

Rating: Speculative BUY  
Target Price Range: \$0.64-\$0.95  
Current Price: \$0.032  
Upside: 1,900%-2,870%

## Price Chart



Stock information Reuters: WELL.OB  
Bloomberg: WELL: US  
Country: USA  
Sector: Health & Wellness  
M-Cap: \$13.53 million  
52 Weeks H/L: \$0.02 - \$0.14

Atlanta-based CAPSALUS CORP. partners with and acquires visionary enterprises producing progressive broad-based solutions in the health and wellness space for better physical, nutritional and emotional health worldwide. Capsalus provides companies in varying stages of development with the operating infrastructure, strategic pathways and financial support to help them reach critical mass quickly and efficiently. Its current portfolio includes two wholly-owned companies: *White Hat Brands*, an emerging player in the functional food and beverage market; *Guava Healthcare*, a fast expanding emerging franchise specializing in home-based personal healthcare services. Capsalus also has a 30% stake in *Wish Upon A Hero*, a unique online philanthropy network and website which connects people in need with people who can help, and a small investment in *Pantheryx*, an Indian-based healthcare company, which is dedicated to the development and distribution of advanced healthcare products for the developing world.

Analyst: Robert Sassoon

## INTRODUCTION

### Low-cost, innovative products & services favor a healthy route to profitability

- The past 15 months have been a period of significant corporate activity at Capsalus (renamed from Mach One in October 2010) involving the sale of underperforming assets and new investments in promising development stage companies in the global health and wellness sector. Capsalus is effectively a newly-created company, with a substantially new ownership structure and management team stewarding its investment strategy.
- Capsalus is currently invested in four emerging and pioneering businesses across fast-growing segments of the wellness sector, spanning the consumer products, healthcare, biomedical and social media spectrum. Through its investments, Capsalus is plugged into burgeoning trends, be it “healthiness-on-the-go” functional beverages, the growing demand for home care services amid an ageing population, the revolution in social interaction spawned by the internet or the rising clamor for affordable and effective healthcare in the developing world.
- While the business model adopted by each of the portfolio companies varies, the common threads are innovative products and services targeted at niche segments of the wellness market, coupled with a low operating cost structure. Consequently, we anticipate a quick route to profitability and cash flow generation as these companies ramp up operations. Indeed, we expect Capsalus to record its first profit as early as 2Q-2011, with rapid accretion and margin enhancement thereafter. Concerns about current balance sheet weakness are mitigated by the prospect of relatively quick returns from its new investments as well as the possibility that a large portion of Capsalus’s existing debt will be converted into equity.
- Our DCF-based valuation, adjusted for possible future stock dilution, suggests a fair value price range for Capsalus stock at between \$0.64 and \$0.95. In spite of the threat of significant stock dilution, we believe that the prospect of recording its first profit during 2011 will represent a major catalyst for a stock price re-rating. We rate the company a Speculative Buy, acknowledging that there are risks to our projections at this early stage of the company’s operating cycle.

### Capsalus: Key Financial Data

\$ millions	2009	2010e	2011e	2012e	2013e
Revenue	4.90	-	4.58	14.98	39.88
Operating income	(4.76)	(1.92)	1.06	4.62	19.76
Operating margin	-97%	-	23%	31%	50%
Net Income	(10.89)	(3.96)	0.22	4.00	13.86
Net margin	-222%	-	5%	27%	35%
EPS, \$	(0.07)	(0.01)	-	0.01	0.04

Source: OPUS

## EXECUTIVE SUMMARY

We initiate coverage on Capsalus Corp with a SPECULATIVE BUY recommendation and a share price target range of \$0.64-\$0.95 based on our sum-of-the-parts analysis, adjusted for the impact of possible stock dilution.

Atlanta-based Capsalus Corp, a publicly-listed venture capital company (renamed from Mach One Corporation in October 2010), is exclusively focused on investments and strategic partnerships in the multi-billion dollar global health and wellness market. The past 15 months have been a period of significant corporate activity involving the sale of underperforming albeit revenue-generating assets while making new investments in very promising development stage companies. Capsalus is effectively a newly created company with a substantially new ownership structure and management team stewarding its investment strategy.

*Newly created company*

Capsalus is currently invested in four emerging and pioneering businesses across fast growing segments of the global health and wellness market. Its portfolio companies – *White Hat Brands*, *Guava Home & Healthcare*, *Wish Upon A Hero* and *Pantheryx* - span the consumer products, healthcare, biomedical and social media spectrum.

*Pioneering in fast-emerging segments of the wellness market*

White Hat Brands is focused on the functional powdered beverages market. A low operating cost structure promises immediate returns when production begins later this year. Until now, powdered beverages have accounted for only a very small percentage of overall beverage consumption in the US. However, demand in this segment of the market is beginning to explode, driven by packaging innovation, which has seen powdered beverage mixes, historically sold in tubs or canisters, being made available in single-shot sleeves or sticks, to take advantage of the growth in popularity of bottled water. Market research firm *Datamonitor* predicts annual hyper-growth rates in excess of 70% for powdered beverage sales in the US over the next three years.

*A lot more fizz in powdered beverages*

White Hat has identified significant opportunity in two largely untapped segments of the powdered beverage market. White Hat has developed a low-cost, innovative alternative to the \$750 million pre-natal vitamins market, which is currently only being serviced in pill format. White Hat believes its lower cost and more desirable product format will remove major obstacles to the development of this niche market. With no FDA approval required, White Hat plans to soft launch its new line of pre-natal powdered beverage mixes as a branded product in the third quarter of 2011, initially via online channeling and through Walgreens, the country's largest drug store chain, which has agreed to test market the product.

*Focusing on niche segments where competition is least*

White Hat also plans to tap the private label market for its more mainstream electrolyte powdered beverage mixes, offering a lower cost approach to penetrate the market than a branded product. While there has been rising consumer acceptance of private labels and store brands, now accounting for 17% of \$500 billion plus food and beverage retail market in the US, the emerging nutritional powdered beverage market is largely virgin territory for private labels. White Hat is exploring private label opportunities for its product line with high impact customers such as Walgreens and Home Depot. The company is also targeting to license its formulated powdered mixes among specialty sports- related enterprises.

Capsalus's recent acquisition of Guava Home & Healthcare Service, which specializes in providing a comprehensive, scalable and customized suite of non-medical and medical home healthcare services, non-medical and staffing services, as well as related services and ancillary goods, gives it exposure to a burgeoning and lucrative segment of the US healthcare industry. The US home healthcare industry generated c. \$68 billion in revenue in 2009 (up 71% from 2003) and is projected to expand to c. \$113 billion by 2015, driven by an ageing population.

*Aging population prefers to stay home*

*Fragmented market offers penetration opportunity*

Guava's low overhead has enabled its business model to be cash flow generative with 30% plus profit margin from the company's inception. Guava is now transitioning from an owner-operator business model to a franchise model aimed at expediting the company's expansion plans to greater effect and with greater cost efficiency. We expect this transition to generate enhanced profit margin going forward. The industry is highly fragmented, dominated by mom and pop operations, and so offers Guava significant penetration opportunity in this growth sector of the economy. The past two years have been focused on building a strong corporate infrastructure to support its franchise brand. With funding in place following the Capsalus investment, the push for franchise sales begins in earnest in 2011.

*Adapted franchise model differentiates Guava from peers*

Guava has developed a differentiated franchise model, built around a unique "back of the house" support for its franchisees, which takes care of all the administrative aspects. This allows Guava the benefit of maintaining financial control and transparency across its entire franchise network. Another differentiation between Guava and its peers is that while most of them limit their offerings to non-medical in-home care services, Guava's franchise model incorporates a building block framework that will enable franchisees to add medical services to its business model and thereby add more lucrative revenue streams.

*An online social network platform with a difference*

Capsalus's third investment is a 30% stake in a pioneering brand within the fashionable online social media network sector. Wish Upon A Hero is a unique online philanthropy and goodwill social media network and website. The idea behind the website is to connect people in need (wishers) with people who can help (heroes). WISH's business model is predicated upon generating revenue from four principal sources – affiliate marketing, user donations, charity builder and advertising.

*Multi-pod revenue model*

In contrast to many of social network sites, WISH's monetization strategy is not in any way based on overreliance on fickle advertising for revenue generation. In fact, the bulk of revenue is expected to be generated from the other channels. WISH has pinpointed affiliate marketing as the revenue stream with the most potential, given that many of the wishes posted on the site are requests by people in need of a variety of merchandise. To this end, WISH has taken the first steps toward establishing an interface with leading retailers through Linkshare, one of the major facilitators with capacity to link a large network of merchants, including Wal-Mart, Target, Petsmart etc., with affiliate marketers. WISH's management feels confident that the opportunity to increase revenue-generating transaction fees will improve as more people visit the site.

*Ramp up of platform to begin as Dan Marino signs on*

Another potentially lucrative opportunity for revenue generation comes with the recent introduction of a new site feature called Charity Builder. This feature enables emerging non-profit organizations to get off the ground by allowing them to create and host a website and as well as to process credit card donations within the WISH domain, without incurring the overheads associated with such activities. The platform also gives them the opportunity to promote themselves to the growing membership of the WISH community. From Charity Builder, WISH collects a monthly membership fee as well as a percentage of the donations. WISH has just started to run the Charity Builder program on its website and has so far signed up ten charities, with the promise of more to come. The size of the target market for Charity Builder is estimated at more than 100,000 charities.

WISH has recently entered a strategic partnership with the popular and legendary Miami Dolphins quarterback and philanthropist, Dan Marino, who is to be utilized as an impact player to help promote the WISH concept and to open doors to both financial and strategic partners. With Marino signed on, WISH is to begin to ramp up its marketing strategy and revenue-generating capabilities in the current quarter.

*Innovating a treatment for pediatric diarrhea*

Capsalus owns 5% equity interest in Pantheryx, an emerging Indian healthcare company, dedicated to the development and distribution of advanced healthcare products, including pharmaceuticals, biologics and medical products. Specifically, the company has developed a proprietary orally administered intervention (branded as D-Care), for the treatment of pediatric diarrhea, a widespread and often fatal disease in India. In more than 80% of pediatric cases in India, treatment by antibiotic administration is standard. Studies indicate that antibiotics are only 70% effective, whereas indications from recently completed clinical trials suggest that D-Care could prove to be a more effective treatment option. Moreover, with its low production cost model, D-Care could be a highly lucrative product for Pantheryx. The company's plans to trial launch D-Care in a section of North India in the second quarter of 2011 before commencing a full nationwide roll-out of the product by the end of the year.

*No earning contribution, but potential value accretion*

Pantheryx currently represents an investment class asset in the Capsalus balance sheet, offering no contribution to its earnings or cash flow in the absence of dividend payments. Adding to its current interest remains an option, but is not presently considered to be an immediate priority for Capsalus which is focused on bedding down its more recent and substantial investments in Wish Upon A Hero and Guava. The principal benefit of the Pantheryx investment will be the value accretion that would likely follow from evidence of consumer acceptance of the D-Care product.

*Capsalus could report its first profit as early as 2Q-2011....*

While the business model adopted by each of the portfolio companies varies, the common threads are innovative products and services targeted at niche segments of the wellness market, coupled with a low operating cost structure. Consequently, we anticipate a quick route to profitability and cash flow generation as these companies ramp up their operations. Indeed, we forecast Capsalus to record its first profit as early as 2Q-2011, with rapid accretion and margin enhancement thereafter. Concerns about current balance sheet weakness are mitigated by the prospect of relatively quick returns from its new investments as well as the possibility that a large portion of Capsalus's existing debt will be converted into equity

*...which should be a catalyst for a stock price re-rating*

Our DCF-based sum-of-the-parts valuation, adjusted for possible future stock dilution, suggests a fair value price range for Capsalus stock at between \$0.64 and \$0.95. In spite of the threat of significant stock dilution, we believe that the prospect of recording its first profit during 2011 will represent a major catalyst for a stock price re-rating. We rate the company a Speculative Buy, acknowledging that there are risks to our projections at this early stage of the company's operating cycle.

## INVESTMENT RISKS

*Going concern risk*

Capsalus/Mach One has incurred losses since its inception. As of September 30, 2010, the company had an accumulated deficit of approximately \$19 million. At the same time, the balance sheet is ostensibly highly leveraged with total debt of \$3 million and negative equity of \$1.6 million. In its 3Q-2010 10-Q statement, the company stated that it will require at least \$5 million in additional funding to pay down certain payables and accruals and to provide working capital over the next 18 months, warning that if it is unsuccessful in raising funds, the company may have to reduce expenses and/or cease operations altogether. However, it should be noted that much of the debt on the balance sheet has conversion rights based on exercise prices that are within or close to Capsalus's recent share price trading range. Moreover, although we expect the company to continue to report losses for the 4Q-2010 and 1Q-2011 periods, we believe that Capsalus will deliver its first profit in 2Q-2011.

