



ECO-PRODUCTS, INC.

The first quarter of 2008 had not yet ended and Steve Savage already knew the company would surpass the projection for \$22 million in revenues for the year. He and the management team had doubled sales expectations to \$45 million as consumer demand for environmentally sound products skyrocketed and retailers and distributors scrambled to source consumer goods like electric hybrid cars, reusable shopping bags and compostable food containers, including Eco-Products' hot beverage cups. He wondered how he would finance Eco-Products' expected growth.

Background

Eco-Products had grown steadily and slowly since Steve and his father, Kent, founded the company in 1990. Friends and family supplied adequate support for business operations until 2005 when Steve assumed the company's first bank loan. The \$30,000 line of credit opened in 2005 had been increased to \$4 million by 2007 and nearly exhausted for working capital. A lengthy supply chain caused inventory build-up and impeded the company's ability to meet rapidly increasing demand for the firm's products. More private funding would be needed to cover inventory and operating needs.

Steve began to seriously consider venture capital equity financing when sales advanced more than fifty percent in May 2008 and the company ran low in inventory of many of its top selling items. He examined the list of serious investors that had been calling him regularly over the last year, opened a computer spreadsheet, and began calculating how much working capital was needed. Then he turned to what percent of ownership he would have to give up in order to obtain the funds the company needed.

The Company

The company is the nation's leading supplier of environmentally sound food service products made from renewable resources. The global food service disposable industry produces an estimated \$30 billion in sales annually. Biodegradable products such as those produced by Eco-Products represent the fastest growing segment of the industry and are estimated to exceed \$700 million in 2008, up \$500 million since 2005. Kent and Steve Savage recognized the market opportunity long before the "green revolution" of 2008. Kent had built a computer firm in Chicago into a substantial business before moving his family to Colorado and becoming a marketing and growth management consultant. Steve was 22 and had just graduated from the University of Kansas with an Economics degree. Together they founded Eco-

This case study was prepared by Professor Ronald W. Melicher and Jacquelyn F. Dietrich (MBA 2010), as the basis for class discussion and not to illustrate the effective or ineffective handling of an administrative situation. Information has been provided by Eco-Products, Inc., including a corporate history compiled by Heather Mueller, and by Greenmont Capital Partners.

Copyright 2009 by the Robert H. and Beverly A. Deming Center for Entrepreneurship, University of Colorado at Boulder. Case preparation was funded through a grant by The Educational Legacy Fund.

Eco-Products, Inc.

Products, Inc. in 1990 to make high quality, competitively priced, and environmentally sustainable products more widely accessible.

The Savages located the business in their hometown of Boulder, Colorado, a community known for its support of environmental initiatives and natural products. That offered a viable entry market for the array of eco-friendly paper and janitorial supplies, such as recycled copy paper, organic coffee and alternative packaging material. Eco-Products operated as a local marketer and distributor of green products manufactured by other companies for nearly 15 years, and launched its own brand nationally in 2007. The company holds fast to an environmental mission that demands fiscal responsibility. Eco-Products has been recognized in *The Boulder County Business Report* and *Inc. Magazine* as one of the fastest growing companies in Boulder and the United States. Examples of the company's product line are shown in Figure 1.

Figure 1 Eco-Products Product Suite



Surviving the early years, 1991-2003

Though the 25th anniversary of Earth Day occurred the same year the Savages founded Eco-Products, most consumers were slow to adopt eco-friendly products. The business was able to generate consistent and steady revenue for the first ten years by marketing products in the Boulder area. As one founding employee recalled, profits were slim to none in the early years when Eco-Products employed two or three people and primarily sold janitorial and paper supplies, including copy paper, cups, and toilet paper. “It was a really tough business,” this employee stated, “the margins were low and we were hardly taking any salary.”¹ Kent’s garage served as the Eco-Products warehouse for a few years, and Steve delivered orders in his Subaru station wagon. Long-term planning, fiscal discipline, and a customer base committed to buying recycled products kept the company going.

¹ Heather Mueller. “Making Sustainability Accessible,” internal manuscript, Eco-Products, Inc., 2008.

Eco-Products, Inc.

Building a new division, 1996 – 2000

Janitorial and paper supply customers produced reliable demand but little growth. It was the building division Kent and Steve Savage launched in 1996 that spurred the first significant growth period. Steve announced at a board meeting that year that he expected revenues to increase 75 percent “due in large part to the expanding building division.” The company ended 1997 with revenues of \$1.2 million, year-over-year growth of 60 percent and five employees. Four retail satellite stores opened during the period, but would close within a few short years.

Kent Savage retired from Eco-Products in 1999. Steve took the helm with the intention of growing the business and pursuing whatever promising new opportunities cropped up. The first official warehouse opened in 1998; the online store went live in 2001. The company hired additional staff, employing a total of ten by the end of 2000, and also began purchasing wind credits to offset energy use. Revenues reached \$2.2 million. Cash flows fell short of operating needs that year as a result of sales growth.

A growing team for a growing business, 2004 – 2005

The company remained a local marketer of green janitorial and paper and building supplies until 2004. That year Steve began hiring staff that would help serve functions other than sales. He expanded the management team and set the company on a new course.

Steve hired Luke Vernon in 2004 to maintain the business supply division so he could concentrate on the rapidly growing building supply division. Vernon came from a major New York management-consulting firm to work in small business and the natural products industry; he answered an Eco-Products’ classified job advertisement. In 2005, Steve hired Jim Lamancusa, an acquaintance of Luke’s who had just returned to Boulder from teaching English in Thailand. These two new employees were attracted to Eco-Products’ environmental mission. Although they were hired as sales representatives, what Savage found in Vernon’s strategic management experience and Lamancusa’s sales skills would serve in executing a bigger vision for Eco-Products. New hires in order processing and web development supported the team. Though he had not realized it in 2004, the combination of Vernon, Lamancusa and the web development initiatives would help catapult revenues 395 percent, from \$2.2 million for 2004 to \$10.9 million for 2007.

Vernon began implementing improvements and opportunities for the business supply division upon being hired. He focused on brand and Internet strategy. Division sales doubled in just a few short months. The product assortment came to include a wider array of replacement products, including biodegradable disposable drinking cups and to-go food containers. Eco-Products sourced such items from a number of manufactures. Fabri-Kal, maker of corn-based disposable cups and food containers, and International Paper, manufacturer of compostable cutlery and cups, became the company’s largest suppliers. Some products were of very low quality (hot cups sometimes leaked, for example). But businesses wanted to buy eco-friendly products and so Eco-Products offered whatever was available. Steve continued developing the green market niche and thought more about creating a distinct Eco-Products brand.

