

FORCE PROTECTION INC
Form 10-K
March 26, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

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.

(Exact name of Registrant as Specified in Its Charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

84-1383888
(I.R.S. Employer
Identification No.)

9801 Highway 78, Building No. 1
Ladson, South Carolina
(Address of registrant's principal executive offices)

29456
(Zip Code)

Registrant's telephone number, including area code: **(843) 574-7000**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.001 par value	The NASDAQ Stock Market LLC
Securities registered pursuant to Section 12(g) of the Act: None	

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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 aggregate market value of the common equity held by non-affiliates of the registrant on June 30, 2008, computed by reference to the closing price for such stock on the Nasdaq Capital Market on such date, was approximately \$146,570,000.

The number of shares outstanding of the registrant's common stock as of March 20, 2009 was 69,289,762 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2009 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

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PART I

ITEM 1. BUSINESS

Force Protection, Inc. ("Force Protection", the "Company", "we", "our", or "us") is in the business of providing survivability solutions to support armed forces and security personnel in harm's way. We design, manufacture, test, deliver and support our blast- and ballistic-protected products to increase survivability of the users of 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"). In addition, we develop, manufacture, test, deliver and support products aimed at further enhancing the survivability of vehicles against additional threats. Our patented ForceArmor[®] is designed to provide protection against explosively formed projectiles ("EFPs"). We are a key provider of the U.S. military's Mine Resistant Ambush Protected ("MRAP") vehicle program and have sold over 3,000 vehicles under this program. We also provide our Cougar Mastiff, Cougar Ridgback, Cougar Wolfhound, and Buffalo mine-protected vehicles to the United Kingdom Ministry of Defence. In total, across all vehicle programs we have sold approximately 4,000 vehicles.

For the year ended December 31, 2008, we reported net sales of approximately \$1.3 billion, up 49% from our net sales of approximately \$891 million reported for the year ended December 31, 2007. During the period January 1, 2008 through December 31, 2008, we received orders for 474 vehicles. During this same period we delivered 2,067 vehicles under the MRAP and other blast- and ballistic-protected vehicle programs, including vehicles manufactured pursuant to the terms of our arrangement with General Dynamics Land Systems Inc. ("GDLS") (described further in this Item 1, *Major Contracts* below, under "MRAP Competitive Contract.") During the period January 1, 2007 through December 31, 2007, we delivered 1,558 vehicles under blast- and ballistic-protected vehicle programs. During the period January 1, 2008 through December 31, 2008, we delivered approximately \$198 million in spare parts and approximately \$56 million in training and field service support. In December 2008, we initiated our first deliveries of our ForceArmor[®] kits.

Our Products

All of our products are aimed at offering improved protection to personnel operating in areas posing threats of blast- or ballistic- attack. Since the early stages of Operation Iraqi Freedom and Operation Enduring Freedom, the U.S. military has sought a wheeled vehicle approach that balances three potentially competing operational or mission dynamics: (i) protection, which refers to the level of crew survivability against blast- and ballistic-attack; (ii) payload, which refers to the load that the vehicles can carry on board the platform, measured in units, such as crew members and cargo; and (iii) performance, which refers to a vehicle's automotive mobility, its ability to provide technological solutions to mission requirements, and its suitability for transportation in existing military aircraft and ships.

We also currently offer ForceArmor[®] as an external bolt-on solution, which provides state-of-the-art protection against attack by EFPs. ForceArmor[®] is designed from commercially available materials that, when combined and packaged into a kit, offer lightweight solutions that can be tailored to bolt on to the outside of any military vehicle platform. It is a modular solution that enables unit commanders to rapidly install or remove the kit depending on the threat they face.

We currently offer the following vehicle types aimed at fulfilling different operational or mission requirements:

the Buffalo platform;

the Cougar platform; and

the Cheetah platform.

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The Buffalo. The Buffalo Mine Protected Clearance Vehicle ("MPCV"), with a gross vehicle weight of approximately 40 tons, is our largest vehicle and is designed primarily for use in conducting route clearance operations. During these operations, friendly forces patrol areas and routes of likely enemy IEDs and landmine activity searching for concealed explosive devices. The Buffalo has six wheels and is equipped with a hydraulic arm used to interrogate suspect devices while allowing the crew to disable or destroy the device from within the vehicle. The vehicle's capsule is blast-resistant, and the bottom of its passenger compartment is V-shaped (which we refer to as a "V-shaped hull") and is designed to deflect and dissipate the explosive blast from a landmine or IED away from the passenger compartment, thus helping protect the occupants from harm. With the Buffalo, we have been designated by the U.S. Marine Corps and U.S. Army as the sole-source supplier of vehicles for explosive ordnance disposal ("EOD"), including EOD vehicles that satisfy the Category III (as described in *Industry Overview and Force Protection Market Opportunity* in this Annual Report on Form 10-K) requirements of the MRAP program and the Ground Standoff Mine Detection System ("GSTAMIDS") program. In addition to producing Buffalos for the U.S. military, we have delivered Buffalos to the following foreign customers through the Foreign Military Sales ("FMS") program of the United States Department of Defense ("DoD"): United Kingdom, France, and Italy. On February 21, 2008, we were awarded a contract through the DoD's FMS program to produce four Buffalos for the Italian military. On November 13, 2008, the Canadian military awarded us a contract for 14 vehicles, October 31, 2008, the United Kingdom Military of Defence awarded us a contract for 14 vehicles and on July 11, 2008, the French military awarded us a contract for five vehicles. In total, in 2008 we delivered 81 Buffalos to the U.S. Marine Corps, U.S. Army, French, Italian and United Kingdom customers for mine clearance in Iraq and Afghanistan.

