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UPDATE REPORT

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FORCE PROTECTION INC. (OTC BB: FRPT)

INDUSTRY: DEFENSE

DISCLOSURES: 1, 4A, 6, 10

RATING: BUY

RISK: HIGH

CLOSING PRICE 06/16/06	TRAILING P/E (TTM)	SHARES OUT (MILS.)	MARKET CAP (MILS.)	3-5 YEAR EPS GROWTH	PRICE TARGET
\$4.66	NM	46.7	\$217.6	N/A	\$7.50

ANNUAL DATA – DECEMBER YEAR END			
	2005A	2006E	2007E
EPS	\$ (0.49)	\$ 0.15	\$ 0.75
P/E	N/M	31.1	6.2
REVENUE (MIL.)	\$49.7	\$202.9	\$357.3
P/S	4.38	1.07	0.61

EARNINGS					
	Q1	Q2	Q3	Q4	ANNUAL
2007E	\$ 0.15	\$ 0.19	\$ 0.20	\$ 0.21	\$ 0.75
2006E	\$ (0.02)	\$ 0.05	\$ 0.05	\$ 0.07	\$ 0.15
2005A	\$ (0.11)	\$ 0.00	\$(0.13)	\$(0.28)	\$(0.49)
2004A					\$(0.53)

June 16th Field Trip and Management Visit.

Spent most of a day visiting, viewing and updating my knowledge regarding the Company’s operations and outlook. Conclusion: Remain convinced that:

- There is sufficient demand for FRPT vehicles for a several year ramp in production;
- New manufacturing production lines are in process of ramping—at least the second, JERRV-sized Cougar line is in start-up mode and ILAV-Cougar line in process of being designed and engineered;
- New IP announcement has substantial and broad application for the Company’s future with more announcements regarding other technical advances to be made;
- First quarter contained roughly \$1.5 million of expenses that were essentially ‘one-time in nature,’ and therefore should not effect future operating results. Further, when excluding these expenses, FRPT would have been profitable for the period.
- Maintaining BUY rating and \$7.50 price target.

Kill The Klaw!

The number one question that I hear from investors after they hear the FRPT story is the effect that our pulling out of Iraq is going to have on the Company’s fortunes. Although I do not believe that we are facing a “Viet Nam,” cut-and-run scenario whether a Democrat or Republican is elected into the White House next year, we have a similar situation to our experiences concerning all our 20th century engagements. However, this one is even more complicated.

It has been the history of the US to leave the equipment shipped and used in an engagement in the Country the conflict took place. First, the wear and tear is incredible...much worse than the worse possible maintenance calamity in the States. Second, there are always mop-up activities after the “victory” is declared. Lastly, the government in place typically needs military equipment to maintain the peace and that means the equipment shipped to fight the battles is often used to support the new government.

In this case, not only will we have to leave a lot of supplies and equipment to support the elected Iraqi government, a lot of the equipment used in this conflict includes the National Guard armament from our various state and county facilities. For the first time, the US National Guard has been shipped overseas with their equipment to defend the nation.

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Most importantly, we have learned that war has changed dramatically from the “total war” tactics devised and used successfully by U.S. Grant in the Civil War. Seemingly, wars in the future will not include super power against super power, but asymmetrical, 360°, wars where the enemy is all about and attacking our troops from all sides.

This means that the tools of the last war are less effective today. It also means that with FRPT’s ability to protect lives of our soldiers, and the political backdrop of a “zero death” capability against IEDs, means that there will be a continuing and strategic shift from old equipment to FRPT monocoque design vehicles. This gives us reassurance that the demand from the US Government and our allies should be continuing for some time.

More importantly, it is dually important that FRPT deploy as many trucks as possible since the average support, service and parts value of each vehicle is worth roughly 5-times that of the original cost of the truck. Today in Iraq, the FRPT vehicles shipped and in service are attacked six times a day and that number should increase with every vehicle delivered. Also, each vehicle has had a history of being “destroyed” five times each year. The reliability of these vehicles is so good that there is now a “bounty” on our trucks. Spray painted graffiti signs announce to insurgents to “Kill the Klaw!” specifically targeting FRPT’s Buffalo’s with its “spork” IED/mine testing probe.

No Longer a “Pimp My Ride” Production

Many investors haven’t come to the understanding that this business wasn’t really around three years ago. When it first started shipping product, FRPT was really a job shop trying to assemble a complicated vehicle with a “Pimp My Ride” approach: everything was custom, certainly nothing could be considered a manufacturing process. Enter Gordon McGilton who has not only turned the production line into an assembly process, but the goal is to accomplish this with minimal effort and no defects.

We learned how the old system was closed down for essentially four months while a new process was produced and systematized. We discovered with this trip that new, process monitoring and instruction CRTs are about to be added to the assembly line to not only inform the employee of each, successive step, but to check that each assembly step has been completed and checked.

When we were at the plant last April, we saw the Buffalo and Cougar assembly bays and line, respectively. This time, we actually saw a second Cougar positioned at the end of the second “assembly line” as if it were to be inspected and approved for transport. What is happening is that the second assembly line is being tested, after adopting all the manufacturing changes that the first line has discovered necessary for better flow, and that trial units are being produced. We believe that right now a unit is produced every two weeks...and the increase in production should start to occur in July. We’ve learned that once the new line is up to 20 units per month and running smoothly, the changes to production that should boost efficiency on Line #1 should be transferred from the new line to the original manufacturing line to help with productivity, costs and quality.

