

Non-Disclosure and Confidentiality Agreement

The undersigned ("Recipient") hereby agrees that all financial and other information ("Information") that it has and will receive concerning HydroHut is confidential and will not be disclosed to any individual or entity without prior written consent.

The Information shall remain the property of HydroHut and shall be returned to HydroHut promptly at its request together with all copies made thereof.

Recipient acknowledges that no remedy of law may be adequate to compensate HydroHut for a violation of this Agreement and Recipient hereby agrees that in addition to any legal or other rights that may be available in the event of a breach hereunder, HydroHut may seek equitable relief to enforce this Agreement in any Court of competent jurisdiction.

Date

Signature

This is a business plan and does not imply an offering of securities.

HydroHut

Contact Information:

HydroHut, Inc.
12709 Enfield Terrace
Austin, TX 78704
(512) 555-1212
hydrohut@internet.com
Allis Walter, President
Matthew Strang, CEO

This document contains confidential information. It is disclosed to you for informational purposes only. Its contents shall remain the property of HydroHut and shall be returned to HydroHut when requested.

This is a business plan and does not imply an offering of securities.

Table of Contents

1. Executive Summary	1
Business Opportunity	
Product/Service Description	
Current Business Position	
Financial Potential	
The Request	
<hr/>	
2. Company Background	3
Business Description	
Company History	
Current Position and Business Objectives	
Ownership	
<hr/>	
3. Products	5
Product Overview	
Competitive Analysis	
Suppliers and Inventory	
Research and Development	
<hr/>	
4. The Industry, Competition and Market	7
Industry Definition	
Primary Competitors	
Market Size	
Market Growth	
Customer Profile	
<hr/>	
5. Marketing Plan	9
Competitive Advantage	
Pricing	
Distribution Channels	
Promotional Plan	
Feedback	
<hr/>	
6. Operating Plan	12
Location	
Facility	
Operating Equipment	
Suppliers and Vendors	
Personnel Plan	
General Operations	

7. Management, Organization and Ownership	14
Management/Principals	
Organizational Structure	
Professional Consultants	

8. Goals and Strategies	15
Business Goals	
Keys to Success	
Future Plans	

9. Financial Assumptions	16
Beginning Balance Sheet	
Profit and Loss	
Balance Sheet	
Cash Plan	

10. Appendix	21
Beginning Balance Sheet	
Profit & Loss - Years 1, 2, & 3	
Balance Sheet - Years 1, 2, & 3	
Cash Plan - Years 1, 2, & 3	
Ratio Analysis - Years 1, 2, & 3	
Personal Financial Statement	
Equipment List	

1. Executive Summary

HydroHut is a unique concept ready to enter the Austin, Texas retail restaurant and bar market. Its products will consist of still water drinks and baked goods for health-conscious consumers. The partners, who bring more than 12 years of retail restaurant and bar operations experience to the venture, are seeking a line-of-credit of \$15,000 to facilitate the opening and operation of HydroHut.

1.1 Business Opportunity

Still (non-carbonated) water beverages are the trendiest new drinks since gourmet coffee. The market for still water drinks has been building strongly for three years and now appears ready to enter a new, accelerated period of growth.

1.2 Product/Service Description

Still water drinks are much different from the mass-produced carbonated beverages sold by the soft drink giants. They are usually produced in small quantities by entrepreneurial organizations and product quality is extremely high. Still water drinks include functional additives, including nutraceuticals, which further differentiate them from mass-market soft drinks and appeal to health-conscious consumers.

The product line, all purchased from outside vendors, will consist of approximately 20 different still water beverages and functional beverages, in addition to a selection of freshly baked breads, muffins, cookies, and other locally produced items.

