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PotNetwork Holding (POTN – OTC Pink)

December Enactment of U.S. Farm Bill Legalizes Hemp and CBD Products Nationally. Major Retailers Can Now Stock POTN's Products, and Many New Sales and Marketing Initiatives Are Underway. 2019 Should be a Breakout Year for POTN.

**Strong
Speculative
Buy**

Summary and Investment Opportunity

Recent Price:	\$0.1068
Market Capitalization (mln)*	60.83
Enterprise Value (mln)*	59.54
Institutional Ownership	unknown
Insider Ownership	unknown
Basic Shares Outstanding (000s)*	569,584
Float* (000s)	311,935
Average Daily Trading Vol (30 day)*	3,881,031
Exchange	OTC Pink

* Source: Yahoo! Finance

Balance Sheet Data

Shareholders' Equity (mln)	617
Cash (000s)*	35.60
Net Working Capital (000s)	248
Total Debt (000s)*	1,640
Total Debt to Equity Capital*	2.66

Company Overview

Diamond CBD the Company's wholly-owned, primary operating subsidiary, develops, formulates, manufactures, and sells a family of proprietary CBD-infused products that include: topical oils, "dabs," and creams; smokable products such as vapes and additives to enrich and improve them, edible products such as herbs and gummies designed for people and/or their pets, a new CBD-infused coffee, and certain high quality implements such as premium grinders. The Company trades on the OTC Pink Sheets under the symbol POTN.

• Enactment of the Farm Bill of 2018 Instantly Legitimized Hemp-Derived CBD Products.

Enactment of the Farm Bill of 2018 Instantly Legitimized Hemp-Derived CBD Products Since 2012 when Colorado became the first state in the U.S. to legalize recreational use of marijuana, we have seen an ever-strengthening trend towards legalization and decriminalization of the cannabis plant and its products. For POTN, this trend culminated on December 20, 2018 when President Trump signed the \$867 billion Farm Bill into law. This new law removed hemp from the Controlled Substances Act of 1970 and placed it under the regulation and supervision of the U.S. Department of Agriculture. In so doing, hemp and all products derived therefrom, including the Company's were instantly made legal under U.S. Federal Law, as they already were in 46 of 50 states. We believe Idaho, South Dakota, Nebraska, and Kansas will soon follow, making the law of the U.S. a non-issue for all CBD products. This is a sea change in the sector.

• POTN Poised for Rapid Growth and a Potential Buyout by a Consumer Products Behemoth

The last decade has brought a major threat to big tobacco, namely the e-cigarette. Just last month, however, the world's fourth-largest tobacco company (Altria) purchased a 35% stake in leading e-cigarette maker Juul Labs for \$12.8 billion, implying a total value for Juul of 18.3x trailing sales. Altria concurrently discontinued its own e-cigarette products. We believe Altria made this investment because of Juul's well-established brand leadership position, despite the fact Altria's revenues are approximately 10x those of Juul. Given POTN's brand-leadership in the CBD product industry, which should strengthen to a great degree in 2019, we think such an investment or outright buyout of POTN by a major consumer products conglomerate is a very real possibility at some point in the future.

• POTN Has Recently Launched Multiple New Sales and Marketing Initiatives

Brand leadership is the name of the game in the new CBD world. To this end, POTN has launched several important revenue-generating, brand-strengthening programs, such as:

- Launch of its new print magazine focused on the business of cannabis
- The establishment of its own annual cannabis conferences in Miami and Las Vegas
- The deployment of shopping mall kiosks for consumer education and product sales
- The rollout of CBD product vending machines, based on its prototype demoed at CES
- Launch of its Company-branded sales and distribution fleet of vans in major markets

When considered in light of its ever-growing product portfolio, recently augmented with its new CBD-infused Chill Coffee product, we believe that these initiatives will elevate POTN to a new level of leadership and brand dominance in the U.S. cannabis sector.

• POTN Poised for Rapid Growth and a Potential Buyout by a Consumer Products Behemoth

PotNetwork Holding is an emerging market leader with in many cases first-mover advantage in its target markets. It knows how to reach and sell to its target markets through a variety of online and brick-and-mortar channels, and its products are very well received by its distributors and retailers as well as by the consumers who use and enjoy them. The recent passage of the U.S. Farm Bill opens up multiple large new market opportunities for POTN products with major consumer product retailers and pharmacies, and creates the real possibility of a future buyout by a consumer products conglomerate such as Procter and Gamble. Furthermore, the Company is in the early launch phases of multiple promising sales and marketing initiatives that should both further strengthen the Company's brand position and expand its revenues and earnings. Therefore, we rate POTN shares as a Strong Speculative Buy, and set our fair-value price target range at \$0.192 to \$0.337 per share.

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P&L (000s)	2017A	Q4 '18E	Q4 '18E	Q4 '18E	Q4 '18E	2018E	2019E	2020E	2021E
Revenues	14,499	6,284	5,760	5,923	6,000	23,967	35,554	46,976	65,766
Gross profit	5,181	2,512	2,229	2,954	3,000	10,695	16,777	23,488	32,883
Operating expenses	4,967	2,319	2,109	2,907	2,800	10,135	13,160	16,450	19,740
Operating Income	214	193	123	54	200	560	3,617	7,038	13,143
Operating Margin	1.5	3.1	2.1	0.9	3.3	2.3	10.8	15.0	20.0
Net Income	214	193	123	54	200	560	3,617	7,038	13,413
Earnings per Share	.0003	.0003	.0003	.0001	.0004	.0010	.0064	.0124	.0231
Basic Shrs Oust. (mil)	569,920	569,920	448,921	569,584	569,584	546,002	569,584	569,584	569,584

Please see analyst certification and required disclosures on page 17 of this report.

Industry Background

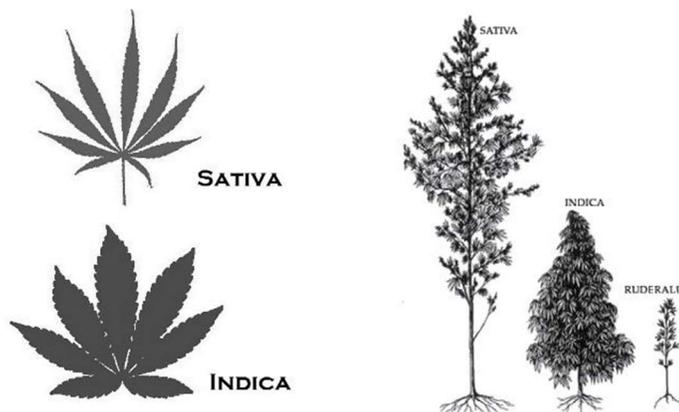
Introduction

Broadly defined, the North American cannabis sector consists of not only the production, distribution, and sale of marijuana and hemp, and the products derived therefrom, but also of myriad “support” industries that include: Biotechnology and other traditional farming technology and chemical industries; specialty hardware and software industries that enable cannabis producers, distributors, and retailers to harvest and process cannabis into finished goods, and then cost-effectively distribute and sell those goods - all while staying in compliance with the highly complex and dynamic system of federal, state, and local laws in which they operate; Specialty legal, accounting, and finance industries that have a high degree of knowledge about not only their respective fields but also of the cannabis sector itself; Several niche industries that manufacture packaging and consumption devices for cannabis; And lastly, the cannabis-focus specialty food and beverage industry, which at this point in time produces literally thousands of derivative products including edibles and beverages, smokable products for traditional pipes and the newer vape systems, oils that are used topically, and a nascent but rapidly growing pharmaceutical industry that manufactures cannabis-derived nutraceuticals for the health and wellness industry, and as of last year, FDA-approved medicines designed to treat certain diseases such as two rare forms of childhood-onset epilepsy.

