FORCE PROTECTION INC
Form 10-Q
September 30, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

o 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 001-33253

FORCE PROTECTION, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	**84-1383888**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
9801 Highway 78, Building No. 1 Ladson, South Carolina	**29456**
(Address of Principal Executive Offices)	(Zip Code)

(843) 574-7000

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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. x Yes o No

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

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

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

The registrant had 68,318,162 shares of common stock outstanding as of September 30, 2008.

Table of Contents

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1. Financial Statements 1

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations 10

Item 3. Quantitative and Qualitative Disclosures About Market Risk 19

Item 4. Controls and Procedures 19

PART II OTHER INFORMATION

Item 1. Legal Proceedings 21

Item 1A. Risk Factors 23

Item 2. Unregistered Sales Of Equity Securities And Use Of Proceeds 23

Item 3. Defaults Upon Senior Securities 23

Item 4. Submission of Matters to a Vote of Security Holders 23

Item 5. Other Information 23

Item 6. Exhibits 23

Table of Contents

PART I. FINANCIAL STATEMENTS

Item 1. Financial Statements

Force Protection, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

	As of June 30, 2008	As of December 31, 2007
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 72,517	$ 90,997
Accounts receivable, net	131,053	118,794
Inventories	110,091	140,639
Advances to subcontractor	10,909	25,106
Deferred income tax assets	12,780	14,530
Income taxes receivable		6,565
Other current assets	9,771	8,481
Total current assets	347,121	405,112
Property and equipment, net	64,316	66,707
Intangible assets, net	1,005	1,355
Deferred income tax assets	1,390	1,496
Total assets	$ 413,832	$ 474,670
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 105,082	$ 146,515
Due to United States government	19,285	18,969
Other current liabilities	18,127	20,710
Advance payments on contracts	24,195	56,552
Total current liabilities	166,689	242,746
Other long-term liabilities	145	295
	166,834	243,041
Commitments and contingencies		
Shareholders equity:		
Common stock	68	68
Additional paid-in capital	257,225	257,160
Accumulated deficit	(10,295)	(25,599)
Total shareholders equity	246,998	231,629
Total liabilities and shareholders equity	$ 413,832	$ 474,670

The accompanying notes to condensed consolidated financial statements
are an integral part of these balance sheets.

Table of Contents

Force Protection, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2008	2007	2008	2007
	(In Thousands, Except Per Share Data)			
Net sales	$ 340,917	$ 138,659	$ 743,964	$ 243,484
Cost of sales	303,566	118,090	668,282	203,215
Gross profit	37,351	20,569	75,682	40,269
General and administrative expenses	21,525	17,339	46,150	34,405
Research and development expenses	3,039	3,503	5,899	8,504
Operating income (loss)	12,787	(273)	23,633	(2,640)
Other income, net	460	1,106	971	2,894
Interest expense	(98)	(22)	(223)	(31)
Income before income tax expense	13,149	811	24,381	223
Income tax expense	(4,882)	(148)	(9,077)	(40)
Net income	$ 8,267	$ 663	$ 15,304	$ 183
Earnings per common share:				
Basic	$ 0.12	$ 0.01	$ 0.22	$ 0.00
Diluted	$ 0.12	$ 0.01	$ 0.22	$ 0.00
Weighted average common shares outstanding:				
Basic	68,311	68,123	68,304	67,879
Diluted	68,372	68,555	68,368	68,248

The accompanying notes to condensed consolidated financial statements
are an integral part of these statements.

Table of Contents

Force Protection, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the six months ended June 30,	
	2008	2007
	(In Thousands)	
Cash flows from operating activities:		
Net income	$ 15,304	$ 183
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	6,154	2,079
Deferred income tax provision (benefit)	1,856	(2,810)
Income tax benefit realized from stock options exercised		(2,276)
Stock-based compensation	65	1,553
Allowance for doubtful accounts	531	(45)
Provision for asset impairment	4,947	
Provision for inventory obsolescence	3,837	3,284
Warranty reserve	467	838
(Increase) decrease in assets		
Accounts receivable	(12,790)	(65,749)
Inventories	26,711	(86,197)
Advances to subcontractor	14,197	
Income taxes receivable	6,565	(75)
Other current assets	(1,290)	(9,604)
Increase (decrease) in liabilities		
Accounts payable	(41,433)	60,882
Due to U. S. government	316	5,190
Other current liabilities	(2,980)	6,291
Advance payments on contracts	(32,357)	(10,024)
Total adjustments	(25,204)	(96,663)
Net cash used in operating activities	(9,900)	(96,480)
Cash flows from investing activities:		
Capital expenditures	(8,360)	(25,538)
Net cash used in investing activities	(8,360)	(25,538)
Cash flows from financing activities:		
Proceeds from issuance of common stock		1,277
Income tax benefit realized from stock options exercised		2,276
Net (decrease) increase in long-term liabilities	(220)	20
Net cash (used in) provided by financing activities	(220)	3,573
Decrease in cash and cash equivalents	(18,480)	(118,445)
Cash and cash equivalents at beginning of period	90,997	156,319
Cash and cash equivalents at end of period	$ 72,517	$ 37,874
Supplemental cash flow information:		
Cash paid during the period for		
Interest, net of amounts capitalized	$ 238	$ 31
Income taxes	$ 91	$ 700
Supplemental schedule of noncash investing and financing activities		
Note payable, net of discount, issued as consideration for non-compete agreement	$	$ 390

The accompanying notes to condensed consolidated financial statements
are an integral part of these statements.

Table of Contents

Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Organization and Description of the Business

Force Protection, Inc., reincorporated under the laws of Nevada in 2005, and its subsidiaries, is an important provider of blast- and ballistic-protected products used to support armed forces and security personnel in harm s way. We design, manufacture, test, deliver and support our blast- and ballistic-protected products to increase survivability of the users of the products. Our specialty vehicles, which we believe are the forefront of blast- and ballistic-protected technology, are designed to protect their occupants from landmines, hostile fire, and improvised explosive devices (IEDs). Our primary customer is the United States Department of Defense (DoD) where we service two principal services, the U. S. Army and U. S. Marine Corps.

References herein to Force Protection, the Company, we, our, or us refer to Force Protection, Inc. and its subsidiaries unless otherwise stated indicated by context.

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the United States Securities and Exchange Commission (SEC) on September 15, 2008. These unaudited condensed consolidated financial statements have been prepared pursuant to Rule 10-01 of Regulation S-X. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made herein are adequate to make the information not misleading.

The unaudited results of operations for the interim periods shown in these condensed consolidated financial statements are not necessarily indicative of operating results for the entire year. In our opinion, the accompanying unaudited condensed consolidated financial statements recognize all adjustments of a normal recurring nature considered necessary to fairly state the financial position, results of operations and cash flows for each interim period presented.

These unaudited condensed consolidated financial statements include the assets, liabilities, revenues and expenses of our two wholly owned subsidiaries, Force Protection Industries, Inc. and Force Protection Technologies, Inc. We eliminate from our financial results all significant intercompany accounts and transactions.

Recent Accounting Pronouncements

In May 2008, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. FASB Statement No. 162 defines the order in which accounting principles that are generally accepted should be followed. FASB Statement No. 162 is effective for fiscal years beginning after November 15, 2008. We have not yet commenced evaluating the potential impact, if any, of the adoption of FASB Statement No. 162 on our consolidated financial position, results of operations, and cash flows.

