FORCE PROTECTION INC
Form 10-Q/A
September 30, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q/A

(AMENDMENT NO. 1)

(Mark One)

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

For the quarterly period ended September 30, 2007

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, SC	**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. o Yes x 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.

(Check One):

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.

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EXPLANATORY NOTE REGARDING RESTATEMENTS

This Quarterly Report on Form 10-Q/A for the three- and nine- month periods ended September 30, 2007 includes restatements of the previously filed condensed consolidated financial statements and data (and related disclosures) for the period ended September 30, 2007. These corrections are discussed in Note 2, *Restatement and Reclassification of Previously Issued Condensed Consolidated Financial Statements,* included in the accompanying condensed consolidated financial statements for the period ended September 30, 2007. These corrections are also discussed in Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations of this Quarterly Report on Form 10-Q/A and are further discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 16, Summarized Quarterly Unaudited Financial Data, to the consolidated financial statements included in our Annual Report on Form 10-K for our fiscal period ended December 31, 2007 filed with the United States Securities and Exchange Commission (SEC) on September 15, 2008. We previously announced, in a Form 8-K filed with the SEC on March 3, 2008, that we would restate our previously reported condensed consolidated financial statements for the three- and nine-month periods ended September 30, 2007 as a result of errors discovered by management during its year-end and quarterly review, including errors associated with inventory purchased from a subcontractor as a result of a contract termination. The information contained in this Quarterly Report on Form 10-Q/A amends only Items 1, 2 and 4 of Part I and Item 6 of Part II to the originally filed Quarterly Report on Form 10-Q filed with the SEC on November 13, 2007 (the Original Report).

This Quarterly Report on Form 10-Q/A does not reflect all events occurring after the original filing of the Original Report or modify or update all the disclosures affected by subsequent events. Information not modified or updated herein reflects the disclosures made at the time of the filing of the Original Report on November 13, 2007. Accordingly, this Form on 10-Q/A should be read in conjunction with all of our periodic filings, as amended if applicable, including our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC subsequent to the filing date of the Original Report.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Force Protection, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

	As of September 30, 2007 (Restated)	As of December 31, 2006
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 72,274	$ 156,319
Accounts receivable, net of allowance	66,094	42,035
Inventories	167,153	60,396
Advances to subcontractor	20,740	
Deferred income tax assets	12,759	9,563
Income taxes receivable	225	
Other current assets	15,040	373
Total current assets	354,285	268,686
Property and equipment, net	51,511	8,964
Intangible assets, net	1,531	
Deferred income tax assets	2,764	2,764
Total assets	$ 410,091	$ 280,414
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 103,144	$ 38,654
Due to United States government	15,751	6,023
Other current liabilities	12,040	4,891
Advance payments on contracts	55,937	12,824
Total current liabilities	186,872	62,392
Other long-term liabilities	334	168
	187,206	62,560
Commitments and contingencies		
Shareholders equity:		
Common stock	68	67
Additional paid-in capital	256,684	251,038
Accumulated deficit	(33,867)	(33,251)
Total shareholders equity	222,885	217,854
Total liabilities and shareholders equity	$ 410,091	$ 280,414

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

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Force Protection, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

	For the three months ended September 30, 2007 (Restated)	2006	For the nine months ended September 30, 2007 (Restated)	2006
	(In Thousands, Except Per Share Data)		(In Thousands, Except Per Share Data)	
Net sales	$ 206,794	$ 42,161	$ 450,278	$ 133,038
Cost of sales	184,260	34,243	387,475	108,325
Gross profit	22,534	7,918	62,803	24,713
General and administrative expenses	21,708	6,715	56,113	20,421
Research and development expenses	2,344	546	10,848	1,851
Operating income (loss)	(1,518)	657	(4,158)	2,441
Other income, net	594	121	3,488	169
Interest expense	(55)	(110)	(86)	(1,737)
Income (loss) before income tax benefit	(979)	668	(756)	873
Income tax benefit	180		140	
Net income (loss)	(799)	668	(616)	873
Accretion of Series D 6% convertible preferred stock		(64)		(326)
Preferred stock dividend		(364)		(1,297)
Net income (loss) available to common shareholders	$ (799)	$ 240	$ (616)	$ (750)
Earnings (loss) per common share:				
Basic	$ (0.01)	$ 0.00	$ (0.01)	$ (0.02)
Diluted	$ (0.01)	$ 0.00	$ (0.01)	$ (0.02)
Weighted average common shares outstanding:				
Basic	68,208	49,014	67,990	42,051
Diluted	68,208	49,014	67,990	42,051

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

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Force Protection, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the nine months ended September 30, 2007 (Restated)	2006
	(In Thousands)	
Cash flows from operating activities:		
Net Income (loss)	$ (616)	$ 873
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation and amortization	4,018	588
Deferred tax benefit	(3,196)	
Income tax benefit realized from stock options exercised	(2,276)	
Stock-based compensation	2,035	1,560
Allowance for doubtful accounts	(45)	
Provision for inventory obsolescence	1,358	
Warranty reserve	1,202	189
(Increase) decrease in assets		
Accounts receivable	(24,014)	(12,537)
Inventories	(108,115)	(1,071)
Advances to subcontractor	(20,740)	
Income tax receivable	(225)	
Other current assets	(14,667)	(148)
Increase (decrease) in liabilities		
Accounts payable	64,490	7,596
Due to United States government	9,728	
Other current liabilities	8,063	44
Advance payments on contracts	43,113	(5,432)
Total adjustments	(39,271)	(9,211)
Net cash used in operating activities	(39,887)	(8,338)
Cash flows from investing activities:		
Capital expenditures	(47,706)	(4,372)
Net cash used in investing activities	(47,706)	(4,372)
Cash flows from financing activities:		
Proceeds from issuance of common stock:		
Other	1,336	46,018
Dividends on Series D preferred stock		(277)
Payments on debt		(7,500)
Income tax benefit realized from stock options exercised	2,276	
Net decrease in long-term liabilities	(64)	
Net cash provided by financing activities	3,548	38,241
Increase (decrease) in cash and cash equivalents	(84,045)	25,531
Cash and cash equivalents at beginning of period	156,319	1,217
Cash and cash equivalents at end of period	$ 72,274	$ 26,748
Supplemental cash flow information:		
Cash paid during the period for Interest, net of amounts capitalized	$ 86	$ 1,737
Income taxes	$ 1,000	$
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.

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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 with the purpose to increase survivability of the users of the products. 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). 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.

Commencing in March 2008, in conjunction with the preparation of our consolidated financial statements for the year ended December 31, 2007, we undertook a comprehensive review of our previously issued unaudited condensed consolidated financial statements for the periods ended March 31, 2007, June 30, 2007 and September 30, 2007, collectively referred to as the (Quarterly Financial Statements). As a result of this review, we have determined that the previously issued unaudited Quarterly Financial Statements were not prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) and we have restated those previously issued Quarterly Financial Statements. The condensed consolidated financial statements for the period ended September 30, 2007, include the effects of these restatements. (See Note 2, *Restatement and Reclassification of Previously Issued Condensed Consolidated Financial Statements*).

Basis of Presentation and Consolidation

These unaudited condensed consolidated financial statements should be read in conjunction with (i) our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006 filed with the United States Securities and Exchange Commission (SEC) on March, 16, 2007, as amended on July 12, 2007 and on October 15, 2007, and (ii) because of the timing of the filing of this amended Quarterly Report on Form 10-Q/A, our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the 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 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 financial statements are not necessarily indicative of operating results for the entire year. In our opinion, the accompanying 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.

Use of Estimates

The preparation of our unaudited condensed consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but are not limited to: (1) revenue recognition; (2) allowance for doubtful accounts; (3) definitization and advance payments on contracts; (4) inventory costs and reserves; (5) asset impairments; (6) depreciable lives of assets; (7) economic lives and fair

Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

value of leased assets; (8) income tax reserves and valuation allowances; (9) fair value of stock options; (10) allocation of direct and indirect cost of sales; and (11) contingent liabilities, warranty, and litigation reserves. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our unaudited condensed consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. We evaluate and update our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluation, as considered necessary. Actual results could differ from those estimates.

Risks and Uncertainties

We are exposed to a number of risks in the normal course of our operations that could potentially affect our financial position, results of operations, and cash flows.

Customer Concentration

Substantially all of our revenue comes from our DoD contracts either as a prime contractor or as a subcontractor to another prime contractor to the U.S. government. Revenue from those contracts approximated 91% and 92 % of *Net sales* for the nine months ended September 30, 2007 and 2006, respectively. Our accounts receivable from the U.S. government as of September 30, 2007 was 93 % of our accounts receivable.

Law and Regulations

As a result of those DoD contracts, we are required to participate in the U.S. government contracting process, which involves extensive statutes, regulations and requirements of the U.S. government agencies and entities that govern these programs, including award, administration, funding, and performance of contracts. These statutes and regulations impose a broad range of requirements, many of which are unique to government contracting, including various procurement, import and export, federal national security, contract pricing and cost, funding, contract termination and adjustment, audit requirements, and protection of classified information. Our failure to comply with these regulations and requirements could result in reductions of the value of contracts, contract modifications or termination, loss of security clearance, and the assessment of civil or criminal penalties and fines, inability to win new contracts, and lead to suspension or debarment from government contracting or subcontracting for a period of time, any of which could have a material adverse affect on our financial position, results of operations, and cash flows.

We are also subject to certain unique business risks associated with the defense market, including changes in budget appropriations, procurement policies, political developments both domestically and abroad, and other factors. Any material deterioration in the economic and environmental factors that impact the defense industry could have a material adverse effect on our financial position, results of operations, and cash flows.

There are certain federal laws that, while not specifically directed at us as a contractor, may affect our U.S. government contracts. The Anti-Deficiency Act is one of the major laws through which Congress exercises its constitutional control of the public purse. The Anti-Deficiency Act indirectly regulates how the agency awards our contracts and pays our invoices. Accounts receivable related to DoD contracts approximated 93% of our accounts receivable as of September 30, 2007.

Our operations also are subject to a broad range of environmental, health and safety laws and regulations in the jurisdictions in which we operate. These laws and regulations impose increasingly stringent environmental, health and safety protection standards and permitting requirements regarding, among other things, air emissions, wastewater storage, treatment and discharges, the use and handling of hazardous or toxic materials, waste disposal practices, and the remediation of environmental contamination and working conditions for our employees. Some environmental laws, such as the U.S. Comprehensive Environmental Response, Compensation, and Liability Act, also known as CERCLA or Superfund, and comparable state laws, impose joint and several liability for the cost of environmental remediation, natural resource damages, third-party claims, and other expenses, without regard to the fault or the legality of the original conduct, on those persons who contributed to the release of a hazardous substance into the environment.

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

The costs of complying with these laws and regulations, including participation in assessments and remediation of contaminated sites and installation of pollution control facilities could be significant. In addition, if we are found responsible for any hazardous contamination, we may have to pay expensive fines or penalties or perform costly clean-up. Even if we are charged, and later found not responsible for such contamination and clean-up, the costs of defending the charges could be significant.

