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Defense Technology

Force Protection Inc.

Rating: **Buy** Price Target: **\$31.00**

Estimate Bias: **Up** Risk Rank: **High**

FRPT: Saving Soldiers' Lives; Initiating Coverage

Initiating Coverage

Summary

We are initiating coverage of Ladson, SC-based Force Protection, Inc. (OTCBB: FRPT) with a Buy rating and a 12-month price target of \$31. FRPT is an emerging leader in the category of mine-resistant, ambush protected (MRAP) vehicles, a category seen by many as a potential game-changing technology in our efforts to defeat insurgents in Iraq and Afghanistan. Funding for MRAP vehicles is gaining significant momentum with an estimated \$2 billion allocated in the proposed FY2007 military supplemental budgets, and we believe FRPT is best positioned to benefit from this funding.

Responding to a Threat – Since the Iraq war began in early 2003, use of improvised explosive devices (IEDs) by insurgents has proven to be extremely effective against U.S. forces. IEDs have accounted for roughly 33% of U.S. fatalities and about half the 23,000 wounded in action. The sophistication of these devices is on the rise with the use of new technologies such as shaped explosive charges which are more effective at penetrating armored vehicles. Consequently, the U.S. is investing billions of dollars in developing and fielding technologies to counter the IED threat.

FRPT's Mine Protected Vehicles As Part of the Solution – Although the military has tried many technologies to defeat IEDs, a more brute force approach involving blast resistant armored vehicles is evolving. In the next few weeks, we expect the U.S. Marine Corps to award a one-year ID/IQ contract for up to 4,100 MRAP vehicles, and we believe FRPT stands to be the most significant beneficiary of this award. Roughly 300 of FRPT's Buffalo and Cougar vehicles have been delivered to U.S., British, and Iraqi forces, and the performance of these systems has been "outstanding." We believe FRPT and its partners could capture a substantial percentage of the funding for MRAP vehicles.

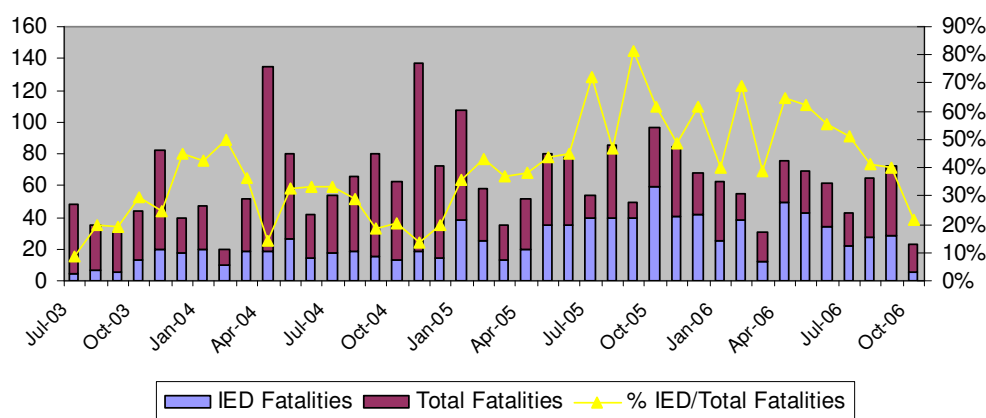
Expect Estimates to Rise – We have based our estimates on the notional production schedule provided in the MRAP RFP which we believe could be conservative. Given the expected troop buildup in Iraq, priority of solving the problem, FRPT's vehicles proven capabilities, and access to additional production capacity, we believe the production schedule could be accelerated, driving our estimates substantially higher.

Fundamentals		FYE - Dec	2005	2006E		2007E	
Price (Jan 11, 2007)	\$19.70	EPS	Actual	Old	New	Old	New
52-Week Range	\$18.35-\$0.70	1Q	(\$0.13)A	NA	(\$0.02)A	NA	\$0.09E
Mkt. Cap. (mil.)	\$1,018.5	2Q	\$0.00A	NA	\$0.03A	NA	\$0.18E
Shares Out. (mil.)	51.7	3Q	(\$0.17)A	NA	\$0.01A	NA	\$0.13E
Float (mil.)	44.6	4Q	(\$0.20)A	NA	\$0.07E	NA	\$0.24E
Avg. Daily Trading Vol. (000)	775	Year	(\$0.49)A	NA	\$0.15E	NA	\$0.64E
Book Value/Share	\$0.96	P/E	NA		131.3x		30.8x
Dividend/Yield	\$0.00/Nil	EV/EBITDA	NA		NA		NA
ROE	NA	Revenue (mil.)	\$49.7	NA	\$202.6	NA	\$500.5
Cash & Equiv (mil.)	\$26.70	Operating Margin	NA	NA	3.4%	NA	11.9%
Debt/Cap.	0.0%	Mean EPS	NA	\$0.09	\$0.09	\$0.57	\$0.57
Est. 5-Year EPS Growth	25%	Short Interest (000)		Estimate Changes		2006	2007
Convertible	No						
Major Index Membership							

Recommendation

Taking note of the vulnerabilities of the U.S. military's combat support vehicles, insurgents in Iraq (and later in Afghanistan) moved from direct engagement of U.S. forces to targeting them with improvised explosive devices (IEDs). With the substantial amount of easily accessible explosive material remaining in Iraq (artillery shells and anti-personnel and anti-vehicle mines), constructing an IED out of an old artillery shell or other explosive is relatively cheap and easy and limits the insurgents' exposure to superior U.S. firepower. Furthermore, the sophistication of IEDs is increasing as the insurgency gains access to more effective components such as shaped explosive charges that are capable of penetrating even the heaviest armor. Unfortunately, casualties caused by IEDs and mines are particularly demoralizing and frustrating to deal with as there is usually no enemy to engage after the attack. This effective tactic against a recognized weakness has resulted in significant casualties for U.S. forces. In fact, in almost four years in Iraq, a high percentage of fatalities caused by the enemy is a result of the utilization of IEDs.

Figure 1. U.S. IED Fatalities as a Percentage of Total Fatalities



Source: DoD reports

While the insurgents in Iraq developed tactics to more effectively engage U.S. forces, the U.S. military has not been idle. The Joint IED Defeat Organization (JIEDDO) was created in August 2005 to formulate a response to these tactics for the U.S. military. JIEDDO's response to the threat has been twofold. First, develop more effective tactics to deal with the IED threat. This may consist of new standard operating procedures for convoy operations, better intelligence and route reconnaissance, and other operational changes that may minimize the threat. Secondly, use technological developments to counter the threat. This consists of electronic counter IED devices which are designed to disable, detect, and detonate (prematurely) IEDs. IED jammers, like EDO's Warlock system, have been somewhat effective; however, while it may block a detonation signal it is just as likely to impair the communication systems of close friendly units as well. Another solution is to deploy vehicles specifically designed to protect personnel from mines, IEDs, and ambushes. These vehicles are referred to as mine resistant ambush protected (MRAP) vehicles.