In April 2008, the FASB issued Staff Position (FSP) No. FAS 142-3, *Determination of Useful Life of Intangible Assets,* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing the renewal or extension assumptions used to determine the useful life of a recognized

Table of Contents

Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. Earlier adoption is prohibited. We have not yet commenced evaluating the potential impact, if any, of the adoption of FSP FAS 142-3 on our consolidated financial position, results of operations and cash flows.

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. FASB Statement No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and its related interpretations and (iii) how derivative instruments and related hedged items affect an entity s financial position, results of operations, and cash flows. FASB Statement No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. FASB Statement No. 161 permits, but does not require, comparative disclosures for earlier periods at initial adoption. We have not yet commenced evaluating the potential impact, if any, of the adoption of FASB Statement No. 161 on our consolidated financial position, results of operations, cash flows or disclosures related to derivative instruments and hedging activities.

In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), *Business Combinations*, which establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FASB Statement No. 141(R) applies to fiscal years beginning after December 15, 2008. Earlier adoption is prohibited.

In December 2007, the FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, which establishes accounting and reporting standards that require (i) the ownership interest in subsidiaries held by parties other than the parent to be clearly identified and presented in the consolidated balance sheet within shareholder s equity, but separate from the parent s equity, (ii) the amount of consolidated net income attributable to the parent and the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of operations, and (iii) changes in a parent s ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently. FASB Statement No. 160 applies to fiscal years beginning after December 15, 2008. Earlier adoption is prohibited.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides companies with an option to report selected financial assets and liabilities at fair value. FASB Statement No. 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of a company s choice to use fair value on its earnings. FASB Statement No. 159 also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. FASB Statement No. 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, *Fair Value Measurements*, and No. 107, *Disclosures about Fair Value of Financial Instruments.* FASB Statement No. 159 is effective as of the beginning of an entity s first fiscal year

beginning after November 15, 2007. We adopted FASB Statement No. 159 on January 1, 2008 and we did not elect the fair value option for any other financial instruments or certain other financial assets and liabilities that were not previously required to be measured at fair value.

Table of Contents

Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We adopted FASB Statement No. 157 on January 1, 2008 and it did not have an impact on our consolidated financial position, results of operations and cash flows.

We have determined that all other recently issued accounting pronouncements will not have a material impact on our consolidated financial position, results of operations and cash flows, or do not apply to our operations.

2. Accounts Receivable

Accounts receivable consists of the following (in thousands):

	As of June 30, 2008	As of December 31, 2007
U. S. government	$ 106,320	$ 106,021
Other accounts receivable	25,587	13,096
	131,907	119,117
Less: Allowance for doubtful accounts	(854)	(323)
Accounts receivable, net	$ 131,053	$ 118,794

Other accounts receivable includes amounts that relate to non-government entities and the sale of excess raw materials to suppliers. Any gain or loss on the sale of excess raw materials is included in *Other income, net* in the accompanying condensed consolidated statement of operations. As of June 30, 2008 and December 31, 2007, our accounts receivable from the U.S. government includes $3.8 million and $8.2 million of earned and unbilled accounts receivable, respectively.

3. Inventories

Inventories consist of the following (in thousands):

As of June 30, 2008

				As of December 31, 2007
Raw material and supplies	$	75,096	$	105,313
Work in process		33,978		35,035
Finished goods		1,017		291
Inventories	$	110,091	$	140,639

Due to excess and obsolete inventory and to account for our inventory at the lower of cost or market, we reduced the cost basis of our raw material and supplies and charged to *Cost of Sales* $1.0 and $3.8 million during the three- and six-month periods ended June 30, 2008.

Table of Contents

Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

4. Property and Equipment

Property and equipment consist of the following (in thousands):

	As of June 30, 2008	As of December 31, 2007
Land	$ 4,419	$ 4,419
Buildings	11,314	5,221
Leasehold improvements	31,940	11,775
Machinery and equipment; including tooling and molds	12,999	6,698
Computer equipment and software	7,215	6,750
Furniture and fixtures	4,287	4,454
Demonstration vehicles	1,572	1,531
Manuals	705	705
Vehicles	621	576
	75,072	42,129
Less: Accumulated depreciation	(12,467)	(6,714)
	62,605	35,415
Construction in progress	1,711	31,292
Property and equipment, net	$ 64,316	$ 66,707

In July 2007, we purchased land and an approximately 430,000 square foot building in Roxboro, North Carolina for $3.5 million in cash, which we originally planned to use as a manufacturing plant. We allocated approximately $0.8 million to land and $2.7 million to the building. In March 2008, we decided to suspend the construction of the assembly line at our Roxboro facility and began to develop a plan for an alternative use for the facility. We now intend to use the Roxboro facility for sustainment and training purposes. As a result, we charged to operations in the first quarter of 2008, as an asset impairment, $2.1 million in deposits on services to be provided and $2.8 million in design costs that were previously capitalized.

5. Advance Payments on Contracts

Advance payments on contracts consist of the following (in thousands):

	As of June 30, 2008	As of December 31, 2007
Mine Resistant Ambush Protected (MRAP) program	$22,965	$53,767
Iraqi Light Armored Vehicles (ILAV)	1,230	2,785

Advance payments on contracts	$24,195	$56,552

Under some of our U.S. government contracts, we receive performance-based payments based on completion of specific milestones stipulated under the contract (for example, completion of manufacturing fabrication). We report these payments as *Advance payments on contracts* in our consolidated balance sheet until the final delivery of the products and formal acceptance by the U.S. government as evidenced by an executed Form DD250.

6. Income Taxes

We provide for income taxes using the liability method in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. In accordance with APB Opinion No. 28, *Interim Financial Reporting*, and FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods*, the provision for taxes on income recognizes our estimate of the effective tax rate expected to be applicable for the full fiscal year, adjusted for the impact of any discrete events, which are reported in the period in which they occur. Each quarter, we re-evaluate our estimated tax expense for the year and make adjustments for changes in the estimated tax rate. Additionally, we evaluate the realizability of our deferred tax assets on a quarterly basis. Our evaluation considers all positive and negative evidence and factors, such as the scheduled reversal of temporary differences, historical and projected future taxable income or losses, and prudent and feasible tax planning strategies.

Table of Contents

Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

The *Income tax expense* for the three and six months ended June 30, 2008 was based on the estimated effective tax rates applicable for the fiscal year ending December 31, 2008, after considering items specifically related to the interim periods. The *Income tax expense* for the three- and six-month periods ended June 30, 2007 was based on the estimated effective tax rates applicable for the fiscal year ended December 31, 2007, after considering items specifically related to the interim periods.

Force Protection is subject to U.S. federal, state, and local income taxes. *Income before income tax expense* is as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2008	2007	2008	2007
Income before income tax expense	$ 13,149	$ 811	$ 24,381	$ 223

A reconciliation of statutory federal income tax expense rate to the effective income tax expense rate is as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2008	2007	2008	2007
Income tax expense at statutory rate	(35.00)%	(35.00)%	(35.00)%	(35.00)%
(Increase) decrease in tax rate resulting from:				
State income taxes, net of federal tax benefit	(1.93)%	(4.70)%	(1.93)%	(4.70)%
Reversal of other tax accruals no longer required		8.21 %		8.21 %
Research and development credit		11.63 %		11.63 %
Other permanent differences	1.04 %	2.55 %	0.94 %	2.55 %
Nondeductible items	(1.24)%	(1.05)%	(1.24)%	(1.05)%
Effective income tax rate	(37.13)%	(18.36)%	(37.23)%	(18.36)%

The effective income tax rate is the provision for income tax expense as a percent of income before income taxes. The 2008 effective rate is higher than the expected federal statutory rate of 35% primarily due to the state income taxes and permanent differences at statutory rate.

