

FORCE PROTECTION INC  
Form 10-Q  
August 03, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

**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.**

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(Exact Name of Registrant as Specified in Its Charter)

**Nevada**  
(State or Other Jurisdiction of

**84-1383888**  
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

**9801 Highway 78, Building No. 1**

**Ladson, South Carolina**  
(Address of Principal Executive Offices)

**29456**  
(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.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

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

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

The registrant had 70,272,327 shares of common stock outstanding as of July 23, 2010.

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	As of June 30, 2010	As of December 31, 2009
	(In Thousands)	
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 120,766	\$ 147,254
Accounts receivable, net	147,536	143,480
Inventories	72,925	74,075
Deferred income tax assets	15,958	16,235
Income taxes receivable		1,352
Other current assets	4,098	3,031
<b>Total current assets</b>	<b>361,283</b>	<b>385,427</b>
Property and equipment, net	57,794	58,918
Investment in unconsolidated joint venture	2,665	2,541
Other assets, net	625	202
<b>Total assets</b>	<b>\$ 422,367</b>	<b>\$ 447,088</b>
<b>Liabilities and Shareholders Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 60,518	\$ 86,588
Due to United States government	23,136	25,965
Advance payments on contracts	3,392	1,164
Other current liabilities	15,070	21,044
<b>Total current liabilities</b>	<b>102,116</b>	<b>134,761</b>
Deferred income tax liabilities	1,225	1,236
Other long-term liabilities	364	
	103,705	135,997
Commitments and contingencies		
<b>Shareholders equity:</b>		
Common stock	70	70
Additional paid-in capital	261,856	260,112
Accumulated other comprehensive income	44	129
Retained earnings	56,692	50,780
<b>Total shareholders equity</b>	<b>318,662</b>	<b>311,091</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 422,367</b>	<b>\$ 447,088</b>

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



Table of Contents**Force Protection, Inc. and Subsidiaries****Condensed Consolidated Statements of Operations****(Unaudited)**

	For the three months ended June 30,		For the six months ended June 30,	
	2010 (In Thousands, Except Per Share Data)	2009	2010 (In Thousands, Except Per Share Data)	2009
Net sales	\$ 137,139	\$ 187,116	\$ 271,986	\$ 371,850
Cost of sales	105,457	161,403	214,915	309,235
Gross profit	31,682	25,713	57,071	62,615
General and administrative expenses	19,124	20,172	37,864	41,023
Research and development expenses	5,284	4,892	10,131	9,497
Operating income	7,274	649	9,076	12,095
Other income (expense), net	189	(133)	262	(195)
Interest (expense) income, net	(62)	103	(194)	(33)
Income before income tax expense	7,401	619	9,144	11,867
Income tax expense	(2,624)	(178)	(3,231)	(4,050)
Net income	\$ 4,777	\$ 441	\$ 5,913	\$ 7,817
<b>Earnings per common share:</b>				
Basic	\$ 0.07	\$ 0.01	\$ 0.09	\$ 0.11
Diluted	\$ 0.07	\$ 0.01	\$ 0.08	\$ 0.11
<b>Weighted average common shares outstanding:</b>				
Basic	68,787	68,425	68,729	68,416
Diluted	69,606	68,979	69,609	68,909

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 six months ended June 30,	
	2010	2009
	(In Thousands)	
<b>Cash flows from operating activities:</b>		
Net income	\$ 5,913	\$ 7,817
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Depreciation and amortization	7,927	6,676
Deferred income tax provision	313	2,049
Income tax effect realized from stock transactions	(12)	
Stock-based compensation	1,714	1,260
Provision for asset impairment		748
Provision for inventory	1,154	891
Loss on disposal of property and equipment	5	158
Equity in (earnings) loss of unconsolidated joint venture	(131)	484
(Increase) decrease in assets		
Accounts receivable	(4,056)	(4,010)
Inventories	(4)	(52,268)
Advances to subcontractor		(26,027)
Prepaid income taxes		(8,893)
Income taxes receivable	1,352	
Other assets	(1,419)	(707)
Increase (decrease) in liabilities		
Accounts payable	(26,742)	37,039
Due to United States government	(2,829)	14,604
Advance payments on contracts	2,228	47,385
Other liabilities	(5,597)	(8,865)
Total adjustments	(26,097)	10,524
<b>Net cash (used in) provided by operating activities</b>	<b>(20,184)</b>	<b>18,341</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(5,029)	(5,302)
Purchases of marketable securities		(9,985)
Proceeds from the sale of fixed assets	22	
Purchase of JAMMA assets	(1,200)	
Investment in unconsolidated joint venture		(2,149)
<b>Net cash used in investing activities</b>	<b>(6,207)</b>	<b>(17,436)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock	17	37
Income tax effect realized from stock transactions	12	
Net decrease in other long-term liabilities		(128)
<b>Net cash provided by (used in) financing activities</b>	<b>29</b>	<b>(91)</b>
<b>Effect of foreign currency rate changes on cash</b>	<b>(126)</b>	
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(26,488)</b>	<b>814</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>147,254</b>	<b>111,001</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 120,766</b>	<b>\$ 111,815</b>
<b>Supplemental cash flow information:</b>		
Cash paid during the period for		
Income taxes	\$ 6,937	\$ 15,119
Interest, net of amounts capitalized	\$ 210	\$ 82

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**Supplemental schedule of noncash investing and financing activities:**

Property and equipment additions in accounts payable	\$	1,622	\$	873
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The accompanying notes to condensed consolidated financial statements are an integral part of these statements.



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1. Summary of Significant Accounting Policies

***Organization and Description of the Business***

Force Protection, Inc. provides survivability solutions to support the armed forces of the United States and its allies. We design, manufacture, test, deliver and support our blast- and ballistic-protected products to increase the survivability of the users of our 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 a key provider of the U.S. military's Mine Resistant Ambush Protected (MRAP) vehicle program and have sold and delivered over 3,000 vehicles under this program. We also provide our Cougar and Buffalo mine-protected vehicles to several foreign customers, including the U.K. Ministry of Defence (MoD) which has purchased three variants of our Cougar vehicle. Complementing these efforts, we are designing, developing and marketing new vehicle platforms (including the Ocelot and the Joint All-Terrain Modular Mobility Asset (JAMMA)) that provide increased modularity, speed, mobility and concealment with enhanced levels of blast- and ballistic-protection. Across all vehicle programs we have sold approximately 4,600 vehicles since 2005. Supporting our vehicle design, development and production initiatives, we develop, manufacture, test, deliver and support products and services aimed at further enhancing the survivability of our users against additional threats. Capitalizing on our strengths in survivability solutions, we are focused on developing additional products to protect against rocket-propelled grenades and under body armor kits to mitigate blast effects on military vehicles. We also provide long-term life cycle support services for our vehicles that involve development of technical data packages, supply of spares, field and depot maintenance activities, assignment of highly-skilled field service representatives, and advanced off-road driver and maintenance training programs. Our services are based on establishing and maintaining long-term relationships with the U.S. government and foreign military users.