Ladson, South Carolina-based Force Protection, Inc. (OTCBB: FRPT) is a leading developer of MRAP vehicles and is well positioned to provide the U.S. and allied militaries with the ability to protect their forces in combat and support operations. Through December 2006, we estimate FRPT has delivered roughly 350 of its Buffalo and Cougar mine protected vehicles principally to the U.S. military, although the company has recently begun deliveries to the British and Iraqi militaries, too. Over the past three years, FRPT's vehicles have developed an outstanding reputation for protecting our troops in the field, and we believe the company should continue to benefit substantially over the next several years from this increased focus on vehicle survivability. By our estimates, FRPT has firm and option delivery backlog of 870 vehicles (96 Buffaloes and 780 Cougars). That said, the largest potential programs for FRPT's vehicles are still developing.

Within the next month, we expect to see the largest contract yet for MRAP vehicles to be awarded by the U.S. Marine Corps. This program, referred to simply as MRAP, is a joint services program and expected to be a one-year indefinite delivery, indefinite quantity award for up to 4,100 vehicles with four one year options that could take the total number of vehicles to 20,500. Given the success of FRPT's vehicles in the field and a recently announced joint venture with General Dynamics (NYSE: GD, not covered) that significantly increases FRPT's available production capacity, we

believe the company will win a material percentage of MRAP, and we have included this program in our estimates. Over a longer period, we also believe FRPT, through success in MRAP, could play a meaningful role in the Joint Light Tactical Vehicle program, an early stage program that will eventually replace the combat and reconnaissance versions of the HMMWVs (Humvee) fleet (roughly 52,000 vehicles) with a more survivable vehicle (FRPT will likely propose its Cheetah).

Through MRAP, JLTV, possible foreign sales, and spare parts and upgrade kits, FRPT appears to be positioned to post several years of substantial growth. At a high level, we forecast the company will produce 741 vehicles in 2007 and 1,501 in 2008, generating revenue of \$500 million in 2007 and \$1.1 billion in 2008. Given the urgency of the problem FRPT's vehicles help solve and the flexibility of the MRAP contract vehicle, our estimates could prove to be very conservative if FRPT is capable of delivering higher quantities of vehicles than we currently estimate (the GD joint venture should allow this to happen). In our opinion, the key risk to our estimates is the company's ability to increase capacity and execute. Our EPS estimates assume considerable leverage at the G&A and R&D lines for both 2007 and 2008. Our EPS estimates are \$0.64 for 2007 and \$1.24 for 2008.

Given the strong expected growth in both revenue and EPS and considerable franchise value (particularly if FRPT wins a substantial portion of MRAP), we believe FRPT will continue to trade at a premium valuation. Consequently, we are establishing a 12-month price target of \$31 which is based on an earnings multiple of 25x our 2008 EPS estimate of \$1.24. We are initiating coverage of FRPT with a Buy rating.

Investment Positives

MRAP and the General Dynamics Joint Venture

In late January or early February 2007, we expect the U.S. Marine Corps to award the largest contract to date for vehicles such as those supplied by FRPT through a program called Mine Resistant Ambush Protected vehicles, or MRAP. Although it is managed by the Marine Corps, MRAP is a joint services program that will deliver vehicles to the Marines, Army, Navy, and Air Force and is structured to give the U.S. military access to blast resistant vehicles through an extremely flexible contract. The contract is expected to be a firm, fixed price, indefinite delivery, indefinite quantity (ID/IQ) contract for up to 4,100 vehicles in the first year with four one-year options that take the total potential unit volume up to 20,500 vehicles and an estimated value in excess of \$10 billion.

MRAP principally comprises two vehicle classes, Category I (Cat I) and Category II (Cat II). Cat I vehicles are expected to transport six people for mission roles including mounted patrols, reconnaissance, communications, and command and control. The maximum quantity of Cat I vehicles expected in the first award is 1,500 vehicles with four one-year options for a total of 7,500 Cat I vehicles. Cat II vehicles must be capable of transporting 10 people and will serve as convoy leads, troop transports, ambulances, explosive ordnance disposal platforms, and combat engineering vehicles. The desired quantity for the first Cat II award is 2,600 vehicles, but Cat II also has four one-year options for a total of 13,000 vehicles. According to the RFP, the USMC will likely give small awards to multiple suppliers at the end of January or early February. Following this initial award, the timeline is expected to proceed according to the notional production schedule outlined in Figure 2, with a couple of caveats.

First, the RFP indicates the Government reserves the right to skip vehicle testing if it believes it has enough test data to support immediate fielding and a larger production contract. Skipping the testing phase could accelerate full rate production by three months. The RFP also suggests a supplier's ability to provide quantities that exceed the notional delivery schedule below will be viewed as a strength. Consequently, manufacturers with proven vehicles and production capacity could see awards that significantly exceed the notional productions schedule. We believe almost \$2 billion in supplemental appropriations will fund this first year (\$650 million in FY07 USMC Bridge Supplemental, \$500 million in the FY07 Army Supplemental, and \$800 million in the FY07 USMC Supplemental).

Figure 2. Year-One MRAP Notional Delivery Schedule (Dates are STRH Estimates)

2007													
Variant	Quantities	Late Jan/Early Feb '07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
Category I	1,500	Award ID/IQ Contracts	Selected Vendors Deliver 2 Prototypes per Variant to Support Government Testing		Govt Testing	Delivery Order	0	0	0	0	0	0	60
Category II	2,600						0	0	0	60	90	90	120
Total	4,100				Monthly Totals		0	0	0	60	90	90	180
Cumulative							0	0	0	60	150	240	420

Variant	2008												
	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09
Category I	60	80	80	120	140	160	160	160	180	200	100	0	0
Category II	120	120	180	180	180	180	180	180	180	200	200	200	150
Total	180	200	260	300	320	340	340	340	360	400	300	200	150
Cumulative	600	800	1,060	1,360	1,680	2,020	2,360	2,700	3,060	3,460	3,760	3,960	4,110

Source: MRAP Request for Proposal and SunTrust Robinson Humphrey

As a result of the previous success of its Buffalo and Cougar vehicles, FRPT is aggressively pursuing MRAP. To maximize its probability of capturing a material percentage of MRAP, FRPT recently created 50/50 joint venture with General Dynamics Land Systems (GDLS) called Force Dynamics. Although FRPT is significantly expanding its organic capacity to build vehicles, this partnership should go a long way toward proving to the military that FRPT can supply vehicles at production rates substantially higher than FRPT's current production rate (in December, FRPT delivered 50 vehicles). Under this partnership, FRPT and GDLS will split production of MRAP vehicles 50/50.

