CATALYST
FINANCIAL RESOURCES LLC

FEBRUARY 12, 2007

UPDATE REPORT

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FORCE PROTECTION INC. (NASDAQ: FRPT)

RATING: BUY

INDUSTRY: DEFENSE

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

RISK: HIGH

CLOSING PRICE 02/09/07	TRAILING P/E (TTM)	SHARES OUT (MILS.)	MARKET CAP (MILS.)	3-5 YEAR EPS GROWTH	PRICE TARGET
$19.02	NM	51.7	$983.3	N/A	$28.00

ANNUAL DATA – DECEMBER YEAR END			
	2005A	**2006E**	**2007E**
EPS	$ (0.49)	$ 0.17	$ 1.74*
P/E	N/M	111.9	10.9
REVENUE (MIL.)	$49.7	$215.5	$938.4
P/S	8.45	4.56	1.05

REPORTED EARNINGS					
	Q1	**Q2**	**Q3**	**Q4**	**ANNUAL**
2008E	**N/A**	**N/A**	**N/A**	**N/A**	**$ 3.18***
2007E	**$ 0.29**	**$ 0.38**	**$ 0.49**	**$ 0.57**	**$ 1.74***
2006E	$ (0.02)	$ 0.03	$ 0.01	**$ 0.15**	**$ 0.17**
2005A	$ (0.11)	$ 0.00	$(0.13)	$ (0.28)	$ (0.49)

**Equates to approximately $1.05 in 2007 and $2.00 in 2008 in fully-taxed EPS.*

Investment Thesis: Not a Question of Earnings But a Buy-out

We have been of the opinion that the investment approach to FRPT concerns more the race between the Company's ability to grow and establish market penetration versus it being acquitted by a major defense contractor. During the very recent months, the Company has possibly confused the appearance of the issue by negotiating sub-contract agreements with other larger concerns and even developing a joint venture relationship with the largest. But the real story developed over the past year has been how a vehicle manufacturer essentially started with mere crumbs and turned out to have the best and more desirable product line-up in the industry with the needs of the DOD essentially coming directly to their front door with demand that is the envy of every other supplier.

Despite the progress made by FRPT during the last year, our conclusion has not changed and indeed, we believe that a buy-out could occur in the second half of 2007. Our thoughts are as follows:

Vehicle Orders and the Change in Iraq War Policies:

MRAP, and essentially all the other orders FRPT has received to date, essentially establishes FRPT as the developing leader in the force protected vehicle arena. Prior to the year-ago ILAV contract with BAE, FRPT was nothing more than a "fly buzzing at the other defense contractors' table and marketplace" with an interesting concept vehicle. Yes, it was saving boys and girls lives in the "sandbox" but was essentially scoffed at by the big boys as a mere toy of the DOD.

With this summers change in policy, MRAP essentially placed the Company at center stage defining its vehicle as the prototype to be emulated giving rise to the second act of the DOD/FRPT Kabuki Dance that has been playing since last winter. What I mean here is that we have been following a two-actor performance for almost a year: the DOD needs trucks, FRPT responds with slowly improving production capabilities. More vehicles are needed requiring greater capacity and resources, FRPT responds with a financing and partnerships. Every time the opportunity gets larger, the Company responds and then it garners greater responsibility.

The MRAP program did two things: It first established force protected vehicles as the priority need for the Marines while it essentially bestowed FRPT's designs in the winners circle. We do not know if FRPT and its commercial allies are to be the winners of the contract. We do believe that the orders received should be sufficient to make FRPT a much bigger business. Please turn to our model where we have added our best guess as to the Company's financial progression for 2007 and 2008.

In our model, we have not only shown significant growth regarding the production of Cougars—both manufactured via FRPTs own partnered capabilities but also through our best estimation of the JV established with General Dynamics. Secondly, we have shown rather remarkable growth fostered by the production of the Cheetah, which leads us to the second part of our thesis.

Cheetah to the Rescue:

As significant as the MRAP orders are, the real prize is the JLTV requirement with the contract projected to be let in 2010. Typical for Force Protection, their real claim to fame isn't just the fact that they have produced trucks with the best safety record: They have produced new versions of trucks that fit the needs of the government almost before the DOD realized that they need the new vehicles. Indeed, they have become skilled at responding to the DOD's needs by almost producing a vehicle before the customer realizes its requirement.

