

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

FORCE PROTECTION INC
Form 10QSB
May 17, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB

(Mark One) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2004

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: 0-22273

FORCE PROTECTION, INC.

(Exact name of Registrant as specified in its charter)

Colorado 84-1383888
(State or jurisdiction of incorporation I.R.S. Employer
or organization) Identification No.)

9801 Highway 78, #3, Ladson South Carolina 29456

(Address of principal executive offices)
(Zip Code)

Registrant's telephone number: (843) 740-7015

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, No Par Value

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) been subject to such filing requirements for the past 90 days. Yes -- x No.
--- ---

As of March 31, 2004, the Registrant had 151,454,698 shares of common stock issued and outstanding.

Transitional Small Business Disclosure Format (check one): Yes -- No X.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION	PAGE
ITEM 1. FINANCIAL STATEMENTS	
REPORT ON REVIEW BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT	3

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2004	4
CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND MARCH 31, 2003	5
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND MARCH 31, 2003	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	7
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	9
ITEM 3. CONTROLS AND PROCEDURES	15
PART II - OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	15
ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS	16
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	16
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	16
ITEM 5. OTHER INFORMATION	16
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	17
PART I - FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS	

REPORT ON REVIEW BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

To the Board of Directors
Force Protection, Inc. and Subsidiary

We have reviewed the accompanying consolidated balance sheet of Force Protection, Inc., and Subsidiary (formerly known Sonic Jet Performance, Inc.) as of March 31, 2004 and the related statements of consolidated operations and cash flows for the three months ended March 31, 2004 and 2003 included in the accompanying Securities and Exchange Commission Form 10-QSB for the period ended March 31, 2004. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States,

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the balance sheet as of December 31, 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein). In our report dated March 2, 2004, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying balance sheet as of March 31, 2004 is fairly stated in all material respects in relation to the balance sheet from which it has been derived.

/s/ Michael Johnson & Co., LLC
 Michael Johnson & Co., LLC.
 Denver, Colorado
 May 14, 2004

3

FORCE PROTECTION CONSOLIDATED BALANCE SHEET MARCH 31, 2004 (Unaudited)

ASSETS

Current Assets

Cash		\$ 3,210,1
Accounts receivable.		148,8
Other current assets		50,4
Inventories.		196,5

Current Assets		3,606,0
--------------------------	--	---------

Property and equipment, net.		263,8
--------------------------------------	--	-------

Other Assets

Goodwill		
Fixed Assets		359,0

Total Assets		\$ 3,965,0
------------------------	--	------------

LIABILITIES AND SHAREHOLDERS' EQUITY

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

Current Liabilities	
Accounts payable	\$ 1,033,0
Accrued payroll taxes.	18,5
Deferred revenue	
Other accrued liabilities.	82,2

General reserve.	180,2

Loans payable.	59,3
Current Liabilities.	1,373,3

Long term liabilities.	138,4

Subordinated notes payable.	

Shareholder's Equity:	
Common, no par value, 300,000,000 authorized, issued and outstanding 151,454,698.	20,780,0

Preferred, no par value	
Series B convertible preferred (10 shares issued and outstanding)	25,0
Series C convertible preferred (115 shares issued and outstanding)	1,230,0
Retained earnings.	(22,900,4
Additional Paid-in capital	3,317,1
Warrants	1,5
Shareholder's equity	2,453,3

Total Liabilities and Shareholders' Equity.	\$ 3,965,0
	=====

The accompanying notes are an integral part of these financial statements

FORCE PROTECTION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Mon Ended March 31, -----
Sales.	\$
Cost of sales.	2

Gross profit	(1

Selling, general and administrative expenses	1,6

Profit (loss) from operations.	(1,7

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

Other income (expense)	
Other income	
Interest expense	
Total other income (expense)	
Net Loss	\$ (1,7
Basic loss per share	
Diluted loss per shares.	
Weighted average common shares outstanding:	
Basic.	78,1
Diluted.	99,7
* Taken from the weighted average common shares outstanding as at the end of 03/31/03	

