NORTHLAND CAPITAL MARKETS

Initiating Coverage

07/23/2013

Outperform

Price: $1.05
Price Target: $2.25
Risk: Aggressive

Industry
Consumer

Reed Anderson
(612) 851-4967
randerson@northlandcapitalmarkets.com

Brennan Matthews
(212) 405-8083
bmatthews@northlandcapitalmarkets.com

Stock Data

52-Week Range	$0.43/$1.45
Avg. Daily Volume (MM)	0.08
Market Cap. (MM)	$54
Shares Out. (MM)	51.4
Float	90.4%
Cash Per Share	$0.07
Debt-to-Capital	0.0%
Book Value Per Share	$0.08
Dividend Yield	0.00%
Shares Short (MM)	NA
Insider Ownership	9.6%
Institutional Ownership	0.0%
FY End	Dec

Source: Factset

Revenue Estimates ($M)

	2013	2014	2015
1Q	0.8A	4.0E	8.3E
2Q	1.2E	5.2E	9.3E
3Q	1.7E	6.2E	10.3E
4Q	1.6E	6.5E	10.2E
FY	5.3E	21.9E	38.1E
P/S	10.2x	2.5x	1.4x

GAAP EPS Estimates ($)

	2013	2014	2015
1Q	(0.02)A	0.00E	0.00E
2Q	(0.01)E	0.00E	0.00E
3Q	(0.01)E	0.00E	0.01E
4Q	(0.01)E	0.00E	0.01E
FY	(0.06)E	(0.01)E	0.02E
P/E	NM	NM	52.5x

Pulse Beverage Corp (PLSB)

Initiating Coverage with an Outperform Rating and $2.25 Price Target

Summary

We are initiating coverage of Pulse Beverage Corp. (PLSB) with an Outperform rating and $2.25 price target. PLSB is a rapidly growing company focused on niche beverage markets, offering products that have nutritional benefits, taste good and are convenient for consumers. Backed by experienced management and well capitalized, PLSB has launched two brands in the past couple years and distribution is expanding rapidly. Sales should more than double in 2013 and grow fourfold in 2014, we estimate.

Key Points

Niche product focus: Pulse sells ready-to-drink beverages in two key categories: lemonades and functional beverages. The company is one of the very few offering an all-natural lemonade, marketed under the Cabana brand. Their functional beverage is sold under the PULSE name and currently available in three formulas: men's health, women's health and hearth health.

Well positioned in growing industry: Consumers are increasingly demanding beverages that are healthy, nutritious and convenient. Pulse has the benefit of incorporating patented liposome nano-dispersion technology originally developed by healthcare giant Baxter that allows the body to absorb nutrients at a high rate, helping to differentiate from products such as Vitaminwater.

Expanding distribution key driver: The success of a beverage company is highly dependent on their ability to develop a vast distribution network. National distribution is typically realized in three or four years, while Pulse has been able to establish a national network of distributors in a little over a year. They currently have over 90 distributors covering 44 states, Mexico, Canada, Panama and Bermuda. In addition to new formulations, PLSB is targeting international growth in key emerging markets like China.

Estimates: PLSB sales, we estimate, are on track to grow from $2.3 million in 2012 to $5.3 million in 2013 and $21.9 million in 2014. Since the company is very early in its development, EPS are still slightly negative but should move toward breakeven next year and a small profit in 2014. Importantly, the company is nearly cash flow positive today and volume and growth are the primary determinants of valuation in the beverage industry, especially for niche players.

Valuation: Our 12-month price target price of $2.25 is based on an EV/Sales multiple of ~5x applied to our 2015 revenue estimate, discounted by 20%. This is consistent with takeout multiples for similarly positioned companies over the past few years.

Valuation

We believe PLSB shares are attractively valued based on the company's rapid growth trajectory and substantial opportunity for expansion. Management has broad and deep experience in the beverage industry and, in our view, is well equipped to create a much larger and more profitable enterprise independently. At the same time, it's very common for beverage start-ups to become strategic acquisitions for major industry players looking to expand and diversify their businesses. Presuming the company executes, we believe it's highly probable that PLSB will be acquired by a much larger player within the next five years.

Takeout Multiples Typically 4x-10x Revenues

Beverage heavyweights like Coke and Pepsi have frequently purchased rapidly growing up-and-comers, with a particular emphasis on more health oriented targets in recent years. Consumer preferences have been shifting from carbonated soft drinks (CSDs) toward beverages that are better for them yet still taste good, often incorporating natural ingredients. From a strategic standpoint, acquisitions in the beverage industry can be very effective largely because the majors have an extraordinary ability to enhance distribution by leveraging their vast national and international networks across multiple channels. In addition, we estimate that 10-15% of a small beverage company's cost structure can typically be eliminated once it becomes fully integrated into a much larger organization. Combined, these factors have tended to support deal values in the range of 4x-10x trailing EV/Sales.

Some notable deals in recent years include the following:

Nestle acquires Sweetleaf Tea (May 2011)

Nestle Waters North America purchased the remaining equity of SweetLeaf Tea Company less than three years after acquiring a 35% stake for $15.6 million. The valuation on the initial investment was around 5x trailing revenue, we estimate. Sweetleaf was founded in 1998 and sales were less than $10 million after ~10 years of operations. The minority investment from Nestle helped to fund growth including the acquisition of Tradewinds and total sales rose to approximately $53 million by 2010.

Coca-Cola acquires Honest Tea (March 2011)

Coca-Cola purchased the remaining 60% of Honest Tea at an estimated purchase price implying a final valuation of around $300 million or 4.2x prior year sales. Three years earlier, Coke purchased a 40% stake in Honest Tea for a reported $43 million or 1.9x 2007 sales. Honest Tea was founded in 1998 and over the initial ten years sales grew to $23 million (2007). Following the initial Coke investment, sales grew by more than 200% to nearly $72 million (2010) over three years.

Coca-Cola buys Vitaminwater (May 2007)

Glacea, the maker of Vitaminwater, agreed to sell to Coca-Cola for $4.1 billion or ~11.5x trailing sales (2006) and approaching 5.9x forward sales expectations (2007).   Glaceau, which is also known as Energy Brands, was founded in 1996 and had sales of approximately $355 million in 2006.