Due to the recent and extremely rapid change in state and federal legislation pertaining to cannabis, this sector is growing at rates not seen since the Internet bubble in the late 1990s, and in this case we do not expect a similar bubble. So, what exactly is cannabis, and how have the laws governing it changed?

The Cannabis Plant

There are three species of cannabis known today, *Cannabis Sativa*, *cannabis indica*, and *cannabis ruderalis*, as well as a variety of hybrid strains primarily based on a mix of *Cannabis Sativa* and *cannabis indica*.



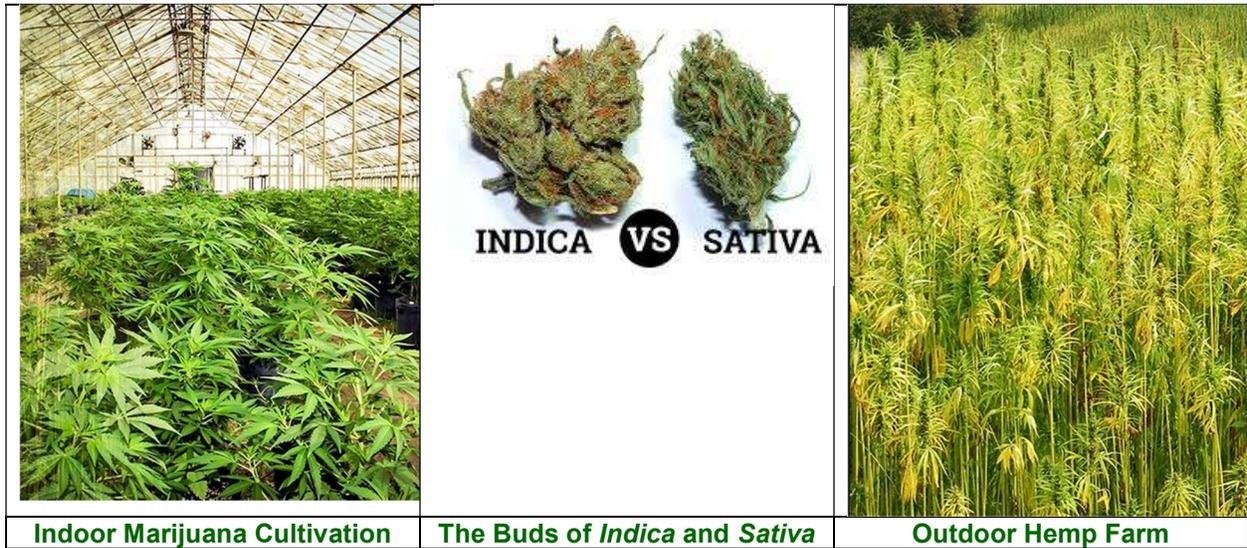
source: ministryofhemp.com

Cannabis Sativa

The *Cannabis Sativa* plant can grow to be nearly 20 feet high at maturity, and is comprised of a thick, extremely tough, fibrous central stalk from which shoot leaf-producing stems at highly regular intervals, giving the cannabis plant a form similar to that of many other plants of its approximate size and climate range (e.g. bamboo, technically a grass). Also like many other plants, cannabis sativa produces flowers on a seasonal basis, which tend to be fairly dry and small, occurring mainly on the tops of the plants. *Cannabis Sativa* is the primary strain used in hemp cultivation.

Cannabis Indica

The *Cannabis Indica* plant tends to be a much broader and shorter plant than *Cannabis Sativa*, and it has a maturation cycle of just 90-120 days vs. as much as 180 days for *Cannabis Sativa*. As can be clearly seen in the diagram above, *Cannabis Indica* has a much larger leaf than does its close relative in the cannabis family, and its buds tend to be stickier and larger than those of *Cannabis Sativa*, indicating its much higher THC content. *Cannabis Indica* and hybrids of *Cannabis Indica* and *Cannabis Sativa* are the standard source of the world’s marijuana production. Note that *Cannabis Ruderalis* is also a member of the cannabis family, although it has no commercial, recreational, or medicinal uses of which we are aware.



Over the millenia that humans have cultivated cannabis, they bred the plant to better serve the use to which they put it. One such use that is still in practice today is in the manufacture of rope, based on the exceptionally strong fibers found in the cannabis central stalk. The other primary use for cannabis that evolved through the ages was based on chemical properties found in the cannabis bud; the buds were either eaten or smoked as an analgesic or a general relaxant, and in recent decades often simply to laugh a lot, get the munchies, and have an overall good time.

Much like creating different dog breeds, or creating modern-day corn from a type of grass native to North America that originally had an “ear” smaller than a single inch in length, over the millenia humans used “artificial selection” to make each successive generation of the cannabis plant a little better for its intended use. In the case of ropemaking, this meant that the cannabis plants became stronger and more fibrous over time; an unintended side effect on this selective breeding was that the cannabis plants it grew smaller and smaller buds. This cannabis strain came to be known as *Cannabis Sativa*, or simply “hemp.” For the plant’s other main use, growers used time-honored breeding techniques to cause the opposite: larger, more chemically-powerful buds that made each plant more medicinally valuable at harvest time. The plants and especially the large, pungent, chemically-powerful buds they produced came to be known as *Cannabis Indica*, or simply “marijuana.”

The salient difference between these two cannabis varieties from a use-case perspective is the chemical composition of each one; the newest genetically engineered marijuana buds consists of as much as 20% THC by weight, whereas whole hemp plants consist of no more than 0.3% THC by weight. Since THC is the chemical responsible for the intoxicating effect of ingesting cannabis plant material, this is an extremely important distinction from both a functional and a regulatory perspective.

