

May 16, 2007

Chris Donaghey
404 926-5252
chris_donaghey@rhco.com

Robert Takacs
404-926-5121
robert_takacs@rhco.com

Defense Technology

Force Protection Inc.

Rating: **Buy** Price Target: **\$36.00**

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

FRPT: Strength Underlies Optically Disappointing 1Q07 Results

Estimate Change

Summary

FRPT reported 1Q07 results with revenue of \$100 million and GAAP EPS of \$0.04 (EPS were \$0.14 versus our estimate of \$0.12 when a one-time expense and a non-cash income tax payment are excluded). Although revenue was below our estimate of \$110 million, likely a result of product mix and lower services revenue, vehicle production was 195 vehicles in the quarter, ahead of our estimate of 183. Gross margin was an impressive 21.7%, 220 bps higher than estimated.

Factors Impacting EPS – As mentioned, GAAP EPS was \$0.04 in 1Q07 versus our estimate of \$0.12. Two factors lowered the GAAP estimate versus our expectations. The first, and most significant, was a \$4.9 million charge (\$0.08 per share) for liquidated damages associated with FRPT's Dec 2006 equity offering (see Comments section for more detail). We view this as a one-time extraordinary item and do not expect to see another charge in 2Q07. Second, in 1Q07, FRPT reported an unexpected GAAP non-cash tax payment of \$1.8 million (\$0.02 per share). We had anticipated reflecting a cash income tax payment in 3Q07 (however, now we will model a non-cash tax payment in 2Q07 for consistency). Excluding these items, EPS would have been \$0.14 versus our estimate of \$0.12.

MRAP Update – Secretary of Defense Robert Gates recently labeled the MRAP vehicle program the highest priority program in the DoD, and the Army subsequently announced its intent to replace all 17,700 up-armored Humvees in Iraq with MRAPs (8,000 vehicles in FY08 with an option for more than 9,000 in FY09). Consequently, the size of the MRAP program has once again seen a potentially enormous increase from 7,774 vehicles to as many as 23,000 vehicles total.

Reiterate Buy – We continue to believe FRPT and its partners remain very well positioned to be the primary beneficiaries of MRAP. FRPT currently accounts for more than 80% of MRAP orders, its production capacity is the highest in the industry, and its vehicles are proving themselves everyday in Iraq. Thus, despite the seemingly disappointing optics of 1Q07, we encourage investors to focus on three metrics: orders, delivery rates, and gross margin. All three metrics continue to get stronger, and we anticipate further gains. Thus, we reiterate our Buy rating on FRPT.

Fundamentals		FYE - Dec	2006	2007E		2008E	
Price (May 15, 2007)	\$27.00	EPS	Actual	Old	New	Old	New
52-Week Range	\$28.39-\$3.20	1Q	(\$0.02)A	\$0.12E	\$0.04A	NA	NA
Mkt. Cap. (mil.)	\$1,836.0	2Q	\$0.03A	\$0.26E	\$0.17E	NA	NA
Shares Out. (mil.)	68.0	3Q	\$0.01A	\$0.23E	\$0.25E	NA	NA
Float (mil.)	44.6	4Q	\$0.32A	\$0.34E	\$0.33E	NA	NA
Avg. Daily Trading Vol. (000)	1182	Year	\$0.39A	\$0.96E	\$0.78E	\$1.43E	\$1.48E
Book Value/Share	\$0.73	P/E	69.2x		34.6x		18.2x
Dividend/Yield	\$0.00/Nil	EV/EBITDA	NA		NA		NA
ROE	NA	Revenue (mil.)	\$196.0	\$790.7	\$780.7	\$1,193.5	\$1,208.3
Cash & Equiv (mil.)	\$113.44	Operating Margin	3.4%	10.4%	9.9%	12.2%	12.6%
Debt/Cap.	0.0%	Mean EPS	\$0.39	\$0.83	\$0.83	\$1.33	\$1.33
Est. 5-Year EPS Growth	25%	Short Interest (000)		Estimate Changes		2007	2008
Convertible	No	4/07	9055		04/24/07	\$0.96	\$1.43
Major Index Membership		3/07	9379		03/19/07	\$0.75	\$1.08
		2/07	7507		01/11/07	\$0.64	\$1.24

Comments

Summary

FRPT reported 1Q07 results with revenue of \$100 million and GAAP EPS of \$0.04 (EPS was \$0.14 versus our estimate of \$0.12 when a one-time expense and a non-cash income tax payment are excluded). Although revenue was below our estimate of \$110 million, likely a result of product mix and lower services revenue, vehicle production was 195 vehicles in the quarter, ahead of our estimate of 183. Gross margin was an impressive 21.7%, 220 bps higher than estimated.