Figure 1: Beverage Company Valuations

		7/22/2013		P/E Ratio			EV/EBITDA			EV/Sales			1-yr Sales
($ millions, except per share amounts)		Price	Mkt Cap	2012A	2013E	2014E	2012A	2013E	2014E	2012A	2013E	2014E	Growth Rate
DPS	Dr Pepper Snapple Group Inc	$47.82	$9,854	16.4x	15.5x	14.4x	10.4x	9.4x	9.0x	2.1x	2.0x	2.0x	2.4%
FIZZ	National Beverage Corp	$17.86	$843	18.8x	17.5x	N/A	11.2x	10.3x	N/A	1.4x	1.4x	N/A	1.4%
KO	The Coca-Cola Co	$40.84	$183,005	20.3x	19.4x	17.9x	15.1x	14.6x	13.8x	4.2x	4.2x	4.0x	-1.1%
MNST	Monster Beverage Corp	$64.63	$10,520	34.7x	30.5x	25.9x	17.8x	16.9x	14.7x	4.9x	4.5x	4.1x	9.5%
PEP	PepsiCo Inc	$86.40	$133,626	21.1x	19.6x	18.1x	12.6x	12.0x	11.3x	2.4x	2.3x	2.2x	3.1%
REED	Reed's Inc	$5.46	$73	-109.2x	546.0x	36.4x	90.0x	N/A	N/A	2.6x	N/A	N/A	N/A
PLSB	Pulse Beverage Corp	$1.05	$51	-10.4x	-18.4x	-186.9x	-15.9x	-17.4x	-1142.5x	20.7x	9.0x	2.2x	129%
			Mean*	0.4x	108.1x	22.6x	26.2x	12.6x	12.2x	2.9x	2.9x	3.1x	3.1%
			Median*	19.6x	19.5x	18.1x	13.9x	12.0x	12.5x	2.5x	2.3x	3.1x	2.4%

*These figures exclude PLSB in their calculation

Source: Thomson Reuters, NCM estimates

Given PLSB's current size and limited operating history, private company transactions like those described earlier probably offer the best comparison for valuation purposes. Figure 1 above shows valuation metrics for a group of public beverage companies including majors as well as very small operators. The average (mean) multiple for the group is 2.9x on an EV/sales basis relative to 2013 inside a range of 1.4 to 4.5x. While this should provide context, since none of the public comparison companies are growing anywhere near as fast as PLSB, we don't find the averages to be particularly helpful in our assessment of potential value.

$2.25 price target based on ~5x EV/Sales

Our 12-month price target price of $2.25 is based on an EV/Sales multiple of ~5x applied to our 2015 revenue estimate, discounted by 20%. This is well within the range of recent related takeout transactions in the beverage industry. Moreover, given that PLSB has grown at a much faster rate—should hit one million case run rate within just a few years of operation versus a more typical 5-6 years—could make strong case for more of a premium valuation, in our view. The biggest risk to valuation is probably execution. If management cannot grow the business at least at the level we have forecast, it will difficult to attain the valuation levels presumed in our price target. Conversely, exceeding our expectations could easily provide an upward bias to our valuation targets.

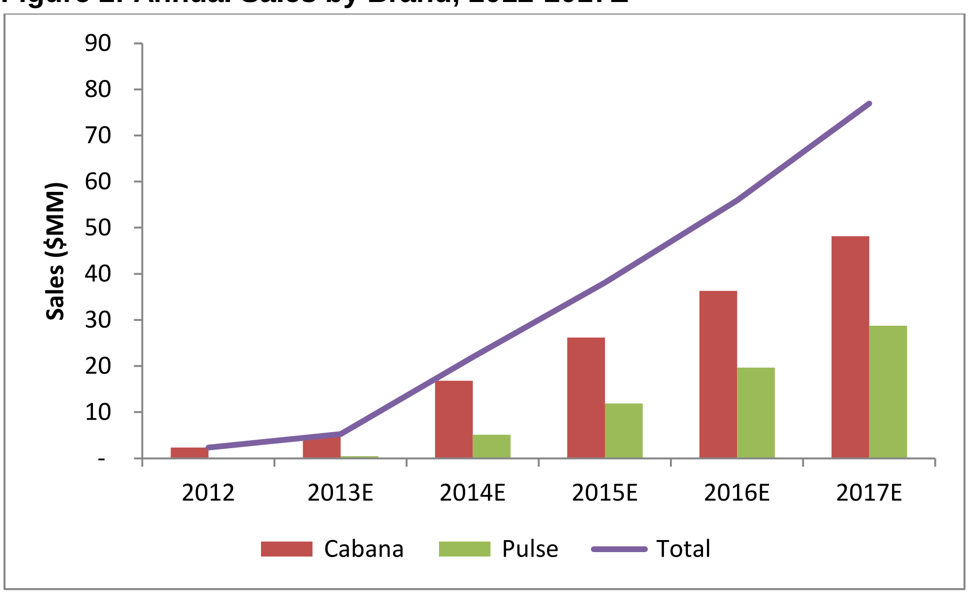
Company Overview

The Pulse Beverage Corporation (PLSB) markets, sells, and distributes niche, non-alcoholic water-based beverages in North America. The company focuses on offering drinks that address nutritional needs of people, frequently adults 30 and up. Their expertise and advantage comes from the company's experience in nutritional solutions, particularly in formulating non-water soluble ingredients into a water-based solution as well as developing the specialized containers that assure stability and long shelf-life. Pulse maintains two brands: Cabana natural lemonade and PULSE brand functional beverages (divided amongst three different functional health platforms). They sell products through various distributors, including direct store delivery and direct to retail channel.

