FORCE PROTECTION INC
Form 10-K/A
June 11, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Mark One)

x ANNUAL REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

o TRANSITION REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 001-33253

FORCE PROTECTION, INC.

(Exact name of issuer 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)

Registrant s telephone number, including area code: **(843) 740-7015**

Securities registered under Section 12(b) of the Exchange Act:

Common Stock, par value $0.001 per share.	**NASDAQ Stock Market**
(Title of class)	(Name of Each Exchange On Which Registered)

Securities registered under Section 12(g) of the Exchange Act: **None.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past twelve months (or 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 x No o

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained in this form, and no disclosure will 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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (Check one).

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of March 14, 2007 was $1,102,410,688 based on a total of 66,934,468 shares of our common stock held by non-affiliates on March 14, 2007 at the closing price of $16.47 per share.

We had 67,817,003 shares of common stock outstanding as of March 14, 2007.

Documents incorporated by reference: Part III incorporates information from certain portions of the registrant s definitive proxy statement for the 2007 annual meeting of shareholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year.

FORCE PROTECTION, INC. FORM 10-K

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

Business Overview

We organized under the laws of the State of Colorado in November 1996. In June 2002, we acquired Technical Solutions Group, Inc., a development stage manufacturer of ballistic and blast protected vehicles based in Charleston, South Carolina. In August 2003, we changed our name to Force Protection, Inc. to better reflect our focus on blast and mine-protected vehicles. Effective January 1, 2005, we reincorporated from Colorado to Nevada and changed the name of our wholly-owned subsidiary to Force Protection Industries, Inc.

Our specialty vehicles are protected against landmines, hostile fire and Improvised Explosive Devices or IEDs, commonly referred to as roadside bombs. We believe our mine and ballistic protection technology is among the most advanced in the world. Our facility, located 10 miles from the Charleston Air Force Base in Ladson, South Carolina, is on a 260-acre campus comprised of three manufacturing buildings with a combined floor area of approximately 452,240 square feet and an additional 90,000 square feet targeted for occupancy in mid 2007. At December 31, 2006, we employed 658 employees.

INDUSTRY OVERVIEW

Mine Protected Vehicles were initially developed in Rhodesia and South Africa in response to the landmine problems arising from the wars in Southern Africa. The vehicles were designed to protect personnel during transport, removal of unexploded ordnance, route clearance, humanitarian de-mining, and other missions that require protection from landmines and hostile fire. The technology has been developed and used in several parts of the world, principally Africa, over the last 20 years in response to the intense use of landmines in that region.

We believe the world market for mine-protected vehicles is growing rapidly. Landmines and IEDs are weapons of choice for terrorists and insurgent groups because they are highly effective yet have relatively low cost. The global war on terror, especially in Iraq and Afghanistan, has confirmed the sober reality that IEDs, roadside bombs, and land mines will continue to be a significant danger to troops. Vehicles that move troops or ordnance economically and provide significant protection against ballistic, incendiary, landmine hazards, and IEDs are useful in these situations. Missions include troop transport in and around unexploded ordnance or mine threat areas as well as route clearance and humanitarian de-mining which require entrance into known mine fields or areas of known terrorist activities.

These missions require operating in areas of known terrorist activities and have traditionally been accomplished using light weight wheeled utility vehicles, including for example the High Mobility Multi Wheeled Vehicle or Humvee. However, Humvees were not designed to sustain high powered explosive blasts and these un-armored utility vehicles are vulnerable to enemy fire and offer a prime target for attack. In response to the increasing number of casualties from IEDs and other explosive during Operation Enduring Freedom in Afghanistan and Operation Iraqi Freedom, the U.S. has sought to rapidly increase the armor and blast protection of many of its vehicle fleet, including the Humvee, by retrofitting heavy armor to the hulls of these normally lightly armored vehicles. The results have not been satisfactory due in part to the high costs of retrofitting armor into the body of the vehicles and the increased mechanical wear caused by the added weight.

Products

We currently produce three blast-protected vehicles with different mission capabilities: (1) the Buffalo series, (2) the Cougar series and (3) the Cheetah series.

The Buffalo series

The Buffalo can be configured for multiple missions and is specifically designed to be repaired in the field. Cutting-edge technology combined with the best American automotive components give this vehicle the maximum visibility, load carrying capacity, interior space and parts availability of any vehicle in its class. The Buffalo is our heaviest vehicle weighing 22 tons and is designed principally for route clearing activities. It integrates a blast resistant capsule with an American-made truck engine and drive train. The Buffalo is designed to deflect and dissipate the explosive blast away from the passenger compartment, thus protecting the occupants from harm.

We believe that the geometric, V-hull design, along with the materials used, the components selected, our relationship with critical component suppliers and the overall manufacturing process make our vehicles a desirable solution for blast and ballistic protected vehicles.

