

FORCE PROTECTION INC. (OTC BB: FRPT)

INDUSTRY: DEFENSE

DISCLOSURES: 1, 2, 4A, 5, 6, 10

RATING: BUY

RISK: HIGH

CLOSING PRICE 11/14/06	TRAILING P/E (TTM)	SHARES OUT (MILS.)	MARKET CAP (MILS.)	3-5 YEAR EPS GROWTH	PRICE TARGET
\$8.13	NM	51.7	\$420.3	N/A	\$15.00

ANNUAL DATA – DECEMBER YEAR END			
	2005A	2006E	2007E
EPS	\$ (0.49)	\$ 0.12	\$ 0.90
P/E	N/M	31.1	6.2
REVENUE (MIL.)	\$49.7	\$206.3	\$598.5
P/S	8.45	2.04	0.70

EARNINGS					
	Q1	Q2	Q3	Q4	ANNUAL
2007E	\$ 0.15	\$ 0.24	\$ 0.23	\$ 0.27	\$ 0.90
2006E	\$ (0.02)	\$ 0.03	\$ 0.01	\$ 0.10	\$ 0.12
2005A	\$ (0.11)	\$ 0.00	\$(0.13)	\$ (0.28)	\$ (0.49)
2004A					\$ (0.53)

Looking to the Future Through the Windshield, Not the Rearview Mirror!

FRPT announced their third quarter operating results late on the afternoon of November 14th. Everyone knows the bad news (At this time of night, that phrase makes me think I might be sounding too much like the radio personality, Paul Harvey, for comfort.), ten vehicles were not inspected in time to be accepted by the US Government. Therefore, the revenue recognition approach that the Company uses did not allow for those associated revenues to be included in the quarter's results. Hence, FRPT reported \$42.16 million of total revenues for the period.

On the other hand, even with the lower level of quarter revenues, the Company's operating results—particularly gross margin and bottom line figures—were impressive. FRPT reported a \$0.01 in profit. Remember, this was on the basis of a much lower revenue number and the significant costs of starting a second Cougar manufacturing line and other quantum increases in the production process.

I think that it is important to note that if the 10 vehicles **did** get inspected, that would have added another \$6.5 million to \$8 million in incremental revenue. A back-of-the envelope calculation suggests that the firm should have made an additional 2¢. Or, produced an operating profit figure that would have equaled what FRPT delivered in the second quarter. We now just have something to look forward to in the final quarter of the year.