Well Positioned for Growth – Fundamental Outlook

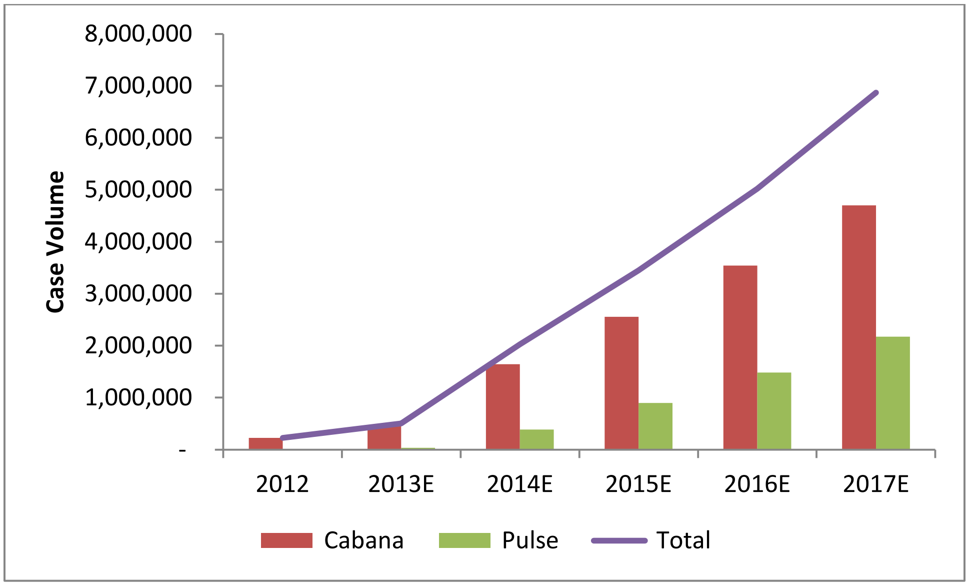
With key formulations and core distribution in place, the pace and magnitude of future growth will depend on several key initiatives. Negotiating additional co-packing agreements in strategic locations will enhance the company's ability to serve other markets in North America including Canada and Mexico, as well as Central America. The company is also dedicated to expanding the PULSE brand offerings through the development of new proprietary formulations that will provide demonstrable clinical benefits. Future formulas could focus on reducing sugar conversion in glucose to help prevent Type 2 diabetes, support skin health, manage body weight, prevent macular degeneration and preserve eyesight. The company is also working on a formula for adolescents to provide them with all the essential building blocks for healthy growth. Acquisitions of complementary products or distribution rights are third element of Pulse's growth strategy. Finally, the company believes there are substantial opportunities in developing international markets such as China.

Figure 2: Annual Sales by Brand, 2012-2017E



Source: Company Reports and NCM Estimates

Figure 3: Case Volume Sold by Brand, 2012-2017E



Source: Company Reports and NCM Estimates

Product Mix

Pulse products target the nutritional and functional beverage segments, which the company sees as having a potential market size in excess of $1 billion in annual sales. Non-carbonated beverages are broken into categories including energy and sports drinks, nutraceuticals, lemonades, teas, juices and bottled water – all of which are strengthened through the addition of vitamins, minerals and supplements.

PULSE Brand

The PULSE brand was originally formulated by a major healthcare company (Baxter Healthcare) that developed and initially marketed the brand. The brand was designed to be scientifically impactful by incorporating ingredients which are essential to adult health, including liposome nanotechnology that helps the body to best absorb the nutrients. There are three distinct health platforms: Men's Health Formula, Women's Health Formula, and Heart Health Formula. The company has free and clear ownership of the brand – including formulations, rights and trademarks combined with the royalty-free use of the following statement on packaging, "Formulation developed under license from Baxter Healthcare Corporation."

The PULSE brand line of beverages was only recently launched in February 2013. The success of the brand depends on the firm's ability to educate consumers on the enhanced health benefits and importance of these health benefits in living healthier lives longer. The firm plans to employ Dr. Pam Peeke's role as a keynote speaker at nutritional and sports conferences to educate consumers. Pulse will also utilize a consumer website, social media and print ads to educate consumers.

Northland Securities Inc. | 45 South 7th Street, Suite 2000 | Minneapolis, MN | 55402
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Available PULSE Formulas

Source: Company Reports

PULSE Men’s Health Formula

The men’s health formula platform contains antioxidants meant to remove free radicals from the body. Free radicals are linked to aging, cardiovascular problems, cancer and other men’s health issues. Originally designed to promote prostate health, the formula combines green tea catechins, vitamins E & C, lycopene and selenium to help limit free radical damage in men’s bodies.

PULSE Women’s Health Formula

The PULSE Women’s formula focuses on providing women with key ingredients designed to bone health – specifically through the usage of calcium, magnesium and Vitamin D. These ingredients are combined with folic acid and various B vitamins to help women prepare for pregnancy while the soy isoflavones in the formula help prevent menopause symptoms.

PULSE Heart Health Formula

As the names suggest, the Heart Health Formula focuses on providing individuals with key nutrients promoting heart health – specifically vitamin C and selenium. This formula also provides dietary fiber which helps to maintain healthy levels of cholesterol.

Cabana 100% Natural Lemonade
Cabana brand lemonade is all-natural, ready-to-drink lemonade offered in five flavors. As with the Pulse brand, the focus is providing a healthy alternative to other lemonade drinks on the market through lower calories (only 60) and low sugar (12 grams per 8oz). The beverage is all-natural, meaning no artificial sweeteners or coloring – Cabana is sweetened using the stevia plant. On April 1, 2013 the company announced more than 11,000 stores carried the Cabana brand of drinks (up from 7,500 at January 14, 2013) – with 9,000 more stores expected by the end of 2013.

Lemonade is one of the leading juice drinks in the United States – with approximately 89% of juice drinks consumed being lemonade (36% consider lemonade as their favorite juice drink). The drink is particularly popular amongst teenagers, with around 56% preferring lemonade to other juices. Traditionally seen as a summertime drink, lemonade sales are picking up and is no longer seen as being a drink only for warm weather.

Available Cabana Flavors

Source: Company Reports

Figure 4: Lemonade Spotlight Category

SPOTLIGHT CATEGORY

LEMONADE

52 Weeks through 4/21/2013

SOURCE: Symphony/IRI Total food/drug/c-store/mass.

Brand	Dollar Sales	Change vs. year earlier
Minute Maid	$63,423,190	1.36%
Lipton Brisk	$51,686,420	8.99%
Calypso	$39,339,800	58.76%
Private Label	$26,047,460	1.20%
Country Time	$15,208,610	-8.57%
Santa Cruz Organic	$12,625,610	22.91%
Fuze	$8,796,340	N/A
Huberts	$8,567,687	156.29%
Hawaiian Punch	$6,478,737	-22.61%
Honest Ade	$2,530,700	-7.35%
Cabana	$2,471,802	1,250.98%
Martinellis	$2,389,820	2.67%
NU South	$2,097,402	-38.12%
Nantucket Nectars	$2,070,984	1.77%
Minute Maid	$1,868,387	3.59%
Sun Fresh	$1,740,614	71.74%
Tampico	$1,491,243	-1.08%
Welchs	$1,384,677	N/A
Huberts	$1,335,679	N/A
AriZona Golden Bear	$1,255,029	N/A

Source: BevNet Magazine, June 2013

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Production and Distribution

The rapid development of a distribution network is a key to Pulse Beverage's success; lack of extensive distribution networks is often the cause of beverage company failures. The company's decision to launch the Cabana brand prior to Pulse was primarily due to the fact that lemonade has very broad consumer appeal, is easily understood and was poised for growth. Accordingly, it provided a clear pathway to sales growth and once the initial distribution was established, it would help pave the way for PULSE. The successful launch of Cabana essentially "red-carpeted" the PULSE brand into an established distribution system.