Sources and Supply of Materials

Our products incorporate engines, transmissions, axles and a number of other components that are available only from the source or sources selected by the U.S. military. Identifying additional or replacement suppliers approved by the U.S. military for any of the numerous components used in our products may not be accomplished quickly or on commercially reasonable terms, if at all. In addition to suppliers specified by the U.S. military, we use other suppliers for certain components of our products, some of which are small businesses that are not well capitalized. In the event that we are unable to obtain required components from our existing suppliers, and if we are unable to mitigate the impact or find an alternate supplier in a timely manner, it could have a material adverse effect on our ability to produce our vehicles. Significant interruptions in the supply of components may occur for a variety of reasons, including capacity constraints at our suppliers, competition for components with other manufacturers of vehicles, insolvency of a supplier, work stoppages at suppliers and transportation interruptions, which could involve significant additional costs and result in delays in production and product deliveries and could have a material adverse effect on our results of operations. In addition, the unavailability or scarcity of certain components or raw material could result in increased costs, which could have a material adverse effect on our financial position, results of operations, and cash flows.

In addition, some of our product components are manufactured in and supplied from foreign countries. If import tariffs or taxes increase for any reason, our cost of goods would increase. Our financial performance could be adversely affected by changes in the political, social and economic environment in these foreign countries. The role of the central and local governments in the economies of these foreign countries may be significant. Policies toward economic liberalization, and laws and policies affecting foreign companies, foreign investment, currency exchange rates and other matters could change, resulting in greater restrictions on our ability to do business with suppliers based in other countries. A foreign government could impose surcharges, increase tax rates, or revoke, terminate or suspend operating licenses without compensating us. In addition, the U.S. government could impose charges and taxes and could take other actions that could make it more expensive or costly for us to obtain components from sources in foreign countries or could prevent us from acquiring those components. Also, other countries, from time to time, experience instances of civil unrest and hostilities and confrontations have occurred between the military, insurgent forces, and civilians. If for these or any other reason, we are unable to obtain required components from foreign sources as and when required, or at all, it could have a material adverse effect on our financial position, results of operations, and cash flows.

Revenue Recognition

Substantially all of our revenues from the U.S. government and certain of our revenues from others are earned pursuant to written contractual arrangements to design, develop, manufacture and/or modify blast- and ballistic-protected products and to provide related engineering and technical or other services according to the specifications of the buyers (customers). These contracts are generally fixed-price, cost-reimbursable, or time and material based. We recognize revenues and earnings on fixed-production contracts, whose units are produced and delivered in a continuous or sequential process, based upon the unit s contract selling price as we deliver it and the customer s *formal acceptance* of the unit. We charge the actual unit cost to *Cost of sales.*

We define *formal acceptance* under the U.S. government contract as taking place when a representative of the U.S. government signs the United States Form DD250 entitled Material Inspection and Receiving Report. Under the Federal Acquisition Regulation (FAR), a signed Form DD250 signifies contractual inspection and acceptance by the United States of the work performed by Force Protection. A signed Form DD250 also is the event contractually obligating the U.S. government to pay us for the approved goods or services (subject to any definitization contractual adjustment(s), as discussed below).

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

In accordance with standard industry practice, there is a representative from the United States Defense Contract Management Agency (DCMA) acting as a contractual representative of the U.S. government present at our facilities. This DCMA representative inspects each vehicle as it is delivered by us, and upon confirmation of the vehicle s conformity with the contractual specifications, the inspector or other contractually designated official signs the Form DD250 and formally accepts delivery of the vehicle. We only recognize revenues arising from our U.S. government contracts upon execution of the Form DD250 by the DCMA inspector.

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 condensed consolidated balance sheets until the final delivery of the products and formal acceptance by the U.S. government as evidenced by an executed Form DD250. As discussed above, upon acceptance of the products and the execution of the Form DD250, we recognize the full sale price of the product as revenue.

We recognize revenue from other items, such as foreign and domestic user training, field support (including vehicle repairs), performing vehicle modifications, and providing test support to the U.S. government for its vehicle testing, when we meet four basic criteria: (i) persuasive evidence that a customer arrangement exists; (ii) the price is fixed or determinable; (iii) collectibility is reasonably assured; and (iv) delivery of product has occurred or services have been rendered.

We negotiate contracts with our customers that may include revenue arrangements with multiple deliverables. We account for each deliverable under a contract separately. Historically, we negotiate and sign contracts with our customers that provide a contract amount and specific terms and conditions associated with each deliverable.

Shipping and handling costs are expensed as incurred and included in *Cost of sales.*

Definitization / Due to the United States government

Our contracts with the U.S. government are negotiated as either a sole source or open competition bid process. A sole source process is one in which we are the sole bidder for the contract. An open competition could involve various bidders. Once a bid is accepted, the U.S. government usually expects work to commence immediately. An open competition results in a final agreed-upon contract price to which the U.S. government has agreed. A sole source process results in an agreed-upon contract with the U.S. government, subject to an adjustment process at a later date, termed the definitization process. The definitization process commences upon awarding of a contract, whereby the U.S. government undertakes a detailed review of our costs involved in the manufacturing and delivery process. We then work with the U.S. government to determine an adequate and fair final contract price. We have the right to submit proposed prices, but they are subject to final review and approval by the contracting officer, who may require that we use different prices. Although both parties make an effort to definitize the contract as quickly as possible, the process is time consuming and can take months to complete. In addition, if an agreement is not reached as to price by a specific date, the contracting officer may unilaterally determine a price. During definitization, we are usually required to perform the contract work and make deliveries before the final contract price has been established. For this reason, as part of the original award, we bill the U.S. government at a predetermined price that is used for invoicing and accounting purposes pending final definitization.

As a result of the adjustments related to the definitization process, we recognize a liability, *Due to United States government*, and reduce gross sales to arrive at net sales. As of September 30, 2007 and December 31, 2006, our liability for contracts subject to the definitization process has been estimated based upon an expected adjustment percentage.

Sales Returns and Allowance for Doubtful Accounts

Historically, we have not encountered sales returns or significant uncollectible accounts receivable and we do not anticipate them in the near future. The majority of our accounts receivable are with the U. S. government and we do not maintain an allowance for doubtful accounts for those accounts due to the credit-worthiness of the U. S.

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

government. We do maintain an allowance for doubtful accounts for our non-governmental customers, which is based upon specific identification.

Cash and Cash Equivalents

Cash and cash equivalents includes investments that are highly liquid and have maturities of three months or less when purchased. The carrying values of cash and cash equivalents approximate their fair value due to the short-term nature of these instruments.

We maintain amounts on deposit with various financial institutions, which may at times exceed federally insured limits. However, management periodically evaluates the credit-worthiness of those institutions, and we have not experienced any losses on such deposits.

Inventories

We carry our inventories at the lower of their cost or market value, reduced by reserves for excess and obsolete items. Cost is determined using the first-in, first-out (FIFO) method. Market is determined based on net realizable value. Appropriate consideration is given to obsolescence, excess quantities, and other factors in evaluating net realizable value.

Property and Equipment

We report land, buildings, leasehold improvements, and machinery and equipment, including tooling and pattern equipment, at cost, net of depreciation and asset impairments, if applicable. We report assets under capital lease obligations at the lower of their fair value or the present value of the aggregate future minimum lease payments as of the beginning of the lease term. We depreciate our assets using the straight-line method over the shorter of the lease term or the estimated useful lives of the assets.

The ranges of estimated useful lives are as follows:

	Years
Buildings	29
Leasehold improvements	2-5
Machinery and equipment, including tooling and molds	7
Computer equipment and software	3
Furniture and fixtures	3
Demonstration vehicles	5
Manuals	5
Vehicles	5

The carrying amounts of all long-lived assets are evaluated periodically to determine if adjustment to the depreciation and amortization period or to the unamortized balance is warranted. Such evaluation is based principally on the expected utilization of the long-lived assets.

Maintenance and repairs of property and equipment are expensed as incurred. We capitalize replacements and improvements that increase the estimated useful life of an asset and we capitalize interest on major construction and development projects while in progress.

We retain fully depreciated assets in property and accumulated depreciation accounts until we remove them from service. In the case of sale, retirement, or disposal, the asset cost and related accumulated depreciation balance is removed from the respective account, and the resulting net amount, less any proceeds, is included as a component of income from operations in the unaudited condensed consolidated statements of operations.

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

We recognize escalated rents, including any rent holidays, on a straight-line basis over the term of the lease for those lease agreements where we receive the right to control the use of the entire leased property at the beginning of the lease term.

We test for impairment of long-lived assets, including intangible assets, whenever events or changes in circumstances indicate that the carrying value of an asset or asset group (hereinafter referred to as asset group) may not be recoverable by comparing the sum of the estimated undiscounted future cash flows expected to result from use of the asset group and its eventual disposition to the carrying value. If the sum of the estimated undiscounted future cash flows is less than the carrying value, an impairment determination is required. The amount of impairment is calculated by subtracting the fair value of the asset group from the carrying value of the asset group. An impairment charge, if any, is recognized within *Operating income (loss*).

Intangible Assets

We amortize the cost of intangible assets over their respective estimated useful lives on a straight-line basis. The amortization periods are as follows:

	Years
Licenses	3
Non-compete agreements	4
Customer base	2
Special expertise	2
Weighted-average useful lives	3

Investments in and Advances to Non-consolidated Affiliates

Equity method investments are recorded at original cost and adjusted periodically to recognize (i) our proportionate share of the investees net income or losses after the date of investment; (ii) additional contributions made and dividends or distributions received; and (iii) impairment losses resulting from adjustments to net realizable value. However, for contracts not yet novated to an equity method investee we continue to recognize the revenues and expenses from those contracts in our unaudited condensed consolidated financial statements.

We assess the potential impairment of our equity method investments. We determine fair value based on valuation methodologies, as appropriate, including the present value of estimated future cash flows, estimates of sales proceeds, and external appraisals. If an investment is determined to be impaired and the decline in value is other than temporary, we record a write-down.

Force Dynamics LLC

On September 10, 2007, we entered into a subcontract (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 Mine Resistant Ambush Protected (MRAP) Competitive Contract based on revenues. We previously entered into a joint venture with GDLS on December 15, 2006 (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. We will not fund and Force Dynamics will remain inactive until such time the MRAP Competitive Contract is assigned to Force Dynamics. 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 unaudited condensed consolidated statement of operations beginning with the three-month period ended September 30, 2007, 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

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

by Force Dynamics that we actually manufacture. In addition, beginning with the three-month period ended September 30, 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 vehicles manufactured by GDLS. Amounts included in our consolidated statements of operations for the three- and nine-month periods ended September 30, 2007 from vehicles manufactured by GDLS are as follows (in thousands):

	2007
Net sales	$ 33,270
Cost of sales	33,270

Advances to subcontractor consist of amounts paid to GDLS on the MRAP Competitive Contract based upon the achievement of contractual performance milestones. These advances are a flow through from our contract with the U.S. government.

In connection with our joint venture arrangement with GDLS, we entered into a technology license agreement with Force Dynamics and GDLS. The agreement provides that we grant Force Dynamics and GDLS a non-exclusive license without the right to sublicense. Force Dynamics and GDLS will pay us a vehicle fee for each MRAP vehicle produced. The term of this technology agreement is the later of completion or complete termination of the MRAP program or the Workshare Agreement.

Stock-Based Compensation

Force Protection does not have a formal stock option plan. However, we provided some of our employees stock-based compensation in the form of stock options and shares of our common stock. Prior to July 1, 2005, we accounted for those stock-based compensation awards using the recognition and measurement principles of the intrinsic value method of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* and its related interpretations, and applied the disclosure-only provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*. Under the intrinsic value method, we recognized compensation expense on the date of grant only if the current market price of the underlying stock on the grant date exceeded the exercise price of the stock-based award.