*Stock dilution risk*

The possibility of the conversion of a large portion of the company's debt into equity and the exercise of options and warrants creates significant stock dilution risk. Further recourse to new stock or convertible debt issues in order to finance its additional investment activities is rated likely.

*Commercial market risks*

Capsalus has invested in emerging companies, with short operating histories in new and unproven markets with low barriers to entry, which makes it difficult to evaluate future prospects with any degree of certainty:

- White Hat Brands has yet to generate revenue since it was acquired by Capsalus in April 2010. There is no guarantee that the production and retail distribution of its powdered beverage product line will start as scheduled in 3Q-2011, nor that its product will gain consumer acceptance.
- As prior experience may testify, Guava's build out of its franchise business model may not run smoothly. In 2010, Guava's efforts to build out a franchise infrastructure were hindered by system deficiencies and poorly skilled consultants. Guava also took back the two Delaware franchises it had sold in 2009 due to poor performance and poor compliance by the franchisees. Furthermore, regulatory issues concerning licensure and Medicare reimbursement cutbacks are potential negative factors.
- The reliability of revenue streams from online social networks is questionable, and even more so with respect to a company that is in the development stage. Uncertainty about the development of customer traffic is the main risk factor to our projections. The WISH concept appeals to the good-hearted nature of people, but this type of free-to-use website, as with many social media and transaction-based online networks, is vulnerable to abuse and scamming. Any security breach threatens to risk the confidence of its users with potentially irreparable damage to customer traffic.
- With distribution plans for D-Care limited to the Indian market, regulatory risk appears to be limited as far as Pantheryx is concerned. The main risk is with regard to consumer acceptance of its flagship product as an alternative to antibiotics, the standard treatment for pediatric diarrhea.

*OTCB trading and liquidity risks*

Capsalus shares currently trade on the Over The Counter Bulletin Board. Trades and quotations on the OTCBB involve a manual process and the market information for those securities cannot be guaranteed. The manual execution process may delay order processing and intervening price fluctuations may result in the failure of a limit order to execute or the execution of a market order at a significantly different price. Execution of trades, execution reporting and the delivery of legal trade confirmation may be delayed significantly. Consequently, one may not be able to sell shares at the optimum trading prices. There are also liquidity limitations in trading Capsalus shares. Average daily volume of the shares traded over the past three months has been approximately 146,000 with a value of about \$5,500.

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## II. FINANCIAL OUTLOOK

*Capsalus is expected to report its first profit in 2011*

Following a year of recording zero sales from continuing operations, Capsalus should return to revenue generation in 1Q-2011 following the consolidation of Guava effective from the end of January 2011. Thereafter, we anticipate rapid revenue growth with White Hat beginning to kick in from 3Q-2011. Perhaps representing more of a landmark is the expectation of the company's first ever profitable quarter in 2Q-2011. Exhibit 1 presents an annual income statement with our 3-year projections. See appendix 1 for a quarterly breakdown of our projections and the relevant sections in the report for forecast details related each of Capsalus's portfolio companies.

### Exhibit 1 Capsalus Corp: Annual Income Statement Summary With 3-Year Projections

Year Ending December	<u>2009</u>	<u>2010E</u>	<u>2011F</u>	<u>2012F</u>	<u>2013F</u>
<b>Revenue</b>					
White Hat Brands		-	\$301,847	\$4,383,349	\$18,978,473
Guava			\$4,276,125	\$10,595,615	\$20,900,000
Other	\$4,897,438		-	-	-
	<b>\$4,897,438</b>	-	<b>\$4,577,972</b>	<b>\$14,978,964</b>	<b>\$39,878,473</b>
Cost of Goods Sold	<u>\$4,807,510</u>	-	<u>\$342,285</u>	<u>\$3,480,856</u>	<u>\$8,016,703</u>
<b>Gross Profit</b>	<b>\$89,928</b>	-	<b>\$4,235,687</b>	<b>\$11,498,109</b>	<b>\$31,861,770</b>
Gross Margin	1.8%	-	92.5%	76.8%	79.9%
Operating Expenses	<u>\$4,845,055</u>	<u>(\$1,915,000)</u>	<u>\$3,175,800</u>	<u>\$6,875,403</u>	<u>\$12,099,081</u>
<b>Operating Income</b>	<b>(\$4,755,127)</b>	<b>(\$1,915,000)</b>	<b>\$1,059,887</b>	<b>\$4,622,705</b>	<b>\$19,762,689</b>
Operating Margin	-97.1%	-	23.2%	30.9%	49.6%
Wish Upon A Hero	-	-	\$71,712	\$504,008	\$2,108,636
Interest Expense	(\$639,206)	(\$2,045,000)	(840,000)	(620,000)	(560,000)
Impairments/Gains	(\$5,601,112)	-	-	-	-
<b>Pre-Tax Income</b>	<b>(\$10,995,445)</b>	<b>(\$3,960,000)</b>	<b>\$219,887</b>	<b>\$4,002,705</b>	<b>\$19,202,689</b>
Tax	-	-	-	-	(5,339,269)
Tax Rate	-	-	-	-	27.8%
Minorities	<b>\$103,581</b>	-	-	-	-
<b>Attributable Net Income</b>	<b>(\$10,891,864)</b>	<b>(\$3,960,000)</b>	<b>\$219,887</b>	<b>\$4,002,705</b>	<b>\$13,863,420</b>
Net Margin	-222.4%	-	4.8%	26.7%	34.8%
<b>EPS</b>	<b>(\$0.07)</b>	<b>(\$0.01)</b>	<b>\$0.00</b>	<b>\$0.01</b>	<b>\$0.04</b>
Weighted Average					
Common Shares Outstanding	145,623,939	386,549,473	393,024,472	393,549,472	393,549,472

## III. VALUATION – A SUM-OF-THE PARTS ANALYSIS

*Quick revenue growth expected*

Since Capsalus's portfolio companies are in the process of transitioning from the development stage to operational status, our preferred approach to valuing the component parts of the company is the DCF methodology. Earnings-based valuation comparisons with more established peer companies are of limited value. While we acknowledge that there are also limitations to the DCF approach in valuing companies with short operating histories in new and unproven markets given the consequent degree of uncertainty surrounding the projections used in the calculation, we attempt to partially temper the limitations by providing a low case DCF value for each of the components as well as a base case. Our analysis indicates a fair value range for Capsalus of between \$0.74 and \$1.09 per share (for details behind the valuation assumptions related to the individual portfolio companies, please refer to the relevant company sections in the report).



## Exhibit 2 Capsalus Corp: Sum-of-the-Parts – DCF-based Valuation

	Stake	Low-End DCF	Value/Share	Base Case DCF
White Hat Brands	100%	114,728,278	0.292	152,093,865
Guava Home & Healthcare	100%	166,987,179	0.424	262,812,407
WISH Upon Hero	30%	10,576,041	0.027	14,896,108
Pantheryx*	5%	126,000	0.000	3,000,000
Net Debt		(2,445,855)	(0.006)	(2,445,855)
<b>Net Asset Value</b>		<b>289,971,643</b>	<b>0.74</b>	<b>430,356,525</b>

Number of Outstanding Capsalus Shares 393,549,472

*Note: Capsalus corporate overheads allocated across White Hat Brands, Guava & WISH*

*\* Low case based on implied current stake value from recent capital raising exercise*

*Base case 3x D-Care sales (based on 1% market share)*

Source: analyst estimates.

One aspect to take into account is the potential stock dilution from the exercise of rights to convert its debt into equity. It is conceivable that at least \$2.4 million or c. 80% of Capsalus's debt will be converted between now and 2013. We also take into account the granting of certain earn-out based shares and warrants. We calculate the total impact would result in the issue of an additional 61 million shares generating proceeds to Capsalus of \$2.5 million. The stock dilution effect reduces our DCF-based valuation to a c. \$0.64-\$0.95 per share range.

## Exhibit 3 Capsalus Corp: Sum-of-the-Parts – DCF-based Valuation

	Stake	Low-End DCF	Value/Share	Base Case DCF	Value/Share
White Hat Brands	100%	114,728,278	0.252	152,093,865	0.335
Guava Home & Healthcare	100%	166,987,179	0.367	262,812,407	0.578
WISH Upon Hero	30%	10,576,041	0.023	14,896,108	0.033
Pantheryx	5%	126,000	0.000	750,000	0.002
Net Debt		81,145	0.000	81,145	0.000
<b>Net Asset Value</b>		<b>292,498,643</b>	<b>0.64</b>	<b>430,633,525</b>	<b>0.95</b>
Number of Outstanding Capsalus Shares		454,446,673			

	Stock Dilution	Cash Value to Capsalus
Convertible debt	53,897,201	2,427,000
Earn-out Shares to Dr. Schreiber	5,000,000	- Probable
Warrants	2,000,000	100,000 2m vested to David Girgenti exercisable @ \$0.05/share
	<b>60,897,201</b>	<b>2,527,000</b>

Source: analyst estimates.



*Supporting unique emerging  
companies in the global wellness  
market*

#### IV. CAPSALUS CORP: COMPANY OVERVIEW

Atlanta-based Capsalus Corp, a publicly-listed venture capital company (renamed from Mach One Corporation in October 2010), is exclusively focused on investments and strategic partnerships in the multi-billion dollar global health and wellness market. Capsalus' stated mission is to actively help the emerging companies in which it invests or establishes strategic partnerships to bring their progressive concepts and ideas for healthier living and wellbeing to the mass market quickly and efficiently. To this end, the company supports its portfolio companies by providing them with services ranging from the provision of operating infrastructure to strategic planning and financial support. Capsalus' current health and wellness investment portfolio comprises:

**White Hat Brands:** A wholly-owned consumer packaged goods company in the health and wellness space, focused on developing and marketing functional food and beverages. White Hat Brands was acquired in April 2010 for a consideration of \$1.23 million.

**Guava Healthcare:** Capsalus completed the acquisition of the entire share capital of Guava Healthcare Inc. in January 2011 for a consideration of 7 million Capsalus shares, valuing the transaction at c. \$270,000. Guava specializes in providing customized in-home, non-medical and medical staffing and services to clients across the age spectrum.

**Wish Upon A Hero:** A 30% equity stake in an online philanthropy network and website which connects people in need with people who can help. The stake was acquired in October 2010 for \$600,000.

**PanTheryx:** A 5% stake in an emerging Indian healthcare company, which is dedicated to the development and distribution of advanced healthcare products. Currently, the company is developing an orally administered biologic therapeutic for treatment of pediatric diarrhea in India, a critical and life-threatening problem for many young children throughout the developing world. The stake was purchased in November 2009, for a cash consideration of \$105,000.

#### IV.I BACKGROUND AND STRATEGIC DEVELOPMENT

Mach One Corporation had been an inactive shell company prior to January 2006, when it acquired VDx Inc., a biotech company specializing in solutions to address disease-threatened animals within the commercial livestock and poultry industries. By February 2009, following subsequent acquisitions in the organic foods and biopharmaceutical sectors, Mach One comprised three operating divisions: 1) Animal Wellness Group; 2) Organics and Sustainables Group; and 3) Biopharm Systems Process Group.

However, by the end of 2009, Mach One's emergence from inactive shell company to operating entity had failed to deliver meaningful operating revenues while incurring a cumulative consolidated net loss of \$14.6 million from inception of its investment strategy. With little prospect of an immediate turnaround, Mach One abandoned its original strategy, selling or winding down all of the assets it acquired in the 2006-Q1 2009 period. The company has since embarked on a new strategy culminating in its new investments, White Hat Brands, Wish Upon A Hero, PanTheryx and Guava Care (to be completed), as well as its rebranding as Capsalus, which derives its name from "Salus," the Roman goddess of health and prosperity.

Although Mach One's past investment track record, not helped by the country's harshest economic climate since the depression, is hardly impressive, we would emphasize that Capsalus is not just a simple makeover of the old Mach One. Indeed, Capsalus is effectively a newly created company with a substantially new ownership structure and management team stewarding its investment strategy.

## IV.2. OWNERSHIP STRUCTURE

Exhibit 4 highlights the change in the ownership structure of Capsalus/Mach One since the end of the first quarter of 2009 based on the latest SEC filings. One important observation to make is that the company's ownership structure has become much more diverse over this period, with no single shareholder currently controlling more than 5% of the company's expanded common equity base.