The accompanying notes are an integral part of these financial statements

FORCE PROTECTION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2003

Cash Flows From Operating Activities:	
Net Loss.	\$ (1,783,669)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization.	77,159
Common stock issued for services	1,004,617
Warranty	(4,039)
Royalty.	15,000
Changes in assets and liabilities:	
(Increase) in accounts receivable.	25,532
(Increase) in inventories.	(2,128,674)
(Increase) Decrease in other assets.	(9,155)
(Decrease) Increase in accounts payable.	301,299
(Decrease) Increase in payroll liabilities	(13,251)
(Decrease) Increase in accrued expenses & deferred revenue.	1,415,294
Total adjustments.	(683,782)
Net Cash Used in Operating Activities.	(1,099,887)

Cash Flow From Investing Activities:	

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

Purchase of equipment	(4,460)
Proceeds from sale of property and equipment	
Net Cash Provided By Investing Activities.	(4,460)
<hr/>	
Cash Flow From Financing Activities:	
Proceeds from issuance of common stock.	977,230
Proceeds from convertible preferred stock	(20,000)
Short-term debts.	513,526
Payments from capitalized lease obligations	
Long term liabilities	(6,653)
Notes payable	(3,000)
Additional Paid -in - Capital	
Net Cash Provided By Financing Activities.	1,461,103
<hr/>	
Effect of exchange rate on cash	-
Increase in Cash.	356,756
Beginning Balance	144,476
Ending Balance.	\$ 501,232
Interest Paid	\$ 14,746
Income Tax Paid	-
<hr/>	
The accompanying notes are an integral part of these financial statements	

FORCE PROTECTION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - PRESENTATION OF INTERIM INFORMATION

In the opinion of the management of Force Protection, Inc. and Subsidiary, the accompanying un-audited consolidated financial statements include all normal adjustments considered necessary to present fairly the financial position as of March 31, 2004, and the results of operations and cash flows for the three months ended March 31, 2004 and 2003. Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements and notes are presented as permitted by Form 10-QSB, and do not contain certain information included in the Force Protection's audited consolidated financial statements and notes for the fiscal year ended December 31, 2003.

NOTE 2 - FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant inter-company balances, transactions, and stockholdings have been eliminated.

NOTE 3 - INVENTORIES

Inventories at March 31, 2004 consisted of the following:

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

Raw materials and supplies	\$ 4,420
Work in process	139,478
Finished goods	52,701
Less provision	0

Total	\$ 196,599
	=====

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2004 consisted of the following:

Furniture and fixtures	\$ 92,209
Machinery and equipment	316,990
Tooling - new products	104,797
Vehicles	500
Demo vehicles	192,530

	707,026
Less accumulated depreciation and amortization	(348,003)

Total	\$ 359,023
	=====

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Lease

The Company leases its principal executive offices with Technical solutions Group in Ladson, South Carolina.

Technical Solutions Group, Inc. has a long-term lease of five years giving it a stable base for future planning. The term of the lease is five years starting October 15, 2003, with an option to renew for another five years. The space substantially increases the Company's ability to qualify for and fulfill larger contracts for its mine-protected vehicles. Annual rent is \$215,000 for the first year plus utilities, taxes and maintenance, and \$258,000 base rental for the next four years.

7

Employment Agreements

The Company anticipates formally establishing an executive and management compensation plan. The current compensation in cash for the Company's executive officers and managers is as follows: Mr. Kavanaugh - \$180,000, Mr. Thebes - \$95,000, plus an allowance of \$1,500, Mr. Watts \$180,000 plus an expense allowance, Mr. Barrett - \$120,000. Executive officer compensation is subject to review on a periodic basis by the Board of Directors.

Sonic Jet Performance, Inc. entered into an employment agreement with Walter Wright on April 1, 2003. Mr. Wright functions as the Company's investor relations coordinator and is paid an annual salary of \$60,000. Mr. Wright's employment agreement will expire on July, 31, 2004.

Royalty/Licensing Agreements

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

On April 1, 2004, the Company entered into a new royalty agreement with J.J. van Eck covering the Typhoon - Long design. The Company will pay Mr. Van Eck \$500.00 per vehicle sold based on the Typhoon - Long design he provided if used.

