

PowerWater Beverages, Inc.

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On June 22, 2006, Kent Mawhinney and Chris Murphy sat side-by-side in a golf cart as they cruised down the 463 yard par five fairway of the fourth hole. Playing a round of golf at the Quarry Ridge Golf Course in Portland, Connecticut, had become an annual outing for the two former roommates who graduated from Babson College in 1987. Much had changed since their college years. Mawhinney had gone on to earn his law degree, had spent some time working in a prestigious Connecticut law firm, and most recently had become a founding partner in the law firm Markowitz & Mawhinney. Murphy had gone on to start his own consulting firm, then earned his MBA and eventually a Ph.D. Recently he had been promoted to an associate professor of entrepreneurship at a state university in the Northwest U.S. This year, in addition to catching up and reminiscing, Mawhinney and Murphy had some serious business to discuss.

Mawhinney had contacted Murphy in September 2005 to discuss a business opportunity and ask if Murphy was available to write a business plan. Murphy completed the first version of the plan for PowerWater Beverages, Incorporated a few months later. He was then asked to join the startup's board of directors and he continued to provide consulting services to the company. From September 2005 until June 2006 Mawhinney negotiated terms with his senior management team, secured commitments from independent representatives who now comprised the company's national sales force, and signed contracts with co-packers, suppliers, and distributors. The company now faced significant challenges—challenges that Mawhinney would need to address at the board meeting the next morning. Mawhinney explained the urgency of these specific challenges to Murphy:

We're really facing two major issues that need to be addressed tomorrow, Chris. First, David [Angliss, PowerWater Beverages' CPA] estimates that we need to raise \$950,000. We need to determine the valuation for our company, whether this is the appropriate amount that we should be seeking, and we should assess the various alternatives that we've proposed for investors. Second, the senior management team believes that there are many other opportunities for PowerWater Beverages' distilled, oxygenated water product and would like to hear your recommendations regarding potential markets that we might consider beyond the traditional bottled water segment.

Kent paused for a moment. "And, Chris, do you still think this whole thing is a good idea? Should we revisit the entire opportunity with the board?"

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INTERNATIONAL BOTTLED WATER MARKET

Bottled water, as a beverage product, started primarily in Western Europe, where it had long been part of the daily consumption ritual. Between 1994 and 2004, in almost every region of the world, bottled water was one of the most dynamic beverage categories. Bottled water was often seen as an ideal category by beverage manufacturers because of the high gross margins, the ease of market segmentation, the possibility of consumers trading up to higher-end products, and the resulting potential for high growth. In addition, the bottled water market remained highly fragmented, leaving opportunities for acquisition and investment. By 2005, bottled water had become a truly global beverage, found in some of the more remote corners of the globe.

In 2004, global bottled water consumption was estimated to have approached 41.1 billion gallons, raising the global rate of consumption by 6.5 percent from the previous year. Per capita consumption was 6.4 gallons, up three-tenths of a gallon from 2003. Several European countries boasted per capita consumption levels of well over twenty-five gallons, but much of the developing world had per capita consumption figures still in the low single-digits.

While Europe was the leading regional consumer of bottled water on a country basis, North America contained the two largest markets, the U.S. and Mexico. Together these countries accounted for 28.2 percent of the world market in 2004. Mexico accounted for 11.5 percent of the global volume at 4.7 billion gallons. In 2004, China stood as the third largest market with 3.1 billion gallons. Chinese bottled water volume had increased by double digits in four of the last five years. Brazil slid from third place in 2003 to fourth place in 2004, even though bottled water volume increased by 15.4 percent to nearly 3.1 billion gallons. Italy and Germany grew by 3.0 percent and 3.6 percent, respectively. Italy ended 2004 at 2.8 billion gallons, and Germany at 2.7 billion gallons.

In 2004, the top ten per capita bottled water consumers were European countries. Italy had the most established bottled water consumption tradition at more than forty-eight gallons per person, consuming about four gallons more per capita than Mexico, the country with the second highest per capita consumption at 44.5 gallons. The United Arab Emirates was the only other country with per capita consumption greater than 40 gallons, although Belgium-Luxembourg and France were close. Spain and Germany had per capita consumption rates of 36.1 and 33 gallons, respectively. The United States ranked eleventh in per capita consumption.

Bottled water companies were able to make massive volume gains during this time by successfully tapping into consumer trends around the world. In developed countries such as the U.S., Canada, and Japan, bottled water became the fastest growing major beverage category through marketing to the growing health and well-being consciousness of consumers. Many viewed bottled water as not only a way of achieving hydration, but also as a functional beverage, a healthy alternative to carbonated soft drinks (CSDs) and juice drinks. In developing countries, bottled water was increasingly positioned as a safe and relatively affordable alternative to the often unclean and unsafe tap water. Moreover, since the two largest countries, China (1.3 billion people) and India (1.1 billion people), were considered developing countries, these national markets and others of significant size presented highly attractive markets for bottled water companies (see Table 1).

Table 1 July 2005 Population Estimate (United Nations)

Rank	Country/Territory	Population (in 000,000s)
—	World	6,464.8
1	People's Republic of China	1,315.8
2	India	1,103.4
3	United States of America	298.2
4	Indonesia	222.8
5	Brazil	186.4
6	Pakistan	157.9
7	Russia	143.2
8	Bangladesh	141.8
9	Nigeria	131.5
10	Japan	128.1
11	Mexico	107.0
12	Vietnam	84.2
13	Phillippines	83.1
14	Germany	82.7
15	Ehtiopia	77.4
16	Egypt	74.0
17	Turkey	73.2
18	Iran	69.6
19	Thailand	64.2
20	France	60.5

While much of the world's bottled water market remained highly fragmented and controlled by local brands, consolidation was rapidly occurring. Four large beverage companies dominated much of the market. Nestlé and Danone were the perennial leaders of the industry; both centered their operations around the core markets of Western Europe and the United States. Recently, with growth increasing in the developing world, Nestlé and Danone took their rivalry to Asia, Latin America, and other areas. Danone appeared to have partially retreated from the U.S. market to focus on some of these other developing markets.

CSD giants PepsiCo and Coca-Cola claimed the top two spots in the U.S. bottled water market. Both companies were increasingly devoting resources and energy to developing their global bottled water businesses. While they did not pose an immediate threat to Nestlé and Danone in Europe, they had to be considered serious threats in the less developed and often high-growth bottled water markets of Asia, Eastern Europe and South America.

THE U.S. BOTTLED WATER MARKET

Bottled water was the second largest commercial beverage category by volume in the United States in 2005. Total U.S. bottled water volume exceeded 7.5 billion gallons, a 10.7 percent advance over 2004, which translates into 26.1 gallons per person, up over two gallons from 23.8 gallons per capita the year before. Additionally, wholesale dollar sales for bottled water exceeded \$10 billion in 2005, a 9.2 percent increase over 2004. In recent years, U.S. volume growth increased more rapidly than dollar sales and the industry's performance remained unrivaled. This reflects the impact of polyethylene

terephthalate (PET) bottled water multi-pack promotions, which were increasingly popular sales promotions and were central to volume growth.

Domestic non-sparkling water's 7.2 billion gallons represented 95 percent of total volume in 2005. The segment, which comprises diverse components with very different performances, grew at a faster rate than the overall market in 2005. The most vital piece of the non-sparkling segment is the retail PET segment. PET bottled water was the star of the U.S. packaged water industry and consistently outperformed all other segments. It was primarily the single-serve PET segment that drove overall category enlargement. Leading companies have formed new distribution arrangements in order to capitalize on the growing PET segment while attempting to revive other segments. PET volume increased from 1.4 billion gallons in 2000 to almost 4 billion gallons in 2005, increasing its share of volume from 29 to 53 percent.