The U.S. Army tested the Buffalo at the Aberdeen Proving Grounds to determine its measure of survivability i.e. the ability of the Buffalo s blast capsule to effectively protect the occupants and the critical automotive components from the effects of explosive blasts. Following such tests, the U.S. Army has ordered and deployed approximately 77 Buffalos for service worldwide, and has announced its desire to use the Buffalo in the newly established Route Clearance Companies being developed as part of the IED Defeat Task Force. We believe that the Buffalo fills a niche in the U.S. Army s route clearance systems.

The Cougar series

The Cougar is a family of medium mine-protected vehicles which can be supplied in 4X4 or 6X6 layout. It can be configured as several different variants for a wide range of tasks as required by our customers. These tasks include troop transport (up to 12 in the 6X6), Explosive Ordinance Disposal or EOD (4 troops and a large EOD robot in the 4X4), command and control, artillery prime mover, recovery and ambulance duty. There are several variants including the Iraqi Light Armored Vehicle or, ILAV Cougar, being produced for the Iraqi National Army, and the Mastiff Cougar vehicle that is being produced for the British Ministry of Defense.

Launched in 2004, the Cougar was designed to serve a broader market and mission range than the Buffalo. Its missions include urban patrol, route clearance support, utility transport and special unit activities. Like the Buffalo, the Cougar employs the geometric V-Hull design to deflect blast energy along with an armored steel capsule affording ballistic protection, and while lighter than the Buffalo, it offers a similar level of blast protection. The Cougar uses a standard American automotive drive train and control components which allow service and maintenance similar to that of a commercial truck, making servicing the Cougar less expensive and easier to maintain. We have produced approximately 304 Cougars through December 31, 2006, all of which have been deployed in active service.

The Cheetah series

The Cheetah is our newest vehicle series. It is designed specifically for reconnaissance, forward command and control, urban operations, and combines state-of-the-art ballistic and blast protection with the mobility of a unique light-armored vehicle. The U.S. military is planning to start replacement of the Humvee fleet in the 2009-2011 timeframe under the Joint Light Tactical Vehicle, or JLTV, program with hopes of accelerating the program to early 2008. The Cheetah is being developed as a potential platform for this market. Its speed and road handling make it ideal for homeland security missions. Given the size of the potential market for replacing the Humvee fleet that we believe to be in excess of 200,000 vehicles, it is a fair certainty that there will be strong competition from across the U.S. defense industrial base as well as from international companies for the JLTV program.

CUSTOMER ACTIVITY

Our primary customer is the U.S. Department of Defense where we service two principal services, the U.S. Army and the U.S. Marine Corps. In the twelve months ended December 31, 2006, approximately 59.2% of our revenues were derived directly or indirectly from the U.S. Army and approximately 14.3% from the U.S. Marine Corps. Additionally, 10.5% of our revenues were sales to foreign governments via the U.S. Department of Defense. We expect to continue to depend upon contracts with governmental agencies for a substantial portion of our revenue for the foreseeable future. In 2006, we also entered into contracts with the U.S. Department of Defense to provide vehicles for the Iraqi Army and the British Military of Defense through the Department of Defense s Foreign Military Sales section. The vehicle design for the Iraqi Army is based on our Cougar design and is proprietary to Force Protection. We have field service representatives deployed to Iraq in support of this program.

The following chart illustrates our product deliveries in the last two calendar years and our backlog as of December 31, 2006:

Vehicle	**2005**	**2006**	**Backlog**
Buffalo	31	26	59
Cougar HEV	22	1	0
Cougar JERRV	18	173	8
Cougar MRAP	0	0	200
ILAV (Iraq)	0	55	102
Mastiff (British MOD)	0	30	55
Total	71	285	424

The U.S. Military has indicated that it is beginning to transition away from the Humvee towards armored vehicles that will offer greater protection to the men and women of our armed forces. As part of this transition, the U.S. Marine Corps is managing the Mine Resistant Ambush Protected, or MRAP, Program for all branches of the U.S. Military and, as part of that program, is demanding vehicles that offer more effective protection for the servicemen and service women of the U.S. armed forces. Under the MRAP Program, we have submitted bids through Requests for Proposals, or RFPs, to the U.S. Marine Corps for three different categories of armored vehicles. Category I vehicles need to transport no less than six personnel and will be used in urban operations. The U.S. Marine Corps expects to purchase a minimum of 1,500 Category I vehicles with an option to buy an additional 7,500 vehicles. Our 4x4 Cougar design and our Cheetah design both meet the requirements for vehicles in this Category. The U.S. Marine Corps have also released an RFP to purchase 2,600 Category II vehicles with an option to buy as many as 13,000 vehicles. The Category II vehicles need to transport no less than ten personnel and will have multi-mission purposes including transport, explosive ordnance disposal and combat engineering. We believe the U.S. Marine Corps will continue to favorably consider our 6x6 Cougar to meet their demands in this category. In Category III of the MRAP Program, the Marines have already sole sourced 44 vehicles to Force Protection as part of the agreement of November 9, 2006, with an option to buy an additional 36 vehicles. The Category III vehicles need to transport no less than twelve personnel and will support route clearance.