Vernon, Lamancusa, and the business supply division team worked to develop a reputation for Eco-Products as the most complete line of compostable products available on the market. Vernon advocated that the company take advantage of the fact that very few companies had an established brand. The company hosted four websites with unique customer messaging that attained top ten search engine

Eco-Products, Inc.

rankings. These websites promoted the Eco-Products brand and generated leads and orders. Customers called saying they wanted the products and could not find them anywhere else.

The growing reputation exposed Eco-Products to a new market and inspired a reworking of the business model. U.S. Foodservice in Salt Lake City placed a call in 2005 wanting to become a distributor of the Eco-Products line. Though Eco-Products was not a wholesaler, Lamancusa recognized the potential and began contacting other companies and building relationships. Eco-Products continued selling locally, but focused heavily on growing wholesale distribution opportunities. The company's efforts resulted in \$3.6 million in revenues for 2005, or an increase of about \$1.4 million over the 2004 period.

Steve Savage recognized that sales growth would have a significant impact on working capital needs. Kent Savage had run the business debt-free with positive cash flow during his tenure and the trend continued under Steve's leadership. The company never had a reason to take on debt before 2005. But with rapid growth, Steve wanted to buy sufficient stocks of inventory and also develop the business supply division. He felt the company was ready to support debt financing, so Steve opened the first line of credit in 2005 with his personal guarantee. "Dad would never have had a credit line from the bank," he thought. "But that was a different time," he reasoned, "and if he saw the opportunity, maybe he would have done the same thing." Steve did not want to pass on the growth opportunities that he and his team had uncovered that year. His advisors agreed when he said, "This is an open window we need to jump through."

A new direction, 2005 -2007

As wholesale distribution grew, Steve Savage and his team struggled to define the company's direction. Prior to 2005, Steve planned to grow clients and deliver products to the Boulder and Denver markets. In light of how Eco-Products was changing, Lamancusa asked, "Are we a website company or a wholesale distributor?" Then Fabri-Kal and other manufacturers recognized Eco-Products successful entry into wholesale distribution and soon acted to restrict Eco-Products' ability to sell many products in the wholesale marketplace. The competition encouraged the team to rethink the firm's business model. "We need a role where we can't be cut out," Savage told his team, "let's develop our own brand."

The "Eco-Products" Label

Steve sought to develop a signature Eco-Products line from a PLA resin.² PLA products were produced from renewable resources such as corn and sugarcane instead of petroleum, thus offsetting the United States' need for foreign oil and reducing waste. Vernon traveled to Asia in December 2005 to investigate manufacturing opportunities and build relationships with potential suppliers. After running the return on investment models and assessing the value of the required \$60,000 product mold investment to create the line, the team finally decided to move ahead. Vernon and Savage selected suppliers in China and Taiwan; product development continued through 2006. The "Eco-Products" branded line of compostable cups and food containers hit the market in March of 2007, marked by the words "100% Compostable."

Eco-Products then offered a full, uniquely designed line of environmentally friendly products. Lead times for orders from Asian original equipment manufacturers (OEMs) ranged from 7 to 12 weeks. PLA resin-based products began with the purchase of PLA in Nebraska by Asian OEMs, who had

² Polylactide (PLA) is made from lactic acid, a product of dextrose fermentation. Dextrose comes from cornstarch. PLA can be used to manufacture a variety of products.

Eco-Products, Inc.

materials shipped to Asia for manufacturing. Eco-Products had to pay for most products by the time inventory left the Asian docks. Figure 2 lists the lead times and a summary of the supplier terms that called for payment of nearly three-fourths of the inventory costs at the time of shipment from Asia. Contracts with three third-party distribution centers in the U.S. would allow the company to deliver products to customers anywhere in the United States within two business days. The company expanded its existing carbon offsets program to include all shipping and transportation activities. Eco-Products' carbon-reduction program then included composting and recycling waste, generating solar power, and purchasing carbon credits from a renewable energy company based in Boulder.

Figure 2 Eco-Products Manufacturing Supply Chain Lead Times and Supplier Terms

<u>Inventory Lead Times</u>	
▪ PLA Products from Asia	7-8 weeks
▪ Hot Cups from Asia	8-12 weeks
▪ Sugarcane Products from Asia	8-12 weeks
▪ Other Products from Asia	6-10 weeks

<u>Supplier Terms</u>	
▪ Deposit at time of manufacturing	12%
▪ Payment at Asian port (time of shipment)	62%
▪ Payment at arrival to US port	21%
▪ Thirty-day terms	<u>5%</u>
Total	100%

Being first to market with a greener product line gave Eco-Products an advantage as it made the transition from marketing and distributing products from other companies to manufacturing and distributing its own eco-friendly, competitively priced, consumer products. “We are breaking the mold in how this industry is being operated,” Vernon said. “That’s making some big waves,” he told the team, “and there is no going back, so we have to execute.”

Fortunately, Vernon had contracted with Asian manufactures capable of producing compostable products of higher quality than those of any U.S. manufacturer. The products were more heat-tolerant and less leak-prone. The price was better, too. As the first customer from the U.S., Vernon was able to secure agreements on behalf of Eco-Products stipulating that suppliers would not sell products made from the company’s molds to any other customer anywhere in the world.

Eco-Products was the only business supply company in the marketplace to focus solely on “green” products. Its competitors sold greener products as minor additions to traditional product lines. The higher quality of the Eco-Products product line, the opportune timing of the launch, and the environmental focus positioned Eco-Products to be a major competitor for market share. Once its biggest distributor, Eco-Products became Fabri-Kals’ biggest competitor. Eco-Products also took on International Paper, the only company in the world with biodegradable hot cups and soup containers, as a key competitor. The Eco-Products team believed the need for solid supplier relationships, distributor relationships, and sufficient financial capital would keep many other potential competitors out of the biodegradable products industry.

The shift from marketing to manufacturing green products impacted the company’s financial position. “It basically means having huge warehouses and being a wholesaler with lower margins in trade

Eco-Products, Inc.

for higher volume,” Vernon recognized at the time. As a distributor, the company’s profitability largely depended on the cost of inventory from suppliers like Fabri-Kal and what price the market would bear based on what its competitors charged. As a manufacturer, however, numerous variables directly impacted Eco-Products’ profit margins. The company would be subject to the terms set forth by the OEM (e.g. advance payment requirements), in addition to the availability and price of corn, the risks of importing goods from Asia, and the ability to market the Eco-Products brand on its own.

Competitors

Fabri-Kal

International Paper

Georgia Pacific

The Perfect Storm, 2007

Steve Savage and the Eco-Products team had delivered foodservice products to the market at what seemed to be the perfect time. A leading market research organization identified 2007 as the year when consumer trends were finally turning in favor of the green industry.³ Al Gore released his documentary, *An Inconvenient Truth*. Oil prices approached record highs, nearing \$100 per barrel. Savage monitored the market closely as “green became the new red, white and blue.” The compostable food service industry burgeoned as consumer demand spiraled upward and the high price of oil led to higher prices for comparable plastic-based products. Eco-Products faced ample demand in addition to cost advantages. Steve put it this way: “The wind is with us for the first time.” Exhibit 1 provides the financial projections Eco-Products prepared internally midway through 2007.

