agreement, including but not limited to complying with local laws on warranties in the Territories where the Products are sold.

7.2 Licensee will be fully responsible for all end user support service and warranty costs, including but not limited to the following (if applicable): transportation costs, Product replacements, service labor, field repair, refunds, returns, and other customer concessions to ensure each customer's satisfaction for the duration of the applicable warranty period. Motorola may require Licensee to halt sales or to recall Product in whole or in part or to take other corrective actions where Motorola reasonably determines customer satisfaction, quality, safety, returns or compliance problem(s) exist.

7.3 All Product packaging shall include a conspicuous use of the telephone number and address for Licensee's customer service department or customer service representative so that any questions regarding support service for the Products including warranty can be directed by the consumer or by Motorola to Licensee. At its sole discretion and when feasible, Motorola may also require the Licensee to affix a sticker on each Product indicating the telephone number of Licensee's customer service department. Licensee shall provide the telephone number and address for customer service to Motorola for each Product before the initial sale of such Product. If Motorola determines that the number of questions regarding any Product that are directed by the consumer to Motorola exceed 1% of the number of such Products sold, Motorola and the Licensee shall mutually agree on a corrective action. If a reasonable corrective action cannot be agreed to, Motorola may require Licensee to withdraw such Product from the market or require Licensee to pay Motorola for future costs incurred related to such questions.

7.4 Throughout the period during which the warranty for any Product is in effect, Licensee shall provide a well-manned toll-free (where available) telephone service number for receipt of service calls for the Products. At a minimum, such telephone service number shall operate manned with live personnel during regular business hours for all time zones in which the Products are sold. At all other times, such telephone service number shall have, at a minimum, an automated message specifying the times during which the service number shall be manned with live personnel.

7.5 Licensee will collect, prepare reports or, maintain and, upon request, deliver to Motorola, all applicable data and records relating to Product warranty and warranty service rendered. In addition, within thirty (30) days after the end of each quarterly period, Licensee shall furnish to Motorola's Representative a statement summarizing all significant problems and quality issues reported to Licensee's customer service department for each Product in the preceding quarter.

8. ROYALTIES AND REPORTS

8.1 Licensee agrees to pay Motorola a Royalty equal to the percentage shown in Exhibit A for each Product, of all Net Sales for the Products ("Royalty"). Licensee shall pay the Royalties in quarterly periods ending on the last day of March, June, September and December during the Sales Year. The Royalty obligation shall accrue upon the sale of the Products regardless of the time of collection by Licensee. For purposes of this agreement, Products shall be considered "sold" on the date when such Products are billed, invoiced, shipped or paid for, whichever event occurs first. No deductions shall be made for uncollectible accounts. Royalties will be paid in US dollars. If the gross sale price is expressed in any currency other than United States Dollars, the royalty rate shall be applied to that currency converted to United States Dollars based upon the exchange rate that appears in the "Currency Trading" section of the United States Eastern Edition of The Wall Street Journal on the last day of the quarterly period in which the royalties become due.

8.3 On or before the fifteenth (15th) day following each calendar quarter during the Sales Year, as set forth in Exhibit A, Licensee shall make a quarterly payment to Motorola which shall be calculated as follows: The greater of the year-to-date Minimum Royalty due or the year-to-date Royalties due, minus the actual Royalty payments made for the Sales Year. The Minimum Royalty due in each quarter shall be the Minimum set forth in Exhibit A. Neither the expiration nor the termination of this Agreement shall relieve Licensee from its Royalty and Minimum Royalty payment obligations.

8.2 Fifteen (15) days after the close of each month, Licensee will also furnish to Motorola, on forms provided or approved by Motorola, a statement of Net Sales and number of units of all Products sold (whether or not subject to a royalty) during the immediately preceding month and statements of other information as the forms may require. Such statements will be certified true and correct by a duly authorized officer of Licensee if Licensee is a corporation or by a principal of Licensee if Licensee is a partnership or sole proprietor. Licensee shall send all payments required by this Section to Motorola at the address in Section 8.4 and statements required by this Section to the Category Manager at the address in Section 23.

8.3 Credits for Products for which royalties were previously paid shall be made against royalties in the quarter the Product returns are received and credited to Licensee's customers.

8.4 All payments shall be electronically transferred to Motorola with all electronic transfer fees to be paid by Licensee at:

WIRE TRANSFERS:

Bank of America
100 West 33rd Street
New York, NY 10001
ABA#026009593
SWIFT Code: BOFAUS3N
Account Name: MOTOROLA INC
Account Number: 4426499628

8.5 During the term of this Agreement and for at least three (3) years following the termination or expiration of this Agreement, Licensee and its Affiliates shall maintain at Licensee's or its Affiliate's principal office such books and records including but not limited to production, inventory and sales records (collectively "Books and Records") as are necessary to substantiate that (i) all statements submitted to Motorola hereunder were true, complete and accurate, (ii) all royalties and other payments due Motorola hereunder shall have been paid to Motorola in accordance with the provisions of this Agreement, and (iii) no payments have been made, directly or indirectly, by or on behalf of Licensee to or for the benefit of any Motorola employee or agent who may reasonably be expected to influence Motorola's decision to enter this Agreement or the amount to be paid by Licensee under this Agreement. (As used in this Section, "payment" shall include money, property, services, and all other forms of consideration.) All Books and Records shall be maintained in accordance with generally accepted accounting principles consistently applied. During the term of, and for three (3) years after the termination or expiration of this Agreement, the Books and Records shall be open to inspection, audit, and copy by or on behalf of Motorola during business hours.

8.6 If any examination reveals that Licensee has underpaid the royalty, Licensee shall pay the shortfall to Motorola within ten (10) days of being notified of the shortfall. Motorola shall bear the costs and expenses of conducting each examination. However, if the examination reveals that Licensee has underpaid the royalty by more than five percent (5%) of the actual amount due, Licensee shall reimburse Motorola for all costs and expenses incurred in conducting the examination.

8.7 Licensee shall pay any tax (and any related interest and penalties), however designated, imposed solely as a result of the existence or operation of this Agreement including any tax that Licensee is required to withhold or deduct from payments to Motorola, except (i) any such tax constituting an income tax imposed upon Motorola (including its subsidiaries and Affiliates) by any governmental entity within the United States proper (the fifty (50) states and the District of Columbia); and (ii), if the aforesaid office of Licensee is located in or relocated to a jurisdiction outside of the United States proper, any foreign tax imposed on Motorola or any of its subsidiaries if such tax is allowable as a credit against U.S. income taxes of any of such companies. In the case of taxes imposed pursuant to sub-section ii of this Section, Licensee shall furnish Motorola with any evidence required by United States taxing authorities to establish that such tax has been paid.

8.8 Interest. Any payment or underpayment under this Agreement that is delayed beyond the due date shall be subject to an interest charge, calculated on the due date and monthly thereafter, of four percent (4%) over the United States prime rate (as reported by the Wall Street Journal on the due date and monthly thereafter) per annum, compounded monthly until paid, on the unpaid balance, payable in United States dollars. If the amount of such interest exceeds the maximum interest rate permitted by law, such fee shall be reduced to such maximum.

9. SALES AND MARKETING

9.1 Licensee shall provide Motorola with written descriptions in such detail as may be requested from time to time by Motorola of Licensee's marketing and distribution program before the program's implementation or modification. Licensee shall not proceed with the implementation of the initial program or any modification of its marketing and distribution program without obtaining Motorola's prior approval.

9.2 Licensee agrees to attend an Annual Review and Planning Meeting with Motorola to review the current year's performance in comparison with previously projected goals and objectives and to adopt goals and objectives for the coming year. Licensee agrees to develop and present a detailed sales marketing plan with projected goals and objectives for the coming year. The sales marketing plans shall be structured with Motorola. At least sixty (60) days prior to the annual meeting, each party agrees to provide the other party with a list of relevant issues and questions to be addressed, and the other party agrees to address the issues and questions at the Annual Review and Planning Meeting. At the discretion of Motorola, Licensee agrees to attend semi-annual or other required performance review meetings with Motorola at a mutually agreed upon location.

9.3 Throughout the term of this Agreement, Licensee agrees to promote the sales of Products in retail outlets and distributors in the Territory. In order to preserve the value and integrity of the Trademarks, the parties agree that the Products will be sold only in channels where the suitability of the trading premises, the customer service and the competence of the resellers are of sufficient quality and reliability and are appropriate for the resale of the Products consistent with Motorola's brand image. For the avoidance of doubt, the following channels would satisfy such requirements: department stores, chain consumer electronics stores, boutique consumer electronics stores, and mass merchants. Motorola reserves the right to disapprove or withdraw approval of any specific retailer if, in Motorola's reasonable belief, that retailer does not provide suitable service or competence or maintain a suitable trading premises, or may otherwise subject the Trademarks to devaluation or disrepute in any way.

9.4 Licensee agrees not to offer, without prior written approval from Motorola, branded products that are identical in function and in appearance to Products, except for the Trademarks, in the same retail outlets or distributors with the Products. Motorola acknowledges that the foregoing restriction is intended only to prohibit Licensee from offering items that are identical to the Products under a different brand name, and is not intended to prohibit Licensee from offering non-Trademarks branded products generally. In the event the parties mutually agree to customizations that differentiate the Products by including in appearance elements that create an identity associated with the Products, Licensee agrees to use and limit such customizations to the Products unless Motorola agrees in writing to their use for other products. Neither party assigns to the other party any rights in its industrial designs, Product designs, technology, and/or intellectual property in and associated with the Products unless specifically agreed to in writing by the owner.

9.5 Advertising Reserve. Licensee agrees to reserve a minimum of 2% of wholesale price and use it for advertising, merchandising and promotion of the Product. Licensee will provide a report at the Annual Review and Planning meeting detailing how the advertising reserve was used. If Licensee fails to provide a detailed report demonstrating that the advertising reserve was used for advertising, merchandising and promotion activities related directly to the Product(s), Licensee shall pay the amount of the reserve to Licensor as a penalty.

10. TERM AND TERMINATION

10.1 Unless sooner terminated in accordance with this Agreement, the license and rights granted under this Agreement shall commence on the Effective Date of the Agreement, and shall continue in effect until March 31st, 2009. The parties may renew or extend the Term of this Agreement by mutual consent.

10.2 Without prejudice to any other rights that Motorola may have, Motorola may at any time give notice of termination of this Agreement effective immediately:

10.2.1 If Licensee shall be unable to pay its obligations when due, shall make any assignment for the benefit of creditors, shall file a voluntary petition in bankruptcy, shall be adjudicated bankrupt or insolvent, shall have any receiver or trustee in bankruptcy or insolvency appointed for its business or property, or shall make an assignment for the benefit of creditors;

10.2.2 If Licensee manufactures, sells, markets, or distributes any Products without obtaining Motorola's approval as provided for by this Agreement or continues to manufacture, sell, market, or distribute any Products after receipt of notice from Motorola disapproving such items in accordance with the terms of this Agreement;

10.2.3 If Licensee breaches any provision of this Agreement relating to the unauthorized assertion of rights in the Trademarks;

10.2.4 If Licensee breaches any provision of this Agreement prohibiting Licensee from directly or indirectly arranging for manufacture by third parties, assigning, transferring, sublicensing, delegating or otherwise encumbering this Agreement or any of its rights or obligations; or

10.2.5 If reasonable grounds for insecurity arise with respect to Licensee's performance of this Agreement and Motorola demands adequate assurance of due performance in writing, and Licensee fails to provide such adequate assurance within five (5) days after the date of Motorola's request therefore or within such other shorter period of time as Motorola may reasonably designate under the then existing circumstances. The parties further agree that if Motorola has requested adequate assurances, Motorola may suspend its performance of this Agreement until Motorola receives such assurances in writing.

10.2.6 If Licensee shall fail for one hundred and twenty (120) consecutive days to continue the *bona fide* distribution and sale of the Products in commercially reasonable quantities throughout the Territory;

10.2.7 If the quality in any Products has reached unacceptable levels pursuant to Section 3 referenced herein and a mutually agreeable action plan to remedy the defects has not been established within seven (7) days from notice by Motorola, or if subsequent quality reports reveal that the defect rates have not been reduced to the acceptable standard.

10.2.8 If by May 31st, 2008 Licensee has not begun the *bona fide* distribution and sale of the Products in commercially reasonable quantities in the locations in the Territory agreed in the current marketing and distribution program adopted pursuant to Section 9 of this Agreement;

10.2.9 If Licensee fails to comply with applicable laws or ethical standards as provided in section 19.2, 22 and Exhibit G or refuses to allow an inspection to determine compliance with laws and ethical standards, as provided in section 19.3.

10.3 Without prejudice to any other rights that Motorola may have, Motorola shall have the right to terminate this agreement for any material breach thirty (30) days after mailing a written notice to Licensee describing the alleged breach in reasonable detail unless the breaches are cured in the reasonable discretion of Motorola within the thirty (30) day period. Material breaches include but are not limited to the following:

10.3.1 If Licensee distributes or uses any Product Materials without obtaining Motorola's approval as provided in this agreement;

10.3.2 If Licensee shall fail to make any payment due hereunder or provide any statement required hereunder;

10.3.3 If Licensee fails to obtain or maintain insurance as required by the Section 15 of this Agreement;

10.3.4 If Licensee breaches any material provision of this Agreement relating to the Territory including, but not limited to section 13;

10.3.5 If in Motorola's reasonable determination significant customer satisfaction issues have arisen with any Product; or

10.3.6 Licensee fails to enforce or terminate a Manufacturer's Agreement against a breaching Approved Manufacturer as required in Section 4.

10.4 Licensee may terminate this Agreement for convenience at any time, with or without cause, by giving Motorola one-hundred eighty (180) days prior written notice and upon payment of the Minimum Royalty for the 180-day period plus the remainder of the Minimum Royalty for the quarter in which the end of the 180-day period falls. Licensee shall also provide royalty reports for the 180 day period as provided in Section 8.

10.5 Without prejudice to any other rights that Licensee may have, including, without limitation, those under Section 22, Licensee shall have the right to terminate this Agreement:

10.5.1 for any material breach of this Agreement by Motorola ninety (90) days after mailing written notice to Motorola that specifies the alleged breach in reasonable detail, unless the breach or breaches are cured in the reasonable determination of Licensee within such ninety-day period;

10.5.2 immediately upon written notice to Motorola if any of the Trademarks is determined by a court of competent jurisdiction to infringe the rights of a third party; or

10.5.3 immediately upon written notice to Motorola if Motorola shall be unable to pay its obligations when due, shall make any assignment for the benefit of creditors, shall file a voluntary petition in bankruptcy, shall be adjudicated bankrupt or insolvent, shall have any receiver or trustee in bankruptcy or insolvency appointed for its business or property, or shall make an assignment for the benefit of creditors.

11. POST-TERMINATION AND EXPIRATION RIGHTS AND OBLIGATIONS

11.1 If this Agreement is terminated for any cause under Section 10.2, Licensee and Licensee's receivers, representatives, trustees, agents, administrators, successors or permitted assigns shall have no right after the effective date of termination to manufacture, sell, ship, market or distribute Products or to use any promotional and packaging material relating to the Products. Any Products not sold, shipped, and distributed by Licensee prior to termination must be destroyed or reprocessed so that the Trademarks are no longer present in whole or in part on the Products or on their Product Materials. Upon Motorola's request, Licensee shall provide evidence satisfactory to Motorola of such destruction or reprocessing of remaining Products or Product Materials. Licensee's final statement and payment of royalties, which shall include the difference, if any, between all royalties based upon Net Sales for the termination Sales Year and the remaining Minimum Royalty for the termination Sales Year shall be received by Motorola within thirty (30) days after the effective date of termination. Licensee shall send all payments and statements required by this Section 11.1 in accordance with Section 8.5.

11.2 After expiration of the initial term and any renewal term(s) of this Agreement or the termination of this Agreement under any provision other than Section 10.2, Licensee

may sell, ship, market and distribute Products in the Territory that are on hand or in the process of manufacture at the date of expiration or at the time notice of termination is received for a period of ninety (90) days after the date of expiration or the date of notice of termination, as the case may be, provided that the royalties with respect to that period are paid and the appropriate statements for that period are furnished. Motorola shall have the right, but not the obligation, to purchase all or part of Licensee's inventory of Products at cost upon expiration of the ninety (90) day sell-off period permitted by this Section 11.2. Unless purchased by Motorola, any Products not sold, shipped, and distributed by Licensee within this ninety (90) day period must be destroyed or reprocessed so that the Trademarks are no longer present in whole or in part on the Products or on their Product Materials. Upon Motorola's request, Licensee shall provide evidence satisfactory to Motorola of such destruction or reprocessing of remaining Products or Product Materials. After termination of this Agreement under Section 10.3, Licensee shall make the next quarterly statement and payment as required by Section 8 and Licensee shall make a final statement and payment of royalties including the difference, if any, between all royalties based upon Net Sales and the remaining Minimum Royalty for the termination Sales Year to Motorola no later than one hundred (100) days after the effective date of termination. After termination of this Agreement under section 10.4 and 10.5 Licensee shall make the next quarterly statement and payment as required by Section 8 and Section 10.4 and Licensee shall make a final statement and payment of royalties for all Products sold during the sell-off period to Motorola no later than one-hundred (100) days after the effective date of termination. Licensee shall send all payments and statements required by this Section 11.2 in accordance with Section 8.5.