The Cougar. The Cougar is a family of medium-sized blast- and ballistic-protected vehicles that can be supplied in 4-wheeled and 6-wheeled variants and in a variety of configurations for the wide range of missions performed by our customers. With a gross vehicle weight that ranges from 11 tons to 26 tons, depending on the variant, the operational applications of the Cougar include troop transport, command and control, route reconnaissance, convoy escort, and casualty evacuation capabilities. Similar to the Buffalo, the Cougar employs a V-shaped hull designed to deflect blast energy, along with a blast- and ballistic-protected steel passenger compartment. The Cougar family of vehicles offers our customers the ability to enhance the protection and payload offered to wheeled vehicle platforms, while still offering acceptable levels of performance. In comparison, armored combat platforms, such as main battle tanks and infantry fighting vehicles, offer substantial levels of protection but lesser relative levels of payload and performance. Light unarmored wheeled vehicles (e.g., utility vehicles such as the High Mobility Multi-Purpose Wheeled Vehicle ("HMMWV"), and other non-tactical wheeled vehicles used for supply and support functions which provide less protection) offer higher levels of performance but lower relative levels of protection. In addition to producing Cougars for the U.S. military, we manufacture several variants for U.S. foreign military allies, including the Canadian military, the Italian military, the United Kingdom Ministry of Defence and the Iraqi National Army.

The Cougar variants:

The Cougar Mastiff and Ridgback. The Cougar Mastiff and Ridgback vehicles are part of the Cougar family of vehicles being produced and delivered to the United Kingdom Ministry of Defence through the DoD FMS program. The Cougar Mastiff is a 6-wheeled vehicle with a curb weight of approximately 18 tons offering a payload of roughly seven tons. The vehicle design is based on the Cougar MRAP 6-wheeled vehicle delivered to the U.S. military. It has the same engine, transmission, driveline and is the same length and width. The Mastiff has smooth sides and no crew cab side windows. The vehicle as delivered from Force Protection has base protection similar to the Cougar MRAP, and is final integrated with additional interior and exterior armor as well as the mission integration package in the United Kingdom. The Cougar Ridgback is a

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4-wheeled vehicle with a curb weight of approximately 14 tons offering a payload of roughly four tons. Similarly, the Cougar Ridgback vehicle design is based on the Cougar MRAP 4-wheeled vehicle. It also has smooth sides with no crew compartment side windows and no driver and co-driver doors. The same power plant and drive line that powers the Cougar MRAPs is in the Cougar Ridgback. It has blast- and ballistic-protection similar to the Cougar MRAP, and just like Mastiff the final integration occurs in the United Kingdom where it receives additional armor and its mission integration package. Since the program inception in mid-2006 through December 31, 2008, a total of 282 Cougar Mastiffs and 68 Cougar Ridgbacks were delivered. As of December 31, 2008, there were orders for 24 Cougar Mastiffs and 83 Cougar Ridgbacks in our funded backlog.

The Cougar Wolfhound TSV. The Cougar Wolfhound TSV ("TSV") is a 6-wheeled vehicle with a curb weight of approximately 21.5 tons offering a payload of roughly five tons. The vehicle design is based on the Cougar with a flat bed incorporated into the rear of the vehicle to allow for carrying of up to four NATO standard pallets or any other cargo. We developed this vehicle in response to a verbal request from the United Kingdom Ministry of Defence to provide a TSV that would allow supplies and support cargo to be delivered in forward battle areas while affording the crew the same basic protection of the Cougar. On December 14, 2008, we received a letter of commitment in the amount of \$14 million from the United Kingdom Ministry of Defence to allow us to purchase long lead materials for 97 Wolfhound TSVs.

Cougar Iraqi Light Armored Vehicle. The Cougar Iraqi Light Armored Vehicle ("ILAV") is a 4-wheeled vehicle with a curb weight of approximately 11 tons. This vehicle was built to meet the specifications called for in the U.S. Army solicitation issued in April 2006. The ILAVs were being solicited to provide a mine protected capability to the Iraqi Army under a Foreign Military Sales case. Pursuant to a subcontract agreement with BAE Systems Land & Armaments L.P. ("BAE Systems"), we agreed to a workshare split with BAE Systems wherein we each manufacture half of the vehicles required and we provide all sustainment services for the fielded vehicles. BAE Systems secured the Indefinite Delivery/Indefinite Quality ("ID/IQ") contract and issued us a subcontract in May 2006. The contract, after modifications on June 30, 2008, allows the U.S. Army to order up to 1,602 ILAV vehicles. As of December 31, 2008, BAE Systems and Force Protection have delivered approximately 605 ILAVs, of which 168 were delivered in 2008. As a result, the U.S. Army may order up to an additional 997 vehicles through June 30, 2010 under this contract.

Cougar Independent Suspension. The Cougar Independent Suspension ("Cougar IS") is a 4-wheeled vehicle with a curb weight of approximately 15 tons, designed specifically to provide improved mobility through the use of an independent suspension, while maintaining original Cougar levels of survivability. It also incorporates all design improvements gathered from the original MRAP Cougars previously delivered. In addition, the Cougar IS incorporates internal and external automated fire suppression systems which enhances crew survivability by mitigating fire damage following enemy attack. We believe this vehicle provides a model to be used as the basis for a Cougar remanufacturing program that can allow for incorporation of all design improvements on to previously fielded Cougars.

