
FORCE PROTECTION INC.
(NASDAQ: FRPT: \$15.96, BUY)
INDUSTRY: DEFENSE

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

“Surprise!, Surprise!, Surprise!!!”

If memory serves me right, Gomer Pyle was the simple minded, USMC private who would spring on his sergeant with this declaratory opening. It almost always meant something was amiss.

Well, FRPT sprung on the investment community TWO SETs of surprises...half of which were really surprisingly good. Some really got our goat for being more unhelpful than problematic. First the bad news:

- Service revenues were now not broken out as a part of revenues for either the quarter or the year. Ugh!
- The fourth quarter figures—although surprisingly good—had to be backed out of the annual figures which is also another pain that can be fixed with a modicum of effort but just an additional sign of the Company not thinking of their shareholders and analysts when stepping up to the plate regarding financial maturation.
- Lastly, it was a little disconcerting that they are holding an earnings conference call on Wednesday, March 21st, 8:00 AM...three days after the report was released.

On the other hand, there was some really good news on the operating front. But one comment regarding the significance of the release other than the continuing improvement in the operating trends: At this point, we are already near the end of 2007's first quarter with so many monumental changes to FRPT's operating profile and production schedule that the fourth quarter's numbers are almost irrelevant.

QIV'06 Operating Highlights

- Revenues showed nearly a 50% sequential jump from the third quarter levels and the increase is so significant that a comparison to last year's fourth quarter is almost meaningless. This figure was below our original estimate and did not include the break-out of service revenues.
- Gross margin for the period was 19.54%, up from the 18.78% reported in the third quarter. A couple of points here. Since the quarter was loaded with the production of ILAVs (a much lower margin product than the JERRVs) and that the expensive, automotive integration costs continued without the benefit of better terms, we have to assume that the Service Revenue component of the quarter's top-line was significant and very profitable.
- Operating expenses were significantly below our projection for the period coming in at only \$7.06 million. Conversely, R&D expenses more than doubled for the period which can only mean that considerable effort was invested in the advancement of the Cheetah and the development of counter-measures for the “shaped-charge” weapons that spoiled last November's Thanksgiving.
- Operating margin advanced to 6.19% for the period.
- We are calculating that the quarterly earnings number is \$0.09. The reported figures were confusing because of the inclusion of a \$12.33 million deferred tax benefit.

The Naysayers on Wall Street will highlight the funny accounting for taxes and the low share count as negatives. But that is like driving down the freeway using a rear-view mirror since the quarter reported involved events that happened so long ago. Conversely, backlog was up significantly and with a meaningful number of higher margined trucks. Service revenues have to be increasingly significant; the announcement of the new R&D facility and blast range portends substantial changes in the operating profile going forward; and new facility expansion points to almost a doubling of capacity from where the Company stands today. Points to consider:

- The Company purchased 306 acres along with leasing a building to help forward R&D. This blast range should be able to both propel FRPT's development efforts as well as provide other manufacturers available capability to test their equipment.
- A 90,000 square foot warehouse facility is being built on the Ladson facility freeing up additional space for manufacturing...a significant event.
- The company announced that it was leasing 120,000 square feet of manufacturing space—of a total of 422,000 square feet—for additional manufacturing space. This is mostly likely, out guess, to facilitate the manufacture of the Cheetah.

All of this means is that the Company is adding nearly 50% to its current space with the potential of more than doubling manufacturing space.

At this time we are not we are not changing our estimates. We will likely issue a new report following the conference call. However, this will mark the last Catalyst report to be issued on the Company, as our contract with FRPT has expired and we are therefore dropping coverage while considering transitioning the stock over to The Robins Group, an affiliated entity.

Force Protection	4Q06	3Q06	4Q05
\$ in millions, except EPS	31-Dec-06	30-Sep-06	31-Dec-05
Total Revenues	\$62.979	42.161	\$16.240
Manufacturing Cost of Goods Sold	\$50.670	\$34.242	\$15.992
Gross Profit	\$12.309	\$7.919	\$0.248
Gross Profit Margin	19.54%	18.78%	1.53%
Operating Expenses	\$8.412	\$7.327	\$6.530
G&A Expenses	\$7.059	\$6.781	
R&D Expenses	\$1.353	\$0.546	
Operating Profit	\$3.897	\$0.592	(\$6.282)
Operating Margin	6.19%	1.40%	-38.68%
Other Income (Expense)			
Interest income	\$0.794	\$0.121	\$0.016
Interest expense	\$0.007	(\$0.110)	(\$0.863)
Non-recurring warranty expense			
Impairment losses-goodwill			
Total other income	\$0.801	\$0.011	(\$0.847)
Income from continueing operations	\$4.698	\$0.603	(\$7.129)
Net Income/Loss per share	\$0.09	\$0.01	



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