Exhibit 1 Financial Projections (000s)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Net Revenues	\$9,200	\$22,000	\$38,000	\$55,000	\$78,000
Cost of Goods	<u>5,515</u>	<u>14,300</u>	<u>25,666</u>	<u>37,074</u>	<u>52,577</u>
Gross Profit	<u>3,685</u>	<u>7,700</u>	<u>12,334</u>	<u>17,926</u>	<u>25,423</u>
Expenses before Interest, Taxes, Depreciation & Amortization	<u>3,108</u>	<u>5,839</u>	<u>9,543</u>	<u>13,270</u>	<u>17,416</u>
EBITDA	<u>\$577</u>	<u>\$1,861</u>	<u>\$2,791</u>	<u>\$4,656</u>	<u>\$8,007</u>
EBITDA, % of Net Revenues	6.3%	8.5%	7.3%	8.5%	10.3%

Source: Confidential Private Placement Memorandum, October 16, 2007, pg 28.

Eco-Products continued building a stronger brand, offering a full line of compostable products that was of better quality and more competitively priced. Thus, Eco-Products garnered recognition and

³ Natural Marketing Industry. 2007 LOHAS Consumer Trends Database.
<http://www.nmisolutions.com/lohasd.html>

Eco-Products, Inc.

made advancements to become a widely used brand supplying products to a variety of customers, from Google cafeterias to Major League Baseball stadiums. End-customers, individual consumers purchasing small quantities through the website or by telephone, constituted 70 percent of sales and generated a 60 percent gross margin on an average order of about \$150. Distributors, other companies redistributing products to end consumers, represented the fastest growing segment with 30 percent of sales and a 25 percent gross margin on an average order of \$13,000.

Steve and his team began rethinking the role of the building supply division in light of unprecedented growth in food service sales. “The market is becoming much more competitive and our division really hasn’t grown in the past few years,” Vernon said in his discussions with Savage. “We need to make a choice,” he and Savage reasoned, “either close it, sell it, or try something different.” A decision was made to spin off the divisions and create a retail operation. Steve and Kent had intended when they founded the business to open a retail operation as soon as they generated \$10,000 in revenues per month, but the timing never felt right. In 2007, Eco-Products generated annual revenues of nearly \$11 million.

Steve called his advisory board. They evaluated the market and determined it could support a retail store that featured environmental products for the home. Steve’s concept was to open the green alternative to discount retail stores, such as Target, and sell to the “lifestyles of health and sustainability” consumer. Stores would open first in the Boulder area and then thirty more stores would open nationwide in the following three years. Savage formed a separate LLC building supply division and began looking for a retail space to open in late 2008.

Financial performance, 2005-2007

Exhibit 2 shows the historical income statements for Eco-Products for the years 2005 to 2007. Exhibit 3 provides balance sheet information at the end of 2006 and 2007. The asset growth was primarily financed through a line of credit received in 2005 and equity financings in 2007. Exhibit 4 shows the cash flow statement for 2007. The cash balance at the end of 2007 was \$51,667. Financial statement results for 2005 and 2006 were unaudited. Doty, Lyle and Jones, LLC, certified public accountants, “reviewed” the income statements and statements of cash flow for 2007 and “audited” the 2007 balance sheet results.

Exhibit 2 Consolidated Income Statements, 2005 - 2007

	2005	2006	2007
Net Revenue	\$3,649,799	\$5,751,787	\$10,867,104
Cost of Goods Sold	<u>2,584,326</u>	<u>3,684,492</u>	<u>7,726,455</u>
Gross Profit	1,065,473	2,067,295	3,140,649
Operating expenses			
Sales and marketing	129,175	1,264,449	1,822,206
General and administrative	644,677	680,013	1,102,437
Depreciation and amortization	<u>52,102</u>	<u>24,500</u>	<u>87,563</u>
Total operating expenses	<u>825,954</u>	<u>1,968,962</u>	<u>3,012,206</u>
Operating profit	239,519	98,333	128,443
Other income (expense)			
Interest expense	15,671	(35,196)	(186,726)
Other expense	<u>(13,488)</u>	-	<u>(1,192)</u>
Net other income (expense)	<u>(2,183)</u>	<u>(35,196)</u>	<u>(187,918)</u>
Less provision for income taxes	=	<u>21,191</u>	<u>(23,276)</u>
Net Income (Loss)	<u>\$237,336</u>	<u>\$41,946</u>	<u>\$(36,199)</u>

Eco-Products, Inc.

Exhibit 3 Consolidated Balance Sheets as of December 31,

	2005	2006	2007
Assets			
Current Assets			
Cash	\$157,958	\$125,268	\$51,667
Accounts receivable	101,690	364,879	1,330,562
Prepaid expenses / other	3,598	-	793,282
Inventory	361,906	862,728	2,415,916
Deferred income tax	-	-	42,000
Total current assets	625,152	1,352,875	4,633,427
Property and equipment	411,387	971,177	1,349,702
Less: Accumulated depreciation	(241,074)	(241,074)	(360,304)
Net property and equipment	170,313	730,103	989,398
Intangible assets			
Trademarks	-	20,500	20,800
Other	-	-	5,440
Less: Accumulated amortization	-	-	(2,050)
Net intangible assets	-	20,500	24,190
Total Assets	<u>\$795,465</u>	<u>\$2,103,478</u>	<u>\$5,647,015</u>
Liabilities and Owners' Equity			
Current liabilities			
Accounts payable and accrued expenses	\$123,429	\$526,555	\$568,131
Accrued payroll and payroll taxes	-	-	6,712
Accrued vacation	-	-	39,356
Lines of credit	186,415	21,045	2,843,242
Current portion of long-term debt	-	-	39,865
Current portion of capital leases	-	-	37,919
Deferred revenue	-	-	105,588
Loan from stockholder	69,000	26,742	93,394
Other current liabilities	-	-	21,523
Total current liabilities	378,844	574,342	3,755,730
Deferred income tax liability	-	-	54,000
Long-term debt, net of current	56,852	1,206,876	124,546
Long-term capital leases, net of current	-	-	177,611
Total Liabilities	<u>\$435,696</u>	<u>\$1,781,218</u>	<u>\$4,111,887</u>
Owners' Equity			
Common stock \$.001 par value 50,000,000 shares authorized 16,935,000 shares issued and outstanding	120,280	166,780	155,300
Additional paid-in capital	-	-	1,270,908
Retained earnings	258,761	199,752	108,920
Treasury stock	(19,272)	(44,272)	-
Total owners' equity	<u>359,769</u>	<u>322,260</u>	<u>1,535,128</u>
Total Liabilities & Equity	<u>\$795,465</u>	<u>\$2,103,478</u>	<u>\$5,647,015</u>

Exhibit 4 Consolidated Statements of Cash Flow for Year Ended December 31, 2007

2007

Cash flows from operating activities:

Eco-Products, Inc.