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

In 2009, we formed Integrated Survivability Technologies Limited, an England and Wales company, referred to as IST, a joint venture between Force Protection Europe Limited, a subsidiary of Force Protection Industries, Inc., and NP Aerospace Limited, a subsidiary of The Morgan Crucible Company plc. Pursuant to the terms of the joint venture, IST acts as the prime contractor for vehicles and related total life cycle support awarded by the United Kingdom Ministry of Defence (U.K. MoD) to ensure that this customer has a single point of contact for its Wolfhound, Buffalo, Mastiff and Ridgback vehicles. We account for this joint venture as an equity-method investment. In September 2009, we formed Force Protection Australasia Pty Ltd, an Australian company, to pursue market opportunities in Australia and Asia. Force Protection Australasia Pty Ltd is a wholly owned subsidiary of Force Protection Europe Limited.

As part of our comprehensive business development efforts, we are pursuing a number of substantial vehicle programs in several countries worldwide. Notable examples include:

*Light Protected Patrol Vehicle (LPPV).* Through Force Protection Europe Limited, we have developed with a subcontractor (Ricardo U.K. Limited) a new vehicle platform called the Ocelot. The Ocelot is a light-weight protected vehicle that provides increased modularity, speed, mobility and off-road capability with MRAP-like survivability qualities. The vehicle has been submitted by Force Protection Europe Limited to the U.K. MoD for the LPPV competition. In April 2010, we received a contract from the U.K. MoD for the purchase of two Ocelot vehicles for further testing for the LPPV program. The Ocelot is one of two finalists for this urgent operational needs program and a preferred bidder is expected to be selected in September 2010. The LPPV program is initially for at least 200 vehicles and related long-term support services.

*Land 121 Protected Mobility Vehicle-Light (PMV-L).* The Ocelot was proposed in September 2009 to the Commonwealth of Australia for one of the PMV-L requirements found in the Land 121 Phase IV project. In May 2010, we were formally notified that our Force Protection Europe Ocelot vehicle was selected as one of three funded competitors to continue competitive prototyping in the Manufactured and Supported in Australia (MSA) option for Land 121. Force Protection Europe entered into a contract on July 23, 2010 to build and deliver two Ocelot prototypes with accompanying documentation, as well as test and evaluation support. Prototypes are scheduled to be delivered in February 2011. The value of the contract is not-to-exceed \$8.4 million (\$9.9 million Australian dollars). The contract and evaluation period for the PMV-L competitive stage is currently scheduled to conclude by May 2011, at which point the Commonwealth of Australia is expected to make a decision to continue with the Joint Light Tactical Vehicle (JLTV) program or MSA prototyping and sourcing for production. In addition

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to the Land 121 PMV-L option, the Australian government has collaborated with the U.S. government on the development of the JLTV. The PMV-L program is for approximately 1,300 vehicles, trailers and related long-term support services.

*Joint All-Terrain Modular Mobility Asset (JAMMA).* The JAMMA is a light-weight, hybrid, high-performance, high-speed, all-terrain vehicle that is transportable inside a V-22 Osprey helicopter and features an attachment system for threat-specific armor. The JAMMA was specifically developed and designed to meet an upcoming customer requirement, the United States Air Force's Guardian Angel Air-Deployable Rescue Vehicle (GAARV) program but will have application to a multitude of Special Operations Command programs both domestically and worldwide. It is currently anticipated that the Air Combat Command will issue a Request for Proposal (RFP) for the GAARV program in the fall of 2010. The JAMMA is designed to be an air-droppable, surface recovery platform capable of maneuvering over adverse terrain in order to search for and recover isolated personnel and equipment. The JAMMA also is designed to transport recovery teams and the recovered ambulatory or wounded personnel from isolated high threat areas to defensible locations for extraction by aircraft or self-recovery to a final, secure destination. The GAARV program is for approximately 90 vehicles.

*Tactical Armored Patrol Vehicle (TAP-V).* The TAP-V program, sponsored by the Canadian Department of National Defense, is the avenue that the Canadian military is expected to utilize to replace the Coyote and RG-31. Vehicle requirements must satisfy the following mission profiles: Reconnaissance and Surveillance, Security, Command and Control, Cargo and Armored Personnel Carrier. The vehicle selected for the TAP-V program must possess a high degree of mobility as well as a high degree of protection for the crew. Additionally, this program will be built on a Military Off-The-Shelf solution. Similar to the LPPV and Land 121 PMV-L programs, the TAP-V program requires vehicle production to be based in-country. In June 2010, Force Protection supplied two possible solutions for the TAP-V program, a Cougar 4x4 and Cougar 6x6 variant. In July 2010, both of our vehicle solutions were selected to move into the RFP phase of the procurement process, along with seven other vehicles from other equipment manufacturers. A contract award to the final selected bidder is expected in 2011. The TAP-V program is for approximately 600 vehicles and related long-term support services.

### ***Basis of Presentation and Consolidation***

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the United States Securities and Exchange Commission (SEC) on March 8, 2010. These unaudited condensed consolidated financial statements have been prepared pursuant to Rule 10-01 of Regulation S-X. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made herein are adequate to make the information not misleading.

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

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

***Fair Value of Financial Instruments***

FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, which was primarily codified into Topic 825, *Financial Instruments* in the Accounting Standards Codification (ASC), requires disclosures of the fair value of financial instruments. Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and amounts due to United States government. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and amounts due to the U.S. government, approximate their fair value because of the short-term maturity and highly liquid nature of these instruments. The carrying values of our financial instruments approximate their fair value as of June 30, 2010 and December 31, 2009.

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In June 2009, the FASB issued FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, which was codified into Topic 105 *Generally Accepted Accounting Standards*. This guidance launched the FASB Accounting Standards Codification that is the single source of non-SEC authoritative GAAP. It is effective for interim and annual periods beginning after September 15, 2009. We adopted this guidance as of September 30, 2009. This guidance did not have a material impact on our consolidated financial position, results of operations or cash flows.

In October 2009, the FASB issued Update No. 2009-13 (ASU 2009-13), an update to Topic 605 *Revenue Recognition*, which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. ASU 2009-13 is effective prospectively for revenue recognition arrangements entered into or materially modified beginning in fiscal years on or after June 15, 2010. Early adoption is permitted. We are currently evaluating the impact that the adoption of this guidance will have on our consolidated financial position, results of operations or cash flows, if any.

In February 2010, the FASB issued Update No. 2010-9 (ASU 2010-9), an update to Topic 855 *Subsequent Events*, which clarified that subsequent events should be evaluated through the date the financial statements are issued. In addition, this update no longer requires a filer to disclose the date through which subsequent events have been evaluated. This guidance is effective for financial statements issued subsequent to February 26, 2010. We adopted this guidance on March 8, 2010. This guidance did not have a material impact on our consolidated financial position, results of operations or cash flows.

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

**2. Accounts Receivable**

Accounts receivable consist of the following (in thousands):

	As of June 30, 2010	As of December 31, 2009
United States government	\$ 122,709	\$ 122,070
Other accounts receivable	24,827	21,410
Accounts receivable, net	\$ 147,536	\$ 143,480

As of June 30, 2010 and December 31, 2009, our accounts receivable included \$96.7 million and \$57.2 million, respectively, of earned and unbilled accounts receivable, of which \$12.8 million and \$6.4 million, respectively, is earned and unbilled to Integrated Survivability Technologies Limited and \$83.9 million and \$50.8 million, respectively, is earned and unbilled to the U.S. government. The earned and unbilled accounts receivable as of June 30, 2010 and December 31, 2009 primarily result from not-to-exceed undefinitized contracts whereby, although the products and services have been delivered, we cannot fully bill until the contracts are definitized. Other accounts receivable include amounts

that relate to non-government entities and the sale of raw materials to suppliers.