11.3 After the expiration or termination of this Agreement and except as provided in Section 11.2, all rights granted to Licensee under this Agreement shall forthwith revert to Motorola, and Licensee shall refrain from further use of the Trademarks or any further reference to the Trademarks, either directly or indirectly, or from use of any marks or designs similar to the Trademarks in connection with the manufacture, sale, marketing or distribution of Licensee's products. Licensee also shall turn over to Motorola all molds, silk-screens, and other materials that reproduce the Trademarks or shall give evidence satisfactory to Motorola of their destruction. Licensee shall be responsible to Motorola for any damages caused by the unauthorized use by Licensee or by others of such molds, silk-screens or reproduction materials that are not turned over to Motorola.

11.4 Licensee acknowledges that its failure to cease the manufacture, sale, marketing or distribution of the Products and the Product Materials at the termination or expiration of this Agreement, except as provided in Section 11.2, will result in immediate and irreparable damage to Motorola and to the rights of any subsequent licensee of Motorola. Licensee acknowledges and admits that there is no adequate remedy at law for failure to cease such activities, and Licensee agrees that in the event of such failure, Motorola shall be entitled to injunctive relief and such other relief as any court with jurisdiction may deem just and proper.

11.5 Within twenty (20) days after expiration or within ten (10) days after notice of termination of this Agreement, as the case may be, Licensee shall deliver to Motorola a written report indicating the number and description of the Products and Product Materials that it had on hand or in the process of manufacture as of the date of expiration or at the time termination notice is received. Motorola may conduct a physical inventory in order to verify such report. If Licensee fails to submit the required written report or refuses to permit Motorola to conduct such physical inventory, Licensee shall forfeit its rights under this Agreement to dispose of such inventory. In addition to such forfeiture, Motorola shall have recourse to all other available remedies.

12. CONFIDENTIALITY AND INTELLECTUAL PROPERTY

12.1 Motorola's "Confidential Information" shall mean specifications, property, data, drawings, schematics, diagrams, dimensions, prints, reprints, information, business and financial information, customer and vendor lists, pricing and sales information. Products created by Motorola for Licensee under this Agreement, submitted or presented by Motorola to Licensee under this Agreement, or jointly developed by the parties are deemed Motorola's Confidential Information.

12.2 Licensee's "Confidential Information" shall mean Licensee's business and financial information, information concerning Licensee's products and related specifications, property, data, drawings, schematics, diagrams, dimensions, prints and reprints, Licensee's decoration process, including, without limitation, specifications, data, drawings, technical information, diagrams, schematics, Licensee's customer and vendor lists, pricing and sales information, and Licensee's customer information provided to Motorola by Licensee or to which Motorola otherwise gains access. Products created by Licensee under this Agreement and submitted and presented to Motorola under this Agreement for approval, are deemed Licensee's Confidential Information.

12.3 Each of the parties and its contractors agrees to maintain the confidentiality of the other party's Confidential Information furnished in oral, visual, written and/or other tangible form including electronic form, and not disclose such Confidential Information to any third party, except as authorized by the other party in writing. Each party further agrees to keep confidential the terms of this Agreement; except as required by applicable reporting requirements pursuant to the Federal securities laws; provided, however, that the parties shall issue a joint press release regarding this Agreement in a form, and at such time, as is mutually agreed upon by the parties in writing.

12.4 Each of the parties agrees to restrict disclosure of the other party's Confidential Information to its employees and contractors who have a "need to know." Each of the parties agrees that the other party's Confidential Information shall be handled with the same degree of care that it applies to its own confidential information (but in no event less than reasonable care) and shall not be exported directly or indirectly to any restricted or prohibited country set forth in Section 13 or such other restricted or prohibited countries as may be designated by the United States Department of Commerce except in compliance with the regulations of the Office of Export Control for the United States Department of Commerce.

12.5 Licensee is the "Receiving Party" with respect to Motorola's Confidential Information and Motorola is the "Receiving Party" with respect to Licensee's Confidential Information. The parties agree to exclude from these obligations of confidentiality any Confidential Information that the Receiving Party can demonstrate: (i) is wholly independently developed by the Receiving Party without the use of the other party's Confidential Information; or (ii) is known or becomes known to the general public without breach of this Agreement; or (iii) was known to the Receiving Party without confidential limitation at the time of disclosure by the other party as evidenced by documentation in the Receiving Party's possession; or (iv) is approved for release by written authorization of the other party, but only to the extent of and subject to such conditions as may be imposed in such written authorization; or (v) is disclosed in response to a valid order to a court, regulatory agency, or other governmental body in the United States or any political subdivision thereof, but only to the extent and for the purposes stated in such order; provided, however, that the Receiving Party shall first notify the other party in writing of the order and cooperate with the other party if the other party desires to seek an appropriate protective order; or (vi) is received rightfully and without confidential limitation by the Receiving Party from a third party.

12.6 In the course of its relationship with Motorola, Motorola may give Licensee access to Motorola's facility including its manufacturing, distribution or accelerated life testing area. Licensee agrees that the manufacturing, handling or testing techniques, processes, methodologies and know how embodied in equipment and equipment arrangements; equipment supplier names; and products under manufacture, handling or testing in Motorola's facility are deemed to be Motorola Confidential Information, even if not identified as confidential at the time of disclosure and confirmed in correspondence. In the course of its relationship with Licensee, Licensee may give Motorola access to Licensee's facility including its manufacturing, distribution or accelerated life testing area. Motorola agrees that the manufacturing, handling or testing techniques, processes, methodologies and know how embodied in equipment and equipment arrangements; equipment supplier names; and products under manufacture, handling or testing in Licensee's facility are deemed to be Licensee Confidential Information, even if not identified as confidential at the time of disclosure and confirmed in correspondence.

12.7 Upon termination of this Agreement, all Confidential Information transmitted to the Receiving Party by the other party in record bearing media or other tangible form including electronic form, and any copies thereof made by the Receiving Party shall be either destroyed and its destruction certified in writing or, at the other party's written request, returned to the other party, except that the Receiving Party shall be entitled to retain a secure copy of the other party's Confidential Information for archival purposes only. Additionally, Motorola agrees to return Licensee's Confidential Information upon Licensee's written request, and Licensee agrees to return Motorola's Confidential Information upon Motorola's written request.

12.8 Licensee agrees that it will not in any manner use its knowledge of Motorola business for the benefit of itself (except in accordance with the terms of this Agreement) or any other party or divulge to others information or data concerning Motorola's business affairs, including the names of customers, names of employees, number or character of contracts, marketing strategies and prices, terms or particulars of Motorola's business. Licensee will, in all things and in good faith, protect the good will of Motorola's business and keep confidential its knowledge of such business affairs acquired prior to and during the terms of this Agreement. Motorola agrees that it will not in any manner use its knowledge of Licensee business for the benefit of itself (except in accordance with the terms of this Agreement) or any other party or divulge to others information or data concerning Licensee's business affairs, including the names of customers, names of employees, number or character of contracts, marketing strategies and prices, terms or particulars of Licensee's business. Motorola will, in all things and in good faith, protect the good will of Licensee's business and the Licensee Designs and keep confidential its knowledge of such business affairs acquired prior to and during the terms of this Agreement.

13. EXPORT

13.1 Licensee agrees and represents that it is aware of all pertinent export laws and regulations and will not violate them in any material respect. To the extent that Licensee exports, transports or manufactures or has manufactured any products or technologies in any way connected to the Trademarks, Licensee hereby assures Motorola that it does not intend to and will not, without the prior written consent of the Office of Export Licensing of the U.S. Department of Commerce, P.O. Box 273, Washington, D.C. 20230, exports, transports, manufactures or have manufactured directly or indirectly (i) Products or other items in any way associated therewith or (ii) any technical information provided hereunder in, to or by (a) any individuals or entities listed in the Table of Denial Orders as published from time to time in Supplement No.2 to Part 764 of the above referenced regulations, (b) embargoed countries or foreign nationals of such countries, as may be changed from time to time, under U.S. export laws and regulations or (c) controlled countries and foreign nationals of such countries to the extent such products and technologies are defined as controlled technologies in the U.S. Export Administration Regulations Part 774. Embargoed and controlled countries are defined in the U.S. Export Administration Regulations Parts 740 Supplement No.1, 746 and 772 and currently include Cuba, Iran, Libya, North Korea, Sudan, and Syria.

14. REPRESENTATIONS AND WARRANTIES

14.1 Motorola represents and warrants that it has the power to grant a license of the Trademarks in the Territory and that such grant is in compliance with applicable law and does not infringe the rights of any third party. Motorola, at its expense, shall be responsible for obtaining and maintaining all licenses, permits and approvals necessary for Motorola to maintain its rights in the Trademarks. No other warranties, express or implied, are given by Motorola, and all other warranties, express or implied, are expressly disclaimed by Motorola.

14.2 Licensee represents and warrants that at all times:

14.2.1 Except as provided in Section 14.1, Licensee has and shall maintain all rights and licenses needed to sell the Products and the Products do not infringe any patent, copyright, mask work right, moral right, trademark, service mark, trade secret and/or all other intellectual property rights and/or similar rights of any third party. Licensee is solely responsible for all royalties, fees or other payments to secure such rights and licenses for end user customers.

14.2.2 Licensee shall secure and maintain all certifications and requirements to sell the Products and Licensee shall affix all labels on the appropriate area of each Product regarding such certifications and requirements. Licensee shall provide written evidence of such certifications and approvals to Motorola upon Motorola's request.

14.2.3 All Products are new, and do not contain anything used, except for warranty replacement Products and/or parts provided by Licensee all of which shall be conspicuously labeled as "Used" on the warranty replacement Product and/or part, on the carton, and on the shipping paperwork and Licensee shall have processes, procedures and documentation in place to comply with and substantiate this representation and warranty.

14.2.4 Product Materials shall not claim or suggest that any Products improve the health of users, have therapeutic capabilities, or can help the users to avoid injuries that otherwise might occur through the use of alternative products.

14.2.5 All claims made in connection with the Products and Product Materials are in all material respects accurate, complete and have been substantiated prior to use in advertising, promotion or on the Products or Product Materials.

14.2.6 Licensee, at its expense, shall be responsible for obtaining and maintaining all licenses, permits and approvals that are required by all appropriate governmental authorities, with respect to Licensee's compliance with its obligations under this Agreement, excluding any licenses, permits or approvals necessary for Motorola to maintain its rights in the Trademarks, and to comply with any requirements of such governmental authorities for the registration or recording of this Agreement and for making payments hereunder. Licensee shall furnish to Motorola within thirty (30) days of receipt of same, written evidence from such governmental authorities of any such licenses, permits, clearances, authorizations, approvals, registration or recording.

14.2.7 All Products are safe for any use consistent with the warranties, specifications and requirements of this Agreement.

14.2.8 All Products are of merchantable quality, and conform to the specifications and requirements of quality in materials, design, and workmanship in this Agreement.

14.2.9 Licensee warrants that its performance hereunder will be in compliance with all applicable federal, state and local laws, orders, rules and regulations.

14.3 Compliance with Laws and Procedures: Authority. Each party hereto warrants that such party's performance hereunder will be in compliance with all applicable federal, state and local laws, orders, rules and regulations, whether domestic or foreign. Each party hereto warrants that its execution, delivery and performance of this Agreement has been authorized by all necessary corporation action and that this Agreement has been duly authorized, executed and delivered.

15. INDEMNITIES AND INSURANCE

15.1 Licensee acknowledges that, except as set forth in Section 15.2 of this Agreement, it will have no claims against Motorola for any damage to property or injury to persons arising out of the operation of Licensee's business. Licensee agrees to indemnify, hold harmless and defend Motorola, its subsidiaries and customers, with legal counsel acceptable to Motorola, from and against all third-party suits, actions, claims, damages, liabilities, costs and expenses, including attorneys fees, court costs and other legal expenses, arising out of or connected with the Products, Licensee's methods of manufacturing, marketing, selling, distributing or use of the Products, the promotional or packaging material relating to the Products, or any breach by Licensee of any provision of this Agreement or of any warranty made by Licensee in this Agreement. Motorola agrees to give Licensee written notice of any claim within ten (ten) days of receipt by Motorola. Motorola's failure to provide written notice of the claim within ten days shall not affect its right to indemnification unless and to the extent the delay materially prejudices Licensee's ability to respond to the claim. Licensee shall bear full responsibility for the defense (including any settlements) of any such claim; provided, however, that: (i) Licensee shall keep Motorola informed of, and consult with Motorola in connection with the progress of such litigation or settlement; and (ii) Licensee shall not have any right, without Motorola's prior written consent, to settle any such claim if such settlement arises from or is part of any criminal action, suit or proceeding or contains a stipulation to or admission or acknowledgement of any liability or wrongdoing (whether in contract, tort, or otherwise) on the part of Motorola or any Motorola Affiliate.

15.2 Motorola agrees to indemnify, hold harmless and defend Licensee from and against all third-party suits, actions, claims, damages, liabilities, costs and expenses, including attorney's fees, court costs and other legal expenses, arising out of or relating to infringement of the trademarks or copyrights of any third party by the Trademarks so long as such claims arise from Licensee's promotion or sale of the Products in the Territory and Licensee's use of the Trademarks in accordance with the terms of this Agreement. Licensee agrees to give Motorola written notice of any claim within ten (10) days business days of receipt by Licensee. Licensee's failure to provide written notice of the claim within ten days shall not affect its right to indemnification unless and to the extent the delay materially prejudices Motorola's ability to respond to the claim. Licensee agrees to give Motorola control of the defense of the claim and cooperates with Motorola in the defense and any related settlement negotiations.

15.3 During the term of the Agreement, Licensee will maintain at its own expense, commercial general liability (“CGL”) insurance including contractual liability coverage, products and completed operations in an amount not less than one Million Dollars (\$1,000,000.) per occurrence for bodily injury, personal injury and property damage liability. The insurance will be placed with an insurer acceptable to Motorola, licensed for the jurisdiction in which this Agreement is performed and having a Best’s Rating not less than A-VII. The CGL policy will name Motorola, Inc. as an additional insured and provide a minimum thirty (30) days prior written notice of cancellation or material change. Licensee shall furnish Motorola within thirty (30) days after execution of this Agreement or, if earlier, prior to the sale of the Products, with a certificate of insurance stating thereon the limits of liability, the period of coverage, the parties insured (including Licensee and Motorola), and the insurer’s agreement not to terminate or materially modify such insurance without endeavoring to notify Motorola in writing at least ten (10) days before such termination or modification. Coverage provided for Motorola shall be primary, and any insurance maintained by Motorola shall be in excess and not contributing with any insurance provided by Licensee. Coverage shall be on a claims made basis. Motorola shall not be responsible for the payment of the premiums, charge taxes, assessments, or other costs for the product liability insurance.

15.4 The existence of the product liability insurance shall not mitigate, alter, or waive the indemnity provisions of Section 15.

16. DISPUTE RESOLUTION

16.1 The Parties will attempt to settle any claim or controversy relating to this Agreement through negotiation in good faith and a spirit of mutual cooperation. If those attempts fail to achieve a settlement, then the dispute will be mediated by a mutually acceptable mediator to be chosen by the Parties within forty-five (45) days after written notice by either Party demanding mediation. Neither Party may unreasonably withhold consent to the selection of a mediator, and the Parties will share the costs of mediation equally. The non-binding mediation hearing shall be conducted within forty-five (45) calendar days after the selection of the mediator. Each Party shall bear its own attorney’s fees and other costs. Any mediation shall be conducted in the English language.

16.2 Any dispute that cannot be resolved between the Parties through negotiation or mediation within six (6) months of the date of the initial demand for mediation by one of the Parties may then be submitted to the courts for resolution. The use of any mediation procedures will not be construed under the doctrines of laches, waiver or estoppel to affect adversely the rights of either Party. Nothing in this Section will prevent either Party from resorting to judicial proceedings if interim relief from a court is necessary to prevent serious and irreparable injury to that Party or to others. In addition, nothing in this Section 16 shall be construed as applying to disputes regarding the Intellectual Property Rights (including Confidential Information) or Trademarks.

17. FORCE MAJEURE

17.1 The terms of this Agreement are binding upon the parties hereto except where prevented, delayed or interfered with by causes beyond the reasonable control and without the fault or negligence of the non-performing party, including, without limitation, riot, war, strike, significant acts of terrorism and the effects thereof, insurrection, civil war or severe domestic instability or suspension of the banking or foreign exchange system in any nation in the Territory or place of manufacture of the Products, banking moratorium, or hostilities between nations, governmental regulation (other than action taken in response to Motorola's or Licensee's violation or failure to act with respect to any law or governmental regulation, in which case the party at fault shall not be permitted to claim the benefit of this Section 17), acts of God, fire, accidents, strikes or earthquakes.

17.2 The party affected by *force majeure* shall give notice to the other party of said *force majeure* event Promptly after the occurrence thereafter, stating therein the nature of suspension of performance and reasons thereof. Such party shall use its best efforts to resume performance as soon as reasonably possible. Upon restoration of the affected party's ability to perform its obligations hereunder, the affected party will give immediate notice to the other party.

17.3 If the *force majeure* condition that prevents a party's performance hereunder shall continue for a period of six (6) consecutive months, and there shall be no reasonable prospect for the immediate cure thereof despite the best efforts of the affected party to cure the same, then either party shall have the right to terminate this Agreement in its entirety and without liability upon ninety (90) days prior notice to the other party.

18. LIMITATION OF LIABILITY

18.1 Except for third party damages included in settlements and judgments subject to Section 15.2 Motorola shall not be liable to Licensee for lost profits, or consequential, indirect, incidental, special or punitive damages, even if advised in advance of the possibility of such damages. Except for judgments or settlements subject to Section 15.2, Motorola shall not be liable to Licensee for direct damages in excess of the total Royalties paid by Licensee to Motorola under this agreement.

