

THE PULSE BEVERAGE CORPORATION

Clearly Canadian, Part II? \$4/Share is in PLSB's Future

Rob Goldman
rob@goldmanresearch.com

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Aaron Schweitzer
aaron@goldmanresearch.com

THE PULSE BEVERAGE CORPORATION (OTC:QB – PLSB - \$0.91)

Price Target: \$4.00

Rating: Speculative Buy

COMPANY SNAPSHOT

Led by former executives of Clearly Canadian Beverage, The Pulse Beverage Corporation is an emerging growth beverage company that manufactures and distributes Cabana™ 100% Natural Lemonade and PULSE® brand of functional beverages -- originally developed by a major healthcare company, in three health platforms: PULSE® Heart Health Formula™, PULSE® Women's Health Formula™ and PULSE® Men's Health Formula™.

KEY STATISTICS

Price as of 2/4/13	\$0.91
52 Wk High – Low	\$0.94 – 0.43
Est. Shares Outstanding	40.4M
Market Capitalization	\$37.2M
3 Mo Avg Vol	62,000
Exchange	OTC:QB

COMPANY INFORMATION

The Pulse Beverage Corporation
11678 N. Huron St.
Northglenn CO 80234
720.382.5476
www.pulsebeverage.com
info@pulsebeverage.com

INVESTMENT HIGHLIGHTS

With a strong product offering led by highly successful beverage executives, The Pulse Beverage Corporation is well-positioned to emerge as the next hot brand in the nutritional/functional beverage market.

Recent sales reported by the major players and forecasts released by industry experts indicate that the market is experiencing a strong shift away from the broad consumption of carbonated soda drinks to healthier options. Pulse's products are targeted at the nutritional and functional beverage segment of the non-carbonated beverage market which potential market size in excess of \$1 billion in annual sales.

The PLSB line has been perfected following years of development. Over \$10M was spent in the development, formulation, and marketing of the Pulse® brand of beverages under license from the Baxter Healthcare Corporation. PLSB owns all trademarks, rights, formulations, etc., royalty-free.

Initial sales are driven by PLSB's Cabana™ 100% Natural Lemonade product, which will hit the magic 1M cases shipped mark this year and 2.0M+ by year-end, on a 12-month delivery-to-store basis. These milestones are key as numerous brands have been acquired at premium valuations by major players once the 1M cases shipped per annum mark is reached.

We project sales could jump from \$2M+ in FY12 to \$30M in FY13 and \$100M in FY14, with strong profit margins, beginning this year. With a popular offering and broad distribution through thousands of retail outlets, we believe PLSB could reach \$4.00 by mid-year. We rate these shares Speculative Buy.

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COMPANY OVERVIEW

Pulse Beverage Corporation was formed and founded in the Denver area by seasoned beverage industry professionals in 2010. The Company develops, produces, markets, and distributes non-alcoholic water-based drinks that are designed as a healthy alternative to mainstream soda and soft drinks. The PLSB management team members, many of whom cut their teeth by making Clearly Canadian Beverage a huge success together, is leveraging and building off of their collective and separate experiences in the industry to offer a suite of brands in thousands of retail outlets, supermarkets, convenience stores, and mass merchants throughout the United States. Clearly Canadian was sold for a substantial sum of money and we believe that management is building a similar company. (More on that later.)

Meanwhile, the Company's mission is *"to be one of the market leaders in the development and marketing of nutritional/functional beverage products that provide REAL health benefits to a significant segment of the population and are convenient and appealing to consumers."*

The PULSE® brand of beverages was formulated under license by a major healthcare company that spent in excess of \$10 million formulating, developing and initially marketing the PULSE® brand.

Pulse has free and clear ownership of the formulations, rights and trademarks relating to the PULSE® brand of beverages including the right to use the following Side-Panel Statement for PULSE® formulations for Pulse® - Men's Health Formula™, Pulse® - Women's Health Formula™ and Pulse® - Heart Health Formula™ : "Formulation developed under license from Baxter Healthcare Corporation". This right is in perpetuity without royalties.

Not only is this an unusual benefit that boosts the bottom line, but the side label adds significant credibility and affirmation of the benefits of the products in the nutritional/functional beverage marketplace.

The PULSE® brand of beverages was formulated to be scientifically effective by containing ingredients that are widely considered to be critical to adult health including liposome nanotechnology that introduces the ingredients into the beverage in a format that allows the body to absorb the nutrients.