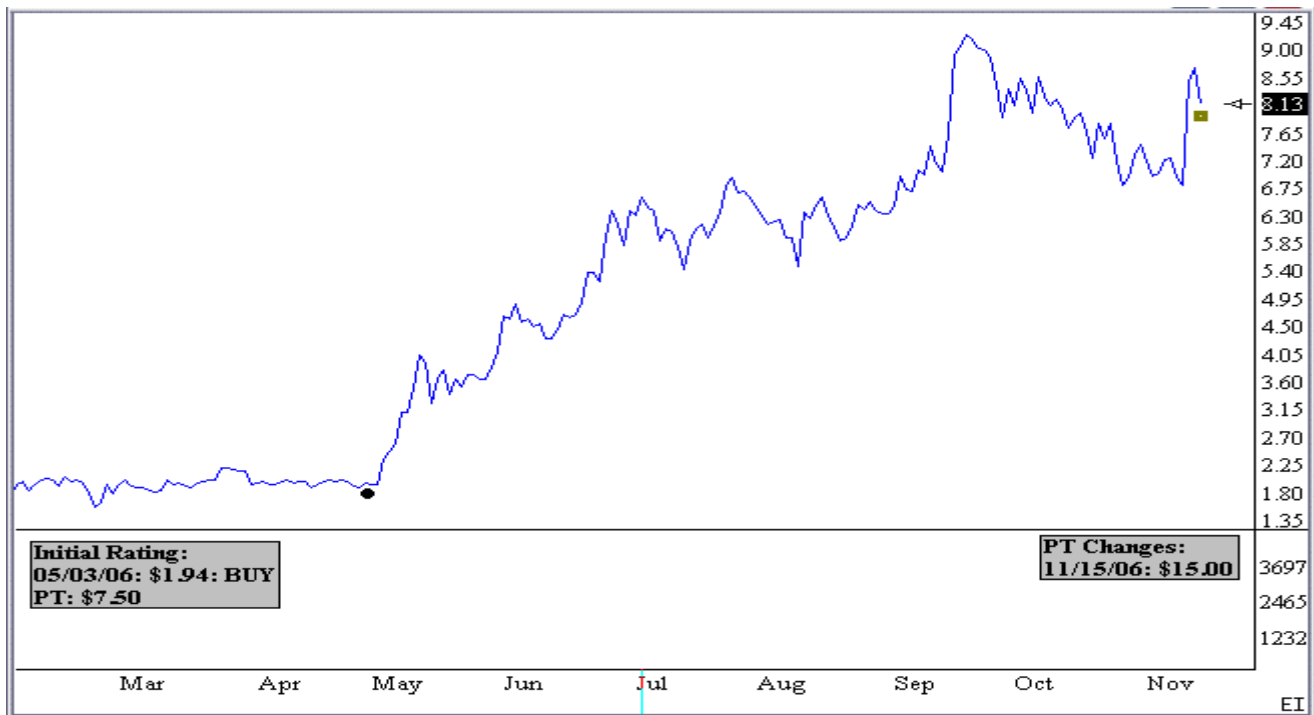
It is very significant that the quarter's operating costs—particularly the G&A costs—were as restrained as they were. Think about what is happening. The company ought to be 4-times the size it was in 2005, yet operating costs while adding manufacturing and fabrication lines are nearly stable. It portends very well for 2007.

As to our model, we have updated the fourth quarter to better reflect the improved flow of business and strong operating margins: we are now using \$0.10 for Q4. For next year, we have boosted our revenue number to reflect the start-up and operation of three Cougar lines, a ramp in production for Buffalos, and the beginning of “seeding” models of the Cheetah. Given that combination of product increases, we are now using \$598 million in sales.

Also based on the production ramp, we are modestly adjusting upward our estimated margins while continuing to restrain G&A in our model for next year. I know I'm going to be aggressive, but never have I witnessed in my 30 professional years in the market an operation that added production capacity and increased revenues like I have witnessed with FRPT.

More spectacularly, this has been done with incredible Op Ex restraint. On that basis, we are now using \$0.90 in fully-taxed EPS for 2007.

Valuation for the shares can be approached from two perspectives: essentially 15-times \$1.00, or using a higher multiple given the service and repair component of the trucks and the technology, on a lower risk-adjusted earnings figure. The target today is the mid-teens.