**3. Inventories**

Inventories consist of the following (in thousands):

	<b>As of June 30,</b>		<b>As of December 31,</b>	
	<b>2010</b>		<b>2009</b>	
Raw material and supplies	\$	42,497	\$	57,026
Work in process		28,363		16,099
Finished goods		2,065		950
Inventories	\$	72,925	\$	74,075

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

	As of June 30, 2010		As of December 31, 2009	
Land	\$	4,419	\$	4,419
Buildings		13,749		13,246
Leasehold improvements		16,256		15,661
Machinery and equipment; including tooling and molds		35,256		33,451
Computer equipment and software		16,043		15,297
Furniture and fixtures		3,722		3,668
Demonstration and other vehicles		3,434		2,657
Manuals		705		705
		93,584		89,104
Less: Accumulated depreciation		(39,605)		(31,887)
		53,979		57,217
Construction in progress		3,815		1,701
Property and equipment, net	\$	57,794	\$	58,918

**5. Income Taxes**

We provide for income taxes using the liability method in accordance with FASB ASC Topic 740, *Income Taxes*. In accordance with this guidance, the provision for taxes on income recognizes our estimate of the effective tax rate expected to be applicable for the full 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 expense for the three and six months ended June 30, 2010 was based on the estimated effective tax rates applicable for the fiscal year ending December 31, 2010, after considering items specifically related to the interim period. The income tax expense for the three and six months ended June 30, 2009 was based on the estimated effective tax rates applicable for the fiscal year ended December 31, 2009, after considering items specifically related to the interim period.

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

	For the three months ended June 30,				For the six months ended June 30,			
	2010		2009		2010		2009	
Income before income tax expense	\$	7,401	\$	619	\$	9,144	\$	11,867

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

	For the three months ended		For the six months ended	
	2010	2009	2010	2009
Income tax expense at statutory rate	35.0%	35.0%	35.0%	35.0%
Increase (decrease) in tax rate resulting from:				
State income taxes, net of federal tax benefit	1.4	0.2	1.4	0.7
Research and development credit		18.0		(1.5)
Domestic Production Activities Deduction	(2.4)	(14.5)	(2.5)	(1.1)
Interest expense related to uncertain tax benefits	0.1		0.1	
Nondeductible items	1.4	(10.0)	1.4	1.0
Effective income tax expense rate	35.5%	28.7%	35.4%	34.1%



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The effective income tax rate is the provision for income tax expense as a percent of income before income taxes. The effective rate for the three and six months ended June 30, 2010 is higher than the federal statutory rate of 35% due to state income taxes and nondeductible compensation, partially offset by the Domestic Production Activities Deduction.

Tax years ended December 31, 2002 through December 31, 2009 remain open and are subject to examination by the Internal Revenue Service. However, 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 based on an assessment of many factors including past experience and interpretations of tax laws applied to the facts of each matter. However, we do have a \$1.1 million reserve, which includes approximately \$45,000 of interest, for prior years' income taxes as a result of applying the guidance in FASB ASC Topic 740, *Income Taxes*. If recognized, the entire \$1.1 million would favorably impact the Company's effective tax rate. It is not expected that within the next 12 months the effective tax rate will be impacted by the resolution of some or all of the matters by various taxing authorities. We include interest and penalties related to federal and state income taxes, if any, as a component of *Income tax expense* in the accompanying condensed consolidated statements of operations.

## 6. Earnings Per Common Share and Comprehensive Income

### *Earnings Per Common Share*

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

	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
<b>Numerator Basic and diluted:</b>				
Net income	\$ 4,777	\$ 441	\$ 5,913	\$ 7,817
<b>Denominator:</b>				
Weighted average common shares outstanding basic	68,786,642	68,424,750	68,729,295	68,416,226
Add: Stock options	96,298	172,039	116,244	138,705
Add: Stock grants	723,283	381,860	763,348	354,201
Weighted average common shares outstanding diluted	69,606,223	68,978,649	69,608,887	68,909,132
<b>Basic earnings per common share:</b>				
Net income basic	\$ 0.07	\$ 0.01	\$ 0.09	\$ 0.11
<b>Diluted earnings per common share:</b>				
Net income diluted	\$ 0.07	\$ 0.01	\$ 0.08	\$ 0.11

The calculation of earnings per common share is based on the weighted-average number of our common shares outstanding during the applicable period. The calculation for diluted earnings per common share recognizes the effect of all dilutive potential common shares that were outstanding during the respective periods, unless their impact would be anti-dilutive. We use the treasury stock method to calculate the dilutive effect of stock options and other common stock equivalents (potentially dilutive shares). These potentially dilutive shares include stock options and unvested restricted stock grants. We did not include stock options to purchase 4,831 and 98,294 shares of common stock in our computation

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of diluted earnings per share in the three and six months ended June 30, 2010, respectively, as the effect of including such options would be anti-dilutive. For the 2009 periods presented above, we have not excluded any potentially dilutive shares from the calculation of diluted earnings per share.

### *Comprehensive Income*

Our comprehensive income was \$4.8 million and \$5.8 million for the three and six months ended June 30, 2010 and \$0.2 million and \$7.6 million for the three and six months ended June 30, 2009, respectively. The components of our comprehensive income are net income and foreign currency translation adjustments of zero and a \$0.1 million net loss for the three and six months ended June 30, 2010, respectively, and a \$0.2 million net loss for the three and six months ended June 30, 2009.

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**7. Commitments and Contingencies**

*Financing Commitments Credit Facility*

As of December 31, 2009 and June 30, 2010, we had a \$40 million revolving credit line with Wells Fargo Bank, National Association, which expires April 30, 2012. Furthermore, we can designate up to \$5 million for letters of credit against the \$40 million line of credit. There were no borrowings outstanding under the facility as of December 31, 2009 or June 30, 2010. However, on July 23, 2010, we obtained a letter of credit in the amount of \$2.9 million (\$3.3 million Australian dollars) for the performance of our obligations under a contract for the PMV-L vehicle program, which lowered the availability under the line of credit to approximately \$37.1 million. Borrowings under the line of credit bear a floating interest rate per annum on any principle borrowings applicable to LIBOR rate plus a spread. The bank's obligation to make loans under the line of credit is subject to, among other things, our compliance with various covenants to include a maximum leverage ratio. As of December 31, 2009 and June 30, 2010, we were in compliance with all of our line of credit covenants.

*Legal Proceedings*

*Shareholder Class Action and Derivative Actions*

On March 10, 2008, the first of ten related class action lawsuits was filed against us and certain of our former and current directors or officers in the United States District Court for the District of South Carolina, Charleston Division, on behalf of a purported class of investors who purchased or otherwise acquired our stock 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 individual class action lawsuits were consolidated on June 10, 2008, under the caption *In Re Force Protection, Inc. Securities Litigation*, Action No. 2:08-cv-845-CWH. On September 29, 2009, the court denied the defendants' motion to dismiss the plaintiffs' consolidated complaint, and the parties are engaging in discovery.