In December 2004, the FASB issued FASB Statement No. 123 (revised 2004), *Share-Based Payment*, which revises FASB Statement No. 123 and supersedes APB Opinion No. 25. FASB Statement No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005. Subsequent to the effective date, the pro forma disclosures previously permitted under FASB Statement No. 123 are no longer an alternative to financial statement recognition.

In March 2005, the Staff of the SEC issued Staff Accounting Bulletin (SAB) No. 107, *Share-Based Payment*. SAB No. 107 expresses the view of the SEC Staff regarding the interaction between FASB Statement No. 123(R) and certain SEC rules and regulations and provides the SEC Staff s views regarding the valuation of share-based payment arrangements for public companies. The SEC Staff believes the guidance in SAB No. 107 will assist public companies in their initial implementation of FASB Statement No. 123(R) beginning with the first interim or annual period of the first fiscal year that begins after June 15, 2005.

Effective July 1, 2005, we adopted FASB Statement No. 123(R) using the modified prospective method. Under this method, compensation cost recognized during 2006 included: (1) compensation cost for the portions of all share-based payments granted prior to, but not yet vested as of July 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of FASB Statement No. 123 amortized on a straight-line basis over the options remaining vesting period beginning July 1, 2005, and (2) compensation cost for all share-based payments granted subsequent to July 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of FASB Statement No. 123(R) amortized on a straight-line basis over the options requisite service period. Pro forma results for prior periods have not been restated.

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

Warranty

Our sales contracts generally include a warranty that our products are free from defects in design, material, and workmanship for a period of one year from the acceptance date. The warranty does not apply to any damage or failure to perform caused by the misuse or abuse of the vehicle, combat damage, fair wear and tear items (brake shoes, wiper blades, etc.), or by the customer s failure to perform proper maintenance or service on the supplies. We base our warranty accruals on estimates of the expected warranty costs that incorporate historical information and forward assumptions about the nature, frequency, and average cost of warranty claims. Warranty costs are included in *Cost of sales.*

Litigation Reserve

We accrue for loss contingencies associated with outstanding litigation, claims and assessments for which management has determined it is probable that a loss contingency exists and the amount of loss can be reasonably estimated. We expense professional fees associated with litigation claims and assessments as incurred.

Research and development

We incur costs in connection with research and development programs that are expected to contribute to future earnings, and charge such costs against income as incurred. Research and development costs consist primarily of payroll and personnel related costs, contractor fees, infrastructure costs, and administrative expenses directly related to research and development support.

Income Taxes

We provide for income taxes using the asset and liability method. This approach recognizes the amount of federal, state, and local taxes payable or refundable for the current year, as well as deferred tax assets and liabilities for the future tax consequence of events recognized in the consolidated financial statements and income tax returns. Deferred income tax assets and liabilities are adjusted to recognize the effects of changes in tax laws or enacted tax rates. In addition, we establish reserves for tax contingencies in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes.*

A valuation allowance is required when it is more likely than not that some portion of the deferred tax assets will not be realized. Realization is dependent on generating sufficient future taxable income.

Force Protection and its subsidiaries file a consolidated federal income tax return. State income tax returns are filed on a separate, combined, or consolidated basis in accordance with relevant state laws and regulations.

Earnings (Loss) Per Common Share

The calculation of basic earnings (loss) per common share is based on the weighted-average number of our common shares outstanding during the applicable period. The calculation for diluted earnings (loss) per common share recognizes the effect of all potential dilutive common shares that were outstanding during the respective periods, unless their impact would be anti-dilutive.

Recent Accounting Pronouncements

In May 2008, the 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 intangible asset under FASB

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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 shareholders 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.

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

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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. Restatement and Reclassification of Previously Issued Condensed Consolidated Financial Statements

On February 29, 2008, we concluded we needed to restate our previously issued condensed consolidated financial statements for the third quarter of 2007 and delay the filing of our Annual Report on Form 10-K for the year ended December 31, 2007. On August 26, 2008, we concluded we needed to restate our previously issued unaudited condensed consolidated financial statements for the first and second quarters of 2007. We have concluded that misstatements in those previously issued financial statements were significant enough to warrant the restatement of the first, second, and third quarters of 2007. The misstatements primarily related to the recognition of revenue and liabilities in the proper periods and the determination of deferred incomes taxes. In connection with the restatement, certain presentation reclassifications have been made to conform to the current period presentation.

The following table summarizes the effects of the restatement and presentation reclassifications on our previously issued unaudited condensed consolidated financial statements:

Summary of increases (decreases) in Net income (unaudited)

	September 30, 2007	
(in thousands, except per share amounts)	**Three months ended**	**Nine months ended**
Net income, as previously reported	$ 11,362	$ 23,517
Net adjustments		
Revenue recognition	502	9,125
Liability recognition	(11,588)	(41,524)
Inventory burden calculation	(5,207)	(1,589)
Stock-based compensation	(61)	(1,069)
Income tax expense	7,407	14,553
Other	(3,214)	(3,629)
Effect of restatement adjustments	(12,161)	(24,133)
Net loss, restated	$ (799)	$ (616)

Basic earning (loss) per common share:				
Net income, as previously reported	$	0.17	$	0.35
Net adjustments				
Revenue recognition		0.01		0.14
Liability recognition		(0.17)		(0.62)
Inventory burden calculation		(0.08)		(0.03)
Stock-based compensation		Nil		(0.01)
Income tax expense		0.11		0.22
Other		(0.05)		(0.06)
Effect of restatement adjustments		(0.18)		(0.36)
Net loss, restated	$	(0.01)	$	(0.01)
Diluted earning (loss) per common share:				
Net income, as previously reported	$	0.16	$	0.34
Net adjustments				
Revenue recognition		0.01		0.14
Liability recognition		(0.16)		(0.61)
Inventory burden calculation		(0.08)		(0.03)
Stock based compensation		Nil		(0.01)
Income tax expense		0.11		0.22
Other		(0.05)		(0.06)
Effect of restatement adjustments		(0.17)		(0.35)
Net loss, restated	$	(0.01)	$	(0.01)

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

Revenue recognition

We did not recognize revenue in the appropriate quarters in 2007, including some instances when we recognized revenue when billable to the customer rather than at the earlier date when we earned the revenue. We also did not account for our advance payments on contracts in the appropriate quarters in 2007.

Inventory burden calculation

We did not properly determine our inventory for financial reporting purposes. We inappropriately included costs that were not part of the production process and we omitted other costs because they were not properly classified in cost of sales.

Liability recognition

We did not recognize our accounts payable in the appropriate quarters in 2007. In addition, we had overstated our warranty liability and understated our royalties payable.

Stock-based compensation

We did not properly apply the provisions of FASB Statement No. 123(R) related to determination of the volatility of the options granted in all quarters of 2007 and we did not properly determine the related current and deferred income tax expense related to the exercising of options in the first quarter of 2007 in our condensed consolidated financial statements. We also did not appropriately withhold the appropriate payroll taxes for one employee s option exercise.

Income tax expense

As a result of the adjustments, we had to revise our previously calculated income tax expense for each quarter in 2007. We used our annual effective rate of 18.4% (See Note 12, *Income Taxes*).

Other

We did not properly account for advances to subcontractor, prepaid insurance or the acquisition and disposition of property and equipment in the appropriate quarter in 2007. In addition, we did not account for certain of operating lease costs on a straight-line basis in each of the quarters in 2007.

Balance Sheet Impact

The following table sets forth the unaudited condensed consolidated balance sheet information for the Company, showing previously reported amounts, adjustments, reclassifications and restated and reclassified amounts as of September 30, 2007 (in thousands):

	As of September 30, 2007				
	As Previously Reported	**Adjustments**	**As Restated**	**Reclassifi-cations**	**As restated and reclassified**
Assets					
Current assets:					
Cash and cash equivalents	$ 72,274	$	$ 72,274	$	$ 72,274
Accounts receivable	37,758	28,336	66,094		66,094
Inventories	182,473	(15,320)	167,153		167,153
Advances to subcontractor	16,277	4,463	20,740		20,740
Deferred income tax assets	7,473	5,286	12,759		12,759
Income taxes receivable		225	225		225
Other current assets		15,040	15,040		15,040
Total current assets	316,255	38,030	354,285		354,285

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

	As of September 30, 2007				
	As Previously Reported	Adjustments	As Restated	Reclassifi-cations	As restated and reclassified
Property and equipment, net	47,630	3,881	51,511		51,511
Intangible assets, net	1,582	(51)	1,531		1,531
Deferred income tax assets	60	2,704	2,764		2,764
Total assets	$ 365,527	$ 44,564	$ 410,091	$	$ 410,091
Liabilities and Shareholders Equity					
Current liabilities:					
Accounts payable	$ 47,856	$ 55,288	$ 103,144	$	$ 103,144
Due to United States government (a)		15,751	15,751		15,751
Warranty reserve (b)	4,943	(1,891)	3,052	(3,052)	
Deferred income tax liabilities	8,985	(8,829)	156	(156)	
Other current liabilities (b)				12,040	12,040
Advance payments on contracts	52,303	3,634	55,937		55,937
Other accrued liabilities (b)	6,884	1,716	8,600	(8,600)	
Current portion of long-term liabilities	222	10	232	(232)	
Total current liabilities	121,193	65,679	186,872		186,872
Other long-term liabilities	77	(11)	66	268	334
Long-term debt	268		268	(268)	
	121,538	65,668	187,206		187,206
Shareholders equity:					
Common stock	68		68		68
Additional paid-in capital	251,813	4,871	256,684		256,684
Accumulated deficit	(7,892)	(25,975)	(33,867)		(33,867)
Total shareholders equity	243,989	(21,104)	222,885		222,885
Total liabilities and shareholders equity	$ 365,527	$ 44,564	$ 410,091	$	$ 410,091

(a) Adjustments related to the definitization process, which were previously reported as part of the allowance for doubtful accounts, have been reclassified to report them as a liability, *Due to United States government.*

(b) Other accrued liabilities, warranty reserve, and current portion of long-term liabilities have been reclassified to *Other current liabilities*

Statements of Operations Impact

The following tables present unaudited condensed consolidated statements of operations information for the Company showing previously reported amounts, adjustments and restated amounts for the three and nine months ended September 30, 2007 (in thousands, except share data):

	For the three months ended September 30, 2007		
	As previously reported	Adjustments	As restated
Net sales	$ 206,291	$ 503	$ 206,794
Cost of sales	165,678	18,582	184,260
Gross profit	40,613	(18,079)	22,534
General and administrative expenses	20,030	1,678	21,708
Research and development expenses	2,526	(182)	2,344
Operating income (loss)	18,057	(19,575)	(1,518)
Other income, net	594		594

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

	For the three months ended September 30, 2007		
	As previously reported	Adjustments	As restated
Interest expense	(62)	7	(55)
Income (loss) before income tax (expense) benefit	18,589	(19,568)	(979)
Income tax (expense) benefit	(7,227)	7,407	180
Net income (loss)	$ 11,362	$ (12,161)	$ (799)
Earnings (loss) per common share:			
Basic	$ 0.17	$ (0.18)	$ (0.01)
Diluted	$ 0.16	$ (0.17)	$ (0.01)
Weighted average common shares outstanding:			
Basic	68,208		68,208
Diluted	68,929		68,208

