

Business Plan for 1999
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Mission Statement

Honest Tea seeks to provide bottled tea that tastes like tea- a world of flavor freshly brewed and barely sweetened. We seek to provide better-tasting, healthier teas the way nature and their cultures of origin intended them to be. We strive for relationships with our customers, employees, suppliers and stakeholders which are as healthy and honest as the tea we brew.

Executive Summary

Honest Tea, a bottled iced tea company, has completed a strong summer of sales in the mid-Atlantic region and is now raising capital to fund the brand's expansion across the United States as well as overseas. Since the all-natural tea first hit the mid-Atlantic market in June of 1998, Honest Tea has developed a loyal following of customers who have made the product the best-selling tea in its largest account, Fresh Fields/Whole Food Markets, significantly outselling Snapple and the Whole Foods 365 brand. In addition to success in retail channels, Honest Tea has also been warmly received in food service channels.

Unlike the sweetened tea drinks made from concentrate or powder which currently dominate the \$2 billion bottled tea market, Honest Tea is brewed with loose leaf tea and then barely sweetened with pure cane sugar or honey. The product is poised to take advantage of the rapid growth in the bottled tea, bottled water, and natural food markets, as well as the developing "tea culture" in the United States. It also has potential to tap into the large market of health-conscious diet soda drinkers. The target audience is an emerging subset of the population, which seeks out authentic products and is attuned to global and environmental issues.

Toward the end of the summer and through the fall the company continued to penetrate large supermarket chains and is in the process of finalizing a national network of brokers and distributors for 1999. In September 1998 the company hired two sales managers, each of whom brings more than 15 years of experience and contacts to the business.

Although there was an often painful and occasionally costly product development phase, the company has now perfected the brewing and production process to the point where it can produce several thousand cases in one shift with the desired consistency. In early 1999 the company will add a West Coast site to its current East Coast production site. In addition, the company will be implementing steps to consolidate its packaging operation which will widen the per case profit margin.

The company has demonstrated an ability to gain free media coverage, including stories in the *Washington Post*, the *Wall Street Journal*, and *Fitness Magazine*. It has also cultivated a loyal customer base among some of the country's most influential celebrities which it intends to publicize at the appropriate time. It has just entered into a contract with a well-recognized public relations firm, which has demonstrated its success with several early-stage companies. Finally, the company has finalized a partnership with a Native American tribe that will position Honest Tea to emerge as a leader in the socially responsible business movement.

Honest Tea is looking to raise up to \$1.2 million in equity capital to finance the national distribution of the product as well as the introduction of two new flavors and international sales.

Company Story

Honest Tea is a company brewed in the classic entrepreneurial tradition. After a parching run through Central Park in 1997, Seth Goldman teamed up with his Yale School of Management professor, Barry Nalebuff, to reignite their three-year old conversation on the beverage industry. While at Yale Goldman and Nalebuff had converged on the opportunity in the beverage market between the supersweet drinks and the flavorless waters. The energy they share around the idea of a less-sweet beverage leads to several marathon tea-brewing sessions. Their conversation is fueled in part by their extensive travels through tea-drinking cultures such as India, China and Russia. As ideas and investors for the company gather critical mass, Seth takes the dive. He leaves his marketing and sales post at Calvert Group, the nation's largest family of socially and environmentally responsible mutual funds, and launches Honest Tea out of the guest room in his house. Using five large thermoses and label mock-ups, he sells the product to the eighteen Fresh Fields stores of the Whole Foods Market chain. Once the tea has been manufactured, the company moves into a small office and distributes tea out of U-Hauls until other distributors start carrying the product. By the end of the summer, Honest Tea has become the best-selling tea throughout the Fresh Fields chain and has been accepted by several national supermarket chains and distributors.

The Product

The Taste: Bottled tea that tastes like tea, freshly brewed and barely sweetened

Somewhere between the pumped-up, sugar-saturated drinks and the tasteless waters, there is a need for a healthier beverage which provides genuine natural taste without the artificially concocted sweeteners and preservatives designed to compensate for lack of taste.

