

**Omnitek Engineering Corp. (OMTK)**

Neutral

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**Revenues and Margins Dip in 4Q08; Under-Capitalization Continues to Limit Growth; Cutting Estimates; Maintaining Neutral**

Key Metrics	
Price:	\$0.55
Rating:	Neutral
52-Week Range:	\$0.25-3.00
Cash (M):	\$0.05
Debt (M):	\$0
Debt/Capital:	0%
Book Value/Share:	\$0.11

Market Data	
Market Cap (M):	\$9
Enterprise Value (M):	\$9
Shares Out. (M):	16.0
Float (M):	NA
10-Day Avg. Vol.:	700
Institutional Ownership:	NA



Source: OTC QX

Valuation	
FY08E EV/Sales:	2.6x
FY09E EV/Sales:	2.5x
FY09E P/E	NM

**Company Description**

*Omnitek Engineering Corp. is a leader in the alternative fuels engines industry. Omnitek develops and supplies new natural gas engines, advanced engine management systems for gaseous fuels and is the manufacturer of proprietary technology used to convert old or new diesel engines to operate on natural gas, propane, or hydrogen. Omnitek offers a total system approach and is supplying alternative energy solutions that are affordable and contribute to combat global warming.*

**Investment Conclusion**

As fuel prices rise and government entities continue to put pressure on sources of carbon emissions, we believe the commercial vehicle, diesel gen set and bus markets—all segments being significant producers of greenhouse gases (GHGs)—will likely accelerate its adoption of alternative-fuel and hybrid vehicle platforms across all vehicle sizes. From a technology standpoint, we feel Omnitek is well positioned to grow its base of business within the diesel-to-natural gas conversion markets; however, we believe the company's balance sheet could be a limiting factor to revenue and earnings growth.

**Summary**

- 4Q08 results.** Omnitek reported fourth quarter revenue of \$0.7M and a net loss of (\$0.07) per share vs. our estimates of \$1.0M and \$0.00. We estimate the company shipped a mix of 80% CIMS (carburetor controlled engine) natural gas retrofits at approximately \$1,500 per kit and 20% EFI (fuel injection) kits at approximately \$2,500 per kit. Total kit shipments totaled approximately 400 kit units. The greater than expected net loss resulted from lower than expected revenue, lower gross margins from under-absorbed overhead and end of year stock compensation (non-cash). The company was cash flow neutral during the period.
- Multiple opportunities in front of Omnitek.** Omnitek is currently designing products to service key programs in the U.S., including a \$17M opportunity with Cameron (CAM, \$17.32, Not Rated) for retrofitting very large diesel engines for gas line compression, a \$4M opportunity for bus conversions in Peru, a \$900k opportunity in Bulgaria for city bus conversions and a \$450k opportunity for large truck engine retrofits in Malaysia.
- Cutting estimates.** We are lowering our estimates for Omnitek given the company's capital constraints. We believe a cash infusion of \$3-5M would sufficiently capitalize the company to execute on these developing opportunities for CIMS and EFI natural gas retrofits. We are cutting our FY09 revenue and EPS estimates to \$3.6M and (\$0.05), from \$5.8M and \$0.02, respectively. In addition, our FY10 estimates are lowered to \$5.1M and \$0.00, from \$10.9M and \$0.10, respectively. As a result of the company's cash position, we are maintaining our Neutral rating on Omnitek.

**MCF Estimates\***

	FY08A		FY09E		FY10E	
	Prev		Prev		Prev	
SALES (M)						
1Q	\$0.5	\$0.5	\$1.0	\$0.4		
2Q	1.0	1.0	1.5	0.7		
3Q	1.2	1.2	1.8	1.2		
4Q	1.0	0.7A	1.6	1.4		
<b>FY (Dec)</b>	<b>\$3.6</b>	<b>\$3.4A</b>	<b>\$5.8</b>	<b>\$3.6</b>	<b>\$10.9</b>	<b>\$5.1</b>
EV/S	2.4x	2.6x	1.5x	2.5x	0.8x	1.7x
EPS						
1Q	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.02)		
2Q	(0.00)	(0.00)	0.01	(0.02)		
3Q	0.00	0.00	0.01	(0.01)		
4Q	(0.00)	(0.07)	0.01	0.0		
<b>FY (Mar)</b>	<b>(\$0.02)</b>	<b>(\$0.08)</b>	<b>\$0.02</b>	<b>(\$0.05)</b>	<b>\$0.10</b>	<b>\$0.00</b>
P/E	NM	NM	27.5x	NM	5.5x	NM