### Exhibit 4 Capsalus's Principal Shareholders

#### As of March 31, 2009

Shareholder	Common Shares (mn)	% of Common Equity	
Monte Tobin	24.0	19.1%	Chairman & Chief Executive Officer
Andrew Roth*	11.2	8.9%	
Empire Energy Corp	9.8	7.8%	
Tad Ballantyne	9.4	7.5%	Director
Brittin Eustis	4.8	3.8%	Director
Mark Thomas	4.6	3.7%	Director
	63.7	50.8%	

\* Held through AAR Accounts Family Limited Partnership

#### As of August 10, 2010

Shareholder	Common Shares (mn)	% of Common Equity	
Gilbert Peter	18.5	4.8%	Director
Tad Ballantyne	17.4	4.5%	Chairman
Andrew Roth*	17.4	4.5%	Director
Kevin Quirk	15.2	4.0%	Chief Executive Officer
William Stern	14.5	3.8%	
Terralina Super Annuation Fund	13.9	3.6%	
Thomas Plant	13.9	3.6%	
	110.8	28.8%	

\* Held through AAR Accounts Family Limited Partnership

## IV.3. MANAGEMENT TEAM

The composition of the company's management team has changed significantly since the first quarter of 2009, mirroring the subsequent changes in ownership structure and investment strategy (notably the acquisition of White Hat Brands). Of the current management team, only Mr. Tad Ballantyne remains from the period prior to March 2009. The biographies of the key current management personnel are set out below:

### TAD M. BALLANTYNE - CHAIRMAN

Mr. Ballantyne has been chairman of Capsalus Corp since September 2009, after serving as director and chief executive officer of the company. He continues to serve as an officer and/or director at numerous listed and private enterprises in the chemical, agricultural machinery, oil and gas, and financial services industries throughout the U.S. as well as in Africa, Asia, Australia, China, Eastern Europe and India. These companies include: Hoopeston Foods, Inc., Thomsen Group, LLC, Pacific Rim Foods Ltd., Great Resources Holdings Limited (formerly, Zeehan Zinc Limited), American Lorain Corporation, Life Partners Holdings Inc., Grand Monarch Holdings, Inc., Euro-Industrial LLC, Mackay Limited Partnership, Thomsen Group LLC, Jilin Jimei Foods Ltd., Empire Energy Corporation International, and

Texas Steel Partners. Over the last two decades, Ballantyne has been active in acquiring and operating troubled companies or assets being divested by public and private companies. More recently, he has focused on food plants in the U.S. and Asia. Ballantyne holds a BS in business management from the University of Wisconsin.

**KEVIN P. QUIRK – CHIEF EXECUTIVE OFFICER**

Mr. Quirk was appointed chief executive officer in December 2010 and assumes this position with more than two decades of consumer products operating experience spanning general management and senior marketing roles in Fortune 500 corporations and start-up ventures. As CEO he is responsible for determining Capsalus' strategic direction and managing performance against overall business objectives in keeping with the company's mission.

Quirk is the founder of White Hat Brands LLC, a functional beverage manufacturer focused on children's health and wellness issues, which he sold to Capsalus in April 2010 after raising multiple rounds of financing and stewarding the business to a successful exit. Before establishing White Hat, he held a variety of senior-level marketing positions for The Coca-Cola Company, initially hired into the Coca-Cola Accelerated Program, the company's coveted management training program, from which he was charged with running the New England market. He also served as director of marketing for Minute Maid brands prior to his departure. Prior to Coca-Cola, Quirk spent nearly a decade at Anheuser-Busch, working in brand management, field sales and marketing, wholesaler development and strategic planning, most notably as market development manager of the Wisconsin territory, and as founder of the company's business development group, providing internal management consulting to a network of more than 800 distributors. Quirk earned a BS in marketing and a BA in communications from Saint Louis University, and a letter of MBA equivalence from Harvard Business School.

**STEVEN M. GRUBNER – PRESIDENT & CHIEF OPERATING OFFICER**

Mr. Grubner has been president and chief operating officer of Capsalus Corp. since January 2009. With more than 20 years experience in the technology industry, Grubner previously was chief financial officer and principal accounting officer of TapSlide, Inc. (also known as Almadoro Minerals Corp.), and president of NVO Solutions, Inc. He also served as president of finance and administration and chief financial officer of HH Communications, Inc and as vice president and general counsel at Datatec, a position that led to his becoming director of GeneThera Inc.'s public SEC filings, vendor contract negotiations and internal employee agreements, as well as its chief financial officer and principal accounting officer. For more than a decade, Grubner has been in the private and public equity markets, raising capital for technology, biotech and software companies. Grubner received a BA in economics from the University of Michigan and a JD from the John Marshall Law School.

**PATRICK G. SHERIDAN – CHIEF FINANCIAL OFFICER**

Mr. Sheridan was appointed chief financial officer of Capsalus Corp. in March 2009. Mr. Sheridan also serves as secretary and principal accounting officer of the company. Prior to joining the company, Sheridan was a consultant for Hudson Financial Solutions, a division of Hudson Highland Group, one of the world's largest professional staffing firms. At Hudson, Sheridan advised publicly-held companies in a variety of areas, including research, restructuring, acquisitions, financing and SEC reporting. Sheridan previously served as president and chief financial officer to various privately held companies, providing them with operational, financial, and administrative management services. Prior to that, he was a manager of business assurance for Coopers & Lybrand (now PricewaterhouseCoopers, LLP). Prior to his career in accounting and finance, Sheridan served six years in the U.S. Navy as a hospital corpsman. A CPA, Sheridan holds a bachelor of business administration degree in accounting from the University of North Florida.

**CHRIS OLIVIER – VICE PRESIDENT OF MARKETING**

Chris Olivier became vice president of marketing at Capsalus Corp. in April 2010, when the company acquired White Hat Brands, LLC, where he served in the same capacity. Olivier was responsible for White Hat's corporate and product marketing efforts, most notably the introduction and management of its' award-winning line of fortified, low-calorie beverages for kids eight to 12 sold in partnership with the Juvenile Diabetes Research Foundation in top-tier grocery chains throughout the northeastern U.S. Prior to White Hat, Olivier headed up brand management for In Zone Brands' children's beverage business, overseeing the strategic planning, marketing and global licensing for the *BellyWashers* and *TummyTickler* juice brands sold nationally through mass and convenience retail, as well as through major distributors internationally. In addition, he co-founded and directed marketing and product development for Kids Corral, a privately-held children's products venture based in New York City, vetting, licensing and commercializing the best in parent-entrepreneurs ideas for the infant/pre-school market. Before consumer products, Olivier spent a number of years in marketing and business development capacities in media and technology with such multinational corporations as Mediacom, Macromedia (Adobe) and Anderson Consulting (Accenture). He holds a BA in international relations from Colgate University.

**DON LUX – VICE PRESIDENT OF OPERATIONS**

Formerly vice president of operations for White Hat Brands, LLC, Don Lux retained that title when Capsalus Corp. acquired the company in April 2010. At White Hat, Lux was responsible for its operating functions including manufacturing, supply chain management, research and development, and finance. He also implemented a robust ERP system to support the company's key business processes. Supporting the marketing and sales efforts of the White Hat team, Lux played a critical role in the successful retail launch of the company's award-winning line of fortified, low-calorie kids' beverages. Prior to White Hat, Lux served as vice president of operations for In Zone Brands, responsible for the company's operating functions in North America and China. In addition, he was responsible for international fruit purchasing at Cliffstar Corporation, one of the largest private-label juice providers in the U.S., before its acquisition by Cott Beverage in 2010. Lux also held a key position at Baldwin Richardson Foods where he oversaw the operations of custom liquid food products sold through retail outlets and national food service businesses. Working with the wine and spirits divisions at Constellation Brands, the world's largest wine company, he maintained key leadership roles in international purchasing and new product development. Lux holds a BS from Syracuse University in business administration/marketing management.

## V PORTFOLIO COMPANIES

### WHITE HAT BRANDS (100% OWNED)

#### Introduction

Atlanta-based White Hat Brands was founded by Kevin Quirk in February 2006 and acquired by Mach One in April 2010 for a total purchase consideration of \$1.23 million, a transaction executed by way of conversion of White Hat's prevailing debt into 175 million new Capsalus shares. The White Hat acquisition marked the first major step towards the creation of Capsalus. Although not presently a revenue generator, White Hat provides Capsalus with a strong management input including Quirk as Capsalus's recently appointed CEO (see above), as well as the company's current headquarters in Atlanta. Prior to the acquisition, Mach One had been headquartered in Belgium, Wisconsin.

White Hat originally emerged from Quirk's vision, developed in his time with Coca-Cola, to address the growing demand for child-friendly nutritional beverages, particularly aimed at combating childhood obesity with its potentially short and longer-term negative health consequences. It would be no understatement to claim that childhood and adolescent obesity has become a serious problem in the US. Results from the 2007-2008 National Health and Nutrition Examination Survey (NHANES) concluded that an estimated 17% of children and adolescents in the 2 to 19 year old age range were obese. Moreover, results from the NHANES indicated that the prevalence of childhood obesity among 6 to 11 year olds, the principally target market for White Hat products, had increased significantly. The results showed that the prevalence of obesity within this age group tripled from 6.5% to 19.6% between 1976-1980 and 2007-2008. Furthermore, the survey highlighted that among children and adolescents, this age group exhibited the greatest prevalence of obesity. Thus, eyeing the opportunity for penetration of this fast-emerging segment of the estimated \$5 billion kids' beverage market in the US, White Hat launched its new line of nutritional beverages under the "Dog On It!" label, in the summer of 2007.

"Dog On It!" was formally launched onto the retail market in July 2007, with the introduction of a selection of 'first of its kind' multi-vitamin-fortified, mid-calorie juice beverages especially formulated and packaged in multi-pack eight ounce single-serving bottles for the tweens population in mind. The New England (Connecticut, Massachusetts, New Hampshire, Vermont and Maine) and Mid-Atlantic (New York, New Jersey, Maryland and Pennsylvania) states of the US were selected as the initial test markets for the "Dog On It!" product line before a planned expansion into other regional markets. The New England and Mid-Atlantic states were initially targeted because of the high concentration of food and beverage retail outlets relative to the population in those markets, as well as for logistical supply reasons given the location of White Hat's bottling plant just outside of Pittsburgh, Pennsylvania.

However, in spite of encouraging early signs of consumer acceptance of the new product – within a year of launch, "Dog On It!" was being distributed by retail outlets, mainly the large format grocery outlets such as ShopRite, Shaw's, Giant Foods and Pathmark, that accounted for c.30% ACV (all commodity volume, a measure of market penetration) in the New England and Mid-Atlantic markets – this failed to prevent the premature demise of the "Dog On It!" brand. By the end of 2008, some 17 months after its official sales launch, "Dog On It!" was withdrawn from the retail market due to the lack of capital funding. An over-reliance on piecemeal funding from angel investors requiring multiple rounds of financing coincided with the credit crisis and the onset of the deepest economic recession in decades. These factors conspired to dry up the necessary funds flow that might have allowed it to sustain the momentum of its sales drive in order for the product to hit the level of critical mass needed for it to be successful.

While the "Dog On It!" experience is not unique in the emerging functional food and beverage space, the marriage between Capsalus and White Hat Brands offers a second chance for both companies. For Capsalus, it marks the first major step towards the revamp of its investment strategy by incorporating within its portfolio an exposure to the nutritional beverages market, a fast emerging segment of the wellness market. For White Hat, absorption into the publicly-traded entity provides it with more funding options to help execute management's vision to fill a perceived gap in the functional beverages market, something it clearly lacked as an independent private emerging company.

*Created to fill a gap in nutritional solutions for the growing problem of childhood obesity*

*A promising product derailed by the lack of financial resources and the credit crisis*

*White Hat/Capsalus tie-up offers mutual benefits*

#### Business Model

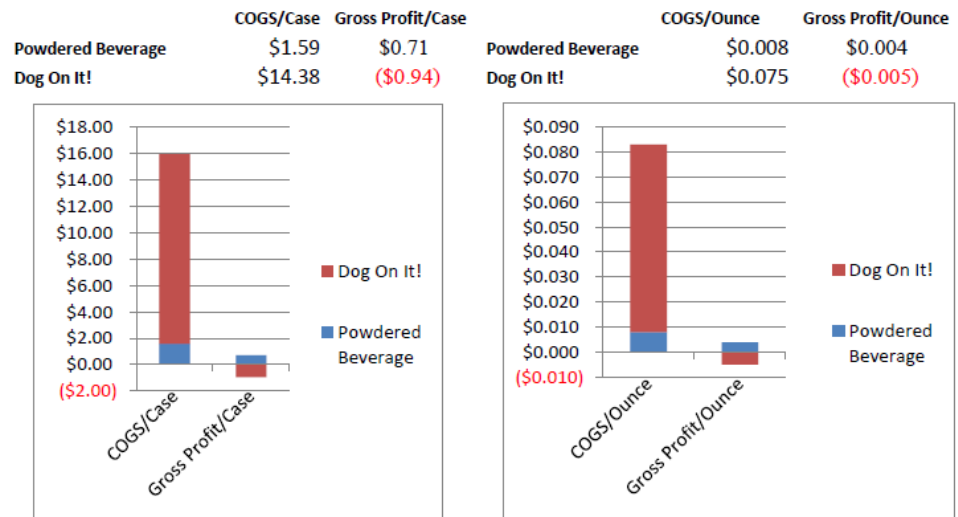
*From liquid to powder*

White Hat's strategy has evolved somewhat, leveraging off lessons learned from the "Dog On It!" experience. Driven by various considerations, the company has shifted its focus away from ready-to-drink juice beverages to powdered beverages, with plans for a soft launch of its new nutritional product line slated for the summer of 2011.