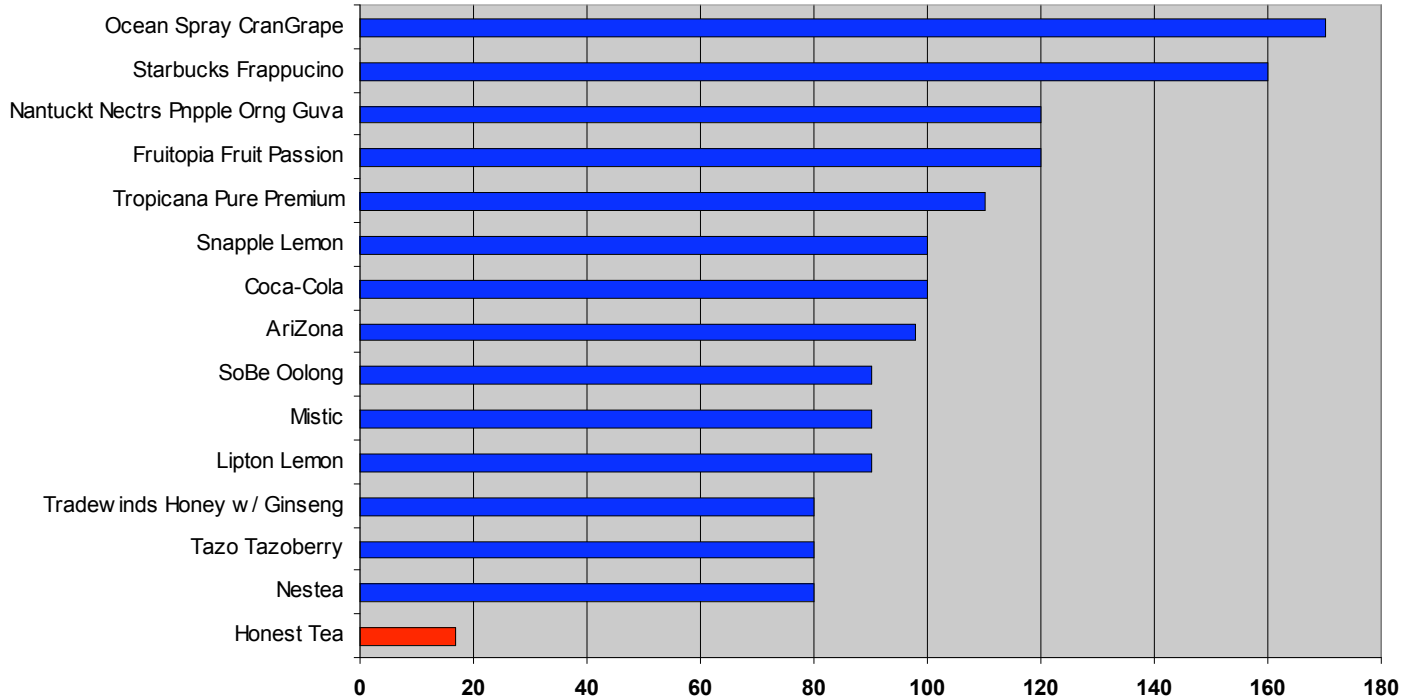
Honest Tea allows people to enjoy the world's second most popular drink the way hundreds of civilizations and nature intended it to be. Tea that tastes like tea -- A world of flavor freshly brewed and barely sweetened. The concept of Honest Tea is as direct and clear as the tea we brew – we start with select tea leaves from around the world, then we brew the tea in spring water and add a hint of honey or pure cane sugar. Finally, we filter the tea to produce a pure genuine taste that doesn't need a disguise.

Unlike most of the bottled teas in the marketplace, Honest Tea is not made with bricks of tea dust, tea concentrate, or other artificial sweeteners or acids. The tea has no bitter aftertaste or sugar kick, and does not leave a syrupy film on the drinker's teeth. To make a comparison with wine, today's leading iced teas are like jug wine and Honest Tea is like Robert Mondavi Opus One. But unlike fine wine, premium bottled tea is quite affordable, usually priced under \$1.50 for 16 ounces.

Although taste is the primary benefit of drinking Honest Tea, the product has three other benefits which enhance its acceptance and marketability:

Low in calories: A 12-ounce serving of Honest Tea has 17 calories, dramatically less than other bottled teas or comparable beverages. We have found that the low-calorie profile of Honest Tea makes the drink attractive to three key audiences – 1) Disenchanted

Calories per 8-ounce serving



bottled tea drinkers who think the drinks are too sweet, 2) Bottled water drinkers who long for taste and variety and 3) diet soda drinkers who are interested a low-calorie beverage that doesn't contain artificial sweeteners such as Nutrasweet. The following table illustrates the difference between Honest Tea and the rest of the beverage market:

There are three other players in the less-sweetened bottled tea market that can be considered among the competition for Honest Tea: TeJava, Malibu Teaz and The Republic of Tea. All three brands are currently based and primarily focused on the West Coast. We are heartened by their existence because it confirms our belief that there are untapped opportunities in the beverage market, particularly on the East Coast, where none of the new entrants has any significant presence. TeJava, which is enjoying a warm reception in California, is a mild-tasting, zero-calorie unsweetened tea produced by Crystal Geysler that comes in only one flavor. We believe this product, which has been described by a beverage consultant as “water with a tea aftertaste,” would be more flavorful if it were barely sweetened. While TeJava clearly competes with our product, we believe there is room for more than one product in the low-calorie tea marketplace. We also believe that Honest Tea has an edge over TeJava because our drinks are more flavorful and come in a wider variety of flavors.

Malibu Teaz is a company focused on lightly sweetened herbal tea, 35 calories for an 8 ounce serving. The products seem to have limited distribution and the label, which features a topless mermaid, seems designed to cater to a different clientele than Honest Tea.

The Republic of Tea is a well-established producer of loose leaf teas which has recently begun selling unsweetened bottled tea exclusively through its catalogue and premium restaurants. The cost of a four-pack in the catalogue is \$15.00, or \$3.75 for a 17 ounce bottle. We believe that this price is not viable in retail channels and have spoken with several disillusioned distributors whose experience confirms that assumption. Even if the Republic of Tea changed its sales strategy, we still see room for more than one player in the low-calorie tea market. We also think the modest amount of natural sweetener in Honest Tea helps create a superior flavor.

One other brand that can be considered competition is Tazo, which presents itself as “The reincarnation of Tea.” While Tazo is enjoying some success in natural foods channels, we feel that Honest Tea is different from Tazo in three important ways: first Honest Tea is genuine tea whereas Tazo is usually tea mixed with juice or other sweeteners, (usually 80 calories for an 8-ounce serving). Secondly, Tazo’s packaging, with its mysterious symbols and discussion of “the mumbled chantings of a certified tea shaman” is designed to reach a New Age audience. In contrast, the colorful art on the Honest Tea labels are accessible to a wider audience, offering a more genuine tea experience. Finally, Tazo’s price point is significantly higher than Honest Tea in supermarket channels, selling for \$1.69 versus Honest Tea’s price of \$1.19. Where the two brands have competed head-to-head, Honest Tea has significantly outsold, and in many cases, eliminated Tazo from the shelf. Our response to Tazo’s “reincarnation of tea” is that tea doesn’t need to be reincarnated if it is made right the first time.

