

XODTEC GROUP USA, INC.
COMPANY REPORT

Rob Goldman
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XODTEC GROUP USA, INC. (OTC:BB – XODG - \$0.96)

Price Target: \$3.00

Rating: Speculative Buy

COMPANY SNAPSHOT

Xodtec Group USA, Inc. provides high performance, cost-effective, energy-saving LED solutions and traditional lighting products for commercial, industrial, public, and residential use. These optimal solutions meet today's energy management requirements and provide many benefits over traditional light sources, including lower energy consumption, longer life spans, and the absence of hazardous materials. Xodtec expects to generate meaningful sales growth, driven by the rise in LED adoption and its patented technology.

KEY STATISTICS

Price as of 7/28/09	\$0.96
52 Wk High – Low	\$1.17-\$0.92
Shares Out (mil)	18.1
Market Cap (mil)	\$17.4
Insider Ownership	86.0%
Institutional Holdings	N/A
Avg Daily Vol (30-Day)	5000
Exchange	OTC:BB

COMPANY INFORMATION

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INVESTMENT HIGHLIGHTS

According to market research firm Strategies Unlimited, following *Light Emitting Diode (LED)* product sales of **\$1.86 billion in 2008**, LED product sales should enjoy a **28% annual compound growth rate from 2009 – 2012**. Product adoption is driven in large part by government regulations, such as initiatives by the U.S. DOE and the EPA's *EnergyStar Certification Program*. Many nations such as Australia have banned or have passed laws banning the use of incandescent lights, in an effort to achieve optimal energy efficiency and to limit the use of hazardous materials found in lighting products.

LED solutions provide many benefits over traditional incandescent, halogen, fluorescent, and compact fluorescent (CFL) light sources, including lower energy consumption, longer life spans, the absence of hazardous materials such as mercury, and lower maintenance costs. Advancements in LED technology have also resulted in greater lighting fixture design flexibility.

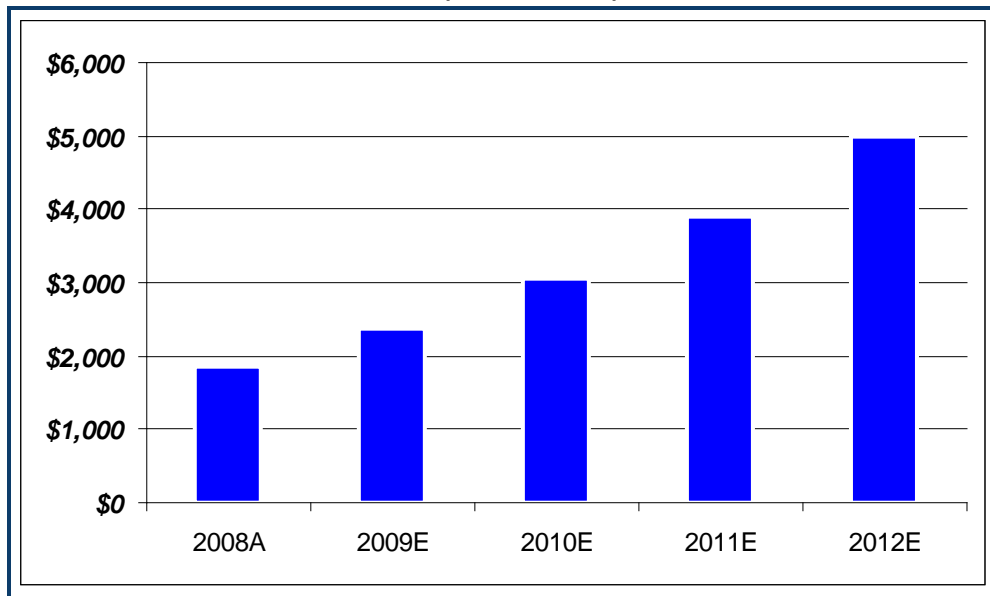
Xodtec's experienced management team has already successfully penetrated its home market in Taiwan through sales of its advanced LED lighting products and plans to enter China later this year. Presently, Xodtec has over 200 franchises and plans to add 30 distributors this year.

With a broad product portfolio, and a presence in Asia and the U.S., Xodtec appears well-positioned to take advantage of the ubiquitous demand for energy efficient and environmentally safe LED lighting solutions. Thus, we rate these shares a Speculative Buy and believe that the shares could reach \$3.00 as adoption in the U.S. and abroad ramps higher.

INDUSTRY OVERVIEW

According to the *Freedonia Group*, the global lighting industry is estimated to reach \$120 billion by 2012, with a projected growth rate of 5% per annum. Conversely, according to market research firm *Strategies Unlimited*, following LED product sales of \$1.86 billion in 2008, LED product sales should enjoy a 28% annual compound growth rate (CAGR) from 2009 – 2012. The lighting industry is divided into two separate categories: fixture and light lamp. The fixtures category includes all fixtures and systems, while light lamps consist of the replaceable devices that emit light. Traditional light lamps in the residential segment of the general illumination market include incandescent bulbs, fluorescent tubes and inexpensive halogen lamps, while more expensive and durable fluorescent and fixtures have the largest market share.