We adopted FASB Interpretation No. 48, on January 1, 2007. FASB Interpretation No. 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FASB Statement No. 109 does not prescribe a recognition threshold or measurement attribute for the financial statement recognition and measurement of a tax position taken in a tax return. FASB Interpretation No. 48 clarifies the application of FASB Statement No. 109 by defining a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in a company s financial statements. Additionally, FASB Interpretation No. 48 provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We include interest and penalties related to federal and state income taxes, if any, as a component of *Income tax expense* in the accompanying unaudited condensed consolidated statements of operations.

We believe that we have appropriate support for the income tax positions taken and to be taken on our income tax returns and that our income tax receivable and accruals for tax liabilities are adequate for all open years and based on an assessment of many factors including past experience and interpretations of tax laws applied to the facts of each matter. Accordingly, we have not recognized a liability as a result of applying the guidance in FASB Interpretation No. 48.

Table of Contents

Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

7. Earnings Per Common Share

The following table shows the information used in the calculation of basic and diluted earnings per common share (in thousands, except number of shares and per share amounts):

	For the three months ended June 30,		For the six months ended June 30,	
	2008	2007	2008	2007
Numerator Basic and diluted:				
Net income	$ 8,267	$ 663	$ 15,304	$ 183
Denominator:				
Weighted average common shares outstanding basic	68,311,399	68,122,995	68,304,250	67,878,655
Add: Stock options	26,713	334,878	26,868	280,621
Add: Stock grants	34,012	97,300	36,544	88,959
Weighted average common shares outstanding diluted	68,372,124	68,555,173	68,367,662	68,248,235
Basic earning per common share:				
Net income basic	$ 0.12	$ 0.01	$ 0.22	$ 0.00
Diluted earning per common share:				
Net income diluted	$ 0.12	$ 0.01	$ 0.22	$ 0.00

The calculation of earnings per common share is based on the weighted-average number of our common shares outstanding during the applicable period. The calculation for diluted loss per common share recognizes the effect of all dilutive potential common shares that were outstanding during the respective periods, unless their impact would be anti-dilutive. We use the treasury stock method to calculate the dilutive effect of stock options and other common stock equivalents (potentially dilutive shares). Diluted earnings per common share recognizes the dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. These potentially dilutive shares include stock options and stock grants.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide information that is supplemental to, and should be read together with our unaudited condensed consolidated financial statements and the accompanying notes included in this Quarterly Report on Form 10-Q. Information in this Item 2 is intended to assist the reader in obtaining an understanding of our unaudited consolidated financial statements, the changes in certain key items in those financial statements from period to period, the primary factors that accounted for those changes, and any known trends or uncertainties that we are aware of that may have a material effect on our future performance, as well as how certain accounting principles affect our unaudited condensed consolidated financial statements. MD&A includes the following sections:

- Overview
- Business Model and Key Concepts
- Key Challenges
- Strategy and Key Trends
- Results of Operations an analysis of our consolidated results of operations, for the three and six month periods presented in our condensed consolidated financial statements
- Liquidity and Capital Resources an analysis of the effect of our operating, financing and investing activities on our liquidity and capital resources
- Off-Balance Sheet Arrangements a discussion of such commitments and arrangements
- Contractual Obligations
- Critical Accounting Policies and Estimates
- New Accounting Pronouncements

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the information incorporated by reference herein, contain both historical and forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the United States Securities Exchange Act of 1934, as amended, (Exchange Act). All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q and the documents incorporated by reference in this Quarterly Report on Form 10-Q that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements including, in particular, the statements about our plans, objectives, strategies and prospects regarding, among other things, our financial position, results of operations, cash flows and business. We have identified some of these forward-looking statements with words like believe, may, will, expect, intend, plan, predict, anticipate, estimate or continue and other words and terms of similar meaning. These

include, among other things:

- statements regarding the growth of the U.S. and world market for blast- and ballistic-protected vehicles and survivability solutions;

- statements with respect to our expectation regarding our ability to obtain materials, components and supplies necessary to manufacture our vehicles, our ability to improve cost efficiencies, including, without limitation, as a result of volume purchasing, improvements in our manufacturing process and possible future changes in the efficiencies in our operations;

- statements regarding any changes in our cost of sales, our general and administrative expenses or our research and development expenses as a percentage of net sales;

- statements regarding the revenues that may be derived from, and the quantities of vehicles that may be purchased or ordered pursuant to, existing or possible future contracts or orders by various customers, including statements regarding the estimated value of those orders and contracts and statements about the amount of vehicles in our backlog and the value of our backlog;

- statements regarding our ability to utilize net operating loss carry-forwards for income tax purposes; and

- statements regarding the rate at which we and GDLS will produce MRAP vehicles and the date as of which we will achieve any particular monthly production rate of these vehicles.

When used in this Quarterly Report on Form 10-Q, except as specifically noted otherwise, the term Force Protection, Inc. refers to Force Protection, Inc. only, and references to the terms Company, we, our, ours and us refer to Force Protection, Inc. and its consolidated subsidia

Table of Contents

Overview

We design, manufacture, test, deliver and support our blast- and ballistic-protected products to increase survivability of the users of our products. These vehicles require ongoing life cycle support in the areas of spare parts, maintenance, and training. As a consequence, we believe that we have a substantial business opportunity to provide life cycle support to our existing and future fleet of vehicles. In addition, as the fleet ages, we have the opportunity to offer upgrades and product improvements for our fleet designed to further enhance the operability and capability of the vehicles.

Our specialty vehicles, which we believe are at the forefront of blast- and ballistic-protected technology, are designed to protect their occupants from landmines, hostile fire and improvised explosive devices (IEDs). We currently have four vehicle types aimed at fulfilling different operational or mission requirements: the Buffalo, the Cougar, the Cougar Lightweight / Cougar Restricted Terrain, and the Cheetah. The Buffalo has six wheels, is our largest vehicle and is designed primarily for use in conducting mine clearance operations. The Cougar is a medium-sized vehicle and is available in 4-wheeled and 6-wheeled variants and in a variety of configurations for troop transport, command and control, route reconnaissance, convoy escort and ambulance duty. The Cougar Lightweight / Cougar Restricted Terrain is a new class of vehicle developed in response to an urgent request to develop vehicles providing enhanced mobility while maintaining survivability. Although this new class of vehicle is derived from our successful Cougar platform, it incorporates significant amounts of design and technology developed as part of the Cheetah platform. On September 5, 2008, the United States Marine Corps made a contract award for five of these vehicles under the MRAP Competitive Contract, defined below. The Cheetah is a 4-wheeled vehicle with a curb weight of approximately 8 tons, designed specifically for reconnaissance, forward command and control and urban operations. At present, we have not had any orders for the Cheetah, although on September 15, 2008, we submitted a response to a U.S. Army Tank-Automotive and Armaments Command (TACOM) Request for Information.

We are headquartered, and have manufacturing facilities, in Ladson, South Carolina. In March 2007, we purchased a blast range in Edgefield, South Carolina, and leased a related office building. We use these facilities for our own research and development activities and may also contract with selected governmental and commercial customers to use our facilities. We also purchased, in March 2007, a facility in Summerville, South Carolina, for the intended purpose of expanding research and development operations and to facilitate our increased customer training requirements of products and applications. In July 2007, we purchased an additional facility in Roxboro, North Carolina. We intend to use this facility for training and sustainment purposes. In January 2008, we leased a small furnished office space in Sterling Heights, Michigan, for use as an offsite engineering office.