Health benefits of brewed tea: The curative properties of tea have been known for thousands of years. Because Honest Tea is brewed from genuine tea leaves it imparts many health benefits not found in tea-flavored drinks. In addition to serving as a digestive aid, tea has powerful antioxidants, which impair the development of free radicals which contribute to cancer and heart disease. The antioxidants in green tea are believed to be at least 100 times more effective than Vitamin C and twenty-five times better than Vitamin E at protecting cells and DNA from damage believed to be linked to cancer, heart disease and other potentially life-threatening illnesses.

Cultural experience of tea: Each Honest Tea flavor is brewed based on a recipe perfected over generations in a specific region of the world. As a result, drinking Honest Tea becomes a cultural experience, from the genuine tastes to the distinctive international art and information on the label. While some bottled teas seek to cloak themselves in a cosmopolitan mantle by including exotic-looking drawings on the label, the front of each Honest Tea label features authentic art from the culture of origin.

Flagship line of flavors – Our flagship line of teas come from four different continents:

Kashmiri Chai – The people of Kashmir have mixed spices into their chai for generations. Our recipe is made with spring water, premium tea leaves, crushed cardamom, cinnamon, orange peel, cloves, pepper, ginger, malic acid and a touch of sucanat evaporated sugar cane juice. Approximately one third the caffeine of coffee.

Black Forest Berry -- Our Black Forest Berry tea is a fruit infusion made with spring water, hibiscus, currants, strawberries, raspberries, brambleberries, elderberries, and a touch of unrefined organic cane sugar. Caffeine-free.

Moroccan Mint -- Our Moroccan Mint is a tightly rolled green tea from China blended with a generous amount of peppermint, brewed in spring water with citric acid and a touch of white clover honey. Approximately one fourth the caffeine of coffee.

Gold Rush -- Our Gold Rush tea is an herbal infusion made with spring water, rooibush, rosehips, chamomile, cinnamon, peppermint, ginger, orange peel, malic acid, and a touch of raw cane sugar, and a natural flavors. Caffeine-free.

Assam – These golden-tipped flowery leaves from the Sonarie Estate gain their distinctive taste from being picked as tender leaf buds at the height of the season. Brewed in spring water with Vitamin C, malic acid, unrefined organic cane sugar, and a hint of maple syrup. Approximately one half the caffeine of coffee.

In early 1999 we will be introducing two new teas:

Decaf Ceylon -- In response to feedback from more than 500 sampling events where we continually heard requests for a decaffeinated black tea, we will be introducing a Decaf Ceylon with lemon grass. The label for this tea features original art which captures the cultural and relaxing attributes of the tea.

First Nation's Peppermint – After months of negotiation and a consultation with the tribal elders, we have developed an organic herbal tea in conjunction with a woman-owned company based on the Crow Reservation in Montana. This tea is exciting not only for its flavor but also for the partnership we have developed with the tribe. In addition to licensing the flavor and artwork from the tribe, we are also buying the tea from our partner on the reservation with the understanding that over time the community will develop the capacity to grow all the ingredients on the reservation. This unprecedented relationship should prove to be a valuable public relations tool.

Production and Manufacturing

Though we had our share of “learning experiences” along the way, we have developed several proprietary brewing tools and techniques which enable us to manufacture several thousand cases of tea a day on both coasts with the desired consistency. In addition, since we have a full-time brewmaster on staff, the company retains the knowledge of manufacturing the product, instead of relying on a co-packer for that information.

The tea is brewed at a brewing and bottling facility located within driving range of the target market. The site was selected based on numerous criteria including capacity, reputation, quality control, production efficiency and willingness to invest in a long-term partnership with Honest Tea. All partners involved in the production process meet United States Department of Agriculture Hazard Analysis Critical Control Plant (HACCP) standards. We are in the process of obtaining Kosher certification from the Orthodox Union (“Circle U”).

In early 1999 we will be making a change in our manufacturing process that will not affect the quality of the product but will have important ramifications for our profitability. Instead of a two-step packaging process, we will consolidate the brewing and labeling under one roof. This consolidation will save Honest Tea more than two dollars a case.

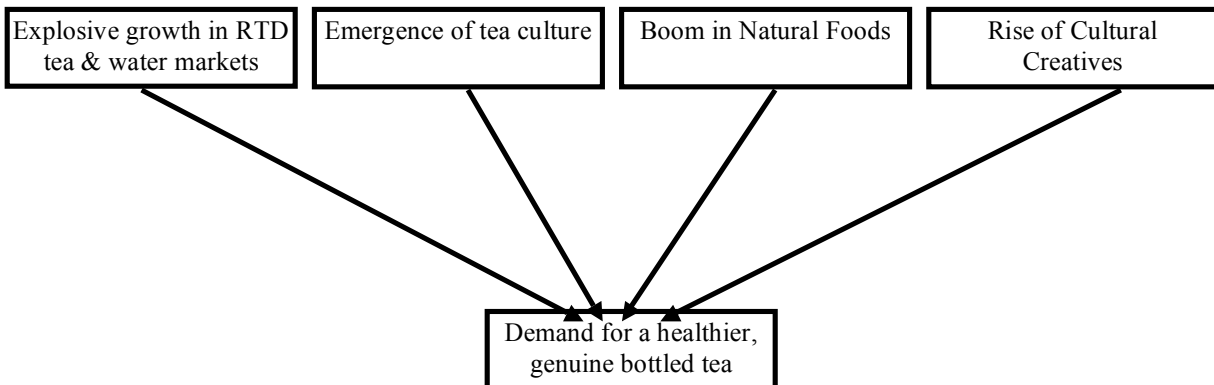
Our tea leaves are provided by internationally known companies that specialize in tea buying, blending and importation. Our primary source is Hälssen & Lyon of Germany, the largest specialty tea company in the world. Another, Assam Tea Traders, has direct ties to tea estates in the Assam District of Northern India. The other ingredients are commodities which are in plentiful supply.