This said, the Cheetah is just the next step—an evolutionary one at that. FRPT has prototyped a vehicle that is just a little too heavy, too tall, too expensive to be the perfect replacement for the Humvee. But guess what?! Those are design features that can be engineered out and were problems when they introduced the vehicle in its first iteration. They now have multiple, third prototype models, which are the best, blast-protected vehicle in the less-than-14 ton-class, that are being readied for Aberdeen testing late this month, or early March.

Again, FRPT is in the process of "moving the cheese" before the competitors have much chance to respond, let alone initiate design work. If you think about it, the Company is producing a small vehicle, that is MRAP protected, that should establish the Company with "hot" production lines in the USA, with a vehicle that should be tested, accepted and in the field used by solders and officers years before the competitors provide their first design suggestion. By 2009, the Cheetah should have an established record in the halls of the defense department as a known quantity. If FRPT is really lucky, it may be even able to "plug" some of the Cheetah production into fulfilling the Category 1 requirements for MRAP.

The Cheetah Catalyst:

This is also my primary reason for FRPT being acquired this year. The ILAV contact established the force protected design as a serious contender in the vehicle arena. MRAP is forcing FRPT to be a substantial manufacturer. Cheetah is the contract gold ring that should inspire the potential suitors to gird-up their courage and buy the manufacturer that allows the owner to leap-frog other contenders.

In our conversations, we have learned that ten to twenty of the latest version of the Cheetah has been produced essentially for government inspection and testing. That another manufacturing site is being established for the ramp in mass production. That production capability is planned to be several hundred vehicles assembled per month by late this year.

Our point is that one vehicle allows them to have their ante first on the table. The ramp of mass production of vehicles virtually puts a target on the chest of the Company. Why should a major defense manufacturer not buy a successful contender for the MRAP? Doesn't the leading player for a contract several times the original MRAP opportunity cinch the deal? I think with every passing month, the risk to a General Dynamics, BAE, Textron, AH or other becomes greater. Conversely, a $2.1 Billion to $2.8 Billion acquisition price is almost chump change for GD.

Frosting:

The real question is price. Today's update includes some rough thoughts regarding FRPT's earnings. Of course, I "taxed" the results so that we don't have to bring that valuation point into discussion. Let's just assume the results are taxed.

At roughly 20-times this year's earnings, 11.3 times EBITDA, the knowledgeable skeptics in the audience will say this is too high a price for any main-line defense contractor to pay for an up-and-comer. Especially if one uses the normal 30% premium that is levied on buy-out targets: $27 to $28 per share makes this seem rich.

The argument that we are going to use is that it just may be low. Consider the following points:

- **Think of Parts, Service and Support as an Annuity.** We really didn't do a very good job modeling **PSS** for 2007 and 2008. But we think this could provide real upside as well as a factor to support a greater premium. With FRPT's own number of trucks growing in the field, there should continue to be a steady ramp in this figure…but, I just couldn't model the 20% to 25% rate we've seen in 2006. Add to it the ILAV factor. Part of the deal with BAE was that FRPT maintain 'both halves' of the PSS. So the actual figure of support could be understated if one uses only the trucks manufactured by FRPT. This provides a bolstering factor to the PSS figure as the trucks are deployed. Additionally, I'll bet the same language is used with the Force Dynamics deal. The point is that PSS is going to be large and growing during the next year and a half influencing the price that a suitor might submit.
- **Technology Premium.** With all the hubbub about MRAP and the unfortunate, shaped-charge mishap, we as investors have forgotten that there are other technologies—let's just even consider the wheel advancement—that Dr. Joynt has developed. Assuming that an advancement for improving the armor has been developed, Joynt should be able to forward his wheel technology. Alone, this should provide another source of high profit margin revenue. Wheels and tires are going to be deployed in even greater numbers as we use force protected designs. Just with the MRAP and JLTV requirements, that requires nearly a million wheels. With some sort of technology premium, it can add up into a marked contributor even if they use an outside manufacturer to produce the entire system. Think of this as not only an add to the EBITDA but a factor to the premium paid.
- **The Roll-up Opportunity.** Sitting here in my den in my nightclothes writing, it comes to mind that the BAE contract was written with a "Take or Pay" clause in the language. As I remember the discussion back last summer, FRPT can either push all of the ILAV order onto BAE and get paid a larger IP payment on each vehicle if demand for other, more profitable vehicles increases and the Company finds production capacity requirements at a premium. Conversely, FRPT can also take the ILAV contract if activity declines or more business is needed to fill the plant. What happens to BAE, for instance, or all the other partnership relationships, if someone buys FRPT and has plenty of capacity/resources to handle this added work. Doesn't it justify an even higher premium than what the Company's own results recommend?

