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FORM 10-K

FORWARD INDUSTRIES INC - FORD

Filed: December 08, 2010 (period: September 30, 2010)

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, 2010

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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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

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

Accelerated filer

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: \$16,299,566.

As of December 8, 2010, 8,055,219 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 March 8, 2011, are incorporated by reference into Part III (Items 10-14) of this Annual Report on Form 10-K to the extent described herein.

Forward Industries, Inc.
Table of Contents

PART I		Page No.
Item 1.	<u>Business</u>	4
Item 1A.	<u>Risk Factors</u>	10
Item 1B.	<u>Unresolved Staff Comments</u>	14
Item 2.	<u>Properties</u>	14
Item 3.	<u>Legal Proceedings</u>	15
Item 4.	<u>Reserved</u>	15
PART II		
Item 5.	<u>Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities</u>	15
Item 6.	<u>Selected Financial Data</u>	16
Item 7.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	16
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	24
Item 8.	<u>Financial Statements and Supplementary Data</u>	24
Item 9.	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	24
Item 9A.	<u>Controls and Procedures</u>	24
Item 9B.	<u>Other Information</u>	25
PART III		
Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	25
Item 11.	<u>Executive Compensation</u>	26
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	26
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	26
Item 14.	<u>Principal Accountant Fees and Services</u>	26
PART IV		
Item 15.	<u>Exhibits and Financial Statement Schedules</u>	26
	<u>Signatures</u>	46

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;
"Forward HK" refers to Forward Industries' wholly owned subsidiary Forward Industries HK, Ltd., a Hong Kong corporation (formerly Koszegi Asia Ltd.);
"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 2010" refers to our fiscal year ended September 30, 2010;
"Fiscal 2009" refers to our fiscal year ended September 30, 2009;
"Fiscal 2008" refers to our fiscal year ended September 30, 2008;
"Europe" refers to the countries included in the European Union;
"APAC Region" refers to the Asia Pacific Region, consisting of Australia, New Zealand, Hong Kong, Taiwan, China, South Korea, Japan, Singapore, Malaysia, Thailand, Indonesia, India, the Philippines and Vietnam;
"Americas" refers to the geographic area encompassing North, Central, and South America;
"OEM" refers to Original Equipment Manufacturer of certain consumer electronic products.

Forward Industries, Inc.

PART I

ITEM 1. BUSINESS

General

We design, market, and distribute carry and protective solutions primarily for hand held electronic devices, including medical monitoring and diagnostic kits, bar code scanners, GPS and location devices, cellular telephones, laptop computers, and MP3 players. Our technology solutions include soft-sided carrying cases, bags, clips, hand straps, protective plates and skins, and other accessories. We also design, market and distribute carry and protective solutions for other consumer products such as firearms, sporting and recreational products, and aeronautical products. Our customers are the original equipment manufacturers, or "OEMs", of these electronic and other consumer products (or the contract manufacturing firms of these OEM customers) that either package our carry solution products as accessories "in box" together with their product offerings, or to a much lesser extent, sell them through their retail distribution channels. We do not manufacture any of the products that we design, market, and distribute. We source substantially all products we market and distribute from independent suppliers in China. Our suppliers custom manufacture our carrying solutions and related products to our order, based on our designs and know-how, and to our customers' specifications.

Corporate History

Forward Industries, Inc. was incorporated in 1961 under the laws of the State of New York as a manufacturer and distributor of advertising specialty and promotional products. In 1989, we acquired Koszegi Industries, Inc., a manufacturer of soft-sided carrying cases. The carrying case business became our predominant business, and in September 1997, we sold the assets relating to the production of advertising specialty and promotional products, ceasing to operate in that segment.

In May 1994, we formed Forward Industries HK Ltd. as a wholly owned, Hong Kong-based, subsidiary of Forward to facilitate a more nimble and robust carrying case procurement and quality control infrastructure, and to enhance our foreign sourcing capabilities. Thereafter we determined that our domestic production capability was unnecessary, sold the related assets, and we now source substantially all our products from suppliers in the APAC Region. See "Product Supply".

In May 2001 we formed Forward Innovations GmbH, a wholly owned Swiss subsidiary of Forward, to facilitate distribution of aftermarket products

under our licenses for cell phone cases with a major North American multinational and to further develop our OEM European business presence. After the expiration of the last of these licenses in March 2009, staff at Forward Innovations was significantly reduced and now primarily serves our OEM European customers. See “Marketing, Distribution, and Sales”.

Forward Industries, Inc.

As previously reported in our Current Report on Form 8-K filed with the Commission on August 16, 2010, in August 2010, the Company and LaGrange Capital Partners, L.P. and certain affiliates of LaGrange Capital Partners, L.P. (collectively, the “LaGrange Group”) entered into a Settlement Agreement (the “Settlement Agreement”). The agreement was the result of a period of negotiations between the LaGrange Group and the Special Committee of the Board of Directors following LaGrange Group’s filings of Schedules 13D, as amended, in which it requested certain changes in the Company’s management and its Board of Directors and demanded a special meeting of shareholders in order to facilitate such changes. In response to these actions the Board had in June 2010 adopted a shareholders’ rights plan based on the recommendation of the Special Committee of the Board.

Pursuant to the Settlement Agreement: the Company’s President (Chief Executive Officer) and Acting Chairman of the Board resigned from those positions; two non-employee directors resigned from the Board; the continuing members of the Board appointed three new, non-employee director nominees of the LaGrange Group to fill the resulting vacancies in the Board and appointed Frank LaGrange Johnson, founder and general partner of LaGrange Capital Partners, as Chairman of the Board. In addition, under the Settlement Agreement, the Company in effect terminated the shareholder rights plan and the LaGrange Group abandoned its consent solicitation to call a special meeting of shareholders. For more detailed information as to the terms and provisions of the Settlement Agreement, see the Current Report on Form 8-K referred to above.

As disclosed prior to the Settlement Agreement, the Board of Directors had adopted a strategy to diversify our business and likely outside the carrying and technology solutions business by means of acquisition. Management has announced a strategy of growing our OEM business and expanding the technology solutions business with new product offerings; in appropriate circumstances, an acquisition might be complementary with this strategy.

Products

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

Diabetic Products

We sell carrying cases for blood glucose diagnostic kits directly to OEMs (or their contract manufacturers) of these electronic, monitoring kits made for use by diabetics. We typically sell these cases at prices ranging from \$0.40 to \$9.00 per unit. Unit volumes are sold predominantly at the lower end of this price range. The OEM customer or its contract manufacturer packages our carry cases “in box” as a custom accessory for the OEM’s blood glucose testing and monitoring kits, or to a much lesser extent, sells them through their retail distribution channels. The kits typically include a small, electronic blood glucose monitor, testing strips, lancets for drawing a drop of blood and our carrying case, customized with the manufacturer’s logo and designed to fit and secure the glucose monitor, testing strips, and lancets in separate straps, pouches, and holders. As the kits and technology change, our carrying case designs change to accommodate the changes in size, shape and layout of the electronic monitoring device, strips and lancet. Since the end of 2007, OEMs have sought to reduce the cost of these cases by simplifying their design.

Other Products

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

Forward Industries, Inc.

Product Development

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

Marketing, Distribution, and Sales
Geographic Sales Distribution

Through our wholly owned subsidiaries, Koszegi and Forward Innovations, we distribute and sell our products globally, predominantly as accessories packaged "in box" with the products of our OEM customers. The approximate percentages of net sales to customers by their geographic location for Fiscal 2010 and Fiscal 2009 are as follows:

Geographic Location:	Net Sales	
	Fiscal Years Ended September 30,	
	2010	2009
APAC.....	43%	38%
Americas.....	33%	40%
Europe.....	24%	22%
Totals.....	100%	100%

The importance of the APAC region is attributable to the fact that certain of our key OEM customers outsource product manufacture to contract manufacturers located in China or elsewhere in Asia. In these instances, we ship product to, and product is packaged "in box" at, such contract manufacturer's facility. If payment to us is due from the contract manufacturer, we identify the sale to its geographic location rather than that of the OEM customer for whom the contract manufacturer is supplying product. The increase in APAC contribution to net sales in Fiscal 2010 compared to Fiscal 2009 was due to the increase in revenue from our largest diabetic case customer, which uses such a contract manufacturer. See Note 13 to the audited consolidated financial statements included in Item 8 of this Annual Report.

Channels of Distribution

We primarily ship our products directly to our OEM customers or their contract manufactures, who package our carry solutions products "in box" with the OEM customer's products. Certain OEMs that became our customers in Fiscal 2009 or 2010 also purchase our carry and protective solution products and offer them for sale as stand-alone accessories to complement their product offerings.

Sales by Product Line

Sales of carry and protective solutions for "Diabetic Products" and for "Other Products", i.e., all products other than diabetic carry cases for blood glucose monitor kits, accounted for approximately the following percentages of total net sales in Fiscal 2010 and Fiscal 2009:

Forward Industries, Inc.

Sales:	Fiscal Year Ended	
	2010	2009

Diabetic Products.....	74%	75%
Other Products	26%	25%
Totals.....	100%	100%

Sales Concentration

We have approximately 80 active customers. Of these, three customers, including their affiliates and contract manufacturers, accounted for approximately 73% of our net sales in Fiscal 2010 and 66% in Fiscal 2009. All three are OEMs of diabetic monitoring kits. These customers package our carry and protective solutions “in box” with their branded products, or to a lesser extent, sell them through their retail distribution channels. The approximate percentages of net sales contributed by each of these three customers for Fiscal 2010 and Fiscal 2009 are as follows:

Customer:	Fiscal Year Ended	
	2010	2009
Diabetic Customer A.....	39%	35%
Diabetic Customer B.....	19%	21%
Diabetic Customer C.....	15%	10%
Totals.....	73%	66%

Sales Force

During Fiscal 2010 and Fiscal 2009 all net sales were made directly by our employees, which are assigned key accounts or defined geographic sales territories. See “Risk Factors” in Item 1A. of this Annual Report - “*Our business could suffer if the services of key sales personnel we rely on were lost to us.*”

OEM Distribution Hubs

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

Credit Risk

We generally sell our products on 60- to 90-day credit terms customary in the industry. Historically, we have not had significant credit problems with our customers. Our significant OEM customers are large, multi-national companies with good credit histories. None of these customers is or has been in default to us, and payments from all customers are generally received from them on a timely basis. Three customers, including their affiliates or contract manufacturers, accounted for approximately 75% of our accounts receivable at September 30, 2010. Two customers, including their affiliates or contract manufacturers, accounted for approximately 63% of our accounts receivable at September 30, 2009.

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

Forward Industries, Inc.

Foreign Exchange Risk

Certain of our OEM customers have established sales and manufacturing operations in China. In addition, as noted above, certain OEM customers may outsource manufacturing and packaging of the products with which our carrying case solutions are packaged “in box” to contract manufacturers located in China or in Southeast Asia. Accordingly, our payment and remittance arrangements with such customers or their contract manufacturers may subject these arrangements to Chinese or other local currency regulations. See Item 1A. of this Annual Report on Form 10-K: “Risk Factors— *Payments to us by or on behalf of our customers of accounts receivable originated in China may become 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*”.

Product Supply

Manufacturing

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

Suppliers

We procure substantially all our supply of carrying solutions products from independent suppliers in China. We purchased approximately 88% of our products from four such suppliers in Fiscal 2010 and 90% from seven such suppliers in Fiscal 2009. One China supplier accounted for approximately 67% and 54% of our product purchases in Fiscal 2010 and 2009. Depending on the product, we may require several different suppliers to furnish component parts or pieces. During Fiscal 2010 and currently, in negotiations with our suppliers of terms for products under new programs, we are experiencing higher price quotes, which we believe are attributable in significant degree to inflationary impacts on the suppliers' labor and materials costs that they are attempting to pass on to us.

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

Quality Assurance

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

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

Forward Industries, Inc.

Logistics

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

We ship our products to our customers by common carrier.

Insurance

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

Competition

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

our Hong Kong and outsourced Chinese based quality control and shipment capabilities. See Item 1A. in this Annual Report on Form 10-K: "Risk Factors - *The carrying solutions business is highly competitive and does not pose significant barriers to entry.*"

Employees

At September 30, 2010, we had 32 full-time employees, of whom two are employed in executive capacities, six are employed in administrative and clerical capacities, seven are employed in sales and sales support, six are employed in design and product development capacities, and 11 are employed in sourcing, quality control, and warehouse capacities. We consider our employee relations to be satisfactory. None of our employees are covered by a collective bargaining agreement.

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

Regulation and Environmental Protection

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

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

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 16-17 of this Annual Report on Form 10-K.

Our business remains highly concentrated in our Diabetic Products line, posing risks to our financial condition and results of operations compared to periods when revenue from customers from two principal product lines were more balanced. If our Diabetic Products line were to suffer the loss of a principal customer or a material decline in or loss of sales, our business would be materially and adversely affected.

As a consequence of the steep decline in revenues from sales of cell phone accessories over the past several years, revenues from sales of diabetic cases to OEM customers now accounts for approximately 74% of net revenues. While sales of "other products" reflect new customer adds and improved revenues in Fiscal 2010, our business remains characterized by high product line as well as customer concentration. In such circumstances, our financial condition and results of operations are subject to higher risk from the loss of a diabetic case customer or from changes in the business practices of OEMs of blood glucose monitors, for example, a decision to reduce or eliminate inclusion of cases in box with the electronic device or a decision to focus on insulin pumps instead of insulin by injection.

Our business is and has been characterized by a high degree of customer concentration. Our three largest customers accounted for approximately 73% and 66% of net sales in Fiscal 2010 and Fiscal 2009, respectively; the loss of, or material reduction in orders from, any of these customers would materially and adversely affect our results of operations and financial condition.

At present the predominant percentage of our sales revenues is concentrated in three large OEM customers for our diabetic blood glucose carry cases, including their affiliates and/or their contract manufacturers. The loss of any of these customers, whether as a result of its purchase of its carry solution requirements from another vendor, its decision to manufacture its own carrying cases, its decision to award its orders to one of our competitors, or otherwise, would have a material adverse effect on our financial condition, liquidity and results of operations.

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

The difficult business conditions of the last several years led our large OEM customers to embark on cost cutting and expense reduction strategies that have reduced our revenue and adversely affected our gross margin and net profit. This led prior management to announce an acquisition strategy to diversify away from and/or balance the OEM-centered business. In August 2010, when our new management team was installed, it outlined a business strategy to grow the OEM business and expand into new product channels and technology solutions. In general, our management believes that an acquisition within the technology accessories business might, in the right circumstances, be complementary with the strategy it has identified. If an acquisition is undertaken, there can be no assurance as to the cost in cash or securities of such an acquisition or other combination, the potential dilution to existing shareholders if our securities are issued as part of transaction consideration, or the business risks that accompany any such transaction. There can be no assurance that we will be successful in our efforts to make an acquisition or that any business that we do acquire or invest in will be profitable. There can be no assurance as to the timing of a transaction, or that the market price of our common stock will not decline in response to any such transaction as may be effected.

