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INTRADAY NOTE

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FORCE PROTECTION INC.
(OTCBB: FRPT: \$6.35, BUY)
INDUSTRY: DEFENSE

Disclosures: 1, 2, 4A, 6, 10

FY: Dec	2005A	2006E	2007E
EPS	(\$0.49)	\$0.20	\$0.95

Drum Roll is Getting Louder

Force Protection reported second quarter operating results yesterday. The reported figures were certainly in-line with our estimates...once figures were adjusted for non-operating, one-time events. The bottom line results were impressive. A quick review of the figures includes:

- Total revenues were \$56 million with a surprisingly large \$12.3 million reported in spare parts, support, and service revenues. Overall revenue was \$6 million better than our original estimate essentially due to the strong service and parts figure.
- Gross margin was not nearly as good as we had expected. A combination of factors affected the Company's results versus our projection:
 - Late fees were once again charged against the Company.
 - It is obvious that management, to adhere to the demand schedule that the DoD has placed on the Company, had to resort to "brute strength and the doubling of resources" to produce product at the required rates. We believe this problem is being addressed but, being in the South just last week, we don't expect the manufacturing teams to be working any better given the heat of summer. We do believe that gross margin should improve more in line with management's efforts as we enter the second half of the year. Further, we expect some of the one-time-in-nature problems to be less a factor on production profitability.
 - SG&A was a total surprise. It was far lower than we had expected despite the fast pace of growth, employment increases and one-time charges. It was well restrained by management.
 - Interest expense was as expected. This line item should fall dramatically in the future given the new capital raise.
- The quarter was negatively impacted by a \$1.9 million, one-time provision against SG&A due to liabilities associated with the "accelerated delivery fee" under the JERRV contract, as well as a \$440 thousand late fee against delivered vehicles in the quarter.

Given the projected production ramp for the remainder of the year and the spike in service and parts activities, we are increasing our estimate for 2006 to \$216 million in revenues and \$0.20 from \$0.15 in annual income per share. These changes only really reflect a stepped-up improvement in gross margin, restrained SG&A costs and the interest cost savings provided by the capital raise. For 2007, we are anticipating a steep ramp in demand for trucks as well as continued growth in parts and service revenues. Combined with further efficiencies, we expect this to produce \$455 million in revenues and \$0.95 in untaxed EPS.

From a valuation standpoint, we are also raising our twelve-month price target to a range of \$9.00 to \$12.00 per share. This range is based on a "taxed," 2007 estimate of \$0.60 times a 15X to 20X multiple. We agree this could be considered "conservative" but believe that given this was FRPT's very first profitable quarter that we should continue to remain excited about the Company's prospects but realistic regarding the stock market's perception about Force Protection.

Factors that could effect our future thoughts on the proper multiple include the growing parts value of the support, service and parts business...an opportunity that could almost be considered a higher valued, revenue annuity; the contribution and enthusiasm the Company's high technology explosive solutions should provide; the growth rate in sales and profits, and the improving balance sheet, size of the overall company, market cap and respect this entity should receive versus its industry and peers.

We are maintaining our **BUY** rating.

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