NBT Equities Research
Niche Beverages
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Key Metrics

PLSB - OTC BB	$0.51
Pricing Date	Aug 1, 2012
Price Target	$5.50
52-week Range	$.32-$1.11
Shares Outstanding	35 million (42 million fully diluted)
3-Mo Average Daily Volume	30,100
50-day Moving Average	$.55

3 Month Price History for PLSB

Company Description: The Pulse Beverage Corporation *(the "Company","Pulse" or "PLSB") is a publicly listed non-carbonated beverage company that develops and markets groundbreaking 100% natural and nutritional drinks to niche segments of the beverage industry (OTC: PLSB). Based in Westminster, Colorado in 2010 and run by a group of 30-year beverage industry veterans, the Company manufactures and distributes the **Cabana™** brand 100% natural low calorie lemonades and **PULSE®** brand of nutritional* beverages.

The Pulse Beverage Corporation

Rating: Strong Buy

Rapidly Expanding Pure-Play on 100% Natural and Nutritional Beverage Growth Sectors: Extending Coverage with Strong Buy Rating and 10X Upside

Investment Conclusion: We are extending coverage of The Pulse Beverage Corporation with a Strong Buy Rating and $5.50 Sum-of-Parts Valuation on 42 million shares fully diluted.

Due to the extremely rapid sales and distribution growth of Pulse's Cabana™ brand lemonades and their one million+ annual case sales rate achieved by late 2012, industry valuation metrics for the Cabana™ franchise alone indicates a near-term $150 million+ valuation or $3.50+ per share outstanding for PLSB stock. With the fall 2012 roll-out of their unique nutritionally beneficial Pulse® brand into their now 35+ states/250 million population distribution system, we forecast at least another $50 million in brand value developing for the Pulse® franchise as well by the end of 2013.

Investment Highlights:

- **Over $150 million in estimated franchise/brand value developed for the Cabana™ brand lemonade in the last 12 months.** PLSB's monthly case sales of Cabana™ 100% Natural Lemonade are ahead of its already lofty sales goals. In the "major league/minor league" structure of the $120 billion North American beverage industry dominated by Coca-Cola (50%+)/Pepsi (20%)/Other National Brands (20%), new breakout niche beverage categories are traditionally acquired by the "major league" beverage giants at >$100 million valuations on proof of concept case sales of 1 million cases annually.

Natural cabana™

- **20+ Recent Industry Acquisitions in the Non-Carbonated Beverage Space**
As mentioned, it's very common for beverage industry giants to acquire successful brands from emerging growth beverage companies. How common? 20 different new non-carbonated beverage category inventors/leaders have been purchased by Coke/Pepsi and other billion dollar brand conglomerates in the last 10 years alone. Generally speaking, successful brands that reach case sales in excess of one million annually will garner the attention of major beverage giants such as Coca Cola, according to industry sources. Recent acquisition deals and metrics include:
  - **Vitamin Water®** - Coca-Cola® purchased the brand that was selling about ten million cases per year ($200 million in sales) for a reported $3.4 billion. The Vitamin Water® brand presently has a Class Action lawsuit against it for making false and misleading claims as to the health benefits of the product.
  - **Honest Tea®** - Coca-Cola® recently purchased for an undisclosed amount in a private transaction (reportedly over $400 million) at a time when Honest Tea® was selling a reported 1.4 million annual cases of product.
  - **SOBE®** - Pepsi-Cola® purchased SOBE® for a reported $378 million when they were selling approximately 3 million cases per year and had approximately $60 million 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 $140 million in sales.
  - **Rock Star Energy Drink®** - Coca-Cola® purchased the distribution rights for an undisclosed amount and owns the right of first refusal to purchase the Rock Star Energy Drink® brand which is currently selling approximately 8 million cases per year.
  - **Arizona Iced Tea®** - reportedly 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 $500 million in sales.

- **According to Coca Cola, only "3% of beverage start-ups reach sales of $20 million."** In the years NBT research principals have followed the non-carbonated niche beverage industry (starting with ice teas in the mid-90's) we have never seen a brand grow its distribution channel and sales volume as quickly as the Cabana™ brand of 100% Natural Lemonade. Jones Soda required six years to get to the one million annual case sales levels. New Leaf Tea took six years to get to 800,000 cases…and approximately 97% of beverage start-ups never reach annual sales of $20 million.

- **The Pulse Sales Team has added 63 distributors in 35 states and 3 international regions in 9 months.** More importantly, 85% of distributors adding Cabana™ 100% Natural Lemonade are rated Class "A" distributors. In the beverage industry "A" rated distributors are the largest sized distributors normally associated with a major beer company (Bud/Miller Coors) or soft drink major (Coke/Pepsi/Dr. Pepper 7-Up). Class "A" rated distributors are the financially strongest players who also NEED up-and-coming niche beverage sales to increase their share of "shelf space" within grocery and convenience stores. Class "A" rated beverage distributors have also historically cut out the middle-man and "go direct" to major discount grocery retailers (Costco, Wal-Mart, and Sam's Club) and/or major grocery chains. Pulse's commitment to the traditional beverage distributor channel is a major advantage vs. lemonade competitor Hubert's Lemonade (owned by Monster Beverage/Hanson) which has recent history of selling direct to chain grocery stores within their distributors region.

  International deals completed include Canada, Panama and Bermuda and on the table for finalization include Jamaica, Bahamas Mexico and the Philippines. Pulse is in discussions with numerous other international distributors including a major distributor for China.