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

The predominant percentage of our revenues is derived from sales of case accessories to our OEM customers who package our cases “in-box” with their electronics. With the global recession and weak recovery, OEMs have sought continuously to reduce expenses. If one or more of our OEM customers generally begin to reduce or discontinue the practice of including carry case accessories in-box, we would incur a significant decline in revenues and our results of operations and financial condition would be materially and adversely affected.

Forward Industries, Inc.

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

Our new management team intends to pursue a more marketing- and product development-driven business model to grow our existing business and expand product offerings, compared to the prior management team that was focused on maintaining the liquidity of the balance sheet as it assessed potential acquisitions. In executing this strategy, we are likely to incur increased selling, general, and administrative expense as we devote increased resources to product sales and development. Such increased expenses are likely to impact our income statement and reduce cash and equivalents before such efforts result in higher revenues, if at all, which may materially and adversely affect our results of operations. Realization of this strategy and improvement in our results of operations will depend on management’s ability to execute successfully on its strategy and business plan.

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

Three customers accounted for approximately 75% of our accounts receivable at September 30, 2010, and two customers accounted for approximately 63% of our accounts receivable at September 30, 2009. 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.

In a price constrained global economy we continue to encounter pressures from our largest OEM customers to maintain or even roll back prices or to supply lower priced carry solutions. The effects of such price constraints on our business may be exacerbated by inflationary pressures that affect our costs of supply.

During Fiscal 2010 and Fiscal 2009, we experienced significant pricing pressure from our largest OEM customers to maintain or even reduce the prices we charge them. When we are unable to extract comparable concessions from our suppliers on prices they charge us, product sales margins erode.

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

Our results of operations are subject to the risks of fluctuations in the values of foreign currencies relative to the U.S. Dollar; for example, if the factors tending to support 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, continue, our gross margins will be subject to pressure.

Forward Industries, Inc.

Our results of operations are expressed in U.S. Dollars. When the U.S. Dollar appreciates or depreciates in value against a currency in which all or a significant portion of our costs of goods sold are denominated, such as the Chinese renminbi, our results will be benefited or adversely affected, respectively, assuming no change in prices we charge to our customers. 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 would have the effect of increasing the prices we pay to our suppliers (our costs of goods sold) in U.S. dollar terms and adversely affecting our gross margins if we could not pass those increases along to our customers or enter into financial arrangements that hedged or otherwise mitigated this foreign exchange risk. During Fiscal 2010 and Fiscal 2009 currency markets pushed the renminbi up and the U.S. Dollar down, having the effect described above. The opposite relationship would apply to U.S. Dollar fluctuations with respect to a currency in which sales revenues or other accounts receivable are denominated, such as the Euro. When the U.S. Dollar appreciates or depreciates in value against the Euro, our results of operations can be adversely affected or benefited, respectively. The significant appreciation of the Euro against the U.S. Dollar, as occurred during most of calendar 2009, had the effect of increasing, in U.S. dollar terms, our sales revenues that were denominated in Euros. The reversal of this trend in 2010 adversely affected our results of operations. The degree of impact is proportional to the amount of foreign currency expense or revenue, as the case may be, and the fluctuations in exchange rates over the period in which the effect is measured on our financial statements.

Payments to us by or on behalf of our customers of accounts receivable originated in China may become 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.

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.

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 can fluctuate markedly in a short period of time, our quarterly revenues, and consequently our results of operations, may be highly variable and subject to significant changes over a relatively short period of time.

Our largest OEM customers may keep consumer products with which our carry solutions are packaged "in-box" in active promotion for many months, or for a very short period of time, depending on various factors, including sales trends for the product, product development cycles, new product introductions, and our customers' competitors' product offerings. As demand for the consumer product relating to the in-box program matures and decreases, we may be forced to accept significant price and/or volume reductions in customer orders for our carry solutions, which will adversely affect revenue.

These factors tend to lead to a high degree of variability in our quarterly revenue levels. Significant, rapid shifts in our operating results may occur if and when one or more of these customers increase or decrease the size(s) of, or eliminate, their orders from us by amounts that are material to our business.

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

Our gross profit margins on the products we sell can vary widely depending on the product type, customer, order size, and market in which the customer's products are sold. For example, selling prices and profit margins both within our soft-sided carrying cases product line and between such line and other carry solutions such as straps, clips, cleaning cloths, and cases for larger "other" products can vary widely. Because of the broad variability in price ranges and product types, we anticipate that gross margins, and accordingly their impact on operating income or loss, may fluctuate depending on the relative revenue contribution by customer of carrying cases for blood glucose monitors compared to carry solutions for "other products", as well as our OEM customers' order patterns and preferences for more or less expensive cases and 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.

Product manufacture is often outsourced by our OEM customers to contract manufacturing firms in China and in these cases it is the contract manufacturer to which we must look for payment.

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

Our dependence on foreign manufacturers creates quality control and other risks to our business. From time to time we may experience certain quality control, on-time delivery, cost, or other issues that may jeopardize customer relationships.

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

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

Substantially all of our products are sourced from China. To the extent that there are disruptions or delays in loading container cargo in 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 to the shipping destination agreed with our customer could result in increased expenses, as we try to avoid such delays, delayed shipments or cancelled orders, or all of the above. Depending on the severity of such consequences, this may have an adverse effect on our financial condition and results of operations.

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

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

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

We are highly dependent on the efforts and services of certain key sales representatives who have account responsibility for, and have longstanding relationships with one or more of our largest customers. Our business could be materially and adversely affected if we lost the services of any such individual. If we lost the services of a key sales representative, we might experience a material reduction in orders from his customers, resulting in a loss of revenues, which would materially and adversely affect our results of operations and financial condition.

Forward Industries, Inc.

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.

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.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable

ITEM 2. PROPERTIES

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

In November 2008, Forward HK entered into a three-year lease commitment for approximately 4,400 square feet of office space in Kowloon, Hong Kong, which extends through October, 2011. We use this office space as our sourcing, quality assurance, and logistics center.

Forward Innovations sub-leases approximately 1,300 square feet of office space in Cham, Switzerland from a tenant at the same location. We use this office as our European sales and administrative office. This lease can be cancelled by either party with a six-month notice.

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.

Forward Industries, Inc.

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, 2010, there were no such actions or proceedings, either individually or in the aggregate, that, if decided adversely to the Company's interests, the Company believes would be material to its business.

ITEM 4. RESERVED

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Common Stock

The principal market for our common stock is the NASDAQ SmallCap Market. Our common stock is traded under the symbol "FORD". The following table sets forth the high and low closing bid quotations for our common stock on the NASDAQ SmallCap Market for each quarter in the last two fiscal years.

	Bid Price Information for Common Stock*			
	Fiscal 2010		Fiscal 2009	
	<u>High Bid</u>	<u>Low Bid</u>	<u>High Bid</u>	<u>Low Bid</u>
First Quarter	\$2.15	\$1.69	\$3.30	\$1.51

Second Quarter	\$3.20	\$1.96	\$2.38	\$1.55
Third Quarter	\$5.60	\$2.96	\$1.85	\$1.55
Fourth Quarter	\$4.59	\$2.90	\$1.79	\$1.40

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

On December 2, 2010, the closing bid quotation for our common stock was \$3.70

Holder of common stock.

As of December 2, 2010, there were approximately 128 holders of record of our common stock, excluding approximately 9,164 beneficial holders of common stock whose shares are held in street name.

Dividends

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

Recent sales of unregistered securities

During Fiscal 2010, we did not sell any shares of common stock, or securities exercisable for or exchangeable into common stock, or any other securities that were not registered under the Securities Act of 1933.

Securities authorized for issuance under equity compensation plans .

For information relating to this topic, see Part III, Item 11 of this Annual Report. "Executive Compensation—Securities Authorized for Issuance under Equity Compensation Plans", which is incorporated in this Annual Report on Form 10-K by reference to our 2010 Proxy Statement.

Forward Industries, Inc.

Purchase of Equity Securities

No repurchase of any shares of our common stock or other equity security was made by or on behalf of the Company during the fourth quarter of Fiscal 2010.

In September 2002 and January 2004, our Board of Directors authorized the repurchase of up to an aggregate of 486,200 shares of our common stock. Under those authorizations, as of September 30, 2010, we had repurchased an aggregate of 172,603 shares at a cost of approximately \$0.4 million, leaving a balance of 313,597 shares (approximately 3.9% of the shares outstanding at September 30, 2010) under those authorizations, but none during Fiscal 2010 or Fiscal 2009. Separately from the foregoing authorizations, in Fiscal 2010 in connection with exercises of stock options to purchase 50,000 shares in the aggregate of common stock by two non-employee directors and an officer, such persons received, net, an aggregate of 24,030 shares in transactions valuing such shares at market on the respective dates of exercise in lieu of payment of the exercise price of such options. Under applicable authority, such transactions are not deemed to constitute purchases by us of our common stock.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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

The following discussion and analysis should be read in conjunction with our audited Consolidated Financial Statements and the notes thereto and other financial information appearing in Item 8 of this Annual Report on Form 10-K. This discussion and analysis compares our consolidated results of operations for the fiscal year ended September 30, 2010 ("Fiscal 2010"), with those for the fiscal year ended September 30, 2009 ("Fiscal 2009"), and is based on or derived from the audited Consolidated Financial Statements included in Item 8 in this Annual Report. All figures in the following discussion are presented on a consolidated basis. All dollar amounts and percentages presented herein have been rounded to approximate values.

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

The following management's discussion and analysis includes "forward-looking statements" (as such term is used within the meaning of the Private Securities Litigation Reform Act of 1995). These "forward-looking statements" are not based on historical fact and involve assessments of certain risks,

developments, and uncertainties in our business. Such forward looking statements can be identified by the use of forward-looking terminology such as “may”, “will”, “should”, “expect”, “anticipate”, “estimate”, “intend”, “continue”, or “believe”, or the negatives or other 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 Annual Report are based upon assumptions and assessments that we believe to be reasonable as of the date of this Annual Report. Whether those assumptions and assessments will be realized will be determined by future factors, developments, and events, which are difficult to predict and may be beyond our control. Actual results, factors, developments, and events may differ materially from those we assumed and assessed. 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 on Form 10-K, 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 customers, including during periods of economic downturns generally or downturns/volatility in their specific businesses; the impacts on our financial condition, results of operations, and business prospects arising from making an acquisition or failing to make an acquisition; 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; levels of demand and pricing generally for blood glucose monitoring devices sold by our customers for which we supply carry solutions; management’s ability to successfully execute its business plan and strategy; variability in order flow from our OEM customers; OEM customers’ decisions to reduce or eliminate their practice of including carry case accessories in-box; the loss of key sales employees upon whom relationships with key OEM customers depend; general economic and business conditions, nationally and internationally in the countries in which we do business; the continuation of a global economic recession; the failure of one or more of our suppliers; failures in our ability to maintain adequate quality control in our products; demographic changes; changes in technology, including developments in the treatment or control of diabetes that adversely 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.

Forward Industries, Inc.

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. See Part I, Item IA, Risk Factors in this Annual Report.

Business Overview

Trends and Economic Environment

Our new management team remains committed to growing our OEM business. However, we also intend to pursue a more marketing- and product development-driven business model to expand our product offerings through retail distribution channels, marking a significant evolution in our strategy in the consumer electronics and technology accessories segment. In executing this strategy, we are likely to incur significantly increased selling, general, and administrative expense, as we devote increased resources to develop and/or acquire new product offerings, diversified sales channels, and an improved capability to sell and distribute under this model. The realization of the benefits of these initiatives will be determined by the speed in which we can bring new products to market and by the success and acceptance of these products in the marketplace. We continue to believe that meaningful improvement to our results of operations will be driven by revenue growth.

With regard to the growth of our OEM business, recent gains in sales orders from certain of our major diabetic product customers have been encouraging, but the magnitude is modest, and we believe that the sustainability of improvement in revenues from these customers is uncertain. Furthermore, we continue to operate in a very challenging business environment, where changes in revenue contribution from our major diabetic case customers, with whom we are highly concentrated, are somewhat volatile. We expect further progress in Fiscal 2011 in our efforts to expand our OEM customer and product base and reduce such concentration, and anticipate that we can build on the 10% growth in revenue contributed by “other products” in Fiscal 2010.

Previously, we have disclosed our intention to expand and/or diversify our business by means of acquisition. Management is committed to building our business in the electronics and technology accessories segment and has continued to evaluate acquisition opportunities. If an acquisition of any business should be consummated, the Company would likely become obliged to commit some combination of cash, stock, and other resources to acquire and/or integrate such business and/or its personnel. See “Risk Factors” in Item 1.A of this Annual Report

Variability of Revenues and Results of Operation

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

Forward Industries, Inc.

Critical Accounting Policies and Estimates

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

Cash 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, predominantly in US dollar denominated instruments. The Company minimizes its credit risk associated with cash and cash equivalents by investing in high quality instruments and by periodically evaluating the credit quality of the primary financial institution issuers of such instruments. The Company holds cash and cash equivalents at major financial institutions in the United States, at which cash amounts may significantly exceed 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 periodic credit evaluations of its customers and believes that adequate allowances for any uncollectible receivables are maintained. Credit terms to the majority of customers are generally net thirty (30) days to net sixty (60) days; however, the Company extends to certain customers, particularly its largest customers, payment terms up to 90 days. The Company has not historically experienced significant losses in extending credit to customers. At September 30, 2010 and 2009, the allowance for doubtful accounts was approximately \$19,000 and \$25,000, respectively.

Inventory Valuation

Inventories consist primarily of finished goods and are stated at the lower of cost (determined by the first-in, first-out method) or market. Based on management's estimates, an allowance is made to reduce excess, obsolete, or otherwise un-saleable inventories to net realizable value. The allowance is established through charges to cost of goods sold on the Company's consolidated statements of operations. As reserved inventory is disposed of, the Company charges off the associated allowance. In determining the adequacy of the allowance, management's estimates are based upon several factors, including analyses of inventory levels, historical loss trends, sales history, and projections of future sales demand. The Company's estimates of the allowance may change from time to time based on management's assessments, and such changes could be material. At September 30, 2010 and 2009, the allowance for obsolete inventory was approximately \$28,000 and \$33,000, 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. The Company recorded approximately \$54,000 and \$76,000 of depreciation and amortization expense in Fiscal 2010 and Fiscal 2009, respectively. Depreciation and amortization for production related property, plant and equipment is included as a component of costs of goods sold in the accompanying consolidated statements of operations. Depreciation and amortization for selling and general and administrative related property, plant and equipment, is included as a component of operating expenses in the accompanying consolidated statements of operations.

Revenue Recognition

In accordance with generally accepted accounting principles in the U.S., we generally recognize revenue from product sales to customers when: (1) title and risk of loss are transferred; (2) persuasive evidence of an arrangement exists; (3) we have no continuing obligations to the customer; and (4) the collection of related accounts receivable is probable.