Non-alcoholic beverages are among the most widely distributed food products in the world and are being sold through more than 400,000 retailers in the U.S. In fact, the U.S. has more than 2,600 beverage companies and 500 bottlers of beverage products. Collectively they account for more than \$105 billion in annual sales. It is estimated that globally more than \$300 billion worth of non-alcoholic beverages are sold annually. The beverage market is controlled by two giants, Coca-Cola and Pepsico controlling over 70% of the beverage market

Industry watchers and the beverage giants believe that growth will be largely confined to niche nutritional and functional beverages which are non-carbonated. Coca-Cola has stated that they are searching for another billion dollar brand and is betting that the next big beverage will be a niche product. Coca-Cola's VEB group is hoping to cultivate the next billion-dollar brand and has identified PULSE® as the direction the market is going.

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Coca-Cola has stated that one million cases and/or \$20m in revenues is their “proof of concept” benchmark and it is common for these industry giants to acquire successful brands from smaller companies, typically for a negotiated multiple of sales revenues. We believe that the Company is well-positioned to have one or more of its brands to be acquired, down the road.

The Pulse® formulations contain healthy ingredients including vitamins and anti-oxidants such as Vitamins C, D, E, B6, and B12, Folic Acid, Calcium, Magnesium, lycopene, selenium, soluble fiber, green tea catechins and soy isoflavones using liposome nanotechnology in their development. The products target specific health platforms with all natural ingredients and less than 55 calories per serving. The Company is targeting the over 30 demographic as its primary segment with the goal of creating true differentiation with a new functional product category that provides real health and wellness benefits in a bottle.

In our view, PLSB is well ahead of competitors that have launched emerging brands. This is due to a number of factors including the fact that the scientifically-developed PULSE® brand has had in excess of \$10 million spent on product formulation and extensive and successful test marketing, a top-notch team with a proven track record, the VEB unit of Coca-Cola’s expressed interest in the PULSE® brand, and the establishment of an extensive distribution network.

THE PRODUCTS

Pulse’s products are targeted at the nutritional and functional beverage segment of the non-carbonated beverage market which potential market size in excess of \$1 billion in annual sales. Non-carbonated beverages include energy and sports drinks, nutraceuticals, lemonades, teas, juices and bottled water. These beverage categories include a host of products that are fortified with vitamins, minerals and dietary supplements.

Pulse’s product mix is calculated to exploit niches that have been identified as either unoccupied or have yet to attract significant attention such as all-natural lemonades and nutritional/functional beverages. These offerings are formulated and aimed at providing functional ingredients to specific health platforms. Pulse has recently improved the original Pulse® formulations by reducing the calories to not more than 55 calories per 8oz. serving.

Current Driver

Pulse elected to launch its lemonade product, Cabana™ in 2012, ahead of the Pulse® brand health line, which should begin to ship in meaningful numbers in 1Q13. The Company touts this product as 100% all-natural lemonade, with five unique flavors and 40% lower calories. This strategy served the purpose of establishing the distribution network with a familiar and relatively simple product in order to facilitate the ‘red carpet’ roll out of the Pulse® flagship products. Investors should note that the Cabana™ product received a 4 out of 5 star rating from *BevNet* magazine with its launch, and the Pulse® product launch will occur in select markets, this quarter.

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Cabana™ 100% Natural Lemonade is a “ready-to-drink” lemonade offered in five distinct and great tasting flavors, offering a significant reduction in calories, without the use of artificial sweeteners. We believe that this segment will likely account for north of \$2M in sales for 2012, and will likely reach the 1 million cases shipped mark by mid-year.



Image I. Cabana™ 100% Natural Lemonade
Source: (www.PulseBeverage.com)

Interestingly, the Bell Flavors and Fragrances group forecasted lemonade as the number one beverage flavor for 2012. Cabana™ 100% Natural Lemonade offers approximately 40% fewer calories than many of its competitors, has only 12g of sugar per 8 oz. serving and is one of two all-natural lemonades in the marketplace. PLSB uses Stevia to reduce calories and as a sweetener. We believe management made a great decision in introducing this product first, as it enabled the Company to garner broad distribution and sales. With the clear differentiators and lack of a true 800-pound gorilla in the space, PLSB has been able to capitalize on low-hanging fruit, ahead of releasing its Pulse® product launch.

The Lemonade Market

- Lemonade is America's second favorite juice drink
- 89% of juice drinkers consume lemonade – 36% as favorite
- 56% of all teenagers prefer lemonade in the juice category - African Americans 66%, females, 61%
- 52% of all people purchase a drink contained in a glass bottles - the highest of any packaged container for a beverage

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THE PULSE® BRAND AT A GLANCE

Pulse® - Heart Health Formula™ contains safe and effective levels of a number of important heart and health friendly nutrients in a great tasting beverage. It has vitamin C and selenium, both of which are considered important nutrients to help maintain heart health. Pulse® Heart Health Formula™ is an excellent source of dietary fiber which may help maintain healthy cholesterol levels.