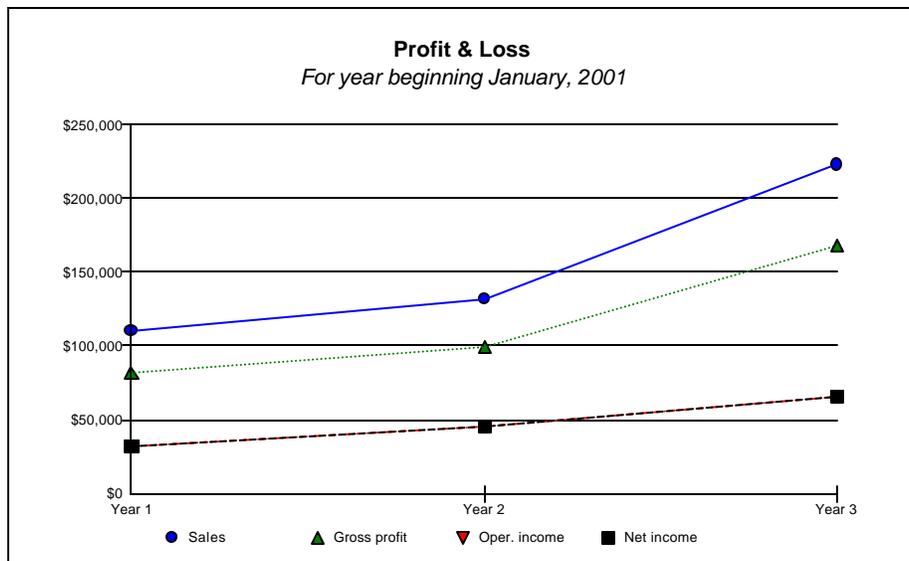


1.3 Current Business Position

HydroHut will be owned by Allis Walter and Matthew Strang. The business will be structured as an equal partnership, with Mr. Walter bearing the title of President and Mr. Strang operating as Chief Executive Officer. Mr. Walter and Mr. Strang are experienced in retail restaurant bar operations.

1.4 Financial Potential

Revenues of \$109,600 are expected in HydroHut's first year of operations, with a 20 percent revenue increase in year two. Early in year three, a second location is planned, which will increase HydroHut's potential for success. Revenues are expected to increase considerably after the second location is opened to \$222,400. Bank financing is not expected to be required after HydroHut's first year of operation, based on the projected cash flows.



1.5 The Request

HydroHut is seeking to establish a \$15,000 line-of-credit loan to cover start-up costs, purchase needed equipment, and provide working capital until the business can support itself financially. HydroHut is requesting this amount be formalized as a line of credit, which the company can draw from as needed.

Even though the amount requested is \$15,000, HydroHut projects it will only require funds equal to \$4,250. However, such a line of credit will help HydroHut cover operating expenses should the forecast fall short. The owners are prepared to pledge personal assets in the amount of the loan to collateralize the transaction. In addition, they are willing to invest \$10,000 of their own cash to help get HydroHut up and running.

2. Company Background

The two partners that will own HydroHut are Mr. Allis Walter and Mr. Matthew Strang, who together bring more than 12 years of restaurant hospitality experience to the business. The partners recognized the progressive, health-conscious lifestyles of much of Austin's population, and view the functional still water market as one with strong potential. Research of functional still water beverage locations elsewhere in the United States supported the partner's beliefs about its potential for success. There are no other such facilities in Austin at the current time.

2.1 Business Description

HydroHut will sell still water beverages through a retail outlet in Austin, Texas. The outlet will consist of a bar and seating area, as well as a service counter. It will serve beverages prepared on the premises for consumption either in the beverage bar or off-site. In addition, it will offer prepackaged products, including baked goods.

HydroHut will target its products to Austin's educated, progressive population. Austin has one of the country's highest per-capita rates of consumption of natural foods and beverages.

A retail business, including a small bar and seating area and drive-through window area, will be located in an existing facility near the intersection of Loop 1 and Enfield Road in central Austin.

2.2 Company History

Allis Walter and Matthew Strang became associated in the summer of 1996, through mutual memberships in a regional hospitality trade association. A combination of a mutual passion for health-conscious products with shared entrepreneurial attitudes eventually led them to discuss becoming business partners. After doing considerable market research in the health products industry, the partners discovered the absence of functional still water products in Austin. Further research into existing functional water facilities in the United States showed the partners the potential for success in this type of business.

2.3 Current Position and Business Objectives

HydroHut is currently in the start-up phase of its business life. The first HydroHut location will be located near Sixth Street and Lamar Boulevard, one of the city's busiest intersections and hottest retail environments. The store will be the first of its kind in Austin, a major metro area of more than 1 million people.

HydroHut's mission statement is as follows:

"HydroHut will sell still water drinks and functional beverages to health-conscious consumers in Austin, Texas. Retail customers will consist of students, faculty, and staff from the nearby University of Texas campus, the nation's largest, and residents of the well-educated, affluent surrounding neighborhoods."