Senior management's experience and expertise in the beverage industry created a significant competitive advantage, in our view, enabling the company to build out an extensive distribution system in just over one year—several years is more typical for new beverage companies. The company has over 90 distributors serving 44 states, Canada, Mexico, Panama and Bermuda. 80% of these distributors are class A, meaning they carry major beverage brands (Anheuser-Busch, MillerCoors, Pepsi, Coca-Cola, etc).

Throughout the beginning of 2013, Pulse has continued to add new distribution contracts and recently (June 25th) announced the company had secured a listing for Cabana in Sprouts Farmers Market, a chain of nearly 150 specialty stores with locations throughout the Southwest and California.

Direct Store Delivery (DSD)

DSDs distribute beverages, and other food items, as well as provide pre-sales, delivery and merchandising services to their customers. They have daily and weekly service levels, typically requiring between 25% and 30% gross profit from customers. Pulse has over 90 distributors serving 44 states, nine provinces in Canada, Panama, Mexico and Bermuda. The distributors are given the exclusive right in defined territories to distribute cases of Pulse and/or Cabana beverages through a written contract. If Pulse provides product directly to a retailer in the defined territory, then some compensation is still paid to the distributor. Also, Pulse is required to pay a termination fee for cancellation of a written contract – usually a contract ranges from one to three years. Currently, no distributor accounts for more than 10% of sales.

Direct to Retail Channel (DTR)

Pulse also has listings directly with retail convenience store and grocery store chains, where the company ships directly to the chain stores' warehousing system. The retailers are required to have warehousing and delivery capabilities. An assigned broker (approved by Pulse) provides services to the retailer. Pulse sees DTR as being a key to the success of their strategy by allowing them to target major national and regional chains; the company negotiates directly with each retailer. The agreements can be terminated at anytime by either Pulse or the retailer and do not contain any minimum purchase commitments. Pulse does not have any retailers accounting for more than 10% of sales.

Figure 5: Select Retail Distribution

Source: Company Reports

Production

Pulse outsources the manufacturing and warehousing of its products to third party bottlers and independent contract manufacturers (co-packers); the company purchases raw materials from suppliers which deliver to the co-packers. Currently, the company utilizes three co-packers located in Forest Grove, OR, Marion, VA and Coppell, TX. The co-packers have been strategically chosen based on the geographies to lower shipping rates and transport times. The company intends to seek out co-packers in Canada, Europe and Asia to support geographic expansion. The products are then stored in warehouses adjacent to the co-packers or with third party warehouses. The co-packers do not have minimum production commitments, but they do have minimum case volume requirements per production run. Co-packers can terminate their relationship at any time.

Most of the ingredients used in the manufacture of Pulse's products are off-the-shelf and readily available; no ingredient has a lead time greater than two weeks. The primary raw materials used in production includes: juice concentrates, natural flavors, stevia, pure cane sugar, bottles, labels, trays and enclosures. Pulse has four flavor concentrate suppliers, who own the proprietary rights to the flavors. As new products are developed, the suppliers bear a significant portion of the expense for product development allowing Pulse to develop new products at a relatively low cost.

Figure 6: Timeline of Events

April 24, 2011	Pulse announces the launch of Cabana Lemonade with the goal of being on store shelves by July. At the time they contracted their first bottling facility.
May 3, 2011	Pulse announces details of PULSE brand drinks, originally developed by Baxter Healthcare.
May 30, 2011	The firm confirms first major order of Cabana to Richards Packaging (Portland, OR based). Pulse orders enough bottles to produce 50,000 cases.
July 18, 2011	Pulse signs distribution agreement with Duke City Wholesale for distribution of

	Cabana throughout the Southwest.
August 14, 2011	Cabana is placed with K&G Distribution (Jenny's Markets). They serve 38 stores in CO and over 200 stores in NM, KS, and MO.
September 12, 2011	Announces first shipment of 50,000 cases of Cabana is sold out.
September 14, 2011	Signs distribution agreement with Pacific Bottleworks Company for distribution of Cabana across all of Canada.
September 21, 2011	Places Cabana with Trent Beverages, a distributor out of Southern California. Trent partners with surrounding distributors – giving Pulse access to almost 8% of US population.
September 27, 2011	Pulse placed Cabana with Innermountain Distributing who cover Western CO
October 2, 2011	Announces distribution agreement with Dr Pepper 7 Up Bottling for placing Cabana around NV and adjacent regions
October 26, 2011	Commences distribution in IL and MO through agreement with Southern Illinois Beverages.
November 2, 2011	Achieves total Rocky Mountain Regional Distribution for Cabana through agreement with New Age Beverage
November 7, 2011	Enters Eastern US Region through agreement with High Grade Beverage/Briar's USA to supply New Jersey with Cabana.
November 28, 2011	Announces that first two production runs yielded 18,000 cases, with another 28,000 expected in December 2011 and January 2012. At this time, 10 distributors are under contract.
December 6, 2011	Announces agreements with two distributors in New Jersey, servicing a combined population of 3.35 million possible consumers.
December 13, 2011	Moves into US Southeast with distribution agreement with Budweiser-Busch Distributing Company.
January 4, 2012	Cabana enters Utah and Alaska through deal with M&M Distributing and its sister company, Commander Distributing.
January 11, 2012	Cabana enters MN and WI with Master Distribution Agreement with Bernick's Beverages. Cabana is now distributed in Canada and all or part of 15 states with significant distribution pending.
February 6, 2012	Secures six more distributors in WI and WY.
February 14, 2012	Secures distribution with Saint Joe Distributing to place Cabana in convenience stores across MO, KS, IA and NE.
February 16, 2012	Announces an agreement with two more distributors in VT and MT. Cabana is now distributed in Canada and 20 US States.
February 23, 2012	Signs international distribution agreement with Rey Trading Inc. to place Cabana in Panama.
February 28, 2012	Bolsters MN distribution by signing Norri Distributing.
March 7, 2012	Announces distribution through 251 Hy-Vee Food Stores' across eight Midwest States.
March 14, 2012	Announces deals with two distributors allowing Cabana to enter nine counties in Southern CA with 20 million potential consumers.
March 27, 2012	Secures two more distributors to enter four counties near Chicago metro area and into Northern WI.
April 4, 2012	Cabana begins production at its Eastern based co-packer, Castle Co-Packers, which will allow easier, cheaper delivery to Eastern and Midwest regions.
April 9, 2012	Cabana extends distribution into ME and CT through two new distributors.
April 17, 2012	Secures distribution into WA through contract with Corwin Beverage Company which is a major Pepsi distributor.
May 1, 2012	Achieves state-wide distribution in MI by signing four Class "A" distributors.
June 5, 2012	Announces agreement with Joseph Mullarkey Distributors to enter Cook County, encompassing Chicago.
June 7, 2012	Secures distribution with Drink King Distributing which serves NYC and Long Island.