19. COMPLIANCE WITH LAWS

19.1 In the performance of this Agreement, Licensee shall comply in all material respects with published applicable laws and regulations in the countries of said Territory. Should Licensee be or become aware of any applicable laws or regulations which are inconsistent with the provisions of this Agreement, Licensee shall Promptly notify Motorola of such inconsistency. The parties then, shall in good faith, negotiate a modification to this Agreement such that it complies with applicable law and regulations and if the parties are unable to successfully negotiate such a modification Motorola may terminate the license and rights granted hereunder in that jurisdiction, and the Territory set forth in Exhibit B shall be appropriately amended.

19.2 Compliance with Laws and Ethical Standards. Licensee, on behalf of itself, its Affiliates and its suppliers and subcontractors (“Supply Chain”), represents and warrants that all Products are produced, manufactured and supplied, and Services are rendered, in compliance in all material respects with applicable laws, rules, regulations and standards, including those concerning environmental protection, freedom of association, wages and humane treatment of workers, as set forth in Exhibit G

19.3 Inspection of Facilities. Upon five (5) business days’ notice to Licensee, Motorola shall have the right to conduct or have conducted, during regular business hours, an examination of Licensee’s or Licensee’s Affiliate’s or an Approved Manufacturer’s manufacturing, assembly, testing and business facilities to determine compliance with laws and ethical standards as set forth on Exhibit G.

20 INTELLECTUAL PROPERTY

20.1 No grant or transfer of any Motorola’s Intellectual Property Rights to Licensee is given or intended under this agreement, including any license implied or otherwise, except as expressly provided in Section 2 of this Agreement.

20.2 As between Motorola and Licensee, Motorola owns and, upon creation shall own, all rights in the Trademarks, the trade dress, copyrights, ornamental designs, industrial designs and design patents associated with the Product and Product Materials and any Derivative Works created from them. Notwithstanding the foregoing, if Licensee presents to Motorola a sample of a product that is designed to fit mobile telephones generally and is not designed to fit a Motorola product specifically (hereinafter a “Universal” case), and Licensee give Motorola a right of first refusal to exclusively use the design of the Universal case as a Product under the terms of this Agreement, then the ornamental and industrial design rights and design patents associated with such Universal case shall be owned by Licensee. Licensee shall cooperate and shall execute all papers reasonably requested by Motorola to effect registration, maintenance and renewal of these rights, at the sole expense of Motorola.

21. PRESS RELEASES

21.1 Licensee shall make no press releases concerning the business relationship or license granted in this Agreement or the introduction or sales of Products without Motorola's written agreement as to the form and content of the proposed press release.

22. ETHICS AND CONFLICTS OF INTEREST .

22.1 Both parties will refrain from activities that: (i) are illegal, unethical; (ii) might bring either party into disrepute; or (iii) might constitute or represent a serious conflict of interest or that might give the appearance of impropriety. Both parties will cooperate fully in any investigation or evaluation of such matters. Breach of this obligation by either party will entitle the non-breaching party to terminate this Agreement without notice.

23. NOTICES

23.1 Any notice required or permitted to be given under this Agreement shall be in writing and shall be directed by one party to the other at its respective address as follows unless otherwise provided for in this Agreement:

Licensor: Robert Vacheron
Category Manager
Motorola, Inc.
1700 Bellemeade Ct.
Lawrenceville, GA 30043
EMAIL: CRV009@motorola.com

and to:

Scott Offer
Corporate Vice President
Law Department, Personal Communications Sector
Motorola, Inc.
600 North U.S. Highway 45
Libertyville , IL 60048-1286

Licensee: Douglas Sabra
Chief Executive Officer
Forward Industries
1801 Green Road, Suite E.
Pompano Beach, FL 33064

Phone: 954-360-6420
FAX: 954-419-9735
EMAIL: dsabra@forwardindustries.com

And to:

Steven A. Malsin
Attorney at Law
237 Upper Shad Road
Pound Ridge, NY 10576

23.2 Any notice required or permitted to be given under this Agreement shall be in writing, shall be deemed to have been received (i) when delivered personally; (ii) when sent by confirmed facsimile or by e-mail except for notices that relate to default provisions; (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (iv) one business (1) day after deposit with a commercial overnight carrier with written verification of receipt.

23.3 Either party may change the address to which notices or requests shall be directed by written notice to the other party, but such written notice to be effective must be received by the other party at least thirty (30) days before the effective date of the change of address.

24. ASSIGNMENT OF RIGHTS AND SUBLICENSE

24.1 The benefit of this Agreement shall be personal to Licensee who shall not, without the prior consent in writing of Motorola, assign its rights, or delegate its duties hereunder, nor grant or purport to grant any sublicense in respect to the Trademarks, to third parties.

24.2 Notwithstanding the above, Licensee shall have the right to assign its rights and to delegate its duties under this Agreement, with Motorola's prior written consent, which shall not be unreasonably withheld, to wholly-owned subsidiaries of Licensee. In the event that Licensee undergoes a substantial change of ownership, whether or not such a change results from a merger, acquisition, consolidation or otherwise, Licensee shall have the right to assign its rights and to delegate its duties to such new owner under this Agreement, with Motorola's prior written consent, provided that the substantial change of ownership does not result in a substantial change in the nature of the Licensee's business, a substantial change in nature including, but not limited to, a change in product mix, pricing structure, financial condition or method of doing business. However, in any instance, Licensee and its assignee shall remain ultimately liable to Motorola for all of the obligations assumed by it under the terms of the Agreement.

25. FREEDOM OF ACTION

25.1 Nothing in this Agreement shall be construed as prohibiting or restricting Motorola or its subsidiaries from independently developing, having developed independently, acquiring, licensing, distributing or marketing products, services and other materials which are competitive in any form with the Products. Licensee agrees and acknowledges that it shall not hold Motorola liable for any lost sales or revenues in respect to the sales performance of the Products, regardless of the reason for such lost sales or revenues including, but not limited to, Motorola's direction in the appearance, function or marketing of the Products.

26. APPROVALS

26.1 Any approval required by this Agreement to be obtained from Motorola must be in writing from the Category Manager and may be withheld by Motorola for any reason deemed reasonable and justifiable in the sole determination of Motorola. If approval is not delivered in writing to the Licensee within fifteen (15) business days of submission of a request for approval, the request for approval shall be deemed to be denied.

27. WAIVER OF DEFAULT OR OTHER RIGHTS

27.1 The failure of Motorola to insist in any one or more instances of the performance of any term, obligation or condition of this Agreement by Licensee or to exercise any right or privilege herein conferred upon Motorola shall not be construed as thereafter waiving such term, obligation, or condition, or relinquishing such right or privilege, and the acknowledged waiver or relinquishment by Motorola of any default or right and shall not constitute waiver of any other default or right.

28. SEVERABILITY

28.1 If any provision of this Agreement shall be determined to be illegal and unenforceable by any court of law or any competent governmental or other authority, the remaining provisions shall be severable and enforceable in accordance with their terms so long as this Agreement without such terms or provisions does not fail of its essential purpose or purposes. The parties will negotiate in good faith to replace any such illegal or unenforceable provision or provisions with suitable provisions that will maintain the economic purposes and intentions of this Agreement.

29. SECTION HEADINGS

29.1 The captions for each Section have been inserted for the sake of convenience and shall not be deemed to be binding upon the parties for the purpose of interpretation of this Agreement.

30. EXHIBITS

30.1 All references to "Exhibit" or "Exhibits" herein shall mean those Exhibits A through G attached to this Agreement, which are hereby incorporated into this Agreement as though fully set forth herein.

31. SURVIVAL

31.1 Licensee's obligations and agreements under Sections 6, 7, 8, 11, 12, 13, 15, 16, 18, 19, 20, 21, 22, 23, 25, 27, 28, 29, 30, 31, 33, 34, 35 shall survive the termination or expiration of this Agreement.

32. TIME IS OF THE ESSENCE

32.1 Time is of the essence with respect to the obligations to be performed under this Agreement.

33. RIGHTS CUMULATIVE

33.1 Except as expressly provided in this Agreement, and to the extent permitted by law, any remedies described in this Agreement are cumulative and not alternative to any other remedies available at law or in equity.

34. ENTIRE AGREEMENT

34.1 The provisions of this Agreement contain the entire agreement between the parties relating to use by Licensee of Trademarks on Products, and on Product Materials, and supersede and cancel all prior provisions, negotiations, agreements and commitments (whether oral or in writing) with respect to the subject matter hereof. This Agreement shall be interpreted to achieve the objectives and intent of the parties as set forth in the text and factual recitals of the Agreement. It is specifically agreed that no evidence of discussions during the negotiation of the Agreement or drafts written or exchanged may be used in connection with the interpretation or construction of this Agreement. This Agreement may not be released, discharged, abandoned, changed or modified in any manner except by an instrument in writing signed by the parties. In the event of any conflict between the provisions of this Agreement and provisions in any other agreement with Licensee, the provisions of this Agreement shall prevail.

35. GOVERNING LAW

35.1 This Agreement is deemed to be executed in the State of Illinois and the construction and performance of this Agreement will be construed and interpreted according to the substantive laws of that State without regard to its conflicts of law principles or rules. The parties agree that any legal action or proceeding between Motorola and Licensee with respect to this Agreement, including the Manufacturer's Agreement, shall be brought in the United States District Court for the Northern District of Illinois or, if such court does not have jurisdiction, in any court of general jurisdiction in Cook County, Illinois.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed in duplicate originals by their duly authorized representatives on the dates indicated below.

MOTOROLA, INC.

/s/ Philip Gilchrist

By: Philip Gilchrist

Title: Vice President, Global Product Management, Mobile Devices Business

Date: May 22, 2008

FORWARD INDUSTRIES, INC.

/s/ Doug Sabra

BY: Doug Sabra

Title: Chief Executive Officer

Date: May 14, 2008

EXHIBIT A

License between Motorola and Forward Industries

Products: Carry solutions, face plates, cleaners and decorative accessories for mobile telephones and related accessories.

Territory: USA, Canada, Austria, Belgium, , Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Monaco, Norway, Portugal, Spain, Sweden, Switzerland, UK, Czech Republic, Hungary, Latvia, Lithuania, Poland, Slovakia, Croatia, Estonia, Russia, Ukraine, Liechtenstein, Albania, Belarus, Bosnia-Herzegovina, Bulgaria, Macedonia, Romania, Slovenia, Uzbekistan

Royalty (for each product): 15 % of Net Sales.

Term: April 1, 2008 through March 31, 2009

Sales Year: April 1 to March 31

Minimum Royalty:

2008:
Q1 - N/A

Q2 – N/A
Q3 - \$150,000
Q4 - \$250,000

2009:
Q1 - \$250,000

EXHIBIT B

The Licensed **Motorola Trademarks** are: the MOTOROLA signature and the stylized M logo (“Emsignia”) and associated Motorola Trade Dress



EXHIBIT C

TRADEMARK USE GUIDELINES

Artistic renderings of the Licensed Motorola Trademarks and Trade Dress shall be provided to Licensee under the following items, which become a part of this agreement by reference:

- **Motorola Basic Corporate Identity Standards**
- **Motorola Consumer Packaging Guidelines**
- **Motorola logo and artwork files**
- **Motorola Global POS guidelines**

FILES ARE SUBJECT TO CHANGE

Motorola shall keep Licensee apprised of any changes and, in the event such change affects inventory or packaging in stock or in production by Licensee, then Licensee shall be permitted to sell such inventory and implement the change as a “running change” as soon as practicable.

EXHIBIT D

SPECIFICATIONS

Material and Methods Specification-Template for Personalization Products supplied as a .pdf file

Test Validation Matrix supplied as an Excel document

EXHIBIT E
MANUFACTURER'S AGREEMENT

AGREEMENT dated this _____ day of _____, 200_, by and among _____ (Address) _____ (“Licensee”) and _____, (Address) _____, (“Manufacturer”), and Motorola, Inc., a Delaware Corporation (“Motorola”).

WHEREAS, Licensee has obtained a license from Motorola to use the Trademarks, Motorola Trade Dress and Copyrights referred to in Exhibit 1 (collectively “Trademarks”) to this Manufacturer’s Agreement, on or in conjunction with the product(s) referred to in Exhibit 2 (“Product(s)”) to this Manufacturer’s Agreement; and

WHEREAS, Motorola owns throughout the world certain trademark registrations for the Trademarks for use on a variety of goods; and

WHEREAS, Manufacturer wishes to manufacture, exclusively for Licensee, Product(s) using the Trademarks .

NOW, in consideration of the foregoing, the covenants hereinafter set forth, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. TRADEMARKS, TRADE DRESS, ORNAMENTAL DESIGNS

1.1 Manufacturer agrees that any and all rights that may be acquired by the use of the Trademarks and Copyrights by the Manufacturer shall inure to the sole benefit of Motorola. The Manufacturer shall execute all papers and to make such filings as required to confirm such use inures to the benefit of Motorola.

1.2 As between Motorola and Manufacturer, Motorola owns and, upon creation shall own, all rights in the trade dress, copyrights, ornamental designs, industrial designs and design patents associated with the Product and any packaging, marketing materials, point-of-sale materials, publicity, advertising, signs, catalogs product brochures, warranty statement, user guide, and other in-box materials relating to the Products and any derivative works created from them. Manufacturer shall cooperate and shall execute all papers reasonably requested by Motorola to effect registration, maintenance and renewal of these rights, at the sole expense of Motorola.

2. PROTECTION AND MAINTENANCE OF TRADEMARK

2.1 Manufacturer also agrees to cooperate and execute all papers reasonably requested by Licensee or Motorola to effect further registration, maintenance, and renewal of the Trademarks and Copyrights at the sole expense of Motorola and, where applicable, to record Manufacturer as a registered user of the Trademarks. Manufacturer agrees not to use the Trademarks and Copyrights or any part thereof as part of its corporate or trade name nor use any name or mark confusingly similar to, or derivative of, the Trademarks and Copyrights.

2.2 Manufacturer further agrees not to register in any country any name or mark resembling or confusingly similar to or derivative of the Trademarks and Copyrights.

2.3 Manufacturer agrees that if any application for registration is, or has been filed in any country by Manufacturer which relates to any name or trademark which, in the opinion of Motorola, is confusingly similar, deceptive or misleading with respect to the Trademarks and Copyrights, Manufacturer shall abandon immediately any such application or registration or, at Motorola's sole discretion, assign it to Motorola.

2.4 Manufacturer agrees that if it is notified by Licensee or Motorola of any change in any of the Trademarks and Copyrights, Manufacturer shall immediately change the Trademarks and Copyrights to conform with such change.

3. CONTRACT MANUFACTURE LIMITATION

3.1 Manufacturer agrees that it will not manufacture any goods using the Trademark and Copyrights other than the Product(s) specified by this Manufacturer's Agreement for which Manufacturer was approved and shall exclusively manufacture for and/or sell to Licensee any such Product(s) during the term of Licensee's license from Motorola to use the Trademark and Copyrights on such Product(s).

4. COMPLIANCE WITH LAW AND LABOR PRACTICES

4.1 Manufacturer agrees to comply with all applicable laws, orders, rules and regulations in performing its obligations.

4.2 Manufacturer warrants that all Products manufactured by Manufacturer will be produced in compliance with all applicable laws, orders, rules and regulations in the jurisdiction Manufacturer manufactures the Products and will comply with the provisions of the Compliance with Laws and Standards document attached hereto as Exhibit 3.

4.3 Manufacturer warrants that all Products will be manufactured by it, whether assembled or packaged in whole or in part, without the use of any forced labor, prison labor or child labor, and that such Products will not be trans-shipped for the purpose of mislabeling, evading quota or country of origin restrictions, or avoiding compliance with provisions against forced labor, prison labor or child labor.

5. REPRESENTATION AND WARRANTIES

5.1 Manufacturer further agrees and warrants that at all times:

(i) it has and shall maintain all rights and licenses needed to manufacture and sell the Products and the Products do not infringe any patent, copyright, mask work right, moral right, trademark, service mark, trade secret and/or all other intellectual property rights and/or similar rights of any third party. Manufacturer is solely responsible for all royalties, fees or other payments to secure such rights and licenses.

(ii) Manufacturer shall secure and maintain all certifications and requirements to manufacture and sell the Products and Manufacturer shall affix all labels on the appropriate area of each Product regarding such certifications and requirements. Manufacturer shall provide written evidence of such certifications and approvals upon request.

(iii) All Products are new, and do not contain anything used, and Manufacturer shall have processes, procedures and documentation in place to comply with and substantiate this representation and warranty.

6. INDEMNIFICATION

6.1 Manufacturer agrees to indemnify, hold harmless and defend Motorola its subsidiaries and customers with legal counsel acceptable to Motorola from and against all suits, actions, claims, damages, liabilities, costs and expenses, including attorneys fees, court costs and other legal expenses (collectively "Claims"), arising out of or connected with the Products, Manufacturer's methods of manufacturing the Products, and the promotional or packaging material relating to the Products, except where such Claims arise solely out of Licensee's actions or omissions. Motorola agrees to give Manufacturer written notice of any claim within thirty (thirty) days of receipt by Motorola. Motorola's failure to provide written notice of the claim within thirty days shall not affect its right to indemnification unless the delay materially prejudices Manufacturer's ability to respond to the claim. Manufacturer shall bear full responsibility for the defense (including any settlements) of any such claim; provided, however, that: (i) Manufacturer shall keep Motorola informed of, and consult with Motorola in connection with the progress of such litigation or settlement; and (ii) Manufacturer shall not have any right, without Motorola's prior written consent, to settle any such claim if such settlement arises from or is part of any criminal action, suit or proceeding or contains a stipulation to or admission or acknowledgement of, any liability or wrongdoing (whether in contract, tort, or otherwise) on the part of Motorola or Motorola subsidiary.