Pulse® - Men's Health Formula™ is a unique combination of nutritional ingredients that include a variety of antioxidants that may reduce free radicals in our bodies. Free radicals are generally associated with aging, cardiovascular problems, cancer and many health concerns for men. While it is designed to support health in particular areas, such as prostate health, the combination of green tea catechins, Vitamins E & C, lycopene and selenium may help men maintain an ongoing counter attack in the battle against free radical damage to their bodies.

Pulse® - Women's Health Formula™ is a convenient nutritional beverage designed specifically for women. Our ability to be active and healthy is directly affected by the strength of our bodies. Pulse® Women's Health Formula™ contains meaningful levels of the key ingredients that work in concert to enhance bone health – calcium, magnesium and Vitamin D. Additionally, these ingredients coupled with folic acid and other B vitamins, may help women prepare for pregnancy while soyisoflavones may help buffer symptoms of menopause.



Image II. The Pulse® Offering
Source: (www.PulseBeverage.com)

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CLEARLY CANADIAN II? WHY PLSB WILL SUCCEED

From our perspective, we may look back at the success of Pulse Beverage and say that it was akin to shooting fish in a barrel. In our view, the Company has shortened the time to success by 2-3 years, due to the leverage of the formulation history, the swiftness of its distribution build-out, and time to achieving 1 million cases shipped. By March 2013, the Cabana™ brand is expected to reach the 1,000,000 level of case sales on an annualized basis. This is a “proof of concept” in the eyes of the major beverage companies and the brand should be an acquisition target at that point.

Most early stage (in sales and distribution cycles) beverage firms have an unproven formulation, or two. The PLSB offerings, as noted above, were developed under license by a major health care firm, which essentially rubber-stamps the health benefits of the nutritional/functional beverages. Moreover, to produce a side-label with the Baxter name on it, yet pay no royalties is a huge plus.

Even in cases where the product tastes great and is good for you, it is rare to find a cohesive team that worked together and had substantial success in the space. This leadership experience cannot be underestimated and a main reason why PLSB is such a no-brainer play on management.

Below are tables which highlight key players in the space. We believe that as product is shipped through its channels, PLSB will take away market share from these competitors.

Figure 1: Pulse® Brand Health Drink Competitors

Beverage	Company (Ownership)	Number of Flavors/Beverages	Health Information
Glacéau Vitamin Water	Coca-Cola Subsidiary	Numerous	Zero Calories, Some Vitamins
SoBe LifeWater	PepsiCo	Numerous	Some Vitamins
Function Drinks	Independent	3	Detox, Weight loss, Energy
Neuro	Independent	8	Light Carbonation, Proprietary Blends and Vitamins

Figure 2: Cabana™ Lemonade Drink Competitors

Beverage	Company (Ownership)	Number of Flavors/Beverages	Health Information
Calypso	King Juice	5	High Calories, Artificial Colors
Arizona Iced Tea	Independent	1	'Arnold Palmer', High Calories
Simply Lemonade	Coca-Cola	1	Natural Lemon Juice, High Calories
Huberts Lemonade	Monster Beverage	8	All Natural

As of the middle of January, the Company had over 7500 retail distribution points, via 90 distributors, 80% of which are considered Class “A”, that typically serve major beverage brands. We believe that the number of outlets could double in the near future. While ostensibly all of the recorded revenue thus far is from the Lemonade product, the new Pulse® offerings will have the benefit of substantial distribution, whereas the Cabana™ Lemonade product was primarily sold through smaller (in number and size) points of distribution.

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As a result, On a twelve month from delivery-to-store basis we estimate US Cabana™ case sales in excess of 2,500,000 and international Cabana™ case sales in excess of 500,000 based on secured and targeted listings to date. To achieve this level of sales so quickly is unheard of, as the Company will reach this mark in less than 2 years whereas it typically takes firms 4-6 years to reach that mark.

Why is that figure so important? We believe that PLSB is ultimately being built for sale to a larger player, although smaller complementary brands could be acquired along the way.

For example, here are noteworthy acquisitions.

Vitamin Water® - Coca-Cola® purchased Vitamin Water® for a reported \$3.4 billion when it was selling approximately 10 million cases per year and recorded roughly \$200M in sales.