Between March 27, 2008 and May 28, 2008, a series of shareholder derivative actions were filed in both state and federal courts against certain of our former and current directors and officers alleging that the individual defendants breached fiduciary duties, abused control, engaged in gross mismanagement and wasted corporate assets and were unjustly enriched. Recovery is sought for the benefit of the Company, which has been named a nominal defendant in each derivative action. The state court actions pending in South Carolina were consolidated on May 18, 2009. Defendants' motions to dismiss each of the state court derivative actions were denied, and the parties are engaging in discovery. Four derivative lawsuits pending in the United States District Court for the District of South Carolina, Charleston Division, were consolidated on March 31, 2009, under the caption *In Re Force Protection, Inc. Derivative Litigation*, Action No. 2:08-cv-01907-CWH.

*Other Disputes*

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We have received a total of 78 complaints over the last three years 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 have investigated the allegations.

On June 26, 2009, a temporary independent contractor whose services we terminated in 2007 filed a complaint against the Company in the United States District Court for the District of South Carolina, Charleston Division as Civil Action No. 2:09cv1708-DCN-BM, 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 March 12, 2010, we filed motions to dismiss certain claims in the plaintiff's complaint.

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.

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In addition, compliance with the directives of the Directorate of Defense Trade Controls (DDTC) may result in substantial expenses and diversion of management. Any failure to adequately address the directives of DDTC could result in civil fines 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. The Company does not have any outstanding matters with the DDTC.

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) is designed to provide information that is supplemental to, and should be read together with our unaudited condensed consolidated financial statements and the accompanying notes included in this Quarterly Report on Form 10-Q. Information in this Item 2 is intended to assist the reader in obtaining an understanding of our unaudited 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:

- Overview
  
- Outlook
  
- Results of Operations an analysis of our consolidated results of operations, for the three and six months presented in our unaudited condensed consolidated financial statements
  
- Liquidity and Capital Resources an analysis of the effect of our operating, financing and investing activities on our liquidity and capital resources
  
- Off- Balance Sheet Arrangements a discussion of such commitments and arrangements
  
- Contractual Obligations a summary of our aggregate contractual obligations
  
- 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**

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This Quarterly Report on Form 10-Q 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 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, anticipate, outlook, estimate or continue and other words and terms of similar meaning. These forward-looking statements include, among other things:

- Statements regarding the growth of the U.S. and world market for blast- and ballistic-protected vehicles and our survivability products, services and solutions,
- Statements regarding the U.S. military's plans or intentions, including operations in Iraq and in Afghanistan,
- Information regarding the number of various types of MRAP and other armored vehicles that may be purchased by the U.S. Marine Corps, the U.S. Army and other U.S. and foreign customers under various programs,
- 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 our ability to extend our current business, including the effect of our research

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and development and introduction of new products,

- Statements regarding any changes in our cost of sales, our general and administrative expenses, our operating results or our research and development expenses as a percentage of net sales,
- Statements regarding our anticipated cash needs,
- Statements regarding our business strategy, including growing balanced diverse revenue and earnings,
- Statements regarding the revenues that may be derived from, and the quantities of vehicles, products and services that may be purchased or ordered pursuant to, existing or possible future contracts or orders by various customers, including statements regarding the estimated value of those orders and contracts and statements about the amount of vehicles in our backlog,
- Statements regarding our expectations regarding contract awards, including opportunities for the sales of our vehicles,
- Statements regarding the effects of rebalancing our workforce and manufacturing capacities,
- Statements regarding the benefits that may be realized from our joint ventures, teaming arrangements and any new ventures or business developed pursuant to them and our ability to grow through meaningful acquisitions, and
- Statements regarding our ability to utilize net operating loss carryforwards for income tax purposes and the effect of our income tax positions on our effective tax rate.

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

**Overview**



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Force Protection, Inc. provides survivability solutions to support the armed forces of the United States and its allies. We design, manufacture, test, deliver and support our blast- and ballistic-protected products to increase the survivability of the users of our 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 a key provider of the U.S. military's Mine Resistant Ambush Protected (MRAP) vehicle program and have sold and delivered over 3,000 vehicles under this program. We also provide our Cougar and Buffalo mine-protected vehicles to several foreign customers, including the U.K. Ministry of Defence which has purchased three variants of our Cougar vehicle. Complementing these efforts, we are designing, developing and marketing new vehicle platforms (including the Ocelot and the Joint All-Terrain Modular Mobility Asset (JAMMA)) that provide increased modularity, speed, mobility and concealment with enhanced levels of blast- and ballistic-protection. Across all vehicle programs we have sold approximately 4,600 vehicles since 2005. Supporting our vehicle design, development and production initiatives, we develop, manufacture, test, deliver and support products and services aimed at further enhancing the survivability of our users against additional threats. Capitalizing on our strengths in survivability solutions, we are focused on developing additional products to protect against rocket-propelled grenades and under body armor kits to mitigate blast effects on military vehicles. We also provide long-term life cycle support services for our vehicles that involve development of technical data packages, supply of spares, field and depot maintenance activities, assignment of highly-skilled field service representatives, and advanced off-road driver and maintenance training programs. Our services are based on establishing and maintaining long-term relationships with the U.S. government and foreign military users.

Our business is heavily influenced by the needs of the U.S. military for blast- and ballistic-protected wheeled vehicles. The U.S. Department of Defense is our largest customer. For the past several years, substantially all of our net sales have been derived from the Foreign Military Sales through the U.S. government. We attempt to align our workforce to satisfy our business requirements.

We are headquartered, and have leased manufacturing facilities, in Ladson, South Carolina. We have office space in Sterling Heights, Michigan; Edgefield, South Carolina; North Charleston, South Carolina; Arlington,

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Virginia; Bristol, United Kingdom; and Leamington Spa, United Kingdom. We conduct our blast range, research and development activities and customer training requirements at properties located in Edgefield, South Carolina; Summerville, South Carolina; and Roxboro, North Carolina. We also have a vehicle support facility in Kuwait, and provide military operations support in Afghanistan and Iraq.

**Outlook**

The global war on terrorism, especially in Iraq and Afghanistan, has confirmed that IEDs, landmines, explosively-formed projectiles and rocket-propelled grenades pose a significant threat to coalition military personnel and civilians. We believe the world market for blast- and ballistic-protected military vehicles and other survivability solutions will remain at high levels in the short-term. The 30,000 troop surge of forces to Afghanistan will take most of 2010 to achieve and additional, or modified, MRAPs from original equipment manufacturers (OEMs) may be required to support operations in this difficult terrain. Landmines and IEDs are being used extensively by terrorists and insurgent groups in Afghanistan because of their highly effective nature and relatively low cost. The extent of the long-term presence of U.S. forces in Iraq and Afghanistan is uncertain. Consequently, U.S. and international military departments are in the process of determining long-term roles for MRAPs. The future requirements for long-term life cycle logistics plans, as well as an important effort to reset and recapitalize vehicles that come out of theater, are being determined. MRAPs can be placed into permanent military organizations for convoy security, route clearance, explosive ordnance disposal and casualty evacuation, or be placed into prepositioned storage roles for regional response, or be reassigned as home station training vehicles, or be sold to foreign military customers.