Income Taxes

The Company accounts for its income taxes in accordance with accounting principles generally accepted in the United States 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. See Note 8 to Notes to Consolidated Financial Statements. The Company's policy is to account for interest and penalties relating to income taxes, if any, in "income tax expense" in the statement of operations. For the periods presented in the accompanying consolidated statements of operations no income tax related interest or penalties were assessed or recorded.

Results of Operations for Fiscal 2010 compared to Fiscal 2009

Net loss

We incurred a net loss of \$1.7 million in Fiscal 2010 compared to net loss of \$1.4 million in Fiscal 2009. The higher net loss is primarily the result of higher general and administrative expenses (including approximately \$1.1 million attributable to developments leading up to and including the Settlement Agreement as more fully described below) and to a lesser extent lower "other income" (primarily interest income) in Fiscal 2010, offset in part by higher gross profit, lower selling expenses, and lower income tax expense in Fiscal 2010, as reflected in the table below:

(thousands of dollars)

	Fiscal 2010	Fiscal 2009	Increase (Decrease)
Net Sales.....	\$18,997	\$17,440	1,556
Gross Profit.....	4,232	3,582	650
Selling Expenses.....	(2,167)	(2,616)	(449)
General and Administrative Expenses.....	(3,636)	(2,316)	1,320
Other Income.....	10	256	(246)
Income Tax Expense.....	(124)	(300)	(176)
Net Loss*	(\$1,685)	(\$1,394)	291

* Table may not total due to rounding.

Basic and diluted loss per share data were (\$0.21) for Fiscal 2010, compared to (\$0.18) for Fiscal 2009. The increase in loss per share in Fiscal 2010 was due to the increase in net loss.

Net Sales

Net sales increased \$1.6 million, or 9%, to \$19.0 million in Fiscal 2010 from \$17.4 million in Fiscal 2009 due to higher sales of diabetic products, which increased \$1.1 million, or 8%, and higher sales of "Other Products", which increased \$0.5 million, or 10%. The tables below set forth net sales by product line and geographic location of our customers for the periods indicated.

Forward Industries, Inc.

Net Sales for Fiscal 2010 (millions of dollars)

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

Net Sales for Fiscal 2009 (millions of dollars)

APAC	Americas	Europe	Total
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Diabetic Products.....	\$5.9	\$3.5	\$3.6	\$13.0
Other Products.....	0.8	3.5	0.1	4.4
Totals*	\$6.7	\$7.0	\$3.7	\$17.4

* Tables may not total due to rounding.

Diabetic Product Sales

We design to the order of, and sell carrying cases for blood glucose diagnostic kits directly to, OEMs (or their contract manufacturers). The OEM customer or its contract manufacturer packages our carry cases “in box” as a custom accessory for the OEM’s blood glucose testing and monitoring kits, or to a lesser extent, sell them through their retail distribution channels.

Sales of cases and related accessories for blood glucose monitoring kits increased \$1.1 million, or 8%, to \$14.1 million in Fiscal 2010 from \$13.0 million in Fiscal 2009. This increase was due primarily to increased orders from two of our major diabetic customers, as presented in the table below, which sets forth our sales by diabetic customer for the periods indicated.

(millions of dollars)

	Fiscal 2010	Fiscal 2009	Increase (Decrease)
Diabetic Customer A.....	\$7.4	\$6.0	\$1.4
Diabetic Customer B.....	3.6	3.6	--
Diabetic Customer C.....	2.8	1.8	1.0
Diabetic Customer D.....	--	1.3	(1.2)
All other Diabetic Customers.....	0.2	0.3	--
Totals*	\$14.1	\$13.0	\$1.1

* Table may not total due to rounding.

Sales of carrying cases for blood glucose monitoring kits represented 74% of our total net sales in Fiscal 2010 compared to 75% of our total net sales in Fiscal 2009.

Other Product Sales

We design and sell carrying solutions to OEMs for a diverse array of other portable electronic and other products, including bar code scanners, GPS and location devices, cellular telephones, laptop computers, MP3 players, firearms, sporting and recreational products, and aeronautical products.

Sales of other products increased \$0.5 million, or 10%, to \$4.9 million in Fiscal 2010 from \$4.4 million in Fiscal 2009. This improvement was due to a \$1.6 million increase in sales to customers from whom we received first time sales orders in the fourth quarter of Fiscal 2009 or more recently, offset in large part by a \$0.9 million decrease in sales of cell phone cases to Motorola in Fiscal 2010 compared to Fiscal 2009. In the case of sales to newer customers, two of these contributed \$0.6 million and \$0.3 million, respectively in Fiscal 2010.

Forward Industries, Inc.

Sales of other products represented 26% of our net sales in Fiscal 2010 compared to 25% of net sales in Fiscal 2009.

Gross Profit

Gross profit increased \$0.6 million, or 18%, to \$4.2 million in Fiscal 2010 from \$3.6 million in Fiscal 2009. This was primarily due to the \$1.6 million increase in net sales in Fiscal 2010 and, to a lesser extent, a \$0.1 million decrease in each of Hong Kong expense (which is included in cost of goods sold) and freight duties and customs. The lower Hong Kong expense in Fiscal 2010 primarily resulted from the absence of certain severance and recruitment expenses that we incurred in Fiscal 2009 in respect of staffing changes in connection with the relocation of the facility. Freight duties and customs declined almost 22%, despite the higher sales base, due primarily to the absence in Fiscal 2010 of special air freight charges incurred in Fiscal 2009 to accommodate a diabetic customer’s requirements. Lesser decreases in expenses for warehousing, rent, and postage also contributed to the decrease in Hong Kong expense in Fiscal 2010.

As a percentage of net sales, our gross profit was 22% in Fiscal 2010 compared to 21% in Fiscal 2009.

Selling Expenses

Selling expenses decreased \$0.4 million, or 17%, to \$2.2 million in Fiscal 2010 from \$2.6 million in Fiscal 2009. The decrease was due primarily to reductions in selling personnel costs, related travel and entertainment expenses, and automobile allowance expense, totaling \$0.4 million in Fiscal 2010 resulting from changes to our staffing and employee benefit plans made during Fiscal 2009. To a lesser extent, decreases in occupancy costs, office expenses, other selling expenses also contributed to the decline.

General and Administrative Expenses

General and administrative expenses increased \$1.3 million, or 57%, to \$3.6 million in Fiscal 2010 from \$2.3 million in Fiscal 2009. Of the \$1.3 million increase in general and administrative expense, approximately \$1.1 million, in the aggregate, was attributable to developments leading up to and including the Settlement Agreement entered into in August 2010, which included: \$0.5 million of severance expense incurred in connection with the termination of an executive's employment agreement in August 2010; \$0.2 million higher legal expenses primarily incurred in connection with the adoption of a shareholders' rights plan in June 2010 and related issues; \$140 thousand of expense incurred in connection with a settlement agreement entered into with a Schedule 13D shareholder in August 2010; \$58 thousand higher director compensation and related expenses; and \$50 thousand of bonus expense incurred in connection with an executive's retention agreement entered into in August 2010. In addition, we incurred \$0.2 million in professional fees in connection with assessment of acquisition opportunities prior to the settlement agreement. To a lesser extent, increases in travel and entertainment and office expenses in Fiscal 2010 also contributed to the increase. These increases were offset, in small part, by reductions in occupancy costs in Fiscal 2010. See Part I. Item 1. Business—Corporate History in this Annual Report and Note 10 of Notes to Financial Statements in Part II, Item 8, of this Annual Report.

Other Income (Expense)

Other income (expense), consisting primarily of interest income on cash balances and foreign currency transaction gains and losses, declined \$0.2 million to \$10 thousand of income in Fiscal 2010 from \$0.3 million of income in Fiscal 2009. This resulted from a \$0.2 million decline in interest income in Fiscal 2010, due primarily to lower average interest rates on slightly lower cash balances compared to Fiscal 2009. Exchange rate changes on foreign currency cash balances were not material.

Pre-tax Loss

Pre-tax loss increased \$0.5 million, or 43% to \$1.6 million in Fiscal 2010 from \$1.1 million in Fiscal 2009 as a result of the changes as described above.

Forward Industries, Inc.

Income Tax Expense

We recorded income tax expense of \$0.1 million in Fiscal 2010 primarily as a result our repatriation of \$3.0 million (net of Swiss withholding tax) of foreign source income of our Swiss subsidiary, Forward Innovations, which had previously been considered to be permanently invested and for which no United States tax liability had been accrued as of September 30, 2009, and to a lesser extent, relating to permanent and temporary differences under our equity compensation plan. On an operating basis, without the repatriation of foreign source income, we would have recognized an income tax benefit of approximately \$0.5 million in Fiscal 2010, before adjustment to our allowance against our deferred tax assets.

In Fiscal 2009, we recorded \$0.3 million of income tax expense primarily due to the establishment of a full valuation allowance against our deferred tax assets in Fiscal 2009.

Refer to "Critical Accounting Policies and Estimates—Deferred Income Taxes", above and "Note 8 - Income Taxes" in our Notes to our Audited Consolidated Financial Statements included in Item 8 of Part II of this Annual Report on Form 10-K.

Liquidity and Capital Resources

During Fiscal 2010, we used \$1.7 million of cash in operations compared to generating \$0.4 million from operations in Fiscal 2009. Net cash used in operating activities in Fiscal 2010 consisted of a net loss of \$1.7 million, reduced by \$0.4 million for non-cash items, and increased by net changes in working capital items of \$0.4 million. As to working capital items, uses of cash in operating activities in respect of increases in accounts receivable, inventories, and prepaid and other current assets were \$1.4 million, \$0.4 million, and \$12 thousand, respectively. These changes were offset, in part, by increases in accounts payable and accrued expenses and other current liabilities of \$0.6 million and \$0.8 million, respectively, and a decrease in other assets of \$14 thousand, which provided cash to operating activities. The increase in accounts receivable is attributable to the higher sales levels in Fiscal 2010, particularly the fourth fiscal quarter, compared to Fiscal 2009 and the timing in which these accounts receivable were originated. The increase in inventories is in support of either firm purchase orders or forecasted demand data received from our customers. The increase in accounts payable is a result of the higher purchase volume in support of the higher sales levels and the timing in which these purchases were originated. The increase in accrued expenses and other current liabilities is primarily due to: (i) \$230 thousand in severance payable to a former officer of the Company; (ii) \$140 thousand in accrued shareholder settlement costs (refer to Note 10 of Notes to Financial Statements); (iii) \$95 thousand in wages and benefits that did not clear the bank at September 30, 2010; (iv) \$95 thousand increase in sales commission and bonuses; (v) \$91,000 of United States federal income taxes payable in respect of Fiscal 2010 results of operations; and (vi) \$50 thousand in retention bonus payable to an officer of the Company.

During Fiscal 2009, we generated \$0.4 million of cash in operations consisting of a net loss of \$1.4 million, reduced by \$0.7 million for non-cash items, and net changes in working capital items of \$1.1 million. Working capital items included decreases in accounts receivable, inventory, and prepaid and other current assets of \$0.4 million, \$0.7 million, and \$0.4 million, respectively, which provided cash to operating activities, as well as decreases in accounts payable, and accrued expenses and other liabilities of \$0.4 million and \$56 thousand, respectively, which effected cash used in operating activities.

Investing activities used \$9 thousand in Fiscal 2010 for purchases of computer equipment. In Fiscal 2009, \$0.1 million was used in investing activities for purchases of property, plant and equipment, primarily leasehold improvements and furniture and fixtures for our new Hong Kong office.

In Fiscal 2010, financing activities generated \$67 thousand in proceeds from the exercise of stock options. In Fiscal 2009, financing activities generated \$14 thousand from the disgorgement of short-swing profits to us by a former 10% shareholder in accordance with applicable rules and regulations under the Exchange Act. We accounted for the cash receipt as a contribution from a shareholder and reflected the proceeds, net of tax, as an increase in additional paid-in capital in our consolidated balance sheets.

Forward Industries, Inc.

At September 30, 2010, our current ratio (current assets divided by current liabilities) was 7.3; our quick ratio (current assets less inventories divided by current liabilities) was 7.0; and our working capital (current assets less current liabilities) was \$21 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 with us 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. Management has stated that it wishes to increase the Company's existing OEM business and expand into new product offerings. If management deems it appropriate, such expansion may occur by means of acquisition or other business combination. If any such transaction were to be consummated, we anticipate that it would involve the payment of cash and/or the issuance of securities, either or both of which might be significant in amount. We anticipate that our liquidity and financial resources for the ensuing fiscal year will be adequate to manage our financial requirements.

At September 30, 2010, Forward Innovations is contingently liable to a Swiss bank under a letter of guarantee with a Swiss bank relating to the repayment of any amount up to €75,000 (equal to approximately \$102,000 as of September 30, 2010) paid by such bank to Forward Innovations' freight forwarder and customs agent with respect to any value added tax liability arising that the logistics provider is required to pay to Dutch tax authorities on Forward Innovations' behalf. The term of the bank letter of guarantee expires February 28, 2011, but will be renewed automatically for one-year periods until February 28, 2014, unless the subsidiary provides the Swiss bank with written notice of termination at least 60 days prior the renewal date. It is the intent of Forward Innovations and the logistics provider that the bank letter of guarantee amount be adjusted annually, dependent upon the level of sales, if any, of Forward Innovations in The Netherlands. In consideration of the issuance of the bank letter of guarantee, Forward Innovations has granted the Swiss bank a security interest in all of its assets on deposit with, held by, or credited to the subsidiary's account with, the Swiss bank (approximately \$0.5 million at September 30, 2010). As of September 30, 2010, Forward Innovations had not incurred a liability in connection with this guarantee. Refer to Note 10- "Commitments and Contingencies – Guarantee Obligation" in our Notes to our Audited Consolidated Financial Statements included in Item 8 of Part II of this Annual Report on Form 10-K.

In September 2002 and January 2004, our Board of Directors authorized the repurchase of up to an aggregate of 486,200 shares of our outstanding common stock. Under those authorizations, as of September 30, 2010, we had repurchased an aggregate of 172,603 shares at a cost of approximately \$0.4 million but none during Fiscal 2010 or Fiscal 2009.

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, 2010:

Contractual Obligation or Commitment	Oct 10 – Sep 11	Oct 11- Sep 13	Oct 14 – Sept 15	Thereafter
Employment Agreements	\$175,000	\$44,000	\$--	\$--
Severance Agreement	219,000			
Retention Agreement	125,000			
Operating Leases	159,000	--	--	
Totals	\$678,000	\$44,000	\$--	\$--

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 on Form 10-K.

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 included in this Annual Report may be found at pages 28 to 45 of this Annual Report on Form 10-K.

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

None

ITEM 9A. 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 quarter of the fiscal year ended September 30, 2010, 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 quarter of the fiscal year ended September, 30, 2010, 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 Control 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, 2010. 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 this assessment, our Principal Executive Officer and our Principal Financial Officer believe that, as of September 30, 2010, our internal control over financial reporting is effective based on those criteria.