CBD and Examples of Its Many Health and Wellness Applications



Cannabidiol (CBD) - Cannabis' Other Valuable Chemical

Cannabis is known to have some 115 biologically-active compounds in the fluids that can be readily extracted from the plant, and among the most promising of these is CBD, which is not psychoactive like THC is, and accounts for almost 40% of extracted chemicals by volume. Studies confirm that the typical adult can ingest CBD in quantities of up to 500 mg or more per day without experiencing any noticeable side effects, and at these levels CBD consumption has been shown to have many general health and medicinal benefits, including:

Chronic Pain Relief. One of cannabis' historical uses was as a pain reliever, and rodent studies suggest that CBD may in fact be an effective remedy for chronic pain of the type common in aging individuals (e.g. joint pain).

Multiple sclerosis (MS). A debilitating and ultimately fatal disease, the symptoms of MS are extremely difficult to treat. However, a large trial published in 2012 found that cannabis extract significantly decreased muscle stiffness and other MS symptoms.

Cessation of Smoking Cigarettes. Preliminary studies have shown CBD ingestion to be effective at helping tobacco-addicted individuals smoke fewer cigarettes per day without craving additional cigarettes.

Help in Beating an Opioid Addiction. A study posted to Neurotherapeutics found that CBD may be a promising substance in the use of Opioid addiction treatment.

Anxiety. Anxiety disorders are among the most common medical disorders, affecting up to 31% of the general population at some point in life; specific disorders include obsessive-compulsive disorder, panic disorder, post-traumatic stress disorder (PTSD), social anxiety disorder, and generalized anxiety disorder. CBD has been shown to have a relatively pronounced effect in terms of reducing anxiety in general, and this general down regulation of anxiety has positive effect on all anxiety-related disorders. Note that while there are other highly effective treatments for these disorders (e.g. benzodiazepines, such as Xanax and Valium) these treatments also have moderate to severe side effects (e.g. short-term memory loss) and can also be highly habit-forming.

Epilepsy. On June 25, 2018 the U.S. Food and Drug Administration approved an orally-administered solution of CBD (Epidiolex) for the treatment of seizures associated with two rare and severe forms of epilepsy, Lennox-Gastaut syndrome and Dravet syndrome. For the FDA to approve this drug, it had to have a good safety profile and significant efficacy in the treatment of these two types of epilepsy. Since this was the first time that the FDA has ever approved any cannabis-derived chemicals for medicinal use, we believe that not only was it a landmark decision for the CBD industry, but that it was also a likely Harbinger of future loosening CBD restrictions. This in fact proved to be true this past December when Donald Trump signed the Farm bill into law.

Although the eventual outcome of various studies pertaining to CBD's efficacy in treating these and other maladies is unknowable, one thing is certain: a large percentage of the population reports that CBD use helps them and alleviates the symptoms that they are experiencing at an acceptable level of side effect, if any. This tells us that demand for these products is likely to be robust for the next several years at a minimum, and probably indefinitely. There is no question in our minds that this high degree of consumer acceptance and demand will ultimately drive large numbers of customers to the Company and its brands, as it has been doing for well over a year now.

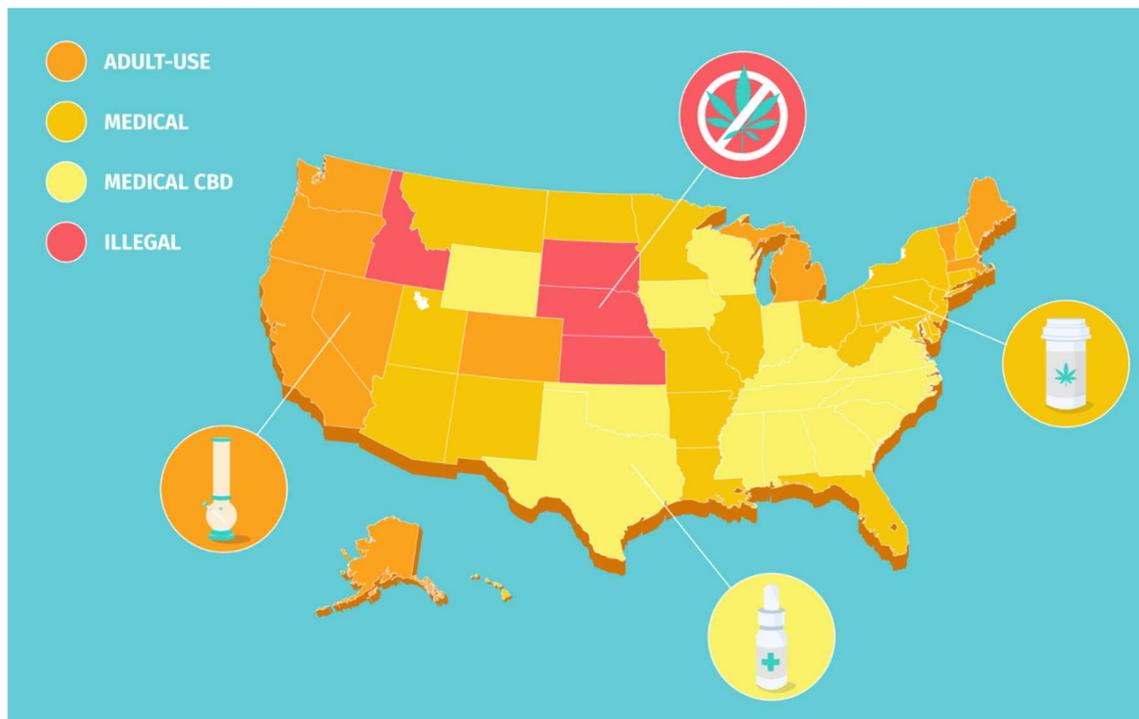
Changing Cannabis Regulations in North America 2012 - 2018

The last few years have been filled with the passages of many new laws regarding the cannabis plant and the products manufactured from it, beginning with its full legalization for any purpose (medicinal or recreational) in Colorado in 2012. During the years since 2012, we have seen ever-increasing pressure from the general population to legalize marijuana and CBD oil, which culminated last year in two truly unprecedented legislative events:

On December 28, 2018 President Trump signed into law the Farm Bill, which contained a provision that reclassified hemp as an agricultural product, placing it under the control of the United States Department of Agriculture (USDA) rather than the Drug Enforcement Agency (DEA). At least for hemp and CBD, this rectified what we believe was an untenable legal conflict that had arisen between local and state governments and the federal government, which was increasingly characterized by hemp and CBD products being legal under state and local laws, but illegal under federal felony statutes. This will without a doubt create a sea change in POTN's core businesses and the strategies that will be required for it to continue to succeed in the CBD industry.