In addition, the U.S. Army is also in the process of improving its fleet of armored vehicles under the Ground Standoff Mine Detection System, or GSTAMIDS, Program. Contracts under this existing and funded program are to be awarded for two types of vehicles, the Mine Protected Clearance Vehicle, or MPCV, and the Medium Mine Protected Vehicle, or MMPV. Our Buffalo vehicle meets the Army s MPCV specifications and our Cougar JERRV meets the specifications for the MMPV. The Army has a requirement for approximately 180 MPCVs and over 600 MMPVs at a total estimated value of $1.4 billion.

COMPETITIVE POSITIONING

We are subject to significant competition from companies that market products that perform similar functions to our products. This competition could harm our ability to win business and increase the price pressure on our products. The firms we compete against include large, multinational vehicle, defense and aerospace firms such as BAE Land Systems, Textron, Armor Holdings, International Truck, OshKosh Truck, Australian Defense Industries and General Dynamics. Most of our competitors have considerably greater financial, marketing and technological resources than we do that may make it difficult 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 and sale of their products.

We believe our competitive advantages include:

- The level of blast and ballistic protection incorporated into our vehicles;
- Our vehicles are currently deployed in Iraq and Afghanistan and are creating a track record of performance;
- Our ability to innovate;
- The high level of supportability of our vehicles;
- Our Made in America status;
- Our excellent manufacturing facilities; and
- The prior testing and acceptance of our designs by the U.S. Military.

We believe our products are superior to other vehicles currently in use by the U.S. military for mine and blast protection. Existing military vehicles include Humvees and other non-armored utility support vehicles, or heavy-weight troop transport and offensive armor such as the Bradley Fighting Vehicle the (Bradley) or the M1A1 Abrams Tank (the Abrams). The un-armored utility vehicles offer a prime target for attack and efforts to up-armor these vehicles have not been totally successful due to the high costs associated with retrofitting armor onto the body of the vehicle and the increased mechanical wear caused by the weight of the armor. Conventional armored vehicles such as the Bradley and the Abrams offer protection from ballistic and blast threats, but are expensive, require substantial resources to maintain, are large and difficult to maneuver in crowded urban environments and are not well-suited to peace keeping missions due to their intimidating offensive weapon systems.

As recent events have shown, there is also an increasing concern over death or injury of U.S. military personnel during operations such as Operation Iraqi Freedom and Operation Enduring Freedom, particularly to reservists and or civilian contractors who are not expected to face front line combat, but who increasingly have become the target of insurgents and terrorists. These concerns have led the U.S. military to adopt armor protection as a base requirement for many of its transport vehicles and to look for ways to defeat the threat of IEDs and other booby trap devices, including developing route clearance and other explosive detection and removal teams.

FORCE DYNAMICS LLC

On December 15, 2006, we entered into a joint venture agreement with General Dynamics Land Systems Inc., pursuant to which we agreed to work together to win and execute contracts for the MRAP Program, a U.S. joint services program to produce and provide lifecycle support to address the current threat of IEDs in the Middle East, as more fully described in solicitation number M67854-07-R-5000 issued by the Department of the Navy and the U.S. Marine Corps. Together with General Dynamics Land Systems, we formed a new Delaware limited liability company named Force Dynamics, LLC whose purpose will be to win contracts under the MRAP Program. Under the joint venture agreement, the MRAP Program is defined to include any and all solicitations and requests for proposals for MRAP production and Lifecycle Support and/or any follow up work that may be performed including any program name change, changed or future program requirements, product evolutions and technology insertions related to the MRAP vehicles whether for U.S. or international sales, or non-military/commercial sales. The scope of work to be undertaken by Force Dynamics is limited to the use of our Cougar 4x4 and 6x6 armored vehicles for the MRAP Category I and Category II requirements.

Our intent, along with that of General Dynamics Land Systems, as declared in the joint venture agreement, is to combine respective strengths to market and promote our Cougar vehicles for the Category I and Category II requirements of the MRAP Program. We will make available to each other our respective resources so that together, we may undertake to develop, manufacture, produce and sustain any vehicle contracts awarded under the MRAP program, in accordance with the plan set forth in the joint venture agreement. Both parties are expected to contribute resources equally to the venture, to share equally the costs and responsibilities associated with the performance of the joint venture and to share equally the resulting benefits. To this end, we agreed to divide the joint venture work between us on a 50%/50% basis and to divide revenues from the joint venture on the basis of 50% for General Dynamics Land Systems and 50% for us. Whenever practicable, Force Dynamics will act as the prime contractor for joint venture work, and we, along with General Dynamics Land Systems, shall act as the exclusive subcontractors; provided however that Force Dynamics, General Dynamics Land Systems and we intend to give effect to the production plan consistent with the undertaking of the Agreement.

As of March 12, 2007, we have received two contract awards under the MRAP program for vehicles that are to be manufactured by Force Dynamics. On January 25, 2007, we received a four-vehicle letter contract from the U.S. Marine Corps for testing, production and sustainability for the MRAP vehicle program. Subsequently, on February 14, 2007, we received an additional contract award from the U.S. Marine Corps for 125 vehicles as part of the MRAP vehicle program. The contract award has a total value of approximately $67 million. Under the contract award, Force Dynamics will produce 65 vehicles for Category I and 60 vehicles for Category II of the MRAP program.