*Powdered beverages should prove to be a more profitable line of business than "Dog On It!"*

**Better economics** – While the market opportunity for the "Dog On It!" ready-to-drink product concept undoubtedly existed at the time of its launch, few had anticipated the severity of the financial crisis that soon followed. Aside from the constraints on White Hat's limited financial resources, which were modest from the start, progress towards the monetization of "Dog On It!" was significantly hampered by its cost structure in spite of being a low capital-intensive business. In this respect, the ready-to-drink beverages business has an intrinsically higher operating cost structure than powdered beverage mixes, predominantly due to higher packaging and freight expenses. The rising cost of oil has driven up freight costs, as well as the cost of PET, the primary type of resins used in the manufacture of plastic beverage bottles. In terms of packaging (foil and corrugate) and freight (easier portability), these expenses will be substantially lower for White Hat's powdered beverages business. As highlighted in Exhibit 5, the cost of powdered beverages sales (based on White Hat's budget assumptions) should be a fraction of that incurred by "Dog On It!" (2008 figures), which should result in a more profitable line of business for White Hat.

#### Exhibit 5 Business Economics: Ready-To-Drink versus Powdered



In 2008, "Dog On It!" also incurred substantial inventory adjustment costs which actually exceeded its achieved revenue of c.\$406,000, due to packaging changes resulting from obsolete materials in

addition to some raw materials degradation. The powdered beverages mix business is far less exposed to inventory cost risk. An additional factor that favors the cost structure of White Hat's powdered business over its original ready-to-drink venture is that there will be a greater usage of online marketing than was the case with "Dog On It!" which will cut significantly into marketing costs. In 2008, marketing and advertising costs accounted for a substantial 88% of net sales generated by "Dog On It!" mainly reflecting start-up costs and slotting fees (i.e., fees paid to retailers to market and carry the product in their stores). Neither will apply to the powdered beverage sales push. Consequently, marketing and advertising costs are expected to be considerably lower than those incurred by "Dog On It!" budgeted at less than 10% of target sales.



*Switch to powder is environmentally friendlier*

**Environmentally friendlier** – While the introduction of the PET plastic bottle in the late 1970s has been an important factor behind the five-fold increase in US beverage sales over the past thirty years (although the beverage industry has been plagued with low overall growth more recently), this has contributed to severe environmental issues. Statistics from the Container Recycling Institute show that, PET accounted for 30% of all beverage containers in the US in 2006 (with half of that share made up by plastic water bottles). To highlight the packaging trend, data indicate that the amount of PET plastics on US retail shelves has doubled over the past decade. However, each ton of PET produced to make plastic containers releases three tons of carbon dioxide into the atmosphere, while recycling programs cannot keep up with beverage container consumption. According to the Container Recycling Institute, two-thirds of all beverage containers in the US are land-filled, incinerated or littered, with 86% of plastic water bottles ending up as garbage or litter. Although White Hat's switch to powdered beverages will not necessarily resolve the environmental problems, it will not directly add to them making it environmentally friendlier.

*Powdered beverages segment beginning to awaken*

**Market Opportunity** – Powdered beverages were first introduced to US consumers in the late 1920s, but have never amounted to more than a very small percentage of overall beverage consumption. However, there is evidence that demand in this segment of the beverage market is beginning to explode. Two important market transforming trends appear to have kick-started the powdered beverages market in recent times. The first trend is the growing popularity of bottled water, which has been the fastest growing segment of the US liquid refreshment beverage market since 1998, mainly at the expense of carbonated soft drinks. Bottled water, now the second most popular liquid refreshment, is projected to continue to gain market share (see Exhibit x).

**Exhibit 6 US Liquid Refreshment Beverage Market (Share of Volume by Category)**

Categories	1998	2003	2008	Share gain/(loss) since 1998	2013 P	Share gain/loss from 2008
Carbonated Soft Drinks	48.7 %	45.0 %	39.1 %	-9.6%	35.4 %	-3.7%
Bottled Water	13.0 %	18.5 %	23.8 %	10.8%	25.4 %	1.6%
Value-Added Water	0.0%	0.4%	1.5%	1.5%	3.0%	1.5%
Fluid Milk	21.2 %	18.9 %	17.6 %	-3.6%	17.4 %	-0.2%
Liquid Fruit Beverages	13.3 %	12.5 %	10.2 %	-3.1%	10.1 %	-0.1%
Sports/Energy Drinks	1.8%	2.8%	4.2%	2.4%	5.6%	1.4%
Other	1.9%	2.0%	3.1%	1.2%	3.3%	0.2%

Source: Beverage Marketing Corporation

The second important trend is the packaging innovation which has seen powdered beverage mixes, historically sold in tubs or canisters, being made available in single-shot sleeves or sticks, to take advantage of the demand for bottled water. In 2006, Kraft Foods, the leading branded player in the powdered beverage segment of the market with its *Tang*, *Kool-Aid* and *Crystal Light* brands, introduced the first “on the go” packs of powdered beverage mixes in recognition of the increasing tendency of consumers who go about their daily business carrying water bottles in hand.

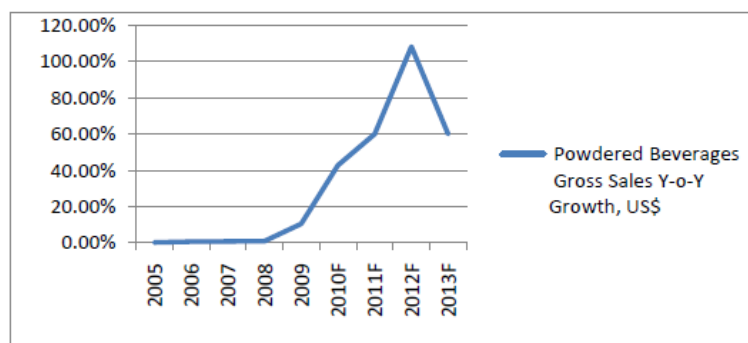
As Exhibit 7 indicates, the aforementioned trends have only recently started to stimulate consumer demand for powdered beverage mixes, with energy and sports drink mixes leading the way. Market



research firm *Datamonitor* projects hyper-growth momentum in this segment of the beverage market over the next few years. In the context of this fast emerging segment of the US beverages market, White Hat has identified significant opportunity for powdered nutritional beverages.

## Exhibit 7 Powdered Beverages – Market Gross Sales Year-on-Year Growth in US\$

	2005	2006	2007	2008	2009	2010F	2011F	2012F
Powdered Beverages								
Gross Sales Y-o-Y Growth, US\$	0.24%	0.67%	0.89%	1.04%	10.50%	42.90%	60.00%	108.30%



Source: *Datamonitor*

While White Hat's objective is to develop and market nutritional powdered beverage mixes aimed at consumers of all ages as a healthier and equally satisfying alternative to ready-to-drink beverages, the core pillar of its strategy is to maintain the greater focus on niche segments of the market which will give it "first mover" advantage. In this respect, White Hat has identified the private label and pre-natal vitamins market as key areas of opportunity for the company. This strategy also enables Capsalus to prove out a market as part of an investment exit strategy through a major consumer packaged goods company not interested in developing specialized markets from scratch.

White Hat has identified the pre-natal vitamin market as a niche market with potentially significant upside. This segment of the vitamin market grosses c. \$750 million in annual sales in the US. Currently, this market is only served by the pill format. However, the company's research shows that only about one-third of the total expectant mother population per year, estimated to run at c.6.5 million women, consume pre-natal vitamins. High cost and an undesirable delivery format are major obstacles to the development of this market. In conjunction with Dr. Kevin Wyndham, one of the country's foremost gynecological surgeons and OBGYNs, White Hat has developed a line of powdered beverage mixes made up of various formulations and flavors to support an expecting mother's regimen throughout her pregnancy, and which will be charged at half the retail cost of current pill formats in the market. With no FDA approval required, White Hat plans to soft launch its new line of pre-natal powdered beverage mixes as a branded product in the third quarter of 2011, initially via online channeling and through Walgreens, the country's largest drug store chain, which has agreed to test market the product.

White Hat has also identified the private label market as an opportunity for its more mainstream electrolyte powdered beverage mixes, offering a lower cost approach to penetrate the market than a branded product. Within the broader picture of the US food and beverages market, there has been rising consumer acceptance of private labels and store brands. According to *Packaged Facts*, total private-label dollar sales of food and beverage products grew c.40% or twice the rate of national brand food and beverage products between 2005 and 2009 period, to total \$87 billion in 2009 or 17% of total food and beverage retail sales in the US. This growth has been fueled largely by the store brands of the larger retail chains. The emerging nutritional powdered beverage market is largely virgin territory for

*Focusing on niche segments where competition is least*

*A low-cost, innovative alternative to the \$750 million pre-natal vitamins market*

*Exploring private label opportunities with high impact chains including Walgreens and Home Depot*

private labels and therefore represents a relatively untapped market opportunity. It is worth pointing out that according to *Nielsen*, sales of private label vitamins and food supplements sold in food/drug/mass merchandiser stores accounted for almost one quarter of the market in this category in 2009. This perhaps provides an interesting pointer to the potential for private label in the nutritional powdered beverages space. White Hat is exploring private label opportunities for its powdered beverage product line with high impact customers such as Walgreens and Home Depot. White Hat is also exploring at opportunities to license its formulated powdered mixes, targeting specialty enterprises such as Myachi (maker of the popular hand sack).

## Financial Projections

Exhibit 8 sets out our 3-year projections for White Hat based on its planned marketing strategy (see Appendix 2 for a more detailed breakdown and assumptions). The company's low cost model should be able to deliver profitability quickly.

### Exhibit 8 White Hat Brands- 3 Year Projections Summary

Year Ending December	<u>2011F</u>	<u>2012F</u>	<u>2013F</u>
Equivalent Cases Sold	145,820	2,117,560	8,685,800
Revenue	\$301,847	\$4,383,349	\$18,978,473
Cost of Goods Sold	<u>\$245,985</u>	<u>\$3,142,888</u>	<u>\$7,268,681</u>
<b>Gross Profit</b>	<b>\$55,862</b>	<b>\$1,240,461</b>	<b>\$11,709,792</b>
<i>Gross Margin</i>	18.5%	28.3%	61.7%
Operating Expenses	<u>\$27,000</u>	<u>\$747,478</u>	<u>\$1,957,879</u>
<b>Operating Income</b>	<b>\$28,862</b>	<b>\$492,983</b>	<b>\$9,733,913</b>
<i>Operating Margin</i>	9.6%	11.2%	51.3%
<b>Underlying Assumptions</b>			
Each physical case contains 144 x16.9 ounces (fully constituted) sticks of powder.			
Each equivalent case (normalized to equal 24-8oz RTD bottles) equals 12.68xphysical case.			
\$2.30 per each equivalent case, derived from following value chain:			
<i>Direct Cost of Goods Sold - \$17.30/physical case or \$1.36/equivalent case or \$0.12/stick</i>			
<i>Wholesale Price - c.69% mark up to \$29.15/physical case or \$2.30/equivalent case or \$0.20/stick</i>			
<i>Retail Price - c.44% mark up to \$41.88/physical case or \$3.30/equivalent case or \$0.29/stick</i>			

Source: Analyst's Estimates

## Valuation

With White Hat expected to launch its powdered beverage mix product line in the third quarter of 2011, we adopt a discounted cash flow approach based on our revenue and cash flow projections to arrive at a long-term enterprise value for the company. Exhibit x sets out our assumptions. Our base case assumes that the company can achieve sales of c. \$50 million by 2015, its fifth year of production. We assume that White Hat can maintain a high level of cash operating margin through this period due

We arrive at an EV of \$152 million

to the low level of fixed overheads. While barriers to entry into the industry are low, there is enough precedence to suggest that the larger beverage players prefer to acquire established brands in specialized markets rather than by starting from scratch. Furthermore, White Hat's first mover advantage would be a mitigating factor against the threat from start-ups as this micro-functional segment of the industry requires knowledge of the supply chain to ferret out capacity. Nevertheless, we have reflected potential competitive threats by applying a 12% discount rate in our DCF analysis, arriving at an enterprise valuation for White Hat of c. \$152 million. Our low case DCF valuation, applying 0% long-term growth and a 15% discount rate is c. \$115 million.