As the Company grows in size, we anticipate dealing more directly with the tea growers. We intend to visit the tea estates so that we can verify that the labor conditions of the tea workers meet international standards and International Labor Organization conventions. We also aspire to ensure that the tea is grown organically.

Market Opportunity

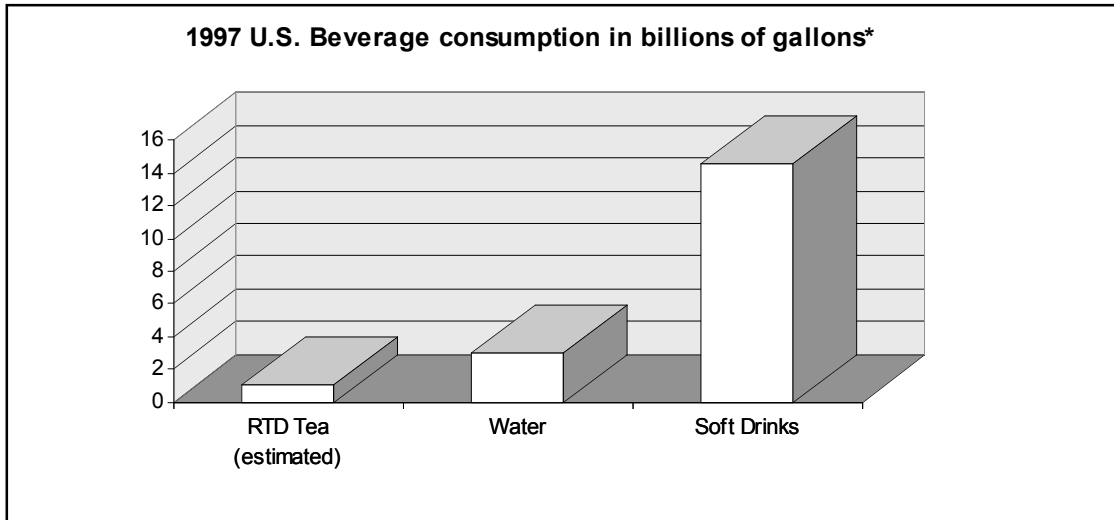
Beyond Snapple – The Emerging Market for Quality Bottled Tea

We have identified four market trends that are fueling demand for Honest Tea within the \$72 billion non-alcoholic liquid refreshment beverage market.



1. Explosive growth in Ready-to-Drink (RTD) tea and bottled water markets --
Although carbonated soft drinks still dominate the beverage market, in the past ten years

Ready-To-Drink teas and bottled water have emerged as alternatives. Since 1992 the US tea market has enjoyed 60% annual growth, reaching sales of \$2 billion in 1996. The bottled water market has grown to \$2.4 billion, with most of the growth fueled by sales of single-serving bottles.



*Water and Soft drink figures come from Beverage Marketing, Inc. The RTD Tea figure is based on 1997 sales estimate of \$2.5 billion, which equates to roughly one billion gallons.

2. Beyond the tea bag – The emergence of tea culture – Snapple and similar brands helped make tea accessible to a broader population. But now in the same way that gourmet coffees have become popular, consumers are beginning to develop an appreciation for finer teas. Over the last six years U.S. loose leaf tea sales have more than doubled, from \$1.8 billion in 1990 to \$4.2 billion in 1996¹. According to the Tea Council, there are over a thousand tea houses or tea parlors in the country, mostly opened within the last two or three years. These parlors focus almost exclusively on tea, products that go with tea as well as tea hardware. They carry names such as Teatism, TeaLuxe, Elixir Tonics and Teas, and Tea & Company. Even Lipton is opening a flagship tea bar in Pasadena, California. In addition to the burgeoning of tea cafes, tea culture is spreading in the form of tea magazines, tea-flavored ice cream, frozen tea ice bars, tea-scented perfume and bubble bath, tea jelly, tea calendars and even books about tea. The paperback *Loving Tea* was recently spotted as a “cash register book” at the bookstore, commanding prime space next to *Dilbert* and *Chicken Soup for the Soul*.

3. The natural foods boom – The natural product category has also exploded in the past 6 years. Fueled by an increase in health consciousness and rising environmental awareness, demand has grown for foods and products which are best when eaten or used as close to their original state in nature. According to Natural Foods Merchandiser, the natural products industry has nearly tripled in size since 1990 from \$4.2 billion to \$11.5 billion in 1996. And the boom is expected to continue well into the next decade. Analysts, such as Mark Hanratty of Paine Webber, are forecasting 15-20 percent annual growth over the next three to five years, reaching \$50 billion by 2003.

¹ Investor’s Business Daily, “Tea: Are you Prepared to Join the Party?”, January 30, 1998, p1.