INSPECTION AND AUDIT

7.1 Manufacturer further agrees that upon seven (7) days notice to Licensee, who shall in turn notify Manufacturer, Motorola shall have the right to inspect, at Motorola's expense, the manufacturing facilities of Manufacturer during regular business hours to determine compliance of the Product(s) manufactured by Manufacturer with the applicable Control Specifications approved by Motorola and supplied to Manufacturer by Licensee, and for compliance with laws, standards and labor practices.

7.2 Manufacturer further agrees that, during the term of this Agreement and for at least five (5) years following the termination or expiration of this Agreement, Manufacturer and its Affiliates shall maintain at Manufacturer's or its Affiliate's principal office, such books and records, including, but not limited to, production, inventory and sales records (collectively "Books and Records") as are necessary to substantiate that: (i) all statements submitted to Motorola by Licensee were true, complete and accurate with regard to the quantities of Products sold to Licensee by Manufacturer and the countries to which they were shipped; (ii) Manufacturer has manufactured and sold Products exclusively to Licensee in accordance with the provisions of this Agreement; and (iii) no payments have been made, directly or indirectly, by or on behalf of Manufacturer or Licensee to or for the benefit of any Motorola employee or agent who may reasonably be expected to influence Motorola's decision to enter this Agreement or the amounts to be paid by Licensee or Manufacturer under this Agreement. (As used in this Section, "payment" shall include money, property, services, and all other forms of consideration.) All Books and Records shall be maintained in accordance with generally accepted accounting principles consistently applied. During the Term of, and for five (5) years after the termination or expiration of this Agreement, the Books and Records shall be open to inspection, audit, and copy by or on behalf of Motorola during business hours.

8. CONFLICTING LAWS

8.1 Manufacturer agrees that should it be or become aware of any applicable laws or regulations which are materially inconsistent with the provisions of the Manufacturer's Agreement, it shall notify Licensee within fifteen (15) days of becoming aware of such material inconsistency.

9. TERMINATION AND EXPIRATION

9.1 Manufacturer agrees that upon the termination or expiration of this Manufacturer's Agreement, Manufacturer shall execute all papers and make such filings as necessary to terminate any registered user agreements or similar agreements that may have been executed, filed and/or recorded while this Manufacturer's Agreement was in effect.

9.2 Manufacturer acknowledges that any material breach by Manufacturer of this Manufacturer's Agreement will cause irreparable harm and damages to Licensee and/or Motorola. If Licensee or Motorola determine Manufacturer has materially breached this Manufacturer's Agreement, Manufacturer shall have thirty (30) days to cure such breach to the satisfaction of Motorola and Licensee. If Manufacturer fails to cure such material breach in thirty (30) days, this Manufacturer's Agreement shall terminate. The parties of this Manufacturer's Agreement expressly agree that Motorola, is an intended beneficiary of this Manufacturer's Agreement with rights to enforce such agreement.

10. GOVERNING LAW

10.1 The construction and performance of this Manufacturer's Agreement will be governed by the internal, substantive laws of the state of Illinois without regard to its choice of law rules.

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed in duplicate originals by its duly authorized representative on the respective dates entered below.

MANUFACTURER

LICENSEE

By: _____

By: _____

Title: _____

Title: _____

Date: _____

Date: _____

MOTOROLA, INC.

By: _____

Title: _____

Date: _____

EXHIBIT 1 to Manufacturer's Agreement

TRADEMARKS, TRADE DRESS, AND COPYRIGHTS

The Licensed **Motorola Trademarks** are: the MOTOROLA signature and the stylized M logo ("Emsignia") and associated Motorola Trade Dress





EXHIBIT 2 to Manufacturer's Agreement

PRODUCTS

EXHIBIT 3 to Manufacturer's Agreement

Compliance with Laws and Ethical Standards

1. Ethical Conduct, Anticorruption and Unfair Business Practices

Motorola has historically depended on product quality and superiority, combined with outstanding support capability, to sell its products. Accordingly, Manufacturer agrees to perform the services hereunder with the highest ethical standards. Motorola will not do business with any entity or person where Motorola believes that payoffs or similar improper or unethical practices are involved. Motorola expects its Manufacturers to abide by this policy and not to have a relationship with another entity or person, or engage in any activity that results or may result in a conflict of interest, or embarrassment to Motorola, or harm to Motorola's reputation. Manufacturer will: (i) maintain transparency and accuracy in corporate record keeping; (ii) act lawfully and with integrity in handling competitive data, proprietary information and other intellectual property; and (iii) comply with legal requirements regarding fair competition and antitrust, and accurate and truthful marketing. Manufacturer will not engage in corrupt practices, including public or private bribery or kickbacks. If Manufacturer fails to comply in any respect with all of these requirements, then Motorola may immediately and without liability terminate this Agreement.

2. Antidiscrimination and Humane Treatment of Workers

a. Manufacturer will employ workers on the basis of their ability to do the job and not on the basis of their personal characteristics or beliefs.

b. Manufacturer will assure that Products (including parts) will not be produced, manufactured, mined, or assembled with the use of forced, prison, or indentured labor, including debt bondage, or with the use of illegal child labor in violation of International Labor Conventions for minimum age (ILO-C138) and child labor (ILO-C182). If Manufacturer recruits contract workers, Manufacturer will pay agency recruitment commissions, will not require workers to remain in employment for any period of time against their will, and will not impose any early termination penalties on workers. If Manufacturer provides housing or eating facilities, Manufacturer will assure the facilities are operated and maintained in a safe, sanitary and dignified manner.

c. Manufacturer will operate safe, healthy and fair working environments, including managing operations so levels of overtime do not create inhumane working conditions. Manufacturer will pay workers at least the minimum legal wage, or where no wage laws exist, the local industry standard. Manufacturer will assure that workers are free to join, or refrain from joining, associations of their own choosing, unless otherwise prohibited by law. Manufacturer will not routinely require workers to work in excess of six consecutive days without a rest day.

3. Environmental Protection

a. Manufacturer will implement a functioning environmental management system in accordance with ISO 14001 or equivalent. Third-party registration is recommended but not required.

b. Manufacturer certifies that Products and their parts do not contain and are not manufactured with a process that uses any Class I ozone-depleting substances (as identified in 40 CRF Part 82 Appendix A to Subpart A, or as subsequently identified by the U.S. Environmental Protection Agency as Class I ozone-depleting substances). For Products imported into the United States, Manufacturer will provide Motorola with a completed and signed ODS Certification Questionnaire, accessible at the following URL:
<http://www.motorola.com/suppliers/materialsdisclosure>

c. For Products used as parts for Motorola products, including the packaging used with such products and any manuals that accompany such products in the ordinary course, Manufacturer will provide material disclosure or certification, as defined in Motorola's Controlled and Reportable Materials Disclosure Process, accessible at the following URL:
<http://www.motorola.com/suppliers/materialsdisclosure>

4. Material Safety Data Sheets

Manufacturer will electronically provide material safety data sheets, chemical safety data sheets, or equivalent documentation for all chemicals sold to Motorola. For all chemicals supplied or imported into the United States, Manufacturer will certify that the chemicals are listed on the Toxic Substances Control Act, 15 USCS §2601, et. seq., chemical inventory, or are subject to an exemption specified in the material safety data sheets.

5. Imports and Customs

Manufacturer will comply with all import and customs laws, regulations and administrative determinations of the importing country. Manufacturer will comply with the security criteria of the importing country's government security program. If Manufacturer is providing Products to be delivered to, or Services to support delivery to, the U.S., Manufacturer will comply with the security criteria of the U.S. Customs and Border Protection's *Customs-Trade Partnership against Terrorism (C-TPAT) Program* (available on <http://www.cbp.gov>).

6. Export Restriction

If Manufacturer is the exporter of record for any shipments, Manufacturer will obtain all export authorizations from the U.S. government or other governments that may be required to lawfully make such shipments.

7. Utilization of Small Business Concerns

If applicable, Manufacturer will comply with the provisions of U.S. Federal Acquisition Regulation (FAR) 52.219-8 pertaining to Utilization of Small Business Concerns, as well as any other state and local, small and other business utilization laws.

8. Equal Opportunity

If applicable, Manufacturer will comply with the provisions of FAR 52.222-21, 52.222-26, 52.222-35, and 52.222-36 pertaining to Segregated Facilities, Equal Opportunity, Equal Opportunity for Veterans, and Affirmative Action for Workers with Disabilities. If applicable, Manufacturer will maintain, at each establishment, affirmative action programs required by the rules of the U.S. Secretary of Labor (41 CFR 60-1 and 60-2).

9. Government Subcontract

If an Order is issued under a government contract, Manufacturer will comply with the terms of the government contract that appear on the Order, and with any other applicable laws, regulations and executive orders.

10. Manufacturer Diversity

If Manufacturer is located in the United States or is supplying Products to Motorola locations based in the United States, Manufacturer will track and report its Supply Chain's spend with minority-owned, women-owned and disabled veteran-owned business enterprises located in the United States. Manufacturer and Motorola will agree on a goal for Manufacturer's Supply Chain spend, based upon a percentage of Manufacturer's total gross revenues under this Agreement. Manufacturer will submit quarterly progress reports, in a format designated by Motorola, by the twenty-fifth day of the month following the end of each calendar quarter. All reports will be forwarded to the Motorola Manufacturer Diversity Group, 2501 S. Price Road, M/D G1232, Chandler, AZ 85248, or sent via email to supplierdiversity@motorola.com.

11. Product Safety and Regulatory Compliance

Manufacturer will ensure that all Products and services provided comply with all applicable regulations and laws, including all applicable product safety, environmental, and recycling regulations and laws.

12. ICT Manufacturer Self Assessment Questionnaire

Upon Motorola's request, Manufacturer will obtain a subscription to the Global e-sustainability Initiative (GeSI) and Electronic Industry Code of Conduct's (EICC) online system E-TASC at www.E-TASC.com and complete the ICT Supplier Self-Assessment within that system. Details regarding this ICT Supplier Self Assessment Questionnaire and Motorola Corporate Responsibility initiatives are available for review at: <http://compass.mot.com/web/wikinethome>.

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EXHIBIT F

PRODUCT WARRANTY

Licensee shall include a written warranty statement on or in all **Product** packaging. Such warranty shall, at a minimum:

- a. comply with all applicable laws of the country or countries in which the Product is sold;
- b. specify what components the warranty covers;
- c. specify the time period of the warranty, which shall be no less than one (1) and no more than five (5) years from date of purchase;
- d. specify the remedy (e.g. repair, replacement, or refund) if the **Product** does not conform to the warranty;
- e. specify the **Licensee's** toll-free telephone number available to **Product** purchasers for warranty and other support;
- f. to the extent allowed by law, exclude consequential, incidental and punitive damages and limit any remedies to repair, replace or refund; and
- g. clearly indicate that Motorola is not responsible for warranty support of the **Product**
- h. be substantively equivalent to the sample warranty statement below:

The following statement shall be used for all goods sold in the United States:

Statement of Limited Warranty: (Licensee) warrants that for a period of — years from the date of purchase that this product 1) is free from defects in materials and workmanship and 2) conforms to its specifications. If this product does not function as warranted during the warranty period, (Licensee), at its option, will either replace this product with one that is functionally equivalent or will refund your purchase price. These are your exclusive remedies under this warranty. Please call 1-800 (XXXXXXXX) for warranty service.

This product is manufactured, distributed or sold by XXXXXX, official licensee for this product. Motorola, the Motorola logo trademarks and the Motorola trade dress are owned by Motorola, Inc. and are used under license from Motorola. Please contact XXXXXX at YYYYYYYY for questions/comments, warranty, support, or service related to this product

This warranty will be voided by misuse, improper physical environment, accident, or improper maintenance by you. THIS WARRANTY REPLACES ALL OTHER WARRANTIES OR CONDITIONS, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OR CONDITIONS OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. THESE WARRANTIES GIVE YOU SPECIFIC LEGAL RIGHTS AND YOU MAY ALSO HAVE OTHER RIGHTS WHICH VARY FROM JURISDICTION TO JURISDICTION. SOME JURISDICTIONS DO NOT ALLOW THE EXCLUSION OR LIMITATION OF EXPRESS OR IMPLIED WARRANTIES, SO THE ABOVE EXCLUSION OR LIMITATION MAY NOT APPLY TO YOU. IN THAT EVENT, SUCH WARRANTIES ARE LIMITED IN DURATION TO THE WARRANTY PERIOD. NO WARRANTIES APPLY AFTER THAT PERIOD.

Circumstances may arise where, because of a default on (Licensee's) part or other liability, you are entitled to recover damages from (Licensee). In each such instance, regardless of the basis on which you are entitled to claim damages from (Licensee) (including fundamental breach, negligence, misrepresentation, or other contract or tort claim), (Licensee) is only liable for:

1. damages for bodily injury (including death) and damage to real property and tangible personal property; and
2. the amount of any other actual direct damages or loss, up to the greater of \$500 or the price paid for this product.

UNDER NO CIRCUMSTANCES IS (Licensee) OR XXX LIABLE FOR ANY OF THE FOLLOWING: (1) THIRD-PARTY CLAIMS AGAINST YOU FOR LOSSES OR DAMAGES (OTHER THAN THOSE UNDER THE FIRST ITEM LISTED ABOVE); (2) LOSS OF, OR DAMAGE TO, YOUR RECORDS OR DATA; OR (3) SPECIAL, INCIDENTAL OR INDIRECT DAMAGES OR FOR ANY ECONOMIC CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS OR SAVINGS), EVEN IF (Licensee) OR XXX ARE INFORMED OF THEIR POSSIBILITY. SOME JURISDICTIONS DO NOT ALLOW THE EXCLUSION OR LIMITATION OF INCIDENTAL OR CONSEQUENTIAL DAMAGES, SO THE ABOVE EXCLUSION OR LIMITATION MAY NOT APPLY TO YOU.

EXHIBIT G

Compliance with Laws and Ethical Standards

1. Ethical Conduct, Anticorruption and Unfair Business Practices

Motorola has historically depended on product quality and superiority, combined with outstanding support capability, to sell its products. Accordingly, Licensee agrees to perform the services hereunder with the highest ethical standards. Motorola will not do business with any entity or person where Motorola believes that payoffs or similar improper or unethical practices are involved. Motorola expects its Licensees to abide by this policy and not to have a relationship with another entity or person, or engage in any activity that results or may result in a conflict of interest, or embarrassment to Motorola, or harm to Motorola's reputation. Licensee will: (i) maintain transparency and accuracy in corporate record keeping; (ii) act lawfully and with integrity in handling competitive data, proprietary information and other intellectual property; and (iii) comply with legal requirements regarding fair competition and antitrust, and accurate and truthful marketing. Licensee will not engage in corrupt practices, including public or private bribery or kickbacks. If Licensee fails to comply in any respect with all of these requirements, then Motorola may immediately and without liability terminate this Agreement.

2. Antidiscrimination and Humane Treatment of Workers

a. Licensee will employ workers on the basis of their ability to do the job and not on the basis of their personal characteristics or beliefs.

b. Licensee will assure that Products (including parts) will not be produced, manufactured, mined, or assembled with the use of forced, prison, or indentured labor, including debt bondage, or with the use of illegal child labor in violation of International Labor Conventions for minimum age (ILO-C138) and child labor (ILO-C182). If Licensee recruits contract workers, Licensee will pay agency recruitment commissions, will not require workers to remain in employment for any period of time against their will, and will not impose any early termination penalties on workers. If Licensee provides housing or eating facilities, Licensee will assure the facilities are operated and maintained in a safe, sanitary and dignified manner.

c. Licensee will operate safe, healthy and fair working environments, including managing operations so levels of overtime do not create inhumane working conditions. Licensee will pay workers at least the minimum legal wage, or where no wage laws exist, the local industry standard. Licensee will assure that workers are free to join, or refrain from joining, associations of their own choosing, unless otherwise prohibited by law. Licensee will not routinely require workers to work in excess of six consecutive days without a rest day.

3. Environmental Protection

a. Licensee will implement a functioning environmental management system in accordance with ISO 14001 or equivalent.

Third-party registration is recommended but not required.

b. Licensee certifies that Products and their parts do not contain and are not manufactured with a process that uses any Class I ozone-depleting substances (as identified in 40 CRF Part 82 Appendix A to Subpart A, or as subsequently identified by the U.S. Environmental Protection Agency as Class I ozone-depleting substances). For Products imported into the United States, Licensee will provide Motorola with a completed and signed ODS Certification Questionnaire, accessible at the following URL: <http://www.motorola.com/content.jsp?globalObjectId=8343>

c. For Products used as parts for Motorola products, including the packaging used with such products and any manuals that accompany such products in the ordinary course, Licensee will provide material disclosure or certification, as defined in Motorola's Controlled and Reportable Materials Disclosure Process, accessible at the following URL:
http://www.motorola.com/mot/doc/1/1501_MotDoc.pdf

4. Material Safety Data Sheets

Licensee will electronically provide material safety data sheets, chemical safety data sheets, or equivalent documentation for all chemicals sold to Motorola. For all chemicals supplied or imported into the United States, Licensee will certify that the chemicals are listed on the Toxic Substances Control Act, 15 USCS §2601, et. seq., chemical inventory, or are subject to an exemption specified in the material safety data sheets.

5. Imports and Customs

Licensee will comply with all import and customs laws, regulations and administrative determinations of the importing country. Licensee will comply with the security criteria of the importing country's government security program. If Licensee is providing Products to be delivered to, or Services to support delivery to, the U.S., Licensee will comply with the security criteria of the U.S. Customs and Border Protection's *Customs-Trade Partnership against Terrorism (C-TPAT) Program* (available on <http://www.cbp.gov>).