On October 17, 2018 Canada became the second country in the world (after Uruguay) to legalize possession and use of marijuana for recreational use. This is of some importance to the Company despite the relatively small size of the Canadian economy vs. that of the United States, whose economic output in 2017 was 11.7 times greater than Canada's. Because of Canada's historically more tolerant position towards hemp and marijuana, there has already been a considerable trend of larger cannabis companies basing their operations in Canada rather than in the U.S. If this trend continues, it may also make sense for POTN to either headquarter in or have major operations and a legal entity based in Canada.

Legal Status of Marijuana and CBD on a State-by-State Basis, as of December 18, 2018



Source: www.leafly.com

In terms of U.S. state laws governing cannabis products, we have continued to see a shift towards full legalization or, at a minimum, full legalization with a doctor's prescription in most states. Currently, only four U.S. states consider both marijuana and CBD to be illegal, namely Idaho, South Dakota, Nebraska, and Kansas. In the aggregate, these states' gross domestic product in 2017 was just \$401.8 billion, representing just 2.1% of the U.S. economy. Another 13 states, primarily in the southeast, have legalized only medical CBD, and still consider all uses of marijuana to be criminal. Of the remaining 33 states, as of late 2018, 20 states have legal medicinal marijuana (and CBD for all uses), and 13 states including California have now fully legalized marijuana for all uses, including personal recreational use. Most industry pundits believe that the trend towards full-legalization is likely to continue to 2019, which is supported by (among other things) the recent call by New York's governor for full legalization in 2019. That said, investors should keep in mind that POTN has no portion of its business directly involved with marijuana, and hence its products can now be sold legally based on domestically produced hemp to 97.9% of the U.S. economic base.

By the Numbers - the Cannabis Economy

In terms of the emerging U.S. cannabis sector, recent growth has been nothing short of astounding. According to Sean Murphy, Founder of the Hemp Business Journal, the total value of all hemp products sold in the U.S. was approximately \$688 million, which is forecast to grow to some \$1.8 billion by 2020. While they forecast only a 22% five-year compound annual growth rate

in the space, they believe hemp-based CBD product sales will post 53% CAGR during the same five year period. A report released last summer by Hexa Research forecasts that the U.S. medical cannabis market will reach \$19.48 billion by 2024; a significant part of that is likely to be CBD-based, and in our opinion represents a major revenue growth opportunity for POTN going forward.

By Segment - the Cannabis Economy

The U.S. cannabis industry is growing extremely rapidly and has been since the first wave of legalization and decriminalization began back in late 2012. If looked at broadly, the cannabis industry has three primary categories of participants.

The U.S. Cannabis Ecosystem and the Companies and Entities that Operate Within It

Group I Directly Involved with Cannabis Plants	Biotech	Biotechnology is perhaps rivalled only by Robotics technology in terms of the likely greatest impact on humanity by the year 2100. Cannabis-focused biotech efforts typically focus on finding therapeutic value in the 115 or so cannabinoids found in cannabis sativa.
	Plant Cultivation and Sales	These typically smaller organizations are your local growers and seed providers. The appetite for products offer by Group II companies vary widely on an individual basis.
	Hemp Product Manufacturers	Hemp is one of the most versatile and useful plants in the world, and is a primary ingredient in thousands of products manufactured around the world. Such products include paper, textiles, foods, beverages, biofuels, rope, and hemp is also the primary sources of CBD, the chemical upon which all of the POTN’s products are based.
	Marijuana Product Producers	POTN clearly qualifies for this type of organization, but rather than marijuana, the company uses CBD derived from imported hemp as the cannabis related infusion used in all of its items. In terms of a sub-sector, these are the companies that transform raw marijuana and its extracts into consumables such as candy, pastries, beverages, foodstuffs, baked goods, and other products such as smoke-able or vape products, or pharmaceutical products myriad chronic ailments.
Group II Provide Support to Group I Companies	AgTech	Participants in the AgTech industry provide the high-tech equipment used to cultivate the highest quality marijuana buds, often derived from genetically-engineered seeds and grown in hydroponic environments. AgTech products can also be low-tech, such as lights, heating and cooling system, etc.
	Real Estate	Finding real estate on which you can cultivate cannabis can be extremely challenging, unless you are with a firm with specialized local knowledge that helps you find, negotiate, acquire, and operate facilities without inviting unnecessary legal entanglements. Such firms are highly valuable.
	Secondary / Tertiary Services	Like high-growth businesses in any industry, cannabis cultivators, product manufacturers, and retailers are in need of specialized services such as branding, packaging, laboratory testing, online marketing, and other services that help them grow and prosper.
Group III Cannabis May Not Constitute Entire Business	Consumption-Enabling Tools	The vendors may paraphernalia such as pipes, vape tubes, and other devices that help consumers of cannabis make use of the product.
	Finance	Finance firms help cannabis enterprises fund their growth and expansion, manage cash with services such as receivables factoring, and in the case of the investing public, to find suitable investments in the cannabis space.
	Other	Sometimes, companies just don’t fit into any real category, like those developing intoxication testing kits for the police. We place them here.
	Technology and Media	Although commonly grouped together, technology and media are only loosely associated in this context. As we have seen in more mature industries, we are now beginning to see seed-to-harvest “grow flow” management systems that help cut costs and improve yields. On the media

		<p>side, we are seeing specialized newsletters, blogs, and more traditional news organizations cropping up to keep those interest in cannabis well-informed.</p> <p>PotNetwork is just such a cannabis-focused media company, and in fact will be launching a cannabis-focused business magazine that it will initially distribute to approximately 30,000 cannabis-focused retailers (e.g. vape shops) and other business, as well as several thousand individuals who have elected to receive the magazine at home. We expect these initial circulation numbers to grow rapidly in 2019 and beyond.</p>
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The cannabis industry is extremely young in the U.S., having legally existed for just under seven years at the time of this writing. However, the industry has grown very rapidly during that time, as a groundswell of popular support has brought some form of legal cannabis to 46 of our 50 states. In terms of cannabis products, the most important segmentation is related to presence of THC, the primary source of the “high” pot users experience. Hemp, defined in the U.S. as cannabis sativa containing no more than 0.3% THC by weight, does not confer a “high,” whereas traditional marijuana, in which THC concentrations can approach as much as 20% by weight, does confer a high – in some cases a very strong one.

Whereas the traditional marijuana segment has both medicinal and solely recreational consumers, the hemp segment has only health, wellness, and medicinal consumers, mostly seeking to ingest a compound called CBD (cannabidiol). Cannabidiol can comprise as much as 40% of a hemp plant’s extractable material (by weight), and has been shown both anecdotally and in bona fide research to have relatively pronounced medicinal value for those with anxiety-related health issues, for sufferers of certain forms of epilepsy and multiple sclerosis, and for those suffering with chronic pain (e.g. joint pain).