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June 12, 2012	Announces state-wide distribution in MA and secured large distributor serving eight counties in central OH.
June 13, 2012	Secures distribution with Capital Distributing, a large MillerCoors distributor serving the Oklahoma City metro area.
July 17, 2012	Pulse announces it distributes Cabana into 33 states, Canada and Panama through over 60 distributors, most of which are Class "A".
July 31, 2012	Cabana expands international distribution into Bermuda.
September 6, 2012	Announces further distribution in CA, by signing Geyser Beverage Co. who serves 17 counties in northern CA (including San Francisco). Pulse now reaches over 80% of California's 37m population.
September 11, 2012	Announces new distribution into Baltimore/Washington DC/Northern VA areas.
October 22, 2012	Adds a sixth flavor to Cabana, "Blueberry Lemonade".
October 24, 2012	Pulse increases manufacturing capacity through co-packers in VA and TX.
November 15, 2012	Secures two new distributors in GA, allowing Cabana to reach consumers in GA (including Atlanta), and parts of SC and FL.
November 27, 2012	Secures two Class "A" distributors, expanding coverage of KY, TN, IN and MO. This brings Pulse to a total of 86 distributors across 44 states, Canada, Bermuda, Panama and Mexico.
November 29, 2012	Announces Cabana will make retail debut in Mexico in 1Q13.
December 11, 2012	Completes state-wide distribution in OH through agreement with L R Liption, an Anheuser-Busch distributor in the state.
January 15, 2013	To date Pulse has secured 7,500 US retail chain outlets, with 8,000 more expected by the end of 1Q13.
February 6, 2013	Adds The Odom Corporation as a distributor, who serves more than 12 million people in the Pacific Northwest.
February 13, 2013	Secures United Natural Foods, Inc. for distribution of Cabana into Hawaii.
February 19, 2013	Completes initial commercial production of flagship, PULSE brand of functional beverages in three formulas.
March 4, 2013	Secures a large distributor for TX, who delivers to 7,000 accounts covering nearly 30 million people.
April 1, 2013	Announces that Cabana is now sold in more than 11,000 retail stores across the US.
April 8, 2013	Secures national listing for Safeway Inc. for Cabana. Safeway has over 1,500 stores in the US.
April 23, 2013	Announces US retail chain store listings reach 12,500 through listings with Albertsons grocery stores and Food City grocery stores.
May 6, 2013	Secures Heidelberg Distributing Company to distribute Cabana and Pulse into OH and KY, reaching 16 million people.
May 14, 2013	Secures four more distributors in CA, now reaching 30+ million of the state's 37 million people. Also, completes second run of flagship PULSE beverage.
May 30, 2013	Acquires distribution and warehousing for Southern Florida, specializing in Latin markets throughout the area.
June 5, 2013	Secures distribution deal in North Carolina with Class "A" distributor Mims Distributing Company.
June 12, 2013	Announces distribution deal with Nature's Best, a natural products distributor based out of Southern CA. PULSE also debuts in Gelson's Markets, a premier supermarket chain in Southern CA.
June 20, 2013	Announces Cabana April case sales over 33,000 and May case sales are over 52,000. The company also says its ahead of its 2013 objective of 20,000 chain store listings.

Source: Company Reports

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Beverage Industry

Over 400,000 retailers in the United States sell non-alcoholic beverages developed by over 2,600 firms and 500 bottlers. As a whole, these firms make up more than $105 billion in annual sales, reaching over $300 billion globally. Coca-Cola and Pepsico dominate the global market, collectively controlling over 70% of the market.

Trends

Consumers increasing emphasis on health and wellness, which partly reflects an aging population in many developed countries, has caused a shift away from carbonated beverages high in sugars to non-carbonated lower calorie alternatives . Beverage industry experts see growth primarily taking place in niche drinks, in particular healthy and functional drinks. Coca-Cola has specifically created its Venture & Emerging Branding (VEB) group with the purpose of finding and developing the next generation of billion-dollar beverage brands. Coca-Cola is typically looking for brands that achieve at least $10 million in revenue, a “proof of concept” level that only around 3% of all beverage brands reach. The VEB group expects nutraceuticals, scientifically formulated beverages containing active ingredients to be one of the top trends.

Sweeteners

As consumer preferences shift towards healthier beverages, a larger emphasis has been placed on the role of sweeteners in a beverage formula. Sweeteners are not only important to consider from a nutritional standpoint, but impact the taste as well. Sweeteners exist in caloric, low-caloric and no-caloric variations, each with their own set of benefits and pitfalls. One of the more common caloric sweeteners, High-fructose corn syrup (HFCS), is a much cheaper alternative to sugar and has became the principal sweetener used in foods and beverages in the US. While some studies have linked HFCS to heightened obesity and diabetes, the evidence is not conclusive. Many health professionals still contend that excessive use of carbohydrates, which includes HFCS, leads to weight gain.

As consumers became more calorie-conscious, low- and no-calorie sweeteners have been developed and are increasing put to use in formulating beverages. A common low-calorie sweetener is aspartame (NutraSweet), used in most diet soft drinks. Aspartame does have calories, but it is about 200 times sweeter than sugar which allows soft drinks manufacturers to use small amounts to reach the desired sweetness. The sweetener has been determined to be safe at current consumption levels, but continues to be studied and linked to various health issues. This has led beverage manufacturers to seek out alternative sweetener options.

One of the fastest growing sweeteners is all-natural, no-calorie derived from the stevia plant. Similar to aspartame, stevia-based sweeteners are about 200-300 times sweeter than sugar. It was not until 2008 that the US approved the sweetener as a food additive, and not until 2011 in the European Union. While stevia is continuing to be studied, there have not been any major concerns over it being detrimental to human health. In fact, some studies have shown stevia to even reverse the effects of type two diabetes when consumed before a meal. One issue that can come up when formulating a drink with stevia is the aftertaste that tends to follow.