Long-term goals for HydroHut include an expansion to three locations by the end of its fifth year of operations, as well as the possibility of the creation of company-owned or franchised outlets thereafter.

2.4 Ownership

HydroHut will be owned by Allis Walter and Matthew Strang. The business will be structured as an equal partnership, with Mr. Walter bearing the title of President and Mr. Strang operating as Chief Executive Officer. Mr. Walter and Mr. Strang are experienced in retail restaurant bar operations.

3. Products

Still water is the fastest growing segment of the alternative beverage industry. Sales for 1996, the most recent year available, were up 25 percent, almost double the industry average of 13 percent. Other alternative beverage segments include juices, teas, sport drinks, sparkling waters, and natural sodas.

3.1 Product Overview

The primary products to be sold through HydroHut will be functional still water drinks in three categories:

1. Nutriceuticals

Nutriceutical waters include still waters to which have been added minerals such as potassium, calcium, vitamins including A, C, and D, and other substances, such as caffeine.

2. Bacteria-Free Still Water

Bacteria-free still waters are processed using techniques that eliminate microorganisms, including associated flavors and particles, from the water.

3. Exotic Waters

Exotic waters are bottled and imported from locations such as Alaska, Canada, France, Hawaii, Sweden, and Russia.

Functional still water fountain drinks will be offered at the following prices:

Small: \$1.00

Medium: \$1.50

Large: \$2.50

In addition, larger sizes of water will be sold for customer carryout or delivery. They will range from 1-liter bottles to 20-liter plastic jugs at prices ranging from \$2.50 to \$25.00.

HydroHut will sell these products, as well as prepackaged products (including baked goods), for consumption both in the beverage bar and off-site. The location will also have a drive-through window area for customer convenience.

3.2 Competitive Analysis

Currently, no other business in Austin focuses exclusively on the functional still water market. This will provide considerable flexibility in pricing and allow for the creation of a great deal of customer awareness and brand loyalty, erecting significant barriers to entry for potential competitors.

While no retail businesses devoted exclusively to functional water beverages exist in Austin,

functional water beverages are sold at Whole Foods, Whole Earth Provision, Randall's Markets, and other grocery retailers.

3.3 Suppliers and Inventory

HydroHut's products will be supplied by various vendors, including the following: Aqua Health, Water for Life, H2Ah!, Nutri-Water, Hydration Technologies, Guava Cool, Soft Beverages, and Millennium Moisture. These vendors supply a variety of beverages with features such as nutraceutical content, bacteria-free processing, and a number of natural, organic flavorings, including berries, fruits, and spices.

These suppliers are, for the most part, located in the continental United States. While they are not currently available for wholesale distribution in Austin, which partially explains the lack of local retail distribution, all operate existing distribution systems with representatives in other Texas cities, including Houston, San Antonio, and Dallas. No problems in obtaining adequate supplies of important products are anticipated. A projected inventory level of 30 days' worth of inventory on hand at all times.

3.4 Research and Development

HydroHut success will come from educating customers about the appeal and benefits of functional still water beverages, and from providing a quality service and products not available in grocery stores. Price competition will be a minimal influence given current market conditions.

Expansion will begin in year three and includes the planned opening of a second location, an expansion of corporate sales, and added emphasis on special outside event promotions.

4. The Industry, Competition and Market

HydroHut will take advantage of the rapidly growing still water beverage market niche. The market for these products has been building strongly for over three years, appealing mainly to health-conscious consumers of all age groups. While Austin, Texas contains one of the highest demographic target markets for these products, the community currently has no still water beverage retailer. The following sections discuss the opportunities for HydroHut in the Austin area.

4.1 Industry Definition

Still water is the fastest growing segment of the alternative beverage industry. Sales for 1996, the most recent year available, were up 25 percent, almost double the industry average of 13 percent. Other alternative beverage segments include juices, teas, sport drinks, sparkling waters, and natural sodas.

Still water sales totaled 731 million cases, making the category by far the dominant in alternative beverages, whose total sales neared 1.9 billion cases. Still water's share of the alternative beverage market exceeded 39 percent, up 3.7 percent from the previous year, when 585 million cases of still waters were sold. Other strong categories included sport drinks and teas.