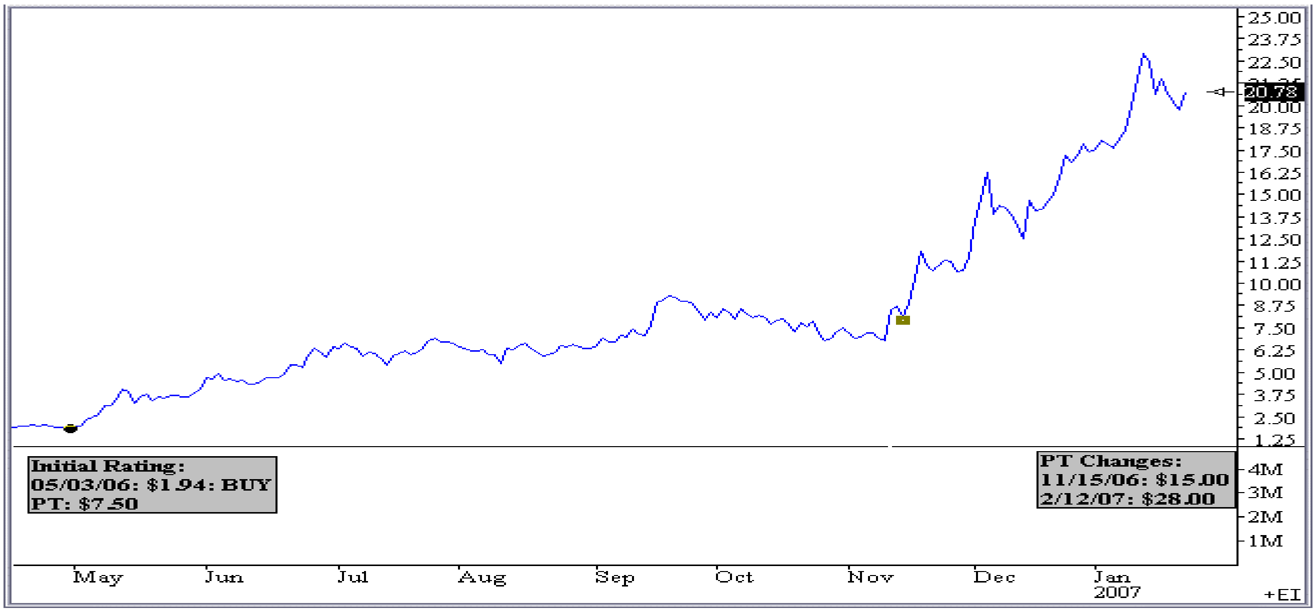
Summary and Recommendation—Happily Ever After:

Our point to the rambling is that we have during the past six months established a trajectory that indicates FRPT shares should be held for capital appreciation. The War in IRAQ is the political wild card that the democrats--even given their best efforts to solve—wouldn't dare end since it insures them of the White House in 2008. They have to keep it going because it represents the soft, Republican underbelly to victory.

Juxtaposed to the fighting, FRPT has established its own credentials as a real supplier of equipment. We believe that what ever the MRAP contract award, it provides the mantle of respectability on FRPT as a real operation. But the Cheetah and its development provides whoever the owner of the Company is a real position at the table when JLTV contract is released…or sooner.

We've discussed factors that should bolster the premium paid as well as the catalyst as to what would force the hands of the other military suppliers to make an offer. We believe this is the only viable alternative for its future—other than FRPT going out of business entirely, that makes sense in this arena dominated by Giants.