	For the nine months ended September 30, 2007		
	As previously reported	Adjustments	As restated
Net sales	$ 441,152	$ 9,126	$ 450,278
Cost of sales	345,252	42,223	387,475
Gross profit	95,900	(33,097)	62,803
General and administrative expenses	50,642	5,471	56,113
Research and development expenses	10,674	174	10,848
Operating income (loss)	34,584	(38,742)	(4,158)
Other income, net	3,489	(1)	3,488
Interest expense	(142)	56	(86)
Income (loss) before income tax (expense) benefit	37,931	(38,687)	(756)
Income tax (expense) benefit	(14,414)	14,554	140
Net income (loss)	$ 23,517	$ (24,133)	$ (616)
Earnings (loss) per common share:			
Basic	$ 0.35	$ (0.36)	$ (0.01)
Diluted	$ 0.34	$ (0.35)	$ (0.01)
Weighted average common shares outstanding:			
Basic	67,985		67,990
Diluted	68,914		67,990

Statement of Cash Flows Impact

The following table presents selected unaudited condensed consolidated statement of cash flows information for the Company showing previously reported cash flows, adjustments and restated cash flows for the nine months ended September 30, 2007 (in thousands):

For the nine months ended September 30, 2007

	As previously reported	Adjustments	As restated
Net cash used in operating activities	$ (40,903)	$ 1,016	$ (39,887)
Net cash used in investing activities	(44,354)	(3,352)	(47,706)
Net cash provided by financing activities	1,212	2,336	3,548
Increase (decrease) in cash and cash equivalents	(84,045)		(84,045)
Cash and cash equivalents at beginning of year	156,319		156,319
Cash and cash equivalents at end of period	$ 72,274	$	$ 72,274

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

3. Accounts Receivable

Accounts receivable consists of the following (in thousands):

	As of September 30, 2007 (Restated)	As of December 31, 2006
U. S. government	$ 61,674	$ 39,770
Other accounts receivable	4,438	2,310
	66,112	42,080
Less: Allowance for doubtful accounts	(18)	(45)
Accounts receivable, net	$ 66,094	$ 42,035

Other accounts receivable primarily relate to the sale of excess raw materials to suppliers and others. Any gain or loss on these sales is included in *Other income, net* in the accompanying unaudited condensed consolidated statement of operations. As of September 30, 2007, our accounts receivable from the U.S. government includes $7.3 million of earned and unbilled accounts receivable.

4. Inventories

Inventories consist of the following (in thousands):

	As of September 30, 2007 (Restated)	As of December 31, 2006
Raw material and supplies	$ 122,681	$ 36,418
Work in process	42,756	23,978
Finished goods	1,716	
Inventories	$ 167,153	$ 60,396

5. Property and Equipment

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

	As of September 30, 2007 (Restated)	As of December 31, 2006
Land	$ 4,212	$
Buildings	5,221	
Leasehold improvements	10,922	1,534
Machinery and equipment; including tooling and molds	6,141	3,795
Computer equipment and software	6,737	2,757
Furniture and fixtures	3,853	1,023
Demonstration vehicles	1,531	1,096
Manuals	705	105

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

		September 30, 2007 (Restated)		December 31, 2006
Vehicles		468		143
		39,790		10,453
Less: Accumulated depreciation		(5,098)		(1,489)
		34,692		8,964
Construction in progress		16,819		
Property and equipment, net	$	51,511	$	8,964

Depreciation expense for the nine months ended September 30, 2007 and September 30, 2006 was $3.6 million and $0.6 million, respectively.

Significant Asset Acquisitions

In March 2007, we purchased the research and developmental testing facility of NEWTEC Services Group, Inc., located near Edgefield, South Carolina, for $5.5 million ($5,050,000 in cash and $450,000 note payable, which was discounted using an implied interest rate of 7.25%). We intend to use the facility to expand our research and development activities and support the verification and quality control validation of our armored vehicles used to protect military personnel against explosive threats. The purchase price was allocated as follows (in thousands):

		Amount
Land	$	2,100
Furniture and fixtures		800
Manuals		600
Intangible assets (See Note 6, *Intangible Assets)*		1,940
Total	$	5,440

In March 2007, we purchased real and personal property located in Summerville, South Carolina, for $4.1 million in cash. We intend to use the facility as a product development and logistic services training center. The purchase price was allocated as follows (in thousands):

		Amount
Land	$	1,320
Building		2,502
Furniture and fixtures		278
Total	$	4,100

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 (See Subsequent Event Asset Impairment discussion below). We allocated approximately

$0.8 million to land and $2.7 million to the building. Also, in July, 2007, we completed construction on and placed into service a 90,000 square warehouse facility at our corporate headquarters in Ladson, South Carolina at a cost of approximately $4.4 million, included in leasehold improvements.

Leases

We lease certain buildings under non-cancelable operating leases expiring on June 30, 2009; with four separate five-year renewal options which must be exercised six months prior to the expiration of the lease term. Our other operating leases generally have 3- to 5-year terms, with one or more renewal options, with terms to be negotiated at the time of renewal. Contingent rents are included in rent expense in the year incurred. The excess of cumulative rent expense (recognized on the straight-line basis) over cumulative rent payments made on leases with fixed escalation terms is recognized as straight-line rental accrual and is included in *Other current liabilities* in the accompanying condensed consolidated balance sheets, as follows (in thousands):

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

	As of September 30, 2007 (Restated)	As of December 31, 2006
Straight-line rental accrual	$ 238	$

Construction in Progress

Amounts in construction in progress as of September 30, 2007, relate primarily to the construction of assembly lines at our Ladson, South Carolina and Roxboro, North Carolina manufacturing plants.

Subsequent Event-Asset Impairment

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. As a result, we charged to operations in the first quarter of 2008 $2.1 million in deposits on services to be provided and $2.8 million in design costs.

6. Intangible Assets

Intangible assets consist of the following as of September 30, 2007 (in thousands):

	Gross Carrying Amount (Restated)	Accumulated Amortization (Restated)	Net (Restated)
Licenses	$ 800	$ 155	$ 645
Non-compete agreement	540	79	461
Customer base	200	58	142
Special expertise	400	117	283
Total	$ 1,940	$ 409	$ 1,531

As discussed in Note 5, *Property and Equipment,* we acquired the above intangible assets in March 2007 in connection with the purchase of a research and development testing facility located in Edgefield, South Carolina.

Amortization expense for intangible assets for the nine months ended September 30, 2007 was $0.4 million.

7. Other Current Liabilities

Other current liabilities consist of the following (in thousands):

	As of September 30, 2007 (Restated)	As of December 31, 2006
Current portion of other long-term liabilities	$ 232	$ 72
Compensation and benefits	4,338	1,223
Warranty reserves	3,052	1,850
Income tax payable	157	
Vehicle fee payable	2,531	1,139
Interest payable	32	
Liquidated damages settlement	1,460	607
Straight-line rent accrual	238	
Other current liabilities	$ 12,040	$ 4,891

Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

Compensation and Benefits Gain Share Program

The compensation and benefits accrued liabilities account balance includes wages and benefits that were earned at the end of the applicable quarter, and not yet paid. Additionally, the compensation and benefits account balance may include an accrued liability amount attributable to our Gain Sharing Program for quarters in which gain sharing was approved but not paid. The Gain Sharing Program was authorized by the Board of Directors on March 1, 2007 and provides for additional compensation that is paid quarterly to employees during periods in which we earn net income. Under the gain share program, we distribute ten percent of each quarter s net income equally to all employees.

Warranty Reserves

Warranty reserves consist of the following (in thousands):

	As of September 30, 2007 (Restated)	As of December 31, 2006
Balance at beginning of year	$ 1,850	$ 1,686
Charges to expense	1,368	164
Costs paid or otherwise settled	(166)	
Balance at end of period	$ 3,052	$ 1,850

Vehicle Fee Payable

We are party to two long-term intellectual property agreements pursuant to which we have the right to use certain intellectual property technology relating to blast -and ballistic-protected vehicles. One agreement is with the CSIR Defencetek (CSIR), a division of the Council for Scientific and Industrial Research, a statutory council established in accordance with the Laws of the Republic of South Africa. The other is with Mechem, a division of Denel Pty Ltd, a company established under the Laws of the Republic of South Africa. Under these agreements, we pay a per vehicle royalty fee in exchange for the exclusive transfer to us of certain technology.

The agreement with CSIR provides for the license, on an exclusive basis, by CSIR to us of certain technical, scientific and commercial intellectual property rights pertaining to the development of our Cougar and Buffalo vehicles. Under our agreement with CSIR, we pay CSIR a fee for each vehicle sold and/or manufactured by us using the licensed intellectual property during the term of the agreement, including vehicles manufactured by our subcontractors. We are not obligated to pay a fee in respect of our Cheetah vehicle, and the manufacture of the Cheetah vehicles is not dependent upon the technology granted to us under the agreement. The initial term of the agreement was March 8, 2002 through March 7, 2007, and the term of the renewed agreement is March 8, 2007 through March 7, 2012. We have no right to extend the agreement after March 2012 and, if the agreement expires without renewal, after such date CSIR may grant a license to the licensed intellectual property to other parties. However, even upon expiration of the agreement we will have the ability to manufacture and deliver the Cougar and Buffalo vehicles.

The agreement with Mechem provides for the provision on an exclusive basis by Mechem to us of certain technical, scientific and commercial intellectual property rights pertaining to the development of our Cougar and Buffalo vehicles. Under our agreement with Mechem, we pay Mechem a fee for each vehicle sold and/or manufactured by us using the licensed intellectual property during the term of the agreement, including vehicles manufactured by our subcontractors. We are not obligated to pay a fee with respect to our Cheetah vehicle, and the manufacture of the Cheetah vehicle is not dependent upon the technology granted to us under the agreement with Mechem. Our original agreement with Mechem was effective October 15, 2001 and expired October 15, 2006. Our current agreement with Mechem, which we entered into on September 13, 2006, expires on September 12, 2011. We have no right to extend the agreement after September 2011 and, if the agreement expires without renewal, after such date Mechem may license the licensed intellectual property to other parties. However, even upon expiration of the agreement, we will have the ability to manufacture and deliver the Cougar and Buffalo vehicles.

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

Liquidated Damages Settlement

On December 20, 2006, we completed a private placement of 13 million shares of its common stock to institutional investors at $11.75 per share, resulting in gross proceeds of $152.8 million. The proceeds, net of commissions, were $146.6 million. Per the Securities Purchase Agreement, we agreed to file a registration statement to register all 13 million shares of common stock for resale and distribution under the Securities Act of 1933, as amended, within 30 calendar days thereafter (January 19, 2007) and cause the registration statement to be declared effective by the SEC no later than 120 calendar days thereafter (April 19, 2007). If the registration statement registering these shares was not declared effective on or before the applicable date, then we were required to deliver to each purchaser, as liquidated damages, an amount equal to one and one third percent (1 1/3%) for each 30 days (or such lesser pro-rata amount for any period of less than 30 days) of the total purchase price of the securities purchased and still held by such purchaser pursuant to the Securities Purchase Agreement on the first day of each 30 day or shorter period for which liquidated damages were calculable. The registration statement for the shares issued became effective July 26, 2007. On October 15, 2007, we filed a prospectus supplement with respect to the registration statement. Liquidated damage expense for the nine months ended September 30, 2007 was $7.5 million and is included in *General and administrative expenses* in the accompanying unaudited condensed consolidated statements of operations.