Within the two primary cannabis product segments, namely marijuana and hemp, product differentiation is occurring quite rapidly, with most products fitting into one of the following categories:

- **Smokable**, meaning that the actual plant is smoked in the case of marijuana, or that extract from the plant is smoked via a vaping device; for the hemp market, this is typically CBD oils and other related high-concentration extracts
- **Ingestible**, which are most often edible pastries, candies and the like, although this group of products also includes more than a few cannabis beverages.
- **Dermal**, which usually treat maladies of the skin or chronic pain in specific muscles or joints. The products take the typically take the form of salves, gels, lotions, and ointments.
- **Medicinal**, which take the typical forms of pills or ingestible CBD solutions, and injectable formulations

Note that Company’s six subsidiaries create a significant level of vertical integration POTN, as they have product lines and/or service offerings in many of the areas described in our discussion of the Cannabis Ecosystem.

Company Analysis

Introduction

PotNetwork Holding, Inc. is a cannabis-focused holding company based in Ft. Lauderdale, FL that owns and operates six wholly-owned subsidiaries that work in various sub-segments of the cannabis industry. Note that at least historically all of the Company's products have been based strictly on CBD that was derived from imported foreign hemp; this was necessary due to legal reasons before the Farm Bill of 2018 became law on December 20, 2018. The Company now has domestic sources of hemp available and will be shifting its production to domestic hemp as soon as practical for it to do so.

PotNetwork Holding, Wholly-Owned Subsidiaries

Diamond CBD	A leader in the production of legal CBD products, arguably the most medicinally valuable cannabis extract. Also the driver of most of POTN's historical revenues, Diamond CBD produces and markets a wide variety of products for vaping, ingestion, topical use, and its newly available CBD coffee product.
Meds Biotech, Inc.	A new subsidiary offering pharmacist-formulated CBD products designed for the medical industry, an area of focus and great opportunity for POTN in 2019 and beyond.
PotNetwork, Inc.	Potnetwork.com is a cannabis-focused digital business and financial website, publishing cannabis business news, stock information, interviews, and more. Early this year it will be launching a "Forbes-like" business magazine focused strictly on the cannabis sector.
First Capital Ventures, Inc.	Advanced research and production of the industry's finest premium hemp extracts, primarily Cannabidiol (CBD) oil, with a focus on making these extracts globally available to the public
MediPets, Inc.	Manufactures, distributes, and sells a variety of CBD products for canine and feline pets, recently winning the <i>2018 Pet Industry Recognition Award in Dog Treats Functional Category</i> .
Grinders Distribution	This subsidiary is a distributor of high quality grinders in all 50 states

Of these six active subsidiaries, the Company's primary revenue driver is Diamond CBD, which produces the CBD used in all of the Company's other subsidiaries' products. Diamond CBD's hemp will now come from domestic hemp suppliers, but was previously sourced from foreign-grown and imported hemp plants for legal compliance reasons. Because hemp plants have a THC concentration of 0.3% or less, hemp qualifies as "industrial use" cannabis and is not subject to the same legal restrictions as cannabis plants containing THC concentrations higher than 0.3%. These plants are commonly known as marijuana.

The Company began aggressively marketing its products via tradeshows and word-of-mouth almost two years ago, and via its online sales platform beginning in the early months of 2017. Its products can be broadly categorized as

- **Consumables** that can be in either liquid or solid form, such as its Chill Gummies product line
- **Topicals** that consist of creams, gels, and lotions, such as the Company's CBD Biotech Cream used to assuage muscle pain
- **Vape-related** products that are either inhaled or used to enhance other vape products, such as Liquid Gold vape liquid

POTN is a market-leader in CBD-infused consumer products, and is now positioned to strongly benefit from the recent federal legalization of all hemp-derived products. It has multiple and promising new sales and marketing initiatives underway,

including: a doubling of its inside sales staff; the buildout of a new call center with greatly expanded capacity; the launch of its own “the business of cannabis” magazine; the deployment of its own direct sales and product distribution fleet; the launch of educational and product-sales kiosk in high-end shopping malls; the development of a touch screen CBD product vending machine that conducts age verification and cashless purchases; and the establishment of its own annual cannabis conferences in Miami and Las Vegas. These new initiatives will almost certainly take POTN to new heights in 2019, both in terms of sales and brand hegemony.

The Company trades on the over-the-counter pink sheets under the symbol POTN. Notably, the Company has retained a PCAOB accounting firm and will continue to provide audited financial statements. However, due to a technicality in the Company’s corporate structure, it will not be able to submit its Form 10 registration and seek uplisting to the OTCQB until it has three years of operating history as Potnetwork Holding, which should occur sometime in early 2020. The Company’s long-term goal is to uplist to a major U.S. exchange, mostly likely NASDAQ.

Brands (Products)

Through one or more of its subsidiaries, the he Company now offers a fairly wide range of topical and ingestible CBD-infused products, which broadly fall into one of three categories: edible and beverage products, both for people and their pets, smokable products for the Vape market, and lotions, oils and salves, which are absorbed through the skin. They also offer niche implements, such as their premium line of electric grinders.

Notably, the Company recently introduced what we believe to be a very high potential new product line, its CBD-infused coffee. The coffee comes prepackaged for use in most any coffee machine, and sell for \$10 per four-pack, with a suggested retail price of \$19.95.

CBD-Infused Chill Coffee



Select Examples of POTN’s Overall Brand Portfolio

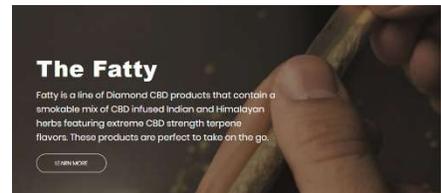
Relax Vape Liquid



CBD Re-Leaf, disposable vaping pens



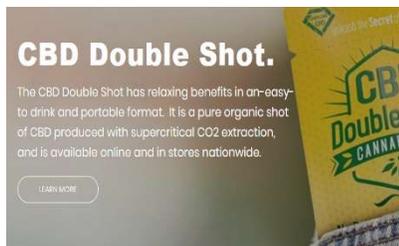
The Fatty, smokable mix of CBD infused Indian and Himalayan herbs with terpene flavors.



PET CBD Food



CBD Double Shot



Chill gummies – sweet and chill



Liquid Gold

This is one of the Company’s oldest and most successful vaping products



Chong’s Choice CBD

Entire CBD product line done in partnership with Chong of the famous Cheech and Chong *Up in Smoke* Movie series



Lawrence Taylor’s Pain Master

If anyone knows pain, it’s the former NFL great, NY Jet’s linebacker Lawrence Taylor



Sales and Marketing Initiatives

POTN is an emerging market leader in the nascent CBD-infused consumer product industry, which is currently in the midst of what can only be characterized as a hyper-growth phase, and in many cases it enjoys a powerful first-mover advantage in an entire product class, such as its calming (i.e. anxiolytic (anti-anxiety) products for pets). Because the Company lacks any real legally-defensible intellectual property, other than perhaps “trade secrets” related to product formulation and/or manufacturing, POTN’s likely staying power as a market leader in its target markets is highly dependent on how quickly and thoroughly it can penetrate each of them.