Business Model and Key Concepts

On September 10, 2007 we entered into a subcontract (the GDLS Subcontract) with General Dynamics Land Systems Inc. (GDLS) pursuant to which GDLS manufactures approximately 50% of the Cougar vehicles to be manufactured under, and performs approximately 50% of the life cycle support required by, the January 2007 U.S. Marine Corps competitive contract under the Mine Resistant Ambush Protected (MRAP) program for Cougar vehicles (MRAP Competitive Contract) based on revenues. We previously entered into a joint venture with GDLS on December 15, 2006 (the Workshare Agreement) pursuant to which we and GDLS would fulfill the obligations of the MRAP Competitive Contract. We formed a Delaware limited liability company, Force Dynamics, LLC (Force Dynamics), to govern the terms of the joint venture. However, the MRAP Competitive Contract was awarded to us and not to Force Dynamics or GDLS. We have attempted to novate this contract to Force Dynamics, although the U.S. government has not yet agreed to the novation. If the contract is novated, we and GDLS may be required to guarantee payment of all liabilities and performance of all obligations that Force Dynamics will assume under the novated contract.

Because this contract was awarded to Force Protection and has not yet been novated to the joint venture, we include 100% of the revenues from the MRAP Competitive Contract (including revenue from vehicles manufactured by GDLS) in *Net sales* in our consolidated statement of operations, and will continue to include them until such time as the MRAP Competitive Contract is novated to Force Dynamics, at which point we will recognize revenues only from vehicles subcontracted by Force Dynamics that we actually manufacture. In addition, during the year ended December 31, 2007 we include in *Cost of sales*, an amount equal to 100% of revenues from vehicles manufactured by GDLS. Notwithstanding the inclusion of revenues from vehicles manufactured by GDLS in *Net sales*, GDLS is entitled to all of the revenue from

Table of Contents

vehicles manufactured by GDLS. Activities under the GDLS Subcontract continue to evolve and after 2007 certain activities performed by GDLS result in a gross profit to us.

To meet the needs of other government contracts, in 2007 we significantly expanded our work force and invested heavily in additional production facility capacity. However, beginning at the end of the first quarter of 2008, we began to scale back our work force to be more in line with current demand. In the future, we intend to utilize partners and subcontractors to further expand our capacity and capability to fulfill government contracts. This is especially key as U.S. government contracts permit the government to terminate the contract, in whole or in part, without prior notice, at the government s convenience or for default, usually based on performance. Therefore, if the federal government terminates a contract with us or if we default due to our failure or the failure of our partner to perform under the contract, we would be entitled to recover only our incurred or committed costs, settlement expenses and profit on the work completed prior to the termination at best or could even be liable for excess costs incurred by the federal government in procuring undelivered items from an alternative source.

Key Challenges

Our rapid growth has come with numerous challenges. Coupled with our reliance on the U.S. military for substantially all of our business, we have identified the following key challenges to continued success:

- being awarded additional orders or contracts for our vehicles in a volatile marketplace;
- being awarded additional orders or contracts for spare parts and/or sustainment services;
- driving a business in an environment where U.S. military contracts, which represent substantially all of our business, may be terminated in whole or in part at any time;
- remediating internal control weaknesses over financial reporting and disclosure;
- controlling general and administrative expenses; and
- rebalancing the business to contract delivery order requirements.

The main uncertainty about our future operations is whether we will continue to receive additional orders or contracts for our vehicles. We estimate that orders for MRAP vehicles allow us to continue production through the first part of 2009 and for our Buffalo vehicles to extend production until 2012. It is impossible to predict with certainty whether future orders or contracts will be placed by new or existing customers for our existing products. If we do not receive future orders or contracts for production beyond such dates, it is unlikely that our vehicle business will continue and our business will be materially affected. If we do not receive future orders or contracts for spare parts and/or sustainment services, our business may be materially affected.

We derive substantially all of our revenue from contracts and subcontracts with the U.S. government and its agencies, primarily the Department of Defense (DoD). We expect that U.S. government contracts, particularly with the DoD, will continue to be our primary source of revenue for

the foreseeable future. The continuation and renewal of our existing government contracts and new government contracts are, among other things, contingent upon the availability of adequate funding for various U.S. government agencies, including the DoD. Changes in U.S. government spending could directly affect our operating performance and lead to an unexpected loss of revenue. The loss or significant reduction in government funding of a large program in which we participate could also result in a material decrease to our future sales, earnings and cash flows.

We have identified material weaknesses in our internal control over financial reporting and have concluded that our disclosure controls were not effective as of December 31, 2007, and although we have taken steps to correct our material weaknesses, we may still be subject to risks. If we are unsuccessful in implementing or following our remediation plan, or fail to update our internal control over financial reporting as our business evolves, we may be unable to report financial information timely and accurately or to maintain effective disclosure controls and procedures. There can be no assurance that, as a result of these remediation efforts or otherwise, we will not identify other inaccuracies in either our previous or future financial statements that will require amendments and restatements to those financial statements, which could have a material adverse effect on us and the price of our common stock.

We experienced substantial growth in net sales during the first half of 2008 and during 2007. At the same time, our general and administrative expenses increased substantially to support the increased business base and due to the increased use of outside legal, accounting, auditing and consulting resources to address our material weaknesses in internal controls and internal controls over financial reporting and the restatements of our condensed consolidated financial statements for the first, second and third quarters of 2007. We expect that managing general and administrative expenses will continue to be a challenge. However, we are unable

Table of Contents

to predict whether general and administrative expenses will decrease.

During the first six months of 2008, we sought to stabilize our business to match our contract delivery order requirements. We recognized that our business was changing, and in response, we are attempting to rebalance our workforce and manufacturing capacity. We may incur costs as a result of our efforts to recalibrate our business to meet the needs of our customers. In addition, in the past three years we had sought to rapidly expand and develop our operations and production capacity. We have incurred costs and are continuing to incur significant costs associated with our rapid expansion based on the expectation of future contract revenues. We are still experiencing and may continue to experience certain effects from this rapid growth, such as payments under severance arrangements and the costs associated with excess manufacturing capacity and inventory. This growth had placed significant demands on our management and our administrative, operating, manufacturing and financial resources. In addition, our accounting and financial systems need to be substantially improved in order to accommodate our current and projected production levels and to support our government compliance requirements now that we are classified as a large business under applicable federal contracting regulations. We continue to face challenges in improving our administrative, operating, managerial, accounting and financial systems to accommodate our current and projected production levels.

Strategy and Key Trends

Strategy

We plan to leverage our investments in product development and production facilities. To accomplish this we will:

- identify new products and markets to meet evolving customer requirements;
- capitalize on demand for blast- and ballistic-protected vehicles and other survivability solutions;
- expand our service and support network;
- focus on core competencies; and
- leverage key relationships to grow our business.

Key Trends

For periods subsequent to 2007, certain factors are expected to affect our results of operations as compared to results reported through 2007. Some of these factors are:

• stabilizing our growth and expansion to match our contract delivery order requirements;

• the GDLS Subcontract, under which during 2007 we purchased vehicles produced by GDLS from GDLS at the same sales price at which we sold the vehicles to the U.S. military, resulting in a zero gross profit for such sales, and under which after 2007 certain activities performed by GDLS will result in a gross profit to us;

• additional partnering to increase our offerings in designing survivability solutions, gaining insight into customer needs and shifting away from manufacturing;

• costs of the Roxboro, North Carolina facility purchased in 2007 initially intended to be used to expand our manufacturing capacity that in the first quarter of 2008 was determined to be excess capacity and for which we began to develop a plan for alternative use for the facility and for which we incurred an impairment charge of $4.9 million; and

• potential additional business activities and full year carrying costs related to 2007 purchase of blast range and lease of a facility primarily for research and development activities and customer training.