4.2 Primary Competitors

No other business in Austin focuses exclusively on the functional still water market. This will provide considerable flexibility in pricing and allow for the creation of a great deal of customer awareness and brand loyalty, erecting significant barriers to entry for potential competitors.

While no retail businesses devoted exclusively to functional water beverages exist in Austin, functional water beverages are sold at Whole Foods, Whole Earth Provision, Randall's Markets, and other grocery retailers.

4.3 Market Size

Austin is the capital of Texas, located near the center of the state approximately 70 miles north of San Antonio and 200 miles south of Dallas. The city has a population of roughly 500,000 and is the hub of a metropolitan area of more than 1 million people. It is home to the nation's largest university, as well as many offices related to the state government and also a booming business community, including the headquarters of Dell Computer Corp. and Whole Foods Market, the nation's largest retailer of natural foods.

4.4 Market Growth

HydroHut is an ideal business for Austin given the market including size and demographics. Based on average individual transactions of approximately \$2.25, including functional still water drinks and ancillary products, the business has the potential to gross over \$220,000 in sales by its third year of operation. Three additional locations are planned by the end of HydroHut's fifth year of operations.

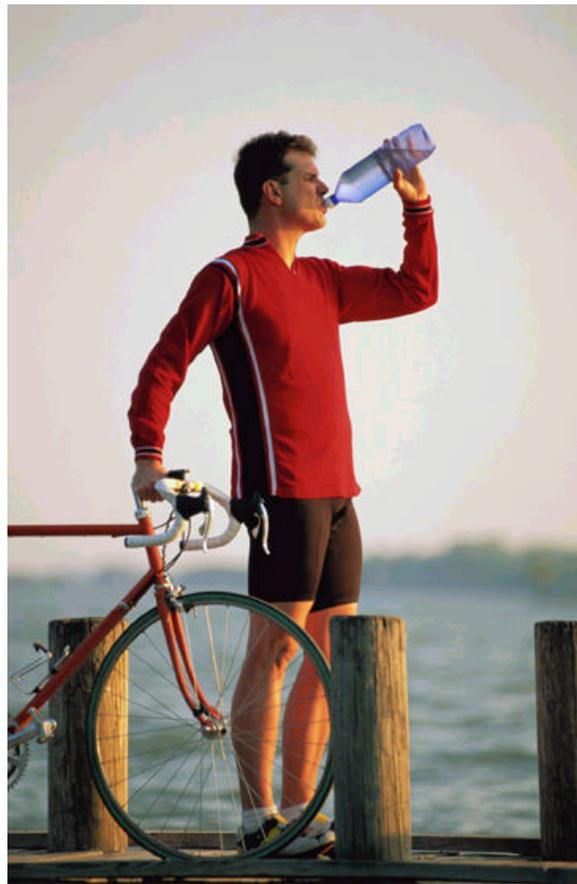
4.5 Customer Profile

Austin has one of the highest percentages of adults possessing a college degree of any American city, and is generally regarded as a center of progressive lifestyles in the Southwest. The city has one of the country's highest per-capita rates of consumption of natural foods and beverages. The facility will be located near desirable residential areas, the state capital complex, and the University of Texas main campus.

5. Marketing Plan

HydroHut's overall marketing strategy will be to educate consumers about the benefits of still water and functional water beverages, and to promote the availability through HydroHut. Customers will be reached through fliers, newspaper advertisements, publicity efforts, and special event promotions.

HydroHut will target health-conscious, progressive, and generally well-educated and affluent customers who are interested in trying new products and experiences and are dissatisfied with the limited selection and lack of personal service found in grocery store-type water retailers.



5.1 Competitive Advantage

No other business in Austin focuses exclusively on the functional still water market. This will provide considerable flexibility in pricing and allow for the creation of a great deal of customer awareness and brand loyalty, erecting significant barriers to entry for potential competitors. HydroHut will be located in a high-traffic area of Austin, in the middle of its target market.

5.2 Pricing

Research in San Francisco, California, indicated that six functional still water beverage retail

locations existed. The oldest has been in operation for slightly more than two years. These businesses were thriving, selling functional still water drinks units at prices ranging from \$1.25 for small counter-prepared beverages to be consumed on the premises, to \$24.00 for larger bottles to be installed off-premises in water coolers.