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Figure 7: Ready-to-Drink Lemonade Competitive Landscape

Brand	Description	Sales	Flavors/SKUs	Distribution	Latest
Simply Lemonade	Developed by Coca-Cola, the brand originally sold only orange juice, have since expanded into other fruit-based juices.	N/A	4 different flavors, two of which are sold in a variety of sizes	Reached national distribution in 2003	Introduced two new flavors in 2012
Calypso	Owned by King Juice Co., comes in many flavors and high in calories and artificial sweeteners. Products are served in 20 oz. bottle	$39.3m (52 weeks through 4/21/13)	12 different flavors, both the Strawberry and Natural flavors also come in a sugar free variant	Distributed across the US and Canada	Calypso is credited with reinvigorating the lemonade market, but with new lots of new competition there remains a challenge
Arizona Iced Tea	Known for 23 oz, canned iced tea and juice drinks that retail for around $1	Arnold Palmer had 2012 sales of nearly $200m. Golden Bear had sales of $1.3m (52 weeks through 4/21/13)	Vast product offering, but specifically have line of Golden Bear lemonade (3 flavors) and Arnold Palmer, tea and lemonade combination (5 flavors)	Distributed across the US, Canada, UK, and Germany	Growing health concerns over Arizona's high sugar and calorie content
Country Time Lemonade	Offers soft drink and drink mixes that are high in sugar and calories	$15.2m (52 weeks through 4/21/13)	4 different flavors of drink mix and ready-to-drink beverages	Distributed across the US	Started offering a lite version in 2007. SodaStream recently started offering Country Time flavors
Hubert's Lemonade	All-natural lemonades with no additives, high in sugar and calories	$8.6m (52 weeks through 4/21/13)	7 flavors of lemonade, 2 flavors of limeade, and four half & half flavors (tea and lemonade)	Sold in 35 states across the US	Working to gain brand recognition
Sweet Leaf	Sells organic RTD iced teas in 3 different sizes. Only uses pure cane sugar	The firm had $53m in sales during 2010. Expected that the number has doubled since	Offer lemonade as well as a lemonade/tea drink. They also offer 7 other tea-based drinks	Parent company is Nestle and the drink is distributed across the US	Nestle acquired Sweet Leaf in 2011 for an undisclosed amount, but had previously bought a 35% stake for $15.6m

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Sources: Company Websites
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Figure 8: Functional Beverage Competitive Landscape

Brand	Description	Sales	Flavors/SKUs	Distribution	Latest
Glaceau Vitamin Water	Pioneer in functional drink category. Acquired by Coca-Cola in 2004. Some with zero calories and small amounts of vitamins and nutrients added	2010 sales of more than $700m	18 flavors plus 9 distinct zero calorie flavors	Available in all 50 states and over 26 countries	Recent findings and litigation have shown that vitamin water is not as healthy as originally thought.
Function Drinks	Founded in 2004, focusing on detox/weight loss/energy. They add antioxidants, vitamins and minerals.	2007 sales of $10m	8 different flavors across 3 different formulas (each formulas has two or three unique flavors); also offer unflavored water	Can be found in variety of retailers in the Southwest and Northeast. Whole Foods and GNC distribute to rest of the country.	Purchased by Sunsweet Growers Inc for an undisclosed amount in 2011.
Neuro	Founded in 2007, they offer Light and non-carbonated drinks fortified with various vitamins and minerals	2011 UK revenues of £1.6m, 2011 revenue estimate of $13.6m. TSG has $20m rev floor	9 different formulas, each being a distinct flavor and containing 35 calories. Only two of the flavors are not labeled as nutritional supplements.	Sold by a variety of stores across most of the US. Also, sold internationally in the UK.	It is still unknown whether the drinks actually work or not. Recently announced deal with Target.
POM Wonderful	Founded in 2002, offers pomegranate based drinks that claim to offer health benefits	In 2012, POM posted record sales (actual figure is undisclosed) and saw 30% growth in revenues	Six different flavors of POM, in a variety of sizes, (plus a lite version), also offers teas, supplements, concentrate and fruit	Widely available throughout the US and Canada. Also sold in some other countries, including the UK.	Target of government prosecution due to illegal marketing due to claims of heart and health benefits
Fuze	Founded in 2000, offers non-carbonated fruit drinks strengthened with vitamins, amino acids and herbs.	It is estimated that Fuze sold 11.5 million cases in 2006, the year before it was acquired by Coca-Cola.	12 different flavors across regular and diet versions.	Utilizes Coke's distribution network.	Purchased by Coca-Cola in 2007. Continuing to roll out new product offerings from time to time
Odwalla	Acquired by Coca-Cola in 2001 for $181m, they sell juices, smoothies, soy milk, bottled water, and organic beverages.	For the first nine months of 2001 (acquisition year), the firm had sales of $98m	Approximately 40 drink offerings	Access to Coke's vast distribution network. Typically, drinks are sold in their own display cases.	Experimenting with new flavors and pulling flavors that don't sell

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Naked Juice	Acquired by Pepsi in 2007, sells fruit juices and smoothies without any added flavors, sugar or preservatives.	At time of acquisition, the firm had annual sales of $150m	Approximately 20 different variants of its juices and smoothies. Also, started selling coconut water.	Distributed across the US as well as in Canada and the UK.	Recently added coconut water
HydroOne	Founded in 2006, offers juice and green tea based drinks enhanced with nutrients for diabetics, fitness, memory, heart and arthritis health.	N/A	7 different flavors across 3 formulas, also offer two green tea beverages	Currently, only found in GA, NC and SC.	The firm is currently working on expanding distribution and brand recognition.

Sources: Company websites

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Recent Results

Figure 9: Condensed 1Q13 Results

($ millions, except per share data)	**1Q12**	**1Q13**
Sales	0.37	0.79
Gross Profit	0.12	0.26
Gross Margin	32.1%	32.4%
Net Income	(0.40)	(1.09)
EPS	(0.01)	(0.02)
EBITDA	(0.41)	(1.07)
Cases Sold (actual)		
Cabana	33,284	77,152
Pulse	-	452

Source: Company Reports

On May 16, 2013 Pulse reported its 1Q2013 results with Cabana case sales increasing 133% Y/Y to 77,152, and Cabana revenue increasing 115% Y/Y. Total revenue for PULSE increased to $0.79 million, a 115% increase over 1Q12 sales. Gross profit margin improved Y/Y by 310 bps to 35.2%, and Q/Q by 280 bps. The flagship PULSE product launched at the end of the quarter and had case sales of 452. The company was able to increase chain store listings for Cabana by 4,000 listings to a total of over 11,000 listings. On June 19, 2013 the company announced that they were ahead of schedule regarding chain store listings for Cabana, with both April and May case sales for Cabana increasing over 100% compared to the same period in 2012. Cabana had April 2013 case sales of over 33,000 vs. 16,000 in April of 2012. May 2013 case sales improved to over 52,000, up from 26,000 in May of 2012.