The Cheetah. The Cheetah is a 4-wheeled vehicle with a curb weight of approximately eight tons, designed specifically for reconnaissance, forward command and control, and urban operations. The Cheetah provides performance levels similar to that of a light-wheeled vehicle, while providing protection levels similar to that of our heavier Cougar fleet and payload levels substantially higher than that of the wheeled vehicle fleet currently available to the military. For example, the Cheetah offers mobility comparable to the HMMWV, and is transportable in any transport aircraft in the military inventory, including the C-130 (a four engine turboprop transport aircraft), as well as externally by a variety of helicopters. We believe the Cheetah represents a significant evolution in blast- and ballistic-protected vehicles that may fill a void in vehicle platforms currently available to, and fielded by, the

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military, specifically the gap between light unarmored or even lightly armored wheeled vehicles and the fleet of MRAP vehicles. At present, we have not had any orders for the Cheetah, although on September 15, 2008, we submitted a response to the U.S. Army Tank-Automotive and Armaments Command ("TACOM") request for information seeking a lightweight vehicle providing MRAP levels of survivability with HMMWV levels of mobility.

The Cheetah variants:

The MRAP All Terrain Vehicle. The original Cheetah vehicle provides for multiple seating configurations on a straight axle platform. The MRAP All Terrain Vehicle ("M-ATV") variant built off the Cheetah platform offers several significant changes from the basic Cheetah. It rides on an independent suspension providing for additional payload and improved off-road capability. The M-ATV variant is a bit roomier to provide for the additional payload and increased mission capability. Power management has been upgraded to support additional capability in command, control, situational awareness, and on-board health monitoring prognostication for the vehicle and its major sub-systems' performance. The M-ATV Cheetah has also been designed to carry ForceArmor for EFP protection and has been integrated with a Remote Weapons Station. On December 8, 2008, TACOM issued a Request for Proposal requesting M-ATV's. On February 23, 2009, in accordance with the terms of the solicitation, we delivered two production representative vehicles to Aberdeen Proving Grounds, Maryland, for the U.S. Army evaluation and testing under the M-ATV program. Subsequently, on March 11, 2009, we received a \$1 million contract award for the purchase of these two production representative vehicles signaling our continued consideration in the M-ATV program competition.

We also offer products and solutions which are aimed at enhancing the survivability of vehicles against further attacks, such as our Life Cycle Support and Armor Kit / ForceArmor .

Life Cycle Support. The tenets of our Total Life Cycle Support business are to emphasize an early focus on ensuring a "design for support to support the design" approach is used for all of our vehicle platforms and includes spare parts, technical manuals and vehicle field service support. This translates into operational system effectiveness for our vehicles as we focus on managing the ten elements of logistics throughout our platform life cycles. These elements include: maintenance planning, manpower/personnel, supply support, support equipment, technical data, training/training support, packaging/handling/storage/transportation, facilities, computer resources support, and design interface. We have established a systems approach within the company to put equal emphasis not just on cost, schedule, and performance, but also on supportability. Our management philosophy ensures that processes and activities are in place to develop, produce, field, sustain, and recycle our vehicles, in accordance with our customer's life cycle model. Our goals are to ensure we provide effective, available, reliable, supportable, and maintainable vehicles, while minimizing life cycle cost.

We offer ongoing life cycle support services in three areas: logistics engineering, acquisition logistics and operational logistics. That translates into spare parts, documentation, training, and maintenance for our fleet of vehicles. Based on current customer needs, we believe that we have a substantial business opportunity to provide life cycle support services to our existing and future fleet of vehicles. In addition, as the fleet ages, we have the opportunity to offer upgrades and system improvements for our fleet that are designed to further enhance the ease of use as well as the longevity of the vehicles. We believe this will continue to provide us with an ongoing market to sustain and improve our fleet through contractor logistical support, remanufacturing, data reporting, and retrofitting. We expect that our vehicles will remain in service for an extended life cycle during which, we intend to ensure supportability of the fleet. As of December 31, 2008, we had delivered support, via a deployed base of approximately 245 field trainers and service representatives, to an aggregate of approximately 4,000 vehicles across all of our programs.

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Armor Kit / ForceArmor . We offer an external ballistic protection module ("EBPM"), identified as ForceArmor , that provides protection from EFPs. The EBPM package design has been tested and validated through the U.S. Army Aberdeen test center. The EBPM package can be readily installed and removed in the field allowing users to "scale" protection levels in response to likely enemy threats. As a result of its modularity, the EBPM package can also be retrofitted to our previously deployed vehicles as well as to wheeled vehicles manufactured by other companies. We provided ForceArmor kits for eight vehicles in 2008 and currently have orders for an additional 257 ForceArmor kits to be deployed on our 4x4 and 6x6 Cougar vehicles.

Vehicle Deliveries and Backlog

The following tables set forth the number of vehicles delivered for the respective periods shown below and the total number of vehicles included in our backlog as of December 31, 2008, including vehicles manufactured or to be manufactured, as appropriate, by GDLS under the GDLS Subcontract. The backlog shown in the following table is "funded" backlog, meaning that it reflects vehicles for which we have received orders and for which funding has been appropriated and authorized for expenditure by the applicable agency. We cannot assure you that we will deliver or sell any of the vehicles included in our backlog. See Item 1A, *Risk Factors* in Part I of this Annual Report on Form 10-K for a discussion of the risk associated with backlog.