Despite the optically disappointing results in 1Q07 we highly encourage investors to focus on three key metrics as the near-term benchmarks that should ultimately determine the company's success:

- (1) **Orders** – To date, FRPT has captured the lion's share of the orders under the MRAP program as a result of the performance of its vehicle in Iraq and its ability to produce those vehicles at levels substantially higher than its competition. The scorecard now stands at 1,325 Category I and Category II orders for FRPT (83% of total awards) and almost \$800 million in contracts. With continued strong execution, we continue to believe increasingly larger orders will flow to FRPT.
- (2) **Production Rates** – FRPT once again exceeded our production rate expectations in the quarter, delivering 195 vehicles versus our estimate of 183 vehicles. We also believe the company remains ahead of the production schedule expected by its primary customer, the U.S. Marine Corps. We estimate the company could be approaching 100 vehicles per month, and as long as production rates continue to increase, we believe orders will continue to flow as well.
- (3) **Gross Margin** – As mentioned, FRPT delivered a very strong 1Q07 gross margin of 21.7%, a 220 basis point sequential increase versus 4Q06 and 220 basis points ahead of our estimate. As volume grows, we see further gross margin expansion potential. We encourage investors to focus more on gross margin in the near term rather than operating margin as we believe it is a stronger indicator of what the longer term profitability of the firm could be. SG&A and R&D, to the contrary, could be lumpy as the company executes on expansion strategies and internal investment activities to capture new opportunities.

In our opinion, all three metrics are headed in the right direction which should ultimately benefit shareholders. **Thus, we reiterate our Buy rating on FRPT and encourage investors to use potentially downward volatility as a result of 1Q07 results to add to positions in FRPT.**

1Q07 Highlights

One-Time Item

As mentioned, GAAP EPS was \$0.04 in 1Q07 versus our estimate of \$0.12. A key factor (and most significant) was a \$4.9 million charge (or, \$0.08 per share) in SG&A for liquidated damages associated with FRPT's Dec 2006 equity offering. The terms of the offering required the stock to be SEC registered by April 20th and this deadline was not met. Consequently, FRPT recognized \$4.9 million in charges associated with the liquidated damages through June 30, 2007, the date by which FRPT expects the stock to be registered. We view this as a one-time extraordinary item and do not expect to see another charge in 2Q07. Excluding this charge, SG&A would have represented 9.5% of sales, 170 basis points better than our estimate of 11.2% of sales.

Tax Rate

Another major factor impacting 1Q07 results was an unexpected 41.7% tax rate. In 4Q06, FRPT began showing \$12.3 million in deferred tax assets on its balance sheet. As a consequence, the company is required to report a GAAP tax payment, and in 1Q07, this non-cash payment was \$1.8 million (or \$0.02 per share). We had anticipated reflecting tax payment beginning in 3Q07. Due to GAAP expectations, we will now model a non-cash tax payment in 2Q07 for consistency. The non-cash 1Q07 and 2Q07 tax payments impact our 2007 EPS estimate by \$0.12 per share.

R&D Higher than Expected

R&D expenses were higher in the quarter due to accelerated costs associated with FRPT's next generation vehicle, the Cheetah. R&D expense was \$4.8 million in 1Q07 versus our estimate of \$1.6 million. FRPT is currently in production of 20 Cheetah vehicles, 10 of which will undergo blast testing and therefore not sold to customers. Consequently, the cost of these vehicles will be recorded as an R&D expense. Throughout the remainder of the year we expect R&D to be somewhat elevated relative to previous estimates; however, 1Q07 should be the high water mark. Given the importance of the Cheetah to future business opportunities we believe the elevated expense is justified.

MRAP Continues to Evolve

The Marine Corps has now issued contracts for 1,639 vehicles and FRPT has received 1,369, or 84% of the total awards. We believe these awards could account for about 7% of MRAP, which once again appears to have seen a potentially enormous increase from 7,774 vehicles to 23,000.

Secretary of Defense Robert Gates recently labeled the MRAP program as the highest priority program in the DoD. Subsequently, the U.S. Army announced its intentions to possibly replace all up-armored Humvees with an MRAP. The total possible increase for the Army could be an increase from 2,500 MRAP vehicles to 17,700 MRAP vehicles (8,000 to be produced by the end of FY08 with more than 9,000 in FY09). At 23,000 vehicles, the MRAP program could likely carry a \$23 billion price tag.