6. Export Restriction

If Licensee is the exporter of record for any shipments, Licensee will obtain all export authorizations from the U.S. government or other governments that may be required to lawfully make such shipments.

7. Utilization of Small Business Concerns

If applicable, Licensee will comply with the provisions of U.S. Federal Acquisition Regulation (FAR) 52.219-8 pertaining to Utilization of Small Business Concerns, as well as any other state and local, small and other business utilization laws.

8. Equal Opportunity

If applicable, Licensee will comply with the provisions of FAR 52.222-21, 52.222-26, 52.222-35, and 52.222-36 pertaining to Segregated Facilities, Equal Opportunity, Equal Opportunity for Veterans, and Affirmative Action for Workers with Disabilities. If applicable, Licensee will maintain, at each establishment, affirmative action programs required by the rules of the U.S. Secretary of Labor (41 CFR 60-1 and 60-2).

9. Government Subcontract

If an Order is issued under a government contract, Licensee will comply with the terms of the government contract that appear on the Order, and with any other applicable laws, regulations and executive orders.

10. Licensee Diversity

If Licensee is located in the United States or is supplying Products to Motorola locations based in the United States, Licensee will track and report its Supply Chain's spend with minority-owned, women-owned and disabled veteran-owned business enterprises located in the United States. Licensee and Motorola will agree on a goal for Licensee's Supply Chain spend, based upon a percentage of Licensee's total gross revenues under this Agreement. Licensee will submit quarterly progress reports, in a format designated by Motorola, by the twenty-fifth day of the month following the end of each calendar quarter. All reports will be forwarded to the Motorola Licensee Diversity Group, 2501 S. Price Road, M/D G1232, Chandler, AZ 85248, or sent via email to supplierdiversity@motorola.com.

11. Product Safety and Regulatory Compliance

Licensee will ensure that all Products and services provided comply with all applicable regulations and laws, including all applicable product safety, environmental, and recycling regulations and laws.

12. ICT Licensee Self Assessment Questionnaire

Upon Motorola's request, Licensee will obtain a subscription to the Global e-sustainability Initiative (GeSI) and Electronic Industry Code of Conduct's (EICC) online system E-TASC at www.E-TASC.com and complete the ICT Supplier Self-Assessment within that system. Details regarding this ICT Supplier Self Assessment Questionnaire and Motorola Corporate Responsibility initiatives are available for review at: <http://compass.mot.com/web/wikinethome> .

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this “Agreement”), dated as of the 12th day of August, 2008, between Forward Industries, Inc., a New York corporation having its principal offices at 1801 Green Road, Suite E, Pompano Beach, Florida 33064 (the “Company”), and Douglas W. Sabra, residing at 7441 Brunswick Circle, Boynton Beach FL 33437 (“Executive”).

WITNESSETH:

WHEREAS, Executive has been rendering services to the Company pursuant to an employment agreement between him and the Company dated as of December 27, 2005, effective as of October 1, 2005, and amended as of January 2, 2008 (the “Prior Agreement”);

WHEREAS, the Company and Executive desire to amend and restate the Prior Agreement in order to reflect their current agreements as to the terms of employment, with effect from the date of execution of this Agreement (“Effective Date”);

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which the parties hereby acknowledge, the parties agree as follows:

1. PRIOR AGREEMENT

The parties hereto hereby agree that (a) the terms of this Amended and Restated Agreement shall govern the terms of employment of Executive by the Company, and (b) the Company has no obligations to Executive under the Prior Agreement that have not been discharged except in respect of accrued and unpaid salary to the date of execution hereof, unused personal days and vacation time accrued in respect of the fiscal year ended September 30, 2008, and pension, medical benefits, and other benefits granted to all employees generally as such benefits have accrued on behalf of Executive consistent with the terms of the Prior Agreement and as continued pursuant to this Agreement.

2. EMPLOYMENT TERM

Unless earlier terminated in accordance with the terms of this Agreement, the term of employment hereunder (the “Term”) shall commence on the Effective Date and expire on December 31, 2009. Upon expiration of the Term, this Agreement shall be automatically renewed for successive terms of one year each; provided, however, that if either party provides written notice to the other party of its or his determination not to so renew not later than 90 (ninety) days prior to the expiration of the Term, or any renewal thereof, as the case may be, this Agreement and Executive’s employment shall terminate at the end of the Term or such renewal term, as the case may be. In the event that the Company is the party giving notice of non-renewal, this shall be treated as a termination without Cause and governed by the terms of Section 6 or Section 8, as the case may be.

3. EMPLOYMENT DUTIES AND SERVICES

(a) On the terms and conditions herein set forth, the Company hereby employs Executive as its President (chief executive officer) for the term of this Agreement and any renewal(s) thereof, and Executive hereby accepts such employment. Executive shall perform such duties and responsibilities of a chief executive nature for the Company as shall be consistent with the provisions of the Company's By-laws in effect from time to time and as are customary for a chief executive officer of corporations of similar size and business as the Company, subject to the direction of the Company's Board of Directors (the "Board"). Subject to election thereto by the shareholders of the Company at the annual or other meeting from time to time, for so long as he serves as President Executive shall serve as a member of the Board, for which he shall not be entitled to additional compensation. Executive shall serve the Company faithfully and to the best of his ability and shall devote his full business time and attention to the business and affairs of the Company, subject to reasonable absences for vacation and illness as determined by the Compensation Committee of the Board (the "Compensation Committee"). Executive will not engage, directly or indirectly, in any other business or occupation during the Term.

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(b) Nothing in this Agreement shall preclude the Executive from (i) engaging in personal investment activities for himself and his family, (ii) accepting directorships unrelated to the Company, subject to the prior, written approval of the Compensation Committee, (iii) engaging in charitable and civic activities, and (iv) engaging in such other limited activities on behalf of family interests as have been or may be approved by the Nominating and Governance Committee of the Board, so long as any one or more such outside interests set forth in clauses (i), (ii), (iii), and (iv) hereof do not interfere with or affect the performance of his duties or responsibilities hereunder.

(c) Unless otherwise agreed in writing by the Company and Executive, the performance of Executive's services during the term of this Agreement shall be rendered at the principal executive offices of the Company, subject to such travel in furtherance of Executive's performance of his duties hereunder as the business of the Company may require.

4. COMPENSATION AND EXPENSE REIMBURSEMENT

(a) Salary. Executive shall be entitled to receive for all services rendered by Executive in any and all capacities in connection with his employment hereunder a salary (as it may be adjusted, "Salary") of \$250,000 per annum, payable in equal installments in accordance with the prevailing practices of the Company (but not less frequently than monthly).

(b) Bonus; Calculation and Payment. The Executive shall be eligible to receive a bonus ("Bonus") with respect to each full fiscal year or part thereof (except to the extent expressly provided in Section 4(b), 5, 6, or 7(b) hereof) in respect of his employment hereunder, as set forth in this Section 4. The amount of Bonus, if any, that Executive may earn in any fiscal year during the Term hereof pursuant to this Section 4(b) shall be based on the extent to which, if any, the Company achieves all or a percentage of, or exceeds, Target (as defined below) in each such fiscal year, in accordance with guidelines, or a formula, for earning such bonus as fixed by the Compensation Committee in its sole discretion not later than the date referred to in the next paragraph.

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“Target” means, with respect to any fiscal year, the amount of pre-tax income or other measure of operating results of the Company as determined by the Compensation Committee of the Board in its sole discretion, projected for achievement, in whole or in part, in such fiscal year by the Compensation Committee for the purpose of establishing Executive’s right to receive Bonus compensation in respect of such fiscal year. The Compensation Committee shall determine the Target, together with the formulas for earning Bonus hereunder, after the Board has adopted the Annual Budget in respect of each fiscal year during the Term hereof but not later than the 75th day of each such fiscal year. The Compensation Committee may determine that the amount of Bonus for such purposes may be pro rated based on Target being achieved, exceeded, or missed.

Bonus compensation, if any, payable pursuant to Section 4(b) shall be payable to Executive not earlier than the date on which the Company’s audited financial statements relating to the fiscal year in respect of which such Bonus compensation is payable are first filed with the Securities and Exchange Commission (the “Commission”) pursuant to Section 13 or 15(d) under the Securities Exchange Act of 1934 (“Exchange Act”) nor later than the tenth (10th) business day after such date. If Executive is otherwise entitled to payment of a Bonus pursuant to this Section 4(b) and the terms of this Agreement but has not served as an employee for the full fiscal year in respect of which such Bonus is payable, Executive, or his estate, shall be entitled to payment, at the time specified in the next preceding sentence, of a ratable portion of such Bonus to which he or his estate is entitled, based on the ratio that the actual number of days in such fiscal year during which he served as an Employee pursuant to this Agreement and is so entitled bears to 365; provided, however, that no Bonus (pro-rated or otherwise) shall be payable in respect of a fiscal year during which Executive is employed hereunder solely for the first fiscal quarter thereof because of expiration of the Term, or any renewal thereof as a result of notice of non-renewal furnished pursuant to Section 2; and provided, further, that if Executive’s employment was terminated as a result of notice pursuant to Section 5, Termination for Cause, he shall not be entitled to any Bonus compensation in respect of the fiscal year during which such notice of termination was given or during which such termination becomes effective.

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(c) Expenses. Executive will be reimbursed for all reasonable and necessary expenses incurred by Executive in carrying out the duties contemplated under this Agreement, in accordance with Company practices and procedures in effect from time to time, as such practices may be changed from time to time by the Board. Executive shall be entitled to a monthly allowance, subject to the approval and discretion of the Compensation Committee, to defray the expense of the lease of an automobile (including monthly lease cost, maintenance, insurance, and operating expense) for Executive’s use in connection with the discharge of his duties under this Agreement, the amount of which allowance shall be includible in Executive’s W-2 statements and be subject to applicable income tax withholding regulations..

(d) Benefits. Executive shall be entitled to participate in all group health and other insurance programs and all other fringe benefit (including vacation) and retirement plans (including any 401(k) plan) or other compensatory plans that the Company may

hereafter elect to make available to its executives generally on terms no less favorable than those provided to other executives generally, provided Executive meets the qualifications therefor. The Company shall not be required to establish any such program or plan, except to the extent expressly set forth in this Section 4.

(e) Withholding. All payments required to be made by the Company hereunder to the Executive shall be subject to the withholding of such amounts relating to taxes and other governmental assessments as the Company may reasonably determine it should withhold pursuant to any applicable law, rule or regulation.

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(f) IRC§409A. Executive and the Company agree that the provisions of this Agreement shall be construed and implemented, and any deferrals and elections shall be made, in order to comply with Internal Revenue Code Section 409A, as it may be amended, and the rules and regulations issued thereunder from time to time.

5. TERMINATION BY THE COMPANY FOR CAUSE

(a) The Board of Directors may, by written notice given at any time during the Term, or any renewal thereof, terminate the employment of Executive for cause, the cause to be specified in reasonable detail in such notice. For purposes of this Agreement, “cause” shall mean Executive’s:

(i) willful misconduct in connection with the performance of any of his duties or services hereunder, including without limitation (1) misappropriation or improper diversion of funds, rights or property of the Company or any subsidiary of the Company (“Subsidiary”), or (2) securing or attempting to secure personally (including for the benefit of any family member, or person sharing the same household, or any entity (corporate, partnership, unincorporated association, proprietorship, limited liability company, trust, or otherwise) in which Executive has any economic or beneficial interest) any profit or benefit in connection with any transaction entered into on behalf of the Company or any Subsidiary unless the transaction benefiting the entity has been approved by the Board upon the basis of full disclosure of such benefit, or (3) material breach of any covenant contained in this Agreement or (4) any other action in violation of Executive’s fiduciary duty owed to the Company or Executive’s acting in a manner adverse to the interests of the Company and for his own pecuniary benefit or that of a family member (or member of his household) or any entity (as described in clause (i)(2) of Section 5(a) above) in which he or any such person has an economic or beneficial interest; or (5) Executive’s failure to cooperate, if requested by the Board, with any investigation or inquiry into his or the Company’s business practices, whether internal or external;

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(ii) willful failure, neglect or refusal to perform his duties or services under this Agreement, which failure, neglect or refusal shall continue for a period of 30 days after written notice thereof shall have been given to the Executive by or on behalf of the Board ; and/or

(iii) conviction of, or nolo contendere or guilty plea in connection with, a felony.

(b) Termination for cause under clause (i) or (iii) of paragraph (a) of this Section 5 shall be effective immediately upon the giving of such notice; if notice of termination for cause relates to clause (ii) of paragraph (a) of this Section 5, termination shall be effective on the thirtieth (30th) day after the notice referred to in the first sentence of this Section 5 is given to Executive, unless the Executive shall have, prior to such thirtieth (30th) day, cured the alleged cause to the satisfaction of the Board, in which case the Board shall so notify Executive and such cause shall be deemed to no longer exist; provided, however, that if the Board concludes that Executive's willful failure, neglect, or refusal to perform has resulted in material damage to the Company or its reputation that is not capable of being remedied, termination shall be effective immediately upon giving of notice.

For purposes of this Agreement, an act or failure to act on the Executive's part shall be considered "willful" if it was done or omitted to be done by him not in good faith, and shall not include any act or failure to act resulting from any incapacity of the Executive.

(c) Upon termination of employment by the Company for Cause, the Executive shall be entitled to receive, and his sole remedies under this Agreement shall be:

(i) any earned and unpaid Salary accrued through the date of termination for Cause, payable in a lump sum not later than 15 days following Executive's termination of employment;

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(ii) compensation for any unused personal holidays and unused vacation days accrued in the fiscal year in which termination occurs through the date of termination, payable as in clause (i) of this Section 5;

(iii) except for any Bonus compensation (for which Executive shall not be eligible), any unpaid benefits accrued through the day immediately prior to the date of termination that may be due the Executive under any employee benefit plans or programs of the Company, payable in accordance with the terms of such plans or programs, together with any documented, unreimbursed business expenses, payable in accordance with Company policies; and

(iv) any stock options, grants of Common Stock, restricted share grants or other benefits under any of the Company's compensation plans that were vested as of 5:00 PM on the date immediately prior to the date of termination in accordance with the terms of such plans and any applicable plan agreements with Executive, provided, however, that any vested but unexercised stock options may not be exercised on or after the effective date of termination.

(d) Termination of Executive's employment under this Section 5 shall be in addition to and not exclusive of any other rights and remedies that the Company has or may have relating to Executive with respect to the facts and circumstances pertaining to such termination.

6. TERMINATION BY EXECUTIVE FOR GOOD REASON OR TERMINATION WITHOUT CAUSE PRIOR TO CHANGE IN CONTROL

(a) In the event Executive terminates his employment under this Agreement for Good Reason (as hereinafter defined), or in the event Executive's employment is terminated without Cause (which termination shall be effective as of the date specified by the

Company in written notice delivered to Executive not fewer than 15 days prior to the date of termination) other than due to death or Disability (as hereinafter defined), in either case prior to a Change in Control (as hereinafter defined), the Executive shall be entitled to receive, and his sole remedies under this Agreement shall be:

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(i) any earned and unpaid Salary accrued through the date of termination, payable in a lump sum not later than 15 days following Executive's termination of employment;

(ii) Salary, at the annualized rate in effect on the date of termination of Executive's employment (or, in the event a reduction in Salary is a basis for termination for Good Reason, then the Salary in effect immediately prior to such reduction), for a period of (A) in case of executive's termination for Good Reason, six months following such termination, or (B) in case of termination by the Company without cause, the greater of (x) six months or (y) the balance of the Term (or renewal thereof, as the case may be) remaining after the date of termination set forth in such notice, in either case payable in a lump sum not later than 15 days following termination of employment;

(iii) compensation for any unused personal holidays and unused vacation days accrued in the fiscal year in which termination occurs through the date of termination, payable as in clause (i) of this Section 6;

(iv) except in the case of the Company giving notice of non-renewal at the end of the Term (or any renewal thereof), the ratable amount of Bonus, if any, to which Executive would otherwise have been entitled in the current fiscal year but for termination under this Section, payable at the time specified in Section 4(b);

(v) any unpaid benefits accrued through the day immediately prior to the date of termination that may be due the Executive under any employee benefit plans or programs of the Company, payable in accordance with the terms of such plans or programs, together with any documented, unreimbursed business expenses, payable in accordance with Company policies; and

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(vi) any stock options, grants of Common Stock, restricted share grants or other benefits under any of the Company's compensation plans that were vested as of 5:00 PM on the date immediately prior to the date of termination, which may be exercised (in the case of options) or delivered (in the case of restricted stock) in accordance with the terms of such plans and any applicable plan agreements with Executive.

(b) Termination by the Executive for Good Reason shall be effected by his giving prior written notice to the Company, in which case this Agreement shall terminate on the date specified in such notice; provided, however, that such notice shall specify (i) in reasonable detail the circumstances or event asserted as the basis for termination for Good Reason and (ii) a date of termination that shall be at least thirty (30) days after the date of delivery of such notice; and provided, further, that the Company shall have the right during such thirty (30) day period to remedy the circumstances or event giving rise to the notice of termination for Good Reason prior to the

date specified in such notice, in which case no right of termination or other right shall exist under this Section. .

For purposes of this Agreement, subject to Section 8(D), the term “Good Reason” shall mean:

(i) the assignment to Executive without his written consent of any duties inconsistent in any material respect with Executive’s chief executive position (including employment status, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 3 of this Agreement or any other action by the Company that results in a material diminishment in such positions, authority, duties, or responsibilities, other than such assignment or other action that is remedied by the Company prior to the date of termination specified in the written notice from Executive:

(ii) a decrease in annual Salary rate;

(iii) any failure by the Company to perform any material obligation under, or its breach of a material provision of, this Agreement that is not cured within the 30-day notice period referred to above; or

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(iv) failure of a Successor to expressly assume and agree to perform this Agreement in the same manner and to the same extent as the Company would have had there been no Successor.