Online Sales

During late 2017 and early 2018, the Company experienced extremely rapid month-over-month revenue growth rates of 20% to 30%, mostly topping out at the \$2 million per month level by the end of Q1 2018. The Company attributed the flattening of its sales growth to two primary factors: increased competition and sales organization capacity constraints. Of these two, we believe sales organization constraints was probably the most important, and is something the Company has been working diligently to resolve. Management states that they have nearly completed a new call center with greatly expanded working capacity, and they have also recently hired and are in the process of training what will effectively amount to a doubling of its inside sales staff.

Furthermore, the Company has launched several initiatives that should help it resume solid revenue growth this year of approximately 40% according to our estimates. These initiatives include the deployment of an outside sales and product distribution team in Company-branded vans, the rollout of educational kiosks and vending machines designed for shopping malls, a new customer referral program, and the rollout of its new mobile app.

Website Customer Referral Program

Last month the Company announced its new customer referral program for existing customers of its e-commerce website. Under the terms of this program, any existing customer can “share” the referral offer via the communication platform or social network of their choice (e.g. email, Facebook, etc.). When any referred person registers with the website and makes a purchase, both they and the referring party will be given a \$25 gift certificate good for any online purchase. This program does not have a cap of any kind, so a single customer could in theory refer tens of new customers to the Company. We believe this program constitutes exceptionally good marketing, as the Company will of course be able to build its potential customer database with the referral information each customer inputs, regardless of whether or not the referred individual makes a purchase.

Mobile App

The Company is in the final stages of development for its new mobile app, which is best explained as an e-commerce enabled “LinkedIn” for the cannabis industry on a global basis. Geared strictly towards business to business users and transactions, the app aims to help forge and maintain relationships and e-commerce between different classes of participants in the cannabis ecosystem.

Outside Sales

In early November 2018, POTN launched its nascent outside sales and distribution team in the Greater Miami market with five Company-branded vans. These vans will be used by directly salespeople who will work with local cannabis retailers to better educate them on and provide them with the Company’s CBD products. The Company has chosen to include the distribution service these vans provide at no extra charge to the customer, which should have a significant positive impact on new customer acquisition in the local markets served by this team. The Company initially plans to add an addition five such vans to its sales and distribution fleet, which should soon cover metro Ft. Lauderdale and several other important markets in the southeast. In the medium term (6-24 months) the Company plans to expand its outside sales and distribution to include the New York market and other key northeastern markets, as well as the very large metropolitan markets of California.



Company’s Outside Sales and Distribution Fleet Vehicles, Metro Miami Market

Shopping Malls

In November of 2018 POTN subsidiary Diamond CBD launched its mall kiosk program in Broward Mall, a high-end shopping mall in Ft. Lauderdale, Florida. The Company plans to aggressively roll out similar kiosks in high-end malls across the United States in 2019 and beyond. An important component of the Company’s sales and marketing strategy, these mall kiosks both help educate consumers as to the benefits and availability of CBD-infused products, and sell products to new and repeat individual customers.



November 2018 launch of Diamond CBD Sales and Education Kiosk in Broward Mall

Vending Machines

Just this month POTN demonstrated its new touchscreen CBD vending machine, developed in partnership with CloudPay Technologies, at the Consumer Electronics Show in Las Vegas, Nevada. At the show, which is the largest in its kind with 100,000 attendees, visitors to the Company’s booth were able to try out the new machine and inspect its feature set and inner

workings. The machine is designed to fully support cashless transactions and perform minimum age verification on any would-be purchaser of the products it vends. The Company plans to rollout these machines beginning this year to high-traffic locations such as shopping malls, airports, and major event venues.



January 2019 Demo of Diamond CBD Vending Machine Prototype at CES Las Vegas

Trade Shows

The Company currently attends some 20 tradeshows each year, many of which are related to specific markets in which it is currently making inroads. Some of these include tradeshows for pet-related products, tradeshows geared to surfing and other beach/ocean sports, and tradeshows focused on general athletic products. Just this past February, for example, the Company booked some \$270,000 in new sales at a single tradeshow, the CHAMPS Winter Show in Las Vegas. Because of the nature of tradeshows, where vast majority of presenter's benefit is derived from the long-term value of new relationships with retailers and the distributors that serve them, we can only imagine what the actual present value of this single tradeshow must have been for the Company: almost certainly something in the millions of dollars, given that it generated over a quarter million worth in immediate sales.

When considered over 20+ tradeshows per year, and considering the Company's eventual total addressable target market (in the aggregate) of something approaching or possibly even exceeding \$1 billion in annual sales in the U.S. alone, investors will begin to understand our enthusiasm for the investment potential POTN shares at current valuation levels. Needless to say, given the magnitude of their current successes in these venues, the Company plans to continue and aggressively expand its tradeshow activities in the future, mostly importantly with its own cannabis-focused trade shows.

This year the Company plans to host two annual cannabis-focused tradeshows, in Miami and in Las Vegas. Likely to be a significant revenue generator for the Company, these tradeshows will seek a vendor base of approximately 1,000, and should both accelerate the Company's market penetration and even more firmly establish its brands in the marketplace.

The PotNetwork Magazine

Beginning this February, the Company will be launching its PotNetwork magazine, which is similar to the well-known Forbes business magazine, but geared specifically to the business of the Cannabis sector. Not limited to CBD business, the new magazine aims to become the de facto information source on the cannabis sector for any and all businesses and interested individuals. The initial run of the magazine will be printed and mailed to approximately 35,000 recipients, of which 80% are cannabis product

retailers and other market participants, and 20% are individuals who have opted to receive the print publication at home. The Company plans to keep the publication permanently available at no charge to qualifying businesses, but will eventually charge an annual subscription fee to individuals of approximately \$20. Individuals may also opt to purchase the monthly magazine at the newsstand at a retail price of \$7.99. We believe that this is yet another example of intelligent marketing, as it will strongly build the Company's brand while also creating new business customers for the Company's products. Lastly, it is worthy of note that this should become the first real revenue driver (via in-magazine ad sales) for PotNetwork, Inc., one of the Company's subsidiaries.



First Upcoming Issue of the PotNetwork Print Magazine

The 2018 Farm Bill - Now a U.S. Law

The late 2018 enactment of the Farm Bill, as it is known, carves out hemp from the Controlled Substances Act of 1970 and places it under the management of the U.S. Department of Agriculture. This effectively makes it legal to grow, transport, and possess hemp in any quantity under U.S. Federal Law, as well as under the state laws of every state except for Idaho, South Dakota, Nebraska, and Kansas.