Force Protection, Inc.																
FY: Dec																
\$ in millions, except EPS																
	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	Year 2004	Year 2005	Year 2006	Year 2007
	31-Mar-05	30-Jun-05	30-Sep-05	31-Dec-05	31-Mar-06	30-Jun-06	30-Sep-06	31-Dec-06	31-Mar-07	30-Jun-07	30-Sep-07	31-Dec-07	31-Dec-04	31-Dec-05	31-Dec-06	31-Dec-07
Vehicle sales					\$33.000	\$43.765	\$32.043	\$61.290	\$105.700	\$141.250	\$133.000	\$152.500	na	na	\$170.098	\$532.450
Parts and Supplies revenues					\$1.800	\$12.309	\$10.118	\$9.000	\$10.000	\$11.500	\$13.000	\$14.000	na	na	\$33.227	\$48.500
Service revenues								\$3.000	\$4.000	\$4.500	\$4.500	\$4.500	na	na	\$3.000	\$17.500
Total revenues	\$5.853	\$18.295	\$9.303	\$16.240	\$34.803	\$56.074	\$42.161	\$73.290	\$119.700	\$157.250	\$150.500	\$171.000	\$10.274	\$49.691	\$206.328	\$598.450
Cost of Goods Sold	\$6.395	\$14.259	\$7.770	\$15.992	\$28.165	\$45.917	\$34.242	\$58.745	\$96.557	\$126.369	\$119.114	\$134.444	\$11.267	\$44.416	\$167.069	\$476.483
Gross Profit	(\$0.542)	\$4.036	\$1.533	\$0.248	\$6.638	\$10.157	\$7.919	\$14.545	\$23.143	\$30.882	\$31.387	\$36.557	(\$0.993)	\$5.275	\$39.259	\$121.968
Gross Profit Margin	-9.26%	22.06%	16.48%	1.53%	19.07%	18.11%	18.78%	19.85%	19.33%	19.64%	20.85%	21.38%	-9.67%	10.62%	19.03%	20.38%
Operating Expenses	\$3.202	\$3.732	\$4.780	\$6.530	\$6.523	\$8.125	\$7.327	\$9.150	\$10.200	\$11.250	\$12.300	\$13.850	\$9.136	\$18.244	\$31.125	\$47.600
G&A Expenses							\$6.781	\$8.500	\$9.500	\$10.500	\$11.500	\$13.000				
R&D Expenses							\$0.546	\$0.650	\$0.700	\$0.750	\$0.800	\$0.850				
Operating Profit	(\$3.744)	\$0.304	(\$3.247)	(\$6.282)	\$0.115	\$2.032	\$0.592	\$5.395	\$12.943	\$19.632	\$19.087	\$22.707	(\$10.129)	(\$12.969)	\$8.134	\$74.368
Operating Margin	-63.97%	1.66%	-34.90%	-38.68%	0.33%	3.62%	1.40%	7.36%	10.81%	12.48%	12.68%	13.28%	-98.59%	-26.10%	3.94%	12.43%
Other Income (Expense)																
Interest income	\$0.039	\$0.029	\$0.019	\$0.016	\$0.027	\$0.021	\$0.121	\$0.125	\$0.050	\$0.060	\$0.070	\$0.080	\$0.570	\$0.103	\$0.294	\$0.260
Interest expense	(\$0.277)	(\$0.204)	(\$0.364)	(\$0.863)	(\$0.807)	(\$0.819)	(\$0.110)	(\$0.115)	(\$0.255)	\$0.450	\$0.550	\$0.650	(\$0.685)	(\$1.708)	(\$1.851)	\$1.395
Non-recurring warranty expense			(\$2.013)										\$0.000	(\$2.013)	\$0.000	\$0.000
Impairment losses-goodwill													\$0.000	\$0.000	\$0.000	\$0.000
Total other income	(\$0.238)	(\$0.175)	(\$2.358)	(\$0.847)	(\$0.780)	(\$0.798)	\$0.011	\$0.010	(\$0.205)	\$0.510	\$0.620	\$0.730	(\$0.115)	(\$3.618)	(\$1.557)	\$1.655
Pretax Income	(\$3.982)	\$0.129	(\$5.605)	(\$7.129)	(\$0.665)	\$1.234	\$0.603	\$5.405	\$12.738	\$20.142	\$19.707	\$23.437	(\$10.244)	(\$16.587)	\$6.577	\$76.023
Taxes	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$4.458	\$7.050	\$6.897	\$8.203	\$0.000	\$0.000	\$0.000	\$26.608
Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	35.0%	35.0%	35.0%	35.0%	0.0%	0.0%	0.0%	35.0%
Income from continuing operations	(\$3.982)	\$0.129	(\$5.605)	(\$7.129)	(\$0.665)	\$1.234	\$0.603	\$5.405	\$8.280	\$13.092	\$12.809	\$15.234	(\$10.244)	(\$16.587)	\$6.577	\$49.415
Net Income/Loss per share					(\$0.02)	\$0.03	\$0.01	\$0.10	\$0.15	\$0.24	\$0.23	\$0.27	(\$0.53)	(\$0.49)	\$0.12	\$0.90
					37.452	44.851	51.692	53.450	54.500	55.250	55.300	55.400	19.358	33.927	46.861	55.113

DISCLOSURES:

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