	Vehicle Deliveries	
	2008	2007
Buffalo	81	85
Cougar MRAP (Competitive)*	1,724	1,165
Cougar (all other variants)	262	308 ^(a)
TOTAL	2,067	1,558^(a)

	Vehicle Funded Backlog As of December 31, 2008
Buffalo	69
Cougar MRAP (Competitive)*	5
Cougar Mastiff	24
Cougar Ridgback	83
Cougar (Canadian)	26
Cougar (other)	2
TOTAL	209

*

Refers to Cougar vehicles manufactured pursuant to our arrangement with GDLS, whereby we and GDLS fulfill the MRAP Competitive Contract. See the discussion of our subcontract with GDLS under the heading *Major Contracts* for more information.

(a)

Excludes ILAV vehicles, for which we act as a subcontractor to primarily provide labor only for a portion of the production of the vehicles. As a result, we have also reduced the previously reported units sold for Cougar (all other variants) and total units sold by 99 units for the year ended December 31, 2007.

Industry Overview and Force Protection Market Opportunity

General. We believe the world market for blast- and ballistic-protected military vehicles and other survivability solutions continues to grow. The global war on terrorism, especially in Iraq and Afghanistan, has confirmed that IEDs, roadside bombs and landmines pose a significant threat to military personnel and civilians. Landmines and IEDs have been used extensively by terrorists and insurgent groups in Iraq and other areas because of their highly effective nature and relatively low cost.

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As vehicles are fielded with a specific level of protection, insurgent forces attempt to find alternative ways to conduct attacks. This will further evolve as better vehicular protection is designed and leads to potentially new threats (e.g., anti-personnel weapons, hand held EFPs) which will generate the need for an ever expanding field of survivability solutions.

According to a Government Accountability Office ("GAO") report dated July 15, 2008, over 75% of the casualties suffered by U.S. forces in Operations Iraqi Freedom and Enduring Freedom in Afghanistan have been caused by IEDs. Vehicles that move troops or ordnance while providing significant protection against blast and ballistic threats, landmine hazards and IEDs, or that are capable of mine clearance operations, are critical in these situations. Missions for these vehicles range from troop transport in and around unexploded ordnance or mine threat areas to route clearance, convoy escort, reconnaissance, command and control, ambulance operations, EOD operations, general utility, and humanitarian de-mining.

In late 2004, the U.S. military began acquiring modern blast- and ballistic-resistant wheeled vehicles in order to counter the effect of IED attacks on friendly forces conducting missions in Iraq and Afghanistan. These missions have often involved the use of lightweight wheeled utility vehicles, including the HMMWV. The HMMWV, however, was not designed to sustain high powered explosive blasts and is vulnerable to enemy fire. In response to the increasing number of casualties from IEDs and other explosive devices sustained during Operation Enduring Freedom in Afghanistan and Operation Iraqi Freedom, the U.S. military sought to increase the armor and blast protection of many of its wheeled vehicles, including the HMMWV, by retrofitting them with heavy armor. However, retrofitting heavy armor onto the bodies of these normally lightly armored vehicles is costly, and the added weight both increases mechanical wear and reduces the payload of the vehicles. We developed and delivered Buffalos and Cougars in response to the U.S. military demand.

MRAP Vehicle Program. In 2006, the U.S. effort to acquire blast- and ballistic-protected vehicles evolved into the establishment of the MRAP Program. The DoD accelerated the pace of contract awards under this program in early 2007, and on May 2, 2007, the Secretary of Defense, Robert Gates, directed that the MRAP program be considered the highest priority DoD acquisition program. In June 2007, Secretary of Defense Gates provided the MRAP program with the highest priority access to components and materials among all defense acquisition programs and assigned the MRAP program a DX rating, which is the highest priority rating under the DoD Priorities and Allocation System. On June 9, 2008, a Congressional Research Service report on the MRAP program identified that the Joint Requirements Oversight Council ("JROC") in September 2007 had approved the procurement of a total of 15,374 MRAP vehicles. This same report noted, however, that the JROC "suggested that these numbers could change, based on assessment of commanders." According to a report dated July 15, 2008, from the GAO, the DoD had placed orders for 14,173 MRAP Category I and Category II vehicles with five suppliers, of which we received orders for 2,894 vehicles. As a result, we estimate that as of December 31, 2008, the U.S. military would have been permitted to order approximately 1,200 additional vehicles under the MRAP program. According to that same GAO report, the DoD has appropriated more than \$22 billion to acquire MRAP vehicles. As a result and based on expanded operations into the Afghanistan theater of operations, we believe there is potential for additional MRAP vehicles to be approved for procurement by the U.S. Military under the MRAP program. The U.S. Marine Corps has fielded over 3,000 Cougars under the MRAP program. This represents an opportunity to incorporate valued technology and capability updates while resetting the vehicle's service life. As a further extension of the MRAP program, on December 8, 2008, the U.S. government issued a full-and-open competition solicitation for an M-ATV calling for up to 10,000 vehicles providing MRAP levels of survivability and HMMWV levels of mobility (see the M-ATV program discussion below).