Net income (loss)	\$(36,199)
Adjustments to reconcile net income (loss) to net cash used in operating activities	
Depreciation and amortization	87,563
Stock-based compensation	-
Deferred income tax	29,000
Provision for bad debt	-
(Increase) decrease in assets:	
Accounts receivable	(965,683)
Inventory	(1,553,188)
Prepaid expenses and other assets	(589,743)
Income tax receivable	(64,260)
Deposits	(10,000)
Increase (decrease) in liabilities	
Accounts payable	44,800
Accrued payroll and payroll taxes	-
Accrued vacation	39,356
Other current liabilities	3,966
Deferred lease liability	16,913
Deferred revenue	105,588
Net cash used in operating activities	(2,891,887)
Cash flows used in investing activities:	
Purchase of property, equipment, and intangible assets	(356,745)
Cash flows from financing activities:	
Payments on term-debt and capital leases	(198,329)
Loan proceeds	150,000
Payment of loan fees	-
Net change in lines of credit	1,826,266
Issuance of common stock	1,303,700
Issuance of preferred stock	-
Payments on loan from stockholder	-
Loan from shareholder	93,394
Net cash provided by financing activities	3,175,031
Net increase (decrease) in cash	(73,601)
Cash balance, beginning of year	125,268
Cash balance, end of year	\$51,667
Supplemental disclosures	
Interest paid	\$186,726
Income tax paid	\$11,984
Non-cash activities	
Purchased equipment acquired through financing	\$175,245

The Cash Vortex, 2008

Steve Savage and the management team were feeling good about the company's overall direction in the first quarter of 2008. The brand was emerging as a strong competitor, the distributor network was expanding and the retail store launch was progressing. The Eco-Products team was also growing in number and Steve's long-time informal advisory board, a team of industry veterans, was now serving as Eco-Products' formal Board of Directors.

Eco-Products, Inc.

Meeting product demand, however, was becoming increasingly difficult. The first quarter of 2008 brought a serious cash shortfall. The inventory cycle and accounts receivable requirement tied cash up for long periods. The sales credit terms that permitted most customers to pay after twenty days was standard and necessary to compete for business. As a result, Eco-Products lacked the cash needed to purchase inventory stock to meet product demand. Further, Savage looked to gain a competitive advantage through product development and exclusive supplier agreements, which would incur additional expenditures. Savage explained to his Board of Directors:

We're moving into a blue ocean and growing quickly. We have a unique product and we're going to be successful, but we're constantly broke and behind in Accounts Payable...Overseas suppliers require prepayment prior to shipping orders and more and more customers have payment terms. We pay for the products 60 days or more prior to collecting payment. If we make a million dollars, we grow two million in inventory and we're a million in the hole. This company is growing so fast that we are cash flow negative in a big way.

Steve realized when sales increased 52 percent in May 2008 that the company would far exceed the \$22 million revenue projection and that the cash problem would worsen. The company filled the Corporate Express distribution center, picked up 40 of the 80 Sysco Corporation's food service centers and had a number of other large accounts placing orders. Corporate Express was one of the largest office supply distributors in the world at that time. Securing the vendor contract got Eco-Products into the office supply channel, which presented a new market opportunity. The future of the company now rested in its ability to fulfill orders.

The original financial models indicated the company would need \$3.7 million for inventory and accounts receivable. Eco-Products adjusted its credit account terms to 2% 10/net 30 to hasten the collection period, but inventory cash needs continued to outstrip cash inflow from sales. Savage thought the company would need at least \$2 million more in equity capital, plus an increased line of credit, than was originally estimated.

Steve considered the limited financing options. The company had conducted five rounds of equity financing since its founding, selling most shares to family or friends. Exhibit 5 summarizes the rounds of financing since 1991. The seed money for the business came from a Small Business Association loan and members of the Savage family. Kent and Steve provided a \$20,000 cash infusion for inventory in 1995 and friends, family, and employees contributed \$18,000 to expand the building supply division in 1999. Steve then raised \$80,000 from friends and family at \$5.00 per share to purchase more inventory when sales started rapidly expanding in 2003. The company raised \$220,000 at \$10.00 per share in early 2007 mostly to purchase inventory and support growing operations, including the new product line. A 100 to 1 stock split in September of 2007 resulted in 12,127,500 million shares outstanding.

Exhibit 5 Previous Rounds of Financing

Date	Use of Funds	Share Price	Campaign Goal	Amount Raised	Investors
1990	Seed money	\$.10	\$8,000	\$8,000	4 investors - Savage family

Eco-Products, Inc.

1995	Inventory	\$1.00	\$20,000	\$20,000	Kent Savage, Steve Savage
1999	Building supply division	\$1.50	\$18,000	\$18,000	4 investors – Friends, family and employees
2003	Inventory	\$5.00	\$80,000	\$80,000	4 investors – Friends and family
2007	Inventory	\$10.00	\$220,000	\$220,000	14 investors – Friends and family, angels
2007 - 2008	Working capital, Inventory	\$1.00	\$3,500,000	\$2,500,000	30 angel investors – local and out of state

Steve Savage sold shares to people he did not know personally for the first time through the private placement memorandum placed in circulation in October 2007. It was the most formal financial capital raise to date. Excerpts from the memorandum are included in Appendix A. Information is included relating to the offering, the planned use of proceeds, risk factors and investor qualifications. Between October 2007 and the spring of 2008, Savage raised \$2.5 million of the \$3.5 million he originally thought was needed. Funds were received in \$50,000 to \$100,000 increments but not quickly enough to cover inventory costs. Exhibit 6 shows how equity had changed by the end of 2007.

Exhibit 6 Consolidated Statement of Changes in Stockholders' Equity for Year Ended December 31, 2007

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
Balance, January 1	122,500	\$1,225	\$121,283	\$145,119	\$267,627
Stock split	12,127,500	121,275	(121,275)	-	-
Issuance of common stock	3,280,000	32,800	1,270,900	-	1,303,700
Net loss	-	-	-	(36,199)	(36,199)
Balance, December 31	15,530,000	\$155,300	\$1,270,908	\$108,920	\$1,535,128

Steve Savage believed the firm required an additional \$2 million in equity financing to meet current and expected demand. Negotiations with the bank failed to produce results. Steve recognized that debt financing would not be an option. Eco-Products originated debt for the first time in 2005 and had used \$2.8 million of the \$4 million line of credit by the end of 2007. The line was set to expire on July 1, 2008. The debt-to-equity ratio of 3.5:1 was approaching the banker's limits. Exhibit 7 contains long-term debt and lines of credit information for the company as of December 31, 2007.