4. Rise of Cultural Creatives – Market research in the past three years has identified a consumer mindset which would seem to be particularly receptive to Honest Tea. A 1996 study by the market research firm American LIVES identified a subset of the population, roughly 44 million Americans, which they labeled “Cultural Creatives”². Among the key characteristics and values identified for this group, the following seem to make them ideal customers for Honest Tea:

- Experiential consumers – they want to know where a product came from, how it was made, and who made it
- Holistic – they view nature as sacred; they form the core market for alternative health care and natural foods
- Aggressive consumers of cultural products, love of things foreign and exotic
- Desire for authenticity – favoring high integrity over high fashion
- Disdainful of mainstream media and consumerist culture which, in their view, is too superficial, not enough attention to the full story
- Attuned to global issues and whole systems, have a sense of belonging to a global village

Profile of Target Customer – When we combine these four trends and compare them with the demographics of the Cultural Creatives study as well as other market demographic information³, we are able to develop a profile of our target customers:

- 60% women, 40% men
- Median age 42, with a range from 30-65
- Likely to live near a concentrated urban area
- Likely to have graduated college or have an advanced degree
- Likely to currently be bottled water or RTD tea drinkers, occasionally drink iced cappuccino
- Interested in running, hiking and outdoor healthy activities
- Average family income \$52,000

Market Research – To test the receptivity of this audience to Honest Tea, we held two focus groups in New York. The sessions, facilitated by an independent market research firm, provided encouraging results and helpful guidance in terms of product line and label presentation. The first focus group consisted of health-conscious women between the ages of 30 and 60, all of whom occasionally drink bottled tea or bottled water. The second

² American Demographics, February 1997, Dr. Paul H. Ray

³ 1997 MRI Spring data, population weighted

group was a mix of men and women who were selected based on their responses to questions which identified them as fitting the Cultural Creatives profile. The sessions began with a discussion of what was missing in the beverage market. Within 5 minutes, unprompted by the moderator, both groups agreed that they wanted something that was not as boring as water but didn't have all the "junk" in commercial bottled tea.

One important lesson from the focus groups was that most consumers have a limited understanding about the differences between tea varieties. The situation may be comparable to the way many consumers thought about wine several decades ago. At first people distinguished wines in terms of red and white wine, then in terms of rose and chablis, then in terms of California wines versus French wines, later by the kind of grape, and today some people select wines based on the estate. The focus groups suggested that the American tea market is still in the red versus white stage. One implication of this finding was that our labels and other communications needed to include some educational information about each tea, including health benefits, history and country of origin.

Market Response -- More important than our pre-market focus group is the market response to Honest Tea, i.e. sales. In the eighteen Fresh Fields/Whole Foods Markets of the mid-Atlantic region Honest Tea has become the best-selling bottled tea, outselling Snapple and the house brand. During the month of August, when Honest Tea was promotionally priced at 99 cents, 22,417 bottles of teas were sold, with several stores averaging more than 100 bottles per day.

Perhaps more important than the numbers from one region are the thousands of responses we have gotten from our customers via unsolicited emails, letters, phone calls, and conversations at hundreds of sampling events. The feedback we have received make it clear that we have created something that was missing in the marketplace. Every week we receive several unsolicited emails and letters from customers. Typical comments include the following (see Exhibit A for more tea-mail):

Subject: BEST TEA EVER!

Dear Honest Tea,

I have never bought a product that I thought was so fantastic that I felt the need to write about it. I love tea, but I always would brew it myself and cart it around because I can't stand the syrupy-sweet "tea" that is sold most places.

I saw your tea at Fresh Fields in Annapolis, MD. At first I was hesitant because I have it in my mind that all bottled iced teas = yucky sweet. But I was intrigued by the flavor choices and yes, the pretty bottles and bought one of each. Well, I went to my car and proceeded to drink all of them right then and there. The first one was so good and so different that I couldn't help myself and had to try the rest. It actually tasted like tea! THEN... when I turned the bottle over and saw how few calories were in it I flipped! There is no reason not to drink this tea! You guys have truly done it, this is quality stuff! So keep it up and get this tea out there! I wish you success and happy brewing!

-Cindy W., Annapolis, MD

RE: Help! I need Honest Tea!

I just returned from a trip to Wash, DC (I live in Pittsburgh) and found that your tea is not available here. I love it and must have more. Can you ship it to me? Price is no object (to some degree).

If you cannot ship it to me please advise me of any support groups or counseling that I may seek in order to recover from this lack of Honest Tea. I must warn you that I may get desperate, causing me to highjack an Honest Tea truck in the Washington area and bring it back to Pittsburgh. I am becoming a heartless, Honest Tea junkie. I hope that you can help.

Thanks, EEOber

Subject: Chai tea was great!

I just came from my local Fresh Fields Market in Reston, VA after trying a bottle of your Kashmiri Chai tea. Fantastic! Imagine my surprise to learn the entire bottle was only 34 calories and 1/3 the caffeine of coffee!

This is great stuff folks - my only complaint is that I can't seem to find anywhere that sells it by the case. I don't mind buying a couple bottles at a time for occasional consumption, but I would appreciate being able to purchase a case to bring to work and a case to keep at home. It would be a great way to replace soda and other sugary, high calorie drinks in my diet. Unfortunately, I cannot spare the time to stop at the store everyday to pick up a couple bottles. Any plans to sell by the case (hopefully at a slight discount)??

Colin C. Reston, VA

Re: Honest Tea!

Your tea is fabulous! I have never written a letter in support of a food product before, but ever since I stumbled across your Honest Tea last week at Fairway, I've been raving about it! At last, someone intelligent enough to realize that not all people like that syrupy junk that is on the market, and that nutri-sweet and artificial sweeteners taste like crap. I've grown so tired of "well, it's what the consumers are demanding." Not. The rest of us have spent the last decade or so brewing tea at home and keeping it in our refrigerators since traditional marketing researchers have been incapable of using their research to produce anything innovative. Bravo, bravo, bravo. Nice labels, too.

Lisa P., New York City

The response from grocery buyers at the corporate level has been equally as exciting.

The new products buyer for Wild Oats/Alfalfa Community Market approved Honest Tea for sale in all of the chains 60+ stores. Here is her comment to the grocery buyers which she sent out on the Product Approval Form (see Exhibit B):

Mark My Words: Honest Tea will be a success. The *only* bottled tea that is not loaded with sugars and tastes great. This is what people (like me) have been seeking for years. Too good to be true? No! I mean it now – BRING THESE IN!