NOTE 6 - OTHER TRANSACTIONS

Capital Stock Transactions

During the three months ended March 31, 2004, the Company issued an aggregate of 8,217,500 restricted shares of its common stock for the exercise of warrants generating \$743,750 per a private placement offering dated April 10, 2002.

During the period of February 1, 2004 to March 31, 2004, the Company issued a total of 600,185 restricted shares of common stock to two consultants for services to be rendered to the Company.

During the three months ended March 31, 2004, the Company issued 25 Series C preferred shares in exchange for settlement of long-term debt - \$250,000, finalizing May 7, 2004.

On March 23, 2004, the Company closed on a private offering. This offering, sold to six accredited investors, consisted of the following:

- (a) 15,000,000 shares at \$0.20 per share; generating \$2,670,000 net proceeds.
- (b) An "A" Warrant for each share purchased, exercisable at \$0.24 per share. The "A" Warrants expire March 23, 2006; and
- (c) A "Green Shoe" warrant for each share purchased, exercisable at \$0.20 per share for a period of 180 days after the effective date of the registration statement, commencing on the effective date of the registration statement.

During the three months ended March 31, 2004, 15 shares of Series C preferred stock were converted into common stock and 225,000 common shares were cancelled.

8

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with our financial statements and the notes thereto contained elsewhere in this report.

Critical Accounting Policies

The Securities and Exchange Commission has issued Financial Reporting release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," or FRR 60, suggesting companies provide additional disclosure and commentary on their most critical accounting policies. In FRR 60, the SEC defined the most critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and operating results, and require management to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. The methods, estimates and judgments we use in applying these most critical accounting policies have a significant impact on the results we report in our financial statements.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

As a general rule, financial information is accounted for and based on cost, not current market value. Revenues and gains should be matched using the accrual method with the expenses giving rise to the revenues and gains to determine earnings for the period. Expenses are necessarily incurred to produce revenue. Expenses are then "matched" in the same accounting period against the revenue generated. Revenues are recognized when they are earned and expenses are recognized in the same period as the related revenue (matching or using a systematic and rational allocation or expensing in the period in which they expire), not necessarily in the period in which the cash is received or expended by the company. Other areas include:

Inventories

Inventories are stated at the lower of cost or market. The cost is determined under the first-in-first-out method base (FIFO) valuation method.

Goodwill

Under SFAS No. 142. Goodwill and other Intangible Assets, all goodwill amortization ceased effective Jan.1, 2002. Rather, goodwill is now subject to only impairment reviews. A fair-value based test is applied at the reporting level. This test requires various judgments and estimates. A goodwill impairment loss will be recorded for any goodwill that is determined to be impaired. Goodwill is tested for impairment at least annually.

9

We acquired Goodwill, which represents the excess of purchase price over fair value of net assets, in the acquisition of Technical Solutions Group, Inc. in June 2002. We follow SFAS 142, Goodwill and Intangible Assets, which requires us to test goodwill for potential impairment annually. When the carrying value exceeds fair value, the impairment is the difference between the carrying value of goodwill and the implied value. The implied value of goodwill is the difference between the fair value for the unit as a whole and the value of individual assets and liabilities using an "as-if" purchase price.

Loss per Share

We utilize SFAS No. 128, "Earnings per Share." Basic loss per share is computed by dividing loss available to common stockholders by the weighted-average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

Revenue Recognition

Our revenues are derived principally from the sale of blast and mine-protected vehicles. Revenue from products and services are recognized at the time goods are shipped or services are provided to the customer, with an appropriate provision for returns and allowances. The estimated sales value of performance under fixed-price and fixed-price incentive contracts in process is recognized under the percentage-of-completion method of accounting in which the estimated sales value is determined on the basis of physical completion to date (the total contract amount multiplied by percent of performance to date less sales value recognized in previous periods) and cost (including general and administrative) are expensed as incurred. It is our policy to not recognize revenue until

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

customer acceptance and shipment to the customer. All advance payments are treated as "deferred revenue".