Table of Contents

Results of Operations

The following discussion and analysis is based on our unaudited condensed consolidated statements of operations, which reflect our results of operations for the three- and six-month periods ended June 30, 2008 and 2007 as prepared in accordance with generally accepted accounting principles in the United States of America (GAAP).

The following table presents our results of operations for the three- and six-month periods ended June 30, 2008 and 2007 as well as the percentage change from year to year.

	For the three months ended June 30,			For the six months ended June 30,		
(In Thousands)	**2008**	**2007**	**Percentage Change**	**2008**	**2007**	**Percentage Change**
Net sales	$ 340,917	$ 138,659	146 %	$ 743,964	$ 243,484	206 %
Cost of sales	303,566	118,090	157 %	668,282	203,215	229 %
Gross profit	37,351	20,569	82 %	75,682	40,269	88 %
General and administrative expenses	21,525	17,339	24 %	46,150	34,405	34 %
Research and development expenses	3,039	3,503	(13)%	5,899	8,504	(31) %
Operating income (loss)	12,787	(273)	n/m	23,633	(2,640)	n/m
Other income, net	460	1,106	(58) %	971	2,894	(66) %
Interest expense	(98)	(22)	345 %	(223)	(31)	619 %
Income before income tax expense	13,149	811	n/m	24,381	223	n/m
Income tax expense	(4,882)	(148)	n/m	(9,077)	(40)	n/m
Net income	$ 8,267	$ 663	n/m	$ 15,304	$ 183	n/m

n/m not meaningful

Comparison of Results of Operations for the Three and Six Months Ended June 30, 2008 and 2007

Units sold

The following table presents our shipments for the three- and six-month periods ended June 30, 2008 and 2007 as well as the percentage change from year to year.

	For the three months ended June 30,			For the six months ended June 30,		
			Percentage			**Percentage**

(Units Sold)	2008	2007	Change	2008	2007	Change
Buffalo	25	17	47%	49	35	40%
Cougar (all variants)	565	212	167%	1,345	393	242%
Total units sold	590	229	158%	1,394	428	226%

The increase in vehicles sold for the comparative periods is primarily due to vehicles sold pursuant to the contracts (sole source and competitive) awarded to us under the MRAP program. Of the vehicles sold for the three months ended June 30, 2008 and June 30, 2007, the vehicles sold under such contracts represent approximately 93% and 76%, respectively, of the total vehicles sold. Of the vehicles sold for the six months ended June 30, 2008 and June 30, 2007, the vehicles sold under such contracts represent approximately 95% and 48%, respectively, of the total vehicles sold.

Net sales

The increase in net sales for the comparative periods is attributable to an increase in volume of vehicle deliveries, spare parts, and logistics services (field service representatives and technical publications). The mix of vehicles delivered and spares parts and logistics sales and the percentage change in the comparative periods are set forth in the following table:

Table of Contents

(In Thousands)	For the three months ended June 30, 2008	2007	Percentage Change	For the six months ended June 30, 2008	2007	Percentage Change
Buffalo	$ 16,968	$ 11,820	44%	$ 33,660	$ 22,816	47%
Cougar (all variants)	269,352	109,989	145%	632,629	184,935	242%
Spare parts and logistics	54,597	16,850	224%	77,675	35,733	117%
	$ 340,917	$ 138,659	146%	$ 743,964	$ 243,484	206%

Cost of sales and Gross profit

(in thousands)	For the three months ended June 30, 2008	2007	For the six months ended June 30, 2008	2007
Cost of sales	$ 303,566	$ 118,090	$ 668,282	$ 203,215
Gross margin percentage	11.0%	14.8%	10.2%	16.5%

The gross margin percentage decreased by 3.8 and 6.3 percentage points for the three and six months ended June 30, 2008, respectively, compared to the comparable 2007 periods primarily as a result of GDLS Subcontract activity, whereby we recognized no gross profit on vehicles sold that were produced by GDLS totaling $143.3 million and $339.6 million for the three and six months ended June 30, 2008, respectively. We also incurred a write-down of our raw material and supplies to their net realizable values in the amount of $1.0 million and $3.8 million for the three and six months ended June 30, 2008.

General and administrative expenses

	For the three months ended June 30, 2008	2007	For the six months ended June 30, 2008	2007
As a percentage of net sales	6.3%	12.5%	6.2%	14.1%

General and administrative expenses as a percentage of net sales decreased 6.2 percentage points and 7.9 percentage points for the three and six months ended June 30, 2008, respectively, from the comparable 2007 periods primarily due to a significant increase in sales volume. The increase in general and administrative expenses period over period is related to a $4.9 million charge related to an impairment of certain Roxboro, North Carolina assets, a $1.5 million one-time contribution to the Medical University of South Carolina Foundation for brain trauma research, higher legal, accounting, auditing, and consulting fees, serverance and higher depreciation. These increases were offset by the absence of a liquated damages charge totaling $1.8 million and $6.7 million incurred in the three-and six-month periods ended June 30, 2007, respectively, resulting from the delayed registration of a private placement of equity.

Research and development expenses

	For the three months ended June 30, 2008	2007	For the six months ended June 30, 2008	2007
As a percentage of net sales	0.9%	2.5%	0.8%	3.5%

Research and development expenses decreased as a percentage of net sales by 1.6 percentage points and 2.7 percentage points in the three and six months ended June 30, 2008, respectively, from the comparable 2007 periods. The decrease in both periods is primarily due to reduced Cheetah related expenditures and a significant increase in sales volume. The 2007 Cheetah expenditures included the procurement of materials to build a series of vehicles to conduct ongoing testing.

Table of Contents

Other income

Other income decreased in the three and six months ended June 30, 2008 compared with the comparable 2007 periods due to the lower interest income as a result of the decreased level of funds available for investing and decreased interest rates.

Interest expense

Interest expense increased for the three and six months ended June 30, 2008 over the comparable 2007 periods as a result of commitment fees related to the line of credit initially put in place in late 2007 and amended and renewed in the first and second quarters of 2008.

Income tax expense

We recorded income tax expense for the three and six months ended June 30, 2008 as a result of our pre-tax income. The effective income tax rate for the 2008 periods was approximately 37% compared to approximately 18% for the comparable 2007 periods. See Note 6, *Income Taxes*, in the accompanying unaudited condensed consolidated financial statements.

Net income

(in thousands, except per share)	For the three months ended June 30, 2008	2007	For the six months ended June 30, 2008	2007
Net income	$ 8,267	$ 663	$ 15,304	$ 183
Diluted earnings per share	$ 0.12	$ 0.01	$ 0.22	$ 0.00

Net income for the three and six months ended June 30, 2008 increased over the comparable 2007 periods primarily due to a higher amount of gross profit as a result of a higher volume of sales, partially offset by higher general and administrative expenses, higher income tax expense and lower interest income.

Backlog

The following table sets forth the number of vehicles included in our backlog as of June 30, 2008, including vehicles to be manufactured by GDLS under the GDLS Subcontract. The backlog shown in the following table is funded backlog, meaning that it reflects vehicles for which we have received orders and for which funding has been appropriated and authorized for expenditure by the applicable agency. We cannot assure you that we will deliver or sell all of the vehicles included in our backlog. See Part I, Item 1A, Risk Factors, included in our Annual Report on

Form 10-K for the year ended December 31, 2007.