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The U.S. Marine Corps established a Joint Program Office in 2007 to manage the MRAP program for all branches of the U.S. military and, as part of that program, continues to procure wheeled vehicles that offer more effective blast protection for the military personnel of the U.S. armed forces. The MRAP program specifies three categories of vehicles, as outlined in the table below. The table also indicates which of our vehicles satisfy the criteria for each of these categories.

Vehicle Type	Description	Force Protection Vehicle
Category I	Transports no less than six persons and must be suitable for urban operations	Cougar (4-wheeled variant)
Category II	Transports no less than ten persons and has multi-mission purposes including troop transport, command and control and route reconnaissance	Cougar Lightweight / Cougar Restricted Terrain Cougar (6-wheeled variant)
Category III	Transports no less than six persons and is designed to conduct EOD and route clearance missions	Buffalo

We have received two contracts under the MRAP program. In November 2006, the U.S. Marine Corps awarded a sole-source contract to us for Category II Cougar 6x6 vehicles and Category III Buffalo vehicles, which as of December 31, 2008, were for an aggregate of 200 Cougars and 91 Buffalos. In January 2007, the U.S. Marine Corps awarded us a competitive contract for Category I and Category II vehicles. This contract allows the U.S. government to acquire up to 20,500 vehicles over a 5-year period. As of December 31, 2008, the U.S. Marine Corps, under this competitive contract placed with us 10 delivery orders for a total of 2,009 Category I vehicles and 885 Category II vehicles.

M-ATV Program. On December 8, 2008, the MRAP Joint Program Office issued a competitive Request for Proposal ("RFP"), named the M-ATV through which the U.S. government is seeking a vehicle solution that provides MRAP levels of survivability with HMMWV-style mobility. On January 12, 2009, Force Dynamics, LLC, our joint venture with GDLS, submitted a proposal to this RFP offering the Cheetah M-ATV as a solution. On February 23, 2009, in accordance with the terms of the solicitation, we delivered two production representative vehicles to Aberdeen Proving Grounds, Maryland, for the U.S. Army evaluation and testing under the M-ATV program. Subsequently, on March 11, 2009, we received a \$1 million contract award for the purchase of these two production representative vehicles signaling our continued consideration in the M-ATV program competition.

Our proposed M-ATV vehicle solution incorporates ForceArmor in response to requested EFP protection. Further, we believe that two M-ATV vehicle proposals by our competitors also incorporated ForceArmor in their response to the same requirement.

Joint Light Tactical Vehicle Program. Under the Joint Light Tactical Vehicle ("JLTV") program, the U.S. military is seeking a family of vehicles that fulfill mission role gaps identified from the current HMMWV program. The JLTV program specifies three categories of vehicles based on payload. The performance, protection and physical characteristics of these vehicle categories are tailored to fulfill the specified mission roles these vehicles will be required to execute. On July 9, 2008, a briefing by the Army staff on the U.S. Army and U.S. Marine Corps Tactical Wheeled Vehicle fleet strategy indicated that the demand for new light tactical vehicles is approximately 160,000 vehicles between the U.S. Army and the U.S. Marine Corps. The U.S. Army's 2007 light tactical wheeled vehicle budget states that following further development and testing, the DoD intends to replace portions of the HMMWV fleet with a new fleet of vehicles under the JLTV program. The JLTV program is expected to require vehicles to balance increased levels of protection and survivability with mobility and transportability requirements. This same briefing indicates that the U.S. Army will spend an estimated \$1 to \$6 billion

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per year on the JLTV program. On February 5, 2008, we entered into an exclusive teaming agreement with DRS Technologies, Inc. ("DRS"), whereby DRS will serve as prime contractor and we will serve as a subcontractor for awards under the JLTV program. On April 14, 2008, we submitted the Cheetah for consideration under the JLTV program as subcontractor to DRS. On August 14, 2008, we were informed that we were no longer in consideration for the JLTV program Milestone A (Technology Demonstration Phase). We will continue to pursue opportunities on the JLTV program by working with Milestone A vendors to determine whether there are potential fits for Force Protection technology (e.g., ForceArmor®). In addition, we will continue to monitor the JLTV program as it transitions from Milestone A to Milestone B (System Development Phase) in fiscal years 2010 to 2011 with a view to reentering the competition.

GSTAMIDS Program. The GSTAMIDS program is aimed at fielding newly established "Route Clearance Companies" for the purposes of conducting IED clearing operations to eliminate IED threats to friendly force mobility. With the Buffalo, we have been designated by the U.S. Army and U.S. Marine Corps as the sole-source supplier of vehicles for EOD, including EOD vehicles that satisfy the Category III requirements of the MRAP program, for the Joint Program Officer of MARSYSCOM, and the Route Clearance vehicles requirements under the GSTAMIDS for TACOM.