Research and Development

We expense research and development cost as incurred.

Comparison of Three Months Ended March 31, 2004 and 2003.

The following table sets forth our consolidated statements of operations:

10

	THREE MONTHS ENDED MARCH 31, 2003	2004	
	-----	-----	
Sales	\$96,349	\$1,642,853	
Cost of sales	231,753	1,232,037	
Gross profit (loss)	(135,404)	410,816	
Selling, general and administrative	1,648,527	1,603,953	
Income/(Loss) from operations	(1,783,932)	(1,193,136)	
	-----	-----	
Interest expenses	(14,195)	(40,314)	
Other income	14,458	37,012	
	-----	-----	
Total other income (expense)	263	(3,303)	
	-----	-----	
Net income/(loss)	\$(1,783,669)	\$(1,196,439)	
	-----	-----	
Basic loss per share	\$(0.02)	\$ (0.008)	
Diluted loss per share	\$(0.02)	\$ (0.005)	
Weighted-average common shares			
Basic	78,152,071	144,161,083	
Diluted	99,784,564	233,495,731	

Net sales for the three months period ended March 31, 2004 increased by \$1,546,504 or 16.1 times 2003 sales compared to three months period ended March 31, 2003. Sales during the first quarter of 2004 were strongly influenced by 2003 orders finalized during the quarter. Final shipment of the first Buffalo order and spares attributed to the increase in sales.

Cost of sales for 2004 was \$1,232,037, or 74.99% of sales, compared to 240.6% of sales in 2003. During the first quarter of 2003, manufacturing period costs were high in comparison to sales due to the start up of a government contract. The cost of goods sold in the first quarter of 2004 were higher than we have experienced in the past due to the percentage of spares shipments in relation to product sales.

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

Selling, General and Administrative expenses for 2004 decreased slightly by \$44,575 to \$1,603,953 compared to \$ 1,648,528 for 2003. Incremental Research & Development expenditures of \$501,850 during the first quarter of 2004 as compared to \$0 during 2003 attributed to the relative flat spending between the two periods. Excluding Research & Development expenditures, Selling, General & Administrative spending, normalized was \$1,102,103 or 66.8% of the 2003 run rate. Actual marketing expenses increased by \$62,847 during the first quarter of 2004, due to increased potential customer presentations. During the first quarter of 2004 we incurred \$300,000 of commission fees on the \$3,000,000 of raised capital.

During the quarter ended March 31, 2004, other income was \$36,021. Inactive accounts payable of \$29,048 were settled and an overstated Notes payable of \$6,861 was corrected. We earned \$1,103 interest income. Bank charges of \$708, Loan interest of \$610 and factoring expenses of \$37,701 accounted for the majority of the \$40, 314 of interest expense for the quarter.

Net Loss for three months ended March 31, 2004 was \$1,196,436, which decreased by \$587,230 from \$1,783,669 during the three months period ended March 31, 2003. The decrease is attributed to cost control and the discontinued boat operations. Research & Development activities, fund raising and demonstration expenses accounted for an incremental \$864,697 erosion of net income. Excluding these expenses, net loss would have been \$331,742.

11

Business segment analysis of the three months ended March 31, 2004:

10-QSB Segment Information (000's) (approximate)

	TSG	Corp	Total
Sales	1,679		1,679
Cost of sales	1,232		1,232
Gross profit	411		411
G.P. %	24.4%		24.4%
SG&A	1,077	527	1,604
Segment P&L	(669)	(527)	1,196

Mine and blast protected vehicles provided approximately 100% of the total sales and 100% of the total cost of goods sold.

Going Concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements, during the year ended December 31, 2003, we incurred losses of \$5,321,623 and our current liabilities exceed our current assets by \$360,652. During the quarter ended March 31, 2004, we incurred losses of \$1,196,439,

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

however current assets exceeded current liabilities by \$2,253,207.

Realization of a major portion of the assets in the accompanying balance sheet is dependent upon our continued operations, obtaining additional financing, and the success of our future operations.

Due to the nature of our business it is uncertain whether we will receive orders impeding our cash situation and our ability to pay creditors.

