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Disclosures 1, 4A, 6, 10
See last page for disclosures

Yesterday, on the DefenseLink News, the US Army announced that it had awarded BAE Systems Land & Armaments, PL of York, Pennsylvania the first \$180 million segment of a multi-year, \$445 million fixed-price contract for 378 Iraqi Light Armored Vehicles. This is the major contract partnership between “a major military armament supplier and FRPT” that we have been waiting for since our visit in late April. Interestingly, the nature of this contract is the US Administrations efforts to arm and properly prepare the Iraqi Police/Military to support itself in preparation of pulling out our troops. Hence, the intent of the contract and the speed and urgency that it was let supports the administration’s efforts to prepare that nation as quickly as possible to minimize the effects of the conflict in preparation for the 2007 presidential elections.

This contract—named to BAE at this time only—provides FRPT some very substantial benefits even though the dollar amount may not be as great as we originally believed. But you measure the effects:

- The total contract involves the production of 1,500 trucks. These are FRPT designed, “Cougar” vehicles with the Company maintaining its ownership rights to the design while receiving a license fee from BAE for each unit they produce.
- Of the production value, 70% of the gross dollars go to BAE in order to use the larger Company’s buying power strength and to lower the SG&A load to better minimize the cost and compete for the bid.
- Despite the dollar differential, the contract provides for FRPT to receive nearly the kind of margin that is allowed by the Government on all of the Company’s other vehicles despite the “slimmed-down,” and lower cost design.
- FRPT also receives all the post delivery service, support and parts business tied to the ILAV contract. This typically higher-margined business runs the duration of the initial contract and further extends through a five-year, follow-up contract as well.

We think this announcement really changes the entire perspective from which FRPT should be examined by investors. Their trucks will heavily populate Iraq in short order essentially making “Cougar” a household name within the world’s military establishments. It certainly should establish it as a household name here in the US as the domestic press focuses on the dangers and deaths tied to IEDs. Separately, the crutch that BAE provides, financially and from a production stand-point, removes many of the risks that have been associated with the company to date.

Separately, we have learned that management believes there is roughly \$2 billion of FRPT-like truck vehicles to be contracted out over the next two years. This means to us that the Company has a much more stable financial and operating framework from which to operate and that it faces a substantial demand curve given the improving status of its designs and the needs of the US military.

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