Longer-Term Implications of MRAP

With the U.S. Army's MRAP planned orders increasing in such magnitude, it may be conceding that the future of the Joint Light Tactical Vehicle (JLTV) program may be usurped by the current MRAP program. If it goes ahead with orders of up to 17,000 MRAP vehicles over the next few years, it is hard to imagine such an investment for vehicles would be used on an interim basis as previously thought, jeopardizing any potential acceleration of JLTV. Furthermore, the House Armed Services Committee highlighted the technological risk associated with the JLTV, and virtually eliminated all FY08 funding for JLTV in its markup of the FY08 Defense budget. Not only does this bode well for FRPT's MRAP offerings, but it also opens a significant door for its Cheetah vehicle, the closest possible vehicle to a JLTV-like system. As a reminder, the JLTV was expected to be a replacement for the combat versions of the Humvee with total potential production volumes in excess of 52,000 vehicles.

Model Changes

With the size and scope of MRAP once again higher than previous expectations, we are increasing our production estimates for 2007 and 2008. We have increase our 2007 vehicle production estimate from 1,297 vehicles to 1,301 vehicles (MRAP production was increased from 673 MRAPs to 787 MRAPs, Cheetah production was increased from 15 vehicles to 35 vehicles, both offset by a reduction in ILAV production from 250 to 134 vehicles – this assumes FRPT will not be producing any more of the lower margin ILAVs beyond the current contract). We have also lowered our Services revenue estimate from \$115 million to \$101 million – this remains an elusive line item to forecast, but we anticipate improvement in our forecasting abilities over time. We have slightly lowered FY07 revenue \$791 million to \$781 million.

For 2008, we increased production from 1,734 vehicles to 1,922 vehicles with vehicle revenue again slightly offset by reductions to Services revenue. We raised our 2008 revenue estimate from \$1.19 billion to \$1.2 billion. However, we once again note the potential for significant conservatism in our estimate. The company recently mentioned in a Wall Street Journal article it has presented a plan to the U.S. Marine Corps to produce 10,000 vehicles by the end of 2008, if given the orders to do so. Our current MRAP construction estimate for 2007 and 2008 is 4,900 vehicles, well below what the company believes it could achieve. Thus, we continue to believe substantial upside to our revenue estimates exists.

Below the revenue line, we have made a few tweaks to our margin assumptions, slightly raising 2007 gross margin, offset by higher-than-expected R&D expenses. The larger impact is a result of the inclusion of a non-cash tax payment in 2Q07. As a result, we have lowered our 2007 EPS estimate from \$0.96 to \$0.78 (on an apples-to-apples basis, excluding the tax payment and liquidated damages charge, our 2007 estimate would be increasing slightly to \$0.97). We have also made some minor adjustments to 2008, resulting in an increase in 2008 EPS from \$1.43 to \$1.48.

Valuation

Our price target of \$36 assumes FRPT's stock could trade at 24x our 2008 EPS estimate of \$1.48. Although this is clearly a premium to other truck manufacturers (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 multiple close to 30x as achievable. 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. Risks to our price target include execution risk as the company ramps production, a change in strategy that reduces the demand for vehicles such as those manufactured by FRPT, or a lower win rate on MRAP relative to our current expectations.

Figure 1. FRPT Income Statement (in millions except per share data)