PRODUCTION

Our manufacturing process includes production and/or assembly of all critical components of our vehicles as follows:

- We utilize proprietary technology to design ballistic and blast protected vehicle capsules that we believe are capable of withstanding the explosive effects of landmines, IEDs and other blast threats encountered in wars, insurgency and urban conflicts.

- We integrate commercial American-made automotive drive-trains and other components onto the capsules to produce vehicles that have a high level of commonality with the existing U.S. military fleet and can be repaired and maintained by traditional truck mechanics.

- We have also secured sufficient tools and equipment, and have access to a local pool of labor, including many skilled welders and skilled automotive mechanics.

- We maintain a dedicated staff of engineers to provide in-house engineering support and utilize various manufacturing approaches to increase efficiency and product quality.

- We source steel and other raw materials from various key vendors in the United States and overseas, and secure our automotive components from a variety of U.S. suppliers including: Caterpillar; Mack Trucks, a member of the Volvo Group; and Allison Transmission.

SALES AND MARKETING

Our employees, including senior management and the Vice President of Sales, conduct our primary sales and marketing efforts. Currently our primary sales staff resides in South Carolina and Connecticut, but we also have agreements in place for exclusive marketing agents in strategic foreign countries.

We actively participate in shows involving countermine operations and technology, military vehicle, law enforcement technology and military force protection including the Association of the U.S. Army Annual Conference and Winter Symposium, Marine Expo, and Tactical Wheeled Vehicle conferences. Additionally, our marketing efforts include our web site, some advertising focused on the military community and brochures. We do not use independent referral sources to assist in identifying opportunities for our products and services and we do not pay any referral fees or sales commissions.

RESEARCH AND DEVELOPMENT

In 2006, 2005, and 2004 we spent $3,204,165, $1,657,918 and $1,230,290, respectively, on research and development. None of our research and development costs were funded by our customers.

RAW MATERIALS

We depend on suppliers and subcontractors for raw materials and components. These supply networks can experience price fluctuations and capacity constraints. Raw materials can experience cost growth, which would put pressure on pricing. We have not experienced, and do not foresee, significant difficulties in obtaining the materials, components or supplies necessary for our business operations.

INTELLECTUAL PROPERTY

We are party to two long term intellectual property agreements covering technology used in the production of our ballistic and blast protected vehicles. One agreement is with the CSIR Defencetek, 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 in accordance with the Laws of the Republic of South Africa. Under these agreements, we pay a per vehicle fee in exchange for the exclusive transfer to us of the South African technology used in certain of our products.

On September 28, 2006, we extended our period of exclusive cooperation and the payment of vehicle fees to Mechem for an additional five years through September 2011. Pursuant to the terms of the agreement we will pay Mechem a fee of $1,500 for each Cougar vehicle, or variant thereof, that we deliver, and $5,000 for each Buffalo vehicle, or variant thereof, that we deliver.

PERSONNEL

As of December 31, 2006, we had a total of 658 employees, 612 in the U.S. and 46 located in various foreign countries in support of our vehicles and troops. Employees can be broken down into 396 hourly employees and 262 salaried employees. We are not a party to any collective bargaining agreement. We believe our relations with employees are good.

ENVIRONMENTAL MATTERS

We are subject to federal, state, local and foreign laws and regulations regarding protection of the environment, including air, water, and soil. Our manufacturing business involves the use, handling, storage, and contracting for recycling or disposal of hazardous or toxic substances or wastes, including environmentally sensitive materials, such as batteries, solvents, lubricants, degreasing agents, gasoline and resin. We must comply with certain requirements for the use, management, handling, and disposal of these materials. We do not, however, maintain insurance for pollutant cleanup and removal. If we are found responsible for any hazardous contamination, any fines or penalties we may be required to pay or any clean up we are required to perform, could be very costly. Even if we are charged, and later found not responsible, for such contamination or clean up the cost of defending the charges could be high. If either of the foregoing occurs, our business, results from operations and financial condition could be materially adversely affected. We do not believe we have any material environmental liabilities or that compliance with environmental laws, ordinances, and regulations will, individually or in the aggregate, have a material adverse effect on our business, financial condition, or results of operations.

OTHER REGULATORY MATTERS

Our operations and products are subject to extensive government regulation, supervision, and licensing under various federal, state, local and foreign statutes, ordinances and regulations. Certain governmental agencies such as the Environmental Protection Agency, or EPA, and the Occupational Safety and Health Administration, or OSHA, monitor our compliance with their regulations, require us to file periodic reports, inspect our facilities and products, and may impose substantial penalties for violations of the regulations.

While we believe that we maintain all requisite licenses and permits and are in compliance with all applicable federal, state, local and foreign regulations, there can be no assurance that we will be able to maintain all requisite licenses and permits. The failure to satisfy those and other regulatory requirements could have a materially adverse effect on our business, financial condition, and results of operations.