Liquidity and Capital Resources

As of March 31, 2004, cash and cash equivalents were \$ 3,210,136 compared to \$271,293 as of December 31, 2003. Our principal sources of capital have been cash flow from operations, warrant exercises, and the sale of common stock.

Operating Activities

The cash used by operating activities for the year ended March 31, 2004 was \$423,581, as compared to \$1,099,887 for the quarter ended March 31, 2003. The cash used can be attributable primarily to funding ongoing operations and the development of the Typhoon - Long. The large decrease is primarily the result of a reduction in inventory of \$630,738.

12

Investing Activities

Our capital expenditures for the three months ended March 31, 2004 were \$49,955, related to investments in office and manufacturing equipment. We anticipate that our capital expenditures during 2004 will increase significantly due to contract awards, the improvement of operating efficiencies, and additional manufacturing capacity.

Financing Activities

On March 23, 2004, we closed on a private offering. This offering, sold to six accredited investors, consisted of the following:

- (a) 15,000,000 shares at \$0.20 per share;
- (b) an "A" Warrant for each share purchased, exercisable at \$0.24 per share. The "A" Warrants expire March 23, 2006; and
- (c) A "Green Shoe" warrant for each share purchased, exercisable at \$0.20 per share for a period of 180 days after the effective date of the registration statement, commencing on the effective date of the registration statement.

We generated proceeds of \$3,000,000 from the sale of common stock. Commission expense and fees totaled \$330,000, generating net proceeds of \$2,670,000.

During the three months period ended March 31, 2004, we received \$743,750 through the exercise of warrants that were originally issued pursuant to an addendum to the private placement memorandum dated April 10, 2002. \$0.01 and \$0.10 warrants were exercised yielding \$543,750. \$0.20 warrants were exercised yielding \$200,000.

We repaid 3 promissory notes during the first quarter of 2004, finalized as of May 7, 2004 by receipt of all the required paperwork, totaling \$400,000 of principle, all interest was forgiven. \$150,000 of cash was repaid and 25 Series

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

C preferred shares were issued to settle all 3 promissory notes.

On September 20, 2003, we entered into an Investment Agreement with Dutchess Private Equities Fund, also referred to as an Equity Line of Credit. That agreement provides that, following notice to Dutchess, we may put to Dutchess up to \$3.5 million in shares of our common stock for a purchase price equal to 93% of the lowest closing bid price on the Over-the-Counter Bulletin Board of our common stock during the five day period following that notice. Each put will be equal to either (a) 200% of the average daily volume of our common stock for the 10 trading days prior to the put notice date, multiplied by the average of the three daily closing best bid prices immediately preceding the Put or (b) \$10,000; provided that in no event will the Put Amount be more than \$1,000,000 with respect to any single Put. Under the March 23, 2004 Private Placement we have agreed not to utilize the Equity Line for a period of 6 months following the effective registration of the shares underlying the Private Placement. The shares underlying the Private Placement were registered on April 15, 2004.

On April 23, 2004 we announced award of a contract to deliver up to 27 Cougar type vehicles. Initial deliveries are scheduled to ship September 2004. Substantial cash will be required for the inventory build and capital infrastructure negatively affecting liquidity and our current favorable cash position. We expect to receive progress payments during production and except to receive final payment per unit shipped within 45 days of acceptance by our customer.

13

At the present time, we are not generating sufficient revenue to cover expenses. Based on our current operating plan, we anticipate that additional financing will be required to finance our operations and capital expenditures in 2004. Accordingly, our future liquidity will depend on our ability to obtain necessary financing from outside sources and our ability to execute our contract awards. We currently believe that we have sufficient cash to continue for the next 8 months.