8. Advance payments on contracts

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

		As of September 30, 2007 (Restated)		As of December 31, 2006
Mine Resistant Ambush Protected (MRAP) program	$	52,200	$	
Iraqi Light Armored Vehicles (ILAV)		3,737		4,260
Mastiff Protected Patrol Vehicles (Mastiff)				7,488
Other				1,076
Advance payments on contracts	$	55,937	$	12,824

9. Other Long-term Liabilities

Other long-term liabilities consist of the follow items.

	As of September 30, 2007 (Restated)	As of December 31, 2006
Non-compete agreement	$ 417	$
Equipment note payable	149	240
	566	240
Less: Current portion (included in *Other current liabilities)*	(232)	(72)
Other long-term liabilities	$ 334	$ 168

As discussed above in Note 5, *Property and Equipment,* we purchased the research and developmental testing facility of NEWTEC Services Group, Inc., located near Edgefield, South Carolina, for $5,500,000 (5,050,000 in cash and $450,000 note payable). We discounted the note using an implied interest rate of 7.25%. The note is payable in annual of installments of $150,000 on January 1, 2008, 2009, and 2010.

In October 2006, we acquired capital equipment valued at $234,875 using a note with implied interest of 11.25% from the supplier with a repayment based on usage of materials used with the equipment. It is expected that based on usage estimates the note payments in 2008 and 2009 will be $92,608 and $13,838 respectively.

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Notes to Condensed Consolidated Financial Statements (Continued)

In April 2007, we acquired capital equipment valued at $52,893 at an interest rate of 8.15% from the supplier with repayments based on a 36 month term.

10. Shareholders Equity

Authorization of Shares

We have the authority to issue 310 million shares, in aggregate, consisting of 300 million shares of common stock and 10 million shares of preferred stock, of which 1,600 have been designated Series A, 25 of which have been designated as Series B, 150 of which have been designated as Series C and 20,000 of which have been designated as Series D. By shareholder s resolution effective January 1, 2005, all classes of stock were declared to have a par value of $0.001 per share.

Common Stock Transactions

During the nine months ended September 30, 2007, employees exercised stock options to purchase 1,411,133 shares of our common stock valued at $1.4 million. We also issued 4,348 shares of our common stock related to 2006 employee stock option exercises that were identified as shares to be issued in shareholders equity as of December 31, 2006.

We cancelled 27,700 shares relating to the December 2006 Private Investment in Public Equity (PIPE) offering.

We issued 26,789 shares of common stock to members of the board of directors as 2006 compensation, which were identified as shares to be issued in shareholders equity as of December 31, 2006.

We issued 50,000 shares of common stock granted in June 2006 to an employee which vested and were issued on January 1, 2007.

11. Stock Based Compensation

Stock Options

On July 1, 2005, we adopted FASB Statement No. 123(R) using the modified prospective method. The modified prospective method requires companies to record compensation cost beginning with the effective date based on the requirements of FASB Statement No. 123(R) for all share-based payments granted after the effective date. All awards granted to employees prior to the effective date of FASB Statement No. 123(R) that remain unvested at the adoption date will continue to be expensed over the remaining service period.

We did not grant stock options during the nine months ended September 30, 2007. We used the Black-Scholes valuation model to determine the fair value options granted during the year ended December 31, 2006. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the expected stock price volatility. Because our trading history is shorter than the expected life of the options, we used historical stock price volatility data from comparable companies to supplement our own historical volatility to determine expected volatility assumptions. We do not pay a dividend, and we do not include a dividend payment as part of our pricing model. Risk-free interest rates are based on U.S. Treasury Strip yields, compounded daily, consistent with the expected lives of the options. Because we do not have a sufficient history of option exercise or cancellation, we estimated the expected life of the options to be two years, which for a majority of the options was the midway point. Under the Black-Scholes option-pricing model, the weighted- average fair value per share of employee stock options granted during the year ended December 31, 2006 was $0.03, the last year options were granted.

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Notes to Condensed Consolidated Financial Statements (Continued)

The fair value of our options was estimated using the following assumptions:

	For the nine months ended September 30, 2007	2006
Expected volatility		45.82% - 70.31%
Risk-free interest rate		4.40% - 4.97%
Expected forfeiture rate		5.00%
Dividend yield		%
Stock price on date of grants		$0.77-$7.48
Expected option terms (in years)		2
Expected duration from grant to expiration (in years)		4 and 5
Option vesting term (in years)		1-day 14 months

The following summarizes stock option activity for the nine months ended September 30, 2007:

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2006	1,959,665	$ 2.63
Granted		
Exercised	(1,411,133)	$ 0.95
Forfeited/expired		
Options outstanding at September 30, 2007	548,532	$ 6.96
Options exercisable at September 30, 2007	423,529	$ 6.82
Options available for grant at September 30, 2007 (a)		

(a) Force Protection did not have a formal stock option plan as of September 30, 2007.

The following table summarizes information about stock options outstanding and exercisable at September 30, 2007.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$1.50-$7.48	548,532	2.85	$ 6.96	548,532	$ 6.96

Stock Grants

The following table summarizes supplemental information about non-vested stock grants activity for the three months ended September 30, 2007.

	Number of Shares		Weighted average per share grant price
Outstanding as of December 31, 2006	191,026	$	5.48
Shares granted			
Shares vested	(70,513)	$	5.14
Outstanding as of September 30, 2007	120,513	$	5.68

Stock-based compensation

Stock-based compensation includes the expense associated with both stock options granted to employees and stock grants issued to employees and is recognized in *General and administrative expense*s in the condensed consolidated statement of operations as follows (in thousands):

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Notes to Condensed Consolidated Financial Statements (Continued)

	Three Months Ended September 30,		Nine months ended September 30,	
	2007 (Restated)	2006	2007 (Restated)	2006
Stock options	$ 390	$ 67	$ 1,752	$ 415
Stock grants	91	262	283	277
Total stock based compensation	$ 481	$ 329	$ 2,035	$ 692

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Notes to Condensed Consolidated Financial Statements (Continued)

12. 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.

The *Income tax benefit* for the three and nine months ended September 30, 2007 was based on the estimated effective tax rates applicable for the fiscal year ending December 31, 2007, after considering items specifically related to the interim period. The *Income tax benefit* for the three- and nine-month periods ended September 30, 2006 was based on the estimated effective tax rates applicable for the fiscal year ended December 31, 2006, after considering items specifically related to the interim period.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007 (Restated)	**2006**	**2007 (Restated)**	**2006**
Income (loss) before income tax benefit	$ (979)	$ 668	$ (756)	$ 873

A reconciliation of statutory federal income tax (expense) benefit rate to the actual income tax (expense) benefit rate is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007 (Restated)	**2006**	**2007 (Restated)**	**2006**
Income tax (expense) benefit 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	4.70%	(3.25)%	4.70%	(3.25)%

(Increase) decrease in valuation allowance	%	38.25%	%	38.25%
Reversal of other tax accruals no longer required	(8.21)%	%	(8.21)%	%
Research and development credit	(11.63)%	%	(11.63)%	%
Other	(2.55)%	%	(2.55)%	%
Nondeductible items	1.05%	%	1.05%	%
Effective Income tax (expense) benefit rate	18.36%	%	18.36%	%

The effective tax rate is the provision for income taxes as a percent of income before income taxes. The 2007 effective rate is lower than the expected federal statutory rate of 35 % primarily due to the state income taxes,

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Notes to Condensed Consolidated Financial Statements (Continued)

reversal of other tax accruals no longer required, research and development credits, and certain nondeductible items at the statutory rate.

As a result of the adoption of FASB Statement No. 123(R), our deferred tax assets at September 30, 2007 and December 31, 2007 do not include excess tax benefits from stock option exercises. Shareholders equity will be increased if these excess tax benefits are ultimately realized.

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 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.

13. Earnings (Loss) Per Common Share

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

	Three Months Ended September 30,		Nine months ended September 30,	
	2007 (Restated)	**2006**	**2007 (Restated)**	**2006**
Numerator Basic:				
Net income (loss)	$ (799)	$ 668	$ (616)	$ 873
Less: Accretion of Series D 6% convertible preferred stock		(64)		(326)
Less: Preferred dividends		(364)		(1,297)
Income (loss) available for common shareholders basic:	$ (799)	$ 240	$ (616)	$ (750)
Numerator Diluted:				

Income (loss) available for common shareholders basic	$	(799)	$	668	$	(616)	$	873
Add: Accretion of Series D 6% convertible preferred stock				(64)				(326)
Add: Preferred dividends				(364)				(1,297)
Income (loss) available for common shareholders diluted	$	(799)	$	240	$	(616)	$	(750)
Denominator:								
Weighted average common shares outstanding basic:		68,207,649		49,014,150		67,989,525		42,050,762
Add: Stock options		Anti-dilutive				Anti-dilutive		Anti-dilutive
Add: Stock grants		Anti-dilutive				Anti-dilutive		Anti-dilutive
Weighted average common shares outstanding diluted		68,207,649		49,014,150		67,989,525		42,050,762
Basic earnings (loss) per common share:								
Income (loss) available for common shareholders basic:	$	(0.01)	$	0.00	$	(0.01)	$	(0.02)
Diluted earnings (loss) per common share:								
Income (loss) available for common shareholders diluted	$	(0.01)	$	0.00	$	(0.01)	$	(0.02)

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Notes to Condensed Consolidated Financial Statements (Continued)

The calculation of earnings (loss) 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 antidilutive. 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 recognize 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: (1) Series D 6% Convertible Preferred Stock, (2) warrants, (3) stock options, and (4) stock grants. We excluded 369,006 and 343,296 common stock equivalents for the three and nine months ended September 30, 2007, respectively, and 3,697,617 and 6,429,063 common stock equivalents for the three and nine months ended September 30, 2006, respectively, from the calculation of diluted loss per share because they were anti-dilutive.

14. Related Party Transactions

Our former Chief Executive Officer, Mr. Gordon McGilton, was a principal of APT Leadership, a consulting firm we hired to provide various business consulting services, training seminars and certain business software. APT Leadership billed Force Protection $0.4 million and $0.5 million for the nine months ended September 30, 2007 and 2006, respectively. Mr. McGilton disclosed to the board of directors each year that he did not receive any dividends, distributions or other compensation from APT Leadership at any time while an employee of the Company. Further, Mr. McGilton disclosed that as of December 31, 2007 he transferred his interest in APT Leadership to the other owner for $1 in consideration. In addition, as part of the process to determine our income tax expense for the year ended December 31, 2007, we discovered in August 2008, that we did not withhold the proper amount of federal income taxes for Mr. McGilton in connection with his exercise of stock options in January 2007 and, as a result, Mr. McGilton effectively owed us $315,085 as of September 30, 2007, which is included in *Other current assets* in the accompanying unaudited condensed consolidated balance sheets. Mr. McGilton repaid this amount on September 11, 2008.