*Our fiscal 2010 outlook is based on the following market assumptions and expectations:*

- A reduction of combat forces and our vehicles in Iraq, which has significantly reduced the operational tempo placed on our fleet, as well as the requirement for our field service representatives resourced to support units in that theater,
  
- Conversely, there is growth of military forces, our vehicles and all MRAPs in Afghanistan, which is necessitating changes to our vehicles and is increasing sustainment/maintenance requirements. Our current customers are developing modernization and sustainment plans for our fielded fleet of vehicles and we will have to compete for the spares and sustainment support business for these vehicles,
  
- Uncertainty in defense spending, due to the current defense strategy, as well as the dynamic macroeconomic and geopolitical conditions,
  
- Challenges with the expansion of our customers, products and services both domestically and internationally. We will continue to try to capture contract awards for our products and services in a volatile marketplace,
  
- Establishing long-term programs to include upgrades, remanufacture, and sustainment for our fleet of vehicles, and then expanding this capability to sustain all MRAPs universally,

- Developing new products and services to bring to market, and
- Rationalizing our cost structure to match our sales.

*Strategic Outlook*

Our business strategy is focused on increasing shareholder value by providing products and services that are relevant, responsive, innovative, high-quality and affordable. We believe the global need for blast- and ballistic- protected military vehicles and other survivability solutions will remain high through 2011. The 30,000 troop surge of force in Afghanistan is expected take most of 2010 to achieve and additional, or modified, MRAPs are expected to be required to support operations in this theater. However, U.S. forces are currently drawing down from Iraq and many MRAPs are being transferred from Iraq to Afghanistan. The U.S. and foreign military departments are determining the current and future roles for MRAP vehicles. We expect a large number of our currently deployed vehicles will remain in service or be pre-positioned for rapid deployment. These vehicles will likely require an overhaul and modification to remain in optimal combat readiness. We will leverage our manufacturing skills and field services to support our customers in maintaining readiness for these highly valued assets. Although much of this work will involve large depot facilities, the magnitude of work could exceed our capacity and require strategic

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partnerships to complete work on schedule.

We intend to maintain and expand our current business as a leading supplier of survivability solutions, including protected vehicles, total life cycle support and other services, to the U.S. Department of Defense, other U.S. government agencies, foreign governments, and domestic and international commercial customers. Our strategy is focused on growing balanced diverse revenue and earnings through organic growth, cost containment, and selected investments, partnerships and acquisitions, enabling us to grow the Company. Specific components of the strategy include the following:

- Building on our base business to enable future success, including improving performance on contracts and improving our cost structure,
- Capitalizing on and extending our current business, including growing sales organically by investing in research and development and introducing new products within our core capabilities of blast- and ballistic-protection,
- Building on our core capabilities and continuing to ensure a leadership position by delivering innovative survivability solutions to market, including investing in new technologies, and
- Growing profitably through meaningful acquisitions, partnerships and investments to engage in a broader range of products, customers and markets.

As discussed in Item 4, *Controls and Procedures*, of this Quarterly Report on Form 10-Q, we believe that effective disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(f) under the Exchange Act) are in place as of June 30, 2010. We will continue to devote our resources, in an amount we believe to be appropriate, to maintain effective internal controls over our financial reporting and disclosures.

*Recent Events*

On June 4, 2010, we were awarded a contract modification under our MRAP contract with the U.S. Marine Corps Systems Command for modernization of the U.S. military's Cougar fleet. The firm, fixed price contract modification of approximately \$46.1 million provides for the purchase of 2,451 enhanced Automated Fire Extinguishing Systems.

On June 11, 2010, we were awarded a contract modification under our MRAP contract for modernization of the U.S. military's Cougar fleet. The approximate \$10.8 million firm, fixed price contract modification includes the design and purchase of 2,654 570-amp alternator kits and related

materials.

On June 22, 2010, we were awarded a contract modification under our MRAP contract for 43 field service representatives and associated support for installation of modernization kits and to conduct general maintenance for Cougar vehicles located in Afghanistan and Iraq. The contract modification has a firm, fixed price valued at \$15.4 million.

On June 23, 2010, we were awarded a contract modification under our MRAP contract for additional field service representative support. The \$19.6 million firm, fixed price contract provides for 216 field service representatives and associated support for continued installation of Independent Suspension System (ISS) kits on the U.S. military's Cougar fleet in Kuwait.

### **Results of Operations**

The following discussion and analysis is based on our unaudited condensed consolidated statements of operations, which reflect our results of operations for the three and six months ended June 30, 2010 and 2009 as prepared in accordance with generally accepted accounting principles in the United States of America (GAAP).

#### ***Comparison of Results of Operations for the Three and Six Months Ended June 30, 2010 and 2009***

The following table presents our results of operations for the three and six months ended June 30, 2010 and

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2009.

(in thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
Net sales	\$ 137,139	\$ 187,116	\$ 271,986	\$ 371,850
Cost of sales	105,457	161,403	214,915	309,235
Gross profit	31,682	25,713	57,071	62,615
General and administrative expenses	19,124	20,172	37,864	41,023
Research and development expenses	5,284	4,892	10,131	9,497
Operating income	7,274	649	9,076	12,095
Other income (expense), net	189	(133)	262	(195)
Interest (expense) income, net	(62)	103	(194)	(33)
Income before income tax expense	7,401	619	9,144	11,867
Income tax expense	(2,624)	(178)	(3,231)	(4,050)
Net income	\$ 4,777	\$ 441	\$ 5,913	\$ 7,817

*Units sold*

The following table presents our vehicle unit sales for the three and six months ended June 30, 2010 and 2009.

Units Sold	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
Buffalo	21	17	43	29
Cougar MRAP (Competitive)				5
Mastiff	44	8	60	24
Ridgback				83
Wolfhound	24	4	24	4
Cougar (all other variants)		10	4	28
Cheetah		3		5
Ocelot	2		2	
Total	91	42	133	178

*Net sales*

The decrease in net sales from the three and six months ended June 30, 2010 to the comparable periods for 2009 was mostly attributable to a decrease in spares and sustainment sales, including field service representatives, training, Iraqi Light Armored Vehicle (ILAV) subcontractor revenues and technical publications; partially offset by an increase in sales resulting from modernization efforts, which include the supply and installation of ISS kits for our Cougar vehicles. The spares and sustainment sales decreased from the three and six months ended June 30, 2010 to the comparable periods for 2009 due to the current demand slowing for spares as large supplies of initial spares procurement with the initial vehicle deliveries are currently being consumed. Additionally, the modernization of Cougar independent suspension system kits has decreased the demand for straight axle spares and other components, which have been a large part of the spares revenue in the past.