Our currently anticipated levels of revenues and cash flow are subject to many uncertainties. Further, unforeseen events may occur that will require us to raise additional funds. The amount of funds we need will depend upon many factors, including without limitation, the extent and timing of sales of our products, future product costs, the timing and costs associated with the establishment and/or expansion, as appropriate, of our manufacturing, development, engineering and customer support capabilities, the timing and cost of our product development and enhancement activities and our operating results. Until we generate cash flow from operations that will be sufficient to satisfy our cash requirements, we will need to seek alternative means for financing our operations and capital expenditures and/or postpone or eliminate certain investments or expenditures. Potential alternative means for financing may include leasing capital equipment, obtaining a line of credit, or obtaining additional debt or equity financing. Additional financing may not be available, or available on acceptable terms. The inability to obtain additional financing or generate sufficient cash from operations could require us to reduce or eliminate expenditures for capital equipment, research and development, production or marketing of our products, or otherwise curtail or discontinue our operations, which could have a material adverse effect on our business, financial condition and results of operations. Furthermore, if we raise funds through the sale of additional equity securities, the common stock currently outstanding will be further diluted.

Inflation

We do not believe that inflation has had or is likely to have any significant

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

impact on our operations. However, with the current shortage of some types of steel, the price of steel may increase significantly and could affect profitability.

Forward Looking Statements

This report, including the foregoing Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements, including statements regarding, among other items, our business strategies, continued growth in our markets, projections, and anticipated trends in our business and the industry in which we operate. The words "believe," "expect," "anticipate," "intends," "forecast," "project," and similar expressions identify forward-looking statements. These forward-looking statements are based largely on our expectations and are subject to a number of risks and uncertainties, certain of which are beyond our control. We caution that these statements are further qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements, including, among others, the following: reduced or lack of increase in demand for our products, competitive pricing pressures, changes in the market price of ingredients used in our products and the level of expenses incurred in our operations. In light of these risks and uncertainties, the forward-looking information contained herein may not in fact transpire or prove to be accurate. We do not intend to update any forward-looking statements, except as required by law.

14

ITEM 3. CONTROLS AND PROCEDURES

We have established disclosure controls and procedures to ensure that material information relating to us, including our consolidated subsidiary, is made known to the officers who certify our financial reports and to other members of senior management and the Board of Directors.

9(a) Evaluation of disclosure controls and procedures. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-QSB. Based on this evaluation, our principal executive officer and principal financial officer concluded that these disclosure controls and procedures are effective and designed to ensure that the information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the requisite time periods.

9(b) Changes in internal controls. There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On June 26, 2003, Albert Mardikian, a shareholder and holder of certain designs and components, filed a complaint against us in the Orange County Superior Court. The complaint alleges breach of contract of the license agreement dated December 27, 2001 between Mr. Mardikian, Mardikian Marine Design, and us. The

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

complaint further alleges breach of an employment and agency agreement between Mr. Mardikian and us, and fraud, conversion and unfair competition. We have filed an answer denying these allegations, and on July 28, 2003 filed a cross-complaint against Mr. Mardikian and Mardikian Marine Design. While we believe that the matter will be resolved in our favor, this case is scheduled for mediation on June 2, 2004 and we can not predict an outcome at this time. If we receive an unfavorable ruling, there is a possibility of a material adverse impact of money damages on our financial condition, results of operations, or liquidity of the period in which the ruling occurs, or future periods.

In July 2003, Peggy Gonzales and Edward Huerta filed a claim against us in the Cameron County District Court in Brownsville, Texas. The claim relates to a vortex boat purchased by the plaintiff and alleges vessel defects. The claim is for unquantified damages. While this case is still in the early stages and it is difficult to predict the outcome, we currently believe the matter will be resolved with no material impact on our business or results of operations.

On March 22, 2004, the Utah Division of Securities submitted to us an Order to Show Cause in an action before the Division of Securities of the Department of Commerce of the State of Utah pertaining to an alleged sale of our securities in Utah by an unlicensed broker-dealer and unlicensed agent. The Utah Division of Securities is currently seeking a \$1,000 fine in connection with this matter. We believe this matter will be resolved with no material impact on our business or results of operations.

15

We have received communications from the Rhode Island Securities Division pertaining to an alleged sale of our securities in Rhode Island by an unlicensed broker-dealer and unlicensed agent. We believe this matter will be resolved with no material impact on our business or results of operations.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

We sold the following unregistered (restricted) securities during the quarter ended March 31, 2004:

(a) From January 1, 2004 through March 31, 2004, we issued a total of 8,217,500 shares of common stock to exercise warrants, valued at a total of \$743,750.4 (average of \$0.0905 per share).