In 2005, Nestlé Waters North America remained the largest bottled water company in the country, with \$3.1 billion in wholesale dollar sales. Nestlé owned major regional brands like Poland Spring, Arrowhead, and Zephyrhills, which accounted for more than 31 percent of total bottled water sales in 2005. Pepsi-Cola's Aquafina, the number one brand for the last several years, became the U.S. bottled water business's first billion-dollar brand in 2004. The brand sustained strong growth in 2005, when wholesale dollar sales neared \$1.3 billion. In 2005, Coca-Cola's retail PET brand, Dasani, joined Aquafina with sales greater than \$1 billion. Both companies began offering flavored versions of their flagship waters; these products are developing and comprise only a small portion of sales.

U.S. bottled water sales fluctuated according to a seasonal cycle that follows outdoor temperatures. During warmer months people tend to engage in more outdoor activities and consume greater quantities of water. There was a core target market group who exercised indoors and outdoors year-round regardless of the temperature. According to a survey conducted by the International Bottled Water Association in 2000, thirty-three percent of what U.S. consumers drink every day can cause dehydration. And, while most people were aware of the importance of water consumption to their overall health, 63 percent of U.S. consumers didn't know that the U.S. Food and Drug Administration (FDA) regulated bottled water as a food product. In general, U.S. consumers chose bottled water because it was perceived to be safer and of higher quality than tap water. The survey found that 56 percent of bottled water users cited taste and 55 percent cited convenience as the strongest influence on their decision to drink bottled water. More than a third of bottled water users cited trust in its treatment (37 percent) and source (35 percent) as reasons that influenced them strongly. Seventy-one percent of U.S. consumers felt that the quality of bottled water was high and half believed that using bottled water to prepare tea, coffee, and powdered beverages improved the taste.

U.S. residents drank more bottled water annually than any other beverage, other than CSDs. The gap between the two top categories was narrowing as bottled water continued to advance and CSDs either barely grew or declined. Average per capita intake of bottled water grew by at least one gallon annually and has more than doubled in the past decade. Per capita consumption of CSDs decreased slightly for several consecutive years. Bottled water users were significantly more health conscious and cited health as a reason for beverage consumption twice as often as others (15 versus 7 percent). Geographically in the U.S., residents of Los Angeles (3.2 eight-ounce servings) and San Diego (3.2) drank the most bottled water during the course of a day. Detroit residents drank the least bottled water (1.3). Residents of San Diego drank the most bottled and tap water

overall (6.9 servings), followed by Dallas (6.5), Los Angeles (6.4), and New York (6.4). The least amount of total water was consumed in Detroit (5.4) and Seattle (5.6).

Bottled water's share of the U.S. beverage market was poised to grow, while CSDs were projected to lose ground. Bottled water's share of the non-alcoholic beverage market could advance from less than 22 percent in 2005 to nearly 29 percent in 2010. The CSD market would remain larger, with a 38 percent share (down from 43 percent in 2005), but bottled water should make major gains on the largest beverage category (see **Exhibit 1** for specific U.S. market statistics). According to life-stage statistics the largest percentage of dollars spent annually on bottled water was by maturing families with children between the age of six and twelve at 22 percent, middle-aged childless couples between age thirty-five and fifty-four at 18 percent, and empty-nesters over fifty-five with no children at home at 9 percent.

Exhibit 1. U.S. Bottled Water Market Statistics

Volume and Producer Revenues

2001—2005

Year	Millions of Gallons	Annual % Change	Millions of Dollars	Annual % Change
2001	5,185.3	--	\$6,880.6	--
2002	5,795.7	11.8%	\$7,901.4	14.8%
2003	6,269.8	8.2%	\$8,526.4	7.9%
2004	6,806.7	8.6%	\$9,169.5	7.5%
2005	7,537.1	10.7%	\$10,012.5	9.2%

Source: Beverage Marketing Corporation

Per Capita Consumption

2001—2005

Year	Gallons Per Capita	Annual Change
2001	18.7	--
2002	20.7	10.8%
2003	22.1	7.0%
2004	23.8	7.6%
2005	26.1	9.6%

Source: Beverage Marketing Corporation

POWERWATER BEVERAGES, INCORPORATED

Recognizing increased consumer demand for pure water and concerns regarding contaminated natural water supplies, former Olympic swimmer and software entrepreneur Duncan Cleworth founded PowerWater Systems, Inc. in 1999 in Toronto, Canada. Cleworth believed that there was a niche opportunity in the bottled water industry for a super-premium bottled water. After rigorous research he realized that market penetration would require a product differentiated from competitors based on characteristics that extended beyond being "pure." As a result, Cleworth obtained the rights to a unique proprietary process that dissolves medical grade oxygen molecules into distilled (i.e.,

pure) water. Cleworth began marketing his company's super-premium, oxygenated and distilled bottled water product called PowerWater later that year in Canada.

In 2005, Kent Mawhinney and a group of investors recognized growing U.S. consumer demand for bottled water and, more specifically, for "pure" water. For example, several studies reported in the popular press and on television that the bottled water being sold on the market was no better than normal tap water. Consumers were shocked by these reports and became more discriminating on the bottled water they were willing to purchase. In an effort to capitalize on growing consumer demand for a super-premium water, Mawhinney and his investors founded PowerWater Beverages, Incorporated (PWBI), a C-Corporation with headquarters in Rocky Hill, Connecticut, to pursue this opportunity. PWBI began by negotiating an agreement with PowerWater Systems, Inc. Under the agreement, PWBI owned the rights, title, and interest in a trade secret industrial design to produce pure distilled oxygenated water. PWBI's exclusive license allowed the company to produce and distribute PowerWater throughout the world, except Canada. PWBI aimed to become the premier bottled water provider and name brand for active and health conscious consumers in the United States and around the world by offering optimally hydrating, pure, great tasting water that outperformed alternatives available on the market (see **Exhibit 2** for the full mission statement).

Exhibit 2 PWBI's Mission Statement

PowerWater Beverages aims to become the premier bottled water provider and name brand for active and health-conscious consumers in the United States and around the world by offering optimally hydrating, pure, great tasting water that outperforms alternatives available on the market.

PowerWater Beverages will establish, build, and maintain a reputation in the marketplace for producing and delivering the best quality bottled water. PowerWater Beverages will achieve this by leveraging its unique proprietary process, its rigorous efforts to maintain an understanding of market trends and needs, and its abilities to continually develop innovative water products and packaging to meet the diverse needs of specific market segments.

In pursuit of PowerWater Beverages' goals, the company resolves to treat shareholders, strategic outsourcing partners, retailers, and end customers, with the utmost care and concern. These groups see PowerWater Beverages as the vehicle for significant benefits through wealth and better health creation.

The PowerWater Product

PowerWater was produced through a unique proprietary and patented process that dissolves medical grade oxygen molecules into distilled (i.e., pure) water. This process produced water that optimized hydration, had significantly low levels of total dissolved solids (TDS), and was designed to improve taste.