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The sales mix of modernization efforts and spares and sustainment in the comparative periods are set forth in the following table:

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(in thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
Buffalo	\$ 21,483	\$ 18,630	\$ 44,845	\$ 29,430
Cougar MRAP (Competitive)				4,029
Mastiff	22,833	4,856	33,469	11,608
Ridgback		3,370		34,489
Wolfhound	11,070	2,826	11,070	2,826
Cougar (all other variants)		7,306	2,899	21,028
Cheetah		2,362		3,362
Ocelot	1,462		1,462	
Modernization	31,534	27,274	79,699	27,274
Spares and sustainment	48,757	120,492	98,542	237,804
Total	\$ 137,139	\$ 187,116	\$ 271,986	\$ 371,850

*Cost of sales and Gross profit*

(in thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
Cost of sales	\$ 105,457	\$ 161,403	\$ 214,915	\$ 309,235
Gross profit	\$ 31,682	\$ 25,713	\$ 57,071	\$ 62,615
Gross profit as a percentage of net sales	23.1%	13.7%	21.0%	16.8%

The gross profit percentage increased by 9.4 and 4.2 percentage points for the three and six months ended June 30, 2010 over the comparative 2009 periods. The three month increase was primarily due to increased revenue as a result of improving program cost management and the ability to negotiate various contract modifications on work previously performed (\$3.6 million), the recovery of previously written-off receivables and inventory (\$0.8 million), and an accrual reversal related to an expected contract loss (\$0.7 million) which all occurred in the three months ended June 30, 2010. Additionally, this three month increase was due to a lower than normal gross profit percentage as of June 30, 2009, which was due to costs incurred on the Cheetah vehicle submitted for the MRAP All Terrain Vehicle (M-ATV) competition and manufacturing costs associated with fewer vehicles produced during the second quarter of 2009, partially offset with a \$2.1 million reduction of definitization reserve. These second quarter 2010 and 2009 transactions also primarily contributed to the increased gross profit percentage for the six months of 2010 as compared to 2009, partially offset by manufacturing-related costs associated with fewer vehicles and lower pricing on a limited number of Buffalo vehicles sold during 2010 as compared to 2009.

*General and administrative expenses*

(in thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
General and administrative expenses	\$ 19,124	\$ 20,172	\$ 37,864	\$ 41,023
As a percentage of net sales	13.9%	10.8%	13.9%	11.0%

General and administrative expenses decreased \$1.0 million and \$3.2 million for the three and six months ended June 30, 2010, from the comparable 2009 periods. The \$3.2 million decrease for the six months ended June 30, 2010 from the comparative 2009 period is primarily due to \$3.2 million of 2006 re-audit costs incurred during the first quarter of 2009, \$0.7 million impairment for certain custom machines incurred during the second quarter of 2009, lower accounting and auditing fees (\$1.3 million), lower consulting fees (\$0.6 million) and lower legal fees (\$1.8 million), partially offset by increased costs for business development (\$2.6 million), strategy (\$0.8 million), depreciation (\$1.2 million), and European operations (\$1.1 million). All other general and administrative expenses, net, decreased \$1.3 million for the six months ended



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June 30, 2010 compared to 2009.

*Research and development expenses*

(in thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
Research and development expenses	\$ 5,284	\$ 4,892	\$ 10,131	\$ 9,497
As a percentage of net sales	3.9%	2.6%	3.7%	2.6%

Research and development expenses increased by \$0.4 million and \$0.6 million for the three and six months ended June 30, 2010, over the comparable 2009 periods. Total expenses incurred for the three and six months ended

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June 30, 2010 were for the Ocelot and other vehicle development programs, survivability enhancements for currently fielded vehicles and armor development activities. Total expenses incurred for the three and six months ended June 30, 2009 were for the M-ATV prototypes.

*Other income (expense), net*

(in thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
Other income (expense), net	\$ 189	\$ (133)	\$ 262	\$ (195)
As a percentage of net sales	0.1%	-0.1%	0.1%	-0.1%

Other income (expense), net increased in the three and six months ended June 30, 2010, as compared to the same periods for 2009, primarily due to the \$0.1 million gain on our joint venture, Integrated Survivability Technologies Limited (IST), for the three and six months ended June 30, 2010 compared to a \$0.3 million and \$0.5 million loss for the same periods in 2009.

*Interest (expense) income, net*

(in thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
Interest (expense) income, net	\$ (62)	\$ 103	\$ (194)	\$ (33)
As a percentage of net sales	0.0%	0.1%	-0.1%	0.0%

Interest (expense) income, net was relatively flat for the three and six months ended June 30, 2010, as compared to the same periods for 2009.

*Income tax expense*

(in thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
Income tax expense	\$ 2,624	\$ 178	\$ 3,231	\$ 4,050
As a percentage of net sales	1.9%	0.1%	1.2%	1.1%

Income tax expense increased \$2.4 million for the three months ended June 30, 2010, from the comparable 2009 period primarily because of higher effective tax rates and increased profits resulting from higher revenues. Conversely, income tax expense decreased \$0.8 million for the six months ended June 30, 2010, from the comparable 2009 period primarily because of lower profits resulting from reduced sales volumes. The effective income tax rates for the three and six months ended June 30, 2010 were approximately 36% and 35%, compared to the effective income tax rates of approximately 29% and 34% for the comparable 2009 periods. See Note 5, *Income Taxes*, in the accompanying unaudited condensed consolidated financial statements.

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Net income

(in thousands, except per share amounts)	For the three months ended June 30,				For the six months ended June 30,			
	2010		2009		2010		2009	
Net income	\$	4,777	\$	441	\$	5,913	\$	7,817
Diluted earnings per share	\$	0.07	\$	0.01	\$	0.08	\$	0.11

Net income for the three months ended June 30, 2010 increased \$4.3 million compared to the same period for 2009 primarily due to an increase in profits resulting from increased revenue as a result of improving program cost management and the ability to negotiate various contract modifications on work previously performed (\$3.6 million), the recovery of previously written-off receivables and inventory (\$0.8 million), and an accrual reversal related to an expected contract loss (\$0.7 million) in the second quarter of 2010. These actions resulted in both higher gross margins and net income for the three and six months ended June 30, 2010. Net income for the six months ended June 30, 2010 decreased \$1.9 million compared to the same period for 2009 primarily due to a decrease in profits resulting from reduced sales volume, which was partially offset with the higher net income from improving program cost management and the ability to negotiate various contracts on work previously performed, the recovery of previously written-off receivables and inventory, and an accrual reversal related to an expected

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contract loss.

*Backlog*

The following table sets forth the number of vehicles included in our backlog as of June 30, 2010 and 2009. The backlog shown in the following table is funded backlog, meaning that it reflects vehicles for which we have received orders and for which funding has been appropriated and authorized for expenditure by the applicable customer. We cannot assure that we will deliver or sell all of the vehicles included in our backlog. See Part I, Item 1A, Risk Factors, included in our Annual Report on Form 10-K for the year ended December 31, 2009.

	Vehicle Funded Backlog as of June 30,	
	2010	2009
Buffalo	73	54
Wolfhound	4	94
Cougar (all other variants)	30	13
Total	107	161

On July 23, 2010, we were awarded a contract with the Commonwealth of Australia, Department of Defense for the delivery of 2 Ocelot prototypes and deliverables. The contract has a not-to-exceed amount of \$9.9 million Australian dollars.

On July 30, 2010, we received a contract modification from the U.S. Marine Corps Systems Command for the delivery of 27 Mastiff vehicles under the Foreign Military Sales Program. The contract has an approximate value of \$14.1 million, which is subject to definitization.

**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 contracts with the U.S. government.

*Sources and Uses of Cash*

During the past several years, our cash requirements have been met primarily through cash flow provided by operations; and our funds have been used primarily to fund working capital requirements and make capital expenditures. The following chart shows the cash flows provided by or used in operating, investing, and financing activities for the six months ended June 30, 2010 and 2009:

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(in thousands)	For the six months ended June 30,	
	2010	2009
Net cash (used in) provided by operating activities	\$ (20,184)	\$ 18,341
Net cash used in investing activities	(6,207)	(17,436)
Net cash provided by (used in) financing activities	29	(91)
Effect of exchange rate changes on cash	(126)	
(Decrease) increase in cash and cash equivalents	\$ (26,488)	\$ 814

As of June 30, 2010, we had \$120.8 million of cash and cash equivalents, a decrease from \$147.3 million as of December 31, 2009, and an increase from \$111.8 million at June 30, 2009.