7. TERMINATION FOR DEATH OR DISABILITY

(a) Executive’s employment shall terminate immediately upon his death or Disability (as hereinafter defined). Upon such termination, the Executive, his estate, or his beneficiaries, as the case may be, shall be entitled to receive, and their sole remedies under this Agreement shall be:

(i) subject to Section 8(b), any earned and unpaid Salary accrued through the date of termination, payable in a lump sum not later than 15 days following Executive’s termination of employment;

(ii) subject to Section 8(b), compensation for any unused personal holidays and unused vacation days accrued in the fiscal year in which termination occurs through the date of termination, payable as in clause (i) of this Section 7;

(iii) subject to Section 8(b), the ratable amount of Bonus, if any, to which Executive would otherwise have been entitled in the current fiscal year to the date of termination under this Section, payable at the time specified in Section 4(b);

(iv) any unpaid benefits accrued through the date of termination that may be due the Executive under any employee benefit plans or programs of the Company, payable in accordance with the terms of such plans or programs, together with any documented, unreimbursed business expenses, payable in accordance with Company policies; and

(v) any stock options, grants of Common Stock, restricted share grants or other benefits under any of the Company’s compensation plans that were vested as of 5:00 PM on the date immediately prior to the date of termination, which may be exercised (in the case of options) or delivered (in the case of restricted stock) in accordance with the terms of such plans and any applicable plan agreements with Executive.

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(b) For purposes of this Agreement, the term “Disability” shall mean any disability, illness, or other incapacity that prevents

Executive from performing services as contemplated by Section 3, for 120 or more consecutive days or for 180 days in any consecutive 12-month period. In such event, the Company shall have the right to terminate this Agreement upon 10 days' prior written notice to Executive. During the period of any such disability, illness, or incapacity, (i) the obligation of the Company to pay Salary to Executive pursuant to Section 4 shall be reduced to the extent of any amount received by Executive pursuant to any disability insurance policy maintained and paid for by the Company, and (ii) no bonus compensation shall accrue or be earned, or count toward proration. Termination under this Section shall not prejudice any rights of Executive under disability policies being maintained by the Company for Executive under the terms of this Agreement, if any.

8. TERMINATION UPON CHANGE OF CONTROL

(a) In the event Executive terminates his employment under this Agreement for Good Reason, or in the event Executive's employment is terminated without Cause (which termination shall be effective as of the date specified by the Company in written notice to Executive) other than due to death or disability, in either case within 12 months after a Change in Control (as hereinafter defined), the Executive shall be entitled to receive, and his sole remedies under this Agreement shall be:

(i) any earned and unpaid Salary accrued through the date of termination, payable in a lump sum not later than 15 days following Executive's termination of employment;

(ii) Salary, at the annualized rate in effect on the date of termination of Executive's employment (or, in the event a reduction in Salary after a Change in Control is a basis for termination for Good Reason, then the Salary in effect immediately prior to such reduction), for a period of 12 months following such termination, payable in a lump sum not later than 15 days following termination of employment;

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(iii) compensation for any unused personal holidays and unused vacation days accrued in the fiscal year in which termination occurs through the date of termination, payable as in clause (i) of this Section 8;

(iv) except in the case of the Company giving notice of non-renewal at the end of the Term (or any renewal thereof), the ratable amount of Bonus, if any, to which Executive would otherwise have been entitled in the current fiscal year but for termination under this Section, payable at the time specified in Section 4(b);

(v) any unpaid benefits accrued through the day immediately prior to the date of termination that may be due the Executive under any employee benefit plans or programs of the Company, payable in accordance with the terms of such plans or programs, together with any documented, unreimbursed business expenses, payable in accordance with Company policies; and

(vi) immediate vesting and elimination of all restrictions on any restricted share grants or deferred stock awards outstanding on the date of termination of employment; and

(vii) immediate vesting of all outstanding stock options on the date of termination of employment and the right to exercise such stock options as provided in any stock option award agreement to which Executive is a party.

(b) A "Change of Control" shall be deemed to have occurred if:

(i) Any Person (as hereinafter defined, other than the Company, any employee benefit plan of the Company, or any

company owned directly or indirectly by the shareholders of the Company immediately prior to such occurrence) becomes the Beneficial Owner (as hereinafter defined), directly or indirectly, of securities of the Company or any Subsidiary (as hereinafter defined) representing 50% or more of the combined voting power of the Company's or such subsidiary's then outstanding securities;

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(ii) during any period of two consecutive years or shorter period, individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (i), (iii) or (iv) of this paragraph (b)) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two-year period or whose election or nomination for election was previously so approved but excluding for this purpose any such new director whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of an individual, corporation, partnership, group, associate, or other entity or Person other than the Board, cease for any reason to constitute at least a majority of the Board;

(iii) the Company enters into any consolidation, merger, or other business combination with or into any other corporation or other entity or person, or any other corporate reorganization, whereby the shareholders of the Company immediately prior to such consolidation, merger, business combination, or reorganization own less than 50% of the voting power of the surviving entity immediately after such consolidation, merger, business combination, or reorganization;

(iv) the consummation of a plan or agreement for the sale or disposition of all or substantially all of the consolidated assets of the Company (other than such sale or disposition immediately after which such assets will be owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of common stock of the Company immediately prior to such sale or disposition), in which case the Board shall determine the effective date of the Change in Control resulting from such transaction; or

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(v) the occurrence of any other event that the Board determines, in its discretion, would materially alter the structure of the Company or its ownership.

For purposes of this definition, the term:

(A) "Beneficial Owner" shall have the meaning ascribed thereto in Rule 13d-3 under the Exchange Act (as such term

or rule may be amended from time to time), except that a Person shall be deemed to be the Beneficial Owner of all shares that such Person has the right to acquire pursuant to any agreement or arrangement or upon exercise or conversion of rights, warrants, or options, or otherwise, without regard to the sixty day period referred to in Rule 13d-3);

(B) “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto;

(C) “Person” has the meaning ascribed thereto in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including “group” as defined in Section 14(d) thereof; and

(D) “Good Reason” as used in Section 8 (1) shall include, in addition to the circumstances specified in Section 6 of this Agreement, a removal of the Executive from, or any failure to elect or re-elect or, as the case may be, nominate the Executive as a member of the Board and (2) shall not exist as a reason for Executive to terminate his employment after a Change of Control notwithstanding anything to the contrary in Section 6 where the Change of Control arises in connection with the circumstances described in clause (b)(iii) of this Section 8 and Executive’s employment by the entity surviving such consolidation, merger, combination, or reorganization qualifies him as not lower than the third ranking executive of such entity in terms of executive authority and salary and other measures of compensation..

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9. OBLIGATIONS UPON TERMINATION, ETC.

(a) Upon the termination of employment, all provisions of this Agreement shall terminate except for this Section 9, Sections 10, 11 and 12, the terms of which shall survive such termination, and the Company shall have no further obligation to Executive hereunder, except as herein expressly provided. The Company shall comply with the terms of settlement of all deferred compensation arrangements to which Executive is a party in accordance with his duly executed deferral election forms.

(b) In the event of a termination of employment by Executive on his own initiative during the Term or any renewal thereof by delivery of written notice of such resignation ten business days in advance, other than due to Disability or termination for Good Reason, Executive shall have the same entitlements as provided in Section 5, Termination by the Company for Cause. Notwithstanding the foregoing, Executive shall have no right to terminate during the Term except in the event of termination for Good Reason, and any voluntary termination of employment shall be considered a material breach.

(c) In the event of a termination of employment, payment made and performance by the Company in accordance with the provisions of Section 5, 6, 7, 8, or 9, as the case may be, shall operate to fully discharge and release the Company and its directors, officers, employees, subsidiaries, affiliates, shareholders, successors, assigns, agents, and representatives (all of the foregoing collectively, the “releasees”) from any further obligation or liability with respect to Executive’s rights under this Agreement. Other

than payment and performance as aforesaid, none of the releasees shall have any further obligation or liability to Executive or any other person under this Agreement arising out of termination of Executive's employment under this Agreement. The Company shall have the right to condition the payment of any severance or other amounts pursuant to Section 5, 6, 7, 8, or 9 upon delivery by Executive to the Company of a release in form and substance satisfactory to the Company releasing any and all claims the Executive, his estate, representatives, and assigns may have against the Company and any other releasee arising out of this Agreement.

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10. COVENANTS

Executive agrees that during the Term, any renewal thereof, and for one full year after expiration or termination of the Term or any renewal thereof (except in the case of clause (a), as to which Executive's covenant shall not be limited in time), he shall not, without the express prior written consent of the Company, directly or indirectly, either individually or as an employee, officer, director, agent, partner, shareholder, consultant, option holder, joint venturer, contractor, nominee, lender of money, guarantor, investor, owner, or in any other capacity:

(a) except as required in the course of performing his duties as an Executive hereunder, disclose, copy, divulge, furnish, distribute or make available in any medium whatsoever to any firm, company, corporation, organization, or other entity or person (including but not limited to actual or potential customers or competitors or government officials), or otherwise misappropriate trade secrets, intellectual property, or other confidential or non-public information of or concerning the Company, its Subsidiaries or affiliates or the business of any of the foregoing, including without limitation, customer lists, product designs and product know-how, launch information or plans pertaining to Company or customer products, arrangements for supplying customers, methods of operation and organization, sources of supply and arrangements with vendors, product development, business plans and strategies; provided, however, Executive may make disclosures as and to the extent required by applicable law or compelled upon court or administrative order, provided, further, however, that in the event that Executive is so required or compelled, he shall notify the Company not fewer than ten (10) business days in advance of such disclosure in order to afford it the reasonable opportunity to obtain a protective order or other remedy to limit the scope of such disclosure (it being understood and agreed that, if such disclosure is required by applicable law, Executive shall upon the Company's request furnish the source and precedents with respect to such requirement). For purposes of this Section 10, information shall not be deemed confidential if it is within the public domain or becomes publicly known other than through disclosure by Executive in violation of this provision; (ii)

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(b) own (or have any financial interest in, actual, contingent or otherwise), control, manage, operate, participate, engage in, invest in or otherwise have any interest in, or otherwise be connected with, in any manner, any firm, company, corporation,

organization, business, enterprise, venture or other entity, association or person that is engaged in the business actually engaged in by the Company during the Term or any renewal thereof, including without limitation the Company Business (as hereinafter defined) ; or

(c) solicit, employ or retain or arrange, encourage, facilitate or assist to have any other firm, company, corporation, organization, business, enterprise, venture or other entity, association or person solicit, employ, retain, or otherwise participate in the employment or retention of, any person who is then, or who has been, within the preceding six (6) months, an employee, consultant, sales representative, technician or engineer of the Company, its subsidiaries or affiliates.

(d) own (or have any financial interest in, actual, contingent, future, or otherwise), control, manage, operate, participate, engage in, invest in or otherwise have any interest in or through, or otherwise be connected with, in any manner, any firm, company, corporation, organization, associate, business, enterprise, venture or other entity, association or person that does or proposes to do any one or more of the following as it relates to of the Company Business (as hereinafter defined): (a)(i) engage in, do, or solicit business with, or (ii) interfere with or affect the Company's business opportunities with, any of the customers with whom the Company has done business with during the most recent two calendar years or (b)(i) engage in, do, or solicit business with, or (ii) interfere with or affect the Company's business opportunities with, any of the vendors with whom the Company has done business with during the most recent two calendar years. The term "Company Business" shall mean the business of designing, manufacturing, procuring the supply or manufacture of, sourcing, selling, re-selling, and/or distributing of carrying or portable cases or cover plates and related carry case accessories supplied to the cellular telephone, portable medical equipment, laptop computer, photography, video or audio industries. Nothing in this Section 10 shall be deemed to prohibit Executive from the acquisition or holding of, solely as a passive stockholder, not more than one percent (1%) of the shares or other securities of a publicly-owned corporation if such securities are traded on a national securities exchange or the NASDAQ Stock Market.

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(e) Upon the expiration or termination of this Agreement for any reason, Executive shall promptly deliver to the Company all documents, papers and records in his possession relating to the business or affairs of the Company and that he obtained or received in his capacity as an officer of the Company and any other Company property or equipment in his possession or control.

(f) In the event Executive shall violate or be in violation of any provision of this Section 10 (which provisions Executive hereby acknowledges are reasonable and equitable), in addition to the Company's right to exercise any and all remedies, legal and equitable, which it may have under applicable laws, Executive shall not be entitled to any, and hereby waives any and all rights to, each and every, termination payment under this Agreement.

11. SEPARABILITY

Executive agrees that the provisions of Section 10 hereof constitute independent and separable covenants, for which Executive is receiving consideration, which shall survive the termination of employment, and which shall be enforceable by the Company notwithstanding any rights or remedies the Company may have under any other provision hereof.

12. SPECIFIC PERFORMANCE

Executive acknowledges that:

(a) the services to be rendered and covenants to be performed under this Agreement are of a special and unique character and that the Company would be irreparably harmed if such services were lost to it or if Executive breached its obligations and covenants hereunder;

(b) the Company is relying on the Executive's performance of the covenants contained herein, including, without limitation, those contained in Section 10 above, as a material inducement for its entering into this Agreement;

(c) the Company may be damaged if the provisions hereof are not specifically enforced; and

(d) the award of monetary damages may not adequately protect the Company in the event of a breach hereof by Executive.

By virtue thereof, Executive agrees and consents that if Executive breaches any of the provisions of this Agreement, the Company, in addition to any other rights and remedies available under this Agreement or under applicable laws, shall (without any bond or other security being required and without the necessity of proving monetary damages) be entitled to a temporary and/or permanent injunction to be issued by a court of competent jurisdiction restraining Executive from committing or continuing any violation of this Agreement, or any other appropriate decree of specific performance. Such remedies shall not be exclusive and shall be in addition to any other remedy that the Company may have.

13. MISCELLANEOUS

(a) Entire Agreement; Amendment. This Agreement constitutes the entire employment agreement between the parties and may not be modified, amended or terminated (other than pursuant to the terms hereof) except by a written instrument executed by the parties hereto. All other agreements, written or oral, between the parties pertaining to the employment or remuneration of Executive not specifically contemplated hereby or incorporated or merged herein are hereby terminated and shall be of no further force or effect.

(b) Assignment; Successors. This Agreement is not assignable by Executive without the prior written consent of the Company and any purported assignment by Executive of Executive's rights and/or obligations under this Agreement shall be null and void. Except as provided below, this Agreement may be assigned by the Company at any time, upon delivery of written notice to Executive, to any successor to the business of the Company, or to any Subsidiary or affiliate of the Company. In the event that another corporation or other business entity becomes a Successor of the Company, then this Agreement may not be assigned to such Successor unless the Successor shall, by an agreement in form and substance reasonably satisfactory to the Executive, expressly assume and agree to perform this Agreement in the same manner and to the same extent as the Company would be required to perform if there had been no Successor. The term "Successor" as used herein shall mean any corporation or other business entity that succeeds to substantially all of the assets or conducts the business of the Company, whether directly or indirectly, by purchase, merger, consolidation or otherwise.

This Agreement shall be binding upon and inure to the benefit of the parties and their respective heirs, executors, administrators, personal representatives, successors and permitted assigns.

(c) Waivers, etc. No waiver of any breach or default hereunder shall be considered valid unless in writing, and no such waiver shall be deemed a waiver of any subsequent breach or default of the same or similar nature. The failure of any party to insist upon strict adherence to any term of this Agreement on any occasion shall not operate or be construed as a waiver of the right to insist upon strict adherence to that term or any other term of this Agreement on that or any other occasion.

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(d) Provisions Overly Broad. In the event that any term or provision of this Agreement shall be deemed by a court of competent jurisdiction to be overly broad in scope, duration or area of applicability, the court considering the same shall have the power and hereby is authorized and directed to modify such term or provision to limit such scope, duration or area, or all of them, so that such term or provision is no longer overly broad and to enforce the same as so limited. Subject to the foregoing sentence, in the event that any provision of this Agreement shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall attach only to such provision and shall not affect or render invalid or unenforceable any other provision of this Agreement.

(e) Notices. Any notice permitted or required hereunder shall be in writing and shall be deemed to have been given on the date of delivery or, if mailed by certified mail, postage prepaid, return receipt requested, documented overnight courier, or by facsimile transmission, on the date mailed or transmitted.

(i) If to Executive to:

Douglas W. Sabra at his address

set forth in the preamble to this Agreement

(ii) If to the Company to:

the address set forth in the
preamble to this Agreement

Attention: Chairman of the Compensation Committee

with a copy to:

Steven Malsin, Esq.

237 Upper Shad Road

Pound Ridge, NY 10576

Telecopy: (914) 764-1940

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(f) Law Governing. This Agreement shall be governed by and construed in accordance with the laws of the State of New

York governing contracts made and to be performed in New York without regard to conflict of law principles thereof.

(g) Survival. All obligations of the Company to Executive and Executive to the Company shall terminate upon the termination of this Agreement, except as expressly provided herein. The provisions of Sections 10, 11 and 12 shall survive termination of this Agreement.

(h) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, and each party may become a party hereto by executing a counterpart hereof. This Agreement and any counterpart so executed shall be deemed to be one and the same instrument. It shall not be necessary in making proof of this Agreement or any counterpart hereof to produce or account for any of the other counterparts.

(i) Approval. This Agreement is subject to prior review and approval of the Compensation Committee of the Company's Board of Directors.