FMS Program. The DoD established the FMS program to manage government-to-government purchases of weapons and other defense articles, defense services, and military training. A foreign military buying weapons through the FMS program does not contract directly with the company that makes them. Instead, the DoD serves as an intermediary, usually handling procurement, logistics and delivery. In 2006, we entered into a subcontract with BAE Systems to provide Cougar ILAV vehicles for the Iraqi National Army. In 2007 and 2008, we entered into contracts with the DoD to provide Buffalo and Cougar vehicles to the Canadian Ministry of Defence through the FMS program. In 2008, we entered into contracts with the DoD to provide Buffalo and Cougar vehicles to the Italian Ministry of Defence, and Cougar Mastiff and Ridgbacks, as well as Buffalo vehicles, to the United Kingdom Ministry of Defence and French military through the FMS program. A May 2008 briefing by United Kingdom Ministry of Defence indicated that it is considering making its Cougar Mastiff and Cougar Ridgback fleets a long-term component in the United Kingdom Ministry of Defence. The original vision for the Cougar Mastiffs had been a stopgap program under which the vehicles were likely to be disposed of at the end of the combat deployments in Iraq and Afghanistan. As a result of the successful performance the United Kingdom experienced in combat, it decided to retain the vehicles and expand its fleet in order to maintain this capability within the United Kingdom Ministry of Defence for a longer term. It is our belief this decision will provide ongoing opportunities for sustainment and upgrade of the Cougar fleet in the United Kingdom.

Other Opportunities. Many countries have buried landmines as a result of their use as a defensive tactic in areas of enemy egress during the Cold War and in third-world civil- and international-warfare during the 1980's and 1990's. More recently, it is armed groups that place mines in more countries than government forces, and insurgent and rebel groups are using IEDs in increasing numbers. According to the 2008 Landmine Monitor Report, at least 70 countries and six areas not internationally recognized are believed to be landmine-affected. Additionally, in 2007 and 2008, clearance operations indicated that at least 25 states and three areas not internationally recognized have submunitions on their territory. As a result, humanitarian de-mining operations may become a potential market for our products in order to enable nations to safely clear their land of buried landmines.

Business Strengths

Survivability Performance. Our Buffalo and Cougar blast- and ballistic-protected vehicles have been deployed with the U.S. and allied forces in Iraq and Afghanistan since 2004. We believe our vehicles are the most survivable and sustainable wheeled vehicles on the battlefield. According to our

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internal data, as of December 31, 2008, our vehicles have logged in excess of 600,000 days in combat operations and sustained in excess of 3,000 IED and landmine blasts during the course of their active duty. The advanced design and engineering incorporated into our vehicles increases the survivability rate of vehicle occupants in conflict with a hostile force. In addition, the structural integrity of the passenger compartment and our use of readily-available automotive parts help our vehicles to be quickly repaired and returned to duty after sustaining damage from an attack. As a result, our field data indicates over 99% of our vehicles delivered since 2004 are still in operation, and the U.S. military reports operational availability for those vehicles in excess of 90%.

Scalable Manufacturing Capabilities. We have developed a process-driven, scalable manufacturing operation that enables us to design and build vehicles with increased efficiency. Together with key partner and subcontractor relationships, we are able to rapidly expand our production capabilities to meet customer demands. This approach enables us to expand production capacity while reducing our capital investment requirements.

Sustainability. Our Buffalo and Cougar vehicles are designed to be sustainable. Ease of maintenance is a hallmark of the design such that the vehicle can endure a blast event and be repaired quickly to be ready to serve once again. Repairs are made using common tools with little need for any specialized tooling. On-board diagnostics aid the maintainer in making quick repairs. Storage and payload capacity for both the Buffalo and Cougar vehicles facilitate field repairs when needed. Our vehicles are constructed using common parts and off the shelf products to promote availability of spare parts. Additionally, the parts and material selected for these vehicles have a proven history of reliability and availability over the vehicle life cycle. Technical documentation is fully illustrated and easy to follow, which simplifies the operation and maintenance training. Thoughtful design of man-machine interfaces has minimized complexity for both the operator and the maintainer. We continuously refine our support services for our customers' training, field support, and parts distribution needs.

Proprietary Technology and Commitment to Research and Development. Our proprietary designs are derived from concepts that were initially developed outside the United States over 30 years ago to protect vehicle occupants against the threat of landmines and unexploded ordnance. We have continuously improved upon our proprietary designs through internally funded research, development and testing. For example, ForceArmor was developed in response to a need to counter EFP attacks experienced in Iraq and Afghanistan. We actively seek to protect our designs through our intellectual property rights. We believe our focus in these areas enables us to remain flexible in our design processes and improve our vehicle sustainability and performance.

Demonstrated Ability to Anticipate Customer Requirements. As one of the first U.S.-based manufacturers of the current generation of blast- and ballistic-protected vehicles, we believe we are a leader in technological innovation in this industry. Our expertise enables us to produce a range of vehicles that serve a variety of missions, and are capable of withstanding increasingly violent attacks from a constantly evolving threat. We believe we will continue to be able to proactively anticipate the needs of our customers and manufacture vehicles that exceed their operational requirements. For example, we initiated the design and testing of our Cheetah vehicle in 2005, two years prior to the official request by the U.S. military for a higher-mobility blast-resistant wheeled vehicle under the MRAP II solicitation in July 2007. In addition, we started the development of the ForceArmor /EFP program in 2006, two years prior to the official request by the U.S. Marine Corps for an exterior armor kit to be added to the MRAP vehicles.

Strong Customer Relationships. We have generated substantially all of our revenue from sales to the DoD. As a result, we have developed strong relationships with the U.S. Marine Corps, the United Kingdom Ministry of Defence, and other U.S. military branches and foreign military allies of the U.S. We believe that these relationships and the performance of our vehicles in the conflicts in Iraq and Afghanistan will provide us with a significant advantage as we compete for future government

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contracts. In addition, our Buffalo has been designated as a U.S. Army "Program of Record." In an effort to further enhance our customer relationships, we have located business development representatives near TACOM and the U.S. Marine Corps Systems Command facilities to service their requirements.