ITEM 1A. RISK FACTORS

An investment in our common stock is subject to risks and uncertainties. Investors should consider the following factors, in addition to the other information contained or incorporated by reference in this Annual Report on Form 10-K, as well as our other filings with the SEC, before deciding to purchase our securities.

We depend on the U.S. government for a substantial amount of our sales. If we do not find acceptance of our products within the U.S. government, our business may fail.

We serve the defense market and our sales are highly concentrated within the U.S. government. The customer relationship with the U.S. government involves certain risks that are unique such as the ongoing development of high-technology products, price, availability and quality of materials and suppliers.

U.S. defense spending has historically been cyclical. Defense budgets have received their strongest support when perceived threats to national security raise the level of concern over the country s safety. As these threats subside, spending on the military tends to decrease. Accordingly, while Department of Defense funding has grown rapidly over the past few years, there is no assurance that this trend will continue. Rising budget deficits, the cost of the Global War on Terrorism and increasing costs for domestic programs continue to put pressure on all areas of discretionary spending, which could ultimately impact the defense budget. Wartime support for defense spending could wane if the country s troop deployments in support of operations in Iraq and Afghanistan are reduced. A decrease in U.S. government defense spending or changes in spending allocation could result in one or more of our programs being reduced, delayed or terminated. Reductions in our existing programs, unless offset by other programs and opportunities, could adversely affect our ability to sustain and grow our future sales and earnings.

U.S. government contracts generally are not fully funded at inception and are subject to termination. If the U.S. government does not order as many vehicles as we anticipate, our business will be adversely affected.

Government contracts and subcontracts typically involve long purchase and payment cycles, competitive bidding, qualification requirements, delays or changes in funding, extensive specification development, price negotiations and milestone requirements. Each government agency also maintains its own rules and regulations with which we must comply and which can vary significantly among agencies. Governmental agencies also often retain some portion of fees payable upon completion of a project and collection of these fees may be delayed for several months or even years, in some instances.

In addition, an increasing number of government contracts are fixed price contracts which may prevent us from recovering costs incurred in excess of our budgeted costs. Fixed price contracts require us to estimate the total project cost based on preliminary projections of the project s requirements. The financial viability of any given project depends in large part on our ability to estimate such costs accurately and complete the project on a timely basis. In the event actual costs exceed the fixed contractual cost, we may not be able to recover the excess costs.

Some government contracts are also subject to termination or renegotiation at the convenience of the government, which could result in a large decline in revenue in any given quarter. Although government contracts have provisions providing for the reimbursement of costs associated with termination, the termination of a material contract at a time when our funded backlog does not permit redeployment of staff could result in a reduction in the number of employees. In addition, the timing of payments from government contracts is also subject to significant fluctuation and potential delay, depending on the government agency involved. Any such delay could result in a temporary shortage in working capital.

We must comply with environmental regulations or we may have to pay expensive penalties or clean up costs.

We are subject to federal, state, local and foreign laws, and regulations regarding protection of the environment, including air, water, and soil. Our manufacturing business involves the use, handling, storage, and contracting for recycling or disposal of, hazardous or toxic substances or wastes, including environmentally sensitive materials, such as batteries, solvents, lubricants, degreasing agents, gasoline and resin. We must comply with certain requirements for the use, management, handling, and disposal of these materials. We do not maintain insurance for pollutant cleanup and removal. 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 or clean up, the cost of defending the charges could be high. If we do not comply with government regulations, we may be unable to ship our products or have to pay expensive fines or penalties. We are subject to regulation by county, state and federal governments, governmental agencies, and regulatory authorities from several different countries. If we fail to obtain regulatory approvals or suffer delays in obtaining regulatory approvals, we may not be able to market our products and services, and generate product and service revenues. Further, we may not be able to obtain necessary regulatory approvals. Although we do not anticipate problems satisfying any of the regulations involved, we cannot foresee the possibility of new regulations, which could adversely affect our business. Further our products are subject to export limitations and we may be prevented from shipping our products to certain nations or buyers.

Our earnings and margins depend on our ability to perform under our contracts and if we do not perform our margins may erode.

Our contracts require management to make various assumptions and projections about the outcome of future events over a period of several years. These projections can include future labor productivity and availability, the nature and complexity of the work to be performed, the cost and availability of materials, the impact of delayed performance, and the timing of product deliveries. If there is a significant change in one or more of these assumptions, circumstances or estimates, or if we are unable to control the costs incurred in performing under these contracts, the profitability of one or more of these contracts may be adversely affected.

If the pricing and availability of subcontractor performance and raw materials change, our profitability may be adversely affected.

We rely on subcontractors and other companies to provide raw materials, major components and subsystems for our products or to perform a portion of the services that we provide to our customers. Occasionally we rely on only one or two sources of supply, which, if disrupted, could have an adverse effect on our ability to meet our commitments to customers. We depend on these subcontractors and vendors to fulfill our contractual obligations in a timely and satisfactory manner in full compliance with customer requirements. If one or more of our subcontractors or suppliers are unable to satisfactorily provide on a timely basis the agreed-upon supplies or perform the agreed-upon services, our ability to perform our obligations as a prime contractor may be adversely affected.