## Exhibit 9 White Hat Brands- DCF Analysis

Year Ending December	2011F	2012F	2013F	2014F	2015F
Equivalent Case Sales	145,820	2,117,560	8,685,800	15,096,513	22,644,769
Revenue	\$301,847	\$4,383,349	\$18,978,473	\$33,212,328	\$49,818,492
Growth		1352%	333%	75%	50%
Cost of Goods Sold	\$245,985	\$3,142,888	\$7,268,681	\$11,624,315	\$17,436,472
Gross Profit	\$55,862	\$1,240,461	\$11,709,792	\$21,588,013	\$32,382,020
Gross Margin	18.5%	28.3%	61.7%	65.0%	65.0%
Cash Operating Expenses	\$27,000	\$747,478	\$1,957,879	\$17,270,410	\$27,400,170
Cash Operating Income	\$28,862	\$492,983	\$9,733,913	\$15,941,917	\$22,418,321
Cash Operating Margin	9.6%	11.2%	51.3%	48.0%	45.0%
Less Tax (@35%)	(10,102)	(172,544)	(3,406,870)	(5,579,671)	(7,846,412)
50% Allocation of Capsalus Corporate Overheads	(598)	(598)	(598)	(598)	(598)
Net Cash Flow From Operations	18,163	319,841	6,326,446	10,361,649	14,571,311

DCF Analysis Summary		Sensitivities			
Discount Rate	12.0%	Discount Rate			
Risk Free Rate	3.5%	LT Growth	10% 12% 15%		
Risk Premium	8.5%		0.0%	1.0%	2.0%
Long-Term Growth Rate	1.0%		166,871,891	141,054,993	114,728,278
Terminal Multiple (x)	9.1		183,062,237	152,093,865	121,666,998
NPV of Cash Flow	19,627,400		203,300,169	165,340,512	129,673,213
Terminal Value	132,466,465				
Enterprise Value	152,093,865				

Source: Analyst Estimates

The functional beverages market has attracted M&A interest from the large carbonated beverage companies such as Coca Cola and PepsiCo in recent years as they have looked to diversify their beverage offerings. Historically, these beverage giants have paid considerable premiums for smaller up-start brands that have gained market acceptance in niche markets typically after five or six years on the market. In 2006, Pepsi purchased functional juice brand Naked Juice for 2x sales, while in 2007, Coke acquired the Fuze (vitamin infused drinks) and Glaceau (vitamin water) brands for c.3.5x and c.11x sales respectively. White Hat could certainly emerge as a potential acquisition target once it has established itself in the functional powdered beverage mix market. Our base case enterprise valuation for the company implies a multiple of 3x projected 2015 sales, which would certainly be within the price range paid by either Coke or Pepsi for niche brands.

Coke and Pepsi have paid considerable premiums for niche brands

## GUAVA HOME & HEALTHCARE SERVICES (100% OWNED)

### Introduction

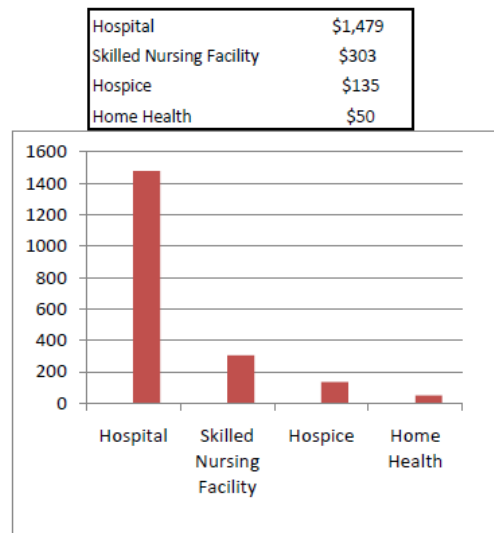
Founded in 2006 by Dr. Mary Schreiber, Delaware-based Guava Home & Healthcare Services specializes in providing a comprehensive, scalable and customized suite of non-medical and medical home healthcare services, non-medical and staffing services, as well as related services and ancillary

*Offering a full suite of home healthcare services*

goods such as Philips Lifeline products (i.e., medical alarm service) to clients of all ages. These services include personal hygiene, bathing, light housekeeping, medication reminders, meal preparation, transportation, transitional care, care management, long-term care and 24 hour live-in support. The service model also includes the provision of nurses, doctors, occupational therapy, physical therapy, a pharmaceutical consultant and blood draws. Guava is included in a minority of Medicare certified home health agencies in the US that are Joint Commission accredited (only 7% of such agencies are accredited by the Joint Commission, an independent not-for-profit-organization, which is acknowledged as quality reference in the US healthcare system).

The idea for the Guava concept is rooted in Schreiber's personal experience of caring for her father as he was recovering from heart surgery in Minnesota while she was living in Delaware. Challenged by the difficulty of finding personalized, individualized attention when a family member was unable to be with her father, Schreiber perceived a gap in the healthcare system and saw the need for the availability of home-based personal healthcare services for seniors which would allow them the option of continuing to live in the privacy of their homes (at a fraction of the cost) instead of having to revert to facility-based care.

#### Exhibit 10 Homecare versus Facility-Based Care : Medicare Part A & Part B Average Payment Per Day



*Source: Healthcare Information System*

*Cash flow generative from the start*

Guava began to provide home healthcare services in December 2006. A low overhead has enabled its business model to be cash flow generative with good margin from inception. In its first four years of operation, Guava has generated cumulative revenue in excess of \$5 million and net operating income of almost \$2 million, yielding a better than 30% profit margin. The company currently provides services in three states – Delaware, Pennsylvania and New Jersey. A key business objective is to expand Guava's presence nationwide and eventually overseas. In order to achieve this objective, the company is in the process of transitioning its business model from an ownership model to a franchise-based model.

While the Guava concept targets a client base ranging from pediatric to geriatric, including new mothers, persons living with disabilities and patients following same-day surgery, seniors represent the most important client category for its services, reflecting the national trend. Research shows that about 18,000 companies and agencies across the US deliver healthcare to some eight million individuals with an acute illness, a long-term medical condition, a permanent disability, or a terminal illness in their

*An aging population points to a substantial increase in future home care services*

homes, of which c.70% are 65 years of age or older. Moreover, according to statistics from the *US Census Bureau*, the population pool from which the demand for services provided by companies like Guava is predominantly generated, is projected to double over the next 20 years - the bureau estimates that there will be over 70 million Americans aged 65 and older by 2030, compared with 37 million in 2008, a trend reinforced by the continuous rise in life expectancy. Since 1960, the average life expectancy of American men and women has risen by nine years and seven years to 74 and 80 years of age respectively. Based on data from the *Centers for Medicare and Medicaid Services (CMS)*, the US home healthcare industry generated c. \$68 billion in 2009 (up 71% from 2003) and projects this revenue pie will grow to c. \$113 billion by 2015.

*Highly fragmented market offers penetration opportunity*

Although the 18,000 companies and agencies operating in the US home healthcare market may suggest a crowded competitive landscape, the industry is highly fragmented with the 50 largest companies, led by Apria Healthcare Group, Gentiva Health Services and Lincare Holdings accounting for less than 25% of the \$70 billion market. Although the number of franchise brands is on the rise, having quadrupled in number over the last decade (Exhibit 11 lists the leading franchise brands in the US home healthcare industry), the US home healthcare industry continues to comprise predominantly of “mom and pop” owner-operated businesses in local or regional markets. This high degree of market fragmentation provides penetration opportunity in a growing market for the franchise model.

#### Exhibit 11 Leading Franchise Brands in the US Home Healthcare Industry

(as of 12/2009)	Start of Franchising	Franchise Units	Revenue \$ mn	Revenue/Franchise	Services
Home Instead	1995	585	35.6		
Comfort Keepers	1999	559	9.4	\$	
Visiting Angels	1998	377	9.6	60,855	Non-Medical
Home Helpers	1997	325	5.3	16,816	Non-Medical
Interim HealthCare	1966	294	24.1	25,464	Non-Medical
Senior Helpers	2001	270	5.2	16,308	Non-Medical
Right at Home	2000	206	8.2	81,973	Non-Medical & Medical
Homewatch CareGivers	1996	160	4.2	19,259	Non-Medical
Brightstar Healthcare	2002	141	7.0	39,806	Non-Medical & Medical
		<b>2,917</b>	<b>108.6</b>	26,250	Non-Medical
				49,645	Non-Medical & Medical
				<b>37,230</b>	

*Source: Franchise Business Review*

*Medicare reimbursement risks*

The one cloud hovering over the home healthcare horizon is Medicare reimbursement risk. Medicare is the home healthcare industry’s largest source of payment. In 2009, Medicare paid home care agencies c. \$30 billion or 44% of the total revenue generated, up from 33% in 2003. However, Medicare spending has been under close scrutiny, with reimbursements to the home care industry in the government’s sights. Accordingly, the Department of Health and Human Services has cut the 2011 Medicare reimbursement rate to home care agencies by 5.2%. Based on recent recommendations by MedPac, an independent congressional agency that advises congress on Medicare payments to various healthcare providers, more reductions in reimbursement rates can be expected in future years. However, notwithstanding the potential revenue pressure going forward, it is unlikely to derail the forward momentum of the home care industry going forward going, given the aforementioned demographic trends and the industry’s cost advantages relative to facility-based care. For Guava, which derives a below market average 20% of its revenue from Medicare payments, there could be a silver lining too. The most vulnerable to the reimbursement risk are the mom and pop agencies, which is likely to accelerate the consolidation of the industry in favor of the bigger players and those like Guava, with ambitions to build out an extensive franchise network.

Attracted by the market dynamics of a burgeoning segment of the healthcare sector underpinning the future demand prospects for Guava’s services and its already profitable business model, Capsalus

moved to acquire full ownership of Guava in January 2011. From the Guava management's point of view, Capsalus is seen as a welcome and important resource to help Guava develop and expand its franchise brand.

## Business Model

### *Transitioning to a franchise business model*

Starting out as an owner-operated business, Guava is now transitioning to a franchise business model, a process that began in 2009. While the owner-operator model has delivered good returns to Guava, the transition to the franchise model is aimed at expediting the company's expansion plans to greater effect and with greater cost efficiency. The past two years have been largely invested in setting up the necessary franchise infrastructure to support its planned network.

### *Differentiated adaptation of the franchise model*

While the number of franchise brands in the US home care services market has more than quadrupled since 2000, Guava has developed a franchise model that differentiates itself from other franchise brands in the healthcare industry. In this respect, Guava's franchise model is built around a unique "back of the house" support for its franchisees, taking care of all the administrative and financial aspects of the franchisee's business, including complete human resource support, billing for all major insurance companies, Medicare, Medicaid and private pay client, and matters related to state licensure. This effectively leaves the franchisees to concentrate only on the revenue generating aspects of the business i.e., marketing and sales, which also receives support from the franchisor. This system allows Guava the benefit of maintaining financial control which accommodates financial reporting consistency and transparency across its entire franchise network.

### *Building block approach to develop full-scale care service model*

Another differentiation between Guava and its peers in the US healthcare franchise industry is the range of services to be provided by its franchise brand. Most of its peers (i.e., c.80%) limit their offerings to non-medical in-home care services. Guava's franchise model incorporates a building block framework that will enable franchisees to add medical services to its business model and thereby add more lucrative revenue streams. It is envisaged that this process of turning a franchisee into a full-service provider will typically take 24 months. The rationale for this period of time is to enable franchisees to build the medical business from an existing revenue base generated from the non-medical services rather than overwhelm them with high upfront costs associated with the required office space and professional medical staff payroll to offer medical services. Additionally, the medical model requires a separate and more extensive licensure process.

The revenue drivers for Guava's franchise model are the sale of franchises as well as the revenue streams generated by its franchisees. In this respect, the main revenue sources pertaining to Guava from its franchise model are as follows:

- 1) **Initial Franchise Fee** - \$35,000.
- 2) **Monthly Royalties** - \$500/month in the first 3 months; the greater of 6% of gross revenue or \$500/month thereafter.
- 3) **Technology Infrastructure Fee** - \$600 per month.
- 4) **Marketing & Advertising** – 1% gross revenue for national marketing, 2% of gross revenue for local marketing.