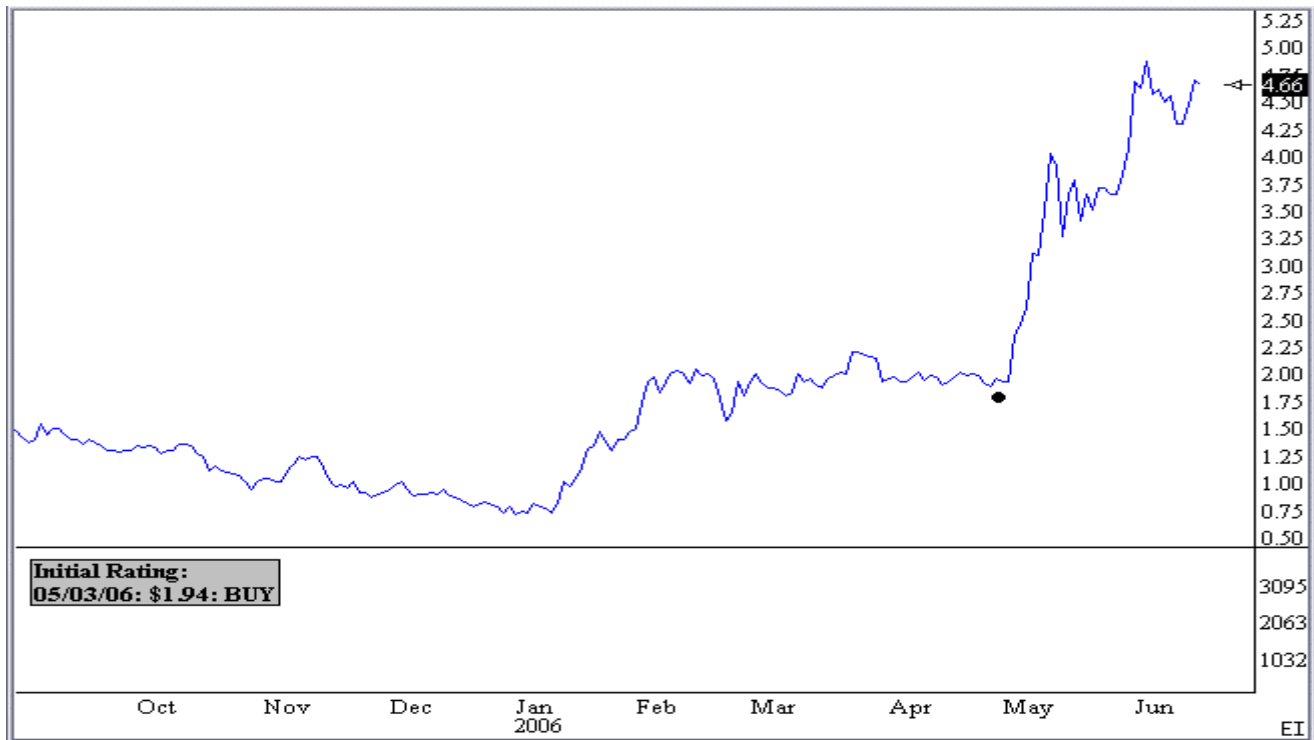
A third, even more productive approach for a line is gestating for the ILAV—Cougar. We were told that the even newer process should be more effective in producing vehicles.

When an Explosion Is Not a Uniform Blast

We had the pleasure of meeting Dr. Vernon Joynt. He is the reason why competitive pressures from other major defense contractors will be kept at bay for some while. While in South Africa, he became a leader in understanding explosive forces and even more importantly understanding how to measure explosive power on vehicles, soldiers, equipment, etc. On Thursday, the Company announced the signing of an agreement with South Africa's Council for Scientific and Industrial Research focusing on a patented blast manipulation technology applicable to wheeled and tracked vehicles.

What we were shown was two vehicle wheels: One where the explosive forces obliterated the wheel into an unrecognizable structure and where the force of the blast, as well as the wheel, was directed into the cab of the truck. The other wheel looked as if it had been driven over a huge rock, but one could tell that it was a wheel and that the forces were directed elsewhere.

Because of wanting to limit the release of IP and the sensitive defense nature that made the differences between the two different wheels, we only learned that the second wheel contained the new technology that Joynt developed earlier and that it was responsible for greatly reducing the numbers of deaths and severe injuries to soldiers in South Africa after deployment. The take-away is that the Company will make this technology available to other defense equipment contractors and it should add greatly and profitably to its operating statement. One should not expect to witness sales of this technology or any new anti-explosive technology for at least a year. Also, anything outside a defense vehicle is important when considering the forces of an explosion and the consequences thereto. That just means that there are a lot more items that can enjoy the Joynt re-engineering for safer vehicle operation.



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- | | |
|-------------------|---|
| Buy | Immediate purchase is recommended. The security expected to outperform the market over the next 12 to 18 months. |
| 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. |

EQUITY RISK SYSTEM:

- | | |
|-----------------|--|
| High | The security is more volatile than the market and/or the company is more leveraged than its peer group. |
| 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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