	Vehicle Funded Backlog as of June 30, 2008
Buffalo	22
Cougar MRAP Competitive*	412
Cougar (all other variants)	329
TOTAL	763

*Refers to Cougar vehicles manufactured under the GDLS Subcontract pursuant to which we and GDLS fulfill the MRAP Competitive Agreement.

Liquidity and Capital Resources

Our liquidity and available capital resources are impacted by operating, financing and investing activities. Our principal sources of liquidity are cash on hand and cash from operations, primarily from the U.S. government.

Table of Contents

Sources and Uses of Cash

Our primary sources of funding are cash flows from operations. Our funds were used primarily to fund working capital requirements and make capital expenditures. The following chart shows the cash flows provided by or used in operating, investing, and financing activities for the six months ended June 30, 2008 and 2007:

(In thousands)	For the six months ended June 30, 2008	2007
Net cash used in operating activities	$ (9,900)	$ (96,480)
Net cash used in investing activities	(8,360)	(25,538)
Net cash (used in) provided by financing activities	(220)	3,573
Increase (decrease) in cash and cash equivalents	$ (18,480)	$ (118,445)

As of June 30, 2008 we had $72.5 million of cash and cash equivalents, a decrease from $91.0 million as of December 31, 2007, and an increase from $37.9 million at June 30, 2007.

Cash Flow from Operating Activities

Cash used in operating activities decreased by $86.6 million during the first six months of 2008 compared with the first six months of 2007 primarily due to higher net income and improved working capital usage. The cash used in operating activities during the first six months of 2007 was primarily due to working capital usage increases to support the increased MRAP orders.

Cash Flow from Investing Activities

Cash used in investing activities decreased by $17.2 million during the first six months of 2008 compared with the first six months of 2007 primarily due to reduced capital purchases necessary to support existing and future planned business requirements. During the first six months of 2007, we purchased a research and test facility for $5.5 million and expended $4.1 million to acquire a logistics training facility. In addition, we began construction of a warehouse and an additional assembly line at our Ladson, South Carolina facility.

Cash Flow from Financing Activities

Cash provided by financing activities decreased by $3.8 million during the first six months of 2008 compared with the first six months of 2007 primarily due to a reduced volume of stock option exercises and a decrease in long-term liabilities.

Current Liquidity and Capital Resources

During the first six months of 2008, we expended approximately $9 million to complete the expansion of our manufacturing capability and capacity and to upgrade our information technology infrastructure. We will continue to expend capital for research and development and business development activities.

The amount of capital that we will require depends on several factors, including without limitation, the extent and timing of sales of our products, performance based payments, inventory costs, costs of raw materials and components, labor costs, costs of improving our financial and accounting systems, the timing and costs associated with the expansion of our manufacturing, development, engineering and customer support capabilities, the timing and cost of our product development and enhancement activities and our operating results. We currently estimate that the cash flow that we anticipate will be generated by our business plus the $30 million available under our line of credit and our expected renewal of it will be sufficient to meet our presently budgeted capital expenditures and our other presently anticipated cash needs for the year ending December 31, 2008. After that time, we expect that we may need to obtain additional sources of capital, which may include borrowings or the issuance of debt or equity securities, including common stock, and there can be no assurance that such financing will be available to us when we need it or, if available, that

Table of Contents

the terms of any such financing will be satisfactory to us and not dilutive to our shareholders. Any failure to obtain necessary capital as and when required could have a material adverse effect on our business, prospects, financial position, results of operations and cash flows.

Off-Balance Sheet Arrangements

In accordance with the definition under SEC rules and regulations, the following qualify as off balance sheet arrangements:

- any obligation under certain guarantees or contracts;
- a retained or contingent interest in assets transferred to an unconsolidated entity or similar entity or similar arrangement that serves as credit, liquidity, or market risk support to that entity for such assets;
- any obligation under certain derivative instruments; and
- any obligation under a material variable interest held by the registrant in an unconsolidated entity that provides financing, liquidity, market risk, or credit risk support to the registrant, or engages in leasing, hedging, or research and development services with the registrant.

The following discussion addresses each of the above items for the Company.

As of June 30, 2008, we do not have any obligation under certain guarantees or contracts as defined above.

As of June 30, 2008, we do not have any retained or contingent interest in assets as defined above.

As of June 30, 2008, we do not hold derivative financial instruments, as defined by FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended.

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (SPEs), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of June 30, 2008 and December 31, 2007, we were not involved in any unconsolidated SPE transactions.

Contractual Obligations

We have future obligations under various contracts relating to debt and interest payments, operating leases, and purchase obligations. During the six months ended June 30, 2008, there were no significant changes to these obligations as reported in our Annual Report on Form 10-K for the year ended December 31, 2007, except that our purchase obligations increased to $144.3 million as of June 30, 2008, from $128.3 million at December 31, 2007. The purchase obligations at June 30, 2008 were primarily comprised of purchase orders related to orders for the MRAP Competitive Contract and for Cougar Mastiffs and Ridgbacks pursuant to the DoD s Foreign Military Sales United Kingdom contract.

Critical Accounting Policies and Estimates

For the period ended June 30, 2008, there have been no significant changes in critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on September 15, 2008.

New Accounting Pronouncements

For the period ended June 30, 2008, there have been no new accounting pronouncements since those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on September 15, 2008.

Table of Contents

Item 3. Quantative and Qualitative Disclosures About Market Risk

Commodity Prices

We are exposed to market risk from changes in commodity prices. If the price of steel increases significantly, the cost of our products could increase. It is unlikely we will be able to pass on this cost under our current contracts. As a result, if the cost of our raw materials increases, our profitability, if any, could decrease.

Foreign Currency

The majority of our business is denominated in U.S. dollars and as such, movement in the foreign currency markets will have a minimal direct impact on our business.

Interest Rates

We do not have a trading portfolio and although our current financing is at a variable rate, we do not have any borrowings under the arrangement. As a result, we are not currently directly at risk of interest rate fluctuations. As our financing needs change in the future, interest rate risk may become a more significant issue for us.

Currently, we do not use any derivative financial instruments for the purpose of reducing our exposure to adverse fluctuations in interest rates, foreign currency exchange, or commodity prices. We are not a party to leveraged derivatives nor do we hold or issue financial investments for speculative purposes.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to provide reasonable assurance that the information required to be disclosed in reports filed or submitted under the United States Securities Exchange Act of 1934, as amended (Exchange Act), is (1) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and (2) accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures were designed to provide reasonable assurance of achieving their control

objectives.

In connection with the preparation of this Quarterly Report on Form 10-Q for the period ended June 30, 2008, members of our management, at the direction (and with the participation) of our chief executive officer and interim chief financial officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act), as of June 30, 2008. Based on that evaluation, the chief executive officer and interim chief financial officer, concluded that our disclosure controls and procedures were not effective at a reasonable assurance level as of June 30, 2008, because of the material weaknesses in our internal control over financial reporting discussed in the Annual Report on Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission (SEC) on September 15, 2008. Notwithstanding the material weakness described in the Annual Report on Form 10-K for the year ended December 31, 2007, our management has concluded that our unaudited condensed consolidated financial statements included in this report are fairly stated, in all material respects, in accordance with generally accepted accounting principles in the United States of America (GAAP).

Changes in Internal Control Over Financial Reporting

The changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting are discussed below.