Some of our product components are manufactured in other foreign countries and if any of those become unstable or government regulations change, our costs may increase or we may become unable to source certain parts.

Some of our product components are manufactured in and supplied from other foreign countries. If import tariffs or taxes increase for any reason, our cost of goods would increase. Our financial performance may be affected by changes in political, social and economic environment. The role of the central and local governments in the economy is 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. The government could impose surcharges, increase tax rates, or revoke, terminate or suspend operating licenses without compensating us. Also, other countries, from time to time, experience instances of civil unrest and hostilities. Confrontations have occurred between the military, insurgent forces, and civilians. If for these or any other reason, we lose our ability to sub-contract or manufacture the components to our products, or the cost of doing business increases, our business, financial condition, and results of operations would be materially and adversely affected.

We may be subject to personal liability claims for our products and if our insurance is not sufficient to cover such claims, our expenses may increase substantially.

As a result, a significant lawsuit could adversely affect our business. We may be exposed to liability for personal injury or property damage claims relating to the use of the products. Any future claim against us for personal injury or property damage could materially adversely affect the business, financial condition, and results of operations and result in negative publicity. Even if we are not found liable, the costs of defending a lawsuit can be high. We do not currently maintain insurance for this type of liability. Additionally, even if we do purchase insurance, we may experience legal claims outside of our insurance coverage, or in excess of our insurance coverage, or that insurance will not cover.

We must develop new technologies and maintain a qualified workforce in order to remain competitive.

Virtually all of the products we produce and sell are highly engineered and require sophisticated manufacturing and system integration techniques and capabilities. Government markets in which the company operates are characterized by rapidly changing technologies. The product and program needs of our government customers change and evolve regularly. Accordingly, our future performance in part depends on our ability to identify emerging technological trends, develop and manufacture competitive products, and bring those products to market quickly at cost-effective prices. In addition, because of the highly specialized nature of our business, we must be able to hire and retain the skilled and appropriately qualified personnel necessary to perform the services required by our customers. If we are unable to develop new products that meet customers changing needs or successfully attract and retain qualified personnel, future sales and earnings may be adversely affected.

We rely on proprietary designs and rights and if we have to litigate those rights, our expenses could substantially increase.

Our success and ability to compete depend, in part, on the protection of our designs and technology. In addition, our technology could infringe on patents or proprietary rights of others. We have not undertaken or conducted any comprehensive patent infringement searches or studies. If any third parties hold any conflicting rights, we may be required to stop making, using or selling our products or to obtain licenses from and pay royalties to others. Further, in such event, we may not be able to obtain or maintain any such licenses on acceptable terms, if at all. We may need to engage in future litigation to enforce intellectual property rights or the rights of customers, to protect trade secrets or to determine the validity and scope of proprietary rights of others, including customers. This litigation could result in substantial costs and diversion of resources and could materially and adversely affect our results of operations.

Failure to maintain effective internal controls in accordance with section 404 of the Sarbanes-Oxley Act could have an adverse effect on our business and stock price.

Section 404 of the Sarbanes-Oxley Act requires us to evaluate annually the effectiveness of our internal controls over financial reporting as of the end of each fiscal year and to include a management report assessing the effectiveness of our internal controls over financial reporting in our annual report on Form 10-K. Section 404 also requires our independent registered public accounting firm to attest to, and report on, management s assessment of our internal controls over financial reporting. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we cannot assure you that we will be able to conclude in the future that we have effective internal controls over financial reporting in accordance with Section 404. If we fail to maintain a system of effective internal controls, it could have an adverse effect on our business and stock price.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

There were no unresolved staff comments outstanding more than 180 days as of December 31, 2006.

ITEM 2. PROPERTIES.

We currently lease space in three buildings located on a single campus in Ladson, South Carolina for our executive offices and manufacturing facilities, designated Building #1, Building #2 and Building #3.

We use a portion of Building #1 as our executive offices and warehouse. The term of this office lease is June 1, 2005 to July 14, 2008, with an option to renew for an additional five years. Annual rent is $119,880 plus utilities, taxes and maintenance. The base rent is subject to an annual escalation at the Consumer Price Index or CPI rate with a minimum of 3% and a maximum of 7% per year. We have approximately 7,190 square feet of office space and 9139 square feet of warehouse space pursuant to the Building #1 office lease. The remaining portion of Building #1 is under an industrial lease for additional administration offices, engineering and integrated logistics support or ILS. The term of this lease is January 15, 2006 to July 14, 2008 with no options. The total square footage is 169,767 and the current annual rental is $604,898 plus utilities, taxes and maintenance.