Our conversations with members of the military have generally been very positive on FRPT's vehicles but there were concerns about FRPT's ability to deliver the vehicles fast enough. That said, we believe the Force Dynamics JV should be capable of producing vehicles at a rate of 200 per month by the middle of 2007 (we are basing our initial estimates on the notional production schedule provided above). However, if the JV achieves higher production rates than implied by the notional schedule, we would expect FRPT to benefit from the caveats noted earlier based on its higher capacity and the extensive track record of its vehicles in the field that should allow FRPT to skip over the testing phase.

Our current estimates for MRAP (shown in the Base Case Assumptions of Figure 3) assume the Force Dynamics JV wins 50% of Category I and 66% of Category II with deliveries of Cat II vehicles beginning in September 2007. Under these assumptions, we believe FRPT would be responsible for delivering 134 vehicles and could generate roughly \$84 million in revenue from the MRAP program in 2007 (the JV would generate \$168 million in sales with FRPT getting half). However, we believe considerable upside to this estimate exists based on more aggressive assumptions that have a decent probability of occurring (see Figure 3). Under the more aggressive case, FRPT would be responsible for delivering almost 500 MRAP vehicles in 2007 and generate sales of roughly \$300 million from MRAP. If the option years are exercised, we believe it is possible MRAP could ultimately account for about \$1 billion per year in revenue.

Figure 3. MRAP Sensitivity Analysis

Base Case Assumptions:			Aggressive Case Assumptions:		
Force Dynamics JV wins 50% of Cat I and 66% of Cat II			Force Dynamics JV wins 50% of Cat I and 100% of Cat II		
Deliveries begin in September 2007 at 60 per month			Deliveries begin in June 2007 at 100 per month		
No Options Exercised, Peak monthly production of 400			Options Exercised, Peak monthly production of 400		
FRPT and GDLS split production and revenue 50/50			FRPT and GDLS split production and revenue 50/50		
	2007	2008		2007	2008
FRPT Category I Deliveries	15	360	FRPT Category I Deliveries	70	530
FRPT Estimated Revenue	\$8.3	\$198.0	FRPT Estimated Revenue	\$38.5	\$291.5
FRPT Category II Deliveries	119	693	FRPT Category II Deliveries	420	1140
FRPT Estimated Revenue	\$74.8	\$436.6	FRPT Estimated Revenue	\$264.6	\$718.2
Total Vehicles Delivered	134	1053	Total Vehicles Delivered	490	1670
Total Est FRPT Revenue	\$83.1	\$634.6	Total Est FRPT Revenue	\$303.1	\$1,009.7

Source: SunTrust Robinson Humphrey estimates

Ground Standoff Mine Detection System

Another relatively near-term opportunity for FRPT, albeit on a smaller scale, is the Medium Mine Protected Vehicle (MMPV) for the U.S. Army's Ground Standoff Mine Detection System (GSTAMIDS). FRPT's Buffalo vehicle is already the sole-source system for the Mine Protected Clearance Vehicle (MPCV) in the GSTAMIDS program. Within the next few weeks, the Army should release the RFP for the MMPV, one of two vehicle classes that support MPCV route clearance operations. Under the GSTAMIDS program, the Army buys 36 Buffalos per year and may buy 260 MMPV vehicles over several years. We anticipate FRPT will submit its Cougar vehicle as its entry into the MMPV competition. Given FRPT's position as the sole source supplier for the MPCV, we believe the company is well

positioned to win MMPV, although it is not reflected in our estimates. We estimate the size of this opportunity to be roughly \$164 million over the life of the program.

Figure 4. GSTAMIDS Funding, FY07E-FY11E (in millions)

	FY07E	FY08E	FY09E	FY10E	FY11E
GSTAMIDS Funding	\$197.7	\$272.1	\$226.1	\$219.9	\$304.1

Source: DoD budget documents

Joint Light Tactical Vehicle

Although it is not yet a program of record, the Joint Light Tactical Vehicle program (JLTV) represents a substantial opportunity for FRPT. According to DoD documents, JLTV is expected to be “a family of vehicles that will assume roles which the Humvee can no longer perform effectively due to weight and space claim limitations associated with add-on armor, other survivability systems, communications systems, and other mission essential hardware.” Simply put, the war in Iraq has exposed the weaknesses of the Humvee when used in combat operations (even the up-armored versions), and it is now considered “sub-optimized” for future missions.

As a result, the Army and Marine Corps are in the early stages of establishing the JLTV program which is expected to be a family of five vehicle variants that bridge the gap between current Humvee capabilities and what is needed to effectively operate in conflicts similar to what we are experiencing in Iraq. Increment I of JLTV includes four mission role variants: Combat Tactical Vehicle, Utility Vehicle, Command and Control on the Move Vehicle, and Long Range Surveillance Vehicle. Increment II calls for a larger vehicle called the Ground Maneuver Vehicle. According to preliminary program documents, the Army estimates it will need 38,421 JLTV systems through 2020 while the Marine Corps expects to field 14,150 JLTV vehicles for a total of 52,571 vehicles.

Based on our analysis, FRPT’s Cheetah should meet the requirements for Increment I of JLTV while a modified version of its 6x6 Cougar could meet the requirements for Increment II. That said, the notional timeline for JLTV implies full rate production for Increment I beginning in late FY10 at the earliest with Increment II entering production in early FY12. Thus, the MRAP program is widely viewed as the interim solution that bridges the gap between the Humvee and JLTV. In our opinion, major players in MRAP, which we expect FRPT to be, should be very well positioned to play a significant role in JLTV. In the case of FRPT, the successful development and deployment of the Cheetah in MRAP could position it to be the incumbent technology for JLTV. We estimate the total potential value of JLTV to be about \$15 billion.

Spare Parts, Services, and Upgrade Kits

In 2006, FRPT projected it would generate \$42 million in revenue through its Integrated Logistics Support (ILS) business which is responsible for order fulfillment on spare parts, contract services and maintenance and training, and the deployment of field service representatives. As FRPT production rates increase, the ILS business should see strong growth since it is somewhat tied to the cumulative number of vehicles in use. Going forward, we forecast the ILS business will grow from \$42 million in 2006 to \$77 million in 2007 to more than \$200 million in 2008. Our estimates do not include the potential impact of upgrade kits.

As mentioned, the sophistication of the explosives used in IEDs continues to increase with more and more IEDs making use of shaped charges that are extremely effective at penetrating armor (shaped charges are used in anti-tank missiles, for example). As such, we see a strong opportunity for FRPT to use its expertise in blast mitigation technologies to develop and sell armor upgrade kits for its vehicles to more effectively counter the increasing sophistication of IEDs. Although we do not yet know what pricing could be for these kits, we note that the military has invested hundreds of millions of dollars for armor kits for Humvees, FMTVs, and heavy tactical trucks. We would not be surprised to see these kits generate \$50 million to \$100 million in revenue over the next two years.