	2004	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07E	2Q07E	3Q07E	4Q07E	2007E	2008E
Total Revenue	\$10.3	\$49.7	\$34.8	\$56.1	\$42.2	\$63.0	\$196.0	\$100.2	\$167.3	\$231.9	\$281.3	\$780.7	\$1,208.3
Cost of Goods Sold	11.3	47.3	28.2	45.9	34.2	50.7	159.0	78.4	132.2	183.2	222.3	616.0	942.5
Gross Profit	(1.0)	5.3	6.6	10.2	7.9	12.3	37.0	21.8	35.1	48.7	59.1	164.7	265.8
Gross Profit Margin	-9.7%	10.7%	19.1%	18.1%	18.8%	19.5%	18.9%	21.7%	21.0%	21.0%	21.0%	21.1%	22.0%
General and Administrative	9.1	18.2	5.9	7.5	6.8	7.1	27.2	14.4	15.1	19.7	21.1	70.2	94.1
Research and Development	0.0	0.0	0.7	0.6	0.5	1.4	3.2	4.8	3.7	4.2	4.5	17.2	19.2
Operating Income	(10.1)	(12.9)	0.1	2.0	0.6	3.9	6.6	2.5	16.4	24.8	33.5	77.2	152.5
Operating Margin	-98.6%	-26.0%	0.3%	3.6%	1.4%	6.2%	3.4%	2.5%	9.8%	10.7%	11.9%	9.9%	12.6%
Pretax Income	(10.2)	(16.6)	(0.7)	1.2	0.6	4.7	5.9	4.3	17.7	25.8	34.5	82.3	154.5
Income Tax Expense (Benefit)	0.0	0.0	0.0	0.0	0.0	(12.3)	(12.3)	1.8	6.2	9.0	12.1	29.1	54.1
Net Income	(\$10.2)	(\$16.6)	(\$0.7)	\$1.2	\$0.6	\$17.0	\$18.2	\$2.5	\$11.5	\$16.8	\$22.4	\$53.2	\$100.4
Diluted EPS	(\$0.53)	(\$0.49)	(\$0.02)	\$0.03	\$0.01	\$0.32	\$0.39	\$0.04	\$0.17	\$0.25	\$0.33	\$0.78	\$1.48
Diluted Shares Outstanding	19.4	33.9	37.5	44.9	51.7	51.7	46.4	68.0	68.0	68.0	68.0	68.0	68.0
Margin analysis:													
Gross margin	-9.7%	10.7%	19.1%	18.1%	18.8%	19.5%	18.9%	21.7%	21.0%	21.0%	21.0%	21.1%	22.0%
Operating margin	-98.6%	-26.0%	0.3%	3.6%	1.4%	6.2%	3.4%	2.5%	9.8%	10.7%	11.9%	9.9%	12.6%
Pretax margin	NM	NM	NM	2.2%	1.4%	7.5%	3.0%	4.3%	10.6%	11.1%	12.3%	10.5%	12.8%
Net margin	NM	NM	NM	2.2%	1.4%	27.0%	9.3%	2.5%	6.9%	7.2%	8.0%	6.8%	8.3%
As a percent of sales:													
Direct Costs	NM	95.1%	80.9%	81.9%	81.2%	80.5%	81.1%	78.3%	79.0%	79.0%	79.0%	78.9%	78.0%
Indirect Costs	88.9%	36.7%	16.8%	13.3%	16.1%	11.2%	13.9%	14.4%	9.0%	8.5%	7.5%	9.0%	7.8%
Depreciation and Amortization	0.0%	0.0%	1.9%	1.1%	1.3%	2.1%	1.6%	4.8%	2.2%	1.8%	1.6%	2.2%	1.6%
Tax rate	NM	NM	NM	NM	NM	NM	NM	41.7%	35.0%	35.0%	35.0%	35.3%	35.0%
Year-over-year change													
Total Revenues		NM	NM	206.5%	NM	NM	NM	187.8%	198.3%	NM	NM	NM	54.8%
Gross Profit		NM	NM	151.6%	NM	NM	NM	227.7%	245.9%	NM	NM	NM	61.4%
Indirect Costs		99.7%	95.9%	100.5%	81.2%	8.1%	49.0%	145.4%	101.2%	190.7%	198.9%	158.4%	34.0%
Depreciation and Amortization		NM	214.7%	NM	168.0%	NM	NM	NM	NM	NM	232.6%	NM	11.5%
Operating Income		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	97.5%
Net Income		NM	NM	NM	NM	NM	NM	NM	NM	NM	31.6%	192.4%	88.8%
Diluted EPS		NM	NM	NM	NM	NM	NM	NM	NM	NM	3.0%	99.7%	88.8%

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

I, Chris Donaghey, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

- The following companies are clients of SunTrust Capital Markets, Inc. and the firm has received or is entitled to receive compensation for investment banking services involving their securities within the last 12 months: Force Protection Inc.
- SunTrust Capital Markets, Inc. makes a market in the following companies at the time of this report: Force Protection Inc.