Building #2 has a lease term of July 15, 2005 to July 14, 2008, with an option to renew for another five years. Annual rent is $439,500 for the first year plus utilities, taxes and maintenance. which will be adjusted by increases to the CPI rate with a minimum of 3% and a maximum of 7% per year. This building is used principally for manufacturing and warehousing of production and ILS aftermarket parts**.**

Building #3 has a lease term of three years starting July 15, 2004 with an option to renew for another five years. Annual rent is $258,000 for the first year plus utilities, taxes and maintenance, which will be adjusted by increases to the CPI rate with a minimum of 3% and a maximum of 7% per year. We have 80,096 square feet of space in Building #3 and 6,300 square feet in and adjacent paint and blast building. This building is used principally for manufacturing, manufacturing training and research and development.

On March 9, 2007, we purchased a blast range of approximately 306 acres in Edgefield County, South Carolina along with the purchase of selected assets and a three (3) year lease of an office building in Edgefield, South Carolina. The intended purpose of this transaction is to continue our research and development activities and to provide for the continued use of the blast range as a Federal ATF and South Carolina State licensed and pre-qualified Department of Defense Explosive Test facility for Force Protection Industries, and selected government/commercial clients

We have begun excavation in the Ladson complex for a new 90,500 square feet facility warehouse that includes an 8,000 square feet carpentry shop and 8,500 square feet for offices. This new warehouse is being designed to improve material handling efficiencies to support increased production volumes planned. This new facility will allow the redeployment of the current warehousing in Building #2 into additional manufacturing space for planned volume increases.

We are in the process of acquiring a new 60,000 square feet facility in Summerville, South Carolina. for the intended purpose of expanding research and development operations and to facilitate increased customer training requirements of products and applications. We intend to move the existing research and development operations housed in Building #3 to this new facility. We also intend for the current research and development space in Building # 3 to be redeployed into additional manufacturing space.

We have entered into a non-binding letter of intent to lease 120,000 square feet of an existing 422,000 square feet manufacturing facility located on approximately 90 acres in Florence, South Carolina. The agreement also provides for a surviving Right of First Refusal to match the terms of any offers received for the 302,000 square feet balance of the facility. We intend for this property to provide for additional manufacturing space for future planned products.

ITEM 3. LEGAL PROCEEDINGS.

We may be involved from time to time in ordinary litigation that will not have a material effect on our operations or finances. We are not aware of any pending or threatened litigation against the company or our officers and directors in their capacity as such that could have a material impact on our operations or finances.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to security holders during the quarter ended December 31, 2006.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

MARKET FOR OUR COMMON STOCK

Our common stock began trading on the OTC Bulletin Board on December 29, 1998 under the symbol SJET.OB and subsequently changed to FRPT.OB. We list our common stock on the NASDAQ Stock Market effective January 18, 2007 with the same ticker symbol. Bid and ask quotations for our common shares are routinely submitted by registered broker dealers who are members of the National Association of Securities Dealers on the NASD. These quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions. The following table shows, for the periods indicated, the high and low closing sales prices per share of our common stock.

	High Restated for reverse split*	Low
2005		
First Quarter	$ 3.60	$ 1.75
Second Quarter	$ 2.30	$ 1.28
Third Quarter	$ 1.80	$ 1.28
Fourth Quarter	$ 1.39	$ 0.69
2006		
First Quarter	$ 2.21	$ 0.72
Second Quarter	$ 6.40	$ 1.89
Third Quarter	$ 9.26	$ 5.44
Fourth Quarter	$ 17.80	$ 6.80

* Effective February 4, 2005, we affected a reverse split of our common stock in the ratio of 12 pre-split shares for every 1 post-split share (12:1).

SHAREHOLDERS

As of December 31, 2006, there were 283 shareholders of record of our common stock.

DIVIDEND POLICY

We have never declared or paid a cash dividend on our common stock. We currently intend to retain all of our future earnings, if any, for use in our business and therefore we do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend upon our financial condition, operating results, capital requirements, restrictions contained in our agreements and other factors which our board of directors deems relevant.

On January 21, 2005, we issued 15,800 shares of Series D 6% Convertible Preferred stock. The Series D Certificate of Designation provides for the payment of a dividend at the rate of 6% per annum for so long as the Series D shares are outstanding. Dividend payments are semi-annual due March 1 and September 1 and are payable in cash or shares of common stock. On March 1, 2006, we made a cash dividend payment of $377, 554 and on September 1, 2006, we made a cash dividend payment of $159, 386. All Series D 6%

Convertible Preferred Stock converted to common shares by December 31, 2006 resulting in no further dividends being paid.

RECENT SALES OF UNREGISTERED SECURITIES

The following are our issuances of unregistered securities for the quarter ending December 31, 2006.

On October 12, 2006, we issued 22,960 shares of our common stock for compensation of our board of directors. The shares issued were valued at $184,056.

On December 20, 2006, we completed a private placement of 13,000,000 shares of our common stock to institutional investors at $11.75 per share, resulting in gross proceeds of $152,750,000. The proceeds, net of commissions, were $146,640,261.