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

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, performed an evaluation required by Rule 13a-15(d) of the Exchange Act as to whether any change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the last fiscal quarter of the fiscal year ended September 30, 2010. Based on that evaluation, our Principal Executive Officer and our Principal Financial Officer concluded that no change occurred in the Company's internal control over financial reporting during the last fiscal quarter of the fiscal year ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control 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 anticipated to be held in March 2011 (the "2010 Proxy Statement") under the headings "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 is also incorporated to this Annual Report on Form 10-K by reference to the 2010 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 2010 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 2010 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 2010 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 2010 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 2010 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

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

b. Exhibits

3. Articles of Incorporation and By-Laws

3(i) Amended and Restated Certificate of Incorporation (amendment as filed by the New York Department of State on February 12, 2010)

3(ii) Third Amended and Restated By-Laws of Forward Industries, Inc., as of August 10, 2010

4. Instruments Defining the Rights of Security Holders

4.1 Shareholder Protection Rights Agreement, dated as of June 9, 2010, by and between Forward Industries, Inc. and American Stock Transfer & Trust Company LLC, as Rights Agent (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, as filed with the Commission on June 15, 2010)

26

4.2 Amendment, dated as of August 10, 2010, to Shareholder Protection Rights Agreement, dated as of June 9, 2010, by and between Forward Industries, Inc. and American Stock Transfer & Trust Company LLC, as Rights Agent (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, as filed with the Commission on August 16, 2010), which amendment terminated the Right Agreement

10. Material Contracts

10.1 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).

10.2 Forward Industries, Inc. 2007 Equity Incentive Plan, as amended (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-8 of the Company, Reg. File No. 333-165075, as filed with the Commission on February 25, 2010).

10.3 Settlement Agreement, dated as of August 10, 2010, by and among Forward Industries, Inc., LaGrange Capital Partners, L.P., and certain Affiliates of LaGrange Capital Partners, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed with the Commission on August 16, 2010)

10.4 Severance and Release Agreement, dated as of August 10, 2010, by and between Douglas W. Sabra and Forward Industries, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, as filed with the Commission on August 16, 2010)

10.5 Employment Agreement, dated as of August 10, 2010, between Forward Industries, Inc. and James O. McKenna, (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, as filed with the Commission on August 16, 2010)

10.6 Retention Agreement, dated as of August 10, 2010, between Forward Industries, Inc. and James O. McKenna, (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, as filed with the Commission on August 16, 2010)

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
 - 23.1 Consent of Kaufman, Rossin & Co., P.A. relating to 2007 Equity Compensation Plan
- 31. Certifications Pursuant to Rule 13a-14(a) (Section 302 of Sarbanes-Oxley)
 - 31.1 Certification of Brett M. Johnson
 - 31.2 Certification of James O. McKenna
- 32. Certifications Pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350 (Section 906 of Sarbanes-Oxley)
 - 32.1 Certifications of Brett M. Johnson and James O. McKenna (furnished herewith)

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, 2010 and 2009, 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, 2010 and 2009, 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.

Miami, Florida
December 8, 201028

**FORWARD INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2010 AND 2009**

September 30, September 30,

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents.....	\$18,471,520	\$20,103,502
Accounts receivable, net	4,621,181	3,259,462
Inventories, net.....	1,036,386	666,485
Prepaid expenses and other current assets.....	240,651	228,938
Total current assets.....	24,369,738	24,258,387
Property, plant, and equipment, net.....	115,205	162,468
Other assets.....	46,032	59,532
Total assets.....	\$24,530,975	\$24,480,387
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable.....	\$2,439,273	\$1,824,091
Accrued expenses and other current liabilities.....	885,332	133,857
Total current liabilities.....	3,324,605	1,957,948
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, 8,761,629 and 8,643,598 shares issued, respectively (including 706,410 held in treasury at both dates)	87,616	86,436
Capital in excess of par value.....	16,469,142	16,101,568
Treasury stock, 706,410 shares at cost, respectively	(1,260,057)	(1,260,057)
Retained earnings.....	5,909,669	7,594,492
Total shareholders' equity.....	21,206,370	22,522,439
Total liabilities and shareholders' equity.....	\$24,530,975	\$24,480,387

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,	
	2010	2009
Net sales.....	\$18,996,827	\$17,440,425
Cost of goods sold.....	14,764,840	13,858,122
Gross profit.....	4,231,987	3,582,303
Operating expenses:		
Selling.....	2,166,542	2,615,685
General and administrative.....	3,636,309	2,316,072
Total operating expenses.....	5,802,851	4,931,757
Loss from operations.....	(1,570,864)	(1,349,454)

Other income (expense):		
Interest income.....	42,941	284,475
Other (expense), net.....	(32,868)	(28,647)
Total other income.....	10,073	255,828
Loss before income tax expense.....	(1,560,791)	(1,093,626)
Income tax expense.....	124,032	300,499
Net loss.....	(\$1,684,823)	(\$1,394,125)
Net loss per common and common equivalent share		
Basic.....	(\$0.21)	(\$0.18)
Diluted.....	(\$0.21)	(\$0.18)
Weighted average number of common and common equivalent shares outstanding		
Basic.....	7,983,257	7,926,277
Diluted.....	7,983,257	7,926,277

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

30

FORWARD INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	Common Stock				Retained Earnings	Treasury Stock	
	Total	Number of Shares	Par Value	Additional Paid-in Capital		Number of Shares	Amount
Balance at September 30, 2008	\$23,708,259	8,621,932	\$86,219	\$15,893,480	\$8,988,617	706,410	(\$1,260,057)
Share-based compensation	194,357	21,666	217	194,140	--	--	--
Disgorgement of short-swing profits	13,948	--	--	13,948	--	--	--
Net loss	(1,394,125)	--	--	--	(1,394,125)	--	--
Balance at September 30, 2009	22,522,439	8,643,598	86,436	16,101,568	7,594,492	706,410	(1,260,057)
Common stock issued upon exercise of stock options	67,000	59,030	590	66,410	--	--	--
Share-based compensation	301,754	59,001	590	301,164	--	--	--
Net loss	(1,684,823)	--	--	--	(1,684,823)	--	--
Balance at September 30, 2010	\$21,206,370	8,761,629	\$87,616	\$16,469,142	\$5,909,669	706,410	(\$1,260,057)

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

31

FORWARD INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Fiscal Years Ended September 30,	
	2010	2009
Operating activities:		
Net loss.....	(\$1,684,823)	(\$1,394,125)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Share-based compensation.....	268,718	194,357
Depreciation and amortization.....	53,602	75,585
Provision for obsolete inventory.....	29,796	(39,817)
Bad debt expense.....	8,875	23,401
Loss on disposal of property, plant, and equipment.....	2,227	11,759
Deferred income taxes.....	--	409,130
Changes in operating assets and liabilities:		
Accounts receivable.....	(1,370,594)	376,690
Inventories.....	(399,697)	737,194
Prepaid expenses and other current assets.....	(11,713)	357,694,
Other assets.....	13,500	38,727
Accounts payable.....	615,182	(382,539)
Accrued expenses and other current liabilities.....	784,511	(55,970)
Net cash (used in) provided by operating activities.....	(1,690,416)	352,086
Investing activities:		
Purchases of property, plant, and equipment.....	(8,566)	(124,958)
Net cash used in investing activities.....	(8,566)	(124,958)
Financing activities:		
Proceeds from disgorgement of short-swing profits.....	--	13,948
Proceeds from exercise of stock options.....	67,000	--
Net cash provided by financing activities.....	67,000	13,948
Net (decrease) increase in cash and cash equivalents.....	(1,631,982)	241,076
Cash and cash equivalents at beginning of period.....	20,103,502	19,862,426
Cash and cash equivalents at end of period.....	\$18,471,520	\$20,103,502
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the fiscal year for:		
Income Taxes.....	\$--	\$26,283

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 designs, markets, and distributes carry and protective solutions primarily for hand held electronic devices, including soft-sided carrying cases, bags, clips, hand straps,

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

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 and assumptions.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Forward Industries, Inc. ("Forward") and its wholly owned subsidiaries (together with Forward, 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, predominantly in US dollar denominated instruments. The Company minimizes its credit risk associated with cash and cash equivalents by investing in high quality instruments and by periodically evaluating the credit quality of the primary financial institution issuers of such instruments. The Company holds cash and cash equivalents at major financial institutions in the United States, at which cash amounts may significantly exceed 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 periodic credit evaluations of its customers and believes that adequate allowances for any uncollectible receivables are maintained. Credit terms to the majority of customers are generally net thirty (30) days to net sixty (60) days; however, the Company extends to certain customers, particularly its largest, payment terms up to 90 days. The Company has not historically experienced significant losses in extending credit to customers. At September 30, 2010 and 2009, the allowance for doubtful accounts was approximately \$19,000 and \$25,000, 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. As reserved inventory is disposed of, the Company charges off the associated allowance. In determining the adequacy of the allowance, management's estimates are based upon several factors, including analyses of inventory levels, historical loss trends, sales history, and projections of future sales demand. The Company's estimates of the allowance may change from time to time based on management's assessments, and such changes could be material. At September 30, 2010 and 2009, the allowances for obsolete inventory were approximately \$28,000 and \$33,000, 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, 2010 and 2009, the Company recorded approximately \$54,000 and \$76,000 of depreciation and amortization expense, respectively. Depreciation and amortization for production related property, plant and equipment is included as a component of costs of goods sold in the accompanying consolidated statements of operations. Depreciation and amortization for selling and general and administrative related property, plant and equipment, is included as a component of operating expenses in the accompanying consolidated statements of operations.

Income Taxes

The Company accounts for its income taxes in accordance with accounting principles generally accepted in the United States 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. See Note 8 to these Notes to Consolidated Financial Statements. The Company's policy is to account for interest and penalties relating to income taxes, if any, in "income tax expense" in its consolidated statement of operations. For fiscal years presented in the accompanying consolidated statements of operations no income tax related interest or penalties were assessed or recorded.

Revenue Recognition

In accordance with generally accepted accounting principles in the U.S., we generally recognize revenue from product sales to customers when: (1) title and risk of loss are transferred; (2) persuasive evidence of an arrangement exists; (3) we have no continuing obligations to the customer; and (4) the collection of related accounts receivable is probable.

Shipping and Handling Costs

The Company expenses shipping and handling costs (including inbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs, and other costs associated with the Company's distribution network) as a component of cost of goods sold in the accompanying consolidated statements of operations.

NOTE 2 ACCOUNTING POLICIES (CONTINUED)

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 \$111,000 and \$102,000 for the years ended September 30, 2010 and 2009, 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 such foreign currency and the functional currency increase or decrease the expected amount of functional currency cash flows upon settlement of the transaction. These increases or decreases in expected functional currency cash flows are foreign currency transaction gains or losses that are included in "other income (expense), net" in the accompanying consolidated statements of operations. The net loss from foreign currency transactions and translations was approximately \$33,000 and \$23,000 for the fiscal years ended September 30, 2010 and 2009, respectively.

Comprehensive Loss

For the fiscal years ended September 30, 2010 and 2009, the Company did not have any components of comprehensive loss other than net loss.

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,	
	2010	2009
Furniture, fixtures and equipment.....	\$772,511	\$772,911
Leasehold improvements.....	159,948	159,948
Property, plant and equipment, cost.....	932,459	932,859
Less accumulated depreciation and amortization.....	(817,254)	(770,391)
Property, plant and equipment, net.....	\$115,205	\$162,468

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,	
	2010	2009
Accrued severance.....	\$229,167	\$ --
Accrued sales commission and bonuses.....	224,772	80,047
Accrued shareholder settlement costs.....	142,043	--
Accrued wages and benefits.....	130,241	25,335
Accrued taxes.....	90,997	--
Accrued other.....	68,112	28,475
Accrued expenses and other current liabilities	\$885,332	\$133,857

NOTE 5 DEBT

In 2003, Forward's wholly-owned Swiss subsidiary, Forward Innovations GmbH (Forward Innovations), established a credit facility with a Swiss bank that provided for an uncommitted line of credit in the maximum amount of \$400,000. The facility was established primarily to provide for a letter of credit in favor of the Company's freight forwarder in The Netherlands to satisfy the Company's obligations under the parties' representation agreement. In connection with this facility, Forward Innovations agreed to certain customary financial covenants, with which Forward Innovations has been in compliance with all material respects. Such covenants did not include any financial ratios or other financial tests. As of December 31, 2009, the credit facility expired in accordance with its terms. See Note 10 to these Notes to Consolidated Financial Statements.

NOTE 6 SHAREHOLDERS' EQUITY

Anti-takeover Provisions

On June 9, 2010 the Company adopted a temporary Shareholder Protection Rights Plan (the "Rights Plan") and declared a distribution of one right on each outstanding share of common stock of the Company to shareholders of record at the close of business on June 21, 2010. Upon a triggering event, as defined in the Rights Plan, each right would have entitled its holder to purchase, for the exercise price, the number of shares of the Company's common stock having a market value of twice the exercise price of each Right. On August 10, 2010, pursuant to the terms of the Settlement Agreement (refer to Note 10: Commitments and Contingencies) the Rights Plan was amended by the Company's Board of Directors such that the Rights Plan expired on such date, effectively canceling the rights issuable under the Rights Plan.

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

In September 2002 and January 2004, the Company's Board of Directors authorized the repurchase of up to an aggregate of 486,200 shares of outstanding common stock. Under those authorizations, as of September 30, 2010, the Company had repurchased an aggregate of 172,603 shares at a cost of approximately \$403,000, but none during Fiscal 2010 or Fiscal 2009.

NOTE 7 STOCK BASED COMPENSATION

In May 2007 at the annual shareholders meeting, shareholders of the Company approved the 2007 Equity Incentive Plan (as amended, as described in the next sentence, the 2007 Plan), which authorized the issuance of up to 400,000 shares of common stock to officers, employees, and non-employee directors of the Company in connection with awards of restricted common stock and stock options to such persons. At the February 2010 annual shareholders meeting, shareholders of the Company approved an amendment to the 2007 Plan to increase the number of shares of common stock authorized for grants by an additional 400,000 shares. As of September 30, 2010, the total shares of common stock available for grants of awards of restricted stock and options to purchase common stock under the 2007 Plan was 375,500. 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.

The Company's 1996 Stock Incentive Plan (the 1996 Plan) expired in accordance with its terms in November 2006. The exercise price of incentive options granted under the 1996 Plan to officers, employees, and non-employee directors of the Company was required by 1996 Plan provisions to be equal at least to the fair market value of the common stock at the date of grant. 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 common stock options remain outstanding and unexercised, all at exercise prices higher than the fair market

value of the stock at September 30, 2010.

Stock Option Awards

Under the 2007 Plan, the Compensation Committee of the Company's Board of Directors has approved awards of stock option to purchase an aggregate of 272,500 shares of common stock to the Company's current and certain former non-employee directors and to certain Company officers, of which awards covering 117,500 shares were granted during the fiscal year ended September 30, 2010. Awards to current non-employee directors and officers are subject to a continued service condition and vest on the first anniversary of the date the awards were granted in the case of the Company's current non-employee directors, and vest in equal amounts over three years commencing on the first anniversary of the grant in the case of one current Company officer. The exercise prices of the awards granted was, in each case equal, to the market value of the Company's common stock on the various grant dates.