(b) On March 18, 2004, we issued a total of 15,000,000 shares of common stock to six investors in connection with a private placement, valued at a total of \$3,000,000 (\$0.20 per share).

(c) On February 28, 2004, we issued a total of 100,185 shares of common stock, valued at \$12,022 to one consultant as compensation. March 10, 2003, the Company issued a total of 500,000 shares of common stock to one consultant as compensation in such capacity, valued at a total of \$100,000 (\$0.20 per share).

The sales set forth above were undertaken under Rule 506 of Regulation D under the Securities Act of 1933, as amended ("Act"), by the fact that:

- the sales were made to a sophisticated or accredited investors, as defined in Rule 502;
- the Registrant gave each purchaser the opportunity to ask questions and receive answers concerning the terms and conditions of the offering and to obtain any additional information which the Registrant possessed or could acquire without unreasonable effort or expense that is necessary to verify the accuracy of information furnished;

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

- at a reasonable time prior to the sale of securities, the Registrant advised each purchaser of the limitations on resale in the manner contained in Rule 502(d)2;
- neither the Registrant nor any person acting on its behalf sold the securities by any form of general solicitation or general advertising; and
- the Registrant exercised reasonable care to assure that each purchaser of the securities is not an underwriter within the meaning of Section 2(11) of the Securities Act of 1933 in compliance with Rule 502(d).

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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

None

16

ITEM 5. OTHER INFORMATION

During the first quarter, we announced the appointments of Michael Aldrich as Vice President-Sales and Murray Hammock as Vice President - Project Management.

On March 31, 2004 we announced that our subsidiary, Technical Solutions Group, subsidiary signed a non-exclusive agreement with U.S. Marketing Group LLC to develop a commercial U.S. distribution channel for its Lion, a ballistic and blast protected vehicle with the protection necessary to deter carjacking and able to resist most threats that might be experienced in the United States - including small arms fire and homemade explosives or bombs.

On April 23, 2004, we announced that our subsidiary, Technical Solutions Group, was awarded a contract to manufacture and deliver up to 27 Cougar type mine and ballistic protected vehicles. The 27 vehicles, training programs and consumable spare parts have a total value of \$9.7 million. Initial deliveries are scheduled to begin in September 2004 and all of the initial release will be delivered before the end of the year.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

Exhibits included or incorporated by reference herein are set forth in the attached Exhibit Index.

Reports on Form 8-K

On March 26, 2004, we filed a report on Form 8-K regarding our private placement.

17

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

Force Protection, Inc.

Dated: May 17, 2004

By: /s/ Thomas H. Thebes

Thomas H. Thebes,
Chief Financial Officer

EXHIBIT INDEX

Number Description

- 3.1 Articles of Incorporation for the Registrant (filed as Exhibit 3.(i) to the Registrant's General Form for Registration of Securities of Small Business Issuer on Form 10-SB filed on March 24, 1997 and incorporated herein by reference).
- 3.2 Articles of Amendment to the Articles of Incorporation the Registrant dated December 24, 1996 (filed as Exhibit 3.2 to the Registrant's Report on Form 10-KSB filed on March 15, 2002 and incorporated herein by reference).
- 3.3 Articles of Amendment to the Articles of Incorporation for the Registrant dated December 24, 1996 (filed as Exhibit 3.(iv) to the Registrant's Report on Form 10-KSB filed on April 15, 1998 and incorporated herein by reference).
- 3.4 Articles of Amendment to the Articles of Incorporation for the Registrant (filed as Exhibit 3.(I) to the Registrant's Current Report on Form 8-K filed on December 16, 1998 and incorporated herein by reference).
- 3.5 Bylaws for the Registrant (filed as Exhibit 3.(ii) to the Registrant's General Form for Registration of Securities of Small Business Issuer on Form 10-SB filed on March 24, 1997 and incorporated herein by reference).
- 4.1 Amendment to the Certificate of Designation for Series B Convertible Preferred Stock dated December 20, 2002 (filed as Exhibit 10.7 to the Registrant's Report on Form 10-KSB/A filed April 21, 2003 and incorporated herein by reference).
- 4.2 Amendment to the Certificate of Designation for Series C Convertible Preferred Stock dated November 14, 2002 (filed as Exhibit 10.1 to the Registrant's Report on Form 10-QSB filed November 18, 2002 and incorporated herein by reference).
- 4.3 Amendment to the Certificate of Designation for Series B Convertible Preferred Stock (filed as Exhibit 10.4 to the Registrant's SB-2 filed on February 11, 2004 and incorporated herein by reference).
- 4.4 Certificate of Designation for Series A Convertible Preferred Stock (filed as Exhibit 7.4 to the Registrant's Current Report on Form 8-K filed July 6, 1998 and incorporated herein by reference).
- 4.5 Certificate of Designation for Series B Convertible Preferred Stock (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed January 7, 2002 and incorporated herein by reference).
- 4.6 Certificate of Designation for Series C Convertible Preferred Stock (filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed January 7, 2002 and incorporated herein by reference).