Experienced Management Team. Our success is due in large part to the broad experience and knowledge of our management team and key personnel. Our executive management team has expertise in automotive engineering, manufacturing and government contracting, and brings to the organization extensive knowledge of our customers. In order to keep pace with the growth of our business, we have recently strengthened our management team through the addition of several key personnel in the areas of finance, export compliance, engineering and total life cycle support and we will continue to add personnel in key positions based on our business needs.

Business Strategy

Our business strategy is built around three main imperatives: first, constant focus on innovation and the introduction of new survivability products and solutions; second, expand our customer base; and third, procure contracts for sustainment services of our fleet of vehicles across all customers. Specific components of the strategy include the following:

Identify New Products and Markets to Meet Evolving Customer Requirements. We plan to continue to maintain a strong emphasis on the development of new products and improved technology and believe that our ongoing commitment to research and development will better position us to anticipate the future needs of our customers.

Capitalize on Demand for Blast- and Ballistic-Protected Vehicles and other Survivability Solutions. The ongoing military operations in Iraq and Afghanistan against an innovative enemy have been the primary factor driving demand for our vehicles. Our marketing efforts focus on the sale of vehicles to the U.S. military and, with authorization from the U.S. government, to foreign allies of the United States. We also intend to expand our vehicle offerings by designing new variants and implementing model changes within the current fleet as we seek to anticipate evolving customer requirements.

Expand Our Total Life Cycle Support Footprint. We are experiencing an increase in the portion of our revenues generated by the sale of aftermarket and support services, such as spare parts, field service, technical documentation, and training, for our growing fleet of deployed vehicles. Due to the nature of their mission, we expect a significant number of our vehicles will need to be supported, serviced or repaired either in the field, at a depot, or upon return from combat operations. We intend to continue to increase our life cycle support footprint domestically and globally.

Focus on Core Competencies. We are making investments in mainstream and "newstream" innovation capabilities. Mainstream refers to our ability to maintain, improve and evolve our current vehicle platforms with a focus on survivability, sustainability and availability. Mainstream also refers to our ability to understand our current customer's evolving operational needs and to provide whole-system solutions beyond standard vehicle platforms to meet these requirements. "Newstream" refers to our ability to innovate new survivability solutions outside our core vehicle platform base. Our new ForceArmor EFP protection is an example of this effort.

Leverage Key Relationships to Grow our Business. We have developed strong relationships with the U.S. Marine Corps, the United Kingdom Ministry of Defence, domestic and certain other foreign military customers. We hired a full-time representative at TACOM to further improve upon our relationship with the U.S. Army. In addition, we placed a full-time representative at Marine Corps Base Quantico, Virginia to ensure we maintain our close relationship with the Marine Corps. We believe that these relationships and the performance of our vehicles in the conflicts in Iraq and Afghanistan will

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give us an advantage as we compete for future government contracts. In addition, we have established business relationships with several large companies in the defense industry, including GDLS, BAE Systems, Raytheon Technical Services Company, DRS, and Oshkosh Truck Corporation. We believe that these commercial relationships will provide us with an advantage by enabling us to pursue opportunities maximizing our core expertise and skills in a complementary fashion with our partners.

Develop and Expand Strategic Partnerships. We believe that combining our strengths and products with the strengths of other strategic partners will enable us to realize greater and manageable growth in our markets. We plan on developing new ventures and expanding existing partnerships to develop our vehicles. In addition, in furtherance of our relationship with GDLS, in December 2008, our Cheetah was submitted in response to the U.S. Army's M-ATV solicitation by Force Dynamics, LLC.

Customer Activity

Our primary customer is the DoD through which we directly and indirectly service U.S. military branches (primarily, the U.S. Army and the U.S. Marine Corps) and indirectly service foreign military allies of the U.S. through the DoD's FMS program. In 2008, our sales to the DoD's FMS program represented approximately 9.9% of all of our sales. We have field service representatives deployed in Iraq, Afghanistan and the United Kingdom to provide customer support of our direct and indirect DoD arrangements.

The following table sets forth the number of vehicles we sold in the respective periods shown below, including Cougar MRAP (Competitive) vehicles manufactured by GDLS under our GDLS Subcontract.

Vehicle	2008	2007	2006
Buffalo	81	85	28
Cougar JERRV		25	169
Cougar MRAP (Sole Source)		200	
Cougar MRAP (Competitive)	1,724	1,165	
Cougar Italy	6		
Cougar Mastiff (United Kingdom Ministry of Defence)	174	78	30
Cougar (United Kingdom Ministry of Defence)	6		
Cougar Ridgback (United Kingdom Ministry of Defence)	68		
Cougar Canada	8	5	
Total	2,067	1,558	227

In addition, we sold 102 Cougar ILAVs in the year ended December 31, 2008, 99 Cougar ILAV's in the year ended December 31, 2007 and 58 Cougar ILAVs in the year ended December 31, 2006 pursuant to our subcontract with BAE Systems, for which we primarily provide only labor for a portion of the production of the vehicles.