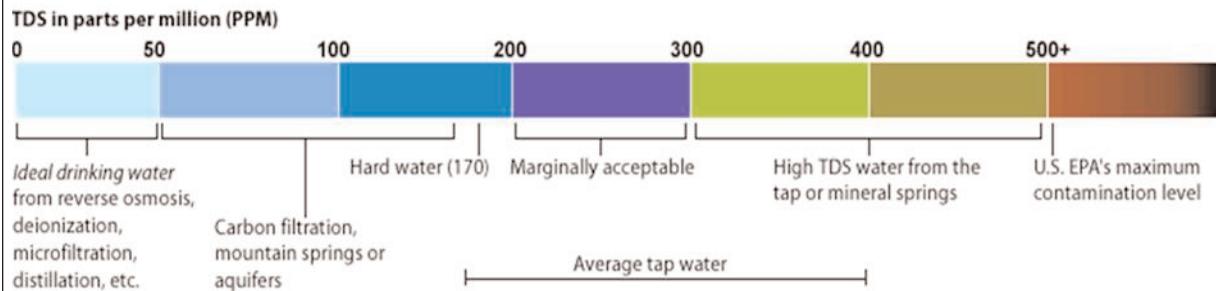
While all bottled waters are purified to some degree in order to remove contaminants, PWBI's rigorous purification system provided the purest water available (for more explanation of the process and the results, see **Exhibit 3**). PowerWater's unique four-step process:—filtration, distillation, purification and oxygenation—set a new standard in water purity. This process produced a product with the following characteristics:

- Σ Removed of micro-sized particles, heavy metals, inorganic and organic impurities, and micro-organisms and bacteria from the water.
- Σ Super-oxygenated pure distilled water with medical-grade oxygen by means of a proprietary process that hydrates the body over twice as fast as most drinking water.

Exhibit 3 PowerWater Beverages' Rigorous Purification Process

The Importance of Bottled Water Purity

One of the most widely accepted measures of purity in water is the level of total dissolved solids (TDS). TDS includes any minerals, salts, metals, cations, or anions dissolved in water (i.e., anything present in water other than pure water molecules). TDS is measured in units of parts per million (PPM). The TDS measure represents the total amount of impurities dissolved in the water and is unaffected by simple filtration. The chart below provides a TDS scale and corresponding ratings of common waters.



Water purity is critical for the hydration process. The body must process and filter out all solids from water before it can deliver clean, pure water to the cells.

PowerWater's Unique Production Process

PowerWater starts its journey from the source. It is then fed through food grade polymer piping to a Carbon filter. This removes any foul taste, chlorides, and some heavy metals. The treated water then passes through a dual salter and filtration unit. This softens the water as well as removes any organic matter, inorganic matter and remaining metals. The water then passes through another filter to ensure that the TDS is less than 10 ppm. Now the water enters the distiller. This process removes all remaining impurities, including micro organisms and bacteria. The result is TDS under 1 ppm. Finally, the water is chilled and infused with medical grade oxygen under pressure by a proprietary "Oxy Transfer Process" resulting in PowerWater. The Oxy Transfer Process (OTP), a proprietary process, enables small streams of oxygen bubbles to be stripped down to molecules and dispersed within the stream of distilled water. Prior to bottling, PowerWater is treated with ultra-violet light to ensure elimination of any micro-organisms and bacteria. PowerWater, with TDS < 1ppm, can potentially hydrate the body twice as fast as most water.

PowerWater Precipitator Demonstration

TDS are not visible to the naked eye and therefore most consumers are not aware of the extent to which they exist in bottled water available on the market and in household tap water. PowerWater has developed the following demonstration for use with consumers, retailers, and distributors to clearly illustrate what people are drinking when they purchase other bottled waters. The demonstration is available on the company's Web site and in marketing materials. In addition, each of the independent sales representatives has the equipment to provide such demonstrations on site. These demonstrations have proven to be very effective in the field and often result in sales.

To test TDS, a precipitator is placed in two glasses. One glass contains a leading bottled water and the other contains PowerWater. The electrodes on the precipitator cause dissolved solids to come out of suspension. After one minute discoloration occurs in the leading brand as the solids begin to separate from the water. PowerWater is clear.



Exhibit 3 (continued)



After 2 minutes

After two minutes, discoloration increases in the leading brand and a greenish cloud forms. PowerWater remains clear.



After 3 minutes

After three minutes, a thick green and brown film forms on the surface of the leading brand's water. PowerWater is still clear.

Production, Packaging, and Distribution

Since the PWBI team did not possess experience in the areas of production or distribution, the team decided that the most prudent method for entering the U.S. market was through strategic outsourcing partners for these areas and to concentrate their efforts on marketing, sales, and operations logistics.

Mawhinney negotiated co-packer and distribution agreements with industry leaders, and signed contractual agreements with well-known independent sales representatives throughout the United States. The co-packer PWBI used for producing its product was located in Kiamesha, New York, and had a distribution radius of 750 miles. Leisure Time Beverages, Inc., produced PowerWater based on their strong reputation in the market and experience working with other organizations seeking to outsource production of bottled waters. Leisure Time had been providing water to its customers since 1884 and had a very positive reputation in the market for producing its own and private label bottled water. Strategically, PWBI planned to maintain outsourcing relationships with co-packers that were located within 750 miles of its distribution points. Such locations were deemed critical to maintain control over shipping costs. Planned Florida and California co-packers would be able to cover the balance of the country because of more favorable distribution costs. However, PWBI's plans for the next three years included only markets that could be serviced through production at Leisure Time Beverages.

Depending on the capacity and equipment of each of its planned co-packers, PWBI aimed to roll out a plan that required the following for each co-packing site:

- Plant to include distillation capacity of 50+ gallons per hour
- Holding tanks of 10,000 gallons minimum
- Oxy Mass Transfer Oxygen generator (PowerWater exclusive trade secret)
- Chilling capacity to 38 degrees
- Label applicator for clear poly roll-fed label
- Bottling speed of 350 bottles per minute
- Capable of registered film wrapping
- Computerized palletizer

Potential co-packers generally had all of the capabilities listed above, except for the Oxy Mass Transfer Oxygen generator. Because the oxy-masher used a propriety process, ownership would remain with PWBI. Once a co-packing agreement was reached, PWBI would pay for the oxy-masher and its installation on the co-packer's premises (a \$45,000 to \$50,000 total cost). No capital investment would be required of the co-packer.

Each of PWBI's co-packing agreements included specific details regarding the overall parameters for the specific end product. Each PowerWater selling unit, actually a 24-count case, had specific guidelines that were outlined in the agreement. These specific parameters were critical for PWBI to maintain a high-quality product that was consistent with its focus on the super-premium segment of the bottled water industry.

Co-packers were responsible for installing the necessary equipment for producing PowerWater at their facilities, sourcing the PET bottles and label printing, making and testing PowerWater, filling and packaging bottles, and shipping them to regional distributors. Distributors played a critical role through providing warehousing of product so that it was ready and available for retailers and/or shippers to pick up. Many distributors also played a critical liaison role between PowerWater and its retailers.

Retailers were very important in the PowerWater distribution channel. Retailers generally sought products that generated increased profits per unit per amount of shelf space. During a new product's introduction into the market, many retailers featured the product in newspaper advertisements and often offered coupons to stimulate sales. Initial retailer reactions were that PowerWater presented an appealing bottled water option to retailers because it had a high margin. This was contrary to the margins other bottled waters offered and many retailers claimed that they actually lost money on these products relative to the amount of space they required.

PWBI recognized the need to establish a national network of sales representatives without incurring the costs associated with a full-time sales force. The most effective way to accomplish this was to develop and train a network of independent sales representatives in strategic locations across the U.S. PWBI initially secured agreements with representatives in Massachusetts, Rhode Island, and Maryland that would establish market presence in the Northeastern U.S. region (see Table 2).