On August 10, 2010, pursuant to the Settlement Agreement (refer to Note 10: Commitments and Contingencies), and in connection with the resignations from the Board of Directors of two non-employee directors, the Compensation Committee; (i) accelerated the vesting date in respect of options held by each such director to purchase 15,000 shares of Common Stock (30,000 in the aggregate) at a price of \$2.43 per share, originally scheduled to vest on February 10, 2011, to August 10, 2010; and (ii) waived the provision under the 2007 Plan that otherwise would have resulted in the expiration of all their outstanding stock options 90 days after termination of service. These options may be exercised at any time prior to their expiration.

On August 10, 2010, pursuant to the Settlement Agreement (refer to Note 10: Commitments and Contingencies), and in connection with a former officer's Severance and Release Agreement (refer also to Note 10), the Compensation Committee of the Board of Directors: (i) accelerated the vesting date in respect of options to purchase 10,000 shares of Common Stock of the Company at \$2.02 per share, previously granted to the officer under the 2007 Plan, to August 10, 2010; and (ii) waived the provision under the 2007 Plan that otherwise would have resulted in the expiration of all his outstanding stock options 90 days after termination of service. Thus, these options may be exercised at any time prior to their expiration.

The Company recognized approximately \$141,000 and \$81,000 of compensation cost for stock option awards in its consolidated statements of operations for the fiscal years ended September 30, 2010 and 2009, respectively.

NOTE 7 STOCK BASED COMPENSATION (CONTINUED)

Stock Option Awards (continued)

The following table summarizes stock option activity under the 2007 Plan, as amended, and the 1996 Plan during the fiscal year ended September 30, 2010:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at September 30, 2009	155,000	\$3.52	8.3	
Granted.....	117,500	\$2.72	9.5	
Exercised.....	(85,000)	\$2.09	7.9	
Forfeited.....	--			
Expired.....	--			
Outstanding at September 30, 2010	187,500	\$3.66	8.3	\$182,000
Options vested and exercisable at September 30, 2010.....	110,000	\$4.19	7.5	\$117,000

The table below provides additional information regarding stock option awards that were outstanding and exercisable at September 30, 2010.

Stock Options Outstanding and Exercisable				
Range of Exercise Prices	Outstanding at September 30, 2010	Weighted Average Remaining Contractual Term (Years)	Weighted Average Exercise Price	
\$1.80 to \$2.85	80,000	8.3		\$2.27
\$6.02	20,000	5.6		\$6.02
\$15.91	10,000	4.6		\$15.91
	110,000			

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,	
	2010	2009
Expected term (in years).....	5.0	5.0
Risk-free interest rate.....	1.41% to 2.33%	1.65%
Expected volatility.....	71% to 78%	79.8%
Expected dividend yield.....	0%	0%

NOTE 7 STOCK BASED COMPENSATION (CONTINUED)

Stock Option Awards (continued)

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 common 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 in the fiscal year ended September 30, 2010, the Compensation Committee of the Company's Board of Directors approved and granted awards of 183,500 shares of restricted stock, in the aggregate, to certain present and former executive officers and key employees. Of these awards 1,500 shares of restricted stock have been forfeited and reverted to, and are eligible for re-grant under, the 2007 Plan. 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, 2010 and 2009, the Company recognized approximately \$128,000 and \$113,000, respectively, of compensation cost in its consolidated statements of operations related to restricted stock awards.

On August 10, 2010, pursuant to the Settlement Agreement (refer to Note 10: Commitments and Contingencies) in connection with a former officer's Severance and Release Agreement (refer Note 10), the Compensation Committee of the Board of Directors accelerated the vesting of, and eliminated all restrictions on, 26,666 shares of restricted Common Stock of the Company previously granted to such officer under the 2007 Plan.

The following table summarizes restricted stock activity under the 2007 Plan during the fiscal year ended September 30, 2010.

	Shares	Weighted Average Grant Date Fair Value
Non-vested balance at September 30, 2009	84,832	\$2.16
Changes during the period:		
Shares granted.....	53,500	\$2.02
Shares vested.....	(59,000)	\$2.16
Non-vested balance at September 30, 2010	79,332	\$2.07

As of September 30, 2010, there was approximately \$48,000 of total unrecognized compensation cost related to 79,332 shares of unvested restricted stock awards (reflected in the table above) granted under the 2007 Plan. That cost is expected to be recognized over the remainder of the requisite service (vesting) period.

Warrants

As of September 30, 2010, 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, 2010, no such registration statement has been filed with the Securities and Exchange Commission.

NOTE 8 INCOME TAXES

The Company's provision for income taxes consists of the following United States and foreign components:

	For the Fiscal Years Ended September 30,	
	2010	2009
U.S. Federal and State		
Current.....	\$124,032	(\$95,069)
Deferred.....	210,910	(164,796)
Foreign:		
Current.....	--	--
Deferred.....	(13,431)	(37,856)
Change in valuation allowance.....	<u>(197,479)</u>	<u>598,220</u>
Provision for income taxes.....	<u>\$124,032</u>	<u>\$300,499</u>

The Company's effective tax rate does not approximate the statutory United States federal income tax rate primarily due to the establishment of the valuation allowance and tax rate differentials in respect of United States state and foreign taxes.

The deferred tax expense (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 carry forwards 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,	
	2010	2009
Deferred tax assets:		
Net operating losses.....	\$191,592	\$450,742
AMT tax credit.....	99,757	99,757
Share-based compensation.....	115,010	56,849
Excess tax over book basis in inventory.....	48,056	37,655
Allowance for doubtful accounts.....	6,872	8,986
	<u>461,287</u>	<u>653,989</u>
Deferred tax liabilities:		
Prepaid insurance.....	(56,239)	(47,133)
Depreciation.....	(4,307)	(8,636)
	<u>(60,546)</u>	<u>(55,769)</u>
Valuation allowance.....	<u>(400,741)</u>	<u>(598,220)</u>
Net deferred tax assets	<u>\$--</u>	<u>\$--</u>

As of September 30, 2010 and 2009, the Company has no unrecognized tax benefits related to federal and state income tax matters. As of September 30, 2010 and 2009, the Company has not accrued for interest and penalties related to uncertain tax positions. It is the Company's policy to recognize interest and/or penalties, if any, related to income tax matters in income tax expense in the statement of operations. For the periods presented in the accompanying statements of operations no income tax related interest or penalties were assessed or recorded. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and certain state income taxing authorities for all years due to the net operating loss carryovers from those years.

NOTE 8 INCOME TAXES (continued)

During the fiscal year ended September 30, 2010, the Company elected to effect the repatriation of \$3,000,000 (net of withholding tax of approximately \$158,000 imposed by the Swiss government) of foreign source income of its Swiss subsidiary, Forward Innovations, which had previously been considered to be permanently invested and for which no United States tax liability had previously been accrued. The Company was able to partially offset the taxability of this repatriation by utilizing its net operating loss carryforwards, as well as the current year operating loss such that the net impact was a tax liability of \$124,000. In addition, the Company's deferred tax assets were reduced by \$211,000, predominantly by the use of these net operating losses; however, the Company also reduced the valuation allowance by an equivalent amount.

At September 30, 2010, the Company had available net operating loss carryforwards for state income tax purposes of approximately \$1,306,000 expiring through 2029 and resulting in a deferred tax asset of approximately \$73,000. In addition, at September 30, 2010, the Company had available net operating loss carryforwards for foreign income tax purposes of approximately \$1,353,000 resulting in a deferred tax asset of approximately \$119,000. At September 30, 2010 and September 30, 2009, the Company had total deferred tax assets remaining after the repatriation of approximately \$401,000 and \$598,000, respectively, before reserve for valuation allowances. As of September 30, 2010, the undistributed earnings of the Company's Swiss subsidiary of \$629,000 remaining after the repatriation are considered to be permanently invested; therefore, in accordance with generally accepted accounting principles in the U.S., no provision for U.S. Federal and state income taxes on those earnings has been provided.

As of September 30, 2010, as part of its periodic evaluation of the need to maintain a valuation allowance against its deferred tax assets, and after consideration of all factors, both positive and negative (including, among others, projections of future taxable income, current year net operating loss carryforward utilization and the extent of the Company's cumulative losses in recent years), the Company determined that, on a more likely than not basis, it would not be able to use its remaining deferred tax assets. Accordingly, Company has determined to maintain a full valuation allowance against its deferred tax assets; accordingly, as of September 30, 2010 and September 30, 2009, the valuation allowances were approximately \$401,000 and \$598,000, respectively. If the Company determines in a future reporting period that it will be able to use some or all of its deferred tax assets, the adjustment to reduce or eliminate the valuation allowance would reduce its tax expense and increase after-tax income. Changes in deferred tax assets and valuation allowance are reflected in the "Provision for income taxes" line item of the Company's consolidated statements of operations.

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

	For the Fiscal Years Ended September 30,	
	2010	2009
Statutory U.S. federal income tax rate.....	34.0%	34.0%
State taxes, net of federal benefit.....	1.7%	1.9%
Permanent differences.....	(53.4%)	(1.2%)
Foreign tax rate differential.....	(3.0%)	(10.7%)
Valuation allowance.....	(1.8%)	(54.7%)
Other.....	14.6%	3.1%
Effective tax rate	(7.9%)	(27.5%)

NOTE 9 LOSS PER SHARE

Basic per share data for each period presented is computed using the weighted-average number of shares of common stock outstanding during each such period. Diluted per share data is computed using the weighted-average number of common and dilutive common-equivalent shares outstanding during each such period. Dilutive common-equivalent shares consist of shares that would be issued upon the exercise of stock options, stock rights and warrants, computed using the treasury stock method. Loss per share data for the fiscal years ended September 30, 2010 and 2009, excludes all outstanding common equivalent shares as inclusion of such shares would be anti-dilutive.

In accordance with generally accepted accounting principles in the U.S., 79,332 and 84,832 shares of service-based common stock awards ("restricted stock") were excluded from the weighted average shares outstanding calculation for the fiscal years ended September 30, 2010 and 2009, respectively.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Settlement Agreement

On August 10, 2010, the Board of Directors approved, and the Company entered into, that certain Settlement Agreement, dated as of August 10, 2010 (the "Settlement Agreement"), by and between the Company and LaGrange Capital Partners, L.P. and certain affiliates of LaGrange Capital Partners, L.P. (collectively, the "LaGrange Group"), which resulted in certain changes to the composition of the Board and the Company's management.

As contemplated by the terms of the Settlement Agreement, on August 10, 2010, two non-employee directors resigned from the Board, and the Company's President (Chief Executive Officer) and Acting Chairman of the Board resigned from those positions. Thereafter, as also contemplated by the terms of the Settlement Agreement, the Board appointed three new non-employee directors to fill the resulting vacancies in the Board and appointed a new Chairman. Pursuant to the Settlement Agreement, the Company entered into the commitments and contingencies described below, as well as effected the acceleration of certain equity awards, as referred to in Note 7: Stock Based Compensation, above.

Severance and Release Agreement.

Pursuant to a Severance and Release Agreement, dated as of August 10, 2010, between the Company and Douglas W. Sabra, the Company's former President and Acting Chairman, the Company agreed to pay Mr. Sabra \$500,000, of which half was paid on August 10, 2010 and half is to be paid in 12 equal monthly installments that commenced on September 1, 2010.

Employment and Retention Agreements.

On August 10, 2010, the Company's Board of Directors appointed Brett M. Johnson as the Company's President and Chief Executive Officer, on an "at-will" basis an annual salary of \$250,000, pending his negotiation of a long-term employment agreement with the Compensation Committee of the Company's Board of Directors. Mr. Johnson is entitled to receive customary benefits including health, life and disability insurance, auto allowances and participation in the Company's 401(k) retirement plan.

Pursuant to an Employment Agreement, dated as of August 10, 2010, between the Company and James O. McKenna, the Company's currently serving Chief Financial Officer, the Company agreed to employ Mr. McKenna as its Chief Financial Officer and Treasurer at a salary of \$175,000 per annum. In connection with this agreement, the Employment Agreement, dated August 12, 2008 between Mr. McKenna and the Company was terminated. Under the new agreement, Mr. McKenna will be eligible to earn bonus compensation based on achievement of targets set by the Board's Compensation Committee in respect of each fiscal year during the term. The term of the Employment Agreement expires on December 31, 2011, and either party may give notice of non-renewal not less than 90 days prior to that date. If the Company gives such notice, which is considered a termination without cause, Mr. McKenna would be entitled to receive a payment from the Company equal to one year of his salary. Mr. McKenna is also entitled to a payment equal to one year of his salary as severance in the event of his termination "without cause" in circumstances other than non-renewal and termination for "good reason" (as such terms are defined in the Employment Agreement).

Pursuant to a Retention Agreement, dated as of August 10, 2010, between the Company and Mr. McKenna, the Company agreed to make a retention payment of \$175,000 to Mr. McKenna if he continues to perform his duties under his Employment Agreement (referred to above) in the capacities set forth therein until at least March 1, 2011.

Guarantee Obligation

In February 2010, 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, which succeeds a substantially similar agreement (except as to the amount and term of the undertaking) between the parties that expired December 31, 2009, the subsidiary agreed to provide an undertaking (in the form of a bank letter of guarantee) to the logistics provider with respect to any value added tax liability arising in The Netherlands that the logistics provider is required to pay to Dutch tax authorities on the subsidiary's behalf. As of February 1, 2010, such subsidiary entered into a guarantee agreement with a Swiss bank relating to the repayment of any amount up to €75,000 (equal to approximately \$102,000 as of September 30, 2010) paid by such bank to the logistics provider in order to satisfy such undertaking pursuant to the bank letter of guarantee. The subsidiary would be required to perform under the guarantee agreement only in the event that: (i) a value added tax liability is imposed on the Company's sales in The Netherlands, (ii) the logistics provider asserts that it has been called upon in its capacity as surety by the Dutch Receiver of Taxes to pay such taxes, (iii) the subsidiary or the Company on its behalf fails or refuses to remit the amount of value added tax due to the logistics provider upon its demand, and (iv) the logistics provider makes a drawing under the bank letter of guarantee. Under the Representation Agreement the subsidiary agreed that the letter of guarantee would remain available for drawing for three years following the date that its relationship terminates with the logistics provider to satisfy any value added tax liability arising prior to expiration of the Representation Agreement but asserted by The Netherlands after expiration. The term of the bank letter of guarantee expires February 28, 2011, but will be renewed automatically for one-year periods until February 28, 2014, unless the subsidiary provides the Swiss bank with written notice of termination at least 60 days prior to the renewal date. It is the intent of the subsidiary and the logistics provider that the bank letter of guarantee amount be adjusted annually. In consideration of the issuance of the letter of guarantee, the subsidiary has granted the Swiss bank a security interest on all of the subsidiary's assets on deposit with, held by, or credited to the subsidiary's accounts with, the Swiss bank (approximately \$532,000 at September 30, 2010). As of September 30, 2010, the Company had not incurred a liability in connection with this guarantee.