Eco-Products, Inc.

Exhibit 7 Debt Figures from Notes to Financial Statements for Year Ended December 31, 2007

Long-Term Debt		
<i>Long-term loan with a financial institution</i>		
Interest Rate	7%	
Security	Inventory; equipment	
Monthly payment on principal and interest	\$3,634	
<i>Long-term loan to a shareholder (renewable annually)</i>		
Interest Rate	No interest is accrued if paid in full within one year; 8% thereafter	
Minimum principal payments	<i>Required payments through maturity as follows:</i>	
	Year ending December 31,	Amount
	2008	\$133,259
	2009	43,096
	2010	46,593
	2011	<u>34,857</u>
		\$257,805
<i>Line of credit with a bank (entered during year)</i>		
Interest rate	.25% below prime rate	
Line of credit limit	\$4,000,000	
Amount outstanding	\$2,843,242	
Collateral	Accounts Receivable; Inventory	
Guarantee	Majority shareholder	

Steve turned to his Board of Directors and the consensus was to move ahead: “This is a real company now and needs real money,” the Board believed. They suggested that Steve stop working full-time to raise funds through the private placement memorandum. “It’s time to go after money in a lump sum and get some strategic help if you want to play with the big boys,” as they saw it. The Board went over their analysis of the relevant market opportunities and encouraged Steve to “go for it.”

The decision to quit the effort to place equity with a limited number of qualified investors was difficult, Savage later recalled. Private placement generated money in increments as needed. Moreover, there were no stipulations or covenants. “I pretty much keep control of the company under all scenarios,” Savage stated, “but it’s obvious that the money is not going to be sufficient.” He considered two alternatives, “We could start the PPM process all over again using higher revenue projections....or we could look for a single private equity investor.”

The competition would soon force Steve’s decision. Eco-Products’ competitors were becoming billion dollar corporations and adding to their green product suites. Faced with burgeoning demand, stock-outs were bad for business. Further, Steve had learned that very few companies become cash flow positive without also being highly profitable. Eco-Products had been burning cash at a high rate. The retail distribution business was not likely going to make the firm profitable enough to generate the cash needed to acquire sizeable market share from large competitors. Therefore, the best choice would be to bring in the capital and expertise required to compete against companies like International Paper and Solo. Steve withdrew the memorandum soliciting limited investors. Meanwhile, he created new positions and hired vice presidents of marketing and finance.

Eco-Products, Inc.

Venture capital investors had been calling from all over the country for over a year to express interest in Eco-Products. Steve had spent most of the last year talking to banks and private equity investors. He already had a file of fliers and notes in his desk drawer. He reviewed his “money list,” the contacts for potential VCs he might be willing to consider. References to vulture funds crossed his mind. Negotiating covenants and protective provisions would be a new experience. Maintaining an entrepreneurial feel while focusing on numbers, as would be necessary, concerned him. Eco-Products’ entrepreneurial environment better enabled the company to achieve sustainability goals. “And if we go belly up,” he thought, “VCs get the first payout.”

The valuation process for a firm like Eco-Products, a unique company in a new sector experiencing rapid growth, would be a difficult task. A venture capitalist might make the valuation based on how comparable firms were valued, but Steve imagined that identifying comparable firms could be difficult.

For example, the valuation might be based on a multiple of revenues derived from trailing twelve months revenues, \$19.7 million for the twelve months ending June 2008. Forecasted twelve months revenues would also be a possible metric. See Exhibit 8 for recent net revenues by quarter. The company now planned to reach \$45 million in revenues for 2008 and had projected a revenue target of \$100 million for 2009 – though Steve pulled that estimate back once he saw that inventory stock was a problem and product placement would take longer than expected, and that consumer spending and overall economic activity were slowing considerably. Nevertheless, Steve saw the growth potential and needed to determine what valuation seemed fair. It was important to him that long-time shareholders get something out of the investment as well. Steve had not received a return since vesting in 1990.

Steve fully comprehended that willingness to give up a significant ownership stake could determine his success in raising funds. He questioned what proportion of ownership he would be willing to give up now that Eco-Products was becoming a “real company” and the green market was becoming a reality. “I thought it would happen sooner than it did,” he admitted. He wondered what role if any the retail operation, Ellie’s Organic Home Store, would play in the valuation.

The decision required due diligence but needed to be made quickly. The length of time required to receive funds could greatly impact financial results that year. Exhibit 8 shows the selected financial statements for Eco-Products for the three recent quarters ending June 2008. Steve indicated the company was operating profitably as it was growing revenues.

Exhibit 8 Quarterly Financial Results

	At or for Quarter Ended Dec 31, 2007	At or for Quarter Ended Mar 31, 2008	At or for Quarter Ended Jun 30, 2008
Net Revenues	\$3,287,000	\$4,714,000	\$8,776,000
Accounts Receivable	1,331,000	1,954,000	3,660,000
Inventory	2,416,000	2,456,000	3,532,000
Accounts Payable and Accrued Expenses	568,000	1,258,000	1,949,000

The Board reassured Steve that a single private equity transaction would work in his favor and help Eco-Products gain the competitive advantage needed to compete against the large companies that now rivaled Eco-Products. After announcing the decision to seek \$2 million from a single equity investor, Steve Savage was quoted as saying:

Eco-Products, Inc.

Are you concerned when you first fly an airplane? Yes, but if it is something you want to do, you're going to do it.

Negotiating a Strategic Partnership, July 2008

Steve Savage received an investment proposal from Greenmont Capital Partners, a firm located in Boulder, Colorado, in early July 2008. Greenmont Capital was a new investment fund founded by natural product industry insiders. The fund had not yet closed when the proposal had been sent to Steve, but he was intrigued by the opportunity to work with a local investment fund that was managed by industry veterans.

Greenmont's valuation was not the highest of those Savage received, but it was close. Greenmont offered \$1.50 per share, a valuation of \$29.6 million, and a 7.8 percent ownership stake to provide for Steve's \$2 million request. Steve appreciated Greenmont's transparent valuation. He received a list of the precedent transactions the firm considered. Exhibit 9 presents the comparable transactions Greenmont considered when developing a revenues-based relative valuation of Eco-Products.