Edgar Filing: FORCE PROTECTION INC - Form 10QSB

- 10.1 Investment Agreement between the Registrant and Dutchess Private Equities Fund, L.P., dated January 26, 2004 (filed as Exhibit 10.8 to the Registrant's SB-2 filed on January 27, 2004 and incorporated herein by reference).
- 10.2 Registration Rights Agreement between the Registrant and Dutchess Private Equities Fund, L.P., dated January 26, 2004 (filed as Exhibit 10.9 to the Registrant's SB-2 filed on January 27, 2004 and incorporated herein by reference).
- 10.3 Placement Agent Agreement between the Registrant, Charleston Capital, LLC, and Dutchess Private Equities Fund, L.P., dated January 27, 2004 (filed as Exhibit 10.10 to the Registrant's SB-2 filed on January 27, 2004 and incorporated herein by reference).
- 10.4 Form of Subscription Agreement between the Registrant and Gamma Opportunity Capital Partners, LP, Longview Fund, LP, Alpha Capital Aktiengesellschaft, Domino International Ltd, Magellan International Ltd, and Mountain Ridge Capital LLC dated March 23, 2004 (filed as Exhibit 4 to the Registrant's Form 8-K filed on March 26, 2004 and incorporated herein by reference).
- 10.5 Employment Offer Letter between the Registrant and Frank Kavanaugh dated March 31, 2003 (filed as Exhibit 10.16 to the Registrant's Report on Form 10-KSB/A filed on April 21, 2003 and incorporated herein by reference).
- 10.6 Employment Offer Letter between the Registrant and Michael Watts dated June 20, 2002 (filed as Exhibit 10.1 to the Registrant's Report on Form 10-QSB filed on November 18, 2003 and incorporated herein by reference).
- 10.7 Employment Offer Letter between the Registrant and Walter Wright dated April 1, 2003 (filed as Exhibit 10.1 to the Registrant's Report on Form 10-KSB/A filed on April 21, 2003 and incorporated herein by reference).
- 10.8 Sonic Jet Corporation 2000 Stock Option Plan & Advisory and Consulting Agreement dated May 1, 2000 (filed as Appendix A to the Registrant's Information Statement on Form 14(c) filed June 30, 2000 and incorporated herein by reference).
- 10.9 Series B Convertible Preferred Stock Purchase Agreement between the Registrant and Ashford Capital, LLC dated December 27, 2001 (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K on January 7, 2002 and incorporated herein by reference).
- 10.10 Series C Convertible Preferred Stock Purchase Agreement between eFund Capital Partners, LLC, and the Registrant dated December 27, 2001 (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K on January 7, 2002 and incorporated herein by reference).
- 10.11 Modification of Business Asset Sale, License Agreement & Assignment of Rights between the Registrant and Rockwell Power Systems, Inc., dated September 15, 2003. (filed as Exhibit 2.3 to the Registrant's Form 10-QSB filed on November 18, 2003 and incorporated herein by reference).
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.
- 32.1 Certification of Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