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, 2010 and 2009, amounted to approximately \$281,000 and \$334,000, respectively.

Fiscal Year Ended September 30, 2010

	Amount
2011.....	\$159,312
2012.....	--
2013.....	--
2014.....	--
2015.....	--

Thereafter.....
Total lease commitments.....

\$159,312

NOTE 11 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, 2010, 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 12 401(K) PLAN

The Company maintains a 401(k) benefit plan allowing eligible United States-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 applicable Safe Harbor provisions, the Company has elected to match 100% on the first 6% of eligible contributions by its employees. The Company's matching contributions were approximately \$57,000 and \$46,000 for the years ended September 30, 2010 and 2009, respectively, and are reflected in the accompanying consolidated statements of operations. The Company's contributions vest immediately.

NOTE 13 OPERATING SEGMENT INFORMATION

The Company operates in a single segment: the supply of carry and protective 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 determined based primarily on the location of the customer or its contract manufacturer.

Revenues from External Customers

The following table presents net sales by geographic region.

	<i>(dollars in thousands)</i>	
	Year Ended September 30,	
	2010	2009
Americas.....	\$6,191	\$7,055
APAC.....	8,219	6,656
Europe.....	4,587	3,729
Total net sales	\$18,997	\$17,440

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:

	<i>(dollars in thousands)</i>	
	Year Ended September 30,	
	2010	2009
APAC.....	\$76	\$109
Americas.....	39	51
Europe.....	-	2
Total long-lived assets (net)	\$115	\$162

Supplier Concentration

The Company procures substantially all of its supply of products from independent suppliers in China. Primary suppliers are Chinese business entities located in China. Depending on the product, the Company may require several different suppliers to furnish component parts or pieces. The Company purchased approximately 88% of its products from four such suppliers in the fiscal year ended September 20, 2010, and 90% of its products from seven Chinese suppliers in the fiscal year ended September 30, 2009. One such supplier accounted for approximately 67% and 54% of the Company's product purchases in the fiscal years ended September 30, 2010 and 2009, respectively.

NOTE 13 OPERATING SEGMENT INFORMATION (CONTINUED)**Major Customers**

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

	Fiscal Year Ended September 30, 2010			
	Americas	Europe	APAC	Total Company
Diabetic Customer A.....	3%	1%	88%	39%
Diabetic Customer B.....	39%	24%	2%	19%
Diabetic Customer C.....	3%	56%	--	15%
Other Customer A.....	--	13%	--	3%

	Fiscal Year Ended September 30, 2009			
	Americas	Europe	APAC	Total Company
Diabetic Customer A	2%	1%	87%	35%
Diabetic Customer B	37%	25%	1%	21%
Diabetic Customer C.....	1%	47%		10%
Other Customer B.....	6%	23%		7%
Other Customer C.....	15%	1%	2%	7%

Three customers (including their affiliates or contract manufacturers) accounted for approximately 75% of the Company's accounts receivable at September 30, 2010. Two customers, including their affiliates or contract manufacturers, accounted for approximately 63% of the Company's accounts receivable at September 30, 2009.

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 8, 2010

FORWARD INDUSTRIES, INC.
(Registrant)

By: /s/ Brett M. Johnson

Brett M. Johnson

President and Chief Executive Officer

(Principal Executive Officer)

By: /s/James O. McKenna

James O. McKenna
Vice President and Chief Financial Officer
(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 8, 2010 /s/Brett M. Johnson
Brett M. Johnson
President and Chief Executive Officer
(Principal Executive Officer)

December 8, 2010 /s/James O. McKenna
James O. McKenna
Vice President and Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

December 8, 2010 /s/John Chiste
John Chiste
Director

December 8, 2010 /s/Fred Hamilton
Fred Hamilton
Director

December 8, 2010 /s/ Frank Johnson
Frank LaGrange Johnson
Chairman of the Board

December 8, 2010 /s/Stephen Key
Stephen Key
Director

December 8, 2010 /s/Owen King
Owen P.J. King
Director

December 8, 2010 /s/Louis Lipschitz
Louis Lipschitz
Director

Exhibit Index**3. Articles of Incorporation and By-Laws**

- 3(i) Amended and Restated Certificate of Incorporation (amendment as filed by the New York Department of State on February 12, 2010)
- 3(ii) Third Amended and Restated By-Laws of Forward Industries, Inc., as of August 10, 2010

4. Instruments Defining the Rights of Security Holders

- 4.1 Shareholder Protection Rights Agreement, dated as of June 9, 2010, by and between Forward Industries, Inc. and American Stock Transfer & Trust Company LLC, as Rights Agent (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, as filed with the Commission on June 15, 2010)
- 4.2 Amendment, dated as of August 10, 2010, to Shareholder Protection Rights Agreement, dated as of June 9, 2010, by and between Forward Industries, Inc. and American Stock Transfer & Trust Company LLC, as Rights Agent (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, as filed with the Commission on August 16, 2010), which amendment terminated the Right Agreement

10. Material Contracts

- 10.1 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).
- 10.2 Forward Industries, Inc. 2007 Equity Incentive Plan, as amended (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-8, Reg. File No. 333-165075, of the Company, as filed with the Commission on February 25, 2010).
- 10.3 Settlement Agreement, dated as of August 10, 2010, by and among Forward Industries, Inc., LaGrange Capital Partners, L.P., and certain Affiliates of LaGrange Capital Partners, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed with the Commission on August 16, 2010)
- 10.4 Severance and Release Agreement, dated as of August 10, 2010, by and between Douglas W. Sabra and Forward Industries, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, as filed with the Commission on August 16, 2010)
- 10.5 Employment Agreement, dated as of August 10, 2010, between Forward Industries, Inc. and James O. McKenna, (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, as filed with the Commission on August 16, 2010)
- 10.6 Retention Agreement, dated as of August 10, 2010, between Forward Industries, Inc. and James O. McKenna, (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, as filed with the Commission on August 16, 2010)

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
- 23.1 Consent of Kaufman, Rossin & Co., P.A. relating to 2007 Equity Compensation Plan, as amended

31. Certifications Pursuant to Rule 13a-14(a) (Section 302 of Sarbanes-Oxley)

31.1 Certification of Brett M. Johnson

31.2 Certification of James O. McKenna

32. Certifications Pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350 (Section 906 of Sarbanes-Oxley)

32.1 Certifications of Brett M. Johnson and James O. McKenna (furnished herewith)

**RESTATED CERTIFICATE OF INCORPORATION
OF
FORWARD INDUSTRIES, INC.**

**UNDER SECTION 807 OF THE
BUSINESS CORPORATION LAW**

The undersigned, DOUGLAS W. SABRA the President of FORWARD INDUSTRIES, INC., does HEREBY CERTIFY THAT;

FIRST: The name of the Corporation is Forward Industries, Inc.

SECOND: The purposes for which the Corporation is formed are as follows, to wit:

To manufacture, develop, mold, form, produce, buy, sell, import, export, trade and deal in, plastic and heat sealing substances and materials of all kinds and description, and any and all articles, products and devices composed of plastic and heat sealing material and all articles and things used in connection with such business; to manufacture, develop, mold, form, produce, buy, sell, import, export, trade and deal in any and all articles and items made in whole or in part out of plastic material or related materials or substances, and all articles and things used in connection with such business.

To engage in the business of buying and selling all equipment, materials, appliances, supplies and articles necessary or convenient for use and application in connection with the said business and incidental thereto.

To design, create, manufacture, produce, export, import, purchase, acquire, sell, dispose of, and generally deal in and with materials, articles, machinery, apparatus, equipment, appliances, supplies, goods and other personal property of every kind and description, tangible or intangible, and to engage in any mercantile, commercial, manufacturing or trading business of any character.

To acquire, by purchase or otherwise, own, hold, lease, mortgage, sell, or otherwise dispose of, and generally deal in and with rights and interests in real and personal property of every kind and description.

To acquire, sell or otherwise dispose of, deal in and with, and grant and obtain licenses for all kinds of intangible property, including patent rights, improvements thereon, inventions, discoveries, formulae and processes, copyrights, trademarks, trade names and designs.

To the extent permitted by law, to promote, finance, underwrite and assist, financially or otherwise, and to assume and guarantee the obligations of any individual, corporation or other entity, and to purchase or otherwise acquire, hold, own, sell or otherwise dispose of securities and obligations of every nature and kind of any issuer, whether or not incorporated.

To do all and everything necessary, suitable or proper for the accomplishment of any of the purposes or the attainment of any of the objects hereinbefore set forth, either alone or in association with other corporations, firms or individuals, and to do every other act or acts, thing or things, incidental or appurtenant to or arising out of or connected with the aforesaid business or any part or parts thereof.

THIRD: The aggregate number of shares which the Corporation shall have authority to issue is forty four million (44,000,000), \$.01 par value per share, of which four million (4,000,000) shall be designated as "preferred stock" and forty million (40,000,000) shall be designated "common stock".

Authority is hereby expressly granted to the Board of Directors of the Corporation from time to time to issue the preferred stock as preferred stock of any series and, in connection with the creation of each such series, to fix by the resolution or resolutions providing for the issue of shares thereof, the number of shares of such series, and the designations, relative rights, preferences, and limitations of such series, to the full extent now or hereafter permitted by the laws of the State of New York.

FOURTH: The office of the corporation is to be located in the City of New York, County of Kings, State of New York.

FIFTH: The duration of said corporation shall be perpetual

SIXTH: The number of directors shall be not less than three (3) nor more than seven (7).

SEVENTH: The Secretary of State is designated as the agent of the corporation upon whom process in any action or proceeding against it may be served within the State of New York. The address to which the Secretary of State shall mail a copy of any process against the corporation which may be served upon him pursuant to law is:

Forward Industries Inc.,
C/O Chief Financial Officer
1801 Green Rd., Suite E
Pompano Beach, FL 33064

EIGHTH: No holder of shares of the Corporation of any class, now or hereafter authorized, shall have any preferential or preemptive right to subscribe for, purchase or receive any shares of the Corporation of any class, now or hereafter authorized, or any options or warrants for such shares, or any rights to subscribe for or purchase such shares, or any securities convertible into or exchangeable for such shares, which may at any time be issued, sold or offered for sale by the Corporation.

NINTH: To the fullest extent permitted by the New York Business Corporation Law as presently in effect or hereafter amended, a director of the Corporation shall not be personally liable to the Corporation or its shareholders for damages for any breach of duty as a director. Any repeal or modification of this Article by the shareholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing hereunder with respect to any act or omission occurring prior to such repeal or modification.

TENTH: If (i) any plan of merger or consolidation, (ii) any sale, lease, exchange, or other disposition of all or substantially all the assets of the Corporation not made in the usual or regular course of business actually conducted by the Corporation, (iii) any plan for a binding share exchange, or (iv) dissolution of the Corporation is required to be adopted or approved by the shareholders of the Corporation under New York Business Corporation Law Section 903, 909, 913, or 1001, respectively, or as any such statute of the Business Corporation Law may be amended, such action shall be adopted or approved by a majority of the votes of all outstanding shares entitled to vote thereon.

THIS RESTATED CERTIFICATE OF INCORPORATION is executed by the Douglas W. Sabra, President of the Corporation, duly authorized.

/s/ Douglas W. Sabra
President, Forward Industries Inc.

DATE: December 14, 2009

**THIRD AMENDED AND RESTATED BYLAWS
OF
FORWARD INDUSTRIES, INC.**
(Incorporated Under the Laws of the State of New York)

AMENDED AND RESTATED AS OF AUGUST 10, 2010

ARTICLE I: OFFICES

The registered office of Forward Industries, Inc. (the "Corporation") shall be as stated in the Certificate of Incorporation. The Corporation may have offices and places of business at such other places, both within and without the State of New York, as may be determined from time to time by the Board of Directors of the Corporation (the "Board of Directors").

ARTICLE II: MEETINGS OF SHAREHOLDERS.

Section 201. Place of Meetings. All meetings of the shareholders shall be held at such place or places, within or without the State of New York, as shall be determined by the Board of Directors from time to time.

Section 202. Annual Meetings. The annual meeting of the shareholders for the election of directors and the transaction of such other business as may properly come before the meeting shall be held on such date within six months after the end of each fiscal year of the Corporation, and at such time and place as may be fixed by resolution of the Board of Directors and stated in the notice of meeting.

Section 203. Special Meetings. Special meetings of the shareholders may be called at any time by (i) the President, (ii) the Chairman of the Board, (iii) the Board of Directors pursuant to a resolution adopted by a majority of the "entire board" (as defined in Section 303), or (iv) Qualified Shareholders holding at least thirty percent (30%) of all the votes entitled to be cast on any issue proposed to be considered at the special meeting. For purposes of this Section, a Qualified Shareholder shall mean a person who shall have been a shareholder of the Corporation for at least six (6) months immediately preceding the request for a special meeting. A call for a special meeting shall state the date (in accordance with Section 204 below), time, place, and purpose or purposes of the meeting, and must be delivered or mailed to the President of the Corporation not later than 60 days prior to the date scheduled.

Section 204. Notice of the Meetings.

(a) Written or printed notice, stating the place, day and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given by the Corporation not less than ten (10) days nor more than sixty (60) days before the date of the meeting, either personally or by first class mail to each shareholder of record entitled to vote at such meeting. Notice may be given by third class mail, in which event, the notice shall be given not fewer than twenty-four (24) nor more than sixty (60) days before the date of the meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail with postage thereon prepaid, addressed to the shareholder at his address as it appears on the stock transfer books of the Corporation or at such other address given by the shareholder in accordance with law. Notice shall be signed by the President, Secretary, or an Assistant Secretary of the Corporation. Except as required by statute, notice of any adjourned meeting shall not be required.

(b) Any previously scheduled meeting of the shareholders may be postponed, and any special meeting of the shareholders (in the case of a meeting called by one or more Qualified Shareholders, only at their written request) may be cancelled, by resolution of the Board of Directors upon public notice given prior to the date previously scheduled for such meeting of shareholders.

Section 205. Quorum; Vote Required. At any meeting of shareholders, the holders of a majority of the shares entitled to vote then issued and outstanding, present in person or represented by proxy, shall constitute a quorum except as otherwise provided by law or by the certificate of incorporation. Except in the case of election of directors, when a quorum is present or represented at any meeting, the affirmative vote of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the matter shall be the act of the shareholders, except where a larger vote is required by law, by the certificate of incorporation or by these by-laws.

Section 2.06 Proxies and Voting. Each shareholder of record shall be entitled to one vote for each share of stock registered in the name of such shareholder on the books of the Corporation, and such votes may be cast either in person or by proxy. Except as otherwise expressly provided herein, proxies and voting shall be governed by the provisions of the New York Business Corporation Law to the extent not inconsistent with any provisions of federal law that preempt state law or the requirements of any national securities exchange (or Nasdaq NMS or SmallCap market) on which the Corporation's common stock is listed.

Section 207. Conduct of Shareholders' Meetings; Adjournment .