Exhibit 9 Precedent Transactions							
Company	Date	Sales (\$ 000s)	EBITDA (\$ 000s)	Enterprise (ENT) Value (\$ 000s)	ENT Value /Revenue	ENT Value /EBITDA	Acquirer
Tendercare International	Dec-07	3,300	-	3,400	1.03x	-	Hain Celestial
Waddington NA**	Oct-07	266,600	-	400,000	1.50x	-	Citicorp Syndicate
Van Houtte, Inc.	Jul-07	344,000	-	600,000	1.74x	-	Littlejohn & Co.
Matrix Packaging	Jun-07	140,000	-	210,000	1.50x	-	Sonoco
Prairie Packaging	Apr-07	500,000	-	1,000,000	2.00x	-	Pactiv
Insulair	Jul-06	25,000	-	170,000	6.80x	-	Georgia Pacific
Newspring	Mar-05	60,000	16,600	98,000	1.63x	5.90x	Pactiv
Average*		\$191,271		\$354,486	1.57x		
*Excludes Insulair for Revenue Multiple							
**Sales Estimated based on 47% sales growth 2002-2007							

Steve Savage considered Greenmont over other funds because the valuation seemed fair and the relationship offered a strategic partnership, an important benefit he had hoped to find. He looked forward to working with seasoned industry veterans. Steve had this to say about pursuing the Greenmont investment:

I was hopeful that whoever would come in would be a single-digit shareholder and that we could negotiate out any unfair protective provisions and covenants. I liked the fund managers personally,

Eco-Products, Inc.

the valuation was fair, they were local, and they knew the natural products industry. That could only be helpful, as opposed to an out-of-state private equity group. A valuation that was even \$500,000 higher was not enough to counter all the advantages of going with Greenmont. Other equity groups were not going to be in Boulder to help interviewing CEOs.... I can talk face to face with Greenmont every day.

Steve contacted an experienced attorney to advise him on what terms were exceptional and what were standard. Steve and Greenmont had negotiated through the initial proposal and reached agreement within two weeks. Ellie's Organic Home Center, the retail operation, was a bone of contention for Greenmont. The fund managers viewed the retail operation as a distraction from Eco-Products' core competencies. The valuation excluded Ellie's and the terms preempted any activity that "involves the investment of funds in Ellie's Organic Home Center in excess of \$200,000 beyond its current approved operating budget."

Greenmont delivered the final proposal on July 1. Appendix B provides the negotiated term sheet in full. Steve found the updated proposal to be acceptable, but paid particular attention to provisions stating that the failure to meet revenue targets would result in valuation adjustments in favor of Greenmont. Steve and the Board of Directors believed the company could achieve its sales forecasts. Eco-Products had gone from 6 to 60 employees in just three years and anticipated hiring 10 to 20 more by the end of the year. Steve had re-forecasted sales from \$22 million to \$45 million for 2008 and had anticipated continued rapid growth for 2009, if all went as planned. As Luke Vernon stated, "As long as we're able to fund our growth, there's no limit on how much we might grow in the coming years."⁴

Eco-Products had never before been accountable to outside investors for its financial performance. The prior approach to forecasting was, as Luke Vernon described it, "let's have fun and see what we can do." If Steve accepted Greenmont's proposal, forecasting would be an imperative process. The company would be under substantial pressure, as terms provided Greenmont a larger equity share if Eco-Products missed the stated revenue targets. The company was already racing to keep up with demand and bringing a new product into an industry makes accurate forecasting difficult. The Board suggested Steve refrain from announcing revenue targets to the media in the future.

While the possibility of missing targets concerned Steve, he hesitated over the timing of the investment. The Greenmont fund had not yet closed and the investment would not be made immediately. Steve had no way of knowing when the Greenmont funds would be available to Eco-Products and the small but frequent cash infusions from the PPM had already ceased. In his effort to meet Eco-Products' financing needs, Steve increased the size of the firm's line of credit. The \$4 million line of credit with the Bank of the West was fully utilized. Negotiations with Wells Fargo Bank had resulted in Eco-Products obtaining a new line of credit for \$8 million at a rate of the lesser of the prime rate or LIBOR plus 2.5% on July 1, 2008 that would replace the previous line of credit. This larger loan, accompanied by the raising of private equity capital, would be used to help finance sales growth.

"Being broke is a high-class problem," Steve thought, "but it is a real problem." Steve considered the possibility of running out of top selling items and having to allocate orders to top customers. That situation would dampen sales and put the company in a tough position under investment terms. But Steve believed stated revenue targets were realistic: "Once hot cups arrive in October, then we are off and running," he believed. The time had come to either accept Greenmont's investment or to continue negotiating with other possible providers of equity capital. Other private equity sources had also submitted term sheets. Steve had this to say to his management team about the eminent decision:

⁴ Heather Mueller. "Making Sustainability Accessible," internal manuscript, Eco-Products, Inc., 2008.

Eco-Products, Inc.

We need the money. The dilution, selling ownership, is just part of it. Obviously you want to get the best valuation and dilute as little as possible. As long as the valuation is fair, that part is fine. It's when you're not profitable and when you're not growing that covenants will start to become painful. We are not going to turn away customers because we don't want to give up 8 percent ownership. Sure, we could grow more responsibly, but that isn't that attractive to me. We are going to grab market share while it is here to take.

As Steve Savage contemplated whether to accept the Greenmont Capital Partners offer, he wondered when a next round of financing might be needed.

Appendix A Excerpts from Eco-Products, Inc. 2007 Private Placement Memorandum

Confidential Private Placement Memorandum

(Effective Date: October 16th, 2007)

ECO-PRODUCTS, INC.

**Common Shares
3,500,000 Shares
\$1.00 per Share**

ECO-PRODUCTS, INC., a Colorado C Corporation (the “Company”), is hereby offering (the “Offering”) up to 3,500,000 of the Company’s Common Stock (the “Shares”). The Offering is made to a limited number of accredited investors with the meaning of Rule 501(a) of Regulation D under the Securities Act of 1933, as amended. Each prospective Investor must subscribe for a minimum of \$50,000; however, the company reserves the right to accept subscriptions in lesser amounts. The Offering will expire June 1, 2008, unless sooner terminated or extended by the Company. Subscriptions are subject to acceptance by the Company, in its sole discretion. The Shares cannot be transferred without the prior written consent of the Company or without compliance with federal and state securities laws.

No market currently exists for the Shares or any other securities of the Company, and no such market is expected to develop following the Offering.

THIS MEMORANDUM HAS BEEN PREPARED FOR DISTRIBUTION TO A LIMITED NUMBER OF INVESTORS TO ASSIST THEM IN EVALUATION OF THE PROPOSED INVESTMENT IN THE COMPANY. THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER OR SOLICITATION TO ANYONE IN ANY JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION IS NOT AUTHORIZED. OFFERS MAY BE MADE ONLY TO PERSONS DEEMED ELIGIBLE FOR PARTICIPATION UNDER THE CRITERIA SET FORTH IN THIS MEMORANDUM. NO ELIGIBLE PERSON MAY PARTICIPATE IN THE OFFERING EXCEPT PURSUANT TO AND SUBJECT TO THE TERMS SET FORTH IN THIS MEMORANDUM AND THE APPROVAL OF THE COMPANY.

THE OFFEREE, BY ACCEPTING DELIVERY OF THIS MEMORANDUM, AGREES TO RETURN THIS MEMORANDUM AND ALL ATTACHED DOCUMENTS TO THE COMPANY IF THE OFFEREE DOES NOT AGREE TO PURCHASE ANY OF THE UNITS OFFERED HEREBY.