- **SOBE®** - Pepsi-Cola® purchased SOBE® for a reported \$378M when it recorded annual sales of 3 million cases per year and had approximately \$60M in sales.

- **FUZE®** - Coca-Cola® purchased FUZE® for a reported \$300 million when FUZE®, at the time, was selling approximately 7 million cases per year and had approximately \$140M in sales.

- **Arizona Iced Tea®** - turned down an offer from Coca-Cola® for \$2.1 billion. At the time of the offer, Arizona Iced Tea® was selling approximately 25 million cases per year and \$500M in sales.

- **Honest Tea®** - Coca-Cola® purchased Honest Tea® in 2Q11 for a reported \$400 million when Honest Tea®, at the time, was selling approximately 1.4 million cases per year.

With its core products under pressure, many of the big beverage firms believe that the best way to grow is to engage in the acquisition of specialty beverage providers. **We believe that PLSB, once it achieves critical mass of sales by year-end, could be on the radar screen of these firms, and ultimately be acquired at a valuation similar to SOBE® or Honest Tea®. Using the metrics above would equate to a \$8-10 takeover price in 2014.** Meanwhile, we believe that the stock could reach the \$4 level once it records the magic 1 million cases sold milestone.

THE PULSE BEVERAGE TEAM

Pulse Beverage's management team brings close to 110 years of experience in the development, branding, and distribution in the beverage market with a focus on niche products. More than 25 brands have been built up from inception to market by the combined team, which honed its skills and achieved great success while leading Clearly Canadian Beverage Corporation.

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Robert (Bob) E Yates – President, CEO, CFO and Board Member

Mr. Yates is a beverage industry icon with over 20 years of experience in new product and label development, manufacturing, distribution and marketing. He was one of the main driver's and innovators in the Clearly Canadian® beverage brand as well as the development of Kwencher® brand, which sold 1.7 million cases in just two years. His portfolio in the beverage industry also includes household brands like Monster Energy Drink, Arizona Iced Tea, Rock Star Energy Drink, Vitamin Water, Perrier, Everfresh Juices, Ocean Spray, Miller Beer, Honest Tea and Fiji Water.

Parley (Paddy) Sheya – VP, National Sales Manager and Board Member

Mr. Sheya is another seasoned veteran in the beverage industry with almost 30 years of experience in international sales, distribution, and sales management in the arena. He worked with Mr. Yates in the development, branding, and distribution of both Clearly Canadian® and Kwencher® products. Another one of Mr. Sheya's other success stories involved the 2 year growth of Blue Ox Energy drink from and unknown with no sales to 850,000 cases sold and 122 distributors. His beverage portfolio includes experience in Jolt Cola®, Hires Root Beer®, Crush® Soda; Bubble-Up®, Country Time Lemonade®, Hansen's Natural Sodas and Juices; New York Seltzer® and Evian Water® and development of fruitful relationships with distributors and retailers such as Sam's, Wal-Mart, Target, Kroger, Costco, Walgreen's, CVS, Valero's, Public's, Win Dixie, Rainbow Foods, Safeway, Albertson's, 7-11, Circle K, Smith Foods, Kum-n-Go, GNC, Conoco, Whole Foods, and Vitamin Cottage.

Ron Kendrick - Chief of Product Development and Operations

Mr. Kendrick has also been in the beverage industry for over 30 years including 12 years at Clearly Canadian® where he managed supply chain and logistic operations. He founded Catalyst Development Inc., and has been the main innovator for the product formulations including the Pulse® brand for Baxter Health Corporation.

Dr. Pam Peeke, Advisor

Dr. Peeke is an internationally recognized expert, physician, scientist and author in the fields of nutrition, stress, fitness and public health. Dr. Peeke is Assistant Clinical Professor of Medicine at the University of Maryland, School of Medicine. Dr. Peeke is a Pew Foundation Scholar in nutrition and metabolism and is a Fellow of the American College of Physicians. At the National Institutes of Health (NIH), Dr. Peeke investigated the relationship between chronic stress, nutrition, and weight gain. Dr. Peeke was the first senior research fellow at the NIH Office of Alternative Medicine.

Serving as Chief Medical Correspondent for Discovery Health TV, Dr. Peeke was featured on the award winning "National Body Challenge" Series and is the host of the "Could You Survive?" Series, based upon her national bestselling book Fit to Live. Magazines including O, Prevention, Fitness and More feature her columns and editorials. Major television and radio networks including CNN, Fox and NPR interview her as a regular in-studio science and health news commentator. Dr. Peeke is chief lifestyle expert for WebMD's 50 million members. Dr. Peeke serves as spokesperson for the American College of Sports Medicine in its global initiative, Exercise Is Medicine, and she has been recognized by the National Library of Medicine as one of America's leading physicians. Dr. Peeke is founder and president of The Peeke Performance Center for Healthy Living™. For more information visit www.drpeeke.com.

