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MORNING NOTE

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FORCE PROTECTION INC.
(OTCBB: FRPT: \$8.98, BUY)
INDUSTRY: DEFENSE

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

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

Last Friday, the Senate and House of Representatives conference committee approved the FY2007's Defense Department Appropriations bill. The total bill provides for over \$436 billion in new spending authority which included \$70 billion in additional appropriations to fund efforts for the Global War on Terror.

As it pertains to Force Protection, we noticed several items that ranged from out-in-out budget appropriations to a number of juicy, big picture projects that appear to support further buying from the country. Below, we would like to comment on a series of "proven and probable" opportunities that stand out more clearly as to their benefits to the Company.

Starting with the best guess that we have regarding backlog for the third quarter, we believe that FRPT maintains about a \$200 million level of contracted business currently. This is summarized by including the \$51 million add-on contract for additional JERRVs; the BAE/FRPT joint production of ILAVs for the Iraqi Security Forces, which amounts to \$55 million; and the most recently announced British Ministry of Defense contract for more than 90, plus an option on 18 more, Cougar Explosive Ordnance Disposal Vehicles for \$63 million. Lastly, we have added a slush amount of \$18-\$20 million for Buffalos that are being purchased via the UON's buying process.

Given Friday's release, there are a series of shining opportunities for the Company. They included;

- A \$228 million (line item) provision for Joint EOD Rapid Response Vehicles (JERRVs), which we understand has Sen. Levin's, Graham's, McCain's and Clinton's initials next to the item.
- A \$298.6 million provision for Mine Resistant Utility Vehicles (MRUVs), which doesn't actually name the JERRV as the ultimate winner of the award, but we are talking about a Marine Vehicle that "smells, walks, quacks and repels explosions like a Cougar." Our belief is that once the RFP has been completed and analyzed, that there is a probable likelihood that FRPT will win this contract.
- There is a \$1.7 billion provision for the Iraq Security Forces Fund to allow indigenous security forces to assume greater responsibility for their own security. This, to us, just includes the budget completion of the first phase funding of the 1,050 ILAVs—the first third was awarded to BAE/FRPT in May. For Force Protection, it means another \$110 million in contracts and further service and support opportunities
- Lastly, there is \$1.9 billion for the Joint Improvised Explosive Defense Organization, similar to G-STAMIDs. It is a broad, multi-military branch organization to minimize the threat from mines and IEDs thereby better protecting troops, routes and civilians against mines and IED's. We understand that FRPT's Cougars and Buffalos are now considered instrumental in the armamentarium of these units and are estimating that between 10% to 20% of the gross amount could be itemized for FRPT production

In sum, this announcement, if passed in this format, provides FRPT between \$300 million and \$600 million in new-to-the-company contract opportunities for 2007. There is at least that much more, using a more liberal approach to the interpretation, for 2008 given some of the more expansive and less-defined programs mentioned. The real question is what does the letting of contracts from G-STAMIDs mean for FRPT. Remember, this is a program that is funded, soldiers are being assigned and trained for the new battalions, and equipment purchases are being "leaked" out to up-armor the training efforts. There should be a meaningful announcement soon.

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