The natural foods buyer for Harris Teeter chose to carry the product in all 140 stores. Her buying committee told her this was the first innovation in the iced tea market they'd seen in about five years. Some even said that Honest Tea represents a new beverage category.

In addition to this feedback, Honest Tea has been presented with several promising opportunities to be plugged into several large supermarket chains. The status of these opportunities is as follows:

Store	# of outlets	Region	Status	Penetration
Albertson's	96	Florida	December decision	
Food Emporium	40	NY/NJ	December decision	
Genuardi's	32	NJ/PA/DE	Approved for all stores	Will go on sale in December '98
Giant	179	C/MD/VA/DE NJ/PA	Approved	On sale in flagship store
Harris Teeter	140	NC/SC/GA/VA /KY/TN	Approved for all stores	On sale in all stores
Shaw's	127	New England	Approved	On sale in test market store
Superfresh	78	NJ/PA	Approved for all stores	On sale in some stores
Ukrop's	40	VA	Approved for all stores	On sale in some stores
Whole Foods	117	Nationwide	Approved for mid-Atlantic and SE	On sale in 20 stores
Wild Oats/ Alfalfa's	60	Nationwide	Approved for all stores	On sale in 12 stores

In addition to success in the supermarket channel, Honest Tea is also being warmly received in food service and retail accounts. We have experienced strong repeat sales in cafeterias such as Bear Stearns, Lazard Freres and have just been approved for sale in the NFL corporate cafeteria. Honest Tea is the best-selling beverage at the Mangia gourmet eatery in Manhattan where it is priced at \$2.50 a bottle. Honest Tea is also sold in well-known restaurants such as Legal Sea Foods. Finally, we have also had strong repeat sales from food outlets on the campuses of Boston University, Harvard University, Yale University and Wellesley College.

As with Snapple and other bottled iced teas, there does seem to be a seasonality affect to the sales of Honest Tea, particularly in the supermarket channel. However, as we expand our distribution to the Southern states and to more upscale cafeterias, we expect to see less of a dip in sales during the winter months.

Marketing & Distribution

Given the above market trends, target customer profile and record of success in the mid-Atlantic natural and specialty foods market, Honest Tea's marketing and distribution strategy for 1999 is as follows:

1. National natural/specialty foods channels, working with brokers and distributors to achieve full distribution throughout the Whole Foods and Wild Oats chains as well as natural foods buyers in mainstream supermarkets.
2. Higher end food service – working with large national food distributors such as Sysco, Aramark and Marriott to penetrate restaurants and institutional eateries.
3. Opportunistic public relations and extensive sampling in health and natural food settings to build the brand name as well as facilitate trial.

National natural/specialty foods channels – We are in the process of finalizing national distribution and brokerage arrangements. We are currently working with Haddon House, the largest retail distributor of gourmet foods on the East Coast. In addition, we have recently contracted with numerous natural food brokers to represent our product for the East Coast, Midwest, West Coast and the South

Higher end food service – We are working food management companies to expand our presence in business and institutional cafeterias. and has been approved for sale in Restaurant Associates and Marriott International. We are currently in discussion with Aramark and Sysco. We are also in conversation with several large restaurant chains and sports arenas.

Promotion

We recognize that because we are not as well-financed or as well-established as much of our competition, whenever we play by their marketing rules, we are at a disadvantage. Therefore, instead of spending a lot of money on advertising, Honest Tea relies instead on opportunistic ways to gain public attention and promote trial of the product.

We have proven our ability to gain positive free media coverage in *The Washington Post*, *The Wall Street Journal*, *Christian Science Monitor* and *Fortune* magazine. (See Exhibit C). In addition to what has already been printed, several articles are in the pipeline, including upcoming articles in magazines such as *Shape*, *Self*, *Fitness*, *Start-Ups*, and *Seventeen*. We are currently finalizing a contract with a highly-regarded public relations firm, which has a proven track record of gaining extensive exposure for early-stage companies. Just as we have paid a portion of our label designer's expenses in the form of equity, we intend to pay a portion of the PR firm's retainer in stock to encourage their investment in our business. We also have developed a web page at www.honesttea.com which has regularly attracts 50 visitors a day and has helped attract several new accounts.

In addition we have been very aggressive with sampling. Because Honest Tea started the summer as an unknown product and is unlike any product currently on the market, we took great pains to introduce as many people to the product as we could. During the month of August we organized demos as often as eight times a month per Fresh Fields/Whole Foods Market (See Exhibits D).

Finally, we have developed a loyal following among several nationally-known celebrities which we hope to use to our advantage this coming Spring. For example, we recently rushed the delivery of ten cases to Oprah Winfrey's studios at her personal request.

Packaging and Pricing

Honest Tea's flagship line of products is sold in 16 ounce glass bottles. All of our labels feature culturally authentic artwork from the tea's country of origin. All of our caps have a distinctive black matte finish which complements the black border on the front of the label. In 1999 our caps will have the "pop-button" seal. Our packaging communicates the attributes of the tea inside in three ways:

- 1) High quality – By using colorful and artistically sophisticated artwork presented with spot labels, (i.e. front and back instead of wraparound) our bottles evoke comparisons with a bottle of fine wine or other gourmet food.
- 2) Culturally authentic – By using artwork directly from the culture where the tea comes from, we are presenting the tea as is, without any "spin" or Westernized interpretation of what an Indian painting might look like.
- 3) Honest – By using the spot labels, there is more space for the consumer to see the tea. Since we use real tea leaves, we have nothing to hide inside.
- 4) Simplicity – The essence of this millenia-old drink of water and leaves is its simplicity. Our packaging has no flashy slogans, advertising call-outs or marketing hype. The package helps condition the consumer for what they are about to experience, an honest taste of tea.