Figure 10: Strong Financial Condition

Balance Sheet *($mm)*	1Q13
Assets:	
Cash	3.8
A/R	0.7
Inventories	0.8
Other	0.1
Current assets	5.4
PP&E, net	0.5
Other L-T assets	1.3
Total assets	7.2
Liabilities & shareholders' equity:	
A/P	0.9
Current liabilities	0.9
Shareholders' equity	6.3

Source: Company Reports

As of March 31, 2013, the company has in excess of $4.5 million in working capital including $3.8 million in cash. Pulse has no debt, is on track to be cash flow positive within the next several quarters.

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Management Team

Robert (Bob) E. Yates, President & CEO: Mr. Yates has over 20 years of experience in the beverage industry including experience in new product and label development, manufacturing, distribution and marketing. Previously, he owned his own beverage company and was a contributor to the success of Clearly Canadian beverage brand, having been responsible for ~$50 million of Clearly Canadian's nearly $180 million in annual sales. He later developed his own brand, Kwencher; eventually building it to 1.7 million annual cases in two years with seven years of distribution in Walmart. He has also worked with other top beverage brands including: Monster Energy Drink, Arizona Iced Tea, Rock Star Energy Drink, Vitaminwater, Perrier, Everfresh Juices, Ocean Spray, Miller Beer, Honest Tea and Fiji Water.

Parley (Paddy) Sheya, National Sales Manager: Mr. Sheya has over 29 years of international sales and distribution management experience within the beverage industry. He has a successful track record in the development of brands as well as building beverage distribution and sales networks from the ground up to multi-million case sales. He led Clearly Canadian from no sales and distribution to 4.8 million cases and 125 distributors in less than three years. He later managed Kwencher sales from the beginning to 1.7 million cases in less than two years and Blue Ox Energy Drink up to 850,000 cases with 122 national distributors. He has managed many brands, including: Jolt Cola, Hires Root Beer, Crush Soda, Bubble-Up, Country Time Lemonade, Hansen's Natural Sodas and Juices, New York Seltzer and Evian Water. He has worked extensively with major distributors across the U.S., Canada, Mexico, Ireland and the U.K. Most recently he was the key account manager for New Leaf Brands, Inc.

Ron Kendrick, Chief of Product Development: Mr. Kendrick has over 30 years of beverage industry experience. Previously, he spent over 12 years with Clearly Canadian, managing supply and logistical operations. During this time, Clearly Canadian's sales grew from nothing to nearly $180 million. Later he went on to found Catalyst Development Inc. was crucial in the creation of formulations for many companies including the Pulse brand of functional beverages for Baxter Healthcare.

Source: Company reports.

Risk Factors

Limited operating history: Pulse commenced operations in 2011 following a voluntary exchange between private company, The Pulse Beverage Corporation, and the predecessor public company, Darlington Mines Ltd. The company's first product, Cabana lemonade began shipping in September 2011 and the PULSE brand of functional beverages began shipping in early 2013.

Distribution: Pulse has distribution agreements that range from one to three years, and the inability to maintain these relationships could negatively impact the business. The agreements do not require distributors to place a minimum order which also puts pressure on the company to effectively manage inventory levels in regards to the timing and amount of sales.

Management: Pulse's management team has played a key role in developing the firm's distribution network. Certain members of the management team have particularly strong relationships with top distributors and buyers. The loss of key management could slow the growth of business.

Co-packers: Pulse relies on third party bottlers and independent contract manufacturers (co-packers) to manufacture its products. Currently, they utilize two primary co-packers, and the ability to maintain these relationships in certain geographic regions is integral to the success of the firm. There is a lot of competition for contract manufacturers that could make it difficult to find new or replacement manufacturers and may also impact the economic terms of the agreements.

Rising Costs: Shipping companies typically pass rising fuel and freight costs onto their customers. Raw material costs have also been increasing due to energy surcharges. Due the price sensitivity of Pulse's products, all of the price increases may not be able to be passed on to consumers hurting the company's margins.

Regulations: The beverage industry is subject to many differing international, federal and state regulations. Lately, regulatory authorities have been paying more attention to the labeling and marketing of beverages, particularly those marketed as being healthy. Non-compliance with these standards can be very costly and adversely impact the business.

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Pulse Beverage Corporation (PLSB)

Earnings Model
($ millions, except per share amounts)