There are additional income sources for Guava including human resource management fees and fees for staff additional training.



## Financial Projections

As referred to above, Guava has already demonstrated its ability to generate cash flow from its business model largely as an owner-operated business, with the past two years focused on building a strong corporate infrastructure to support its franchise brand. The push for franchise sales begins in earnest in 2011. Exhibit 12 sets out our 3-year projections for Guava as a franchise model (see Appendix 3 for a more detailed breakdown and assumptions).

### Exhibit 12 Guava- 3 Year Projections Summary

Year Ending December	2011F	2012F	2013F
Franchises Sold	46	76	136
Revenue	\$4,276,125	\$10,595,165	\$20,900,000
Cost of Goods Sold	\$96,300	\$337,968	\$748,022
<b>Gross Profit</b>	<b>\$4,179,825</b>	<b>\$10,257,197</b>	<b>\$20,151,978</b>
<i>Gross Margin</i>	<i>97.7%</i>	<i>96.8%</i>	<i>96.4%</i>
Operating Expenses	\$1,820,800	\$4,799,925	\$8,795,202
<b>Operating Income</b>	<b>\$2,359,025</b>	<b>\$5,457,272</b>	<b>\$11,356,776</b>
<i>Operating Margin</i>	<i>55.2%</i>	<i>51.5%</i>	<i>54.3%</i>

Source: Analyst's Estimates

## Valuation

Using valuation comparisons with leading publicly-traded peers in the home healthcare industry (using 2011 consensus numbers), we estimate that Guava would have an EV in the \$3-\$18 million range (see Exhibit 13). It is important to note that none of the comparables listed in Exhibit x adopts a franchise business model, which explains why Guava is can achieve higher operating margin.

### Exhibit 13 Guava- Implied EV Using Peer Valuation Comparisons

#### Valuation Comps

	Symbol	Mkt Cap \$ mn	EV \$ mn	Revenue* \$ mn	EBITDA* \$ mn	Margin*	EV/Sales x	EV/EBITDA x
Gentiva	GTIV	722	1,720	1,937	258	13.3%	0.89	6.7
Amedisys	AMED	1,035	1,099	1,634	198	12.1%	0.67	5.6
Lincare Holdings	LNCR	2,782	3,081	1,921	486	25.3%	1.60	6.3
LHC Group	LHCG	506	503	693	100	14.4%	0.73	5.0
Almost Family	AFAM	329	290	361	52	14.4%	0.80	5.6
Average						15.9%	0.94	5.8
Median						14.4%	0.80	5.6

Guava (2011 projections)

4.6 2.7 58.1%

\* 2011 consensus estimates (Source: Reuters), analyst estimates for Guava

#### Implied Enterprise Value for Guava (using 2011 projections)

	EV/Sales \$ mn	EV/EBITDA \$ mn
Average	4.32	15.75
Median	3.70	15.07
Highest	7.38	18.00
Lowest	3.09	13.59
	4.62	15.61

Source: Reuters, Analyst's Estimates



Recognizing that Guava is an emerging business, which is projected to grow rapidly over the next five years, we also use a DCF approach to arrive at a long term EV for the company. In this respect, we estimate a base case EV of c. \$263 million, based on an 8% discount rate and 2% long-term growth rate. The relatively low risk premium (4.5%) reflects the defensive characteristics of the business. Our low case DCF valuation is c. \$167 million, applying long-term growth of 0% and a 10% discount rate.

#### Exhibit 14

#### Guava - DCF Analysis

##### DCF Analysis

Year Ending December

	2011F	2012F	2013F	2014F	2015F
Franchises Sold	46	76	136	150	170
Recurring Revenue/Franchise	\$64,481	\$65,046	\$62,558	\$61,500	\$60,000
Revenue	\$4,276,125	\$10,595,165	\$20,900,000	\$30,342,000	\$39,430,000
Cost of Goods Sold	\$96,300	\$337,968	\$748,022	\$1,213,680	\$1,577,200
Gross Profit	\$4,179,825	\$10,257,197	\$20,151,978	\$29,128,320	\$37,852,800
Gross Margin	97.7%	96.8%	96.4%	96.0%	96.0%
Cash Operating Expenses	\$1,820,800	\$4,799,925	\$8,795,202	\$12,440,220	\$16,166,300
Operating Income	\$2,359,025	\$5,457,272	\$11,356,776	\$16,688,100	\$21,686,500
Operating Margin	55.2%	51.5%	54.3%	55.0%	55.0%
Less Tax (@35%)	(825,659)	(1,910,045)	(3,974,872)	(5,840,835)	(7,590,275)
Corporate Overhead Allocation	(598)	(598)	(598)	(598)	(598)
Net Cash Flow From Operations	1,532,769	3,546,629	7,381,307	10,846,667	14,095,627

##### DCF Analysis Summary

Discount Rate	8.0%
Risk Free Rate	3.5%
Risk Premium	4.5%
Long-Term Growth Rate	2.0%
Terminal Multiple (x)	16.7
NPV of Cash Flow	27,885,284
Terminal Value	234,927,123
Enterprise Value	262,812,407

##### DCF Sensitivities

	6%	8.0%	10%
L.T Growth			
0.0%	264,851,756	204,080,626	166,987,179
1.0%	311,837,180	229,251,390	182,648,987
2.0%	382,315,317	262,812,407	202,226,248
3.0%	499,778,879	309,797,832	227,397,011

Source: Analyst's Estimates

#### WISH UPON A HERO (30% OWNED)

##### Introduction

WISH UPON A HERO is a unique online philanthropy and goodwill social media network and website, self acclaimed as the "Facebook of Philanthropy". The idea behind the website is to connect people in need (wishers) with people who can help (heroes). The idea for the website was first conceived by its founder, Mr. David Girgenti, shortly after the 9/11 attacks on New York City after he watched from his New Jersey home as thousands of people posted pictures of missing loved ones throughout the city. He thought then that there had to be a faster, more organized way to connect people in need. However, it was the tragic consequences of Hurricane Katrina in 2005 which affected hundreds of thousands of people that spurred Girgenti to work to convert his idea into reality. Girgenti formally launched the www.wishuponahero.com website in September 2007. Since its launch, the website has garnered a community of c.92,000 members, and has enabled the granting of about 72,000 wishes. Attracted by the site's visionary and pioneering approach to emotional wellness, Capsalus acquired a 30% stake in the emerging website enterprise for a cash consideration of \$600,000 in October 2010.

Exhibit x summarizes key site statistics and trends for WISH since launch. In 2009, WISH and its founder were featured on ABC World News. That one media hit generated 15,000 new members within 5 days of its airing, or one-third of the site's new members registered in 2009. However, the lack of proper funding put a brake on its marketing strategy in 2010. Consequently, WISH was unable to repeat its media exposure in 2010, which slowed its growth. As an investor, Capsalus brings valuable resources to WISH's table in order to aid its continued development. Not only does the investment inject much needed financial resources to allow WISH's marketing strategy to get back on

The "Facebook of Philanthropy"

Capsalus brings valuable financial and non-financial resources to the table

*Key strategic partners in Star Group and Dan Marino*

track, but just as valuable is the media access resource that comes along with Capsalus.

Just prior to making its investment in WISH, Capsalus had appointed The Star Group as the Agency of Record for the company, responsible for producing branding initiatives to promote its businesses, as well as handling proactive media and investor outreach on behalf of the company. The Star Group is now fully focused on developing an integrated marketing plan to help propel WISH forward. As part of the marketing strategy, WISH is currently working on the production of a TV reality show based on its helping hand concept, which it plans to deliver to network and cable TV. The company has also entered a partnership with the popular and legendary Miami Dolphins quarterback and philanthropist, Dan Marino, to be utilized as an impact player to help promote the Wish concept and to open doors to both financial and strategic partners.

**Exhibit 15** [www.wishuponahero.com](http://www.wishuponahero.com) – Key Site Statistics

	<u>2008</u>	<u>2009</u>	<u>2010</u>
New Members	19,574	46,347	22,132
Total Visits	1,255,063	1,942,879	1,602,750
New Visits	16.1%	21.4%	24.6%
Absolute Unique Visitors	205,182	420,333	404,250
Total Page views	26,183,416	35,167,532	29,325,013
Average Page views/Visit	20.86	18.10	18.30
Time on Site (minutes)	16:26	15:15	13:49
Bounce Rate	9.5%	11.4%	13.7%

**Source: Wish Upon A Hero**

#### Business Model

Working under the mantra of “No wish too large, no hero too small”, WISH UPON A HERO is completely free to its users, allowing everyone who registers as a member the opportunity to cast wishes or to respond to a need. The website empowers wishers to cast up to three carte blanche wishes at a time. These wishes can be based on financial need or just asking for a simple favor. On the other side, the website offers heroes, the opportunity to step up by logging on and responding to those in need, either in name or anonymously, on a direct one-to-one basis without bureaucracy, overhead and middlemen. Acknowledging that not all legitimate wishes, particularly the larger wishes, are typically capable of being granted by individuals, Girgenti set up the *WISH UPON A HERO Foundation* in June 2008 to accept tax-deductible corporate donations and government grants as a way to raise money to accommodate legitimate wishes that require more considerable financial resources, such as funds needed for life-threatening surgeries.

The WISH UPON A HERO concept appeals to the good-hearted nature of people, but this type of free-to-use website, as with many social media and transaction-based online networks, is vulnerable to abuse and scamming. One of the most important keys to the success of this site depends on the ability to protect the integrity of the site and hence the confidence of its members. In this respect, the website contains embedded security features to conduct IP checks (to stop people from creating multiple accounts and potentially exceeding their quota of wishes), as well as automated filtering processes and a monitoring team to undertake member identity and wish verification checks. Based on the information gleaned from these checks, the administrator has discretion to close suspicious accounts without notice. Enhancing the filtering technology is an investment priority and will absorb some of

*A free-to-use website*

*Enhancement of embedded security features is an investment priority*

the proceeds received from Capsalus's investment.

WISH's business model is predicated upon generating revenue from four principal sources – affiliate marketing, user donations, charity builder and advertising.

*Four revenue pods*

**Exhibit 16 WISH's Revenue Model**

Revenue Pods	Revenue Model
Affiliate Marketing	3% of transaction value
Advertising	Click Through Rate at \$2/page/year
Donations (through Foundation)	5% of transaction value
Charity Builder	\$24.99 per month membership fee plus 3% of donation transaction value

*Source: Wish Upon A Hero*

In common with other social networking sites, WISH's online community site has incorporated advertising into its revenue model, using the website and the planned TV show. However, in contrast to many social networking sites, WISH's monetization strategy is not in any way based on the reliance on advertising for revenue generation. In fact, the bulk of revenue is expected to be generated from the other channels. In this respect, WISH has identified affiliate marketing as the revenue stream with the most potential, given that many of the wishes posted on the site are requests by people in need of merchandise ranging from basic items such as food and clothing, to higher ticket merchandise such as home appliances and other consumer durables. Consequently, the WISH team is currently directing much of its energy toward streamlining the purchasing process for users visiting the site to grant such merchandise to people in need. To this end, WISH has taken the first steps toward establishing an interface with leading retailers through Linkshare, one of the major facilitators with capacity to link a large network of merchants, including Wal-Mart, Target, Petsmart etc., with affiliate marketers. The affiliate marketing revenue stream attributable to WISH is derived from a commission fee of c.3% of the transaction value to be earned by WISH every time a user grants a wish by purchasing merchandise online through WISH's network of affiliates. Management feels confident that the opportunity to increase the affiliate rate will improve as more people visit the site. They plan to develop direct relationships with companies like Wal-Mart and will attempt to negotiate higher rates.

*E-commerce opportunities arising from affiliate marketing*

While user donations made via the *WISH UPON A HERO Foundation* are expected to provide an important flow of revenue to WISH (please note that WISH does not take a fee from direct peer-to-peer donations executed on the site), another potentially significant opportunity for revenue generation comes with the recent introduction of a new site feature called Charity Builder. This feature enables emerging non-profit organizations to get off the ground by allowing them to create and host a website and as well as to process credit card donations within the WISH domain. Joining the Charity Builder network and being integrated into the WISH website, not only allows these fledgling charity organizations to allay the costs associated with website maintenance, hosting and credit card donations services, but also gives them the opportunity to promote themselves to the growing membership of the WISH community. From Charity Builder, WISH collects a monthly membership fee as well as a percentage of the donations. WISH has already marketed Charity Builder to about 15,000 not-for-profit charities, although the company believes that its potential target market currently numbers more than 100,000 charity organizations with limited capabilities that the Charity Builder could benefit. WISH has just started to run the Charity Builder program on its website and has so far signed up ten charities with the promise of many more to come.