In 1999 we plan to introduce a "Varietea" pack which will contain a selection of flavors, and will help introduce consumers to our product. The Varietea pack will be sold at a modest discount to encourage first-time trial.

The retail price for a 16 ounce Honest Tea varies between \$1.19 and \$2.00, slightly more expensive than Snapple, which usually sells for \$.99. In food service accounts we have seen the price range from \$1.29 to \$2.50.

International Markets

Since tea is the world's second most popular beverage, there is an intrinsic international appeal for Honest Tea's world of flavor freshly brewed and barely sweetened. Although our primary energies are directed toward the US market, we have recently entered into a contract with a firm that has extensive international marketing expertise. They will be showing our product in the UK early next year with the intent to sell the bottled tea in the Spring of 1999.

Product Development and Future Products

In 1999 we will be introducing at least two new flavors in direct response to feedback from our customers. Our Decaf Ceylon will be the only decaffeinated black tea served in a Ready-to-Drink bottle. The decaf tea has a great taste and a captivating label.

In addition to being our first organic tea, our First Nation Peppermint has a smooth taste and a compelling label featuring an intense photo of a Crow warrior. This product should also attract free media coverage for the innovative partnership we have forged with the Crow Nation.

Despite the thousands of tea flavors that exist, we have taken a relatively conservative approach by identifying accessible flavors from different continents. In addition to Decaf Ceylon and First Nation's Peppermint, several more flavors have been identified which will be introduced within the next twelve months. Some are as accessible as the flagship products, others may be more appealing to certain segments of the population. For example, Japanese green tea has a strong taste which can repel untrained Western tastebuds, but we believe this product has commercial viability provided it is strategically marketed and distributed.

In addition to other bottled tea flavors, we are exploring related products such as "Tea"-shirts featuring art from our labels, tea bags sold under the Honest Tea name and other tea-related products such as tea marinade and even "tea bags" for the bathtub.

Management

The management team of Honest Tea has a proven record of entrepreneurial success and innovative business strategy and has recently added two senior sales managers with extensive experience in the specialty foods and beverage industries. They are, in order of seniority:

President & TeaEO -- Seth Goldman launched Honest Tea after leaving the Calvert Group where he was Vice President of Calvert Social Investment Fund, the nation's largest family of mutual funds that invest in socially and environmentally responsible companies. In this role, Seth managed the marketing and sales efforts, including a ground-breaking public awareness campaign that increased website traffic eightfold and doubled sales in the company's flagship equity fund. His other work at Calvert Group includes active involvement in the company's private equity portfolio and managing a corporate child labor initiative for the Calvert Foundation.

His previous work includes directing a nationally-recognized demonstration project for Americorps, the president's national service program, and serving as Senator Lloyd Bentsen's Deputy Press Secretary for two and a half years. Before that he worked for a year in China (1987-1988) and a year and a half in the former Soviet Union (1989-1990), where he developed, among other things, an appreciation for the role tea plays in bringing people together.

Seth graduated from the Yale School of Management in 1995. While at Yale, he and a classmate were winners of the inaugural Connecticut Future Fund New Enterprise Competition for a business plan they developed based on a diagnostic invented at the Yale School of Medicine. Seth is a graduate of Harvard College, where he was elected Class

Marshal and was a member of the Varsity Track team. He serves as Chair of the Yale School of Management Annual Fund and the Montgomery Public Schools Educational Foundation. He is a former board member of Students for Responsible Business.

Seth's experience at Calvert Group has enhanced his contribution to Honest Tea in two important ways. As Calvert's most visible presence within the community of socially responsible businesses, Seth's contacts and connections help give Honest Tea a mark of credibility which is essential for the brand identity the Company is trying to create. In addition, the target customer for Calvert's equity funds is very much in line with the Cultural Creative profile discussed earlier. Seth's record of success in communicating with this audience while at Calvert Group has conveyed well to Honest Tea.

Chairman of the Board – Barry Nalebuff is the Milton Steinbach Professor of Economics and Management at Yale School of Management. He taught at Harvard and Princeton before coming to Yale. He teaches competitive strategy, mergers and acquisition, political marketing, and decision-making and game theory at the management school negotiation at Yale law school, and social choice, political theory, and welfare economics to undergraduates. An expert on Game Theory, he has written extensively on its applications for managers. Barry is co-author of *Thinking Strategically: The Competitive Edge in Business, Politics, and Everyday Life*. His new book on business strategy, *Co-opetition*, co-authored with Adam Brandenburger, was a *Business Week* bestseller. He has applied the use of game theory in consulting to companies in banking, consumer products, healthcare, high-tech manufacturing, insurance, oil, pharmaceuticals software, and telecommunications. A graduate of M.I.T. and a Rhodes Scholar, he earned his doctorate in economics at Oxford University.

Brewmaster – George Scalf joined Honest Tea in March of 1998 to manage the production of the tea. As the founder of numerous natural beverage enterprises including, Blue Range Natural Foods and New Dawn Natural Foods, George brings more than 20 years of expertise and contacts in beverage manufacturing. He also has numerous contacts in the natural foods marketplace.

National Sales Director – Jim Lambert joined Honest Tea in September from Stanley Foods where he was the Vice President of Sales for the DC/ Baltimore area's premier specialty food distributor. Jim is a 15 year veteran of the food industry. His previous positions include Chain Accounts Manager at US Foodservice Baltimore and with Atlantic Foodservices. In his role as National Sales Director, Jim is responsible for overseeing all sales and distribution relationships, with particular focus on food service and mainstream supermarket accounts.