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13E	3Q13E	4Q13E	2012	2013E	2014E	2015E	2016E	2017E
Net sales	0.367	0.956	0.802	0.172	0.789	1.200	1.688	1.591	2.296	5.268	21.921	38.069	55.914	76.936
Gross profit	0.118	0.302	0.289	0.047	0.255	0.423	0.597	0.566	0.755	1.841	7.832	13.681	20.151	27.773
Expenses:					-				-					
Advertising, samples and displays	0.007	-	0.037	0.133	0.046	0.090	0.143	0.143	0.176	0.423	1.973	3.341	4.784	6.418
Freight-out	0.042	-	0.087	0.120	0.092	0.116	0.158	0.146	0.249	0.512	1.950	3.272	4.725	6.436
G&A	0.206	0.105	0.133	0.359	0.303	0.323	0.343	0.363	0.802	1.332	1.652	1.972	2.292	2.612
Salaries, benefits & related fees	0.143	0.405	0.337	0.004	0.313	0.350	0.400	0.450	0.888	1.513	2.300	2.610	2.626	2.642
Stock-based compensation	-	0.657	0.345	0.215	0.482	-	-	-	1.218	0.482	-	-	-	-
Other expense	0.133	0.131	0.114	0.081	0.110	0.100	0.100	0.100	0.459	0.410	0.400	0.400	0.400	0.400
Operating income (EBIT)	(0.412)	(0.996)	(0.764)	(0.865)	(1.091)	(0.556)	(0.547)	(0.636)	(3.034)	(2.831)	(0.443)	2.087	5.325	9.265
Other expense, net	0.011	-	0.002	0.460	(0.001)	-	-	-	0.473	(0.001)	-	-	-	-
Interest expense, net	0.002	0.002	(0.001)	(0.001)	0.005	0.001	0.001	0.001	0.002	0.006	0.002	0.002	0.002	0.002
Pretax income	(0.399)	(0.994)	(0.767)	(1.324)	(1.087)	(0.557)	(0.548)	(0.637)	(3.506)	(2.836)	(0.445)	2.085	5.323	9.263
Taxes, net	-	-	-	-	-	-	-	-	-	-	(0.156)	0.730	1.863	3.242
Net income (loss)	(0.399)	(0.994)	(0.767)	(1.324)	(1.087)	(0.557)	(0.548)	(0.637)	(3.506)	(2.836)	(0.289)	1.355	3.460	6.021
EPS	**($0.01)**	**($0.03)**	**($0.02)**	**($0.04)**	**($0.02)**	**($0.01)**	**($0.01)**	**($0.01)**	**($0.10)**	**($0.06)**	**($0.01)**	**$0.02**	**$0.05**	**$0.08**
Growth Rates:														
Total sales			267215.7%	-89720.1%	115.1%	25.6%	110.5%	826.6%	2117482.0%	129.5%	316.1%	73.7%	46.9%	37.6%
EBIT			267.2%	159.9%	164.6%	-44.1%	-28.4%	-26.5%	246.1%	-6.7%	-84.4%	-571.3%	155.2%	74.0%
EPS	#DIV/0!	200.0%	100.0%	300.0%	100.0%	-66.7%	-50.0%	-75.0%	233.3%	-40.0%	-83.3%	-300.0%	150.0%	60.0%
Margins & Ratios:														
Advertising, samples and displays			4.6%	77.2%	5.8%	7.5%	8.5%	9.0%	7.7%	8.0%	9.0%	8.8%	8.6%	8.3%
GPM	32.1%	31.6%	36.0%	27.1%	32.4%	35.2%	35.4%	35.5%	32.9%	34.9%	35.7%	35.9%	36.0%	36.1%
G&A	56.1%	11.0%	16.5%	209.1%	38.4%	26.9%	20.3%	22.8%	34.9%	25.3%	7.5%	5.2%	4.1%	3.4%
OPM (EBIT)	-112.4%	-104.2%	-95.3%	-504.0%	-138.4%	-46.3%	-32.4%	-40.0%	-132.2%	-53.7%	-2.0%	5.5%	9.5%	12.0%
EBITDA margin	-111.3%	-103.2%	-93.7%	-497.9%	-136.0%	-44.7%	-30.9%	-37.8%	-130.5%	-51.9%	-0.2%	7.8%	11.9%	14.4%
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	35.0%	35.0%	35.0%	35.0%
Cases & Pricing:														
Cabana cases sold	33,284	84,000	74,748	34,837	77,152	113,750	147,875	130,000	226,869	468,777	1,642,875	2,554,500	3,539,250	4,699,500
Avg. price net of discounts	$ 11.02	$ 11.38	$ 10.73	$ 4.93	$ 10.25	$ 10.25	$ 10.25	$ 10.25	$ 10.12	$ 10.25	$ 10.25	$ 10.25	$ 10.25	$ 10.25
Pulse cases sold	-	-	-	-	452	2,600	13,000	19,500	-	35,552	383,500	897,000	1,482,000	2,171,000
Avg. price net of discounts	$ -	$ -	$ -	$ -	$ 13.25	$ 13.25	$ 13.25	$ 13.25	$ -	$ 13.25	$ 13.25	$ 13.25	$ 13.25	$ 13.25

Source: Company Reports and NCM Estimates

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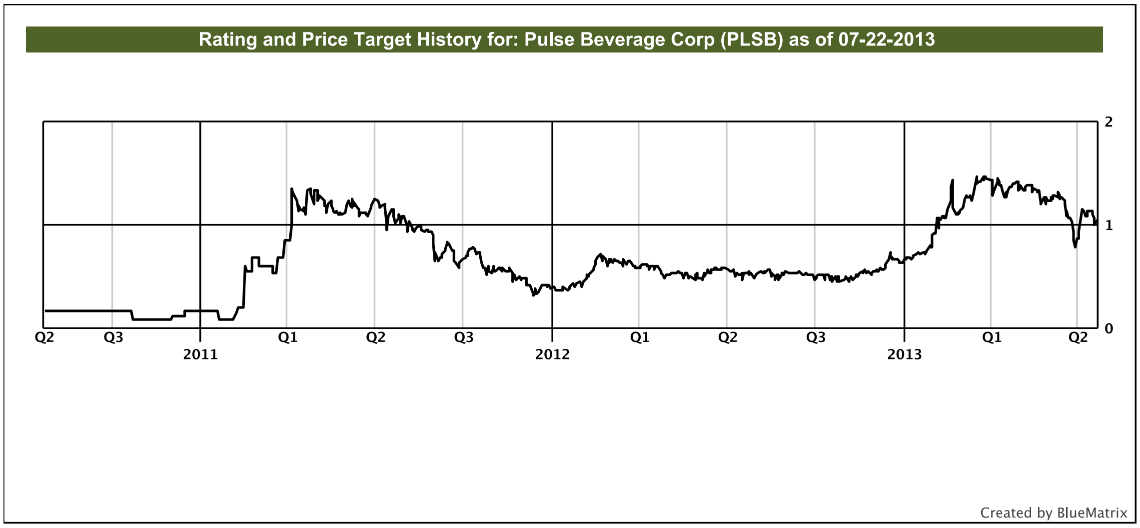
I, Reed Anderson, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

I, Brennan Matthews, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Catharine Trebnick is an advisor to Movik Networks, Inc.

Important disclosures



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Market Perform (HOLD) – Perform within 10% above or below the S&P 500.
Underperform (SELL) – Underperform the S&P 500 by at least 10%.
Under Review – Estimates, ratings and/or price target are subject to possible changes in the near term.

Risk Profile:

Conservative – Lower risk and volatility.
Moderate – Average risk and volatility.
Aggressive – Above average risk and volatility.

Rating Distribution Breakdown as of July 23, 2013

			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy [OP]	100	70.92%	10	10.00%
Hold [MP]	34	24.11%	0	0.00%
Sell [UP]	7	4.96%	0	0.00%

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Northland Securities, Inc.
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Suite 2000
Minneapolis, MN 55402
Member FINRA/SIPC