On February 18, 2006, we entered into a Modification and Assignment Agreement with Longview Fund, LP and Longview Equity Fund, LP (collectively, Longview) pursuant to which we paid $1.3 million against the principal balance of the secured promissory notes (Notes) and extended the maturity date of the Notes for an additional 60 days. In addition, we consented to the assignment of $2.5 million of the Notes to Fort Ashford Funds LLC (Fort Ashford). Mr. Frank Kavanaugh, a former director of Force Protection, is the principal owner of Fort Ashford and at such time was a substantial shareholder of our common stock. Mr. Kavanaugh s relationship to Fort Ashford Funds LLC was fully disclosed to us and Mr. Kavanaugh did not participate in the negotiations or decision process with respect to the Modification and Assignment Agreement. We paid $87,510 to Longview and $50,000 to Fort Ashford in cash as compensation for the extension of the maturity dates of the Notes.

On April 20, 2006, we paid $1.0 million against the principal balance of the Notes and extended the maturity date on the Notes and the Note with Fort Ashford for an additional 60 days, through June 20, 2006. We paid $55,000 to Longview and $50,000 to Fort Ashford in cash as compensation for this extension.

On June 20, 2006, we paid off the principal balance and all applicable accrued interest under the Notes. Additionally, we extended the maturity date of the Ashford Note for an additional 30 days, through July 20, 2006. We paid $50,000 to Fort Ashford in cash as compensation for the extension of the Ashford Note.

On August 9, 2006, we paid off the principal balance of the Ashford Note, and all applicable accrued interest under the Ashford Note.

Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

15. Commitments and Contingencies

Financing Commitments-Credit Facility

On July 20, 2007, we entered into a revolving credit agreement with Wachovia Bank. Borrowings under the credit agreement bear interest at a floating rate per annum equal to the one-month London Interbank Offered Rate (LIBOR) market index plus 2.0%. The original amount of the agreement was $50 million and all amounts payable under this credit agreement were originally due and payable on September 30, 2007. We have entered into several modification agreements with the lender to reduce the principal amount to $30 million and to extend the maturity of the credit agreement to October 31, 2008. Until October 31, 2008, we may borrow, repay, and re-borrow amounts under the terms of the note as long as the total principal balance outstanding does not to exceed $30 million. Amounts payable under the credit agreement are secured by a pledge of all of our personal property and fixtures. There are no assurances that Wachovia will extend the terms of this financing agreement beyond October 31, 2008.

Legal Proceedings

We are subject to various claims arising in the ordinary course of business, and are parties to various legal proceedings that constitute ordinary, routine litigation incidental to our business. The majority of these claims and proceedings relate to commercial, shareholder and employee matters. In our opinion, apart from the actions set forth below, the disposition of these proceedings and claims, after taking into account accruals recorded in our consolidated balance sheets and the availability and limits of our insurance coverage, will not have a material adverse effect on the business or our financial position, results of operations, or cash flows.

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 Securities Exchange Act of 1934 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. Jagar, 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, and waste of corporate assets, 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

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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, 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.

We are subject to a number of claims relating to our common shares. In one, certain investors have issued to Force Protection a demand for 481,492 shares of our common stock in connection with the investors conversion of their shares of our preferred stock and other damages relating to warrants the investors allege were granted but never distributed to them. In addition, on November 13, 2007, we were served with a lawsuit filed by former senior employee Murray Hammick against Force Protection Industries, Inc. and former Force Protection officers Gordon McGilton, Scott Ervin, and Frank Kavanaugh. The complaint, filed in the Charleston (South Carolina) County Court of Common Pleas, alleges, among other things, that Mr. Hammick is owed options to acquire approximately 83,000 shares of our common stock and certain back wages and sets forth claims for, *inter alia*, breach of contract, violation of the South Carolina Payment of Wages Act, retaliatory wrongful discharge, and defamation. We answered the complaint on January 25, 2008.

During the period from August 1, 2007 to November 23, 2007, Force Protection Industries, Inc. entered into three IT hosting and consulting agreements. A series of disputes arose from these contracts. Force Protection, Inc. has entered into settlement agreements for these claims totaling $2,275,362.

In early November 2007, the Department of State, Directorate of Defense Trade Controls (DDTC) advised us of a site visit planned for December 2007. In advance of that site visit, the DDTC requested, and we provided, certain documents and materials relating to our policies and procedures concerning company activity regulated by the International Traffic in Arms Regulations (ITAR). The site visit took place in mid-December 2007 and included a meeting with certain of our officers and interviews of certain of our employees involved with security, training, business development, human resources, information technology, empowered officials, engineering, contracts, manufacturing, program management, shipping, supply chain integrated logistics support and quality. Following the site visit, we received a letter from the DDTC regarding certain weaknesses it identified in our compliance program with respect to training, treatment of foreign visitors, overseas travel by personnel, export manuals, identifying data regarding ITAR hardware and services, and license tracking and requesting certain specific measures be undertaken. We are in the process of addressing those specific measures.

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

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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 the Occupational Safety and Health Administration (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.

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.

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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) has been restated to reflect certain adjustments to our unaudited condensed consolidated financial information previously reported in our quarterly report on Form 10-Q for the period ended September 30, 2007 filed with the SEC on November 13, 2007. See Restatement below for additional information. 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 contained in this Quarterly Report on Form 10-Q/A and because of the timing of the filing of this Quarterly Report on Form 10-Q/A, the Annual Report on Form 10-K for the year ended December 31, 2007 filed on September 15, 2008, which included restated 2007 quarterly information.

Information in this MD&A is intended to assist the reader in obtaining an understanding of our unaudited condensed 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:

- Highlights and Executive Summary
- Overview
- Restatement
- Results of Operations an analysis of our consolidated results of operations, for the three and nine months ended September 30, 2007 and 2006
- 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
- Dividends our dividend history

- Critical Accounting Policies and Estimates a discussion of accounting policies that require significant judgments and estimates

- New Accounting Pronouncements a summary and discussion of our plans for the adoption of new accounting standards relevant to us

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q/A contains both historical and forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the 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/A 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, should, expect, intend plan, predict, anticipate, estimate or continue and other words and terms of similar meaning. These forward-looking statements include, amo other things:

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

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- statements with respect to our expectations 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 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.

These forward-looking statements were based on expectations about future events at the time they were made and are subject to numerous uncertainties and factors, all of which are difficult to predict and many of which are beyond our control. Many factors mentioned in our discussion in this Quarterly Report on Form 10-Q/A will be important in determining future results. We do not know whether the expectations reflected in these forward-looking statements will prove correct. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties, including those described under Risk Factors in periodic reports we file with the SEC.

In addition, this Quarterly Report on Form 10-Q/A contains historical information, forecasts and estimates regarding defense expenditures by the U.S. federal government, actual and anticipated procurement of armored vehicles and similar matters. This historical data and these forecasts and estimates have been obtained from publicly available information, industry publications, trade associations and data compiled by independent market research firms. However, we have not independently verified this information and we cannot assure you that it is accurate or that these forecasts and estimates will prove correct.

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

Highlights and Executive Summary

We are 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 with the purpose to increase survivability of the users of the products. 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 are an important provider of vehicles for the U.S. military s Mine Resistant Ambush Protected (MRAP) vehicle program, which is currently one of the highest priority acquisition programs for the

U.S. Department of Defense (DoD), according to a memorandum from Secretary of Defense Robert Gates dated May 2, 2007.

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Through an acquisition in 2002, we began shifting our principal focus from our then existing recreational watercraft production business to the production of mine clearing and armored vehicles. Our business began to grow exponentially when we were awarded contracts by the U.S. military in 2005 and each year after that. By 2007, substantially all of our net sales were derived from work performed directly or indirectly under U.S. government contracts. For the three months ended September 30, 2007 and 2006, our net sales totaled \$206.8 million and \$42.2 million, respectively, and our net income (loss) available to common shareholders totaled \$(799,000) and \$240,000, respectively. For the nine months ended September 30, 2007 and 2006, our net sales totaled \$450.3 million and \$133.0 million, respectively, and our net loss available to common shareholders totaled \$(616,000) and \$(750,000), respectively.

Overview

We design, manufacture, test, deliver and support our blast- and ballistic-protected products to increase survivability of the users of the 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 IEDs. We currently have three vehicle types aimed at fulfilling different operational or mission requirements: the Buffalo, the Cougar 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 Cheetah has four wheels and is designed specifically for reconnaissance, forward command and control and urban operations. At present, we have not sold any Cheetah vehicles.

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.

Restatement

Management s Discussion and Analysis of Financial Condition and Results of Operations set forth in this Item 2 has been restated to reflect certain adjustments to our unaudited condensed consolidated financial information previously reported in our quarterly report on Form 10-Q for the period ended September 30, 2007, filed with the SEC on November 13, 2007. On February 29, 2008, we concluded we needed to restate our previously issued unaudited condensed consolidated financial statements for the third quarter of 2007 and delay the filing of our Annual Report on Form 10-K for the year ended December 31, 2007. On August 26, 2008, we concluded we needed to restate our previously issued unaudited condensed consolidated financial statements for the first and second quarters of 2007. We have concluded that misstatements in those previously issued financial statements were significant enough to warrant the restatement of the first, second, and third quarters of 2007. The misstatements primarily related to the recognition of revenue and liabilities in the proper periods and the determination of deferred incomes taxes. In connection with the restatement, certain presentation reclassifications have been made to conform to the current period presentation. See Note 2, *Restatement and Reclassification of Previously Issued Condensed Consolidated Financial Statements*, in the accompanying unaudited condensed consolidated financial statements for additional information.

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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 nine months ended September 30, 2007 and 2006, as prepared in accordance with GAAP.

The following tables present our vehicle sales and our results of operations for the three and nine months ended September 30, 2007 and 2006, as well as the percentage changes from period to period:

Units Sold	For the three months ended September 30, 2007 (Restated)	2006	Percentage Change
Buffalo	21	3	600%
Cougar (all variants)	353	55	542%
Cheetah			
Total units sold	374	58	545%

Units Sold	For the nine months ended September 30, 2007 (Restated)	2006	Percentage Change
Buffalo	56	11	409%
Cougar (all variants)	746	159	369%
Cheetah			
Total units sold	802	170	372%

(in thousands)	For the three months ended September 30, 2007 (As restated)	2006	Percentage Change
Net sales	$ 206,794	$ 42,161	390%
Cost of sales	184,260	34,243	438%
Gross profit	22,534	7,918	185%
General and administrative expenses	21,708	6,715	223%
Research and development expenses	2,344	546	329%
Operating income (loss)	(1,518)	657	(331)%
Other income, net	594	121	391%
Interest expense	(55)	(110)	(50)%
Income (loss) before income tax benefit	(979)	668	(247)%
Income tax benefit	180		n/m
Net income (loss)	(799)	668	(220)%
Accretion of Series D 6% convertible preferred stock		(64)	n/m
Preferred stock dividend		(364)	n/m
Net income (loss) available to common shareholders	$ (799)	$ 240	(433)%

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(in thousands)	For the nine months ended September 30, 2007 (As restated)	2006	Percentage Change
Net sales	$ 450,278	$ 133,038	238 %
Cost of sales	387,475	108,325	258 %
Gross profit	62,803	24,713	154 %
General and administrative expenses	56,113	20,421	175 %
Research and development expenses	10,848	1,851	486 %
Operating income (loss)	(4,158)	2,441	(270)%
Other income, net	3,488	169	n/m
Interest expense	(86)	(1,737)	(95)%
Income (loss) before income tax benefit	(756)	873	(187)%
Income tax benefit	140		n/m
Net income (loss)	(616)	873	(171)%
Accretion of Series D 6% convertible preferred stock		(326)	n/m
Preferred stock dividend		(1,297)	n/m
Net loss available to common shareholders	$ (616)	$ (750)	(18)%

n/m not meaningful

Three Months Ended September 30, 2007, as Restated

Comparison of Results of Operations for the Three Months Ended September 30, 2007 and 2006

Units sold

The increase in vehicles sold in the comparative periods is primarily due to the vehicles sold pursuant to the MRAP program. The vehicles sold under the program, which started shipping in the first quarter of 2007, represent approximately 98% of the vehicles sold in the three months ended September 30, 2007.