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**Omnitek Engineering Corp.****Balance Sheet**

(\$ in thousands, except ratios)

	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
Current assets:			
Cash and equivalents	18	23	46
Accounts receivable, net	59	72	33
Inventory, net	1,241	1,167	1,439
Deposits	143	70	210
Deferred Tax Assets	131	462	403
<i>Total current assets</i>	<u>1,591</u>	<u>1,795</u>	<u>2,132</u>
Fixed Assets, net	46	33	24
Prepaid expense	0	3	3
Intellectual preoperty, net	473	355	243
<i>Total assets</i>	<u>2,110</u>	<u>2,186</u>	<u>2,401</u>
Accounts payable and accrued expenses	154	76	221
Accrued expenses-related parties	169	242	299
Customer deposits	76	80	95
Shareholder loans	15	15	0
<i>Total current liabilities</i>	<u>414</u>	<u>412</u>	<u>615</u>
<i>Total stockholders' equity</i>	<u>1,696</u>	<u>1,774</u>	<u>1,785</u>
<i>Total liabilities and stockholders' equity</i>	<u>2,110</u>	<u>2,186</u>	<u>2,401</u>
	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
Current Ratio	3.8	4.4	3.5
Debt as % Total Capital	0.0%	0.0%	0.0%
Net Cash per Share	\$0.00	\$0.00	\$0.00
Book Value per Share	\$0.12	\$0.11	\$0.11

*Source: company reports*

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**Omnitek Engineering Corp.**

**Earnings Model**

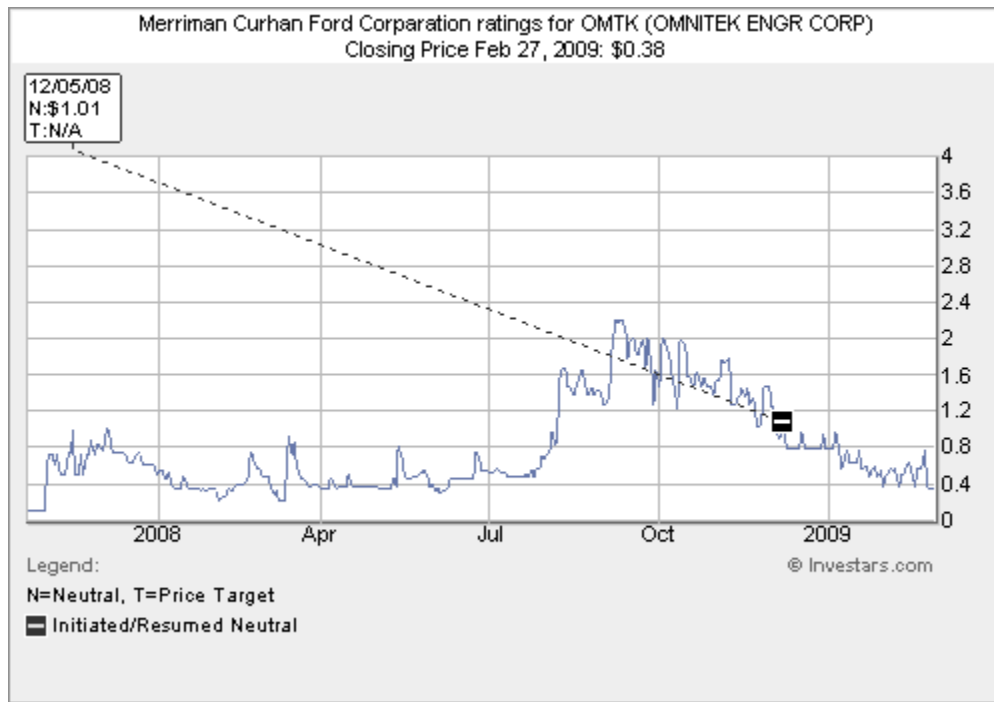
(\$ in thousands, except per share amounts)