The Positives

This new law effectively removes all legal and non-legal impediments for the larger national retailers to begin carrying hemp-derived CBD products on their shelves. This includes national grocery stores (e.g. Whole Foods, Kroger's, etc.), national Pharmacies (e.g. CVS, Walgreens, RiteAid, etc.) and national pet products retailers such as PetSmart, Petco, etc.). The Company's current brand position in the industry, which is exceptionally strong, and its long time familiarity with the hemp and CBD means that this law will immediately enable the Company for the first time to present national retailers with a compelling family of products that have no concomitant legal risks for the retailers. We do not believe we can overstress just how important this legislation could be for POTN, if they are able to quickly land one or more national accounts.

The Potential Negatives

This silver cloud does have one potentially dark lining: this new law also opens up the CBD industry to consumer product behemoths such as Procter and Gamble, Nestlé AG, Unilever, and many others. Obviously, any of these multinational consumer products conglomerates can bring a magnitude of resources to bear on this sector that is several orders of magnitude greater than those available to POTN at this time.

However, this fact may not be a negative as it at first seems. Consider the following real-world analog: In just the last 10 years or so, vaping and the e-cigarette industry rapidly grew from nothing to total 2016 sales of \$2.35 billion, according to www.statista.com. This was an industry that was directly competitive with the tobacco giants, and one might have expected them to launch their own e-cigarette brands and "crush" those of the early industry leaders with their superior resources and distribution. But instead of taking this action, Altria, the world's fourth largest tobacco company, with net sales in 2017 of

\$19.6 billion announced on instead on December 20, 2018 that it was purchasing a 35% stake in Juul Labs, Inc. (a leading e-cigarette company) for \$12.8 billion. Juul Labs 2018 sales were only \$2 billion, meaning that Altria purchased their stake in Juul at a total valuation of \$36.6 billion, or 18.3x *revenues*.

We do not believe that such a scenario is out of the question for a future investment in or outright purchase of POTN, as major consumer products concerns seek to most rapidly enter a brand new, multi-billion dollar market.

Product Manufacturing

The Company researches and develops all of its own formulations at this time. However, because of its relatively small size and early stage of development, it does rely on a contract manufacturer to produce and package its products. This is a common practice for most companies of this size and stage of development, in both the health food and nutraceutical industries, and makes complete sense for POTN as this time. Management informs us that they have a dedicated professional who works directly with the contract manufacturer, both in the development of new products, and especially to ensure that the Company does not develop product formulations that for one reason or another are difficult or impossible for this particular contract manufacturer to produce.

Leadership Team

PotNetwork Holding has assembled an impressive management and advisory team, and will continue to add to this team going forward.

Key Management

Mr. Kevin Hagen, Chief Executive Officer

Mr. Kevin Hagen is Chief Executive Officer of PotNetwork Holding, Inc., a position he accepted in October of 2018 after having led Diamond CBD as its President. Mr. Hagen is a practicing attorney with Hagen & Hagen Law Firm with over 22 years of experience. He is also a member of the Florida Bar Association. He completed his BS from University of Florida and JD from Nova Southeastern University.

Gary L. Blum, Chairman of the Board

Mr. Gary L. Blum is the Chairman of the Board at PotNetwork Holding, Inc. since January 12, 2016. Prior to that, Mr. Blum had been the Chairman of the Board, Chairman of the Board, President, Principal Accounting Officer, Chief Financial Officer and Secretary at Thunderclap Entertainment, Inc. since September 15, 2009 and Celpad, Inc. since August 30, 2010.

Over nearly the past three decades, Mr. Blum has provided legal counsel for a broad range of closely-held and public companies. He has extensive experience conducting private and public offerings, mergers and acquisitions, achieving SEC and NASD compliance, among other areas of expertise encompassing general corporate and securities law. He has been a practicing attorney since 1986. He is the Principal of the Law Offices of Gary L. Blum, Los Angeles, California, which he founded in June 1988.

He also served as Secretary of Arrin Corporation. He has substantial experience in sophisticated business planning and advising clients in connection with the purchase and sale of businesses and has served as a director for many private and publicly traded companies. He has been a Director of Celpad, Inc. since August 30, 2010. He served as a Director of Arrin Corporation since 2009. He has been a Member of the California State Bar since 1979. Mr. Blum received his B.S., Magna Cum Laude, in Mathematics from Loras College in 1962; an M.A. in Philosophy from the University of Notre Dame in 1966; and J.D. and M.B.A. degrees from the University of Southern California Gould School of Law and Marshall School of Business respectively in 1978.

Dr. Richard E. Goulding, M.D., Chief Medical Officer

Dr. Richard E. Goulding, M.D. is the Chief Executive Officer of POTN; previously he held the positions of the Medical Director for Potnetwork420 at PotNetwork Holding, Inc. since March 26, 2014. Prior to that, Dr. Goulding served as Chairman of the Board, Chief Executive Officer and President of Real American Capital Corp. Prior to that, Dr. Goulding was employed at The Nutmeg Group, LLC. Previously, Dr. Goulding has been a Corporate Director of Physicians Healthcare Management Group Inc. since April 2005. Also, he served as a Corporate Secretary of Phyhealth Corp. since January 1, 2008. From 1979 to 1984, he was a General Surgery Resident, Otolaryngology Resident and Chief Resident, Otolaryngology or the Head and Neck Surgery and Facial Plastic Surgery at Jackson Memorial Hospital and University of Miami. He serves as a Director of Real American Brands, Inc. He served as a Director of Phyhealth Corp. since March 12, 2008. He has also been an eminent speaker at various forums. Mr. Goulding graduated, with honors, in 1975 from the University of Florida and received his Doctorate of Medicine in 1979 from Loyola University of Chicago.

Valuation Analysis

It is very difficult to value a company like PotNetwork Holdings, mainly because at this point we have only a partially-disclosed capital structure from which to work. However, the Company has made steps towards greater transparency with the issuance of audited financial statements and a commitment to continue issuing them, and with the filing of a Form 10 registration with the SEC that was withdrawn by the Company due to the lack of auditable financials of a legacy, unrelated and non-operating business from 2015 that preceded the reverse merger that made PotNetwork Holding a public company. In addition, we do know from OTC Markets that there are currently 569,583,968 common shares outstanding, and can infer that its Series A Convertible Preferred will ultimately convert into something approximating one-third of the then-outstanding common shares, but we do not know the terms and provisions of its other class of Convertible Preferred stock.