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 tables:

(in thousands)	For the three months ended September 30, 2007 (Restated)	2006	Percentage Change
Buffalo	$ 15,676	$ 4,355	260%
Cougar (all variants)	176,865	34,357	415%
Spare parts and logistics	14,253	3,449	313%
	$ 206,794	$ 42,161	390%

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Cost of sales and Gross profit

(in thousands)	**For the three months ended September 30, 2007 (Restated)**	**2006**
Cost of sales	$ 184,260	$ 34,243
Gross margin percentage	10.9%	18.8%

The gross margin decreased by 7.9 percentage points for the three months September 30, 2007 compared with the three months ended September 30, 2006. The gross margin was impacted by 2.1 percentage points as a result of GDLS Subcontract activity, whereby we recognized no gross profit on $33.3 million of vehicles sold that were produced by GDLS. The remainder of the decrease was primarily due to operational inefficiencies and the use of contract labor in the production process. We define the gross margin percentage as net sales less cost of sales divided by net sales.

General and administrative expenses

	For the three months ended September 30, 2007 (Restated)	**2006**
As a percentage of net sales	10.5%	15.9%

General and administrative expenses as a percentage of net sales decreased 5.4 percentage points for the three months ended September 30, 2007 compared with the three months ended September 30, 2006. The decrease was primarily due to leveraging selling and administrative support functions over an increasing business base, partially offset by a liquidated damage charge of $830 thousand. See Note 7, *Other current liabilities*, in the accompanying unaudited condensed consolidated financial statements.

Research and development expenses

	For the three months ended September 30, 2007 (Restated)	**2006**
As a percentage of net sales	1.1%	1.3%

Research and development expenses increased by approximately $1.8 million primarily due to increased expenditures related to the development of the Cheetah vehicle. We also increased research and development spending on upgrades and variants of the Buffalo and Cougar vehicles.

Other income

Other income increased for the 2007 period as compared with the similar period in 2006 due to the interest income earned on investment of the funds received from our December 2006 private placement of common stock.

Interest expense

Interest expense decreased for the 2007 period due to the repayment of a short-term loan in August 2006 and the termination of an accounts receivable factoring agreement in June 2006. Termination of these short-term financing arrangements was facilitated by the sale of common stock through private placements.

Income tax benefit

We recorded an income tax benefit for the 2007 period as a result of the increase in manufacturing costs, related decreased gross margins and operating loss compared to the 2006 period. The effective income tax rate for the 2007 period was approximately 18%. No income tax expense was recorded as a result of pre-tax income for the comparable 2006 period. See Note 12, *Income taxes*, in the accompanying unaudited condensed consolidated financial statements.

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Series D convertible preferred stock dividends and accretion

There were no preferred stock dividends or accretion of preferred stock in the 2007 period since all preferred stock was converted to common stock in 2006.

Net income (loss) available to common shareholders

(in thousands, except per share)	For the three months ended September 30, 2007 (Restated)		For the three months ended September 30, 2006	
Net income (loss) available to common shareholders	$	(799)	$	240
Diluted earnings (loss) per common share	$	(0.01)	$	0.00

We incurred a net loss available to common shareholders for the 2007 period compared to net income available to common shareholders for the comparable period in 2006 due to decreased gross margins partially offset by decreased interest expense and decreased preferred stock dividends and accretion.

Nine Months Ended September 30, 2007, as Restated

Comparison of Results of Operations for the Nine Months Ended September 30, 2007 and 2006

Units sold

The increase in vehicles sold in the comparative periods is primarily due to the vehicles sold pursuant to the MRAP program. The vehicles sold under such program, which started shipping in the first quarter of 2007, represent approximately 72% of the vehicles sold in the nine months ended September 30, 2007.

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 tables:

(in thousands)	For the nine months ended September 30, 2007 (Restated)	2006	Percentage Change
Buffalo	$ 38,491	$ 15,405	150%
Cougar (all variants)	361,801	104,527	246%
Spare parts and logistics	49,986	13,106	281%
	$ 450,278	$ 133,038	238%

Cost of sales and Gross profit

(in thousands)	For the nine months ended September 30, 2007 (As restated)	2006
Cost of sales	$ 387,475	$ 108,325
Gross margin percentage	13.9%	18.6%

Gross margins decreased by 4.7 percentage points for the nine months ended September 30, 2007 compared with the nine months ended September 30, 2006. The gross margin was impacted by 1.2 percentage points as a result of GDLS Subcontract activity, whereby we recognized no gross profit on $33.3 million of vehicles sold that

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were produced by GDLS. The remainder of the decrease was primarily due to operational inefficiencies and the use of contract labor in the production process. We define the gross margin percentage as net sales less cost of sales divided by net sales.

General and administrative expenses

	For the nine months ended September 30,	
	2007 (Restated)	2006
As a percentage of net sales	12.5%	15.3%

General and administrative expenses as a percentage of net sales decreased 2.8 percentage points for the nine months ended September 30, 2007 compared with the nine months ended September 30, 2006. The decrease was primarily due to leveraging selling and administrative support functions over an increasing business base, partially offset by a liquidated damage charge of $7.5 million. See Note 7, *Other current liabilities*, in the accompanying unaudited condensed consolidated financial statements.

Research and development expenses

	For the nine months ended September 30,	
	2007 (Restated)	2006
As a percentage of net sales	2.4%	1.4%

Research and development expenses increased by approximately $9.0 million primarily due to increased expenditures related to the development of the Cheetah vehicle.

Other income

Other income increased for the 2007 period as compared with the similar period in 2006 due to the interest income earned on investment of the funds received from our December 2006 private placement of common stock.

Interest expense

Interest expense decreased for the 2007 period due to the repayment of a short-term loan in August 2006 and the termination of an accounts receivable factoring agreement in June 2006. Termination of these short-term financing arrangements was facilitated by the sale of common stock through private placements.

Income tax benefit

We recorded an income tax benefit for the 2007 period as a result of our pre-tax loss. The effective income tax rate for the 2007 period was approximately 18%. No income tax expense was recorded as a result of pre-tax income for the comparable 2006 period. See Note 12, *Income taxes*, in the accompanying unaudited condensed consolidated financial statements.

Series D convertible preferred stock dividends and accretion

There were no preferred stock dividends or accretion of preferred stock in the 2007 period since all preferred stock was converted to common stock in 2006.

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Net income (loss) available to common shareholders

(in thousands, except per share)	For the nine months ended September 30, 2007 (Restated)		2006	
Net income (loss) available to common shareholders	$	(616)	$	(750)
Diluted earnings per common share	$	(0.01)	$	(0.02)

We realized a smaller net loss available to common shareholders for the 2007 period compared to the comparable period in 2006 due to decreased interest expense and decreased preferred stock dividends and accretion, partially offset by lower gross margins.

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.

Sources and Uses of Cash

Our primary sources of funding are cash flows from operations and from financing activities. Our funds were used primarily to fund working capital requirements and to make capital expenditures. The following chart shows the cash flows provided by or used in operating, investing, and financing activities for the nine months ended September 30, 2007 and 2006 (in thousands):

	For the nine months ended September 30, 2007		2006	
Net cash used in operating activities	$	(39,887)	$	(8,338)
Net cash used in investing activities		(47,706)		(4,372)
Net cash provided by financing activities		3,548		38,241
Increase (decrease) in cash and cash equivalents	$	(84,045)	$	25,531

At September 30, 2007 we had $72.3 million of cash and cash equivalents, a decrease from $156.3 million at the end of 2006.

Cash Flow from Operating Activities

Cash used in operating activities increased by $31.5 million during the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006. This change was primarily due to an increase in working capital usage in the 2007 period, partially offset by an increase in advance payments on contracts. Working capital usage increased $61.6 million (accounts receivable, inventories, and accounts payable) to support increased sale volumes. Advance payments on contracts increased due to the receipt of performance-based payments under the MRAP program.

Cash Flow from Investing Activities

As our business has grown, we have made several significant acquisitions and expanded our manufacturing capacity and infrastructure. In March 2007, we purchased the research and developmental testing facility of NEWTEC Services Group, Inc., located near Edgefield, South Carolina, for $5.5 million, $5.1 million of which was in cash. In March 2007, we purchased real and personal property located in Summerville, South Carolina, for $4.1 million in cash to use as a product development and logistic services training center. In July 2007, we purchased land and an approximately 430,000 square foot building in Roxboro, North Carolina, for $3.5 million that we intend to use for training and sustainment purposes. Also, in July 2007, we completed construction on and placed into service a 90,000 square foot warehouse facility at our corporate headquarters in Ladson, South Carolina, at a cost of approximately $3.5 million in cash. During the first nine months of 2007, we began construction of additional assembly lines. Construction in progress at September 30, 2007 totaled $16.8 million.

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Cash Flow from Financing Activities

During the nine months ended September 30, 2007, we did not issue common stock (except for exercised employee options) or debt to fund business activities. During the nine months ended September 30, 2006, we issued common stock for a private placement in public equity and exercised common stock warrants, totaling $46.0 million to fund the expansion of the business and retired $7.5 million of short-term debt. See Note 9, *Shareholders equity,* in the accompanying unaudited condensed consolidated financial statements.

Current Liquidity and Capital Resources

Due to the timing of the issuance of this amended Quarterly Report on Form 10-Q/A we have disclosed certain information that was included in our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on September 15, 2008.

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, inventory costs, costs of raw material 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. We expect that we may require additional sources of capital after that time. We may therefore be required 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 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, 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 September 30, 2007, we do not have any obligation under certain guarantees or contracts as defined above.

As of September 30, 2007, we do not have any retained or contingent interest in assets as defined above.

As of September 30, 2007, we do not hold derivative financial instruments, as defined by FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended.

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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 September 30, 2007, we were not involved in any unconsolidated SPE transactions.

Dividends

We have never paid or declared any cash dividends on our common stock. We currently intend to retain earnings, if any, to finance the growth and development of our business, and we do not expect to pay any cash dividends on our common stock in the foreseeable future. Payment of future dividends, if any, will be at the discretion of the board of directors and will depend on our financial condition, results of operations, capital requirements, restrictions contained in current or future financing instruments, and other factors the board deems relevant.

Critical Accounting Policies and Estimates

Our discussion and analysis of our results of operations and liquidity and capital resources are based on our unaudited condensed consolidated financial statements, which have been prepared in accordance with GAAP. In connection with the preparation of our unaudited condensed consolidated financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors we believe to be relevant at the time we prepared our unaudited condensed consolidated financial statements. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our unaudited condensed consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

The preparation of our unaudited condensed consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but are not limited to: (1) revenue recognition; (2) allowance for doubtful accounts; (3) definitization and advance payments on contracts; (4) inventory costs and reserves; (5) asset impairments (6) depreciable lives of assets; (7) economic lives and fair value of leased assets; (8) income tax reserves and valuation allowances; (9) fair value of stock options; (10) allocation of direct and indirect cost of sales; and (11) litigation reserves. Future events and their effects cannot be predicted with certainty, and accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our unaudited condensed consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. We evaluate and update our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations. Actual results could differ from the estimates we have used.