Competitive Positioning

We are subject to significant competition from companies that market and manufacture armored vehicles, as well as other companies that supply spare parts for armored vehicles and sustainment. This competition could harm our ability to win business and increase the price pressure on our products. The companies we compete against include large, multinational vehicle, defense and aerospace firms such as BAE Systems Land & Armaments, L.P., Textron Inc., Navistar Defense (formerly known as International Military and Government) LLC, a subsidiary of Navistar International Corporation, Oshkosh Corporation, Mantech Services (UK) Ltd., Raytheon Company, NP Aerospace and GDLS. Most of our competitors have considerably greater financial, marketing and technological resources

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than we do, which may make it difficult for us to win new contracts, and we may not be able to compete successfully. Certain competitors operate fabrication facilities and have longer operating histories and presence in key markets, greater name recognition, larger customer bases and significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources. As a result, these competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources to the promotion, manufacturing and sale of their products.

We believe our competitive advantages include:

The level of blast- and ballistic-protection incorporated into our vehicles, which increases the survivability of the occupants and repairability of the vehicles;

The fact that our vehicles are currently deployed in Iraq and Afghanistan and have a well-established track record of performance since 2004;

Our ability to innovate survivability solutions to defeat new and emerging threats of attack;

Our ability to innovate lightweight, mobile blast- and ballistic-protected vehicles to anticipate and meet developing customer requirements;

The fact that our vehicles use many off-the-shelf automotive components that facilitate service or maintenance and repair; and

The prior testing and acceptance of our Buffalo, Cougar, and Cheetah vehicles, as well as our ForceArmor EFP kits by the U.S. military.

We believe our products are superior to many other wheeled vehicles currently in use by the U.S. military in terms of mine- and blast-protection because of its survivability and repairability. Existing U.S. wheeled military vehicles include HMMWV and other non-armored utility support vehicles. U.S. military tracked vehicles (meaning that they have treads instead of wheels) include heavyweight troop transport and offensive armor such as the Bradley Fighting Vehicle ("Bradley"), and the M1A1 Abrams Tank ("Abrams"). The lightly armored and un-armored HMMWV and other wheeled vehicles can be subject to attacks and efforts to "up-armor" these vehicles have not been completely successful due to the costs associated with retrofitting armor onto the bodies of the vehicles and the increased mechanical wear caused by the weight of the armor. Conventional tracked armored vehicles such as the Bradley and the Abrams offer protection from blast- and ballistic-threats, but are expensive, require substantial resources to maintain, are large and can be difficult to maneuver in urban environments and may not be well-suited to peace-keeping missions due to their intimidating offensive weapon systems.

Company History

We were organized under the laws of the State of Colorado in November 1996 as Boulder Capital Opportunities III, Inc., a blank check corporation. In 1998, we acquired Sonic Jet Performance, LLC, a California limited liability company engaged in the business of producing and marketing recreational boats, jet boats, trailers, and related accessories. In November 1998, we changed our name to Sonic Jet Performance, Inc. In 2000 and 2001, we emphasized building recreational boats and, in 2002, we relocated our corporate headquarters, assembly, and prototyping facility to Stanton, California and shifted our focus to the design and production of fire and rescue boats.

In June 2002, we acquired a 90% interest in Technical Solutions Group, Inc., a development stage manufacturer of blast- and ballistic-protected vehicles based in Charleston, South Carolina. Technical Solutions Group, Inc. was originally formed in 1997 as a Nevada corporation. We subsequently increased our ownership interest in Technical Solutions Group, Inc. to 100%.

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The acquisition of Technical Solutions Group, Inc. shifted our principal focus from our then existing watercraft business to the production of mine clearing and armored vehicles. We sold the assets of our watercraft business in 2003, and we moved our corporate headquarters to South Carolina to utilize the office and manufacturing space previously used by Technical Solutions Group, Inc. on the grounds of the former Navy Shipyard in Charleston, South Carolina. On October 15, 2003, we moved our headquarters to our current location in Ladson, South Carolina. In September 2003, we changed our name to "Force Protection, Inc." to reflect our primary focus on producing and manufacturing protected and armored vehicles. In January 2005, we reincorporated from the State of Colorado to the State of Nevada. We became listed on the Nasdaq Capital Market in January 2007.

Major Contracts

Since January 1, 2006, we have secured over \$2.5 billion of orders in the global military market. The major military contracts that we have secured since January 1, 2006 include the following, which are further described below:

The U.S. Marine Corps awarded us a competitive contract under the MRAP program for our Cougar vehicles ("MRAP Competitive Contract").

The United Kingdom Ministry of Defence awarded us contracts under the DoD's FMS program for our Mastiff Protected Patrol Vehicles, a Cougar 6x6 variant, our Ridgback, a Cougar 4x4 vehicle and Buffalo vehicles ("FMS UK Contract").

We entered into a subcontract ("BAE Subcontract") with BAE Systems Land & Armaments L.P. for manufacture and provision of sustainment support (spare parts and training and field service support) for ILAV, a Cougar variant. This subcontract was pursuant to a prime contract awarded to BAE Systems by the U.S. Army under the DoD's FMS program.

We were awarded contracts by the U.S. Marine Corps for our ForceArmor kits ("ForceArmor Contract").

MRAP Competitive Contract. This is our largest contract for our Cougar vehicles which was competitively bid and awarded to us in January of 2007. It is an ID/IQ contract that allows the U.S. government to order up to a maximum of 4,100 MRAP vehicles per year over a five-year period. We fulfill this contract with GDLS through the GDLS Subcontract described below.

During 2007 and 2008, we delivered 1,165 and 1,724 vehicles, respectively, under the MRAP Competitive Contract. As of December 31, 2008, we had outstanding orders for five vehicles. The total