Table 2 PWBI Initial Independent Sales Representatives

Name/Company	City	State
Action Sales and Marketing, Inc.	Sandwich	MA
Cain Associates, Inc.	Woburn	MA
IFB of New York, Inc.	Ellicott City	MD
Fresh Foods Sales and Marketing	Framingham	MA
Meucci and MacGregor Associates	Newport	RI

Transportation in the beverage industry can be the most costly component of operations. PWBI understood that absolute control of these costs was critical. The company maintained control over these costs through building on its already established network of regional warehouses and partnering with well-established, premier logistics providers. In particular, the company partnered with Associated Warehouses (a.k.a. Barrett Distribution, Inc.), a premier provider of third party logistics services located in Franklin, Massachusetts. Barrett Distribution, whose services included public warehousing, contract warehousing, fulfillment services, and transportation services to manufacturers, distributors, and retailers in a variety of industries, agreed to warehouse up to 500

pallets of the PowerWater product for a nominal fee per pallet. Barrett Distribution utilized virtually all major carriers and was able to leverage its own buying power to secure transportation rates for PWBI.

PWBI also partnered with C&S Wholesale Grocers, Inc., located in Keene, New Hampshire. C&S offered wholesale food distribution to grocery chains and large independent food stores throughout the U.S., providing 53,000 food and nonfood items to 4,000 corporate customers, including produce, meat, dairy products, delicatessen products, fresh/frozen bakery items, health and beauty aids, candy and tobacco. C&S customers included such food giants as: Pathmark, Safeway, Giant Food Stores, Shaw's Supermarkets, Stop and Shop, A&P Food Mart, Big Y Foods, BJ's Warehouse, Great American, SavMart/Foodmax, Demoulas, and independent store/supermarket owner/operators.

PWBI was set to begin producing and selling its product in the third quarter of 2006. Through corporate and independent sales representative efforts, PWBI secured agreements to have its product on the shelves at several major retail outlets (Table 3).

In addition, PWBI was actively negotiating with several other companies and expected PowerWater to broaden its market penetration in the near future (Table 4).

Table 3 Retail and Restaurant Outlets Selling PWBI's Product

Retailer	Number of Stores	Locations
Big Y Supermarkets	52	CT, MA
Shaw's Supermarkets	212	New England
Christies	30	MA
Discount Drug Mart	60	OH
Franklin Dist.	100+ stores	CT
American Grocer Dist.	60	MA, NH

Table 4 Companies with which PWBI was negotiating contracts

Retailer	Number of Stores	Locations
Home Depot	Over 2,200	Nationwide
Bozzuts Dist. IGA	Over 300	New England
Food Bag	Over 30	CT
Frank Banco Dist.	Over 300	NJ, NY, PA
Publix	Over 100	FL
Price Chopper	Over 100	New England, NY, and PA
Ohio Wine	Over 25	OH
Quick Chek	Over 100	NJ
Saeway	Over 1,700	Across USA
Pine State Traders & Dist.	Over 3,000	New England
Trader Joes	Over 200	AZ, CA, CT, DE, IL, IN, MD, MA, MI, MN, NY, NJ, NM, NY, OH, OR, PA, VA, WA
J. Polep Dist.	Over 700	New England
Wakefern	Over 300	Metro New York/Long Island
Pathmark	Over 60	Long Island
King Cullen	Over 40	Long Island
XTRA Mart	Over 300	New England, MD, VA, NY, PA

PowerWater was offered to consumers in the United States in high quality 20-ounce bottles that included a sports or standard cap (sports caps were considered an attractive feature for younger consumers, while standard caps appealed to older consumers) and labeling. The product's characteristics were designed to be attractive to 18–54 year old active men and women who were in the middle-to-upper income segment of the market. This market is generally college educated, physically active and health conscious. In addition, women within this category make the majority of purchasing decisions for household food and beverages. PWBI's primary target market included nearly half (49 percent) of the available market segments.

Marketing Plan

Despite limited resources for marketing its product during the startup phase, the PWBI management team believed in its marketing plan. PWBI would continue to introduce its product at tradeshows in 2007 and would focus on establishing relationships with additional potential independent sales representatives and retailers interested in selling its product. The modest booth at tradeshows would focus on providing live demonstrations comparing TDS found in competitors' products versus PowerWater. The team was confident that this powerful demonstration would garner interest from representatives and retailers. They believed that participating in these tradeshows would establish enough of a foundation to forgo these shows in the next few years.

The PWBI team was also well versed in what it took to secure commitment from retailers to sell its product. Rather than paying slotting fees (fees paid by a product company to a retailer in exchange for shelf space in the store), PWBI believed that it could continue to gain entry into retail establishments through a combination of providing margins larger than its competitors and also giving early stage discounts to stores who would agree to take on the product. In addition, PWBI would participate in store incentive programs that attracted consumers through coupons in local newspapers. PWBI projected that discounts and incentives would be 24 percent of sales. The company had already experienced success with this strategy and this also allowed the company to circumvent slotting fees.

The key component behind PWBI's marketing plan, however, rested with establishing a strong network of independent sales representatives. These representatives offered established connections with retailers and thus the opportunity to gain market entrance. In addition, the PWBI team believed that an established network would allow the company to maintain lower budgets for advertising, promotion, and marketing. In essence, the team believed that its best investment was in these representatives.

The Senior Management Team

During the past year, Mawhinney had been instrumental in formulating the strategic direction of the company, assembling the PowerWater team, and implementing an aggressive plan to promote and secure significant market share in the ultra-pure water segment. He relied on his past law experience—which included complex negotiations and litigations as well as providing assistance to a wide array of companies—in creating and implementing targeted strategies to achieve market penetration and growth. Mawhinney held 17.5 percent of the common stock in PWBI. To fund the startup of PowerWater Beverages, Mawhinney had secured \$370,000 from key management team

members and early investors in the form of promissory notes that were to be paid within the next twelve to eighteen months.

Mawhinney recruited Nehal Baaquie, a high energy sales executive with a B.S. from Notre Dame University, to assemble and train a team of sales professionals to market PowerWater and future line extensions. As a principal with N.E.B. Assoc., Inc. before joining PWBI, Baaquie sold a wide array of products including Sharpie® pens, Kodak® film and various specialty food and beverage items. He had overseen a multitude of sales forces, both domestically and internationally. Baaquie had experience in exporting millions of dollars of goods each year to countries throughout Asia, Africa, and Western Europe.

PWBI also attracted Theodore Munson—a detail-oriented executive who attended Southern Connecticut State University—who had over twenty-five years' experience developing a major manufacturer's business. Munson's role at PWBI was to develop line extensions and formulate strategic alliances with distributors, co-packers, and investors. Munson had a 3 percent ownership in the company.

Tom DiMarco, a graduate of Ripon College with a degree in Economics, was brought on board to oversee PWBI's national production facilities and distribution operations including logistics. DiMarco was responsible for all aspects of the company's proprietary purification process in addition to overseeing all of the company's marketing campaigns including print, broadcast, and community outreach programs. DiMarco was one of three founders of PureTech Waters of America, which developed and marketed Vital H2o. Under DiMarco's watch, that brand became a regional powerhouse servicing both the home and business markets. DiMarco held 5 percent of the common stock in PWBI.

Rounding out the senior management team was David Angliss, CPA and certified valuation analyst. His role was to direct all corporate accounting including preparing, analyzing, and reporting financial results to management. Angliss also assisted with the development of the company's budgetary plans for expansion. He had thirty-three years of public accounting experience and had operated his own accounting, auditing, and tax practice. He also had extensive experience in manufacturing and wholesale distribution. Angliss had a 5 percent ownership in the company.

In addition to Mawhinney, Munson, and Angliss, two others with ownership interests sat on the board of directors. Dr. Chris Murphy owned 2 percent of the common stock in PWBI and Terry Grech, a successful entrepreneur from Virginia, owned 30 percent of the common stock. PowerWater Systems, Inc. held a 30 percent ownership in the company (Duncan Cleworth was also the honorary chairman of the board) and Daniel Grech (son of Terry Grech) owned 7.5 percent.

PWBI utilized a unique "virtual organization" structure. This structure allowed the executive team to operate from geographically dispersed locations and thereby promoted enhanced market presence and offered potential retail customers increased and efficient access to members of the executive team (see **Exhibit 4**).

