UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q/A

(AMENDMENT NO. 1)

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from ___________________ to ___________________

Commission File Number 001-33253

FORCE PROTECTION, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

(843) 574-7000

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. o Yes x No

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

(Check One):

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

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

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

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EXPLANATORY NOTE REGARDING RESTATEMENTS

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

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Force Protection, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

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

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

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Force Protection, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

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

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

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Force Protection, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the nine months ended September 30, 2007 (Restated)	2006
	(In Thousands)	
Cash flows from operating activities:		
Net Income (loss)	$ (616)	$ 873
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation and amortization	4,018	588
Deferred tax benefit	(3,196)	
Income tax benefit realized from stock options exercised	(2,276)	
Stock-based compensation	2,035	1,560
Allowance for doubtful accounts	(45)	
Provision for inventory obsolescence	1,358	
Warranty reserve	1,202	189
(Increase) decrease in assets		
Accounts receivable	(24,014)	(12,537)
Inventories	(108,115)	(1,071)
Advances to subcontractor	(20,740)	
Income tax receivable	(225)	
Other current assets	(14,667)	(148)
Increase (decrease) in liabilities		
Accounts payable	64,490	7,596
Due to United States government	9,728	
Other current liabilities	8,063	44
Advance payments on contracts	43,113	(5,432)
Total adjustments	(39,271)	(9,211)
Net cash used in operating activities	(39,887)	(8,338)
Cash flows from investing activities:		
Capital expenditures	(47,706)	(4,372)
Net cash used in investing activities	(47,706)	(4,372)
Cash flows from financing activities:		
Proceeds from issuance of common stock:		
Other	1,336	46,018
Dividends on Series D preferred stock		(277)
Payments on debt		(7,500)
Income tax benefit realized from stock options exercised	2,276	
Net decrease in long-term liabilities	(64)	
Net cash provided by financing activities	3,548	38,241
Increase (decrease) in cash and cash equivalents	(84,045)	25,531
Cash and cash equivalents at beginning of period	156,319	1,217
Cash and cash equivalents at end of period	$ 72,274	$ 26,748
Supplemental cash flow information:		
Cash paid during the period for Interest, net of amounts capitalized	$ 86	$ 1,737
Income taxes	$ 1,000	$
Supplemental schedule of noncash investing and financing activities:		
Note payable, net of discount, issued as consideration for non-compete agreement	$ 390	$

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

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Organization and Description of the Business

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

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

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

Basis of Presentation and Consolidation

These unaudited condensed consolidated financial statements should be read in conjunction with (i) our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006 filed with the United States Securities and Exchange Commission (SEC) on March, 16, 2007, as amended on July 12, 2007 and on October 15, 2007, and (ii) because of the timing of the filing of this amended Quarterly Report on Form 10-Q/A, our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on September 15, 2008. These unaudited condensed consolidated financial statements have been prepared pursuant to Rule 10-01 of Regulation S-X. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made herein are adequate to make the information not misleading.

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

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

Use of Estimates

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

Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Risks and Uncertainties

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

Customer Concentration

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

Law and Regulations

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

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

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

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

Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Sources and Supply of Materials

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

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

Revenue Recognition

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

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

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Under some of our U.S. government contracts, we receive performance-based payments based on completion of specific milestones stipulated under the contract (for example, completion of manufacturing fabrication). We report these payments as *Advance payments on contracts* in our condensed consolidated balance sheets until the final delivery of the products and formal acceptance by the U.S. government as evidenced by an executed Form DD250. As discussed above, upon acceptance of the products and the execution of the Form DD250, we recognize the full sale price of the product as revenue.

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

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

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

Definitization / Due to the United States government

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

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

Sales Returns and Allowance for Doubtful Accounts

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

Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Cash and Cash Equivalents

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

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

Inventories

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

Property and Equipment

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

The ranges of estimated useful lives are as follows:

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

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

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

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

Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

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

Intangible Assets

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

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

Investments in and Advances to Non-consolidated Affiliates

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

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

Force Dynamics LLC

On September 10, 2007, we entered into a subcontract (GDLS Subcontract) with General Dynamics Land Systems Inc. (GDLS) pursuant to which GDLS manufactures approximately 50% of the Cougar vehicles to be manufactured under, and performs approximately 50% of the life cycle support required by, the Mine Resistant Ambush Protected (MRAP) Competitive Contract based on revenues. We previously entered into a joint venture with GDLS on December 15, 2006 (Workshare Agreement) pursuant to which we and GDLS would fulfill the obligations of the MRAP Competitive Contract. We formed a Delaware limited liability company, Force Dynamics, LLC (Force Dynamics), to govern the terms of the joint venture. However, the MRAP Competitive Contract was awarded to us and not to Force Dynamics or GDLS. We have attempted to novate this contract to Force Dynamics, although the U.S. government has not yet agreed to the novation. If the contract is novated, we and GDLS may be required to guarantee payment of all liabilities and performance of all obligations that Force Dynamics will assume under the novated contract. We will not fund and Force Dynamics will remain inactive until such time the MRAP Competitive Contract is assigned to Force Dynamics. Because this contract was awarded to Force Protection and has not yet been novated to the joint venture, we include 100% of the revenues from the MRAP Competitive Contract (including revenue from vehicles manufactured by GDLS) in *Net sales* in our unaudited condensed consolidated statement of operations beginning with the three-month period ended September 30, 2007, and will continue to include them until such time as the MRAP Competitive Contract is novated to Force Dynamics, at which point we will recognize revenues only from vehicles subcontracted

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

by Force Dynamics that we actually manufacture. In addition, beginning with the three-month period ended September 30, 2007 we include in *Cost of sales*, an amount equal to 100% of revenues from vehicles manufactured by GDLS. Notwithstanding the inclusion of revenues from vehicles manufactured by GDLS in *Net sales*, GDLS is entitled to all of the revenue from vehicles manufactured by GDLS. Amounts included in our consolidated statements of operations for the three- and nine-month periods ended September 30, 2007 from vehicles manufactured by GDLS are as follows (in thousands):

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

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

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

Stock-Based Compensation

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

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

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

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

Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

Warranty

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

Litigation Reserve

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

Research and development

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

Income Taxes

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

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

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

Earnings (Loss) Per Common Share

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

Recent Accounting Pronouncements

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

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

Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

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

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides companies with an option to report selected financial assets and liabilities at fair value. FASB Statement No. 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of a company s choice to use fair value on its earnings. FASB Statement No. 159 also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. FASB Statement No. 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, *Fair Value Measurements*, and No. 107, *Disclosures about Fair Value of Financial Instruments.* FASB Statement No. 159 is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. We adopted FASB Statement No. 159 on January 1, 2008, and we did not elect the fair value option for any other financial instruments or certain other financial assets and liabilities that were not previously required to be measured at fair value.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We adopted FASB Statement No. 157 on

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

January 1, 2008, and it did not have an impact on our consolidated financial position, results of operations and cash flows.

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

2. Restatement and Reclassification of Previously Issued Condensed Consolidated Financial Statements

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

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

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

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

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

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

Revenue recognition

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

Inventory burden calculation

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

Liability recognition

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

Stock-based compensation

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

Income tax expense

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

Other

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

Balance Sheet Impact

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

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

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

Statements of Operations Impact

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

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

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

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

Statement of Cash Flows Impact

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

For the nine months ended September 30, 2007

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

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

3. Accounts Receivable

Accounts receivable consists of the following (in thousands):

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

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

4. Inventories

Inventories consist of the following (in thousands):

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

5. Property and Equipment

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

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

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

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

Significant Asset Acquisitions

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

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

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

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

In July 2007, we purchased land and an approximately 430,000 square foot building in Roxboro, North Carolina for $3.5 million in cash, which we originally planned to use as a manufacturing plant (See Subsequent Event Asset Impairment discussion below). We allocated approximately

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

Leases

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

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

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

Construction in Progress

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

Subsequent Event-Asset Impairment

In March 2008, we decided to suspend the construction of the assembly line at our Roxboro facility and began to develop a plan for an alternative use for the facility. As a result, we charged to operations in the first quarter of 2008 $2.1 million in deposits on services to be provided and $2.8 million in design costs.

6. Intangible Assets

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

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

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

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

7. Other Current Liabilities

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

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

Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

Compensation and Benefits Gain Share Program

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

Warranty Reserves

Warranty reserves consist of the following (in thousands):

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

Vehicle Fee Payable

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

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

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

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Force Protection, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

Liquidated Damages Settlement

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

8. Advance payments on contracts

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

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

9. Other Long-term Liabilities

Other long-term liabilities consist of the follow items.

	As of September 30, 2007 (Restated)	As of December 31, 2006