(a) The Chairman of the Board shall preside at all shareholders' meetings. In the absence of the Chairman of the Board, the President shall preside. The Chairman or the officer presiding over the shareholders' meeting may establish such rules and regulations for the conduct of the meeting as he/she may deem to be reasonably necessary or desirable for the orderly and expeditious conduct of the meeting, and shall fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the shareholders will vote at the shareholders' meeting. Subject to Section 302 of these By-Laws, unless the Chairman or the officer presiding over the shareholders' meeting otherwise requires, shareholders need not vote by ballot on any question.

(b) The Chairman or the presiding officer at a shareholders' meeting or a majority of the shares of the Corporation present thereat, represented in person or by proxy, may adjourn the meeting from time to time, whether or not there is a quorum. Any meeting so adjourned may be held as adjourned without further notice. The shareholders present at a duly called meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Section 207. Inspectors of Election . Elections of directors shall be conducted by two inspectors of election, neither of whom shall be a candidate for the office of director, appointed either by the chief executive officer, or another officer designated by him, or, if he fails to appoint, by a per capita vote of the shareholders personally present at the election. The inspectors, before entering on the discharge of their duties, shall be sworn faithfully to execute the duties of inspectors with strict impartiality and according to the best of their ability, and shall execute a written certificate of the results of the election. Such report shall include a report in writing of any challenge, question or matter determined by them. Any report made by them shall be prima facie evidence of the facts therein stated, and such report shall be filed with the minutes of the meeting.

The inspectors shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all shareholders.

Section 208. Notice of Shareholder Business and Nominations .

(a) Annual Meetings of Shareholders.

(1) Nominations of persons for election to the Board of Directors of the Corporation or the proposal of other business to be considered by the shareholders may be made at an annual meeting of shareholders (A) pursuant to the Corporation's notice of meeting, (B) by or at the direction of the Board of Directors or (C) by any shareholder of the Corporation who was a shareholder of record at the time of giving of notice provided for in this By-Law, who is entitled to vote at the meeting, who complies with the notice procedures set forth in this By-Law and who (in the case of nominations of persons for election to the Board of Directors of the Corporation) (i) has continuously held at least the lesser in value of (x) \$2,000 in market value, or (y) 1%, of the Corporation's outstanding capital stock entitled to vote for at least one year prior to the meeting date or (ii) is entitled to cast votes with respect to at least 5% percent of the outstanding capital stock of the Corporation, and who complies with the notice procedures set forth in this By-Law.

(2) For nominations or other business to be properly brought before an annual meeting by a shareholder pursuant to clause (C) of paragraph (a)(1) of this By-Law, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation and such other business must otherwise be a proper matter for shareholder action. To be timely, a shareholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 120th day nor earlier than the close of business on the 150th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is changed more than 30 days before or more than 30 days after such anniversary date, notice by the shareholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the Corporation. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a shareholder's notice as described above. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or re-election as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 14a-11 thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected), as each such regulation or rule may be amended from time to time; (b) as to any other business that the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reason for conducting such business at the meeting and any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made, (i) the name and address of such shareholder, as they appear on the books of the Corporation, and of such beneficial owner, and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such shareholder and such beneficial owner and the length of time such shares were held.

(3) Notwithstanding anything in the second sentence of paragraph (a)(2) of this By-Law to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased Board of Directors at least 70 days prior to the first anniversary of the preceding year's annual meeting, a shareholder's notice required by this By-Law shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the Corporation.

(b) Special Meetings of Shareholders. Only such business shall be conducted at a special meeting of shareholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of shareholders at which directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board of Directors or (b) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any shareholder of the Corporation who is a shareholder of record at the time of giving of notice provided for in this By-Law, who shall be entitled to vote at the meeting, and who complies with the notice procedures set forth in this By-Law. In the event the Corporation calls a special meeting of shareholders for the purpose of electing one or more directors to the Board of Directors, any such shareholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Corporation's notice of meeting, if the shareholder's notice required by paragraph (a)(2) of this By-Law shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of (i) the 90th day prior to such special meeting or (ii) the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment of a special meeting commence a new time period for the giving of a shareholder's notice as described above.

(c) General.

(1) Only such persons who are nominated in accordance with the procedures set forth in this By-Law shall be eligible to serve as directors and only such business shall be conducted at a meeting of the shareholders as shall have been brought before the meeting in accordance with the procedures set forth in this By-Law. Except as otherwise required by law, the officer presiding over such shareholders' meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this By-Law and, if any proposed nomination or business is not in compliance with this By-Law, to declare that such defective proposal or nomination shall be disregarded.

(2) For purposes of this By-Law, "public announcement" shall mean disclosure in a press release reported by the Dow Jones New Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this By-Law, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this By-Law. Nothing in this By-Law shall be deemed to affect any rights (i) of shareholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (ii) of the holders of any class or series of Preferred Stock to elect directors under rules and procedures specified in the instruments governing such class of securities.

ARTICLE III. DIRECTORS AND BOARD MEETINGS .

Section 301. Management by Board of Directors . The business and affairs of the Corporation shall be managed by its Board of Directors. The Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute, regulation, the Certificate of Incorporation or these Bylaws directed or required to be exercised or done by the shareholders. Each director shall be at least 21 years of age.

Section 302. Procedure for Election of Directors; Required Vote. Election of directors at all meetings of the shareholders at which directors are to be elected shall be by ballot, and, subject to the rights of the holders of any series of preferred stock to elect directors under specified circumstances, a plurality of the votes properly cast thereat shall elect each director nominated for office.

Section 303. Number of Directors. The Board of Directors shall consist of not fewer than three (3) nor more than seven (7) directors, who need not be shareholders. Within these limits, the number of directors of the Corporation shall be fixed from time to time by resolution of the Board of Directors. A resolution to change the number of directors requires the vote of a majority of the entire board. As used in these By-Laws, "entire board" means the total number of directors the Corporation would have if there were no vacancies. No decrease in the number of directors shall shorten the term of any incumbent director. If the number of directors is increased, the additional directors may be elected by a majority of the directors in office at the time of the increase, or if not so elected prior to the next annual meeting of the shareholders, they shall be elected thereat by the shareholders.

Section 304. Term of Office of Directors. Subject to Sections 303 and 305, the directors shall be elected annually by the shareholders entitled to vote at each annual meeting of shareholders by a plurality of the votes cast at each such election. Each director (whether elected at an annual meeting or to fill a vacancy or by the directors pursuant to Section 303) shall continue in office until the annual meeting of shareholders held next after his election and until his successor shall have qualified and elected, or until his death, resignation, or removal from office.

Section 305. Removal and Vacancies. Any director or directors may be removed at any time, (a) with or without "cause" by vote of the shareholders at a special meeting called for that purpose or (b) only for "cause" by the affirmative vote of two-thirds (2/3) of the directors then in office without counting the vote of the interested director. "Cause" for purposes hereof shall be defined as criminal acts, misfeasance of office or other similar acts. If the office of any director or directors becomes vacant by reason of death, resignation, retirement, disqualification, removal from office, a majority of the remaining directors at any regular or special meeting, though less than a quorum or by the sole remaining director, shall choose a successor or successors who shall hold office for the remainder of the term of the vacant office or until his successor shall qualify and be elected. In the event of a vacancy, the Board of Directors, may, in its discretion, reduce the number of directors by allowing the vacated office to remain vacant. In the event that the Board of Directors increases the number of directors, such new directors will be elected by the Board of Directors as provided in Section 303.

Section 306. Quorum; Action. A majority of the entire board (as defined in Section 303) shall constitute a quorum of the board of directors for the transaction of any business but a lesser number may adjourn any meeting. A quorum of any committee shall be a majority of the members thereof except that any committee may, by unanimous action, determine that a lesser number of members (not less than half) shall constitute a quorum. A majority of the members in attendance at any meeting shall, except where a larger number is required by law, by the certificate of incorporation or by these by-laws, decide any question brought before such meeting. Except as provided in Section 309, all action taken by the Board (or any committee thereof) shall be taken at a meeting of the Board (or committee of the Board), including for this purpose a meeting in accordance with Section 310. Provided a quorum shall be present, the vote of a majority of the directors present at a meeting of the Board (or any committee thereof) shall be the action of the Board or such committee, except as otherwise provided by Section 309, by the Certificate of Incorporation, or by law.

Section 307. Regular Meetings. Regular meetings of the board of directors may be held without call or formal notice at such places either within or without the State of New York and at such times as the board may from time to time by vote determine. A regular meeting of the board of directors for the election of officers and for such other business as may come before the meeting may be held without call or formal notice immediately after, and at the same place as, the annual meeting of shareholders or any special meeting of shareholders at which a board of directors is elected. If a regular meeting is not to be held at the time and place designated by the Board of Directors, notice of the change in time and venue of the new meeting shall be given in accordance with the notice procedure set forth in Section 308. A director cannot vote by proxy, or otherwise act by proxy, at a meeting of the Board of Directors.

Section 308. Special Meetings. Special meetings of the board of directors or any committee thereof may be held at any place either within or without the State of New York at any time when called by the President, the Chairman of the Board, or secretary or a majority of the directors, written notice of the time and place thereof having been given to each director as follows: (a) by delivering a copy of such notice to the director personally no later than the third day preceding the date of the meeting, or (b) by sending a copy of such notice addressed to the director at his or her mailing address as it appears on the books of the corporation, such notice to be sent no less than ten days before the date of the meeting if sent by ordinary mail or no later than the third business day before the date of the meeting if sent by overnight mail or by a courier service (such as Federal Express) which guarantees next day delivery, or (c) by transmitting such notice to the director by telecopier or e-mail (to a telecopier number or e-mail address which has been furnished by him or her to the secretary of the corporation) no later than the second business day preceding the date of the meeting, receipt confirmed by or on behalf of the recipient.

Waiver of Notice in writing by any director of any special meeting of the Board or of any committee thereof, whether prior or subsequent to such meeting, or attendance at such meeting by any director, shall be equivalent to notice to such directors of such meeting.

Section 309. Action by the Board Without a Meeting. Any action required or permitted to be taken by the board or any committee thereof may be taken without a meeting if all members of the board or the committee consent in writing to the adoption of a resolution authorizing the action. The resolution and the written consents thereto by the members of the board or committee shall be filed with the minutes of the proceedings of the board or committee.

Section 310. Participation in Meetings by Telephone. Any one or more members of the board or any committee thereof may participate in a meeting of such board or committee by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at a meeting but the board may, by resolution, provided that directors participating in a meeting other than by being present in person shall receive lesser compensation than directors present at the meeting in person.

Section 311. Board Committees. Subject to the last sentence of this paragraph, there shall be an Audit Committee, a Compensation Committee, a Nominating/Governance Committee and such other committee as the Board deems appropriate from time to time, each consisting of not less than three directors appointed by the board, each of which Committees may meet from time to time on notice to all members thereof by any member thereof. Such Committees shall keep regular minutes of their proceedings and report the same to the board. The membership and responsibilities of each Committee of the Board of Directors shall comply with applicable rules and regulations under the Securities Exchange Act of 1934 and the rules of any national securities exchange or Nasdaq NMS or SmallCap market on which the securities of the Corporation may be listed for trading as in effect from time to time.

The Audit Committee, the Compensation Committee, and the Nominating and Governance Committees of the Board shall have the functions and responsibilities set forth in their respective charters as in effect on the date of adoption of these Amended and Restated By-Laws, as such charters may themselves be amended from time to time in accordance with the provisions of each such charter.

In every case, the affirmative vote of a majority of all members of the Committee present at the meeting shall be necessary to its adoption of any resolution.

Section 312. Report and Records. The reports of officers and Committees and the records of the proceedings of all Committees shall be filed with the Secretary of the Corporation and presented to the Board of Directors, if practicable, at its next regular meeting. The Board of Directors shall keep complete records of its proceedings in a minute book kept for that purpose. When a director shall request it, the vote of each director upon a particular question shall be recorded in the minutes.

Section 313. Chairman of the Board. The Board of Directors shall elect a Chairman of the Board at the first regular meeting of the Board following each annual meeting of shareholders at which directors are elected. The Chairman of the Board shall be a member of the Board of Directors and shall preside at the meetings of the Board and perform such other duties as may be prescribed by the Board of Directors.

ARTICLE IV. OFFICERS.

Section 401. Officers. The officers of the Corporation shall be a President, a Secretary, a Controller/Treasurer, and such other officers and assistant officers, as the Board of Directors may from time to time deem advisable. Except for President and Secretary, the Board may refrain from filling any of the said offices at any time and from time to time. Except as otherwise required by applicable law, the same individual may hold any two (2) or more offices. The officers shall be elected by the Board of Directors immediately following the annual meeting of shareholders, or at such other time, in the manner and for such terms as the Board of Directors from time to time shall determine. Any officer may be removed at any time, with or without cause (by the Board or the President, and the President by the Board), and regardless of the term for which such officer was elected, but without prejudice to any contract right of such officer. The election or appointment of an officer shall not of itself create contract rights. Each officer shall hold his office for the current year for which he was elected or appointed by the Board unless he shall resign, becomes disqualified, or be removed at the pleasure of the Board of Directors. A vacancy in office arising for any reason may be filled for the unexpired portion of the term by the Board of Directors.

Section 402. President. The President shall have general supervision of all of the departments and business of the Corporation and shall prescribe the duties of the other officers and employees and see to the proper performance thereof. The President shall be responsible for having all orders and resolutions of the Board of Directors carried into effect. The President shall execute on behalf of the Corporation and may affix or cause to be affixed a seal to authorized documents and instruments requiring such execution, except to the extent that signing and execution thereof shall have been delegated to some other officer or agent of the Corporation by the Board of Directors or by the President. The President shall be a member of the Board of Directors. In the absence or disability of the Chairman of the Board or his/her refusal to act, the President shall preside at meetings of the Board. In general, the President shall perform all the duties and exercise all of the powers and authorities incident to such office or as prescribed by the Board of Directors. He shall, unless otherwise directed by the Board of Directors, attend in person or by substitute appointed by him, or shall execute on behalf of the Corporation written instructions appointing a proxy or proxies to represent the Corporation at, all meetings of the shareholders of any corporation in which the Corporation shall hold any stock and may, on behalf of the Corporation, in person or by substitute or by proxy, execute written waivers of notice and consents with respect to any such meetings. At all such meetings and otherwise, the President in person or by substitute or proxy as aforesaid, may vote the stock so held by the Corporation and may execute written consents and other instruments with respect to such stock and may exercise any and all rights and powers incident to the ownership of said stock, subject however to the instructions, if any, of the Board of Directors.