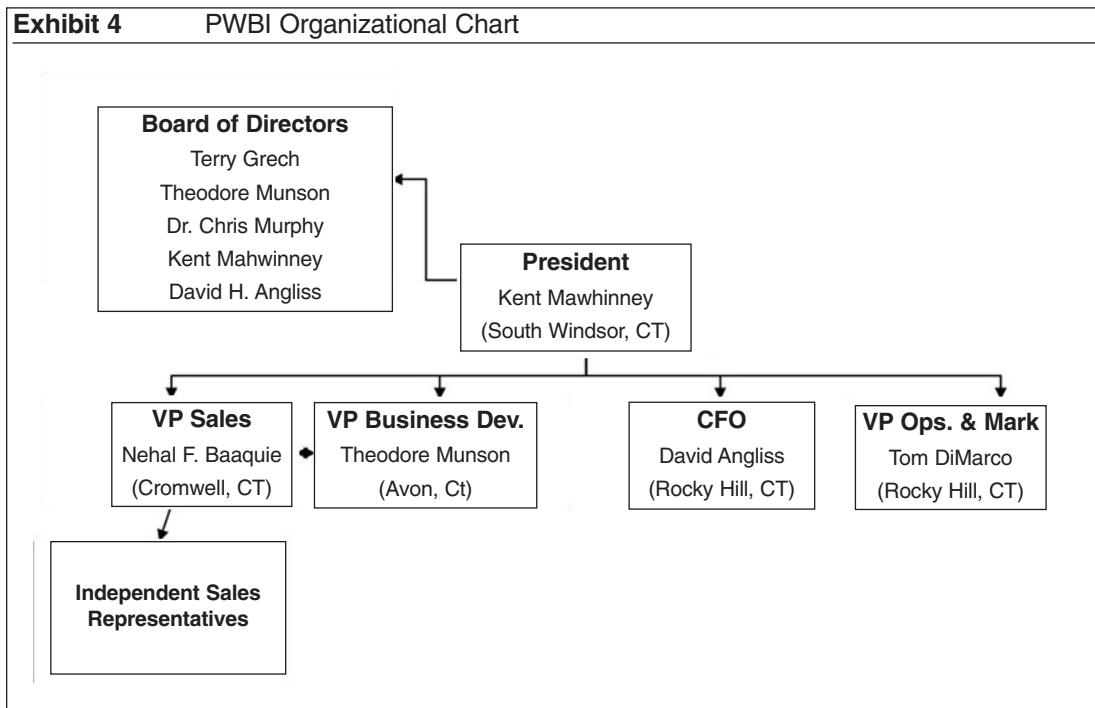
COMPETITION

Most of PWBI's direct competition came from PET bottled waters with similar super-premium market positioning. Penta, one of the most successful premium bottled waters on the market, was PWBI's closest competitor. Like PowerWater, Penta used an extensive and scientifically based filtration process to transform ordinary water into pure

water with TDS less than .5 parts per million (ppm). Most of its bottling was done at its own facility in Carlsbad, California, and promotion was heavily based on endorsements and sponsorships of sports teams (many Olympic sports including water polo and swimming) and other celebrities. Penta was the most expensive bottled water in the U.S. market with a suggested retail price for a 1.0-liter bottle of \$2.79. Aspen Pure, an entrepreneurial company based in Aspen, Colorado, was also establishing its presence with a five-step filtration process and a lower price (\$1.59 for a 1.0-liter bottle). Iceland Spring, which claimed to have the lowest TDS of imported premium waters at 58 ppm, sold a 1.0-liter bottle for a price between \$1.49 and \$1.79. PowerWater, with a TDS of less than 1 ppm, was priced at \$1.00–\$1.20 for a 20 ounce bottle, which translates to \$1.69–\$2.03 per liter. Retailers reported that initial consumer reaction to the product was very positive and retailers were already inquiring about additional orders and the company's ability to meet demand, should it continue to grow.

Indirect competition came from products with premium positioning that were slightly less niche-oriented and had considerable power and market share. For example, Aquafina and Dasani, PepsiCo and Coca-Cola's main bottled water offerings, claimed TDS of 10 ppm and 20 ppm, respectively, through filtering from municipal sources. Both of these waters sold for less than the premium brands described above. O Beverages, a New England area company launched in 2004, had also entered the market with a product that was said to guarantee TDS of less than 3 ppm.

Exhibit 4 PWBI Organizational Chart



FINANCIAL INFORMATION

PWBI had developed financial projections that management believed were conservative and reasonable to achieve in its first three years of operations, based on the fact that the company had already negotiated production, sales, and distribution agreements using the underlying assumptions and had already begun to sell the product with success in the marketplace (Table 5).¹

The company expected to grow from 4 truckloads in the first month to 26 truckloads in the end of the twelfth, resulting in a modest 201 total truckloads during the year. During the second year of operations, the company expected to build on the 26 truckload mark established in month twelve and grow by 3 truckloads per month during years two and three, resulting in 546 and 978 truckloads in each of these years, respectively. PWBI's management team believed these targets to be conservative.

Capital Requirements

PWBI was seeking \$950,000 in capital from one or several qualified investors. These funds, as described below, would be used to facilitate continued expansion, implementation of the company's marketing plan, and working capital required to grow the company. More specifically, the proposed infusion of \$950,000 would be used for the following:

1. Capital equipment expenditures necessary to secure additional co-packers in new markets such as the southeastern and southwestern markets of the United States. Securing additional co-packers in these markets would expand product reach and significantly reduce shipping costs to these markets by having an in-market production contract.
2. Funds necessary to continue implementing the company's strategic marketing plan and further expand the product's mindshare in the marketplace.
3. Working capital such as inventory and accounts receivable investments generated by a fast growing start-up firm.

Financial statements (see Exhibits 5–12) were used as PWBI determined valuation and capital needs.

Table 5 Financial Assumptions

Assumption	Amount
Cases per pallet	60
Pallets per truck load	24
Pallets per half truck load	11
Price per case	\$15.00
Totals sales price per pallet	\$900.00
Totals sales price per truck load	\$21,600.00

Proposed Investment Options

As a result of its prudent and well-planned ownership structure, PWBI had the flexibility to offer several investment opportunities which included, but were not limited to, the following:

1. Issuance of common stock in exchange for invested capital—Investors would receive common shares of stock in an amount relative to the company's current and projected valuation. The terms of investment would be subject to negotiation.
2. Issuance of common stock with a promissory note in exchange for invested capital—Investors selecting this option would receive a reduced number of common stock shares in an amount relative to the company's current and projected valuation and take into consideration that the investor would also receive repayment of the investment through a promissory note. The terms of the promissory note would include a 4 percent per annum return over a five-year payback period. Repayment of the promissory note would be funded through three mechanisms:
 - a. Forgoing licensing fees that would otherwise be paid to PWBI from overseas producers and marketers who are interested in securing the rights to production and distribution of PowerWater. Individuals from China and India have already expressed interest.
 - b. Normal cash flow from operations.
 - c. Acquisition of PWBI by another company or individual.
3. Issuance of preferred convertible stock—PWBI was open to discussions with investors interested in preferred convertible stock. This stock would be convertible to common stock based on a predetermined rate. The terms were subject to negotiation.