(j) Headings. The headings in this Agreement are for convenience of reference only and shall not control or affect the meaning or construction of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the 12th day of August 2008, intending it to be effective on and as of the Effective Date.

DOUGLAS W. SABRA

FORWARD INDUSTRIES, INC.

/s/ Douglas W. Sabra

By: /s/ James O. McKenna

Title: Chief Financial Officer

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (this “Agreement”), dated as of the 12th day of August, 2008, between Forward Industries, Inc., a New York corporation having its principal offices at 1801 Green Road, Suite E, Pompano Beach, Florida 33064 (the “Company”), and James O. McKenna, residing at 951 Mill Creek Drive, Palm Beach Gardens, FL 33410 (“Executive”).

WITNESSETH:

WHEREAS, the Company wished to secure the services of Executive upon the terms and conditions of employment as set forth herein, with effect from the date of execution of this Agreement (“Effective Date”);

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt of which the parties hereby acknowledge, the parties agree as follows:

1. EMPLOYMENT TERM

Unless earlier terminated in accordance with the terms of this Agreement, the term of employment hereunder (the “Term”) shall commence on the Effective Date and expire on December 31 , 2009. Upon expiration of the Term, this Agreement shall be automatically renewed for successive terms of one year each; provided, however, that if either party provides written notice to the other party of its or his determination not to so renew not later than 90 (ninety) days prior to the expiration of the Term, or any renewal thereof, as the case may be, this Agreement and Executive’s employment shall terminate at the end of the Term or such renewal term, as the case may be. In the event that the Company is the party giving notice of non-renewal, this shall be treated as a termination without Cause and governed by the terms of Section 5 or Section 7, as the case may be.

2. EMPLOYMENT DUTIES AND SERVICES

(a) On the terms and conditions herein set forth, the Company hereby employs Executive as its chief financial officer and treasurer for the term of this Agreement and any renewal(s) thereof, and Executive hereby accepts such employment. Executive shall perform such duties and responsibilities of a chief financial officer nature for the Company as shall be consistent with the provisions of the Company’s By-laws in effect from time to time and as are customary for a chief financial officer of corporations of similar size and business as the Company, subject to the direction of the Company’s President (chief executive officer), or in his absence, the Board of Directors (the “Board”). Executive shall serve the Company faithfully and to the best of his ability and shall devote his full business time and attention to the business and affairs of the Company, subject to reasonable absences for vacation and illness in accordance with Company policies. Executive will not engage, directly or indirectly, in any other business or occupation during the Term.

(b) Nothing in this Agreement shall preclude the Executive from (i) engaging in personal investment activities for himself and his family, (ii) accepting directorships unrelated to the Company, subject to the prior, written approval of the Compensation Committee of the Board (“Compensation Committee”), (iii) engaging in charitable and civic activities, and (iv) engaging in such other limited activities on behalf of family interests as may be approved by the Nominating and Governance Committee of the Board, so long as any one or more such outside interests set forth in clauses (i), (ii), (iii), and (iv) hereof do not interfere with or affect the performance of his duties or responsibilities hereunder.

(c) Unless otherwise agreed in writing by the Company and Executive, the performance of Executive’s services during the term of this Agreement shall be rendered at the principal executive offices of the Company, subject to such travel in furtherance of Executive’s performance of his duties hereunder as the business of the Company may require.

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3. COMPENSATION AND EXPENSE REIMBURSEMENT

(a) Salary. Executive shall be entitled to receive for all services rendered by Executive in any and all capacities in connection with his employment hereunder a salary (as it may be adjusted, “Salary”) of \$175,000 per annum, payable in equal installments in accordance with the prevailing practices of the Company (but not less frequently than monthly).

(b) Bonus; Calculation and Payment. The Executive shall be eligible to receive a bonus (“Bonus”) with respect to each full fiscal year or part thereof (except to the extent expressly provided in Section 3(b), 4, 5, or 6(b) hereof) in respect of his employment hereunder, as set forth in this Section 3. The amount of Bonus, if any, that Executive may earn in any fiscal year during the Term hereof pursuant to this Section 3(b) shall be based on the extent to which, if any, the Company achieves all or a percentage of, or exceeds, Target (as defined below) in each such fiscal year, in accordance with guidelines, or a formula, for earning such bonus as fixed by the Compensation Committee in its sole discretion not later than the date referred to in the next paragraph.

“Target” means, with respect to any fiscal year, the amount of pre-tax income or other measure of operating results of the Company as determined by the Compensation Committee of the Board in its sole discretion, projected for achievement, in whole or in part, in such fiscal year by the Compensation Committee for the purpose of establishing Executive’s right to receive Bonus compensation in respect of such fiscal year. The Compensation Committee shall determine the Target, together with the formulas for earning Bonus hereunder, after the Board has adopted the Annual Budget in respect of each fiscal year during the Term hereof but not later than the 75th day of each such fiscal year. The Compensation Committee may determine that the amount of Bonus for such purposes may be pro rated based on Target being achieved, exceeded, or missed.

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Bonus compensation, if any, payable pursuant to Section 3(b) shall be payable to Executive not earlier than the date on which the Company’s audited financial statements relating to the fiscal year in respect of which such Bonus compensation is payable are first filed with the Securities and Exchange Commission (the “Commission”) pursuant to Section 13 or 15(d) under the Securities Exchange

Act of 1934 (“Exchange Act”) nor later than the tenth (10th) business day after such date. If Executive is otherwise entitled to payment of a Bonus pursuant to this Section 4(b) and the terms of this Agreement but has not served as an employee for the full fiscal year in respect of which such Bonus is payable, Executive, or his estate, shall be entitled to payment, at the time specified in the next preceding sentence, of a ratable portion of such Bonus to which he or his estate is entitled, based on the ratio that the actual number of days in such fiscal year during which he served as an Employee pursuant to this Agreement and is so entitled bears to 365; provided, however, that no Bonus (pro-rated or otherwise) shall be payable in respect of a fiscal year during which Executive is employed hereunder solely for the first fiscal quarter thereof because of expiration of the Term, or any renewal thereof as a result of notice of non-renewal furnished pursuant to Section 1; and provided, further, that if Executive’s employment was terminated as a result of notice pursuant to Section 4, Termination for Cause, he shall not be entitled to any Bonus compensation in respect of the fiscal year during which such notice of termination was given or during which such termination becomes effective.

(c) Expenses. Executive will be reimbursed for all reasonable and necessary expenses incurred by Executive in carrying out the duties contemplated under this Agreement, in accordance with Company practices and procedures in effect from time to time, as such practices may be changed from time to time by the Board. Executive shall be reimbursed for the expense of operating an automobile (maintenance, gas, tolls and insurance only) for Executive’s use in connection with the discharge of his duties under this Agreement, the maximum amount of which reimbursement shall be determined by the Compensation Committee and shall be includible in Executive’s W-2 statements and be subject to applicable income tax withholding regulations.

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(d) Benefits. Executive shall be entitled to participate in all group health and other insurance programs and all other fringe benefit (including vacation) and retirement plans (including any 401(k) plan) or other compensatory plans that the Company may hereafter elect to make available to its executives generally on terms no less favorable than those provided to other executives generally, provided Executive meets the qualifications therefor. The Company shall not be required to establish any such program or plan, except to the extent expressly set forth in this Section 4.

(e) Withholding. All payments required to be made by the Company hereunder to the Executive shall be subject to the withholding of such amounts relating to taxes and other governmental assessments as the Company may reasonably determine it should withhold pursuant to any applicable law, rule or regulation.

(f) IRC§409A. Executive and the Company agree that the provisions of this Agreement shall be construed and implemented, and any deferrals and elections shall be made, in order to comply with Internal Revenue Code Section 409A, as it may be amended, and the rules and regulations issued thereunder from time to time.

4. TERMINATION BY THE COMPANY FOR CAUSE

(a) The Board of Directors may, by written notice given at any time during the Term, or any renewal thereof, terminate the employment of Executive for cause, the cause to be specified in reasonable detail in such notice. For purposes of this Agreement, “cause” shall mean Executive’s:

(i) willful misconduct in connection with the performance of any of his duties or services hereunder, including without limitation (1) misappropriation or improper diversion of funds, rights or property of the Company or any subsidiary of the Company (“Subsidiary”), or (2) securing or attempting to secure personally (including for the benefit of any family member, or person sharing the same household, or any entity (corporate, partnership, unincorporated association, proprietorship, limited liability company, trust, or otherwise) in which Executive has any economic or beneficial interest) any profit or benefit in connection with any transaction entered into on behalf of the Company or any Subsidiary unless the transaction benefiting the entity has been approved by the Board upon the basis of full disclosure of such benefit, or (3) material breach of any covenant contained in this Agreement or (4) any other action in violation of Executive’s fiduciary duty owed to the Company or Executive’s acting in a manner adverse to the interests of the Company and for his own pecuniary benefit or that of a family member (or member of his household) or any entity (as described in clause (i)(2) of Section 4(a) above) in which he or any such person has an economic or beneficial interest; or (5) Executive’s failure to cooperate, if requested by the Board, with any investigation or inquiry into his or the Company’s business practices, whether internal or external;

(ii) willful failure, neglect or refusal to perform his duties or services under this Agreement, which failure, neglect or refusal shall continue for a period of 30 days after written notice thereof shall have been given to the Executive by or on behalf of the Board ; and/or

(iii) conviction of, or nolo contendere or guilty plea in connection with, a felony.

(b) Termination for cause under clause (i) or (iii) of paragraph (a) of this Section 4 shall be effective immediately upon the giving of such notice; if notice of termination for cause relates to clause (ii) of paragraph (a) of this Section 4, termination shall be effective on the thirtieth (30th) day after the notice referred to in the first sentence of this Section 4 is given to Executive, unless the Executive shall have, prior to such thirtieth (30th) day, cured the alleged cause to the satisfaction of the Board, in which case the Board shall so notify Executive and such cause shall be deemed to no longer exist; provided, however, that if the Board concludes that Executive’s willful failure, neglect, or refusal to perform has resulted in material damage to the Company or its reputation that is not capable of being remedied, termination shall be effective immediately upon giving of notice.

For purposes of this Agreement, an act or failure to act on the Executive’s part shall be considered “willful” if it was done or omitted to be done by him not in good faith, and shall not include any act or failure to act resulting from any incapacity of the Executive.

(c) Upon termination of employment by the Company for Cause, the Executive shall be entitled to receive, and his sole remedies under this Agreement shall be:

(i) any earned and unpaid Salary accrued through the date of termination for Cause, payable in a lump sum not later than 15 days following Executive’s termination of employment;

(ii) compensation for any unused personal holidays and unused vacation days accrued in the fiscal year in which termination occurs through the date of termination, payable as in clause (i) of this Section 4;

(iii) except for any Bonus compensation (for which Executive shall not be eligible), any unpaid benefits accrued through the day immediately prior to the date of termination that may be due the Executive under any employee benefit plans or programs of the Company, payable in accordance with the terms of such plans or programs, together with any documented, unreimbursed business expenses, payable in accordance with Company policies; and

(iv) any stock options, grants of Common Stock, restricted share grants or other benefits under any of the Company's compensation plans that were vested as of 5:00 PM on the date immediately prior to the date of termination in accordance with the terms of such plans and any applicable plan agreements with Executive, provided, however, that any vested but unexercised stock options may not be exercised on or after the effective date of termination.

(d) Termination of Executive's employment under this Section 4 shall be in addition to and not exclusive of any other rights and remedies that the Company has or may have relating to Executive with respect to the facts and circumstances pertaining to such termination.

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5. TERMINATION BY EXECUTIVE FOR GOOD REASON OR TERMINATION WITHOUT CAUSE PRIOR TO CHANGE IN CONTROL

(a) In the event Executive terminates his employment under this Agreement for Good Reason (as hereinafter defined), or in the event Executive's employment is terminated without Cause (which termination shall be effective as of the date specified by the Company in written notice delivered to Executive not fewer than 15 days prior to the date of termination) other than due to death or Disability (as hereinafter defined), in either case prior to a Change in Control (as hereinafter defined), the Executive shall be entitled to receive, and his sole remedies under this Agreement shall be:

(i) any earned and unpaid Salary accrued through the date of termination, payable in a lump sum not later than 15 days following Executive's termination of employment;

(ii) Salary, at the annualized rate in effect on the date of termination of Executive's employment (or, in the event a reduction in Salary is a basis for termination for Good Reason, then the Salary in effect immediately prior to such reduction), for a period of six months following such termination, payable in a lump sum not later than 15 days following termination of employment;

(iii) compensation for any unused personal holidays and unused vacation days accrued in the fiscal year in which termination occurs through the date of termination, payable as in clause (i) of this Section 6;

(iv) except in the case of the Company giving notice of non-renewal at the end of the Term (or any renewal thereof), the ratable amount of Bonus, if any, to which Executive would otherwise have been entitled in the current fiscal year but for termination under this Section, payable at the time specified in Section 3(b);

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(v) any unpaid benefits accrued through the day immediately prior to the date of termination that may be due the Executive under any employee benefit plans or programs of the Company, payable in accordance with the terms of such plans or programs,

together with any documented, unreimbursed business expenses, payable in accordance with Company policies; and

(vi) any stock options, grants of Common Stock, restricted share grants or other benefits under any of the Company's compensation plans that were vested as of 5:00 PM on the date immediately prior to the date of termination, which may be exercised (in the case of options) or delivered (in the case of restricted stock) in accordance with the terms of such plans and any applicable plan agreements with Executive.

(b) Termination by the Executive for Good Reason shall be effected by his giving prior written notice to the Company, in which case this Agreement shall terminate on the date specified in such notice; provided, however, that such notice shall specify (i) in reasonable detail the circumstances or event asserted as the basis for termination for Good Reason and (ii) a date of termination that shall be at least thirty (30) days after the date of delivery of such notice; and provided, further, that the Company shall have the right during such thirty (30) day period to remedy the circumstances or event giving rise to the notice of termination for Good Reason prior to the date specified in such notice, in which case no right of termination or other right shall exist under this Section. .

For purposes of this Agreement, subject to Section 7(D), the term "Good Reason" shall mean:

(i) the assignment to Executive without his written consent of any duties inconsistent in any material respect with Executive's position (including employment status, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 2 of this Agreement or any other action by the Company that results in a material diminishment in such positions, authority, duties, or responsibilities, other than such assignment or other action that is remedied by the Company prior to the date of termination specified in the written notice from Executive:

(ii) a decrease in annual Salary rate;

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(iii) any failure by the Company to perform any material obligation under, or its breach of a material provision of, this Agreement that is not cured within the 30-day notice period referred to above; or

(iv) failure of a Successor to expressly assume and agree to perform this Agreement in the same manner and to the same extent as the Company would have had there been no Successor.

6. TERMINATION FOR DEATH OR DISABILITY

(a) Executive's employment shall terminate immediately upon his death or Disability (as hereinafter defined). Upon such termination, the Executive, his estate, or his beneficiaries, as the case may be, shall be entitled to receive, and their sole remedies under this Agreement shall be:

(i) subject to Section 7(b), any earned and unpaid Salary accrued through the date of termination, payable in a lump sum not later than 15 days following Executive's termination of employment;

(ii) subject to Section 7(b), compensation for any unused personal holidays and unused vacation days accrued in the fiscal year in which termination occurs through the date of termination, payable as in clause (i) of this Section 6;

(iii) subject to Section 7(b), the ratable amount of Bonus, if any, to which Executive would otherwise have been entitled in the current fiscal year to the date of termination under this Section, payable at the time specified in Section 3(b);

(iv) any unpaid benefits accrued through the date of termination that may be due the Executive under any employee benefit plans or programs of the Company, payable in accordance with the terms of such plans or programs, together with any documented, unreimbursed business expenses, payable in accordance with Company policies; and

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(v) any stock options, grants of Common Stock, restricted share grants or other benefits under any of the Company's compensation plans that were vested as of 5:00 PM on the date immediately prior to the date of termination, which may be exercised (in the case of options) or delivered (in the case of restricted stock) in accordance with the terms of such plans and any applicable plan agreements with Executive.

(b) For purposes of this Agreement, the term "Disability" shall mean any disability, illness, or other incapacity that prevents Executive from performing services as contemplated by Section 2, for 120 or more consecutive days or for 180 days in any consecutive 12-month period. In such event, the Company shall have the right to terminate this Agreement upon 10 days' prior written notice to Executive. During the period of any such disability, illness, or incapacity, (i) the obligation of the Company to pay Salary to Executive pursuant to Section 3 shall be reduced to the extent of any amount received by Executive pursuant to any disability insurance policy maintained and paid for by the Company, and (ii) no bonus compensation shall accrue or be earned, or count toward proration. Termination under this Section shall not prejudice any rights of Executive under disability policies being maintained by the Company for Executive under the terms of this Agreement, if any.

7. TERMINATION UPON CHANGE OF CONTROL

(a) In the event Executive terminates his employment under this Agreement for Good Reason, or in the event Executive's employment is terminated without Cause (which termination shall be effective as of the date specified by the Company in written notice to Executive) other than due to death or disability, in either case within 12 months after a Change in Control (as hereinafter defined), the Executive shall be entitled to receive, and his sole remedies under this Agreement shall be:

(i) any earned and unpaid Salary accrued through the date of termination, payable in a lump sum not later than 15 days following Executive's termination of employment;

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(ii) Salary, at the annualized rate in effect on the date of termination of Executive's employment (or, in the event a reduction in Salary after a Change in Control is a basis for termination for Good Reason, then the Salary in effect immediately prior to such reduction), for a period of 12 months following such termination, payable in a lump sum not later than 15 days following termination of employment;

(iii) compensation for any unused personal holidays and unused vacation days accrued in the fiscal year in which termination occurs through the date of termination, payable as in clause (i) of this Section 7;

(iv) except in the case of the Company giving notice of non-renewal at the end of the Term (or any renewal thereof), the ratable

amount of Bonus, if any, to which Executive would otherwise have been entitled in the current fiscal year but for termination under this Section, payable at the time specified in Section 3(b);

(v) any unpaid benefits accrued through the day immediately prior to the date of termination that may be due the Executive under any employee benefit plans or programs of the Company, payable in accordance with the terms of such plans or programs, together with any documented, unreimbursed business expenses, payable in accordance with Company policies; and

(vi) immediate vesting and elimination of all restrictions on any restricted share grants or deferred stock awards outstanding on the date of termination of employment; and

(vii) immediate vesting of all outstanding stock options on the date of termination of employment and the right to exercise such stock options as provided in any stock option award agreement to which Executive is a party.