*Cash Flows from Operating Activities*

Cash flows from operating activities decreased by \$38.5 million during the first six months of 2010, compared with the first six months of 2009. The decrease resulted from a reduction in net income and unfavorable net changes in operating assets and liabilities during the first half of 2010, compared to the same period for 2009.

Below are the significant changes in operating assets and liabilities for the first six months of 2010:

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Increases to Cash Flows from Operating Activities:

- an increase in advance payments on contracts of \$2.2 million primarily resulting from customer payments received on our contract for ISS kits as of June 30, 2010 compared to December 31, 2009.

Decreases to Cash Flows from Operating Activities:

- an increase in accounts receivable of \$4.1 million primarily resulting from an increase in the earned and unbilled accounts receivable balance due to increased sales under not-to-exceed undefinitized contracts, whereby we cannot fully bill until the contracts are definitized although the products have been delivered, partially offset by lower net sales during the three months ended June 30, 2010 compared to the three months ended December 31, 2009,
- a decrease in accounts payable of \$26.7 million, primarily due to a reduction in our field service representative accrual, other accounts payable accrual reductions and payments to suppliers, all resulting in decreased obligations at June 30, 2010 compared to December 31, 2009 due to lower working capital needs as a result of lower sales during the three months ended June 30, 2010 as compared to three months ended December 31, 2009,
- a decrease in other liabilities of \$6.1 million primarily due to a decrease in income taxes payable and compensation-related liabilities resulting from payments made during the first half of 2010, partially offset with an increase in accruals for Force Protection Europe at June 30, 2010 compared to December 31, 2009, and
- a decrease in due to U.S. government of \$2.8 million primarily due to decreased definitization reserve requirements for spares, partially offset by an increased reserve for Buffalo, U.K. Mastiffs and Wolfhounds as of June 30, 2010 compared to December 31, 2009.

*Cash Flows from Investing Activities*

Cash used in investing activities decreased by \$11.2 million during the first six months of 2010 compared with the first six months of 2009 primarily due to the \$10.0 million investment in marketable securities consisting of held-to-maturity (180-day) treasury bills and the \$2.1 million investment in IST, our joint venture with NP Aerospace, which both occurred in 2009. These decreases were partially offset by \$1.2 million for the purchase of JAMMA assets, which occurred in the second quarter of 2010.

*Cash Flows from Financing Activities*

Cash flows from financing activities were relatively flat during the first six months of 2010 compared with the first six months of 2009 due to minimal stock option exercises and a minimal change in other long-term liabilities.

*Current Liquidity and Capital Resources*

Our cash and cash equivalents as of June 30, 2010 were held for working capital purposes and were invested primarily in short-term United States Treasury bills. We do not enter into investments for trading or speculative purposes.

We have not had any significant capital expenditures for manufacturing since 2008. During 2009, capital expenditures were \$11.2 million, mostly due to upgrades of our information technology infrastructure as well as leasehold improvements. During the first six months of 2010, capital expenditures were \$5.0 million primarily due to outlays made for certain leasehold improvements and a demonstration vehicle. We do not expect any significant changes to capital expenditures in 2010 as compared to 2009.

The amount of capital that we will require depends on several factors, including without limitation, the extent and timing of sales of our products and services, performance-based payments, inventory costs, costs of raw materials and components, labor costs, costs of improving our financial and accounting systems, the timing and costs associated with any 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 our cash flow will be sufficient to meet our presently budgeted capital expenditures and our other presently anticipated cash needs for the year ending December 31, 2010. In addition, we have available to us a \$40 million line of credit, which expires on April 30, 2012. Furthermore, we can designate up to \$5 million for letters of credit against the \$40 million line of credit. As of July 23, 2010, we obtained a letter of credit in the

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amount of \$2.9 million (\$3.3 million Australian dollars) for the performance of our obligations under a contract for the PMV-L vehicle program, which lowered the availability under the line of credit to approximately \$37.1 million. We may need to obtain additional sources of capital to meet our future cash needs, 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 and regulations, the following qualify as off-balance sheet arrangements:

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

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

As of June 30, 2010, we did not have any obligation under certain guarantees or contracts as defined above.

As of June 30, 2010, we did not have any retained or contingent interest in assets as defined above.

As of June 30, 2010, we did not hold derivative financial instruments, as defined by FASB ASC Topic 815, *Derivatives and Hedging*.



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As of June 30, 2010, we did not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (SPEs), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of June 30, 2010 and December 31, 2009, we were not involved in any unconsolidated SPE transactions.

### **Contractual Obligations**

We have future obligations under various contracts relating to debt and interest payments, operating leases, and purchase obligations. During the six months ended June 30, 2010, there were no significant changes to these obligations as reported in our Annual Report on Form 10-K for the year ended December 31, 2009, except that our purchase obligations increased to \$204.5 million as of June 30, 2010, from \$68.2 million as of December 31, 2009. The increase in purchase obligations as of June 30, 2010 was primarily due to new purchase orders related to modernization sales and engineering services.

### **Critical Accounting Policies and Estimates**

For the quarterly period ended June 30, 2010, there were no significant changes in critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on March 8, 2010.

### **New Accounting Pronouncements**

See Note 1, *Summary of Significant Accounting Policies*, to the condensed consolidated financial statements for a description of the new accounting standards that are applicable to us.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Commodity Prices**

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

We buy and stock key steel materials at competitive current prices, based on projected trends of steel surcharge movement. Additionally, we add annual escalations and adjust prices for extraordinary circumstances to all steel long-term contracts. In cases where subcontractors purchase steel directly, we mirror supplier terms and conditions to customer terms and conditions to mitigate commodity risks.

**Foreign Currency**

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

**Interest Rates**

Although our current financing arrangement is at a variable rate, we do not have any borrowings under our \$40 million line of credit. On July 23, 2010, we obtained a letter of credit in the amount of \$2.9 million (\$3.3 million Australian dollars) for the performance of our obligations under a contract for the PMV-L vehicle program, which lowered the availability under the line of credit to approximately \$37.1 million. We currently are not directly at risk of interest rate fluctuations. As our financing needs change in the future, interest rate risk may become a more significant issue for us.

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

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are controls and other procedures that are designed to provide reasonable assurance that the information required to be disclosed in reports filed or submitted under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, at the direction of our chief executive officer (our principal executive officer) and chief financial officer (our principal financial officer), performed an evaluation of the effectiveness and design of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act), as of June 30, 2010. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of June 30, 2010, Force Protection's disclosure controls and procedures were effective.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 1. LEGAL PROCEEDINGS**

**Shareholder Class Action and Derivative Actions**

On March 10, 2008, the first of ten related class action lawsuits was filed against us and certain of our former and current directors or officers in the United States District Court for the District of South Carolina, Charleston Division, on behalf of a purported class of investors who purchased or otherwise acquired our stock 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 individual class action lawsuits were consolidated on June 10, 2008, under the caption *In Re Force Protection, Inc. Securities Litigation*, Action No. 2:08-cv-845-CWH. On September 29, 2009, the court denied the defendants' motion to dismiss the plaintiffs' consolidated complaint, and the parties are engaging in discovery.