THE COMPANY REQUIRES THAT EACH INVESTOR AND/OR PURCHASER REPRESENTATIVE BE GIVEN AN OPPORTUNITY TO ASK QUESTIONS OF, AND RECEIVE ANSWERS FROM, THE COMPANY OR ANY PERSON ACTING ON ITS BEHALF PRIOR TO ANY PURCHASE CONCERNING THE TERMS AND CONDITIONS OF THIS OFFERING AND TO OBTAIN ANY ADDITIONAL INFORMATION, TO THE EXTENT THE COMPANY POSSESSES SUCH INFORMATION OR CAN

Eco-Products, Inc.

ACQUIRE IT WITHOUT UNREASONABLE EFFORT OR EXPENSE, THAT IS NECESSARY TO VERIFY THE ACCURACY OF THE INFORMATION CONTAINED IN THIS PRIVATE PLACEMENT MEMORANDUM.

SUMMARY OF THE COMPANY

Description

Eco-Products is the nation's leading supplier of environmentally friendly food service products. The Company manufactures and distributes a wide selection of high quality, environmental products at competitive prices under their Eco-Products brand name to food service distributors, paper product distributors, and commercial accounts of all sizes. The Company is the first in the nation to manufacture a complete selection of biodegradable food service products (cups, plates, cutlery, straws, food containers, and more) made from renewable resources. Eco-Products' revenue has more than doubled each of the past three years.

Market Opportunity and Strategy

The global food service disposable industry is estimated to be \$30 billion annually. Biodegradable products are the fastest growing segment of the industry and are estimated to exceed \$1 billion by 2008, up from \$500 million in 2005. The following are key driving forces behind Eco-Products' current market opportunity:

- The rapid growth in demand for products that biodegrade or compost
- The increasing demand for products that are made from renewable resources
- The limited number of suppliers of "green" products
- The adoption of environmental laws by municipalities around the country and the world
- The rising prices of products made from petrochemicals and other non-renewable resources
- The growing desire for companies and individuals to be environmentally friendly

THE OFFERING

The Securities offered are Three Million Five Hundred Thousand (3,500,000) Common Shares issued by the Company at One (\$1.00) Dollar per Share, payable in cash at the time of subscription. The minimum purchase is \$50,000.

Investor Qualifications..... We are offering the Shares only to accredited investors (as defined by Regulation D under the Securities Act of 1933, as amended). We will require each investor to represent in the Subscription Agreement that the investor is able to evaluate the merits of this investment, and that the investor is accredited.

Subscription Agreement..... Each investor will be required to enter into a Subscription Agreement in the form attached to this memorandum.

Minimum Investment..... \$50,000. The Company reserves the right to accept subscriptions in lesser amounts.

Offering Period..... The Offering will commence on October 16, 2007 and expire on June 1, 2008, unless sooner terminated or extended by the Company (see "PLAN OF DISTRIBUTION"). We reserve the right to terminate the Offering at any time. We will not provide any notice that we have extended the offering.

Eco-Products, Inc.

Use of Proceeds..... The proceeds will be used to buy inventory to meet current and future demand (see “USE OF PROCEEDS”). Part of this inventory will be the launch of new product lines such as biodegradable hot cups and food containers that will increase operating margins and provide further competitive advantage.

Restrictions on Transferability..... The Shares sold in this offering will be restricted securities under the Securities Act of 1933, as amended, and will not be transferable except in compliance with the Securities Act and applicable state securities laws.

USE OF PROCEEDS

The proceeds will be used for general operating purposes, primarily to purchase additional inventory to meet current and future demand. The Company has had to allocate inventory and has temporarily limited the number of new distributors to maintain order fill rates with current customers. Even with such rationing, Eco-Products has not been able to keep enough inventory in stock to meet current demand. This has been a result of insufficient capital for purchasing inventory. Since overseas suppliers currently require prepayment prior to shipping orders, and many customers have payment terms, Eco-Products must pay for the products 60+ days (shipping time plus customer payment terms) prior to collecting receivables. Eco-Products has several multi-million dollar accounts that are ready to begin ordering pending our ability to consistently fulfill their orders.

The Company will also use the proceeds to launch two new products lines. The first product line is biodegradable hot cups and lids which will require \$1,200,000 before the product line is able to support itself with its own profits six months after launch. The second product line is biodegradable food containers made from corn (PLA). This product line will require approximately \$600,000 before the positive cumulative cash flow is achieved six months after product launch.

In addition, Eco-Products will use some of the proceeds to acquire exclusive agreements with suppliers, which will further establish competitive barriers for entry into the market. Acquiring exclusive agreements will further allow Eco-Products to control the total available market supply of biodegradable products.

The Company reserves the right to use the proceeds for any other general operating expenditures as deemed appropriate by Management.

RISK FACTORS

You should carefully consider the risks and uncertainties described below before you decide to buy Shares. While these are the risks and uncertainties the Company believes are most important for you to consider, you should know that they are not the only ones facing Eco-Products, Inc. If any of the following risks actually occurs, the Company’s business, financial condition or results of operations would likely suffer. In these circumstances, the value of the stock could decline, and you could lose all or part of the money you paid to buy the stock.

We must remain at the forefront with new product development.

Being the first to market with new products has provided a competitive advantage to the Company. Our success, in part, relies on us being able to continue to foresee trends and develop new products that will allow us to sustain our competitive advantage.

Eco-Products, Inc.

We are subject to patent infringement laws.

If any of our products infringe on patents held by competitors or other companies, we could be subject to legal ramifications. Although the Company has done thorough research to avoid any potential infringements, all new products must be ensured that they do not violate any patents.

We rely on importing products from overseas suppliers.

We are subject to any changes in federal regulations for importing products from Asia. A change in laws or duties could negatively impact our ability to offer competitive prices. In addition, we are subject to fluctuations in currency valuations between the U.S. and foreign countries, which could negatively impact our competitiveness. Shipping products from Asia to the U.S. offers inherent risks. Although the Company's Marine Insurance policy covers our products if they were to be destroyed in transit, a delay in receiving product could lead to being out of stock and create ill-will with customers.

Market competition will continue to increase.

As part of a growing industry, new competitors will enter the market, which could reduce our market share. More and more companies will begin trying to supply similar products and there are no assurances that we will be able to maintain market share.

Our supply could be constrained by raw material availability.

Several of our products are made from corn. As the demand for corn and PLA resin continues to rise to meet increased ethanol production and demand for PLA products, the availability of corn for our products diminishes. This could lead to a limited supply of raw materials for our products, which could limit the Company's sales growth.

We are subject to federal and state regulations, and regulations in other jurisdictions both domestically and foreign.