Intellectual Property Portfolio

The key to the success of FRPT’s vehicles is based on a strong intellectual property portfolio that includes exclusive licenses of certain South African vehicle designs and a growing organic capability to design, develop, test, and produce technologies for blast mitigation. FRPT’s foundation was built on the exclusive license for the Buffalo and Cougar vehicle designs from a South African company called Mechem, a company that has been developing blast resistant vehicles since the early 70s. Although much of the performance parameters are classified, the use of V-shaped hulls, layered armor, and other vehicle design characteristics account for the success of the Buffalo and Cougar in the field. On September 29th, FRPT announced an exclusive 5-year extension for the use of Mechem’s patents.

In addition to the Mechem technologies, FRPT has also begun building its own portfolio of proprietary technologies. The most important organic FRPT development is the Cheetah vehicle design. Using the experience gained in building the Buffalo and Cougar, FRPT designed Cheetah to be a lighter, more mobile blast resistant vehicle for reconnaissance,

forward command and control, and urban operations. Including MRAP, JLTV, and sales to allied militaries, we believe the market opportunity for the Cheetah is quite substantial, likely measured in the tens of billions of dollars. Two other technologies in particular appear to be very promising. The first is a design for a blast resistant wheel that channels blast energy more effectively than conventional wheels. The second is a new armor concept that could be incorporated into the company's armor upgrade kits. With substantial increases expected in vehicle production and revenue generation, we believe FRPT will continue to invest in its R&D engine to remain at the forefront of blast mitigation technology development.

Investment Risks

Execution Risk

Given the severity of the threat FRPT's vehicles mitigate, we do not see demand for FRPT's vehicles as a risk, but rather, its ability to continue expanding capacity and execute. Although the company significantly expanded capacity in 2006 to almost 50 vehicles per month, the monthly quantities expected under the MRAP program are measured in the hundreds. Thus, we expect the company will continue to invest in capabilities that continue to increase organic capacity using the capital from the recent \$150 million stock placement. FRPT has also signed several subcontractor agreements with other suppliers to enhance production capacity. FRPT maintains subcontractor relationships with Spartan Motors and Armor Holding for vehicular component integration and General Dynamics for blast capsule construction. FRPT and General Dynamics also created the Force Dynamics JV that will utilize FRPT's technologies and its production capacity in conjunction with GD's production capacity, supply chain management expertise, program management skills, and reputation to pursue the MRAP program. That said, there remains the possibility of a stumble along the way, and if a stumble occurs, we believe it will likely be in 1Q07 or 2Q07 while the company is in its aggressive capacity expansion mode.

Competitive Risk

With the level of investment in blast resistant vehicle programs such as MRAP and JLTV expected to be measured in the billions, we anticipate FRPT will see stiff competition from formidable competitors in the military vehicle market. We believe companies such as Oshkosh Truck, International Trucks, BAE Systems, AM General, and others will compete aggressively in this vehicle category. That said, FRPT's intellectual property portfolio, the performance of its systems in the field, and the relationships it is building with GD and Armor Holdings should keep the company well positioned to be a major player in this market.

Change in DoD Priorities

Clearly, FRPT is well-positioned to benefit from high levels of funding for blast resistant vehicles. In most cases, FRPT's vehicles are being deployed almost immediately to Iraq and Afghanistan. Although it appears the President is going to send more troops to Iraq rather than bring troops home, a change in strategy in Iraq that includes troop withdrawal could impact the size and timing of programs affecting FRPT and investor perception about the longer term opportunities for FRPT. In our opinion however, the war in Iraq has demonstrated the vulnerability of certain vehicles (the Humvee, in particular), and we can envision a permanent role for FRPT's vehicles in the U.S. military's arsenal.

Earnings Outlook

Base Case Scenario (and the Basis for Our Estimates)

Given the strong demand for FRPT's vehicles, its increased ability to meet this demand, and the significant opportunity to provide blast resistant vehicles to the military, we are forecasting significant revenue and earnings growth over coming years. As noted earlier however, there are a wide range of assumptions that impact outyear estimates, the most significant of which revolve around the MRAP program. To arrive at our 2007 estimates we use our base case scenario that assumes the FRPT/GDLS joint venture wins 50% of Category I and 66% of Category II. We also assume deliveries under MRAP begin in September 2007. Consequently we forecast MRAP related revenue of \$83 million in 2007 and \$635 million in 2008. We also assume production options for the Iraqi Light Armored Vehicle are exercised as well as some level of Cheetah production awards in late 2007. We estimate 2007 vehicle revenue of \$423 million and services revenue of \$77 million for total revenue of \$500 million. In 2008, we estimate vehicle revenue of \$836 million and services revenue of \$216 million for total revenue of \$1.1 billion.

Figure 5. FRPT Annual Vehicle Deliveries, 2007E-2008E (dollar values in millions)

	2007E	2008E
Buffalo	72	72
MRAP Cat I	15	360
MRAP Cat II	119	693
Cougar JERRV	200	0
Cougar ILAV	240	223
Cougar Mastiff	80	13
Cheetah	15	140
Total Units	741	1501
Vehicle Revenue	\$423.2	\$835.8
Services Revenue	\$77.4	\$215.9
Total Revenue	\$500.5	\$1,051.7

Source: SunTrust Robinson Humphrey

In addition to strong revenue growth, we also expect to see considerable G&A leverage. FRPT is close to completing equipment installation to support substantially higher production rates. As a result, we expect the growth rate in G&A to be well below the growth rate in revenue. We also expect FRPT will continue ramping its investment in R&D, but also below growth in revenue. As a result, we are forecasting an operating margin of 10.7% in 2007 with EPS of \$0.64. For 2008, we expect operating margin to expand to 11.9% with EPS of \$1.24.

Backlog

Contract backlog (using September 30th, 2006 data plus the November 2006 Cougar/Buffalo award) comprises 113 Buffalo, 1 Cougar HEV, 220 Cougar JERRV, 187 Cougar ILAV, and 85 Cougar Mastiff vehicles. The monetary value of these vehicles plus associated service agreements places the funded backlog value over \$370 million. (See figure 4)

Figure 6. Vehicle Backlog as of September 30th, 2006 Plus the November 2006 USMC Award

Award Date	Customer	Vehicle	Delivered	Backlog	Amount (mil)
Feb-06	U.S. Army	Buffalo	8 Vehicles	33 Vehicles	\$25
May-06	USMC	Cougar JERRV	59 Vehicles	20 Vehicles	\$13
Jun-06	TACOM/Iraqi National Army	Cougar ILAV	2 Vehicles	187 Vehicles	\$55
Aug-06	British Ministry of Defense	Cougar "Mastiff"	0 vehicles	85 Vehicles	\$63
Nov-06	USMC	Cougar JERRV/Buffalo	0/0 Vehicles	200/80 Vehicles	\$214
				Total	\$370

Source: Company reports

Valuation

Our price target of \$31 assumes FRPT's stock could trade at 25x our 2008 EPS estimate of \$1.24. Although this is clearly a premium to other truck manufactures (Oshkosh Truck trades at 13x, Spartan Motors at 14.3x, and Armor Holdings at 11.6x), given the growth cycle FRPT is just entering, we believe this premium is warranted. Furthermore, when evaluating other companies in the early stages of product cycles driven by the war in Iraq, we find a 25x multiple to be appropriate. In late 2003 when substantial orders for body armor were flowing, leading armor manufacturer, Ceradyne, achieved a peak multiple of 31x, while Armor Holdings achieved a multiple of about 24x at its peak. Given the solid growth outlook, the prospect for substantial upside to our estimates, and the possibility of a larger firm buying the FRPT franchise, we believe our target multiple is warranted.