Between March 27, 2008 and May 28, 2008, a series of shareholder derivative actions were filed in both state and federal courts against certain of our former and current directors and officers alleging that the individual defendants breached fiduciary duties, abused control, engaged in gross mismanagement and wasted corporate assets and were unjustly enriched. Recovery is sought for the benefit of the Company, which has been named a nominal defendant in each derivative action. The state court actions pending in South Carolina were consolidated on May 18, 2009. Defendants' motions to dismiss each of the state court derivative actions were denied, and the parties are engaging in discovery. Four derivative lawsuits pending in the United States District Court for the District of South Carolina, Charleston Division, were consolidated on March 31, 2009, under the caption *In Re Force Protection, Inc. Derivative Litigation*, Action No. 2:08-cv-01907-CWH.

**Other Disputes**

We have received a total of 78 complaints over the last three years 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 have investigated the allegations.

On June 26, 2009, a temporary independent contractor whose services we had terminated in 2007 filed a complaint against the Company in the United States District Court for the District of South Carolina, Charleston Division as Civil Action No. 2:09cv1708-DCN-BM, 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 March 12, 2010, we filed motions to dismiss certain claims in the plaintiff's complaint.

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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 Directorate of Defense Trade Controls (DDTC) may result in substantial expenses and diversion of management. Any failure to adequately address the directives of DDTC could result in civil fines 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. The Company does not have any outstanding matters with the DDTC.

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 1A. Risk Factors**

In addition to the risk factors set forth below and other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on March 8, 2010, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K and as described below are not the only risks facing Force Protection. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, operating results or cash flows.

**Presently, all of our contracts are on a fixed-price basis, which could subject us to losses if there are cost overruns.**

Under a fixed-price contract, we receive only the amount indicated in the contract, regardless of the actual cost to produce the goods. While firm fixed-price contracts allow us to benefit from potential cost savings, they also expose us to the risk of cost overruns. Also, many of the contracts we receive from the U.S. military are sole source with a not-to-exceed amount and are subject to definitization, meaning that the contract price is not agreed upon at contract inception. If the estimates we use to calculate the contract price are incorrect, the cost to perform the work proves to be greater than the price, or the definitized contract price is less than the cost, we could incur losses. In addition, some of our contracts have specific provisions relating to schedule and performance, which may result in penalties for failure to perform. Accordingly, there can be no assurance that the actual prices we receive under contracts will not be substantially less than our estimates or costs, which would adversely affect our cash flows, our operating results and could result in losses.

**We may make acquisitions, which may pose risks to our business and dilute the ownership of our existing stockholders.**

We may enter into acquisitions in the future in an effort to enhance shareholder value. We may enter into such arrangements in the future in order to expand our capabilities, enter new markets, or increase our market share. Acquisitions involve a certain amount of risks and uncertainties that could result in our not achieving expected benefits. With respect to acquisitions, such risks include difficulties in integrating newly acquired businesses and operations in an efficient and cost-effective manner; challenges in achieving expected strategic objectives, cost savings and other benefits; the risk that the acquired businesses' markets do not evolve as anticipated and that the technologies acquired do not prove to be those needed to be successful in those markets; the risk that we pay a purchase price that exceeds what the future results of operations would have merited; and the potential loss of key employees of the acquired businesses. In addition, unanticipated delays or difficulties in effecting acquisitions may divert the attention of our management and resources from our existing operations. Future acquisitions by us could also result in large and immediate write-offs or assumptions of debt and contingent liabilities, any of which may have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

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

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

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The following table sets forth purchases of our common stock for the three months ended June 30, 2010:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2010 - April 30, 2010	77,270	\$ 6.07		
May 1, 2010 - May 31, 2010	1,617	\$ 5.32		

Pursuant to restricted stock award agreements entered into in April and May of 2009 between Force Protection, Inc. and 61 employees of Force Protection, Inc., 232,427 restricted shares became vested in April and May of 2010. In order to comply with the minimum statutory federal and state tax withholding including Social Security and

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Medicare, certain of these employees surrendered 78,887 of their vested shares to Force Protection, Inc. to satisfy these withholding obligations.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)**

**Item 5. Other Information**

None.

**Item 6. Exhibits**

The following is an index of the exhibits included in this Quarterly Report on Form 10-Q.

**EXHIBIT INDEX**

In reviewing the agreements included as exhibits to this Quarterly Report on Form 10-Q, investors are reminded that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about Force Protection or the other parties to the agreements. Some of the agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- Should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate,
- Have been qualified by the disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement,



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- May apply standards of materiality in a way that is different from what may be viewed as material to you or other investors, and
- Were made only as of the date of the applicable agreement or such other date or dates may be specified in the agreement and are subject to more recent developments.

Accordingly, the representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about Force Protection, Inc. may be found elsewhere in this Quarterly Report on Form 10-Q and Force Protection's other public filings, which are available without charge on Force Protection, Inc.'s website at [www.forceprotection.net](http://www.forceprotection.net).

NUMBER	DESCRIPTION
2.1	Agreement and Plan of Merger, filed as Exhibit 2.1 to the Company's Annual Report on Form 10-K filed September 15, 2008, is hereby incorporated by reference.
3.1	Restated Articles of Incorporation, filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-K filed May 11, 2009, is hereby incorporated by reference.
3.2	Certificate of Amendment to Articles of Incorporation, filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed November 26, 2008, is hereby incorporated by reference.
3.3	Certificate of Correction to Restated Articles of Incorporation, filed as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q filed May 11, 2009, is hereby incorporated by reference.

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NUMBER	DESCRIPTION
3.4	Second Amended and Restated By-Laws of Force Protection, Inc., filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed November 26, 2008, is hereby incorporated by reference.
10.1	Amendment of Solicitation/Modification of Contract under Contract No. M67854-07-D-5031 with the United States Marine Corps Systems Command, dated April 2, 2010. *
10.2	Third Amended and Restated Loan Agreement by and among the Registrant, Force Protection Technologies, Inc., Force Protection Industries, Inc. and Wells Fargo Bank, National Association, dated as of April 29, 2010, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 30, 2010 is hereby incorporated by reference.
10.3	Promissory Note by the Registrant in favor of Wells Fargo Bank, National Association, dated as of April 29, 2010, filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed April 30, 2010 is hereby incorporated by reference.
10.4	Amendment of Solicitation/Modification of Contract under Contract No. W56HZV-08-C-0028 with the United States Army Tank-Automotive and Armaments Command, dated May 4, 2010. *
10.5	Amendment of Solicitation/Modification of Contract under Contract No. M67854-07-D-5031 with the U.S. Marine Corps Systems Command, dated June 4, 2010. *
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.

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

(Exhibits marked with one asterisk (\*) have portions of the exhibit omitted pursuant to a confidential treatment request. This information has been filed or will be filed separately with the Securities and Exchange Commission.)

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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: August 3, 2010

By: /s/ MICHAEL MOODY  
**Name:** Michael Moody  
**Title:** Chairman, Chief Executive Officer and  
President  
(principal executive officer)

Date: August 3, 2010

By: /s/ CHARLES MATHIS  
**Name:** Charles Mathis  
**Title:** Chief Financial Officer  
(principal financial and accounting  
officer)