

October 26, 2006

Stewart & Stevenson Services
Attn: General Counsel's Office
2707 North Loop West
Houston, Texas 77008

Dear General Counsel of Stewart & Stevenson Services:

The Project On Government Oversight (POGO) is overhauling and renewing its Federal Contractor Misconduct Database (www.pogo.org/db/index.cfm), a compilation of information from public resources regarding government contractors, including Stewart & Stevenson Services. I have enclosed the findings relevant to Stewart & Stevenson Services and am requesting verification or refutation of the data from you by November 10, 2006.

Any response would be greatly appreciated, as the accuracy of this information is in the best interest of all parties. Out of fairness to Stewart & Stevenson Services, please be assured that any response received by POGO will be posted on the website along with the data.

Changes to the database include: the addition of more current instances, removal of Superfund cleanup costs, and removal of information that could not be verified with official documents. Additionally, pending cases will still be included, but this information will be kept separate from the resolved cases and will not be included in any totals.

If you have any questions, please contact Kevin Phelps at (202) 347-1122 or kevin@pogo.org. Thank you for your time and consideration.

Sincerely,

Scott Amey
General Counsel

Enclosure

Instances

1.

Breach of Contract

Date: 01/01/1997 (Date of Settlement Agreement)

Misconduct Type: Government Contract Fraud

Contracting Party: Government Defense

Court Type: Civil

Amount: \$7,000,000

Disposition: Settlement

Synopsis: "During Fiscal 1997, the Company entered a Plea Agreement and a Settlement Agreement resolving all litigation relating to the 1987 contract to supply diesel generator sets for installation in the Kingdom of Saudi Arabia (the "Peace Shield Litigation"). This litigation was pending in the United States District Court, Houston Division. The Company paid a \$2.0 million criminal fine, a \$2.0 million civil penalty, and \$3.0 million in restitution to the U.S. Air Force."

Document(s):

SEC 10-K

Pending Cases

1.

Illegal Export of Controlled Military Vehicles

Date: 04/13/2006 (Date of SEC Filing)

Misconduct Type: Import/Export

Contracting Party: N/A

Court Type: Civil

Amount: \$0

Disposition: Pending

Synopsis: "During 1998, the U.S. Customs Service detained a medium tactical vehicle that was being shipped by the Company for display in a European trade show. The U.S. Customs Service and the Department of Justice have conducted an investigation of potential violations by the Company of laws relating to the export of controlled military vehicles, weapons mounting systems and firearms. Such investigation could result in the filing of civil or administrative sanctions against the Company and/or individual employees, and could result in a suspension or debarment of the Company from receiving new contracts or subcontracts with agencies of the U.S. government or the benefit of federal assistance payments."

Document(s):

SEC 10-K

2.

Failure to Maximize Shareholder Value

Date: 04/11/2006 (Date of Filing)

Misconduct Type: Securities

Contracting Party: N/A

Court Type: Civil

Amount: \$0

Disposition: Pending

Synopsis: “The Company and six of its directors are defendants in a purported class action lawsuit relating to the proposed merger transaction with Armor Holdings described above in “Business”. The lawsuit was filed on April 11, 2006, and alleges, among other things, that the defendants have breached their fiduciary duties to the shareholders of the Company by failing to maximize shareholder value when selling the Company, by favoring Armor Holdings in the proposed merger transaction and precluding superior offers for the Company and by failing to disclose material information or disclosing materially false information in its proxy materials relating to the shareholders’ meeting to be held on May 9, 2006. The lawsuit was filed in District Court in Harris County, Texas, by a purported shareholder of the Company on behalf of all other similarly situated shareholders. The lawsuit alleges that a class should be certified and the plaintiff named as representative of the purported class. No class has been certified at present and accordingly, we regard the action as a purported class action. Additional lawsuits could be filed in the future. The lawsuit seeks, among other things, a declaration that the merger agreement was entered into in breach of the fiduciary duties of the individual defendants and is therefore unlawful and unenforceable, an injunction against the Company proceeding with the transaction or consummating the transaction or any other business combination unless certain procedures are in place and damages, attorneys’ and experts’ fees, expenses and other relief.”

Document(s):

SEC 10-K