What we do know is that the Company has just turned in a record year of revenues and earnings, and that with the December 20, 2018 passage of the Farm Bill and the Company's myriad new sales and marketing initiatives, 2019 is likely to be another record-breaker for the Company's revenues and earnings. With the stock down to \$0.1068 from \$0.4199 as of our March Coverage Initiation report, we believe the shares of POTN offer investors an exceptional return potential. Given the hypergrowth we expect to see in CBD-infused products this year with the recent passage of the Farm Bill, and the 18.3x trailing sales multiple implied by Altria's investment in Juul Laboratories, we think a multiple of just 8x trailing sales is very reasonable in POTN's case. Given 2018 sales of what we expect will be approximately \$24 million, this gives us a target enterprise value of \$192 million. Depending on the actual future dilution that occurs when and if the Series A Preferred is converted into common stock, this gives us a share price target range of \$0.192 to \$0.337.

Risks

Investors in a Company such as PotNetwork Holding face several types of risk that are inherent in the equity securities prices of all young, high-growth companies such as POTN. In this particular case, we believe that there are two primary risks and several less important secondary risks about which the prospective investor should be aware.

Share Price Risk. The shares of small, high-growth companies tend to exhibit extreme price volatility at times, and investors that happen to catch a downtrend in this high price volatility environment can see a substantial portion of their investment lost in a very short period of time. Of course, an investment in this type of security should only be made by those investors who can tolerate high risk and can afford the loss of their entire investment.

Dilution Risk

We know from public filings that there are two classes of Convertible Preferred Stock – Series A and Series D, but at the time of this writing we only understand the mechanics of the Series A conversion. Those mechanics are beyond the scope of this report, but if we converted that class of preferred stock to common shares today, it would post-conversion equal approximately 37% of the then-outstanding common stock. We do not know how this would change if the Series D preferred were to be similarly converted today, nor do we as of yet have an understanding of the conversion features of the ~\$2.8M in long-term convertible debt on the Company's books. As the Company adds additional transparency to its capital structure, we will reduce the magnitude of this particular risk in our thinking.

Conclusion, Risks Section. Overall, we view the shares of POTN as being slightly less risk than is common in other companies of this size, maturity level, and growth rate, simply because the Company is already generating cash and seems to be in a simply fabulous industry in terms of its size, growth in participants, and strong, pent-up demand for the Companies' products.

Investment Thesis and Conclusion

In our opinion, POTN's share price does not accurately reflect the value in the enterprise it represents. The passage of the U.S. Farm Bill instantly opens up a giant CBD-related consumer products market with major retailers and pharmacies across the U.S., which prior to this new law's enactment had been completely closed due to perceived legal risks. POTN is an established market leader in multiple classes of product in this industry, and continues to introduce new and innovative products such as its Premium line of CBD-infused Chill Coffee. With multiple and very promising new sales and marketing initiatives recently underway, we expect 2019 to be another record year in terms of the Company's financial results. **Therefore, we are reiterating our Strong Speculative Buy rating, and setting our fair-value price target range at \$0.192 to \$0.337 per share. We further believe that if the Company's 2019 results are as positive as we expect they will be, a significant upward revision in our price target range is likely.**

Our Rating System

We rate enrolled companies based on the appreciation potential we believe their shares represent. The performance of those companies rated “Speculative Buy” or “Strong Speculative Buy” are often highly dependent on some future event, such as FDA drug approval or the development of a new key technology.

Explanation of Ratings Issued by Harbinger Research

STRONG BUY	We believe the enrolled company will appreciate more than 50% relative to the general market for U.S. equities during the next 12 to 24 months.
BUY	We believe the enrolled company will appreciate more than 30% relative to the general market for U.S. equities during the next 12 to 24 months.
STRONG SPECULATIVE BUY	We believe the enrolled company could appreciate more than 50% relative to the general market for U.S. equities during the next 12 to 24 months, if certain assumptions about the future prove to be correct.
SPECULATIVE BUY	We believe the enrolled company could appreciate more than 30% relative to the general market for U.S. equities during the next 12 to 24 months, if certain assumptions about the future prove to be correct.
NEUTRAL	We expect the enrolled company to trade between -10% and +10% relative to the general market for U.S. equities during the following 12 to 24 months.
SELL	We expect the enrolled company to underperform the general market for U.S. equities by more than 10% during the following 12 to 24 months.

Analyst Certification

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

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Analyst Highlight

Brian Connell, CFA Senior Research Analyst

Mr. Connell has over 20 years' experience in the securities industry, as an equity analyst and portfolio manager, and as the founder and CEO of StreetFusion (acquired by CCBN/StreetEvents), a software company serving the institutional investment community. On the sell-side, Mr. Connell served as the technology analyst for Neovest, an Atlanta-based boutique, and as a Senior Analyst - Internet for Preferred Capital Markets, an investment bank based in San Francisco. Mr. Connell has also held the position of Executive Director of Marquis Capital Management, a technology-focused investment management organization.

Mr. Connell holds degrees in Economics and Psychology from Duke University, and is a CFA Charterholder.

PotNetwork Holding (POTN), Profit and Loss model

<u>(In 000s, except for per-share data)</u>	2016	2017	Q1 2018A	Q2 2018A	Q3 201A	Q4 2018E	2018E	2019E	2020E	2021E	2022E
Revenues	1,029	14,499	6,284	5,760	5,923	6,000	23,967	33,554	46,976	65,766	92,072
<i>Sequential growth</i>		1309%									
Cost of Good Sold	581	9,318	3,772	3,531	2,969	3,000	13,272	16,777	23,488	32,883	46,036
Gross profit	448	5,181	2,512	2,229	2,954	3,000	10,695	16,777	23,488	32,883	46,036
Gross margin	44%	36%	40%	39%	50%	50%	45%	50%	50%	50%	50%
Operating expenses											
Research and development					2						
Sales, general, and administrative	136	4,967	2,315	2,101	2,907	2,800	10,123	13,160	16,450	19,740	22,701
Total operating expenses	136	4,967	2,319	2,109	2,907	2,800	10,135	13,160	16,450	19,740	22,701
Operating profit	312	214	193	123	54	200	560	3,617	7,038	13,143	23,335
Operating margins	30.3%	1.5%	3.1%	2.1%	0.9%	3.3%	2.3%	10.8%	15.0%	20.0%	25.3%
Non-recurring items	21										
Other	0										
Interest expense (income)	156		4	8							
Total other expenses (income)	177										
Pre-tax profit	135	214	193	123	54	200	560	3,617	7,038	13,143	23,335
Provision for income taxes	0	0									
Marginal tax rate	0.0%	0.0%									
Net income	135	214	193	123	54	200	560	3,617	7,038	13,143	23,335
Earnings per share, common only		0.000	0.0003	0.0003	0.0001	0.0004	0.0010	0.0064	0.0124	0.0231	0.0410
Earnings per share, common, conv Preferred Series A & D, and LT Debt*											
NOL Carryforwards		2,411									
Capitalization Table											
Total shares outstanding, common stock only		569,920	595,920	448,921	569,584	569,584	546,002	569,584	569,584	569,584	569,584