HydroHut's still water fountain drinks will be offered at the following prices:

Small: \$1.00

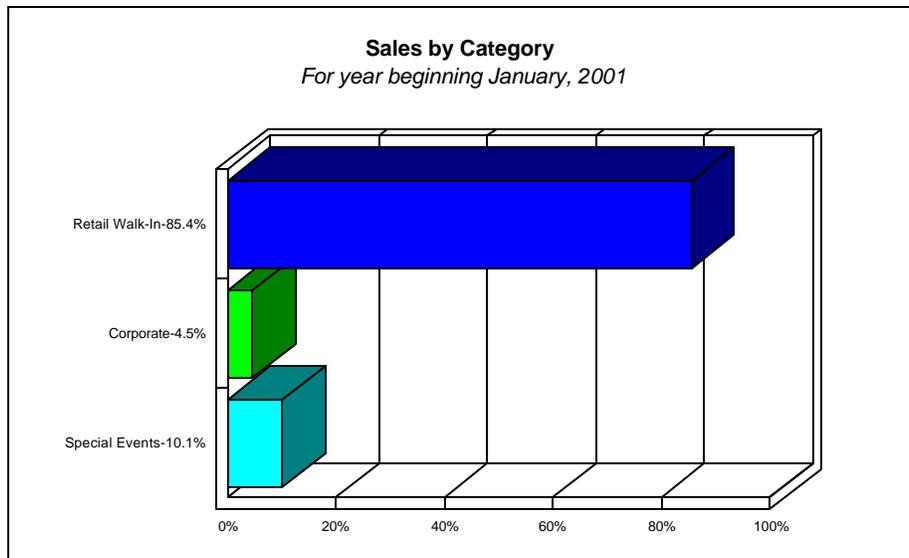
Medium: \$1.50

Large: \$2.50

In addition, larger sizes of water will be sold for customer carryout or delivery. They will range from 1-liter bottles to 20-liter plastic jugs at prices ranging from \$2.50 to \$25.00.

5.3 Distribution Channels

Primary distribution of functional still water drinks will be through the retail facility, centrally located within HydroHut's target market area. Secondary distribution will consist of deliveries of bottled water beverages to restaurants, retailers, and corporate locations. The partners' previous presence in the Austin hospitality industry will contribute to HydroHut's success in this market. Additional distribution will be accomplished through temporary booths set up at athletic and cultural events, such as bicycle races and concerts.



5.4 Promotional Plan

HydroHut will promote functional still water drinks to customers via:

Newspaper Advertisements:

Regular newspaper advertisements focusing on education and information about the benefits of

functional still water beverages.

Public Relations:

A publicity campaign that will attempt to gain company owners' appearances as experts on functional still water beverages on health-related TV and radio broadcasts, and as expert sources for print publications.

Flyers:

Distributing educational and promotional fliers to residences within a one-mile radius.

Discounts:

Discounts offered to appropriate groups, such as health food cooperatives, organic gardening clubs, and cultural associations.

5.5 Feedback

When possible, HydroHut's management will conduct informal interviews with its customers. Questions regarding relative enjoyment of the products, acceptance of the product's prices, and overall satisfaction with the HydroHut experience will be asked. For corporate events, formal mail surveys will be sent to company coordinators, in order to receive feedback on how HydroHut's products were received. In addition, analysis of the effects of any marketing or promotional campaigns on immediate revenues will be performed on a case-by-case basis.

6. Operating Plan

HydroHut will be centrally located in Austin, Texas. The retail business will have a bar and seating area, as well as a drive-through window for convenience. Equipment needed will be minimal, as most of the store's products are pre-packaged. The following sections elaborate on HydroHut's operations.

6.1 Location

HydroHut will be located near the intersection of Loop 1 and Enfield Road in Austin, Texas, an attractive retail location near desirable residential areas, the state Capitol complex, and the University of Texas main campus.

A second location is planned to be added in the third year of operation at a suitable site to be determined.

6.2 Facility

An existing 900 square foot facility with seating and a drive-up window will be leased. Improvements will include additions to the seating area, a water bar, and landscaping.

Equipment purchased will be minimal, as the product line will be purchased from outside vendors. Baked goods will be pre-packaged and supplied from local producers.