Recent Results

In 3Q06, FRPT reported \$42.2 million in revenue, a 354% gain above its 3Q05 revenue of \$9.3 million, operating income of \$600,000 versus a loss of \$5.3 million, and EPS results of \$0.01 versus a loss of \$0.17 in 3Q05. These results were somewhat below expectations due to slippage in the delivery and acceptance of 10 vehicles at the end of the quarter. In 2005, FRPT reported revenue of \$49.7 million, up 383% from FY04 revenue of \$10.3 million, and net income of negative \$16.6 million, or a loss of \$0.49 a diluted share, versus net income of negative \$10.2 million, or a loss of \$0.53 a diluted share for FY04.

Company Description

Force Protection, Inc. engages in the design, manufacture, and marketing of mine and blast protected vehicles in the United States and international markets. Its products include the Buffalo, designed principally for route clearing activities; the Cougar, a light weight vehicle that is used for urban patrol, route clearance support, utility transport, and special unit activities; and the Cheetah, a smaller light weight vehicle designed specifically for reconnaissance, forward

command and control, and urban operations. It primarily serves the United States Army and the United States Marine Corps. The company was founded in 1997 and is headquartered in Ladson, South Carolina.

Vehicle Technology

FRPT's three vehicles have different capabilities and are designed with a different mission focus. However, they share common traits that make them blast resistant. They are all bulletproof up to a 7.62mm round and bullet resistant at larger calibers. With their armored frame, they are resistant to rocket propelled grenades (RPGs) and IEDs, as well. The main innovation that FRPT's vehicles utilize is the monocoque capsule protection concept first developed in South Africa in the 1970s. This welded armored capsule encloses the passengers and operators in a closed off "V" shape. A charge that is detonated under the vehicle will have its explosive blast dispersed up the sides of the V, lessening the impact. The significant ground clearance for these vehicles (at least 3 ft from the crew compartment) also gives additional space for an explosion to disperse. A Humvee, by comparison, has a flat undercarriage which absorbs the full force of the explosion with catastrophic results to the vehicle and its occupants. In addition, FRPT designs its vehicles with the passenger capsule inside the wheel base meaning that any explosion triggered by the tires is directed outside the passenger compartment. In our opinion, the combination of these concepts has directly led to the success of the Buffalo and Cougar in Iraq and Afghanistan.

Vehicle Descriptions

The Buffalo

At 22 tons, the Buffalo is the largest vehicle in FRPT's inventory and one of the largest MRAPs in production worldwide. It is designed primarily for route clearance and counter IED activities and is usually fitted with a 30 ft. claw which it can use to disable/detonate IEDs and mines. The Buffalo uses steel wheels and discs which it can use to roll over and detonate antipersonnel mines as well. It can withstand a 30lb mine explosion under its centerline and a 45lb mine explosion under its wheels. Its axles are designed to break upon impact and are easily replaced. FRPT has the capacity to manufacture 6 Buffalos a month and as of September 30, 2006 there were 82 Buffalos delivered to the U.S. Army, USMC, and U.S. Navy.

The Buffalo, due to its size and capability, has little competition as a route clearance vehicle at this time. The new RG-33 from Land System OMC (a division of BAE Systems), comes the closest but can also be compared to the Cougar 6x6. The Buffalo has already established a strong reputation with the Army and USMC as being tremendously effective at its assigned mission with unparalleled survivability.

Figure 7. FRPT's Buffalo and Potential Competition

Buffalo



RG - 33



Length:	26' 11"
Width:	8' 1"
Height :	9' 9"
Weight:	45,320 lbs.
	Tires rated for 55 mph (sprint speed
Max speed:	65 mph)
Range:	382 miles w/ 85 Gallon Fuel Tank
Engine:	Mack ASET AI-400 Diesel
Transmission:	Allison HD-4560 P 5-speed automatic
Configuration	6x6
Armament	?
	Driver & Co-Driver plus up to 12
Seating	passengers
ARMOR	7.62 x 51 mm NATO Ball standard

Length:	25' 5"
Width:	8' 1"
Height :	11' 4"
Weight:	48,500 lbs.
Max speed:	65 mph
Range:	
Engine:	
Transmission:	
Configuration	6x6
Armament	?
Seating	12 people
ARMOR	

Source: Company reports and SunTrust Robinson Humphrey research

The Cougar

Although smaller than the Buffalo, the Cougar still weighs a substantial 14 tons. It comes in two configurations; 4x4 and 6x6. It also comes in 4 different variants: the Cougar Hardened Engineer Vehicle (HEV) which is used by combat engineers for transportation, the Cougar Joint Explosive Ordnance Disposal Rapid Response Vehicle (JERRV) which is used by EOD personnel when disarming, disabling or detonating mines and IEDs, the Cougar Iraqi Light Armored Vehicle (ILAV) which will be used by the Iraqi military as an armored mine protected vehicle, and finally the Cougar Mastiff PPV British variant. The Cougar is designed to withstand a 15lb mine explosion to its centerline and a 30lb explosion to the wheel. Like the Buffalo the axles are designed to break upon an explosion and are easily replaceable. There are over 240 Cougars of all types currently deployed. Current manufacturing capacity is at least 40 per month which FRPT hopes to double in the near future.

The Cougar 6X6 will face competition for its role as the military's primary MRAP supporting EOD and combat engineering missions from several other vehicles. Possible competition includes the Pandur, manufactured in Austria through a joint effort between Steyr-Daimler-Puch and General Dynamics, the new RG-33 mentioned (and shown) above, and the Bushmaster, manufactured by ADI in Australia and distributed in the US by Oshkosh Truck. The Pandur, although certainly a armored vehicle, is really an Infantry Fighting Vehicle (IFV) in the same vein as a Stryker or Bradley and not designed for the role the Cougar is currently filling. In terms of it size, survivability, and ability to accomplish EOD and combat engineering missions, the RG-33 looks to provide the most serious competition to the Cougar. However, it is a brand new vehicle and not battle tested.