Blind Tee Shot

Mawhinney finished hole number four with a fifteen-foot putt for par. Murphy wasn't as fortunate; he missed a four foot putt for par and had to settle for bogey. As Mawhinney approached the tee box for the fifth hole, he realized how the hole mirrored the challenges that PowerWater faced and that would be addressed at the board meeting the next day. The tee box stood on top of a hill and the fairway proceeded downhill and curved around to the right behind a line of trees. This was truly a blind tee shot. The golfer had to visualize where he wanted to end up and then trust this visualization to make his best effort to hit the ball to a place unseen. Mawhinney smiled as he approached the tee box and thought about how similar this shot was to starting PowerWater. He had a vision of what the company could be and what it would take to get it there but the future, like his tee shot, was risky and uncertain. Did the company need \$950,000 at this point in time? They also needed to determine an appropriate valuation for the company and this, like the tee shot, seemed to be based totally on speculation. What would investors be seeking in return for this much capital? These questions, along with other opportunities for the PowerWater product lingered in his head as he proceeded to initiate his backswing.

NOTES

¹ Exhibit 12 at the end of the case includes all major assumptions used to develop PowerWater's projected financials.

Exhibit 5 PWBI's Projected Income Statements		PowerWater Beverages, Inc. Income Statement		
		6/30/2007	6/30/2008	6/30/2009
Net sales		\$4,341,600	\$11,793,600	\$21,124,800
Cost of goods sold		2,637,924	7,306,571	13,311,026
Gross margin		1,703,676	4,487,029	7,813,774
<i>Selling, general & administrative costs:</i>				
Commissions		494,942	1,344,470	2,408,227
Salaries and wages		0	275,000	575,000
Payroll expense		0	55,000	115,000
Advertising		585,000	800,000	800,000
Promotions and marketing		35,000	42,000	42,000
Trade show expense		25,000	0	0
Miscellaneous		52,700	82,900	133,150
Depreciation		25,000	23,200	21,900
Total SG&A expenses		1,217,642	2,622,570	4,095,277
Earnings before interest and taxes		486,034	1,864,459	3,718,496
Interest Expense		29,548	29,548	28,484
Earnings before taxes		456,486	1,834,911	3,690,012
Federal and state income taxes		182,594	733,964	1,476,005
Net income		\$273,892	\$1,100,947	\$2,214,007

Exhibit 6

PWBI's Projected Balance Sheets

<i>PowerWater Beverages, Inc. Balance Sheets</i>				
	End of Initial Year	6/30/2007	6/30/2008	6/30/2009
Assets				
Current Assets				
Cash	\$ 15,558.96	\$ 130,926.64	\$ 1,000,451.23	2,655,393.71
Accounts receivable	1,732.80	613,920.00	1,413,552.00	2,533,296.00
Inventory	-	27,648.00	64,074.24	87,995.29
Total Current Assets	17,291.76	772,494.64	2,478,077.47	5,276,685.00
Furniture & Equipment				
Furniture	6,908.00	6,908.00	6,908.00	6,908.00
Equipment	45,545.54	95,545.54	95,545.54	140,545.54
Gross Fixed Assets	52,453.54	102,453.54	102,453.54	147,453.54
Less accumulated depreciation	(5,889.32)	(30,889.32)	(54,089.32)	(75,989.32)
Net Fixed Assets	46,564.22	71,564.22	48,364.22	71,464.22
Total Assets	\$ 63,855.98	\$ 844,058.86	\$ 2,526,441.69	\$ 5,348,149.22
Liabilities & Stockholders' Equity				
Accounts payable	\$ -	\$ 506,311.34	\$ 1,101,047.19	\$ 2,038,747.33
Loans Payable	369,350.76	369,350.76	356,050.76	26,050.76
Total Liabilities	369,350.76	875,662.10	1,457,097.95	2,064,798.09
Stockholders' Equity				
Common stock	600.00	600.00	600.00	600.00
Retained earnings	(306,094.78)	(32,203.24)	1,068,743.74	3,282,751.14
Total Equity	(305,494.78)	(31,603.24)	1,069,343.74	3,283,351.14
Total Liabilities & Stockholders' Equity	\$ 63,855.98	\$ 844,058.86	\$ 2,526,441.69	\$ 5,348,149.22

Exhibit 7 PWBI's Projected Cash Flow Statements			
PowerWater Beverages, Inc. Cash Flow Statements			
	6/30/2007	6/30/2008	6/30/2009
Cash flows from operating activities			
Net income	\$ 273,892	\$1,100,947	\$2,214,007
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation & amortization	25,000	23,200	21,900
(Increase) in accounts receivable	(612,187)	(799,632)	(1,119,744)
(Increase) in inventory	(27,648)	(36,426)	(23,921)
Increase in accounts payable	506,311	594,736	937,700
Increase in accrued expenses	-	-	-
Increase (decrease) in income taxes payable			
Total adjustments	(108,524)	(218,122)	(184,065)
Net cash provided by (used in) operating activities	165,368	882,825	2,029,942
Cash flows from investing activities			
Cash paid for equipment	(50,000)	-	(45,000)
Net cash provided by (used in) investing activities	(50,000)	-	(45,000)
Cash flows from financing activities			
Debt repayments	-	(13,300)	(330,000)
Proceeds from financing	-	-	-
Net cash provided by (used in) financing activities	-	(13,300)	(330,000)
Net increase (decrease) in cash and equivalents			
Cash and cash equivalents at beginning of year	15,559	130,927	1,000,451
Cash and cash equivalents at end of year	\$ 130,927	\$1,000,451	\$2,655,394

Exhibit 8 Market Value Information from Recent Sale Transactions of Non-public Companies in the Bottled Water Industry

	Master Distributors, Inc.	Finish-Line Distributors, LLC	Trinity Springs, Ltd.	Excelsior Spring Water Company, Inc.	Aloha Water Company	Essentia Water, Inc.
State	MD	CT	ID	NY	HI	WA
Organizational Form	S Corp	LLC	C Corp	C Corp	S Corp	S Corp
Sale Date	7/1/2004	8/25/2004	6/17/2004	9/11/1997	3/20/2000	1/21/2000
Market Value of Invested Capital (MVIC)	3,656,418	550,000	5,100,000	3,127,401	1,437,500	8,000,000
MV of Equity (Price)	3,656,418	478,687	5,001,592	3,035,316	1,376,860	8,000,000
Sales	6,931,883	1,796,553	3,332,340	2,723,172	1,033,425	677,221
Gross Profits	1,973,864	486,169	852,701	1,445,937	654,165	177,466
EBIT	(528,418)	9,643	(2,366,573)	65,264	(109,010)	(644,437)
EBITDA	(462,106)	(23,846)	(1,946,500)	(297,082)	(11,156)	(594,709)
Net Income	(651,071)	(4,494)	(2,727,45)	(19,629)	(116,609)	(688,150)
Book Value of Invested Capital	(1,160,668)	(51,183)	2,453,002	421,193	132,294	(132,883)
Book Value of Equity	(1,160,668)	(123,134)	2,354,594	329,108	71,454	(132,883)
MVIC Valuation Ratios						
MVIC to Sales	0.53	0.31	1.53	1.15	1.39	11.81
MVIC to Gross Profits	1.85	1.13	5.98	2.16	2.20	45.08
MVIC to EBIT	NA	NA	NA	47.92	NA	NA
MVIC to EBITDA	NA	NA	NA	10.53	NA	NA
MVIC to Book Value of Equity	NA	NA	2.17	9.50	20.12	NA
MV Equity Valuation Ratios						
MV Equity to Sales	0.53	0.27	1.50	1.11	1.33	11.81
MV Equity to Gross Profits	1.85	0.98	5.87	2.10	2.10	45.08
MV Equity to Book Value of Equity	NA	NA	2.12	9.22	19.27	NA

Source: Pratt Stats at www.bvmarketdata.com/

Exhibit 9 Market Value Information for Public Companies in the Bottled Water and Soft Drink Industry