In the meantime, we are continuing to rate the shares with a **BUY** rating. At roughly a $1.00 in taxed earnings for 2007, we believe the share have the potential to appreciate to $28 per share within the next year.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Initial Rating:
05/03/06: $1.94: BUY
PT: $7.50
PT Changes:
11/15/06: $15.00
2/12/07: $28.00
4M
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Force Protection	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	Year 2004	Year 2005	Year 2006	Year 2007	Year 2008
($ in millions, except EPS)	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	31-Dec-07
Vehicle sales	$33.000	$43.765	$32.043	$66.990	$146.610	$181.250	$227.600	$279.500	na	na	$175.798	$834.960	$1,424.600
Parts and Supplies revenues	$1.800	$12.309	$10.118	$12.500	$14.000	$17.350	$22.415	$24.635	na	na	$36.727	$78.400	$178.075
Service revenues				$3.000	$5.000	$6.000	$7.000	$7.000	na	na	$3.000	$25.000	$50.000
Revenues	$34.803	$56.074	$42.161	$82.490	$165.610	$204.600	$257.015	$311.135	$10.274	$49.691	$215.528	$938.360	$1,652.675
Force Dynamics Contribution					$0.653	$1.246	$2.313	$2.847				$7.059	$20.730
Total Revenues				$82.490	$166.263	$205.846	$259.328	$313.982				$945.419	$1,673.405
Manufacturing Cost of Goods Sold	$28.165	$45.917	$34.242	$64.988	$135.480	$168.424	$213.051	$261.089	$11.267	$44.416	$173.312	$778.043	$1,377.505
Gross Profit	$6.638	$10.157	$7.919	$17.502	$30.130	$36.176	$43.964	$50.046	($0.993)	$5.275	$42.216	$160.317	$275.170
Gross Profit Margin	19.07%	18.11%	18.78%	21.22%	18.19%	17.68%	17.11%	16.08%	-9.67%	10.62%	19.59%	17.08%	16.65%
Operating Expesnes	$6.523	$8.125	$7.327	$9.270	$11.505	$12.015	$12.655	$13.285	$9.136	$18.244	$31.245	$49.460	$75.585
G&A Expenses			$6.781	$8.655	$10.655	$11.115	$11.755	$12.335				$45.860	$ 68.835
R&D Expenses			$0.546	$0.615	$0.850	$0.900	$0.900	$0.950				$3.600	$6.750
Operating Profit + FD Contribu	$0.115	$2.032	$0.592	$8.232	$19.278	$25.407	$33.622	$39.608	($10.129)	($12.969)	$10.971	$117.916	$220.315
Operating Margin	0.33%	3.62%	1.40%	9.98%	11.64%	12.42%	13.08%	12.73%	-98.59%	-26.10%	5.09%	12.57%	13.33%
Other Income (Expense)													
Interest income	$0.027	$0.021	$0.121	$0.175	$1.135	$1.235	$1.125	$1.095	$0.570	$0.103	$0.344	$4.590	$3.655
Interest expense	($0.807)	($0.819)	($0.110)	($0.085)	($0.115)	($0.115)	($0.115)	($0.115)	($0.685)	($1.708)	($1.821)	($0.460)	($0.345)
Non-recurring warranty expense									$0.000	($2.013)	$0.000	$0.000	$0.000
Impairment losses-goodwill									$0.000	$0.000	$0.000	$0.000	$0.000
Total other income	($0.780)	($0.798)	$0.011	$0.090	$1.020	$1.120	$1.010	$0.980	($0.115)	($3.618)	($1.477)	$4.130	$3.310
Income from continueing operations	($0.665)	$1.234	$0.603	$8.322	$20.298	$26.527	$34.632	$40.588	($10.244)	($16.587)	$9.494	$122.046	$223.625
Net Income/Loss per share	($0.02)	$0.03	$0.01	$0.15	$0.29	$0.38	$0.49	$0.57	($0.53)	($0.49)	$0.17	$1.74	$3.18
Net Income Fully Taxed in 2007					$0.19	$0.23	$0.29	$0.34				$1.05	$2.00
	37.452	44.851	51.692	56.350	69.000	69.500	71.000	71.000	19.358	33.927	47.586	70.125	70.335

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(3) CFR expects to receive or intends to seek compensation for investment banking services from the Subject Company within the next 3 months.
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Accumulate Purchase of the stock is recommended for above average appreciation over the next 12 to 18 months, but the buyer may have an opportunity to acquire the stock within a 10% trading range.

Hold Holding the stock is recommended because the share price has moved above the specific "Buy" range and, therefore, appreciation potential is less than or equal to the market.

Sell The stock has reached the target price objective and/or conditions have changed sufficiently to alter the outlook for the stock.

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Moderate The security has about the same volatility as the market and/or the company carries a level of leverage in line with its peer group.

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