Figure 8. FRPT's Cougar and Potential Competition

Cougar 4x4



Length:	19' 5"
Width:	8' 4" without mounted spare tires/ 9' with mounted spare tires
Height :	Approx 8' 8" including hatches/add 2' 2" for gun shield
Weight:	38,000 lbs
Max speed:	Tires rated at 55mph (operational sprint 65mph +)
Range:	Up to 600 miles on-highway
Engine:	Caterpillar C-7 Diesel (mil spec)
Transmission:	Allison HD Automatic
Configuration	4x4
Armament	?
Seating	Driver & co-driver plus up to 8 passengers
ARMOR	7.62 x 51mm NATO Ball standard

Cougar 6x6



Length:	23' 3"
Width:	8' 4" without mounted spare tires/ 9' with mounted spare tires
Height :	Approx 8' 8" including hatches/add 2' 2" for gun shield
Weight:	52,000 lbs
Max speed:	Tires rated at 55mph (operational sprint 65mph +)
Range:	Up to 600 miles on-highway
Engine:	ENGINE Caterpillar C-7 Diesel (mil spec)
Transmission:	Allison HD Automatic
Configuration	6x6
Armament	?
Seating	Driver & co-driver plus up to 8 passengers
ARMOR	7.62 x 51mm NATO Ball standard

Bushmaster



Length:	23'
Width:	8' 2"
Height :	8' 8"
Weight:	33,075 lbs.
Max speed:	75 mph
Range:	620 miles
Engine:	Caterpillar 3126 ATAAC six-cylinder diesel developing 300hp coupled to a ZF 7HP500
Transmission:	fully automatic transmission
Configuration	4 x 4
Armament	1x7.62mm machine gun
Seating	2 + 8

PANDUR



Length:	18' 8"
Width:	8' 3"
Height :	6'
Weight:	29,770 lbs.
Max speed:	62 mph
Range:	435 miles
Engine:	Steyr WD 612.95 6-cylinder diesel developing 260hp
Transmission:	Allison MT-653 DR fully automatic transmission
Configuration	6 x 6
Armament	1x 12.7mm M2 machine gun
Seating	2 + 8
ARMOR	?

Source: Company reports and SunTrust Robinson Humphrey research

The Cheetah

The newly developed Cheetah has the potential to capture some of the MRAP Category I program and is FRPT's entrant into the JLTV competition. At 7 tons it is a robust light armored vehicle that incorporates the same mine resistant technologies as its larger brethren. It can withstand 15lb of explosive blast to its centerline and 30lbs to its tires, providing similar mine protection as the 14-ton Cougar. Its speed, maneuverability, and survivability fit the desired characteristics identified in the Army's Joint Light Tactical Vehicle briefing.

In the military's search for lightweight mine resistant vehicle, FRPT's Cheetah will see competition from the ORYX, manufactured by International Truck, the Bushmaster mentioned above, the RG-31, manufactured by Land Systems OMC (marketed in the U.S. by General Dynamics), and possibly the M1117 Armored Security Vehicle (ASV) manufactured by Textron. These other vehicles are comparable in specs to the Cheetah, with the exception of the ASV, and some have the added advantage of already being deployed with various entities (U.N., Australian military, and U.S. military). The ASV is more likely to be used for other specialized mission like security and/or reconnaissance as it does not look to have any significant load capacity. With the reputation that FRPT has gained with the U.S. armed forces with its Buffalo and Cougar vehicles and by incorporating the same design features that have made those vehicles successful in their respective missions, the Cheetah should be well positioned to see substantial order activity when it goes into production.

Figure 9. FRPT's Cheetah and Potential Competition

CHEETAH		HMMWV		ORYX	
					
Length:	17' 6"	Length:	15'	Length:	18' 9"
Width:	7' 4"	Width:	7' 1"	Width:	7' 7"
Height :	7' 5"	Height :	6'	Height :	8' 2"
Weight:	14,000 lbs Base armor configuration	Weight:	5,200 lbs	Weight:	19,600 lbs.
Max speed:	65 mph (cruise) 89 mph (burst)	Max speed:	65 mph	Max speed:	75 mph
Range:	700 miles Vehicle @ GVW	Range:	350 miles highway	Range:	?
Engine:	Cummins ISB series 300 Hp @ 2800 rpm 600 ft-lb torque	Engine:	V8, 6.2 litre displacement, fuel injected diesel, liquid cooled, compression ignition	Engine:	International V8 Diesel
Transmission:	Allison 2500 SP series	Transmission:	3 speed, automatic	Transmission:	Allison 2500 Automatic 5 Speed
Configuration	4x4	Configuration	4x4	Configuration	4x4
Armament	Upgradeable to .50 cal AP. Six(6) forward facing std. Can be configured to 8 with side facing rear configuration	Armament	7.62mm to TOW Launched Anti-Tank	Armament	?
Seating		Seating	2+8	Seating	2 Man Crew + 8 passengers

RG-31		M1117		Notional JLTV	
					
Length:	21'	Length:	19' 9"	Length:	
Width:	8' 1"	Width:	8' 5"	Width:	
Height :	8' 7"	Height :	8' 6"	Height :	
Weight:	16,052 lbs.	Weight:	29,560 lbs.	Weight:	13,100 lbs
Max speed:	62 mph	Max speed:	63 mph	Max speed:	>75 mph
Range:	560 miles	Range:	440 miles	Range:	400 miles
Engine:	Option 1 : Daimler-Benz OM 352A, 6 cylinder diesel, 123 HP Option 2: Iveco Tector F4AE0681D diesel	Engine:	Cummins 6CTA8.3, 260 hp/828 lb-f	Engine:	
Transmission:	?	Transmission:	Allison MD3560, 6 speed/1 rev	Transmission:	
Configuration	4 x 4	Configuration		Configuration	
Armament	.50 cal heavy MG	Armament	40-mm MK 19, 12.7-mm M2HB	Armament	
Seating	10	Seating	?	Seating	6

Source: Company reports and SunTrust Robinson Humphrey research

Management Bios

Gordon McGilton

Chief Executive Officer

Gordon McGilton has decades of experience in manufacturing and quality management. Prior to joining Force Protection, Mr. McGilton was a partner in APT Leadership, a technology company that teaches business process seminars worldwide, specializing in the creation of model companies. Mr. McGilton has served as an executive or consultant to a multitude of organizations including American Handtool, TRW, Ford, General Motors, Volkswagen of America, Bendix, Cigna, J.D. Edwards, and the United States Navy. Mr. McGilton also served honorably in the United States Marine Corps during the Vietnam Era conflict.

Raymond Pollard

Chief Operating Officer

A veteran with more than 30 years' experience in automotive engineering, research and development, operations, supplier development, contract negotiations, strategic alliance development, quality control, purchasing and logistics, Ray Pollard previously served as Executive Director of Supplier Development and Strategic Alliances for General Motors' Fuel Cell Activity.