	Vermont Pure Holdings	Eldorado Artesian Springs Inc.	Jones Soda Co.	Hansen Natural Corp.	National Beverage Corp.	Cott Corp.	Cadbury Schweppes plc	Coca-Cola Co.	PepsiAmerics Inc.	Groupe DANONE
	VPS	ELDO	JSDA	HANS	FIZ	COT	CSG	KO	PEP	DA
Share Price	\$1.64	\$4.25	\$18.54	\$39.44	\$13.08	\$15.60	\$55.78	\$52.08	\$66.54	\$30.70
Market Capitalization (\$MM)	35.26	12.77	480.00	3,560.00	595.14	1,120.00	29,220.00	120,210.00	108,360.00	80,090.00
Revenue (\$MM)	65.23	8.21	39.46	552.40	536.43	1,780.00	14,710.00	24,970.00	35,770.00	19,030.00
NI (\$MM)	2.08	0.09	4.63	94.19	24.21	(10.60)	1,040.00	5,240.00	5,780.00	1,620.00
Gross Profit (\$MM)	37.04	6.32	15.99	182.54	167.67	216.90	7,360.00	15,920.00	19,380.00	9,060.00
EBIT (\$MM)	6.64	0.18	2.76	103.44	33.55	2.30	1,675.03	6,308.00	6,439.00	2,498.01
EBITDA (\$MM)	12.92	0.81	3.50	160.72	47.38	155.60	2,640.00	8,010.00	8,610.00	3,250.00
Stockholder Equity (\$MM)	33.60	1.50	42.27	125.51	130.86	488.70	9,374.30	16,920.00	15,477.00	7,885.20
Book Value per Share BV/PS	1.56	0.57	1.70	2.23	3.44	6.81	14.02	7.46	9.46	3.01
Market Value Invested Capital MVIC (\$MM)	72.76	15.78	480.00	3,560.00	595.14	1,501.19	37,656.87	126,470.40	125,506.17	88,370.51
MVIC Valuation Ratios										
MVIC to Sales	1.12	1.92	12.16	6.44	1.11	0.84	2.56	5.06	3.51	4.64
MVIC to Gross Profits	1.96	2.50	30.02	19.50	3.55	6.92	5.12	7.94	6.48	9.75
MVIC to EBIT	10.95	87.66	173.98	34.42	17.74	652.69	22.48	20.05	19.49	35.38
MVIC to EBITDA	5.63	19.42	137.14	22.15	12.56	9.65	14.26	15.79	14.58	27.19
MVIC to Book Value of Equity	2.17	10.54	11.36	28.36	4.55	3.07	7.47	7.47	8.12	11.21
MVIC Valuation Ratios										
MVIC Equity (Price) to Sales	0.54	1.56	12.16	6.44	1.11	0.63	1.99	4.81	3.03	4.21
MV Equity (price) to Gross Profits	0.95	2.02	30.02	19.50	3.55	5.16	3.97	7.55	5.59	8.84
MV Equity (price) to Book Value of Equity	1.05	8.53	11.36	28.36	4.55	2.29	3.12	7.10	7.01	10.16

Exhibit 10 Common Size Financial Data from Recent Private Sales and for Peer Group of Private Bottled Water Firms						
	Master Distributors, Inc ¹	Finish-Line Distributors, LLC ¹	Trinity Springs, Ltd. ¹	Excelsior Spring Water Company, Inc ¹	Aloha Water Company ¹	Essentia Water, Inc. ¹
Income Statement						
Net Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	71.5%	72.9%	74.4%	46.9%	36.7%	73.8%
Gross Profit	28.5%	27.1%	25.6%	53.1%	63.3%	26.2%
Selling and Admin. Expenses	35.1%	25.7%	84.0%	42.2%	64.4%	114.0%
Depreciation	1.0%	0.8%	12.6%	8.5%	9.5%	7.3%
Operating Profit	-7.6%	0.5%	-71.0%	2.4%	-10.5%	-95.2%
Interest Expense	1.8%	0.8%	10.8%	2.8%	0.7%	6.5%
EBT	-9.4%	-0.3%	-81.8%	-0.4%	-11.3%	-101.6%
Taxes	0.0%	0.0%	0.0%	0.3%	0.0%	0.0%
Net Income	-9.4%	-0.3%	-81.8%	-0.7%	-11.3%	-101.6%
Balance Sheet						
Cash Equivalents	0.0%	0.1%	1.8%	1.1%	5.5%	10.1%
TradeRec	28.1%	35.6%	10.4%	16.5%	16.2%	17.6%
Inventory	58.4%	52.0%	8.8%	7.9%	0.0%	14.5%
Other Curr Assets	4.5%	4.6%	0.0%	1.7%	0.0%	6.3%
Total Curr Assets	91.0%	92.3%	21.1%	27.3%	21.6%	48.5%
Fixed Assets	9.0%	7.7%	76.5%	71.9%	78.4%	51.5%
Other Noncurr Assets	0.0%	0.0%	2.4%	0.8%	0.0%	0.0%
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Current Liabilities	182.6%	123.0%	35.3%	77.8%	73.%	124.4%
Long-term Liabilities	0.0%	31.6	2.6%	4.8%	12.3%	0.0%
Total Liabilities	182.6%	154.6%	37.9%	82.7%	85.5%	124.4%
Stockholders Equity	-82.6%	-54.6%	62.1%	17.3%	14.5%	-24.2%
Total Liabilities and Equity	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Return on Assets (ROA)	4.93	7.97	0.88	1.43	2.10	1.24
						2.3

¹ Source: Pratt Stats at www.bvmarketdata.com/

² Source: RMA Annual Statement Studies 2006-2007 www.rmahq.org

Exhibit 11a Common Size Income Statements from Publicly Traded Firms in the Bottled Water and Soft Drink Industry

	VPS	ELDO	JSDA	HANS	FIZ	COT	CSG	KO	PEP	DA
Total Revenue	100.0%									
Cost of Goods Sold	43.2%	20.1%	59.7%	47.7%	67.6%	87.8%	49.4%	33.9%	44.9%	51.3%
Gross Profit	56.8%	79.9%	40.3%	52.3%	32.4%	12.2%	50.6%	66.1%	55.1%	48.7%
Research Development	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.9%
Selling General and Administrative	45.3%	71.6%	33.3%	22.7%	26.1%	9.9%	37.1%	39.9%	36.4%	34.2%
Non Recurring	0.0%	0.0%	0.0%	0.0%	-0.2%	2.2%	1.3%	0.0%	0.0%	0.2%
Others	1.3%	6.0%	0.0%	0.0%	0.0%	0.0%	0.7%	0.0%	0.5%	0.0%
Total Operating Expenses	46.6%	77.6%	33.3%	22.7%	26.0%	12.1%	39.1%	39.9%	36.8%	35.3%
Operating Income or Loss	10.2%	2.3%	6.9%	29.6%	6.5%	0.1%	11.5%	26.2%	18.3%	13.4%
Total Other Income/Expenses Net	0.0%	0.5%	2.3%	0.4%	0.3%	0.1%	0.3%	1.6%	0.5%	0.8%
Earnings before Interest and Taxes	10.2%	2.8%	9.2%	30.1%	6.8%	0.0%	11.8%	28.2%	20.6%	14.2%
Interest Expense	5.0%	3.1%	0.0%	0.0%	0.0%	1.9%	2.6%	0.9%	0.7%	1.6%
Income before Tax	5.2%	-0.3%	9.2%	30.0%	6.8%	-1.9%	9.2%	27.3%	19.9%	12.6%
Income Tax Expense	2.0%	-0.2%	-2.3%	12.0%	2.5%	-0.9%	2.7%	6.2%	3.8%	2.6%
Minority Interest	0.0%	0.0%	0.0%	0.0%	0.0%	-0.2%	0.0%	0.0%	0.0%	-1.5%
Net Income from Continuing Ops	3.2%	-0.1%	11.5%	18.0%	4.3%	-1.0%	6.3%	21.1%	16.1%	8.3%
Discontinued Operations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.6%	0.0%	0.0%	1.1%
Net Income	3.2%	-0.1%	11.5%	18.0%	4.3%	-0.1%	13.9%	21.1%	16.1%	9.4%