Chart I. LED Product Sales Forecast
(\$, in millions)



Source: Company filings and reports

Historically regarded as expensive in relation to their delivered light output, LEDs are semiconductor-based devices that emit light. However, as the cost of LEDs continues to decline and their relative performance increases, this segment is gaining meaningful traction in the general illumination market versus traditional lighting. Interestingly, the initial applications of LEDs included traffic lights, automotive brake lights and indicator lights, and even today Xodtec generates meaningful revenue from the sale of LEDs in GPS and other advanced lighting products. Today, the growing popularity of white light LED technology has demonstrated that it can effectively deliver a high light output, save energy, and reduce the emission of carbon dioxide when use in general lighting. Thus, with the increasing awareness in environmental protection, lighting devices using white light LED as the light source are enjoying widespread adoption.

Industry statistics suggest that lighting applications currently represent about 22% of all energy consumption. These high energy costs have resulted in increased demand for more energy-efficient lighting solutions, which has inspired a natural shift to LEDs. LED lighting technology is inherently more energy-efficient and can result in more than 80% and 50% in power savings over traditional incandescent and fluorescent solutions, respectively due to the higher production of lumens per watt.

Key LED features, including quality of light output, long life, low power consumption, low heat output and full digital control are not just accelerating adoption but expanding market opportunities. Additional attributes, including design flexibility, color-changing effects, digital dimming capabilities, remote control, smaller size and rapid start-up time are creating new lighting applications for LEDs in commercial, architectural, residential, and entertainment markets.

XODTEC'S ADVANTAGES

Xodtec is an industry leader and is well-positioned to capture additional market share of the LED lighting space. The Company plans to become the largest LED lighting supplier in Taiwan, with meaningful share in China and The U.S. In addition to the favorable positioning of LED lighting as a whole, Xodtec has a number of factors in its favor. These include:

- **Broad offering.** Over 50 products in 3 lines targeting key target markets including the commercial, entertainment and residential segments.
- **Strong distribution.** Solid independent global sales and distribution network of over 200 franchises in Taiwan, with products sold under well-known brand names such as *Xodtec* and *Danhui*.
- **Proprietary technology.** Intellectual property protects a number of offerings and applications including its white LED and color changing product line, remote control chip and digital dimming.
- **Low rate of light decay.** With a recently measured luminous decay of less than 2% over a period of one year, Xodtec LED lighting solutions are high quality, competitively priced, energy efficient, and environmentally conscious.
- **Experience in government sales.** Xodtec's penetration of the government sector is a bonus given that recent and pending legislation across the globe is placing a greater emphasis on energy savings and environmental protection through the use of alternative lighting solutions.



MANAGEMENT

Yao-Tin (Curtis) Su. Mr. Su serves as the Company's Chairman of the Board of Directors. Since 2007, Mr. Su has also served as the Chairman of the Company's subsidiary Xodtec Technology Co., Ltd. and from 1997 as the Chief Executive Officer of another of the Company's other subsidiaries, Targetek Technology Co., Ltd. Mr. Su received a Bachelors Degree from Soochow University (Taipei, Taiwan) and was the Valedictorian of the Air Defense Missile School of the United States Army in Fort Bliss, Texas. Mr. Su also served in the Army of Taiwan from 1979 to 1981.

Chao-Wu (Mike) Chou. Mr. Chou serves as Chief Executive Officer and as the Chief Executive Officer of the Company's subsidiary Xodtec Technology Co., Ltd. where he is responsible for the formulation and execution of corporate strategies, integration of resources and setting and achieving sales revenues and profit goals.

Hui-Yu (Rachel) Che. Ms. Che serves as the Company's Chief Financial Officer and since 2001, Ms. Che has served as the Chief Financial Officer of the Company's subsidiary Targetek Technology Co., Ltd. Ms. Che is a certified public accountant and has a degree from National Chung Hsing University.

INVESTMENT RISKS

In our view, the greatest risk to these shares is the timing and order of magnitude of widespread adoption of LED lighting products, due in part to the higher initial cost to achieve comparable light output to traditional lighting technologies. The Company also faces competition from other LED lighting providers as well as traditional lighting industry giants General Electric and Philips Electronics. As is the case with virtually all companies in this environment, the Company may face difficulties due to the present economy as Xodtec derives a portion of its revenue from the sale of lighting solutions procured by municipalities and those used in newly constructed buildings and homes. In our view, all of these risks are consistent with the early stages of technology adoption and as a result, investors should use progress in deployment, implementation, and LED industry interest as a performance measure since these shares will likely be news-driven in the near term.

CONCLUSION

With a track record of success in Asia, aided by strong global demand for its broad LED lighting product portfolio, Xodtec appears well-positioned to take advantage of the ubiquitous demand for energy efficient and environmentally safe LED lighting solutions. Thus, we rate these shares a Speculative Buy and believe that the shares could reach \$3.00 as adoption in the U.S. and abroad ramps higher, spurred by regulation, technological advancements, and a desire to reduce energy costs.

Analyst: Robert Goldman

Rob Goldman has 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell-side analyst, Rob was a senior member of Piper Jaffray's Technology research team covering Israeli Technology and Communications Software. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group as well as the Firm's Israeli research team. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and The Blue and White Fund.

Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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