*Pioneering service to enable small non-profit organizations creates a potentially lucrative income stream*

**Financial Projections**

Exhibit 17 sets out our 3-year projections summary for WISH (see Appendix 4 for a more detailed breakdown and assumptions).

**Exhibit 17**

**WISH UPON A HERO - 3 Year Projections Summary**

Year Ending December	<u>2011F</u>	<u>2012F</u>	<u>2013F</u>
\$			
Membership	500,000	1,000,000	2,000,000
Revenue			
Affiliate Marketing	\$256,500	\$1,764,000	\$6,210,000
Advertising	\$289,188	\$884,063	\$1,725,938
WISH Donations	\$262,500	\$775,000	\$1,625,000
Charity Builder	<u>\$118,854</u>	<u>\$797,964</u>	<u>\$2,188,848</u>
Total	\$927,042	\$4,221,027	\$11,749,786
Growth		355%	178%
Direct Cost of Revenue	\$130,000	\$440,000	\$1,120,000
Gross Profit	\$797,042	\$3,781,027	\$10,629,786
Gross Margin	86.0%	89.6%	90.5%
Operating Expenses	\$558,000	\$2,101,000	\$3,601,000
Operating Profit	\$239,042	\$1,680,027	\$7,028,786
Operating Margin	25.8%	39.8%	59.8%
Attributable to Capsalus (30%)	\$71,713	\$504,008	\$2,108,636
EBITDA	\$245,042	\$1,701,027	\$7,069,786

*Source: Analyst's Estimates*

**Valuation**

Any indicators of how the market currently values online social networks are limited to private equity transactions. According to *Sharespost*, an online market place for private investments, recent private equity-based transactions imply a c. \$53 billion total value for Facebook and a c. \$2.5 billion value for LinkedIn, pointing to inflated multiples when measured by conventional valuation metrics. While there is no financial transparency with respect to Facebook, unsubstantiated reports suggest that the world's largest social media network generated \$2 billion of revenue in 2010, implying an EV/Sales multiple of 25x. More reliable financial has recently been released by LinkedIn, after it filed an S1 statement for its prospective IPO. Annualizing the nine-month 2010 financial data contained in the prospectus, the implied private equity-based valuation for LinkedIn translates into c.11x 2010 sales and a frothier 2010 EV/EBITDA multiple of 58x. What is incontrovertible is that LinkedIn has enjoyed hyper-

growth since its launch in 2003. The prospectus indicates that LinkedIn's revenue has risen by a CAGR of 100% plus since 2006. Private investors, therefore, appear to be betting that both Facebook and LinkedIn will continue to demonstrate rapid growth in the foreseeable future.

Capsalus's recent investment in WISH values the online community network at \$2 million. By comparison to the recent private investor share purchases of Facebook and LinkedIn, the price paid by Capsalus for its WISH interest looks very modest across various valuation metrics as noted by Exhibitx, conservatively using our 2011 projections for WISH, which still reflect the network as a start-up (both Linkeddin and Facebook have been in operation for at least 6 years). If the LinkedIn valuation metrics are applied to WISH (using our 2011 projections), we estimate an EV range in the \$10 million to \$15 million range.

**Exhibit 18**

**WISH - Valuation Comparisons With Facebook and LinkedIn**

	WISH	FACEBOOK	LINKEDIN
Latest Private Equity-based Value	\$2 million	\$53 billion	\$2.5 billion
	2011 Projection	2010	2010
Years since launch	4	6	7
Number of Registered/Active Members	500,000	600 million	90 million
Revenue	\$0.93 million	\$2 billion	\$220 million
EBITDA	\$0.25 million	n/a	\$43 million
EV/Members (X)	4	88	28
EV/ Revenue (X)	2	27	11
EV/EBITDA(X)	8	n/a	58
Using LinkedIn Valuations	Implied EV of WISH		
	\$ million		
EV/Members (X)	13.9		
EV/ Revenue (X)	10.5		
EV/EBITDA(X)	14.2		
	12.9		

With WISH effectively starting to emerge from its status as development stage company, our DCF model arrives at a long term EV for the company. In this respect, we estimate an EV of c. \$50 million, applying a discount rate of 15% and long-term free cash flow growth rate of 2%. In our worst case scenario-20% discount rate and no long-term growth - our EV estimate stands at \$35 million, still well above the value implied by the Capsalus investment.

**Exhibit 19**

**WISH - DCF Analysis**

Year Ending December	2011F	2012F	2013F	2014F
Membership	500,000	1,000,000	2,000,000	4,000,000
Revenue	\$927,042	\$4,221,027	\$11,749,786	\$21,737,104
Direct Cost of Revenue	<u>\$130,000</u>	<u>\$440,000</u>	<u>\$1,120,000</u>	<u>\$2,608,452</u>
Gross Profit	\$797,042	\$3,781,027	\$10,629,786	\$19,128,652
Gross Margin	86.0%	89.6%	90.5%	88.0%
Operating Expenses	\$558,000	\$2,101,000	\$3,601,000	\$6,086,389
Operating Profit	\$239,042	\$1,680,027	\$7,028,786	\$13,042,262
Operating Margin	25.8%	39.8%	59.8%	60.0%
Less Tax (@35%)	(\$83,665)	(\$588,009)	(\$2,460,075)	(\$4,564,792)
Depreciation	\$6,000	\$21,000	\$41,000	\$65,000
10% Allocation of Capsalus Corporate Overhead	(\$132,800)	(\$132,800)	(\$132,800)	(\$132,800)
Capex	\$30,000	\$75,000	\$100,000	\$150,000
Free-Cash Flow	(\$1,423)	\$905,218	\$4,376,911	\$8,259,671

**DCF Analysis Summary -Base Case**

		Sensitivities			
Discount Rate	15.0%	L.T Growth		Discount Rate	
Risk Free Rate	3.5%	10%		15.0%	20%
Risk Premium	11.5%	0.0%	63,064,228	45,164,553	35,253,471
Long-Term Growth Rate	2.0%	1.0%	67,927,462	47,248,797	36,405,290
Terminal Multiple (x)	7.7	2.0%	74,006,505	49,653,693	37,685,088
NPV of Cash Flow	15,985,147	3.0%	81,822,418	52,459,405	39,115,451
Terminal Value	33,668,545				
Enterprise Value	49,653,693				

Source: Analyst's Estimates

## PANTHERYX (5% OWNED)

### Overview

*Innovating a treatment for pediatric diarrhea*

Pantheryx, an emerging Indian healthcare company founded in 2007, is dedicated to the development and distribution of advanced healthcare products, including pharmaceuticals, biologics and medical products. Specifically, the company has developed a proprietary orally administered intervention (branded as D-Care), for the treatment of pediatric diarrhea in India. In more than 80% of pediatric diarrhea cases in India, treatment by antibiotic administration is standard. Studies indicate that antibiotics are only 70% effective, whereas indications from recently completed clinical trials suggest that D-Care could prove to be a more effective treatment option. Moreover, low production cost model, D-Care could be a highly lucrative product for Pantheryx.

*Pediatric diarrhea kills 400,000 children in India every year*

Pediatric diarrhea is both widespread and a killer in India and the developing world, arising predominantly from unhygienic practices and unsafe drinking water. This is an acute problem in India, where children and adolescents make up a significant proportion of the population. Some 400,000 people or one-third of the world's second most populous country are under 14 years of age, with the prevalence of pediatric diarrhea reported to be running at c.76,000 per month or c.20% of the country's pediatric population. Of these, data suggest that Indian physicians receive c.51,000 visits per month from children with diarrhea. According to UNICEF, diarrheal diseases represent the second major cause of death among children between the ages of birth to adolescence in India after respiratory-tract infections. It is estimated that c.400,000 children die from this disease in India each year. By comparison, the number of deaths from pediatric diarrhea in the US each year is 400.

*Preparation for D-Care roll-out follows successful clinical trials*

Data from the first round of clinical trials of the D-Care therapeutic produced very encouraging results. The results from a trial involving 30 clinically positive patients (between 6 months and five years old) with undifferentiated pediatric diarrhea reported an "extraordinary" improvement in the test population. Diarrhea symptoms were eliminated within 48 hours of initial treatment. D-Care has just completed a second and final round of trials which have confirmed the earlier results. Pantheryx plans to trial launch D-Care in a section of North India in the second quarter of 2011 before commencing a full nationwide roll-out of the product by the end of the year.

*Huge revenue potential for D-Care*

Pantheryx has spent the past three years manufacturing and selling a line of low revenue-generating wide-application pharmaceutical products primarily in order to build up and establish a distribution pipeline to an expanding network of healthcare practitioners across India, in anticipation of producing and selling the proprietary D-Care product. In 2010, Pantheryx generated revenue of c. \$100,000 from these products, but D-Care as a proprietary drug would be of much higher value. The market size for the medical treatment (medicines only) of pediatric diarrhea in India is estimated at c. \$2 billion per year. Assuming a retail price of Rs300 per dose package and distribution costs (equivalent to 30% of the retail price, we estimate net revenue per package of Rs210 or c. \$4.60. Using Capsalus estimates, a little more than one million packages sold, which is considered an achievable sales target for the company's in-house sales force in the first full year of roll-out, would generate \$5 million of net revenue, representing a miniscule share of the target market. Assuming initial market acceptance of D-Care, the next stage of the roll-out would be to develop a network of external distribution partners which could multiply sales and revenue relatively quickly. In this respect, a 5% share of the market would generate c. \$100 million. Moreover, with India only accounting for 30% of the world's reported cases of pediatric diarrhea, there is huge revenue potential for D-Care beyond India.

### Valuation

*Latest capital raising exercise implies value accretion*

Capsalus currently owns a 5% equity interest in the emerging Indian pharmaceutical company, which it acquired for \$105,000 in November 2009 for \$1 per share. Adding to its interest in Pantheryx remains an option, but is not presently considered to be an immediate priority for Capsalus which is focused on bedding down its more recent investments in Wish Upon A Hero and Guava Home and Healthcare. Thus, Pantheryx currently represents an investment asset in the Capsalus balance sheet, offering no contribution to its earnings or cash flow in the absence of dividend payments.



*Recent transaction activities point to more substantial value potential*

That said, there has already been accretion in the value of Capsalus's investment. Based on a recent round of capital raising by Pantheryx (in which Capsalus did not participate) to provide further funding for D-Care's roll-out, the company sold shares to private investors at a 20% premium over the price paid by Capsalus one year earlier, implying a current enterprise value for Capsalus's investment of \$126,000. However, this could pale with the potential value should D-Care achieve market penetration.

India is one of the world's fastest-growing pharmaceutical markets, currently generating c. \$8 billion in annual sales (dominated by branded generics), a number that is projected to double by 2015. It is also a highly fragmented market, which has attracted valuation premiums for both companies and brands. Recent examples include Abbott Laboratories' 2010 purchase of a division of leading Indian branded generics company, Piramal Healthcare, for a total consideration of \$3.7 billion at c.7x sales. Also in 2010, Piramal Healthcare's acquisition of "i-pill", an emergency contraceptive brand from Cipla, India's principal domestic pharmaceutical company, valued the brand at 3x sales. Using Capsalus estimates, Exhibit x highlights potential value scenarios for Pantheryx (based on the D-Care brand alone), derived from a variety of market share assumptions for D-Care and EV/Sales multiples referenced by recent transaction activity in the Indian pharmaceutical sector.

**Exhibit 20**

**Potential Valuation Ranges For D-Care Brand**

\$ mn		D-Care Market Share			
EV/Sales	0.25				
	%	1.0%	3.0%	5.0%	
<b>1X</b>	5	20	60	100	
<b>2X</b>	10	40	120	200	
<b>3X</b>	<b>15</b>	<b>60</b>	<b>180</b>	<b>300</b>	
<b>4X</b>	20	80	240	400	
<b>5X</b>	25	100	300	500	

*Source: Analyst's Estimates*

## VI RECENT EVENTS

### Divestments

On March 31, 2010, Ceres adopted a plan to close the business of its wholly-owned subsidiary, Organic Grain and Milling, Inc. (OGM). As of March 31, 2010, substantially all operational activities of OGM were discontinued.

On July 1, 2010, the Company adopted a plan to close the business of Ceres Organic Harvest, Inc. (Ceres). As of July 1, 2010, substantially all operational activities of Ceres were discontinued.

On August 6, 2010, the Company entered into an agreement to sell the Animal Wellness group business.