Source: <http://finance.yahoo.com/> and www.wsj.com

Exhibit 11b Common Size Balance Sheets from Publicly Traded Firms in the Bottled Water and Soft Drink Industry

	VPS	ELDO	JSDA	HANS	FIZ	COT	CSG	KO	PEP	DA
Assets										
Current Assets										
Cash and Cash Equivalents	2.3%	1.4%	29.0%	37.6%	19.3%	1.2%	2.4%	8.1%	5.5%	3.9%
Short Term Investments	0.0%	0.0%	34.0%	7.2%	0.0%	0.0%	1.1%	0.5%	3.9%	15.3%
Net Receivables	9.9%	13.7%	17.6%	20.9%	23.0%	18.9%	9.5%	9.0%	12.4%	12.9%
Inventory	2.1%	4.8%	12.1%	19.2%	15.8%	11.5%	6.6%	5.5%	6.4%	4.2%
Other Current Assets	0.8%	1.1%	1.5%	0.7%	4.3%	0.9%	3.3%	5.0%	2.2%	0.0%
Total current assets	15.2%	20.9%	94.1%	85.6%	62.3%	32.5%	23.1%	28.2%	30.5%	36.2%
Long Term Investments	0.0%	8.8%	0.0%	0.0%	0.0%	0.0%	0.2%	22.6%	12.8%	11.2%
Net Property Plant and Equipment	13.2%	66.6%	4.5%	2.3%	25.7%	31.6%	16.4%	23.0%	32.4%	17.8%
Goodwill	67.4%	0.0%	0.0%	0.0%	6.0%	13.9%	40.5%	4.7%	15.3%	25.1%
Intangible Assets	3.3%	1.3%	0.4%	11.7%	0.8%	21.1%	18.2%	12.5%	6.2%	5.2%
Other Assets	0.9%	2.5%	0.0%	0.5%	5.3%	0.9%	0.5%	8.5%	2.0%	0.7%
Deferred Long Term Asset Charges	0.0%	0.0%	0.9%	0.0%	0.0%	0.0%	1.1%	0.6%	0.8%	3.9%
Total Assets	100.0%									
Liabilities										
Current Liabilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Accounts Payable	6.9%	8.8%	11.7%	19.8%	27.9%	16.4%	17.9%	18.8%	17.6%	22.5%
Short/current Long Term Debt	4.2%	7.1%	0.1%	0.3%	0.0%	9.6%	13.3%	10.9%	0.9%	2.4%
Other Current Liabilities	0.9%	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.4%	0.0%
Total Current Liabilities	12.0%	17.4%	11.8%	20.1%	27.9%	26.0%	31.2%	29.7%	22.9%	25.0%
Long Term Debt	38.9%	49.2%	0.0%	0.0%	0.0%	24.2%	16.5%	4.4%	8.5%	33.5%
Other Liabilities	3.6%	0.0%	0.0%	0.0%	4.0%	0.0%	3.7%	6.3%	15.4%	3.2%
Deferred Long Term Liability Charges	3.9%	8.1%	0.0%	3.3%	8.1%	5.1%	5.0%	2.0%	1.8%	1.7%
Minority Interest	0.0%	0.0%	0.0%	0.0%	0.0%	1.8%	0.1%	1.2%	0.0%	1.4%
Total Liabilities	58.4%	74.8%	11.9%	23.4%	40.1%	57.1%	56.5%	43.5%	48.4%	64.9%
Stockholders' Equity										
Common Stock	0.0%	0.0%	87.4%	0.1%	0.2%	24.0%	2.4%	2.9%	0.1%	0.8%
Retained Earnings	-29.9%	2.5%	-5.3%	64.9%	57.4%	14.8%	21.7%	111.7%	83.0%	38.0%
Treasury Stock	-0.6%	0.0%	0.0%	-0.5%	-8.2%	0.0%	0.0%	-73.8%	-25.9%	-8.3%
Capital Surplus	72.2%	22.7%	5.9%	12.2%	10.5%	2.6%	10.7%	20.0%	2.0%	1.2%
Other Stockholder Equity	-0.1%	0.0%	0.2%	0.0%	0.1%	.5%	8.8%	-4.3%	-7.8%	3.5%
Total Stockholder Equity	41.6%	25.2%	88.1%	76.6%	59.9%	42.9%	43.5%	56.5%	51.6%	35.1%
Total Liabilities and Equity	100.0%	100.0%	87.7%	100.0%						
Return on Assets (ROA)	0.81	1.27	0.83	2.13	2.37	1.55	0.68	0.80	1.17	0.83

Source: <http://finance.yahoo.com/> and www.wsj.com

Exhibit 12 PowerWater Beverages, Inc. Assumptions Used in Developing Projections

General shipment and revenue projections											
Cases per pallet	60	Total sales price per pallet		\$900.00							
Pallets per truck load	24	Total sales price per truck load		\$21,600.00							
Pallets per half truck load	11	Total sales price per half truck		\$9,900.00							
Pallets per container	20	Total sales price per container		\$18,000.00							
Sales price per case	\$15.00										
Monthly truck loads first year		month 1	month 2	month 3	month 4	month 5					
		4	6	9	12	14					
		month 7	month 8	month 9	month 10	month 11					
		20	22	23	24	25					
						month 12					
						26					
Truck loads sold first year (total)		201									
Truck loads sold in second year		546									
Truck loads sold in third year		978									
Cost per case (increase 3% per year)		year 1	year 2	year 3							
		\$4.80	\$4.94	\$5.09							
Total cost per pallet		\$288.00	\$296.64	\$305.54							
Total cost per truck load		\$6,912.00	\$7,119.00	\$7,333.00							
Total cost per half truck		\$3,168.00	\$3,263.00	\$3,361.00							
Total cost per container		\$5,760.00	\$5,933.00	\$6,111.00							
Freight per truck load		\$800.00	\$824.00	\$849.00							
Warehousing per pallet		\$9.50									
Discounts and store incentive		24% of sales									
Inventory in truck loads year 1		4	\$27,648.00								
Inventory in truck loads year 2		9	\$64,074.24								
Inventory in truck loads year 3		12	\$87,995.29								
Selling and general administration costs											
Employee Costs											
Salaries:		1st year	2nd year	3rd year							
Management		none	\$275,000	\$575,000							
Payroll expense		20% of management salary									
Commissions		15% of sales less discounts and incentives									
Advertising											
Promotion and marketing		1st year	2nd year	3rd year							
Trade show expense		\$35,000	\$42,000	\$42,000							
		\$25,000									
Miscellaneous SG&A											
Web site and Internet fees		\$2,000	\$2,000	\$2,000 pd qtrly							
Travel expenses		\$1,800	8,100	12,150 annually							
Insurance		\$2,100	6,000	12,000 annually							
Legal and professional fees		\$27,000	40,500	60,750 annually							
Repairs and maintenance		\$1,800	3,150	4,950 annually							
Meals and entertainment		\$5,000	5,000	5,000 annually							
Office supplies		\$5,400	12,150	24,300 annually							
Telephone		\$3,000	6,000	12,000 annually							
Licenses, dues, and subscriptions		\$500		annually							
Meeting expenses		\$4,000		annually							
Interest expense											
Loans payable		8% annually									
Taxes											
Federal and state income taxes		40% of taxable income									