6.3 Operating Equipment

Operating equipment needed by HydroHut primarily consists of standard restaurant fixtures. The only specialized equipment relates to the water bar, and amounts to less than \$5,000 of the total capital expenditures. No future equipment is anticipated to be needed until the proposed second location is opened. HydroHut's equipment list can be found in the appendix.

6.4 Suppliers and Vendors

HydroHut's possible suppliers include Aqua Health, Water for Life, H2Ah!, Nutri-Water, Hydration Technologies, Guava Cool, Soft Beverages, and Millennium Moisture. These vendors supply a variety of beverages with features such as nutraceutical content, bacteria-free processing, and a number of natural, organic flavorings, including berries, fruits, and spices.

These suppliers are, for the most part, located in the continental United States. While they are not currently available for wholesale distribution in Austin, which partially explains the lack of local retail distribution, all operate existing distribution systems with representatives in other Texas cities, including Houston, San Antonio, and Dallas. No problems in obtaining adequate supplies of important products are anticipated.

6.5 Personnel Plan

HydroHut partners, Allis Walter and Matthew Strang, will perform the majority of the duties required to operate the initial store. One part-time employee will be hired to assist with the business.

6.6 General Operations

HydroHut will be open seven days a week, with the following hours of operation:

Monday - Friday, 10am - 10pm

Saturday, 10am - 7pm

Sunday, 12 noon - 7pm

The current location is compliant with all local codes regarding accessibility for the disabled, environmental laws, and occupational safety regulations.

7. Management, Organization and Ownership

The HydroHut partners are well experienced in the restaurant and bar hospitality industry. The partners are experienced with both customer contact tasks as well as management/operations duties. The following sections discuss the principals of HydroHut and those that they will consult with.

7.1 Management/Principals

Allis Walter has five years of experience in the retail restaurant industry. He has served as Manager of the Lava Coffee Beanery and Assistant Manager of the Travis Bagel Shop. He is a 1994 graduate of the University of Texas at Austin business school.

Matthew Strang has seven years of experience in the hospitality industry. He has served as Assistant General Manager of the Hill Country Bed & Breakfast in Fredericksburg, Texas, and Manager of Bee Cave Bar & Grill.

7.2 Organizational Structure

The business will be structured as an equal partnership, with Mr. Walter bearing the title of president and Mr. Strang operating as chief executive officer. Due to the relatively small size of the initial location, the two partners will divide the day-to-day operations of the business between themselves. One part-time employee will be hired to assist operations as needed.

7.3 Professional Consultants

Due to the size of the store and the industry experience of the partners, the need to hire outside consultants should be minimal. Professional services, primarily accounting in nature, are projected to average less than \$1,500 per year.

8. Goals and Strategies

HydroHut will be the first of its kind in Austin, a major metropolitan area of more than 1 million people. The store's high quality products, marketed to Austin's health-conscious population, are expected to lead the partners to financial success.

8.1 Business Goals

HydroHut's business goals are as follows:

- To repay initial bank loans during the first year of operation.
- To open a second retail location in the third year of operation.
- To produce net income levels of over \$30,000, \$45,000, and \$65,000 for years one, two, and three, respectively.

8.2 Keys to Success

HydroHut's success will come from educating customers about the appeal and benefits of functional still water beverages, and from providing a quality service and products not available in grocery stores. Austin has one of the highest percentages of adults possessing a college degree of any American city, and is generally regarded as a center of progressive lifestyles in the Southwest.

No other business in Austin focuses exclusively on the functional still water market. This will provide considerable flexibility in pricing and allow for the creation of a great deal of customer awareness and brand loyalty.

Customers will be reached through fliers, newspaper advertisements, publicity efforts, and special event promotions. Location will also play a crucial role in marketing and promotion. The business will be located near a high-traffic retail area in central Austin, also close to the University of Texas main campus.

8.3 Future Plans

Assuming the HydroHut concept proves successful, the owners will explore possible franchising opportunities for other cities.

HydroHut's future plans include:

- To expand to three additional retail locations by the end of year five.
- To explore additional expansion through the creation of more company-owned or, possibly, franchised outlets after year five.

9. Financial Assumptions

This section of the business plan summarizes the financial assumptions used in creating the projected financial statements (included in the Appendix).