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Bruce Horton, Advisor

Mr. Horton is a seasoned businessman and principal advisor to the Pulse management group. Over the years Mr. Horton has provided counseling to many international and domestic businesses in many industries. Mr. Horton began his career as a partner in a regional accounting firm where he specialized in tax planning, corporate restructuring, refinancing and mergers and acquisitions. Mr. Horton co-founded Clearly Canadian Beverage Company where he served as Chief Financial Officer and Director from 1987 to 1997. During his ten year tenure Clearly Canadian's sales grew from zero to \$180 million and it became one of the nation's leading suppliers of New Age Beverages. Since 1997, Mr. Horton has been a managing partner of the Calneva Financial Group, a consulting firm that specializes in helping companies in need of management or financial advice, and a boutique investment banker focusing on venture capital opportunities in Asia.

Don Prest, Advisor

Mr. Prest assists in areas of public financial reporting and business planning for the Company. Mr. Prest is a retired US and Canadian public company assurance partner where he practiced for 17 years at a large regional PCAOB registered accounting firm. Prior to December 31, 2009 Mr. Prest was an assurance partner for over 150 public US companies. Mr. Prest is a 1/3 owner of FBP Capital Corp. ("FBP"), a merchant bank, for 7 years. Mr. Prest also serves as Chief Financial Officer and a director for Omnicity Corp. a US public company in the Wireless Internet Service Provider industry, where he spends approximately 25% of his time. He has served as the Chief Financial Officer for Power Air Corporation for three years ended September 30, 2008. Power Air was a public fuel cell company. Mr. Prest started his career in 1983 upon graduating from BCIT in Financial Management. Mr. Prest received his Canadian CA designation in 1991 and his US CPA designation in 1997.

RISK FACTORS

In our view, the biggest risk factors for PLSB are related to potential logjams at the distribution points or if the products do not prove to be as popular as expected. While to a degree it is the "chicken and the egg" scenario as it relates to sales and distribution, the Company is already about to surpass the proof of concept stage. Thus, we believe that the product could prove wildly successful, and it will be ubiquitous and available everywhere. If the sales ramp is muted, garnering additional distributors and distribution points could prove to be difficult. Plus, competition for shelf space remains fierce among all players in the space. Execution risks could push meaningful revenue generation out to a later date, or in a smaller initial ramp, thus impacting the Company's revenue ramp or time to profitability. Competition from larger firms or even from newer entrants is a typical concern and is also consistent with firms of PLSB's size and standing.

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VALUATION AND CONCLUSION

With a strong product offering led by highly successful beverage executives, The Pulse Beverage Corporation is well-positioned to emerge as the next hot brand in the nutritional/functional beverage market. Initial sales are currently driven by PLSB's Cabana™ 100% Natural Lemonade product, which, on a twelve month from delivery-to-store basis, we estimate US Cabana™ case sales in excess of 2,500,000 and international Cabana™ case sales in excess of 500,000 based on secured and targeted listings to date. These milestones are key as numerous brands have been acquired at premium valuations by major players once the 1M cases shipped annual mark is reached.

We believe that PLSB, once it achieves a critical mass of sales by year-end, could be on the radar screen of these firms, and be acquired at a valuation similar to SOBE® or Honest Tea®. Using those metrics would equate to an \$8-10 takeover price.

Our own back-of-the-envelope sales projections include an estimated \$2M+ in revenue for FY12 to \$30M in FY13 and \$100M in FY14, with strong profit margins, beginning this year, enabling the Company to generate at least \$3M in EBITDA, with the aid of a healthy Net Operating Loss of roughly \$3M. The stock chart looks great as there has been considerable strength even at its year-high. From the valuation perspective, at the \$4.00 mark, which is our mid-year target, the stock would only be trading 4x FY13 estimated sales. As noted above, we believe that the stock could reach the \$4 level after it records the magic 1 million cases sold milestone, which has already shown to result in 4-5x revenue when achieved on a per annum basis, in some buyouts.

With a leg up on the competition, a popular offering and broad distribution through thousands of retail outlets, we rate these shares Speculative Buy.

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Recent Trading History For PLSB

(Source: Stockta.com)





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Analyst: Robert Goldman

Rob Goldman has over 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 and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. 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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