	2008A				2009E				FY10E
	Q1A	Q2A	Q3A	Q4A	Q1E	Q2E	Q3E	Q4E	
	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	
<b>FY06A</b>	<b>FY07A</b>	<b>FY08A</b>	<b>FY09E</b>	<b>FY10E</b>	<b>FY06A</b>	<b>FY07A</b>	<b>FY08A</b>	<b>FY09E</b>	<b>FY10E</b>
907	1,017	3,360	3,550	5,148	907	1,017	3,360	3,550	5,148
Net sales	811	775	737	571	323	560	805	905	3,346
Cost of sales	96	243	439	116	53	115	345	446	1,802
<b>Total Gross Profit</b>	326	1,415	298	976	301	310	315	320	1,350
General & Administrative	27	(5)	2	4	2	2	2	2	7
Bad Debt Expense	168	356	39	112	83	85	87	90	380
Research and Development	556	1,903	360	1,120	416	427	434	442	1,737
Depreciation and amortization	(460)	(1,660)	(20)	(1,004)	(363)	(312)	(89)	4	65
<b>Income (loss) from operations</b>	(1)	(0)	0	0	0	0	0	0	0
Impairment of Investments	7	1	2	2	2	2	2	2	7
Interest Income (expense), net	6	1	2	2	2	2	2	2	7
<i>Total other income (expense)</i>	(454)	(1,660)	(173)	(1,002)	(362)	(310)	(87)	5	(754)
Loss before provision for income taxes	(36)	(332)	0	59	0	0	0	0	0
Provision for income taxes	(417)	(1,328)	(173)	(1,061)	(362)	(310)	(87)	5	(754)
<b>Net loss</b>	(0.03)	(0.08)	(0.01)	(0.07)	(0.02)	(0.02)	(0.01)	0.00	(0.05)
Diluted EPS	14,217	15,830	16,006	16,006	16,016	16,026	16,036	16,046	16,345
Diluted share count									
<b>Operating Ratios</b>	<b>FY07A</b>	<b>FY08A</b>	<b>FY09E</b>	<b>FY10E</b>	<b>FY07A</b>	<b>FY08A</b>	<b>FY09E</b>	<b>FY10E</b>	<b>FY10E</b>
Gross Margin	10.6%	23.8%	34.5%	33.6%	37.3%	16.9%	16.9%	31.6%	35.0%
General and administrative expenses	36.0%	139.1%	54.4%	27.8%	25.4%	142.2%	54.6%	54.6%	26.2%
R&D Expense	3.0%	-0.5%	5.9%	4.1%	6.3%	16.4%	0.3%	0.3%	0.1%
Total Operating Expense	61.3%	187.0%	67.0%	35.6%	34.8%	163.1%	66.4%	66.4%	33.7%
Operating Margin	-50.7%	-163.2%	-32.5%	-2.1%	2.5%	-146.2%	-34.8%	-34.8%	1.3%
Net Margin	-46.0%	-130.5%	-32.2%	-1.9%	2.7%	-154.6%	-32.8%	-32.8%	1.4%
<b>Year/Year Change</b>	<b>FY06A</b>	<b>FY07A</b>	<b>FY08A</b>	<b>FY09E</b>	<b>FY06A</b>	<b>FY07A</b>	<b>FY08A</b>	<b>FY09E</b>	<b>FY10E</b>
Total Revenue	NM	12.2%	NM	NM	NM	230.3%	NM	230.3%	45.0%
Gross Profit	NM	152.0%	NM	NM	NM	338.0%	NM	338.0%	88.1%
Operating Income	NM	261.0%	NM	NM	NM	-29.6%	NM	-29.6%	-110.1%
Net Income	NM	218.0%	NM	NM	NM	-16.9%	NM	-16.9%	-109.5%
EPS as Reported (Diluted)	NM	185.6%	NM	NM	NM	-17.9%	NM	-17.9%	-109.3%

Source: company reports and Merriman Curhan Ford estimates  
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