Retail Sales Manager – Melanie Knitzer came to Honest Tea in October from her post as Director of Corporate Sales with Gourm-E-Co Imports, a mid-Atlantic specialty food distributor. Melanie also brings 15 years of experience to Honest Tea, including roles as General Manager with Dolce Europa and Gourmand. In her role as Retail Sales Manager, Melanie is responsible for managing all natural foods and gourmet foods retail accounts.

Consultants and Advisors:

Throughout the development of the Honest Tea business planning process, we have been fortunate to tap into a wealth of tea, beverage, natural foods, and entrepreneurial expertise. The people listed below have served as resources for us. Several of them may continue to play a role in the company in the future.

Joe Dobrow – Director of Marketing Programs, Fresh Fields/Whole Foods Markets

John May – Managing director, New Century Partners, social venture capital investment advisor

Lawrence Omene – Quality Assurance Manager, Mid-Atlantic Coca-Cola Bottling Company

Karin Schryver – Natural foods buyer for Harris Teeter, chain of 140 upscale supermarkets in the Southeastern United States

Statement and Aspirations for Social Responsibility

Although a statement of social and environmental responsibility is not usually found in most business plans, these issues are central to Honest Tea’s identity and purpose. Not only is the value of our brand based on authenticity, integrity and purity, but our management team is committed to these values as well. We will never claim to be a perfect company, but we will address difficult issues and strive to be honest about our ability or inability to resolve them. For example, we recognize that the labor and environmental conditions on many tea estates are below internationally accepted standards. We will strive to work with our suppliers to promote higher standards while recognizing the limited influence we have as a small company. We value diversity in the workplace and we intend to become a visible presence in the communities where our products are sold. When presented with a purchasing decision between two financially comparable alternatives, we will attempt to choose the option which better addresses the needs of economically disadvantaged communities.

We have taken our first substantive step in that direction with the development of our newest tea flavor, First Nation’s Peppermint. After much negotiation with Itchik, a woman-owned company based on the Crow reservation, we have created a partnership that allows the Crow community to be economically involved in the production and sale of the tea. Itchik is serving as Honest Tea’s buyer for the ingredients, charging a modest administrative fee per kilo of tea with the understanding that over time Itchik will develop

the capacity to harvest the tea on the reservation. In addition Itchik is licensing the recipe and artwork to Honest Tea in a royalty arrangement. A portion of the royalties will be directed to the Pretty Shield Foundation, a non-profit created to address the needs of foster Native American children.

Financial Statements – Year-to-Date and Projections

Exhibit E presents the monthly income statement and balance sheet for Honest Tea from January 1998 through November 30, 1998. Exhibit F presents the 1999 projected income and cash flow statement, with assumptions included at the bottom.

Exit Strategies

Investors in Honest Tea would be able to realize a return on the appreciation of their investments under any of the following scenarios:

Investment by a strategic partner -- As Ocean Spray's recent purchase of a significant share of Nantucket Nectars demonstrates, there may be opportunities for investors to realize their gains through the sale of their Honest Tea shares to a strategic investor who can help the company expand its production and distribution.

Acquisition – There are numerous precedents of companies that might be interested in leveraging the integrity and purity of Honest Tea's brand. Some recent examples are the acquisition of Mystic and Snapple by Triarc. Honest Tea has already been approached by some well-known beverage companies to discuss possible acquisition opportunities.

Initial Public Offering – If Honest Tea meets our expectations for growth, the Company might consider some form of public offering to raise capital for expansion in the future.

Investment Risks

In addition to the economic and business factors which pose risks for most early-stage companies, an investment in Honest Tea carries several other risks:

Product Risk -- Although we are insured for product liability, a health-related incident such as the one Odwalla experienced several years ago could do significant damage to the Honest Tea brand name. Of course, since our product is pasteurized twice, there is less of a risk that the same types of bacteria could emerge.

Competitive Risk -- Republic of Tea, a company that has a well-established brand name among tea lovers, might decide to enter the retail market with a more competitively priced product. Such a move could dampen the uniqueness of our message. Crystal Geysler, a company which has deep pockets and preexisting distribution relationships, might decide to introduce additional products beyond TeJava and spread its distribution more aggressively beyond the West Coast.

Management Risk -- At this point, the development of the company has been concentrated largely in the hands of Seth Goldman and Barry Nalebuff. If either of them were unable to continue to play a role in the Company's progress, the growth of Honest Tea might be impaired.

Competitive Advantage

The results of this past summer clearly indicate that Honest Tea has tapped into a market opportunity. When we were planning the company's strategy last year we entertained the idea of spending several years building up a strong presence in a local market before expanding nationally. We have chosen to grow in a more aggressive manner for several reasons:

Market Niche – We have created a new beverage category and are currently the only company filling that category. If we hesitate, other companies are likely to move in.

Compelling brand image and story – The packaging, presentation and profile of the Honest Tea brand fit together extremely well with the product. Although we may improve on the bottle design in the future, this is a package that comes close to selling itself. It is also a brand and a story, which has successfully gained free media coverage, and should continue to do so.

Management Team – We have developed a team with the right combination of sales experience and market creativity that is capable of growing the company on a national, and even international, scale.

A Parting Thought

Prospective investors in Honest Tea are advised to keep in mind the words of Sung Dynasty poet Li Chi Lai who cited the three great evils that might beset the land:

the spoiling of gallant youths through bad education; the degradation of good art through incompetent criticism; and the waste of fine tea through careless making.

While we may not be able to have much direct influence over education and the arts, Honest Tea stands poised to restore integrity to a beverage that has brought people together for hundreds of generations and throughout dozens of civilizations. There has never been a time when consumers have been so overwhelmed with choices. And yet there has never been a time when integrity and authenticity are as cherished as they are scarce. There has never been a better time for Honest Tea.