(b) A “Change of Control” shall be deemed to have occurred if:

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(i) Any Person (as hereinafter defined, other than the Company, any employee benefit plan of the Company, or any company owned directly or indirectly by the shareholders of the Company immediately prior to such occurrence) becomes the Beneficial Owner (as hereinafter defined), directly or indirectly, of securities of the Company or any Subsidiary (as hereinafter defined) representing 50% or more of the combined voting power of the Company’s or such subsidiary’s then outstanding securities;

(ii) during any period of two consecutive years or shorter period, individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (i), (iii) or (iv) of this paragraph (b)) whose election by the Board or nomination for election by the Company’s shareholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two-year period or whose election or nomination for election was previously so approved but excluding for this purpose any such new director whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of an individual, corporation, partnership, group, associate, or other entity or Person other than the Board, cease for any reason to constitute at least a majority of the Board;

(iii) the Company enters into any consolidation, merger, or other business combination with or into any other corporation or other entity or person, or any other corporate reorganization, whereby the shareholders of the Company immediately prior to such consolidation, merger, business combination, or reorganization own less than 50% of the voting power of the surviving entity immediately after such consolidation, merger, business combination, or reorganization;

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(iv) the consummation of a plan or agreement for the sale or disposition of all or substantially all of the consolidated assets of

the Company (other than such sale or disposition immediately after which such assets will be owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of common stock of the Company immediately prior to such sale or disposition), in which case the Board shall determine the effective date of the Change in Control resulting from such transaction; or

(v) the occurrence of any other event that the Board determines, in its discretion, would materially alter the structure of the Company or its ownership.

For purposes of this definition, the term:

(A) “Beneficial Owner” shall have the meaning ascribed thereto in Rule 13d-3 under the Exchange Act (as such term or rule may be amended from time to time), except that a Person shall be deemed to be the Beneficial Owner of all shares that such Person has the right to acquire pursuant to any agreement or arrangement or upon exercise or conversion of rights, warrants, or options, or otherwise, without regard to the sixty day period referred to in Rule 13d-3);

(B) “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto;

(C) “Person” has the meaning ascribed thereto in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including “group” as defined in Section 14(d) thereof; and

(D) “Good Reason” as used in this Section 7 shall not exist as a reason for Executive to terminate his employment after a Change of Control notwithstanding anything to the contrary in Section 5 where the Change of Control arises in connection with the circumstances described in clause (b)(iii) of this Section 7 and Executive’s employment by the entity surviving such consolidation, merger, combination, or reorganization qualifies him as an executive in such entity’s financial function or department.

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8. OBLIGATIONS UPON TERMINATION, ETC.

(a) Upon the termination of employment, all provisions of this Agreement shall terminate except for this Section 8, Sections 9, 10 and 11, the terms of which shall survive such termination, and the Company shall have no further obligation to Executive hereunder, except as herein expressly provided. The Company shall comply with the terms of settlement of all deferred compensation arrangements to which Executive is a party in accordance with his duly executed deferral election forms.

(b) In the event of a termination of employment by Executive on his own initiative during the Term or any renewal thereof by delivery of written notice of such resignation ten business days in advance, other than due to Disability or termination for Good Reason, Executive shall have the same entitlements as provided in Section 4, Termination by the Company for Cause. Notwithstanding the foregoing, Executive shall have no right to terminate during the Term except in the event of termination for Good Reason, and any voluntary termination of employment shall be considered a material breach.

(c) In the event of a termination of employment, payment made and performance by the Company in accordance with the provisions of Section 4, 5, 6, 7, or 8, as the case may be, shall operate to fully discharge and release the Company and its directors, officers, employees, subsidiaries, affiliates, shareholders, successors, assigns, agents, and representatives (all of the foregoing

collectively, the “releasees”) from any further obligation or liability with respect to Executive’s rights under this Agreement. Other than payment and performance as aforesaid, none of the releasees shall have any further obligation or liability to Executive or any other person under this Agreement arising out of termination of Executive’s employment under this Agreement. The Company shall have the right to condition the payment of any severance or other amounts pursuant to Section 4, 5, 6, 7, or 8 upon delivery by Executive to the Company of a release in form and substance satisfactory to the Company releasing any and all claims the Executive, his estate, representatives, and assigns may have against the Company and any other releasee arising out of this Agreement.

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9. COVENANTS

Executive agrees that during the Term, any renewal thereof, and for one full year after expiration or termination of the Term or any renewal thereof (except in the case of clause (a), as to which Executive’s covenant shall not be limited in time), he shall not, without the express prior written consent of the Company, directly or indirectly, either individually or as an employee, officer, director, agent, partner, shareholder, consultant, option holder, joint venturer, contractor, nominee, lender of money, guarantor, investor, owner, or in any other capacity:

(a) except as required in the course of performing his duties as an Executive hereunder, disclose, copy, divulge, furnish, distribute or make available in any medium whatsoever to any firm, company, corporation, organization, or other entity or person (including but not limited to actual or potential customers or competitors or government officials), or otherwise misappropriate trade secrets, intellectual property, or other confidential or non-public information of or concerning the Company, its Subsidiaries or affiliates or the business of any of the foregoing, including without limitation, customer lists, product designs and product know-how, launch information or plans pertaining to Company or customer products, arrangements for supplying customers, methods of operation and organization, sources of supply and arrangements with vendors, product development, business plans and strategies; provided, however, Executive may make disclosures as and to the extent required by applicable law or compelled upon court or administrative order, provided, further, however, that in the event that Executive is so required or compelled, he shall notify the Company not fewer than ten (10) business days in advance of such disclosure in order to afford it the reasonable opportunity to obtain a protective order or other remedy to limit the scope of such disclosure (it being understood and agreed that, if such disclosure is required by applicable law, Executive shall upon the Company’s request furnish the source and precedents with respect to such requirement). For purposes of this Section 10, information shall not be deemed confidential if it is within the public domain or becomes publicly known other than through disclosure by Executive in violation of this provision; (ii)

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(b) own (or have any financial interest in, actual, contingent or otherwise), control, manage, operate, participate, engage in, invest in or otherwise have any interest in, or otherwise be connected with, in any manner, any firm, company, corporation, organization, business, enterprise, venture or other entity, association or person that is engaged in the business actually engaged in by the

Company during the Term or any renewal thereof, including without limitation the Company Business (as hereinafter defined) ; or

(c) solicit, employ or retain or arrange, encourage, facilitate or assist to have any other firm, company, corporation, organization, business, enterprise, venture or other entity, association or person solicit, employ, retain, or otherwise participate in the employment or retention of, any person who is then, or who has been, within the preceding six (6) months, an employee, consultant, sales representative, technician or engineer of the Company, its subsidiaries or affiliates.

(d) own (or have any financial interest in, actual, contingent, future, or otherwise), control, manage, operate, participate, engage in, invest in or otherwise have any interest in or through, or otherwise be connected with, in any manner, any firm, company, corporation, organization, associate, business, enterprise, venture or other entity, association or person that does or proposes to do any one or more of the following as it relates to of the Company Business (as hereinafter defined): (a)(i) engage in, do, or solicit business with, or (ii) interfere with or affect the Company's business opportunities with, any of the customers with whom the Company has done business with during the most recent two calendar years or (b)(i) engage in, do, or solicit business with, or (ii) interfere with or affect the Company's business opportunities with, any of the vendors with whom the Company has done business with during the most recent two calendar years. The term "Company Business" shall mean the business of designing, manufacturing, procuring the supply or manufacture of, sourcing, selling, re-selling, and/or distributing of carrying or portable cases or cover plates and related carry case accessories supplied to the cellular telephone, portable medical equipment, laptop computer, photography, video or audio industries. Nothing in this Section 9 shall be deemed to prohibit Executive from the acquisition or holding of, solely as a passive stockholder, not more than one percent (1%) of the shares or other securities of a publicly-owned corporation if such securities are traded on a national securities exchange or the NASDAQ Stock Market.

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(e) Upon the expiration or termination of this Agreement for any reason, Executive shall promptly deliver to the Company all documents, papers and records in his possession relating to the business or affairs of the Company and that he obtained or received in his capacity as an officer of the Company and any other Company property or equipment in his possession or control.

(f) In the event Executive shall violate or be in violation of any provision of this Section 9 (which provisions Executive hereby acknowledges are reasonable and equitable), in addition to the Company's right to exercise any and all remedies, legal and equitable, which it may have under applicable laws, Executive shall not be entitled to any, and hereby waives any and all rights to, each and every, termination payment under this Agreement.

10. SEPARABILITY

Executive agrees that the provisions of Section 9 hereof constitute independent and separable covenants, for which Executive is receiving consideration, which shall survive the termination of employment, and which shall be enforceable by the Company notwithstanding any rights or remedies the Company may have under any other provision hereof.

11. SPECIFIC PERFORMANCE

Executive acknowledges that:

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(a) the services to be rendered and covenants to be performed under this Agreement are of a special and unique character and that the Company would be irreparably harmed if such services were lost to it or if Executive breached its obligations and covenants hereunder;

(b) the Company is relying on the Executive's performance of the covenants contained herein, including, without limitation, those contained in Section 9 above, as a material inducement for its entering into this Agreement;

(c) the Company may be damaged if the provisions hereof are not specifically enforced; and

(d) the award of monetary damages may not adequately protect the Company in the event of a breach hereof by Executive.

By virtue thereof, Executive agrees and consents that if Executive breaches any of the provisions of this Agreement, the Company, in addition to any other rights and remedies available under this Agreement or under applicable laws, shall (without any bond or other security being required and without the necessity of proving monetary damages) be entitled to a temporary and/or permanent injunction to be issued by a court of competent jurisdiction restraining Executive from committing or continuing any violation of this Agreement, or any other appropriate decree of specific performance. Such remedies shall not be exclusive and shall be in addition to any other remedy that the Company may have.

12. MISCELLANEOUS

(a) Entire Agreement; Amendment. This Agreement constitutes the entire employment agreement between the parties and may not be modified, amended or terminated (other than pursuant to the terms hereof) except by a written instrument executed by the parties hereto. All other agreements, written or oral, between the parties pertaining to the employment or remuneration of Executive not specifically contemplated hereby or incorporated or merged herein are hereby terminated and shall be of no further force or effect.

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(b) Assignment; Successors. This Agreement is not assignable by Executive without the prior written consent of the Company and any purported assignment by Executive of Executive's rights and/or obligations under this Agreement shall be null and void. Except as provided below, this Agreement may be assigned by the Company at any time, upon delivery of written notice to Executive, to any successor to the business of the Company, or to any Subsidiary or affiliate of the Company. In the event that another corporation or other business entity becomes a Successor of the Company, then this Agreement may not be assigned to such Successor unless the Successor shall, by an agreement in form and substance reasonably satisfactory to the Executive, expressly assume and agree to perform this Agreement in the same manner and to the same extent as the Company would be required to perform if there had been no Successor. The term "Successor" as used herein shall mean any corporation or other business entity that succeeds to substantially all of the assets or conducts the business of the Company, whether directly or indirectly, by purchase, merger, consolidation or otherwise. This Agreement shall be binding upon and inure to the benefit of the parties and their respective heirs, executors, administrators, personal representatives, successors and permitted assigns.

(c) Waivers, etc. No waiver of any breach or default hereunder shall be considered valid unless in writing, and no such waiver shall be deemed a waiver of any subsequent breach or default of the same or similar nature. The failure of any party to insist upon strict adherence to any term of this Agreement on any occasion shall not operate or be construed as a waiver of the right to insist upon strict adherence to that term or any other term of this Agreement on that or any other occasion.

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(d) Provisions Overly Broad. In the event that any term or provision of this Agreement shall be deemed by a court of competent jurisdiction to be overly broad in scope, duration or area of applicability, the court considering the same shall have the power and hereby is authorized and directed to modify such term or provision to limit such scope, duration or area, or all of them, so that such term or provision is no longer overly broad and to enforce the same as so limited. Subject to the foregoing sentence, in the event that any provision of this Agreement shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall attach only to such provision and shall not affect or render invalid or unenforceable any other provision of this Agreement.

(e) Notices. Any notice permitted or required hereunder shall be in writing and shall be deemed to have been given on the date of delivery or, if mailed by certified mail, postage prepaid, return receipt requested, documented overnight courier, or by facsimile transmission, on the date mailed or transmitted.

(i) If to Executive to:

James O. McKenna at his address

set forth in the preamble to this Agreement

(ii) If to the Company to:

the address set forth in the
preamble to this Agreement

Attention: Chairman of the Compensation Committee

with a copy to:

Steven Malsin, Esq.

237 Upper Shad Road

Pound Ridge, NY 10576

Telecopy: (914) 764-1940

(f) Law Governing. This Agreement shall be governed by and construed in accordance with the laws of the State of New York governing contracts made and to be performed in New York without regard to conflict of law principles thereof.

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(g) Survival. All obligations of the Company to Executive and Executive to the Company shall terminate upon the termination of this Agreement, except as expressly provided herein. The provisions of Sections 9, 10 and 11 shall survive termination

of this Agreement.

(h) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, and each party may become a party hereto by executing a counterpart hereof. This Agreement and any counterpart so executed shall be deemed to be one and the same instrument. It shall not be necessary in making proof of this Agreement or any counterpart hereof to produce or account for any of the other counterparts.

(i) Approval. This Agreement is subject to prior review and approval of the Compensation Committee of the Company's Board of Directors.

(j) Headings. The headings in this Agreement are for convenience of reference only and shall not control or affect the meaning or construction of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the 12th day of August 2008, intending it to be effective on and as of the Effective Date.

JAMES O. McKENNA

/s/ James O. McKenna

FORWARD INDUSTRIES, INC.

By: /s/ Douglas W. Sabra

Title: Chief Executive Officer

List of Subsidiaries of Forward Industries, Inc.

1. Koszegi Industries Inc., an Indiana Corporation
2. Koszegi Asia Ltd., a Hong Kong Limited Company (the name of this subsidiary was changed to “Forward Industries HK Limited” in October 2008);
3. Forward Innovations GmbH, a Switzerland GmbH
4. Forward Asia Pacific Limited, a Hong Kong Limited Company

All four subsidiaries are wholly-owned by Forward Industries, Inc. Each does business under its name as set forth above.

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Forms S-8 (Registration Nos. 333-104743 and 333-144442) of Forward Industries, Inc., of our report dated December 15, 2008, which appears in the annual report on Form 10-K of Forward Industries, Inc. for the year ended September 30, 2008.

/s/ Kaufman, Rossin & Co., P.A.
Certified Public Accountants

December 15, 2008
Miami, Florida

CERTIFICATION PURSUANT TO RULE 13a-14(a) UNDER THE EXCHANGE ACT

I, Douglas W. Sabra, of the Board and Chief Executive Officer of Forward Industries, Inc. ("Forward") certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended September 30, 2008, of Forward;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Forward as of, and for, the periods presented in this report;
4. Forward's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Forward and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Forward, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of Forward's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report (the fourth quarter in the case of this annual report on Form 10-K) based on such evaluation; and
 - d) disclosed in this report any change in Forward's internal control over financial reporting that occurred during Forward's most recent fiscal quarter (Forward's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, Forward's internal control over financial reporting; and
5. Forward's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Forward's auditors and the audit committee of Forward's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect Forward's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in Forward's internal controls over financial reporting.

Date: December 15, 2008

/s/Douglas W. Sabra

Douglas W. Sabra
President and Acting Chairman of the Board
and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION PURSUANT TO RULE 13a-14(a) UNDER THE EXCHANGE ACT

I, James O. McKenna, Chief Financial Officer of Forward Industries, Inc. ("Forward") certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended September 30, 2008, of Forward;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Forward as of, and for, the periods presented in this report;
4. Forward's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Forward and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Forward, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of Forward's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report (the fourth quarter in the case of this annual report on Form 10-K) based on such evaluation; and
 - d) disclosed in this report any change in Forward's internal control over financial reporting that occurred during Forward's most recent fiscal quarter (Forward's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, Forward's internal control over financial reporting; and
5. Forward's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Forward's auditors and the audit committee of Forward's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect Forward's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in Forward's internal controls over financial reporting.

Date: December 15, 2008

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

CERTIFICATIONS OF THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Douglas W. Sabra, Chief Executive Officer of Forward Industries, Inc. ("Forward"), and James O. McKenna, Chief Financial Officer of Forward, do each certify pursuant to 18 U.S.C. §1350 that, to the best of their knowledge:

1. Forward's annual report on Form 10-K for the fiscal year ended September 30, 2008 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Forward .

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 15th day of December 2008.

/s/ DOUGLAS W. SABRA

Douglas W. Sabra
President and Acting Chairman
(Principal Executive Officer)

/s/ JAMES O. MCKENNA

James O. McKenna
Chief Financial Officer
(Principal Financial and Accounting Officer)