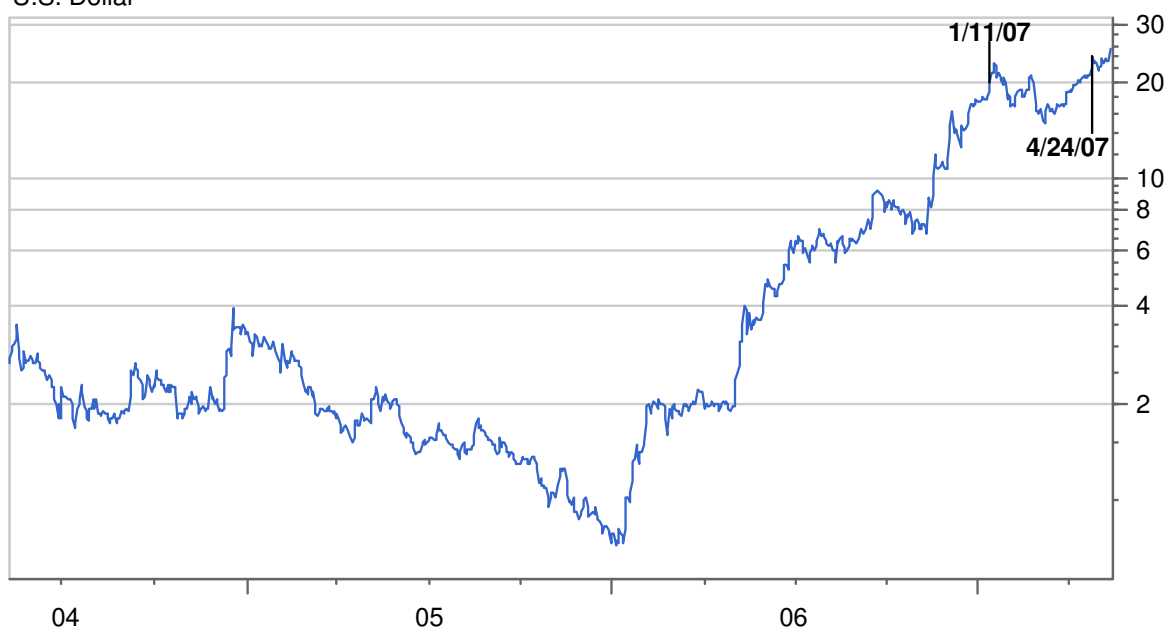
Analyst compensation is based upon stock price performance, quality of analysis, communication skills, and the overall revenue and profitability of the firm, including investment banking revenue.

As a matter of policy and practice, the firm prohibits the offering of favorable research or a specific research rating as consideration or inducement for the receipt of business or compensation. In addition, analysts and associated persons preparing research reports are prohibited from owning securities in the subject companies.

Force Protection Inc.

May 7, 2004 - May 10, 2007

U.S. Dollar



Data Source: Prices / ExshareSource: FactSet Research Systems

Rating And Price Target History (FRPT)

Date	Rating	Target	Closing
01/11/2007	Buy	\$31.00	\$19.98
04/24/2007		\$36.00	\$22.15

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

Total return (capital gain/loss + dividends) expected over the next 12 months

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.

SunTrust Robinson Humphrey ratings distribution as of 5/16/2007:

Coverage Universe			Investment Banking Clients Past 12 months		
Rating	Count	Percent	Rating	Count	Percent*
Buy	177	55%	Buy	29	16%
Neutral	142	44%	Neutral	16	11%
Sell/Reduce	4	1%	Sell/Reduce	0	0%

*Percentage of Investment Banking clients in Coverage Universe by rating

Other Disclosures

Information contained herein has been derived from sources believed to be reliable but is not guaranteed as to accuracy and does not purport to be a complete analysis of the security, company or industry involved. This report is not to be construed as an offer to sell or a solicitation of an offer to buy any security. SunTrust Capital Markets, Inc. and/or its officers or employees may have positions in any securities, options, rights or warrants. The firm and/or associated persons may sell to or buy from customers on a principal basis. Investors may be prohibited in certain states from purchasing some over-the-counter securities mentioned herein. Opinions expressed are subject to change without notice. The information herein is for persons residing in the United States only and is not intended for any person in any other jurisdiction.

SunTrust Capital Markets, Inc. is a registered broker-dealer. It is owned by SunTrust Banks, Inc. ("SunTrust") and affiliated with SunTrust Investment Securities, Inc. SunTrust Robinson Humphrey is a service mark of SunTrust Capital Markets, Inc. Despite this affiliation, securities recommended, offered, sold by, or held at SunTrust Capital Markets, Inc. and at SunTrust Investment Securities, Inc. (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including SunTrust); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. SunTrust may have a lending relationship with companies mentioned herein.

© SunTrust Capital Markets, Inc. 2007. All rights reserved. Reproduction or quotation in whole or part without permission is forbidden.

ADDITIONAL INFORMATION IS AVAILABLE at our website, www.suntrustrh.com, or by writing to: SunTrust Robinson Humphrey, Research Department, 3333 Peachtree Road N.E., Atlanta, GA 30326-1070