Figure 10. FRPT Income Statement (in millions)

	2004	2005	1Q06	2Q06	3Q06	4Q06E	2006E	1Q07E	2Q07E	3Q07E	4Q07E	2007E	2008E
Total Revenue	\$10.3	\$49.7	\$34.8	\$56.1	\$42.2	\$69.6	\$202.6	\$80.3	\$116.1	\$126.6	\$177.6	\$500.5	\$1,051.7
Cost of Goods Sold	11.3	47.3	28.2	45.9	34.2	56.3	164.7	64.6	92.8	100.0	138.5	396.0	820.3
Gross Profit	(1.0)	5.3	6.6	10.2	7.9	13.2	37.9	15.6	23.2	26.6	39.1	104.5	231.4
Gross Profit Margin	-9.7%	10.7%	19.1%	18.1%	18.8%	19.0%	18.7%	19.5%	20.0%	21.0%	22.0%	20.9%	22.0%
General and Administrative	9.1	18.2	5.9	7.5	6.8	8.3	28.5	9.0	10.4	12.0	13.5	45.0	87.9
Research and Development	0.0	0.0	0.7	0.6	0.5	0.7	2.5	1.0	1.3	1.6	2.0	5.8	18.1
Operating Income	(10.1)	(12.9)	0.1	2.0	0.6	4.2	6.9	5.7	11.5	12.9	23.6	53.7	125.3
Operating Margin	-98.6%	-26.0%	0.3%	3.6%	1.4%	6.0%	3.4%	7.1%	9.9%	10.2%	13.3%	10.7%	11.9%
Pretax Income	(10.2)	(16.6)	(0.7)	1.2	0.6	4.7	7.6	6.2	12.0	13.4	24.1	55.7	127.3
Income Tax Expense (Benefit)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.7	8.4	13.1	44.6
Net Income	(\$10.2)	(\$16.6)	(\$0.7)	\$1.2	\$0.6	\$4.7	\$7.6	\$6.2	\$12.0	\$8.7	\$15.7	\$42.6	\$82.8
Diluted EPS	(\$0.53)	(\$0.49)	(\$0.02)	\$0.03	\$0.01	\$0.07	\$0.15	\$0.09	\$0.18	\$0.13	\$0.24	\$0.64	\$1.24
Diluted Shares Outstanding	19.4	33.9	37.5	44.9	51.7	65.0	49.7	65.5	66.0	66.3	66.5	66.1	67.0
Margin analysis:													
Gross margin	-9.7%	10.7%	19.1%	18.1%	18.8%	19.0%	18.7%	19.5%	20.0%	21.0%	22.0%	20.9%	22.0%
Operating margin	-98.6%	-26.0%	0.3%	3.6%	1.4%	6.0%	3.4%	7.1%	9.9%	10.2%	13.3%	10.7%	11.9%
Pretax margin	NM	NM	NM	2.2%	1.4%	6.7%	3.7%	7.7%	10.3%	10.6%	13.6%	11.1%	12.1%
Net margin	NM	NM	NM	2.2%	1.4%	6.7%	3.7%	7.7%	10.3%	6.9%	8.8%	8.5%	7.9%
As a percent of sales:													
Direct Costs	NM	95.1%	80.9%	81.9%	81.2%	81.0%	81.3%	80.5%	80.0%	79.0%	78.0%	79.1%	78.0%
Indirect Costs	88.9%	36.7%	16.8%	13.3%	16.1%	12.0%	14.1%	11.2%	9.0%	9.5%	7.6%	9.0%	8.4%
Depreciation and Amortization	0.0%	0.0%	1.9%	1.1%	1.3%	1.0%	1.3%	1.2%	1.1%	1.3%	1.1%	1.2%	1.7%
Tax rate	NM	NM	NM	NM	NM	NM	NM	NM	NM	35.0%	35.0%	23.6%	35.0%
Year-over-year change													
Total Revenues		NM	NM	206.5%	NM	NM	NM	130.6%	107.0%	200.4%	155.3%	147.1%	110.1%
Gross Profit		NM	NM	151.6%	NM	NM	NM	135.8%	128.5%	235.8%	195.7%	175.6%	121.4%
Indirect Costs		99.7%	95.9%	100.5%	81.2%	27.8%	56.0%	53.4%	39.6%	77.4%	61.7%	57.9%	95.6%
Depreciation and Amortization		NM	214.7%	NM	168.0%	NM	NM	45.1%	99.1%	201.5%	180.9%	129.3%	210.0%
Operating Income		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	133.3%
Net Income		NM	NM	NM	NM	NM	NM	NM	NM	NM	235.5%	NM	94.3%
Diluted EPS		NM	NM	NM	NM	NM	NM	NM	NM	NM	227.9%	NM	91.6%

Source: Company reports and SunTrust Robinson Humphrey estimates

Figure 11. FRPT Balance Sheet (in millions)

	2004				2005				2006		
	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06
ASSETS											
Current assets											
Cash and cash equivalents	3.2	1.3	0.5	2.3	8.2	8.8	1.2	1.2	6.1	3.5	26.7
Accounts receivable, net	0.1	0.7	2.2	1.1	1.5	2.1	1.7	4.0	1.4	8.1	16.2
Inventories	0.2	3.4	8.8	9.0	13.1	12.1	22.0	32.5	33.6	21.3	33.6
Other Assets	0.1	0.1	0.3	0.2	0.4	0.3	0.3	0.3	0.4	0.3	0.4
Total current assets	3.6	5.6	11.8	12.6	23.2	23.4	25.3	38.0	41.5	33.2	76.9
Property and equipment, net	0.4	0.5	1.1	1.0	1.5	2.1	2.1	2.1	2.6	4.1	5.9
Goodwill											
Other assets, net											
Total non-current assets	0.4	0.5	1.1	1.0	1.5	2.1	2.1	2.1	2.6	4.1	5.9
Total assets	4.0	6.1	12.9	13.6	24.7	25.5	27.4	40.1	44.1	37.4	82.8
LIABILITIES AND STOCKHOLDERS' EQUITY											
Current liabilities											
Accounts payable	1.0	1.2	2.4	1.9	2.0	4.3	9.9	14.7	19.6	21.9	22.3
Accrued payroll taxes	0.0	0.0	0.0		0.1	0.0	0.1				
Other accrued liabilities	0.1	0.2		1.2	0.4	1.0	0.5	1.6	1.8	1.5	1.9
Contract liabilities				0.7				2.1	1.7	3.0	1.9
Notes payable	0.1	0.0	1.5	0.4				7.5	3.8	2.5	
Notes payable-related party				4.0					2.5		
Deferred revenue		0.7	6.4	2.6	6.4	4.4	1.5	12.6	13.7	0.2	7.2
Accrued expenses			0.1				2.7				
Warranty reserve	0.2	0.5	0.8		1.0	0.3					
Total current liabilities	1.4	2.7	11.2	10.8	9.7	10.0	14.6	38.5	42.9	29.1	33.3
Long term liabilities	0.1	0.1	0.1	0.1	0.1	0.2	3.2	0.0	0.0	0.0	0.0
Total long-term liabilities	0.1	0.1	0.1	0.1	0.1	0.2	3.2	0.0	0.0	0.0	0.0
Total liabilities	1.5	2.8	11.3	10.9	9.8	10.1	17.8	38.5	42.9	29.1	33.3
Total stockholders' equity	2.5	3.4	1.6	2.7	14.8	15.3	9.6	1.7	1.2	8.2	49.6
Total liabilities and equity	4.0	6.1	12.9	13.6	24.7	25.5	27.4	40.1	44.1	37.4	82.8