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Our significant accounting policies are discussed in Note 1, *Summary of Significant Accounting Policies*, to our accompanying unaudited condensed consolidated financial statements. We believe the following accounting policies are the most critical to aid in fully understanding and evaluating our reported financial results, as they require management to make difficult, subjective or complex judgments, and to make estimates about the effect of matters that are inherently uncertain. We have reviewed these critical accounting policies and related disclosures with the Audit Committee of our board of directors.

Description	Judgments and Uncertainties	Effect if Actual Results Differ from Assumptions
Inventories		
We state our inventories at the lower of cost or market value and net of the cost of excess and obsolete items.	The determination of inventory valuation reserves requires management to make estimates and judgments on the future salability of inventories. Valuation reserves for excess, obsolete, and slow-moving inventory are estimated by comparing the inventory levels of individual parts to both future sales forecasts or production requirements and historical usage rates in order to identify inventory for which the resale value or replacement value is less than the inventoriable cost. Other factors that management considers in determining these reserves include whether individual inventory parts meet current specifications and can be substituted for a part currently being sold or used as a service part, overall market conditions, and other inventory management initiatives.	Our estimates of future product demand may prove to be inaccurate, in which case we may have understated or overstated the provision required for excess and obsolete inventories. In the future, if our inventories are determined to be overvalued, we would be required to recognize such costs in our cost of sales at the time of such determination. Likewise, if our inventories are determined to be undervalued, we may have over-reported our costs of sales in previous periods and would be required to recognize such additional operating income at the time of sale.
Income taxes		
We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their	A high degree of judgment is required to determine if, and the extent to which, valuation allowances should be recorded against deferred tax assets. Since December 31, 2006, we have not had a valuation allowance recorded against our deferred tax asset.	Although we believe that our approach to estimates and judgments as described herein is reasonable, actual results could differ and we may be exposed to increases or decreases in income taxes that could be material.

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Description		Judgments and Uncertainties		Effect if Actual Results Differ from Assumptions
respective tax bases. Deferred tax assets are also recorded with respect to net operating losses and other tax attribute carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the years in which temporary differences are expected to be recovered or settled. Valuation allowances are established when it is more likely than not that deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income of the period that includes the enactment date.		Contingent tax liabilities are based on our assessment of the likelihood that we have incurred a liability. Such liabilities are reviewed based on recent changes in tax laws and regulations, including judicial rulings.		
In addition, we establish reserves for tax contingencies in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*.				
Assessment of Loss Contingencies				
We have legal and other contingencies, including product warranties, which could result in significant losses upon the ultimate resolution of such contingencies.		We have provided for losses in situations where we have concluded that it is probable that a loss has been or will be incurred and the amount of the loss is reasonably estimable. A significant amount of judgment is involved in determining whether a loss is probable and reasonably estimable due to the uncertainty involved in determining the likelihood of future events and estimating the financial statement impact of such events.		If further developments or resolution of a contingent matter are not consistent with our assumptions and judgments, we may need to recognize a significant charge in a future period related to an existing contingency.

New Accounting Pronouncements

In May 2008, the 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 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

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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 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.

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.

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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.

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Item 4. Control 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 amended Quarterly Report on Form 10-Q/A for the period ended September 30, 2007, members of our new 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 September 30, 2007. 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 September 30, 2007, because of the material weaknesses in our internal control over financial reporting that existed during the period covered by this report. Notwithstanding the material weaknesses that existed during the period covered by this report, our new 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

On February 29, 2008, we concluded we needed to restate our previously issued consolidated financial statements for the third quarter of 2007 and delay the filing of our Annual Report on Form 10-K for the year ended December 31, 2007. On August 26, 2008, we concluded we needed to restate our previously issued consolidated financial statements for the first and second quarters of 2007. We have concluded that misstatements in those previously issued financial statements were significant enough to warrant the restatement of the first, second, and third quarters of 2007.

At the conclusion of our restatement efforts, our new management identified the following material weaknesses in our internal control over financial reporting as of September 30, 2007.

Financial Statements Closing Process. We lacked a sufficient complement of personnel with a level of financial reporting expertise commensurate with our financial reporting requirements, which resulted in our not maintaining effective controls over the financial statements closing and reporting process. Specifically, we lacked sufficient resources to perform properly the quarterly and year-end consolidated financial statement close processes, including the review of certain account reconciliations, recognition of certain liabilities in the proper period and consolidated financial statement preparation and disclosures. We also did not maintain physical control over property and equipment. We also did not maintain sufficient written policies and procedures, and support, particularly with respect to the accounting for the reserve for excess and obsolete inventory; however, this specific item only resulted in material adjustments to our cost of goods sold in the fourth quarter of 2007. The other control deficiencies in this section contributed to the material weaknesses discussed below and resulted in restatement of our quarterly condensed consolidated financial statements for the period ended September 30, 2007.

Accounting for Inventory and related accounts. We did not maintain effective controls over the completeness, accuracy, valuation and existence of our inventory, accounts payable, and related cost of sales accounts. Specifically, our controls with respect to the accuracy of product costing, work order closeout, accounting for cost accumulation on long-term contracts and certain inventory management processes, including obsolete and slow-moving inventory identification, and net-realizable inventory valuation were not effective. Also, we did not maintain effective controls over the accurate and timely recording of inventory receipts and shipments, including the recognition of accounts payable. Furthermore, we did not maintain effective controls over the accuracy and completeness of perpetual counts of our inventory quantities. This control deficiency contributed to the material

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weaknesses discussed below and resulted in restatement of our quarterly unaudited condensed consolidated financial statements for the period ended September 30, 2007.

Accounting for revenue recognition. We did not maintain effective controls over the completeness and accuracy of revenue, accounts receivable, and advance payments on contracts. Specifically, we failed to recognize revenue in the appropriate quarter and effective controls were not designed and in place to ensure that sales orders were complete, accurate and recorded on a timely basis. This control deficiency contributed to the material weaknesses discussed below and resulted in restatement of our quarterly unaudited condensed consolidated financial statements for the period ended September 30, 2007.

Accounting for income taxes. We did not maintain effective controls over the completeness, accuracy, presentation and disclosure of our accounting for income taxes, including the determination of income tax expense, income taxes payable and deferred income tax assets and liabilities. This control deficiency contributed to the material weaknesses discussed below and resulted in restatement of our quarterly unaudited condensed consolidated financial statements for the period ended September 30, 2007.

Inadequate monitoring of non-routine and non-systematic transactions. We did not have effective controls in place to monitor and accurately record non-routine and non-systematic transactions. This primarily related to our accounting for inventory relating to terminating an agreement with a supplier in the second quarter of 2007. This control deficiency contributed to the material weaknesses discussed below and resulted in restatement of our quarterly unaudited condensed consolidated financial statements for the period ended September 30, 2007.

Information Technology Controls. We did not maintain effective segregation of duties over automated and manual transaction processes. Specifically, we did not maintain effective controls over the granting, maintenance and monitoring of access to financial systems and data. Certain information technology and finance department personnel had unrestricted access to financial applications, programs and data beyond that needed to perform their individual job responsibilities and without any independent monitoring. This control deficiency affects substantially all financial statement accounts. This control deficiency did not result in adjustments to our unaudited condensed consolidated financial statements for the period ended September 30, 2007.

There were no material changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) for the period covered by this report that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting. We did, however, identify the material weaknesses described above with respect to our internal controls.

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.

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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.

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PART II

OTHER INFORMATION

ITEM 6. Exhibits

EXHIBIT INDEX

Number	DESCRIPTION
2.1	Agreement and Plan of Merger filed as Exhibit 2.1 in 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 on the Company s Current Report on Form 8-K filed February 26, 2008, is hereby incorporated by reference.
3.3	Certificate of Amendment to Articles of Incorporation filed as Exhibit 3.3 on 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 on 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 on 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 on the Company s Current Report on Form 8-K filed February 15, 2005, is hereby incorporated by reference.
10.1	First Amendment to Building No. 1 Office Lease among Force Protection, Inc., Force Protection Industries, Inc., and Aerospace/Defense, Inc., dated July 1, 2007, filed as Exhibit 10.9 to the Company s Quarterly Report on Form 10-Q filed November 13, 2007, is hereby incorporated by reference.
10.2	First Amendment to Ground Lease among Force Protection, Inc., Force Protection Industries, Inc., and Aerospace/Defense, Inc., dated July 1, 2007, filed as Exhibit 10.7 to the Company s Quarterly Report on Form 10-Q filed November 13, 2007, is hereby incorporated by reference.
10.3	Second Amendment to Building No. 3 Industrial Lease among Force Protection, Inc., Force Protection Industries, Inc., and Aerospace/Defense, Inc., dated July 1, 2007, filed as Exhibit 10.18 to the Company s Quarterly Report on Form 10-Q filed November 13, 2007, is hereby incorporated by reference.
10.4	Fourth Amended and Restated Building No. 1 Industrial Lease among Force Protection, Inc., Force Protection Industries, Inc., and Aerospace/Defense, Inc., dated July 1, 2007, filed as Exhibit 10.14 to the Company s Quarterly Report on Form 10-Q filed November 13, 2007, is hereby incorporated by reference.
10.5	Third Amendment to Building No. 2 Industrial Lease among Force Protection, Inc., Force Protection Industries, Inc., and Aerospace/Defense, Inc., dated July 1, 2007, filed as Exhibit 10.17 to the Company s Quarterly Report on Form 10-Q filed November 13, 2007, is hereby incorporated by reference.

10.6 License Agreement between Force Protection Industries, Inc. and the CSIR, dated July 6, 2007, filed as Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q filed November 13, 2007, is hereby incorporated by reference.

10.7 Loan Agreement between Force Protection, Inc. and Wachovia Bank, National Association, dated July 20, 2007, filed as Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q filed August 9, 2007, is hereby incorporated by reference.

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10.8	Security Agreement between Force Protection, Inc. and Wachovia Bank, National Association, dated July 20, 2007, filed as Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q filed August 9, 2007, is hereby incorporated by reference.
10.9	Promissory Note between Force Protection, Inc. and Wachovia Bank, National Association, dated July 20, 2007, filed as Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q filed August 9, 2007, is hereby incorporated by reference.
10.10	Delivery Order No. 5 under Contract M67854-07-D-5031 with the United States Marine Corps Systems Command, dated August 10, 2007, filed as Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q filed November 13, 2007, is hereby incorporated by reference.
10.11	Subcontract Agreement among Force Protection Industries, Inc., General Dynamics, Inc. and General Dynamics Land Systems, Inc., dated September 10, 2007 filed as Exhibit 10.52 on the Company s Annual Report on Form 10K filed September 15, 2008, is hereby incorporated by reference.
10.12	Modification Number One to Promissory Note between Force Protection, Inc. and Wachovia Bank, National Association, dated September 30, 2007, filed as Exhibit 10.5 to the Company s Quarterly Report on Form 10-Q filed November 13, 2007, is hereby incorporated by reference.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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.

(Exhibits marked with a are filed electronically herewith.)

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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)**