Follows is a summary of the assumptions used to forecast the next three years of HydroHut's planned operation, including Beginning Balance Sheet, Profit & Loss, Balance Sheet, and Cash Flow data.

9.1 Beginning Balance Sheet

Beginning Balance Sheet	
<i>For year beginning January, 2001</i>	
Assets:	
Current assets:	
Cash	1,000
Inventory	2,278
Total current assets	3,278
Property, plant and equipment (net)	5,000
Other assets (net)	8,250
Total assets	16,528
Liabilities:	
Current liabilities:	
Accounts payable (inventory)	2,278
Line of credit	4,250
Total current liabilities	6,528
Total liabilities	6,528
Equity:	
Contributed cash	10,000
Total equity	10,000
Total liabilities and equity	16,528
Debt-to-equity ratio	0.65

Cash - A minimum target balance of \$1,000 has been set for the cash account. The partners will be infusing \$10,000 into the business, and the \$15,000 line of credit will be available.

Inventory - HydroHut plans on having 30 days' worth of inventory on-hand, due to the perishability of its products. Beginning inventory is calculated by looking at the total cost of sales for month 1, which is \$2,278, and making sure the business has this inventory level prior to opening.

Property, Plant and Equipment (net) - This is the \$5,000 of equipment HydroHut needs to buy to open its store. A detailed equipment list can be found in the appendix.

Other Assets (net) - This account includes mostly intangible assets that can be amortized for accounting/tax purposes. These assets include leasehold improvements of \$5,000, legal and consulting fees of \$1,000, permit and licenses totaling \$750, and miscellaneous start-up expenses of \$1,500.

Accounts Payable - HydroHut will have Net 30 terms with its suppliers regarding inventory.

Line of Credit - Assumes a \$15,000 line-of-credit loan is available, and \$4,250 will be needed to fund initial start-up costs. The projected interest rate of this line of credit is 12 percent.

Contributed Cash - This is the \$10,000 investment by the owners.

9.2 Profit and Loss

Profit & Loss Statement			
<i>For year beginning January, 2001</i>			
	Year 1	Year 2	Year 3
Sales	109,600	132,000	222,400
Less cost of sales:			
Material	27,305	32,590	55,007
Total cost of sales	27,305	32,590	55,007
Gross profit	82,295	99,410	167,393
Operating expenses:			
Salaries & Wages	7,500	8,250	25,500
Professional Services	1,500	1,100	1,300
Rent	19,596	19,596	39,204
Maintenance	900	900	1,500
Equipment Rental	1,200	1,800	2,400
Insurance	1,920	2,160	4,200
Utilities	2,160	2,160	3,900
Office Supplies	900	900	900
Postage	780	900	1,200
Marketing/Advertising	10,200	11,400	13,200
Travel	1,150	1,600	2,750
Entertainment	325	600	900
Amortization	1,650	1,650	3,025
Depreciation	1,000	1,000	1,833
Total operating expenses	50,781	54,016	101,812
Operating income	31,514	45,394	65,581
Interest expense	180	0	0
Net income	31,334	45,394	65,581

Sales - Assumptions are based on anticipated sales for one HydroHut location, until March of the third year, when a second location is scheduled to open. Below is a breakdown summary of forecasted sales:

Sales Forecast			
<i>For year beginning January, 2001</i>			
Sales Category	Year 1	Year 2	Year 3
Retail Walk-In	100,100	107,000	189,100
Corporate	0	8,000	13,000
Special Events	9,500	17,000	20,300
Total Sales	109,600	132,000	222,400

Cost of Sales - Calculated based on industry average information. Specifically, retail walk-in sales have a 25% cost of sales, corporate sales have a 22% cost of sales, and special event sales have a 24% cost of sales.

Salaries & Wages - Based on one planned part-time employee in years 1 & 2, with two additional part-time employees in year 3.

Marketing/Advertising - HydroHut will promote functional still water drinks to customers via newspaper advertisements, public relations activities, flyers, and group discounts.

Rent, Maintenance, Insurance, Utilities, and Travel - Reflects the higher expenses that will result from the second location opening in March of year 3.