- **Economies of scale have reduced cost per 12-bottle case and increased margins.** PLSB has grown to three operating plants in Oregon, East Coast and Texas. Adding geographical reach has reduced freight costs and, along with other cost cutting and production improvement measures, PLSB is getting very close to the 40% gross margin threshold.

- **PLSB forecasts cash flow positive operations by end of third quarter 2012.** The result of rapidly increasing distribution sales/re-orders and 20% overall product cost reduction will lead to cash flow positive operating results by the end of Q3 2012. The big picture for shareholders, we believe, is rapid market share improvement for Cabana™ 100% Natural Lemonade and market penetration for Pulse™ NutriPurpose™ functional beverage brand in the fall of 2012 and into 2013. We encourage PLSB management to keep the "pedal to the metal" on sales growth as niche beverage companies are acquired by the majors based on case sale ramp and NOT cash flow economics. In short, for every one million in annualized case sales PLSB's brand value increases by $100-$150 million. The way for PLSB's equity owners/shareholders to be *most* rewarded is therefor with market share percentage growth and NOT net margin.

- **The PULSE® NutriPurpose™ brand of functional beverages are scheduled for release in the fall of 2012.** PLSB's development team has concluded packaging and flavor profile enhancements while reducing calories for six taste profiles of functional drinks specifically aimed at 1) Men's Health 2) Women's Health and 3) Heart Health. The strategy of "red carpeting" the introduction means they will initially take the Pulse® beverage line to their BEST retailers and distributors and leverage off the success of Cabana™ in the strongest regions. Management forecasts 500,000+ case sales in the first twelve months of distribution based on the existing distribution footprint.

- **Likely Up-Listing to NYSE/Amex or Nasdaq Exchange**
  With the completion of an expected $3 million equity financing round by end of Q3 2012, PLSB will have the necessary requirements to apply for and qualify for listing on the NYSE-AMEX or Nasdaq Stock Exchanges in Q1 2013 (assuming additional share price improvement). In our opinion this move will add potential investors and improve liquidity and visibility for the Company.

- **Multiple Catalysts with Significant Near-Term Upside:** We believe PLSB has significant upside potential in the near-term from multiple catalysts inherent in their strategy:
  - ✓ Conclusion of additional equity financing is imminent.
  - ✓ Q2 2012 sales numbers will be out by August 15 latest—and will be at least >150% higher than Q1 2012 sales…which were 150% higher sequentially from Q4 2011.
  - ✓ The PULSE® beverage introduction starts in the fall of 2012 and will quickly ramp sales on the back of existing Cabana™ distribution.
  - ✓ Over a dozen major regional and international distribution agreements are in final stages of negotiation and completion.

The Pulse® NutriPurpose™ Brand Introduction - Fall 2012

The Company's first functional beverage line, Pulse® NutriPurpose™, differs from most "health" drinks because, according to the Company, it contains "sufficient dosages of active functional ingredients to help maintain adult health". The Pulse® NutriPurpose™ functional beverages are unique in that their current product line was originally developed by a major healthcare corporation to be scientifically effective and contain REAL nutritional ingredients. This healthcare corporation spent in excess of $10 million developing the Pulse® products and initially marketing the PULSE® brand. Pulse owns the right to use the following Side Panel Statement on their beverages: "Formulation developed under license from BAXTER HEALTHCARE CORPORATION". This right is in perpetuity and **does not require any royalty payments.**

Competing products on the market rarely contain any significant nutritional value (often they are not much more than sugar water), even when they claim to be healthy. The Pulse® NutriPurpose™ brands have at least a 2-3 year head start on competing functional beverage lines due to the years of development by a major healthcare corporation.

The Pulse® Advantage

Fact: Most vitamins and nutrients suspended in water pass through with virtually zero absorption within the body. The reason being vitamin material used in the other nutritional beverages is not introduced in a form that is absorbable—it merely passes through.

In the Pulse® NutriPurpose brand of functional beverages, the vitamins and nutrients are treated via a proprietary liposome nanotechnology treatment that in effect makes the vitamins absorbable within the human body. The analogy is eating an apple with the skin on—the skin acts as a binder or fiber that slows down the process of digestion so that absorption of the vitamin or nutrient can take place. Years of research, development and testing went into this vitamin and nutrient binding process…and there is no other such absorption technology currently on the market.

Bottom-line—the average consumer is going to have more vitamins and nutrients absorbed through drinking Pulse® than any other beverage. The vitamin C, D, E, B6, B12, Folic acid, Calcium, Magnesium, lycopene, selenium, green tea catechins and soluble fiber will be uniquely absorbable by the consumer.

With flavors from pomegranate black currant to strawberry grapefruit and white grape cucumber, management feels the combination of great flavor, with highly reduced calories and beneficial dosage of key vitamins and nutrients is the right combination of benefits for the health oriented adult consumer.

CONCLUSION – STRONG BUY with 10X+ Upside From Current Valuation

We have updated our buy rating to strong buy and raised our target price to $5.50 based on our updated sales forecast, newly signed/pending national distribution agreements and fall 2012 introduction of the Pulse brand as detailed in this report.

At standard take-out prices for fast growing new beverage niche players, we forecast a $5.50 acquisition value per share (assuming 42 million shares fully diluted.)

We believe, given Pulse's current 12 month forward sales indicators for Cabana™ and Pulse®, that Pulse will put itself squarely on the radar of the acquisitive major multi-national beverage companies. According to Coca Cola, only "3% of beverage start-ups reach sales of $20 million"—the threshold where acquisition deals become of interest to major brand marketers."

For additional NBT Equities Research reports and updates on The Pulse Beverage Corporation come to **www.nbtequitiesresearch.com** and register for our research publications.

Forward Looking Statements

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