With respect to the sales of our common stock described above, we relied on the Section 4(2) exemption from securities registration under the federal securities laws for transactions not involving any public offering. No advertising or general solicitation was employed in offering the shares. The shares were sold to accredited investors. The shares were offered for investment purposes only and not for the purpose of resale or distribution, and the transfer thereof was appropriately restricted by us.

FIVE-YEAR FINANCIAL PERFORMANCE GRAPH: 2002-2006

Comparison of five-year cumulative return among FPI, S&P 500 and Dow Jones Industrial Average

The annual changes for the five-year period shown in the graph on this page are based on the assumption that $100 had been invested in FPI stock, the Standard & Poor s 500 Stock Index and the Dow Jones Industrial Average on December 31, 2001, and that all quarterly dividends were reinvested at the average of the closing stock prices at the beginning and end of the quarter. The total cumulative dollar returns shown on the graph represent the value that such investments would have had on December 31, 2006.

	2001	**2002**	**2003**	**2004**	**2005**	**2006**
FPI	$ 100	$ 171	$ 93	$ 391	$ 87	$ 2,140
S&P 500	100	78	100	111	117	135
DJIA	100	85	109	115	117	139

ITEM 6. SELECTED FINANCIAL DATA.

	2006	2005 Restated	2004 Restated	2003 Restated	2002
Results of Operations					
Net Sales	$ 196,017,446	$ 49,712,829	$ 10,272,757	$ 6,247,285	$ 2,606,634
Income (loss) from continuing operations	5,870,452	(14,404,622)	(11,953,803)	(5,155,690)	(5,373,377)
Loss from discontinued operations				(2,932,179)	
Deferred tax benefit	12,326,491				
Net Gain/(Loss)	18,196,943	(14,404,622)	(11,953,803)	(8,087,869)	(5,373,377)
Per Common Share					
Earnings (Loss) from continuing operations					
Basic	0.37	(0.51)	(0.62)	(0.63)	(1.58)
Assuming dilution	0.36	(0.51)	(0.62)	(0.63)	(1.58)
Common Stock Dividends	0.00	0.00	0.00	0.00	0.00
Financial Position at Year-End					
Property plant and equipment, net	8,963,901	2,138,703	1,036,994	309,068	336,523
Total assets	274,391,312	39,776,535	13,627,196	1,620,114	2,615,451
Total debt	239,622	7,500,000	4,471,707	745,584	549,486
Shareholders Equity	217,854,807	(6,496,761)	2,558,483	(305,595)	803,450

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements, including, without limitation, statements concerning possible or assumed future results of operations and those preceded by, followed by or that include the words believes, could, expects, intends, anticipates, or similar expressions. actual results could differ materially from these anticipated in the forward-looking statements for many reasons including our ability to raise capital when necessary; availability of parts and raw materials for our products; continued customer acceptance of our products; on-going success of our research and development efforts and other risks described elsewhere in this report and in our other filings with the Securities and Exchange Commission. Although we believe the expectations reflected in the forward-looking statements are reasonable, they relate only to events as of the date on which the statements are made, and our future results, levels of activity, performance or achievements may not meet these expectations. We do not intend to update any of the forward-looking statements after the date of this document to conform these statements to actual results or to changes in our expectations, except as required by law.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

EXPLANATORY NOTE

We will be filing an amendment to our Annual Report on Form 10-K for the year ended December 31, 2005 to amend and restate financial statements and other information for the years 2005, 2004 and 2003. The restatement adjusts our accounting for preferred stock and warrants issued to investors, accounting for stock-based compensation to employees and non-employees and accounting for rent expense on a straight-line basis. The financial information included in this 10-K referring to prior years ended December 31, 2005, 2004 and 2003 includes each accounting restatement. Given that we are still in the process of finalizing the restatement with the SEC, there is the potential that the restated numbers may change pending final resolution. We believe that the restatement did not have any material impact on our 2006 financial results.

The items identified by us relate to the valuation method used to account for certain equity issuances which did not properly include a full analysis of the embedded conversion feature associated with such issuances as required under EITF 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios, or which were otherwise incorrectly valued. As a result, a number of shares of our stock issued as compensation to certain executives and other third parties and recorded as general and administrative compensation expense appear to have been valued at less than fair value.

We believe this issue is limited to a small number of equity issuances made during 2003, 2004 and 2005, with a total combined value of not more than an additional cumulative net loss of approximately $3.75 million for the years 2003 and 2004, and an approximate realized gain in the range of $2 to $4 million in 2005. We believe that the restatement will not materially impact our 2006 financial results. Our management and audit committee has discussed the subject matter giving rise to this conclusion with Jaspers + Hall, PC, its independent accounting firm for the fiscal year ended December 31, 2005. (Refer to Note 1 to the Consolidated Financial Statements of this 10-K for additional detail)

RESULTS OF OPERATIONS

Consolidated Statement of Operations

	2006	**2005 Restated**	**Change**	**% Change**
Revenues	$ 196,017,446	$ 49,712,829	$ 146,304,617	294.30 %
Cost of Sales	158,994,626			