Section 403. Controller/Treasurer. The Treasurer shall act under the supervision of the President or such other officer as the President may designate. The Treasurer shall be the chief financial officer of the Corporation. The Treasurer shall have the care and custody of all funds, securities, evidences of indebtedness and other personal property of the Corporation and shall deposit the same in accordance with the instructions of the Board of Directors. He shall receive and give receipts and acquitances for moneys paid in on account of the Corporation, and shall pay out of the funds on hand all bills, payrolls and other just debts of the Corporation of whatever nature upon maturity of the same. He shall enter regularly in books belonging to the Corporation, to be kept by him for that purpose, full and accurate accounts of all moneys received and paid out by him on account of the corporation, and he shall perform all other duties incident to the office of the Treasurer and, upon request of the Board, he shall make such reports to it as may be required at any time. He shall, if required by the Board, give the Corporation a bond in such sums and with such sureties as shall be satisfactory to the Board, conditioned upon the faithful performance of his duties and for the restoration to the Corporation in case of his death, resignation, retirement or removal from office of all books, papers, vouchers, money and other property of whatever kind in his possession, or under his control belonging to the Corporation. Unless the Board of Directors otherwise prescribes, the Controller shall be the principal financial and accounting officer for the Corporation for SEC reporting purposes.

Section 404. Secretary. The Secretary shall act under the supervision of the President or such other officers as the President may designate. Unless the Board has elected a Secretary to the Board of Directors, or unless a designation to the contrary is made at a meeting, the Secretary shall attend all meetings of the Board of Directors and all meetings of the shareholders and record all of the proceedings of such meetings in a book to be kept for that purpose, and shall perform like duties for the standing Committees when required by these By-laws or otherwise. The Secretary shall give, or cause to be given, notice of all meetings of the shareholders and of the Board of Directors. The Secretary shall keep a seal of the Corporation, and, when authorized by the Board of Directors or the President, cause it to be affixed to any documents and instruments requiring it. The Secretary shall perform such other duties as may be prescribed by the Board of Directors, the President, or such other supervising officer as the President may designate. One or more assistant secretaries may be appointed to fulfill functions in the absence or at the direction of the Secretary.

Section 405. General Powers. The officers are authorized to do and perform such corporate acts as are necessary in the carrying on of the business of the Corporation, subject always to the direction of the Board of Directors.

ARTICLE V. INDEMNIFICATION.

Section 501. Indemnification by the Corporation. The Corporation shall, to the fullest extent permitted by applicable law, indemnify any person made or threatened to be made a party to any action or proceeding, whether civil, criminal, administrative or investigative (and whether or not (i) by or in the right of the Corporation to procure a judgment in its favor or (ii) by or in the right of any Other Entity (as defined below) which such person served in any capacity at the request of the Corporation, to procure a judgment in its favor), by reason of the fact that such person, or his or her testator or intestate, is or was a director or officer of the Corporation or served such Other Entity in any capacity at the request of the Corporation, against all judgments, fines, amounts paid in settlement and all expenses, including attorneys' and other experts' fees, costs and disbursements, actually and reasonably incurred by such person as a result of such action or proceeding, or any appeal therein, or actually and reasonably incurred by such person (a) in making an application for payment of such expenses before any court or other governmental body, or (b) in otherwise seeking to enforce the provisions of this Section 501, or (c) in securing or enforcing such person's rights under any policy of director or officer liability insurance provided by the Corporation, if such person acted in good faith, for a purpose which he or she reasonably believed to be in, or, in the case of services for any Other Entity, not opposed to, the best interests of the Corporation and, in criminal actions or proceedings, in addition, had no reasonable cause to believe that his or her conduct was unlawful. The termination of any action or proceeding by judgment, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not in itself create a presumption that such person did not act in good faith, for a purpose which he or she reasonably believed to be in, or, in the case of service for any Other Entity, not opposed to, the best interests of the Corporation or that he or she had reasonable cause to believe that his or her conduct was unlawful.

However, (i) no indemnification may be made to or on behalf of any such person if a judgment or other final adjudication adverse to such person establishes that his or her acts were committed in bad faith or were the result of active and deliberate dishonesty and were material to the cause of action so adjudicated, or that he or she personally gained in fact a financial profit or other advantage to which he or she was not legally entitled; (ii) no indemnification may be made if there has been a settlement approved by the court and the indemnification would be inconsistent with any condition with respect to indemnification expressly imposed by the court in approving the settlement; and (iii) in the event of a proceeding by or in the right of the Corporation to procure a judgment in its favor, no indemnification may be made if it is settled or otherwise disposed of or such person shall have been finally adjudged liable to the Corporation, unless (and only to the extent that) the court in which the action was brought, or if no action was brought, any court of competent jurisdiction, determines upon application that, in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnity for such portion of the settlement amount and expenses as the court deems proper.

Any expense described in the first paragraph of this Section 501 that is incurred by any person entitled to indemnification under this Section 501 shall be paid or reimbursed to such person by the Corporation in advance of the final disposition of any related action or proceeding upon receipt of an undertaking by or on behalf of such person to repay such amount to the Corporation to the extent, if any, that such person (i) is ultimately found not to be entitled to indemnification or (ii) receives reimbursement for such expenses under a policy of insurance paid for by the Corporation. Such advances shall be paid by the Corporation to such person within twenty days following delivery of a written request therefor by such person to the Corporation. No payment made by the Corporation pursuant to this paragraph shall be deemed or construed to relieve the issuer of any insurance policy of any obligation or liability which, but for such payment, such insurer would have to the Corporation or to any director or officer of the Corporation or other individual to whom or on whose behalf such payment is made by the Corporation.

The indemnification and advancement of expenses provided by this Section 501: (i) shall continue as to the person entitled to indemnification hereunder even though he or she may have ceased to serve in the capacity that entitles him or her to indemnification at the time of the action or proceeding and (ii) shall inure to the benefit of the heirs, executors and administrators of such person.

A person who has been successful, on the merits or otherwise, in the defense of a civil or criminal action or proceeding of the character described in this Section 501 shall be entitled to (i.e., has a legally binding right against the Corporation to) the indemnification authorized by this Section 501. Except as provided in the immediately preceding sentence, any indemnification provided for in this Section 501 (unless ordered by a court under Section 724 of the Business Corporation Law), shall be made by the Corporation only if authorized in the specific case:

(1) By the board of directors acting by a quorum consisting of directors who are not parties to such action or proceeding for which indemnification is sought, upon a finding that the person seeking indemnification has met the standard of conduct set forth in the first two paragraphs of this Section 501, or,

(2) If a quorum under the immediately preceding subparagraph is not obtainable or, even if obtainable, a quorum of disinterested directors so directs:

(A) by the board upon the opinion in writing of independent legal counsel that indemnification is proper in the circumstances because the applicable standard of conduct set forth in said first two paragraphs has been met by such person, or

(B) by the shareholders upon a finding that the person has met the applicable standard of conduct set forth in said first two paragraphs.

Notwithstanding any other provision hereof, no amendment or repeal of this Section 501, or any other corporate action or agreement which prohibits or otherwise limits the right of any person to indemnification or advancement or reimbursement of reasonable expenses hereunder, shall be effective as to any person until the 60th day following notice to such person of such action, and no such amendment or repeal or other corporate action or agreement shall deprive any person of any right hereunder arising out of any alleged or actual act or omission occurring prior to such 60th day.

The Corporation is hereby authorized, but shall not be required, to enter into agreements with any of its directors, officers or employees providing for rights to indemnification and advancement and reimbursement of reasonable expenses, including attorneys' fees, to the extent permitted by law, but the Corporation's failure to do so shall not in any manner affect or limit the rights provided for by this Section 501 or otherwise.

For purposes of this Section 501, the term "the Corporation" shall include any legal successor to the Corporation, including any corporation which acquires all or substantially all of the assets of the Corporation in one or more transactions, and the term "Other Entity" shall mean a corporation (other than the Corporation) of any type or kind, domestic or foreign, or any partnership, joint venture, trust, employee benefit plan or other enterprise. For purposes of this Section 501, the Corporation shall be deemed to have requested a person to serve an employee benefit plan where the performance by such person of his or her duties to the Corporation or any subsidiary thereof also imposes duties on, or otherwise involves services by, such person to the plan or participants or beneficiaries of the plan; excise taxes assessed on a person with respect to an employee benefit plan pursuant to applicable law shall be considered fines; and action taken or omitted by a person with respect to any employee benefit plan in the performance of such person's duties for a purpose reasonably believed by such person to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is not opposed to the best interests of the Corporation.

Section 502 Non-Exclusivity. The rights granted pursuant to or provided by the provisions of Section 501 to any person shall be in addition to and shall not be exclusive of any other rights to indemnification and expenses to which any such person may otherwise be entitled by law, contract or otherwise.

ARTICLE VI. SHARES OF CAPITAL STOCK

Section 601. Share Certificates. Every share certificate of the Corporation shall be signed by the President or a Vice President and by the Secretary or one of the Assistant Secretaries. Certificates may be signed by a facsimile signature of the President and the Secretary or one of the Assistant Secretaries of the Corporation. Certificates for each class of authorized stock shall be consecutively numbered, and the names and residences of the owners, the date of issue, the number of shares and the amount paid therefor shall be entered in the stock books. Certificates of stock shall be in such form consistent with law as shall be prescribed by the Board of Directors. The seal of the Corporation attached to any stock certificate may be a facsimile, engraved or printed. Where any stock certificate is signed by a transfer agent or transfer clerk and by a registrar, the signatures of any officer of the Corporation appearing upon such certificate may be facsimiles, engraved or printed.

Section 602. Lost of Destroyed Certificates. Any person claiming a share certificate to be lost, destroyed, mutilated, or wrongfully taken shall receive a replacement certificate if such person shall have: (a) requested such replacement certificate before the Corporation has notice that the shares have been acquired by a bona fide purchaser; (b) provided the Corporation with an indemnity agreement satisfactory in form and substance to the Board of Directors, or the President or the Secretary; and (c) satisfied any other reasonable requirements (including providing an affidavit and a surety bond) fixed by the Board of Directors, or the President or the Secretary.

Section 603 Transfer of Shares. Shares of stock shall be transferable on the books of the Corporation upon receipt by it or its transfer agent of appropriate documentation evidencing such transfer and, in the case of stock represented by a certificate, upon surrender of such certificate. Upon surrender to the Corporation or to a transfer agent of the Corporation of a certificate of stock duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue or cause the issuance of a new certificate to the person entitled thereto, and cancel the old certificate. The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person whether or not it shall have express or other notice thereof, except as may be required by the laws of New York. Subject to the foregoing the Board of Directors shall have power and authority to make such rules and regulations as it shall deem necessary or appropriate concerning the issue, transfer, and registration of shares and to appoint and remove transfer agents and registrars of transfer.

ARTICLE VII. GENERAL

Section 701. Corporate Seal. The seal of the corporation shall be circular in form and shall contain the name of the Corporation, the year "1961" and the words "Corporate Seal, New York."

Section 702. Fiscal Year. The fiscal year of the Corporation shall begin on the first (1st) day of October in each year and end on the thirtieth (30th) day of September in each year.

Section 703. Record Date. The Board of Directors may fix any time whatsoever not less than ten (10) nor more than sixty (60) days prior to the date of any meeting of shareholders, or the date for the payment of any dividend or distribution, or the date for the allotment of rights, or the date when any change or conversion or exchange of shares will be made or will go into effect, as a record date for the determination of the shareholders entitled to notice of, or to vote at, any such meetings, or entitled to receive payment of any such dividend or distribution, or to receive any such allotment of rights, or to exercise the rights in respect to any such change, conversion or exchange of shares.

Section 704. Emergency By-Laws. In the event of any emergency resulting from a nuclear attack, widespread pandemic, or similar disaster resulting in the declaration of a state of emergency (or similar declaration) by Federal, New York or Florida (or other state where the Corporation's principal offices shall be located at such time) authorities, and during the continuance of such emergency, the following By-Laws provisions shall be in effect, notwithstanding any other provisions of the By-Laws:

(a) A meeting of the Board of Directors or of any Committee thereof may be called by any officer or director upon one (1) hour's notice to all persons entitled to notice whom, in the sole judgment of the notifier, it is feasible to notify;

(b) The director or directors in attendance at the meeting of the Board of Directors or of any Committee thereof shall constitute a quorum; and

(c) These By-Laws may be amended or repealed, in whole or in part, by a majority vote of the directors attending any meeting of the Board of Directors, provided such amendment or repeal shall only be effective for the duration of such emergency.

Section 705. Severability. If any provision of these By-Laws is illegal or unenforceable as such, such illegality or unenforceability shall not affect any other provision of these By-Laws and such other provisions shall continue in full force and effect.

ARTICLE VIII. AMENDMENT OR REPEAL.

Section 801. Amendments. These By-Laws may be altered or amended or repealed by (a) the affirmative vote of a majority of the stock issued and outstanding and entitled to vote thereat, at any annual meeting of the shareholders or at any special meeting of the shareholders if notice of the proposed alteration or amendment or repeal be contained in the notice of such special meeting, or (b) the affirmative vote of a majority of the Board of Directors at any regular meeting of the Board of Directors, or at any special meeting of the Board of Directors if notice of the proposed alteration or amendment or repeal be contained in the notice of such special meeting; provided, however, that the shareholders pursuant to clause (a) of this Section 801 may at any time limit the power of the board of Directors to amend, alter, or repeal any by-law adopted by the shareholders; and provided, further, that if any by-law regulating an impending election of directors or meeting of shareholders is adopted, amended, or repealed by the Board of Directors, there shall be set forth in the notice of the next or such meeting of the shareholders of the Corporation the by-law so adopted, amended, or repealed, together with a concise statement of the changes made and the effect or effects thereof.

ARTICLE IX. APPROVAL OF AMENDED AND RESTATED BY-LAWS

Section 901. Approval and Effective Date. These Third Amended and Restated By-laws have been approved as the By-laws of the Corporation as of August 10, 2010, and shall be effective as of said date.

/s/ Steven A. Malsin
Steven A. Malsin, Secretary

List of Subsidiaries of Forward Industries, Inc.

1. Koszegi Industries Inc., an Indiana Corporation
2. Forward Industries HK Limited., a Hong Kong Limited Company (the name of this subsidiary was changed from “Koszegi Asia 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 Statements on Forms S-8 (Registration File Nos. 333-104743, 333-144442, and 333-165075) of Forward Industries, Inc., of our report dated December 8, 2010, which appears in the annual report on Form 10-K of Forward Industries, Inc. for the year ended September 30, 2010.

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

December 8, 2010
Miami, Florida

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

I, Brett M. Johnson, certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended September 30, 2010, of Forward Industries, Inc. ("registrant");
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 the registrant as of, and for, the periods presented in this report;
4. The registrant'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 the registrant 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 the registrant, 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 control 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 the registrant'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 based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant'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 the registrant's internal control over financial reporting.

Date: December 8, 2010

/s/ Brett M. Johnson
Brett M. Johnson
President and Chief Executive Officer
(Principal Executive Officer)

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

I, James O. McKenna, certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended September 30, 2010, of Forward Industries, Inc. ("registrant");
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 the registrant as of, and for, the periods presented in this report;
4. The registrant'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 the registrant 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 the registrant, 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 control 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 the registrant'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 based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant'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 the registrant's internal control over financial reporting.

Date: December 8, 2010

/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**

Brett M. Johnson, 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, 2010 (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 8th day of December 2010.

/s/ BRETT M. JOHNSON

Brett M. Johnson
President and Chief Executive Officer
(Principal Executive Officer)

/s/ JAMES O. MCKENNA

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