### Acquisitions

On April 14, 2010, the company completed the acquisition of White Hat Brands, LLC.

On October 26, 2010, Capsalus announced it has acquired a 30% stake in online social network, Wish Upon A Hero.

On January. 26, 2011, the company announced its acquisition of Guava Franchising, Inc. and its parent company Guava Healthcare, Inc., operating as Guava Home & Health Care Services, specialists in providing customized in-home, non-medical and medical staffing and services.



## VII SWOT

### STRENGTHS

Low cost structure of operating companies  
Innovative products and services  
Experienced management team  
Prospect of early positive returns from new investment strategy

### WEAKNESSES

High debt and negative equity  
Operating in unproven markets

### OPPORTUNITIES

Exposure to burgeoning market trends in the health & wellness sector  
Revenue is expected to ramp up quickly  
Low threshold to achieve critical mass and profitability  
M&A interest from larger players seeking entry into niche markets

### THREATS

Dilution potential  
Financing may be difficult to obtain  
Low barriers to entry  
Market acceptance may not meet expectations

## VIII RECENT FINANCIAL RESULTS

### INCOME STATEMENT

2010 marked a year of significant corporate activity involving the sale of underperforming albeit revenue-generating assets and investments in development stage companies. The asset overhaul within Capsalus is reflected in its 3Q-2010 income statement, which reported a net loss of c. \$4 million for the nine-month period to September 30, 2010. Losses from discontinued operations amounted to c. \$1.18 million, while continuing operations, which principally incorporated White Hat Brands virtually from the start of 2Q-2010, reported a loss c. \$2.82 million for the nine month period. This reflected Corporate overheads and interest expense as there were no sales or related cost of goods sold recorded for White Hat Brands in the 9M-2010 period. Interest expense rose sequentially from \$62,427 in 1Q-2010 to c. \$1 million in 3Q-2010, as result of new debt raised by Capsalus to fund the company's new investment strategy.

While White Hat Brands is not projected to generate sales revenue before 3Q- 2011, Capsalus is expected to report its first revenue stream in its newly configured form in 1Q-2011 following the acquisition of Guava Home & Health Care Services. The corporate overhaul renders historical comparisons irrelevant. All other things being equal, meaningful year-on-year comparisons to assess Capsalus's performance will only be able to be made from 1Q-2012.

*Company's transition renders  
historical comparisons irrelevant*

## Exhibit 21 Capsalus: Income Statement Covering 9M-2010

Income Statement	Q1-2010	Q2-2010	Q3-2010	9M-2010
\$				
Sales, net	-	-	-	-
Cost of Goods Sold	-	-	-	-
Gross Profit	-	-	-	-
Operating Expenses	(316,014)	(583,905)	(515,652)	(1,415,571)
Other gains/(expenses)	(12,844)	-	13,851	1,007
Interest Expense	(62,427)	(286,767)	(1,045,956)	(1,395,150)
Income (Loss) from Continuing Operations	(391,285)	(870,672)	(1,561,608)	(2,823,565)
Income (Loss) from Discontinued Operations	(506,271)	(854,072)	182,625	(1,177,718)
Net loss	(897,556)	(1,724,744)	(1,378,983)	(4,001,283)
EPS from Continuing Operations	(0.01)	-	-	(0.01)
Weighted Average Shares Outstanding, basic & diluted	183,057,564	322,648,047	383,364,985	297,090,592

Source: company reports

## BALANCE SHEET

As a consequence of the corporate overhaul, Capsalus's balance sheet is in a state of flux. While the balance sheet remains relatively weak with negative equity, an improving trend is in evidence. As of September 30, 2010, the shareholder deficit stood at \$1.6 million versus \$3.4 million as of December 31, 2009. The improvement is more marked by stripping out the net liabilities associated with discontinued operations. In this respect, the company's shareholder deficit falls to \$0.60 million as of September 30, 2010 versus \$3.1 million as of December 31, 2009. Total debt and net debt fell by \$0.77 million and \$1.29 million respectively, as a result of the corporate restructuring

Weak but improving

## Exhibit 22 Capsalus: Selected Balance Sheet Data

Selected Balance Sheet Data	31-Dec-09	30-Sep-10	Change
\$			
Cash	60,254	584,129	523,875
Current assets of discontinued operations	768,788	43,884	(724,904)
Other current assets	558,487	377,925	(180,562)
Total current assets	1,387,529	1,005,938	(381,591)
Net property and equipment	8,710	81,582	72,872
Goodwill	102,184	102,184	-
Net intangible assets	327,033	1,812,033	1,485,000
Other non-current assets	1,437,654	25,000	(1,412,654)
Total Assets	3,263,110	3,026,737	(236,373)
Accounts payable and accrued expenses	191,891	250,370	58,479
Current debt	417,251	1,718,286	1,301,035
Current liabilities of discontinued operations	2,493,840	994,565	(1,499,275)
Other current liabilities	200,121	307,125	107,004
Total current liabilities	3,303,103	3,270,346	(32,757)
Long-term debt	3,380,545	1,311,698	(2,068,847)
Total liabilities	6,683,648	4,582,044	(2,101,604)
Total equity	(3,420,538)	(1,555,307)	1,865,231
Tangible equity	(3,849,755)	(3,469,524)	380,231
Total liabilities and equity	3,263,110	3,026,737	(236,373)
Total Debt	3,797,796	3,029,984	(767,812)
Net Debt	3,737,542	2,445,855	(1,291,687)

Source: SEC filings.

*More funding required to finance the strategy*

## LIQUIDITY AND CASH FLOWS

Net cash from operating activities saw an outflow of \$0.9 million during the nine months ended September 30, 2010. The operating cash outflow was primarily due to the slow-down of operating activities due to a lack of current funding and significant changes in working capital levels from the prior year. The changes in working capital in the period ended September 30, reflected a slowdown in activities of the discontinued operations driven by the lack of capital.

The net cash outflow from investing activities was \$100,056 during the nine months ended September 30, 2010, reflecting the White Hat acquisition in April 2010.

The net cash inflow provided by financing activities during the nine months ended September 30, 2010 totaled \$1.58 million. The primary reason for the increase was cash provided by new debt (\$1.70 million) and equity (\$116,500) totaling \$1.82 million. Additionally, proceeds from the sale of treasury stock during this nine month period, was approximately \$49,000. Partially offsetting these increases were debt repayments of approximately \$288,000.

In its 3Q-2010 earnings report, the company indicated that in order to have the capability of achieving its new business plan, it believed that it would require at least \$5 million in additional funding over the next 18 months, to pay down certain payables and accruals and to provide working capital.

## DEBT

*86% of company debt has conversion*

As of September 30, 2010 debt total stood at \$3 million, albeit down from \$3.8 million as of December 31, 2009. Some 57% of the total or \$1.72 million is classified as current debt, of which \$1.47 million is convertible. It is worth pointing out that the all but \$140,000 of the convertible debt is convertible into common stock in the \$0.03-\$0.045 per share range, which is within Capsalus's recent share price trading range. The lion's share of the company's long-term debt is also convertible. The zero coupon notes due at the end of 2013 and convertible at \$0.076 per common share, account for more than 80% of the company's long-term debt. While the company's balance sheet is ostensibly significantly leveraged, it is perhaps not nearly as bad as the headline numbers would indicate. Based on the Capsalus share price trading range of the past three months, \$1.67 million of convertible debt (or 55% of total debt) has been in-the-money. Conversion of this debt into equity would notionally cut total debt to \$1.36 million and also turn Capsalus's negative equity into a slightly positive equity position. Longer term, it is quite conceivable that 80% of Capsalus's current total debt could be converted into equity.

We estimate that the average interest cost of Capsalus's debt as of September 30, 2010 was 8.1% per annum. This would imply an interest expense run rate of c. \$61,000 per quarter. However, the interest expense recorded in the income statement over the past two quarters has been significantly inflated by a debt discount arising from the conversion of debt to equity. The discount, which reflects the difference between the market price and the lower conversion price is amortized over the life of the notes and charged to interest expense. This amortization is an accounting protocol and has no impact on company's cash flow.

## Exhibit 23 Capsalus: Breakdown of Debt

\$'000	30-Sep-10	Interest	Maturity	Conversion Terms
<b>Short-Term Convertible Notes</b>	<b>1,472</b>			
Commonwealth One	50	12.0%	Until Further Notice	\$0.045/Common Stock
Plant Notes	90	5.0%	Until Further Notice	\$0.50/Common Stock
Blake Note	100	10.0%	13-Jan-11	\$0.125/Common Stock
CMS Notes, net of debt discount	68	12.0%	11-Feb-11	\$0.04/Common Stock
2010 Tranche I Notes, net of debt discount	1,164	10.0%	3Q-2011	\$0.03-\$0.04/Common Stock
<b>Other Current Debt</b>	<b>246</b>			
Short-Term Loans	166	10.0%	Due on Demand	
Current Portion of LT Debt	80	12.0%		
<b>Total Current Debt</b>	<b>1,718</b>			
<b>Long-Term Debt</b>	<b>1,312</b>			
Zero Coupon Convertible Subordinated Notes	1,070	5.0%	12-Dec-13	\$0.076/Common Stock
Liability for Licence Agreement (Annual Payments)	167	12.0%	11-Sep-14	
Convertible Note	25	12.0%	1-Apr-12	\$0.02/Common Stock
Convertible Note	50	12.0%	2-Jun-12	\$0.02/Common Stock
<b>Total Debt</b>	<b>3,030</b>			
<b>Average Interest Cost of Debt</b>				
ST Debt	10.0%			
LT Debt	6.3%			
<b>Total Debt</b>	<b>8.1%</b>			

Source: SEC filings, analyst's estimates.

## STOCK DILUTION

Since the end of 2009, Capsalus has presided over significant stock dilution. As of September 30, 2010, the company had 386.3 million common shares outstanding, an increase of 205 million shares from the 181.3 million outstanding as of December 31, 2009. The number of shares has subsequently risen by at least 7.24 million following the Guava acquisition (7 million) and the conversion of Preferred Stock (240,000). Based on the recent share price trading range, there is the prospect of a further c.10% stock dilution (c.40 million shares) from the conversion of debt. Exhibit 24 highlights potential stock dilution from the company's existing capital structure and agreements going forward, and does take account of the potential dilution from new capital raising or acquisitions.

## Exhibit 24 Capsalus: Potential Stock Dilution

Potential Stock Dilution Summary	No of Shares	Dilution From Conversion	Comment
<b>Outstanding Common Shares as of Sep 30, 2011</b>	<b>386,309,473</b>		
Conversion of Series C Preferred Stock (Oct 12, 2010)	239,999		
GUAVA Acquisition (Jan 26, 2011)	7,000,000		
<b>Total Outstanding Shares</b>	<b>393,549,472</b>		
<b>Convertible Debt</b>			
In-the-Money (at or close to)		39,818,254	Conversion rate \$0.02/\$0.045
Out- Of-the-Money		14,258,947	Conversion rate \$0.076/\$0.125
		<b>54,077,201</b>	
<b>Other</b>			
Treasury Stock		1,002,835	
200,000 Warrants (convertible @ \$0.125/share)		1,600,000	Expire Jan 13, 2014
		<b>2,602,835</b>	
<b>Total Outstanding Shares</b>	<b>450,229,508</b>		Potential dilution of c.14%

Source: SEC filings, analyst's estimates.

Potential dilution is significant could be as much as c.31%

Additionally, the acquisitions of Wish Upon A Hero and Guava were made with earn-out agreements that could result in the issue of up to 28 million new Capsalus shares. In connection with the purchase of Wish, options have been granted to its President, David Girgenti, to acquire up to 8 million shares at an exercise price of \$0.05/per share. Under the terms, options to acquire 2 million shares vests immediately with an additional 3 million shares vesting if Wish cumulates gross revenues of \$5,000,000 on or before October 20, 2012 and an additional 3 million shares if WISH cumulates \$10,000,000 in gross revenues on or before October 20, 2012. All vested options will expire on October 20, 2020.

In connection with the Guava acquisition, Capsalus has agreed to grant Dr. Schreiber 5 million Capsalus shares for every \$5 million dollars of gross revenue Guava generates, up to 20 million shares, between the close of the transaction and December 13, 2013. Our projections suggest that these targets are very achievable.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

## MEANING OF RATING

### *Buy*

We believe the company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

### *Speculative Buy*

We believe that the long run prospects of the company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

### *Neutral*

We will remain neutral pending certain developments.

### *Underperform*

We believe that the company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

### *Sell*

We believe that the company is significantly overvalued based on its current status. The future of the company's operations may be questionable and there is an extreme level of investment risk relative to reward.

### Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations.

Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

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