Table of Contents

Remediation of Material Weaknesses

We have engaged in, and are continuing to engage in, substantial efforts to improve our internal control over financial reporting and disclosure controls and procedures related to substantially all areas of our financial statements and disclosures. These efforts include the following:

Efforts to strengthen accounting and finance department through additional professional staff. We have hired a number of additional professional staff over the past several months with the skills and experience needed for a public company of our size and complexity, including an individual with expertise in and responsibility for government contract compliance. We will continue to seek to strengthen our accounting and finance department and strive to appropriately balance the allocation of full-time staff and consultants. As previously announced, in the second quarter of 2008 we hired Charles Mathis as our new Executive Vice President of Finance. The development of adequate corporate level accounting and finance oversight is still ongoing. We are still recruiting accounting and finance personnel and do not yet have permanent resources in place sufficient to close our books without significant reliance on third-party contractors.

Use of outside consultants and advisors. While we ultimately intend to reduce our reliance on outside consultants, for the near term we have engaged additional outside consultants and advisors to assist management in oversight and preparation of our financial statements, periodic reports filed with the SEC and related matters. We are also using outside consultants to function as our internal audit department and overseeing our Section 404 evaluation of internal control over financial reporting, which will include evaluating and recommending improvements in the existing internal controls at both the corporate and business group level and establishing a mechanism to monitor the effectiveness of internal controls on an ongoing basis. As we strengthen our accounting and finance department, we intend to transition more of these functions to full-time staff.

Increased communication internally and with outside advisors. We have increased communication by and among senior management, external advisors and other third parties relevant to the disclosure process. Specifically, the chief executive officer meets daily with his management team to review operational developments. Our board of directors receives timely and regular updates on issues of importance. Our chief executive officer also regularly prepares a report to our board of directors highlighting operational and financial results which is also distributed to his executive team.

Enhanced efforts to identify non-routine transactions. We have initiated daily meetings with executive leadership to identify non-routine transactions and their related accounting treatment at an early stage. Certain expenditure transactions require approval of the interim chief financial officer. Additionally, we are in the process of assigning finance professionals within each of the operating departments.

Disclosure controls and procedures improvements. With respect to the preparation of periodic reports to be filed with the SEC, we have instituted formal meetings of key personnel involved in the process and developed detailed checklists and timetables with appropriate responsibilities and structural processes. In addition, we are utilizing a system of uniform document management (e.g., numbering, dating, and red-lining drafts) and improved coordination of the drafting process with respect to our earnings releases and periodic reports.

Management will consider the design and operating effectiveness of these actions and will make additional changes it determines appropriate.

The effectiveness of Force Protection s or any system of disclosure controls and procedures and internal control over financial reporting is subject to certain limitations, including the exercise of judgment in designing, implementing, and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate misconduct completely. As a result, our disclosure controls and procedures and internal control over financial reporting may not prevent all errors or improper acts or ensure that all material information will be made known to appropriate management in a timely fashion.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Shareholder Class Action and Derivative Complaints

On March 10, 2008, the first of ten related class action lawsuits was filed against us and certain of our former and current board members or officers in the United States District Court for the District of South Carolina Charleston Division on behalf of a proposed class of investors who purchased or otherwise acquired our securities during the period between August 14, 2006 and February 29, 2008. The complaints seek class certification, and the allegations include but are not limited to allegations that the defendants violated the Exchange Act and made false or misleading public statements and/or omissions concerning our business, internal controls, and financial results. The plaintiffs assert that as a result of the defendants allegedly wrongful acts and omissions, members of the proposed class have suffered significant losses and damages. The individual class action lawsuits were consolidated on June 10, 2008 under caption In Re Force Protection, Inc. Securities Litigation, Action No. 2:08-cv-845-CWH. On June 20, 2008 a group of investors consisting of the Laborers Annuity and Benefit System of Chicago, Gary Trautman, David J. Jager, Bhadra Shah, Panteli Poulikakos, George Poulikakos, and Niki Poulikakos was appointed lead plaintiff.

Between March 27, 2008 and May 28, 2008, various alleged shareholders filed derivative lawsuits against former and current officers or board members wherein the plaintiff shareholders are seeking damages for the Company. The Company has been named a nominal defendant in each derivative lawsuit. Four (4) derivative lawsuits are pending in the United States District Court for the District of South Carolina Charleston Division; two (2) derivative lawsuits are pending in Charleston, South Carolina Circuit Court; and one (1) derivative lawsuit is pending in Clark County, Nevada District Court. The plaintiff shareholders allegations include and are not limited to allegations of breach of fiduciary duties, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment in connection with the Company s public statements regarding its operations and financial results, internal controls, compensation of certain defendants, and alleged insider stock sales by certain defendants.

Other Disputes

On August 21, 2007, we filed suit against Protected Vehicles, Inc. (PVI) and Garth Barrett, Thomas Thebes, and Paul Palmer, three of PVI s employees (all of whom were former employees of Force Protection) in the United States District Court for the District of South Carolina. In the complaint, we allege that the named defendants used our confidential information and trade secrets to create a competing business. We seek injunctive relief, unspecified damages, attorneys fees and costs. The defendants have answered our complaint and filed counterclaims against us. In their answers and counterclaims, the defendants allege, among other things, that we and several of our current and former officers and directors engaged in: certain transactions (including transactions with Force Protection) in which such officers and directors maintained a financial interest; backdating and certain other improper acts in connection with certain stock issuances; allegedly wrongful acts with respect to a procurement contract with a foreign government; and other transactions involving alleged self-dealing and engaged in certain allegedly retaliatory acts in connection with defendants prior attempts to bring such activities to the attention of the Company s personnel or governmental agencies. Defendants seek unspecified monetary damages, attorneys fees and costs. Defendants filed an amended counterclaim withdrawing three (3) of their causes of action, and have recently indicated they intend to file a second amended counterclaim. On January 18, 2008, the district court entered an order staying the litigation in light of an involuntary bankruptcy petition filed on January 15, 2008, in the United States Bankruptcy Court for the District of South Carolina with respect to PVI. On February 5, 2008, PVI filed a voluntary Chapter 7 petition. On March 28, 2008, the Chapter 7 proceeding was converted to a Chapter 11 proceeding. On June 20, 2008, the Bankruptcy Court remanded the

litigation back to the District Court, and on September 3, 2008, the bulk of PVI s assets,

Table of Contents

including certain rights and liabilities with respect to our suit against it, were sold to a third party. On July 31, 2008, we settled our claim against Paul Palmer. Our claims against PVI and the third party (who has now been added as a defendant in the suit) are currently set to be tried in early 2009; the counterclaims against us have not been set for trial.

From February 2007 through April 2008, we received a total of 68 complaints from current and former employees filed with the United States Equal Employment Opportunity Commission alleging, among other things, race and/or gender discrimination. We have responded to the complaints as such responses have become due, and are investigating the allegations.

In early December 2007, we submitted a voluntary disclosure to DDTC regarding the shipment of technical manuals, Cheetah spare parts, armored vest plates, parts not listed on our license and transfers of technical data to and by our vendors without proper authorization or identification of the appropriate exemption. On January 22, 2008, the DDTC requested additional information and documentation for each specific shipment of these items within sixty days. In addition, the DDTC directed us to undertake certain specific measures, including, but not limited to, that we hire a full time senior export control compliance officer, implement certain procedures, conduct comprehensive ITAR training, immediately conduct a comprehensive export compliance audit, and institute a plan to conduct periodic audits of the export compliance program. On February 11, 2008, we provided DDTC with the job description for the Director of Export Controls, draft Export Controls Manual, ITAR presentation provided in new orientation training and the attendance logs for annual ITAR training provided to executives and other employees having ITAR responsibilities. On March 11, 2008, we provided DDTC with our draft audit plan and on June 2, 2008, we provide the final audit report. On July 14, 2008 we provided DDTC with supplemental information to our previous voluntary disclosure and other information identified in the audit. We have developed and implemented an Export Control Policies and Procedures Manual and ITAR Product Classification Guide, established an Export Control Council, and revised our Technology Control Plan and Code of Conduct and Ethics. As a result of the export compliance audit, we have identified additional unauthorized transfers internally at our facility and in support of U.S. operations in Iraq and Afghanistan as well as issues associated with the execution of our licenses and agreements. We have reported these matters to DDTC.

