PowerWater Beverages, Inc.

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 5 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 two former roommates who had 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 earning an 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 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?"

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, and the possibility of trading up and potential 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%. 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 25 gallons, but much of the developing world, where the bulk of the world's population lies, 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 combined for 28.2% of the world market in 2004. Mexico accounted for 11.5% 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% to nearly 3.1 billion gallons. Italy and Germany grew by 3.0% and 3.6%, 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 48 gallon per person, consuming about 4 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 11th in terms of 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 as a functional beverage as well, 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 and India, are considered developing countries, these national markets and others of significant size presented highly attractive markets for bottled water companies.

July 2005 Population Estimate (United Nations)

Rank	Country / Territory	Population (in 000,000s)
—	***World***	**6,464.8**
1	People's Republic of China (*Mainland*)	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	Philippines	83.1
14	Germany	82.7
15	Ethiopia	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% 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% 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% 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%.

In 2005, Nestlé Waters North America remained the largest bottled water company in the country, with $3.1 billion in wholesale dollar sales. Nestlé owns major regional brands like Poland Spring, Arrowhead and Zephyrhills, which accounted for more than 31% 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% 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% of bottled water users cited taste and 55% 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%) and source (35%) 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 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 cite health as a reason for beverage consumption twice as often as others (15% vs. 7%). Geographically in the U.S., residents of Los Angeles (3.2 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% in 2005 to nearly 29% in 2010. The CSD market would remain larger, with a 38% share (down from 43% 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 middle-aged childless couples 35-54 at 18%, maturing families with children between the age of 6 and 12 at 22% and empty-nesters over 55 with no children at home.

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 began becoming 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.)

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 optimizes 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:

- Removed of micro-sized particles, heavy metals, inorganic and organic impurities, and micro-organisms and bacteria from the water.
- 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.

Production, Packaging, and Distribution

Realizing the management team’s specific competencies in the areas of marketing, sales, and operations logistics and the fact that the company had only one product (i.e., PowerWater), PWBI’s management team decided that the most prudent method for entering the U.S. market was through developing strategic outsourcing partners for production and distribution activities.

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 due to more favorable distribution costs.

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
- Ability for registered film wrap
- Computerized palletizer

Each of PWBI's co-packing agreements included specific details regarding the overall parameters for the actual end product. Each PowerWater selling unit, which was 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-packer were responsible for installing the the necessary equipment for producing PowerWater at its facility, 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 like that generated increased profits per unit per amount of shelf space. Initial 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. Consistent with its plan to penetrate the New England and New York markets first, PWBI successfully secured the following independent 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 & Marketing	Framingham	MA
Meucci & 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 logistics partners that were vital to its success. 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. PowerWater would first become available in the following locations:

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
Restaurants		Baxters, Arnolds, Trader Ed's
Franklin Dist.	100+ stores	CT
American Grocer Dist.	60	MA, NH

PWBI was under negotiations with the following companies and expected PowerWater to be available in the following stores in the near future:

Retailer	Number of Stores	Locations
Home Depot	Over 2,200	Nationwide
Bozzutos Dist. IGA supermarket	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
Safeway	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, NV, 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 cap and labeling. The product's characteristics were designed to be attractive to 18-44 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%) of the available market segments.

The Senior Management Team

Over 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 with creating and implementing targeted strategies to achieve market penetration and growth. Mawhinney held 17.5% of the common stock in PWBI.

Mawhinney recruited Nehal Baaquie, a high energy sales executive with a B.S. degree from Notre Dame University, to assemble and train a team of sales professionals in order to market PowerWater and future line extensions. As a principal with N.F.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. Mr. 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 25 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% ownership in the company.

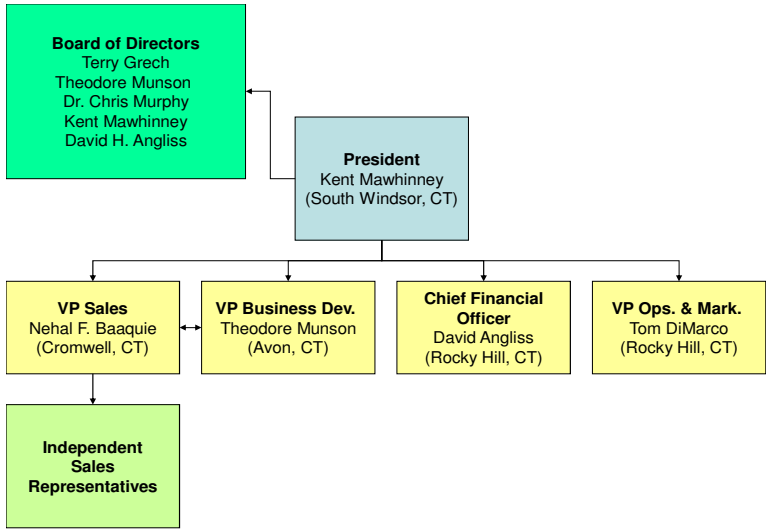
Tom DiMarco, a graduate of Ripon College with a degree in Economics, was brought on board to oversee PWBI's national production facilities and distribution operations including logistics. DiMarco was responsible for all aspects of the company's proprietary purification process in addition to overseeing all of the company's marketing campaigns, including print, television 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% 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 expense 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 33 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% ownership in the company.

In addition to Mawhinney, Munson, and Angliss, two others with ownership interests sat on the Board of Directors. Murphy owned 2% of the common stock in PWBI and Terry Grech, a successful entrepreneur from Virginia, owned 30% of the common stock. PowerWater Systems, Inc. held a 30% ownership in the company (Duncan Cleworth was also the Honorary Chairman of the Board) and Daniel Grech owned 7.5%.

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 with increased and efficient access to members of the executive team.

PWBI Organizational Chart



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 like 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 it had 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.

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.

Financial Information

PWBI had developed financial projections that 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. The underlying assumptions included:

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

The company expected to grow from four truckloads in the first month to 26 truckloads in the end of month 12, 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 12 and grow by three truckloads per month during years two and three, resulting in 510 and 942 truckloads in each of these years, respectively. PWBI's management team considered these targets to be conservative.

Capital Requirements

PWBI was seeking $950,000 in capital from a qualified 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 necessary for any start-up company to grow efficiently and effectively.

The attached financial statements (see Exhibits 4-6) were used as PWBI determined valuation and capital needs.

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 taking 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% per annum return over a five-year payback period. Repayment of the promissory note would be funded through three mechanisms:
    a. Licensing fees received by PWBI from overseas producers and marketers.
    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 basically 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 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.

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

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.

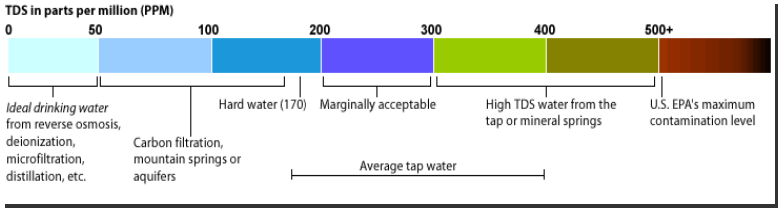
PowerWater Beverages will establish, build, and maintain a reputation in the marketplace for producing and delivering the best quality bottled water. PowerWater Beverages will achieve this by leveraging its unique proprietary process, its rigorous efforts to maintain an understanding of market trends 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.

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 website and in marketing materials.

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.

After 1 Minute

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

After 2 Minutes

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

After 3 Minutes

	6/30/2007	6/30/2008	6/30/2009
Net income	***$ 291,621***	***$ 1,476,227***	***$ 2,760,202***