Source: Company reports and SunTrust Robinson Humphrey estimates

Company Description

Force Protection, Inc. engages in the design, manufacture, and marketing of mine and blast protected vehicles in the United States and South Africa. Its products include The Buffalo, designed principally for route clearing activities; The Cougar, a lighter vehicle that is used for urban patrol, route clearance support, utility transport, and special unit activities; and The Cheetah, a smaller light weight vehicle designed specifically for reconnaissance, forward command and control, and urban operations. It primarily serves the United States Army and the United States Marine Corps. The company was founded in 1997 and is headquartered in Ladson, South Carolina.

Analyst Certification

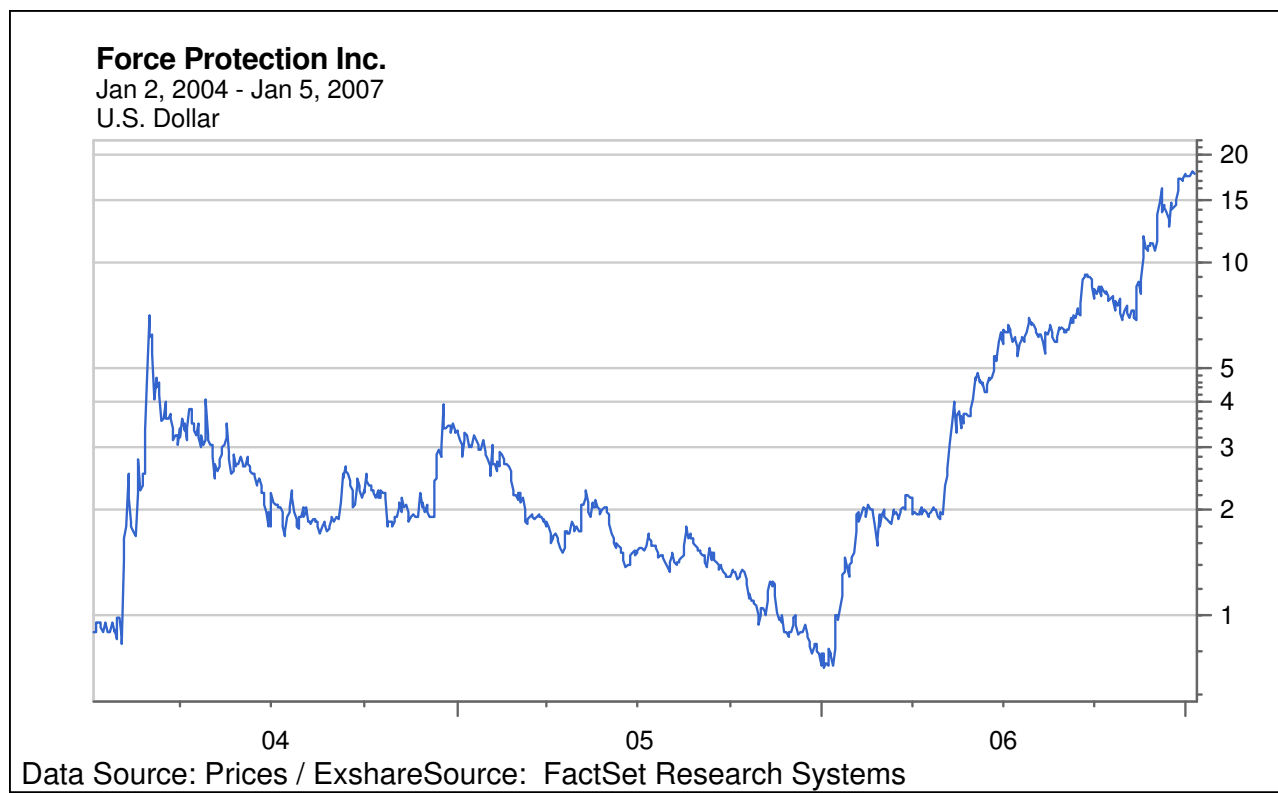
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Rating And Price Target History (FRPT)

Date	Rating	Target	Closing
N/A			

On February 27, 2004, STRH implemented its current rating system (defined below). On that date we also reinstated the use of price targets that had been discontinued on December 3, 2002.

Definition of Ratings

SunTrust Robinson Humphrey assigns one of three ratings to stocks covered by our Research Department: **Buy**, **Neutral**, **Reduce**.

In addition, we assign a risk rank to each stock based on a combination of fundamental and stock volatility factors:

Low = Low stock price volatility reflected by high predictability of financial results.

Moderate = Moderate stock price volatility reflected by medium predictability of financial results.

High = High stock price volatility reflected by inconsistent predictability of financial results.

Speculative = Greatest stock price volatility reflected by low predictability of financial results.

Venture = Recommended only for maximum risk oriented and well-diversified portfolios.

Our ratings are a function of the risk ranking (higher return expectations for higher risk) and the absolute expected total return (price appreciation plus dividends) that result in our estimated 12-month price target. Please refer to the grid below for additional detail.

Performance Definition Scale				
<i>Total return (capital gain/loss + dividends) expected over the next 12 months</i>				
Rating	Low Risk	Moderate Risk	High Risk	Speculative
Buy	Over 10%	Over 15%	Over 20%	Over 25%
Neutral	-5% to 10%	-5% to 15%	-5% to 20%	-5% to 25%
Reduce	-5% or Worse	-5% or Worse	-10% or Worse	-10% or Worse

Deviations from expected price ranges/targets due to price movement and/or volatility will be reviewed by the analyst and research management on a timely basis. Price targets are only required on Buy rated stocks; The analyst may choose to have price targets on Neutral or Reduce rated stocks, but it is not required. Action taken by an investor should be based upon their personal investment objectives and risk tolerance compared to a stock's expected performance and risk ranking.

Estimate Bias: While current annual estimates are our best judgment at this time, we assign an "Up", "Neutral" or "Down" bias based on our expectation for fundamental changes over the next 12 months.

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Rating	Count	Percent	Rating	Count	Percent*
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