9.3 Balance Sheet

Balance Sheet			
<i>For year beginning January, 2001</i>			
	Year 1	Year 2	Year 3
Assets:			
Current assets:			
Cash	6,734	30,778	63,967
Inventory	2,730	3,065	5,785
Total current assets	9,464	33,843	69,752
PPE (net)	4,000	3,000	6,167
Other assets (net)	6,600	4,950	10,175
Total assets	20,064	41,793	86,094
Liabilities and equity:			
Current liabilities:			
Accounts payable	2,730	3,065	5,785
Line of credit	0	0	0
Total current liabilities	2,730	3,065	5,785
Total liabilities	2,730	3,065	5,785
Equity	17,334	38,728	80,309
Total liabilities and equity	20,064	41,793	86,094

Cash - A minimum target balance of \$1,000 has been set for the cash account. The partners will be infusing \$10,000 into the business, and the \$15,000 line of credit will be available.

Inventory - HydroHut plans on having 30 days' worth of inventory on-hand, due to the perishability of its products. Beginning inventory is calculated by looking at the total cost of sales for month 1, which is \$2,278, and making sure the business has this inventory level prior to opening.

Property, Plant and Equipment (net) - This is the \$5,000 of equipment HydroHut needs to buy to open its store. A detailed equipment list can be found in the appendix.

Other Assets (net) - This account includes mostly intangible assets that can be amortized for accounting/tax purposes. These assets include leasehold improvements of \$5,000, legal and consulting fees of \$1,000, permit and licenses totaling \$750, and miscellaneous start-up expenses of \$1,500.

Accounts Payable - HydroHut will have Net 30 terms with its suppliers regarding inventory.

Line of Credit - Assumes a \$15,000 line-of-credit loan is available, and \$4,250 will be needed to fund initial start-up costs. The projected interest rate of this line of credit is 12 percent.

Contributed Cash - This is the \$10,000 investment by the owners.

9.4 Cash Plan

Cash Plan			
<i>For year beginning January, 2001</i>			
	Year 1	Year 2	Year 3
Cash receipts	109,600	132,000	222,400
Operating cash expenses:			
Inventory purchases	27,305	32,590	55,007
Other expenses	48,131	51,366	96,954
Total operating cash exp.	75,436	83,956	151,961
Cash from operations	34,164	48,044	70,439
Capital expenditures	0	0	(13,250)
Debt activities:			
Interest payments	(180)	0	0
Total debt activities	(180)	0	0
Net cash after capital expenditures and debt	33,984	48,044	57,189
Distributions	(24,000)	(24,000)	(24,000)
Change in cash	9,984	24,044	33,189
Beginning cash	1,000	6,734	30,778
Cash before borrowing	10,984	30,778	63,967
Line of credit activity	(4,250)	0	0
Ending cash	6,734	30,778	63,967

Cash Receipts - Assumes sales to all customer categories will be on a cash basis. Corporate and Special Events are assumed to be collected upon completion of respective jobs, due to the limited size of HydroHut's services; however, they are still treated as cash sales.

Inventory Purchases - HydroHut plans on buying enough inventory for 30 days' sales. Based on HydroHut research, the company assumes it will be able to secure payment terms of Net 30 with its suppliers.

Other Expenses - Below is a summary of HydroHut's other expenses:

Expense Budget			
<i>For year beginning January, 2001</i>			
Expense Category	Year 1	Year 2	Year 3
Salaries & Wages	7,500	8,250	25,500
Professional Services	1,500	1,100	1,300
Rent	19,596	19,596	39,204
Maintenance	900	900	1,500
Equipment Rental	1,200	1,800	2,400
Insurance	1,920	2,160	4,200
Utilities	2,160	2,160	3,900
Office Supplies	900	900	900
Postage	780	900	1,200
Marketing/Advertising	10,200	11,400	13,200
Travel	1,150	1,600	2,750
Entertainment	325	600	900
Total Expenses	48,131	51,366	96,954

Distributions - Assumes a \$1,000 distribution to each partner on a monthly basis for the first 3 years. Should profitability performance meet expectations, the partners may increase their monthly distribution slightly in years 2 & 3.

10. Appendix

This section contains the following information and supporting documentation:

- Beginning Balance Sheet
- Profit & Loss - Years 1, 2, & 3
- Balance Sheet - Years 1, 2, & 3
- Cash Plan - Years 1, 2, & 3
- Ratio Analysis - Years 1, 2, & 3
- Personal Financial Statement
- Equipment List