On February 8, 2008, a temporary independent contractor whose services we had terminated filed a complaint with OSHA which alleges a violation under the employee protection provisions of Section 806 of the Corporate and Criminal Fraud Accountability Act of 2002, Title VIII of the Sarbanes-Oxley Act of 2002, 18 U.S.C. §1514A. The former independent contractor alleges that we terminated his engagement in retaliation for his allegation of certain corporate governance, government contracting, accounting and other irregularities. On April 18, 2008 we responded to the allegations, and are awaiting a recommendation and report from the OSHA investigator. In August 2008 the claimant submitted a proposed amended complaint which seeks to add additional claims and the current and former chief executive officers as defendants.

On August 15, 2008, we received a $1.1 million notice of claim of lien for the balance of tooling supplied by a vendor to our prime contractor on the Roxboro Facility. We have demanded that the prime contractor resolve this matter with its vendor and indemnify us for this claim of lien.

Although we intend to defend ourselves in connection with the foregoing legal proceedings and claims, there can be no assurance that we will ultimately prevail in any of these matters. Moreover, the defense of these claims and proceedings may result in substantial legal expenses and diversion of our management, and any settlement or adverse judgment may require us to make substantial payments, any of which could have a material adverse effect on our business or financial position, results of operations, or cash flows.

In addition, compliance with the directives of the DDTC discussed above may result in substantial expenses and diversion of management. Any failure to adequately address the directives of DDTC could result in civil fines and/or suspension or loss of our export privileges, any of which could have a material adverse effect on our business or financial position, results of operations, or cash flows.

Table of Contents

We are also a party to other litigation which we consider routine and incidental to our business. We may be involved from time to time in other litigation that could have a material effect on our operations or finances. Other than the litigation described above, we are not aware of any pending or threatened litigation against us that could have a material adverse effect on our business or financial position, results of operations, or cash flows.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on September 15, 2008, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing Force Protection. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, operating results or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

EXHIBIT INDEX

NUMBER	DESCRIPTION
2.1	Agreement and Plan of Merger filed as Exhibit 2.1 to the Company s Annual Report on Form 10-K filed September 15, 2008, is hereby incorporated by reference.
3.1	Articles of Incorporation filed as Exhibit 3.1 in the Company s Annual Report on Form 10-K filed September 15, 2008, is hereby incorporated by reference.
3.2	First Amended and Restated By-Laws of Force Protection, Inc., filed as Exhibit 3.1 to the Company s Current Report on Form 8-K filed February 26, 2008, is hereby incorporated by reference.

Table of Contents

3.3	Certificate of Amendment to Articles of Incorporation filed as Exhibit 3.3 to the Company s Annual Report in Form 10-K filed September 15, 2008, is hereby incorporated by reference.
4.1	Certificate of Designation for Series D Convertible Preferred Stock, dated January 19, 2005, filed as Exhibit 4.1 to the Company s Current Report on Form 8-K filed January 27, 2005, is hereby incorporated by reference.
4.2	Amended and Restated Certificate of Designation for Series B Convertible Preferred Stock, filed as Exhibit 4.1 to the Company s Current Report on Form 8-K filed February 15, 2005, is hereby incorporated by reference.
4.3	Amended and Restated Certificate of Designation for Series C Convertible Preferred Stock, filed as Exhibit 4.2 to the Company s Current Report on Form 8-K filed February 15, 2005, is hereby incorporated by reference.
10.1	Agreement between Force Protection, Inc. and Damon Walsh, dated April 4, 2008, filed as Exhibit 10.1 to the Company s Current Report on Form 8-K filed April 8, 2008, is hereby incorporated by reference.
10.2	Agreement between Force Protection, Inc. and Mark Edwards, dated April 4, 2008, filed as Exhibit 10.2 to the Company s Current Report on Form 8-K filed April 8, 2008, is hereby incorporated by reference.
10.3	Agreement between Force Protection, Inc. and Daniel Busher, dated April 4, 2008, filed as Exhibit 10.3 to the Form 8-K filed April 8, 2008, is hereby incorporated by reference.
10.4	Agreement between Force Protection, Inc. and Shelia Boyd, dated April 4, 2008, filed as Exhibit 10.4 to the Company s Current Report on Form 8-K filed April 8, 2008, is hereby incorporated by reference.
10.5	Agreement between Force Protection, Inc. and Denise Speaks, dated April 4, 2008, filed as Exhibit 10.5 to the Form 8-K filed April 8, 2008, is hereby incorporated by reference.
10.6	Modification, dated April 15, 2008, to the Second Amendment to Loan Agreement, dated February 5, 2008, filed as Exhibit 10.64 to the Company s Annual Report on Form 10-K filed September 15, 2008, is hereby incorporated by reference.
10.7	Amended and Restated Loan Agreement between Force Protection, Inc. Force Protection Technologies, Inc., Force Protection Industries, Inc. and Wachovia Bank, National Association, dated May 6, 2008, filed as Exhibit 10.1 to the Company s Current Report on Form 8-K filed May 9, 2008, is hereby incorporated by reference.
10.8	Promissory Note between Force Protection, Inc. and Wachovia Bank, National Association, dated May 6, 2008, filed as Exhibit 10.2 to the Company s Current Report on Form 8-K filed May 9, 2008, is hereby incorporated by reference.
10.9	Amendment of Solicitation/Modification of Contract under Contract No. M67854-06-C-5162 between Force Protection Industries, Inc. and the United States Marine Corps Systems Command, dated May 19, 2008, filed as Exhibit 10.78 to the Company s Annual Report on Form 10-K filed September 15, 2008, is hereby incorporated by reference.
10.10	Amendment of Solicitation/Modification of Contract under Contract No. M67854-D7-D5031-0003

Table of Contents

	between Force Protection Industries, Inc. and the United States Marine Corps Systems Command, dated May 30, 2008, filed as Exhibit 10.79 to the Company s Annual Report on Form 10-K filed September 15, 2008, is hereby incorporated by reference.
10.11	Agreement between Force Protection, Inc. and Charles Mathis, dated June 25, 2008, filed as Exhibit 10.1 to the Company s Current Report on Form 8-K filed June 27, 2008, is hereby incorporated by reference.
10.12	Second Extension Amendment to Leases between Force Protection, Inc. and Aerospace/Defense, Inc., dated June 25, 2008, filed as Exhibit 10.81 to the Company s Annual Report on Form 10-K filed September 15, 2008, is hereby incorporated by reference.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

(Exhibits marked with a ( ) are filed electronically herewith.)

Table of Contents

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 thereunto duly authorized.

FORCE PROTECTION, INC.
(Registrant)

Date: September 30, 2008 By: /s/ MICHAEL MOODY
Name: Michael Moody
Title: Chief Executive Officer and President (Principal Executive Officer)

Date: September 30, 2008 By: /s/ FRANCIS E. SCHEUERELL, JR.
Name: Francis E. Scheuerell, Jr.
Title: Interim Chief Financial Officer (Principal Accounting and Financial Officer)