A change in foreign or domestic regulations could negatively impact the Company. The inability to meet those regulations could lead to a violation of laws.

We are subject to product liability claims.

Eco-Products, like any other seller of food service products, faces the risk of exposure to product liability claims in the event that the use of products sold by the company causes injury or illness. With respect to product liability claims, Eco-Products believes it has sufficient primary or excess umbrella liability insurance. However, this insurance may not continue to be available at a reasonable cost, or, if available, may not be adequate to cover all of Eco-Products' liabilities. If Eco-Products does not have adequate insurance or contractual indemnification available, product liability relating to defective products could materially reduce Eco-Products' net earnings.

We will need to expand our skilled personnel and retain those personnel that we do hire.

We will be required to hire and retain skilled employees at all levels of our operations in a market where such qualified employees are in high demand and are subject to receiving competing offers. The inability to hire needed employees on a timely basis and/or the inability to retain those that we do hire could have a material adverse effect on our ability to meet the schedules of its strategic plan.

Eco-Products, Inc.

We will need to successfully manage our growth that will be significant for the foreseeable future.

We plan on growing at a rapid pace, which will strain our personnel, operation, reporting, and financial resources. We have taken preliminary steps to put in place the necessary legal, accounting, human resource management, procedural, and other relationships and tools to enable us to deal with this growth more efficiently. However, there is no assurance that we will be able to successfully manage this rapid growth.

We may be impacted by general economic conditions.

Food service spending is susceptible to negative trends in the national and/or regional economies. The success of our business depends, in part, on a number of factors related to spending patterns in the overall economy. An economic downswing may reduce restaurant and food service spending and adversely our financial performance.

There is no public market for our securities and there will be restrictions on the transferability of our stock.

There is currently no public market for any of our securities. We cannot assure you that any such public market will ever develop. Moreover, even if a public market does develop, any sale of our stock may be made only pursuant to an effective registration statement under federal and applicable state securities laws or exemptions from such laws.

Arbitrary nature of determination of the Offering Price.

The Offering Price of the Shares was arbitrarily determined by us. The Offering Price of the Shares exceeds their book value and does not bear any relationship to our assets, earnings, book value, or any other objective standard of value.

We do not expect to pay any dividends in the foreseeable future.

We do not contemplate paying cash dividends in the foreseeable future. Future dividends are dependent upon future earnings and our other financial requirements.

INVESTOR QUALIFICATION

Prospective investors who desire to purchase the Shares in this offering must complete the Subscription Agreement in substantially the form attached to this memorandum and deliver it to Eco-Products together with a wire transfer of same day funds, or a check made payable to “**Eco-Products, Inc.**,” for the amount subscribed. Subscribers should indicate their status as accredited investors by marking the applicable paragraph in the Subscription Agreement. The Shares will be issued in such names as shall be provided for in the accepted Subscription Agreements and shall be delivered by the Company to the investors as soon as practicable following the Company’s acceptance. The Shares will be delivered to the address specified in the subscription agreements. The Company reserves the right to accept, or reject, any subscription in whole or in part, in the Company’s sole discretion. In the event a subscription is rejected, all funds delivered to the Company with such subscription will be returned to the subscriber as soon as practicable following rejection, without interest.

The Company is offering the Shares only to “accredited investors” as defined in Rule 501(a) of Regulation D of the Securities and Exchange Act of 1933, as amended. Joint purchasers must each

Eco-Products, Inc.

separately qualify under one or more of the tests. As so defined, “accredited investors” generally include:

- (a) Any individual whose net worth, or joint net worth with his or her spouse exceeds \$1,000,000;
- (b) Any individual whose income exceeded \$200,000 in both 2006 and 2005, or whose joint income with his or her spouse exceeded \$300,000 in each of those years, and who reasonably expects an income reaching the same level in 2007;
- (c) Most banks and savings and loan associations, whether acting in their individual or in fiduciary capacities, most registered broker-dealers, most insurance companies, most investment companies, certain business development companies and small business investment companies, and employee benefit plans subject to the provisions of the Employee Retirement Income Security Act of 1974 that have total assets in excess of \$5,000,000, or as to which investment decisions are made by a fiduciary which is either a bank, insurance company, or registered investment advisor, or that are self-directed plans with investment decisions made solely by persons that are accredited investors;
- (d) Organizations qualified under Section 501(c)(3) of the Internal Revenue Code, corporations, Massachusetts or similar business trusts, and partnerships, not formed for the specific purpose of purchasing Notes, with total assets in excess of \$5,000,000;
- (e) Any trust with total assets in excess of \$5,000,000 not formed for the specific purpose of acquiring Notes, whose purchase is directed by a sophisticated person as described in Regulation D; or
- (f) Any entity all of whose equity owners separately meet the criteria set forth in (a), (b), (c), (d), or (e) above.

The Company will review the Subscription Agreements with ordinary due diligence and will rely on the representations made by the investors therein in assessing the investor’s ability to qualify as an accredited investor.

Appendix B Investment Terms Sheet – Greenmont Capital Partners

GREENMONT CAPITAL PARTNERS II, LP

Summary of Terms for Proposed Private Placement

of Series A Preferred Stock of

ECO-PRODUCTS, INC.

July 18, 2008

This term sheet summarizes the proposed principal terms with respect to the Series A Preferred Stock financing of Eco-Products, Inc. In consideration of the time and expense devoted and to be devoted by Greenmont Capital Partners II, LP and the Company with respect to this investment, the “Confidentiality,” “Exclusivity” and “Legal Fees and Expenses” provisions of this term sheet shall be binding obligations of the Company whether or not the financing is consummated. No other legally binding obligations will be created until definitive agreements are executed and delivered by all parties. This term sheet is not a commitment to invest, and is conditioned on the completion of due diligence, legal review and documentation that is satisfactory to Greenmont.

Issuer:	ECO-PRODUCTS, INC. (the “ <i>Company</i> ”), a Colorado corporation.
Investor(s):	GREENMONT CAPITAL PARTNERS II, LP (“ <i>Greenmont</i> ”).
Type of Security:	Series A Convertible Preferred Stock (the “ <i>Series A Preferred</i> ”), initially convertible on a 1:1 basis into shares of the Company’s Common Stock (the “ <i>Common Stock</i> ”).
Price:	\$1.50 per share (the “ <i>Original Purchase Price</i> ”). The Original Purchase Price represents a fully-diluted pre-money valuation of \$29,587,500. ⁵
Amount of Financing:	An aggregate of \$2 million (the “ <i>Financing Amount</i> ”), representing a 7.8% ownership position on a fully-diluted basis, including shares reserved for any employee option pool and the Warrants.

⁵ A capitalization table showing the Company’s capital structure immediately prior to and following the closing was included at the end of the original document but is not presented in this case.

Eco-Products, Inc.

- Warrants: Greenmont will receive 25% warrant coverage (“*Warrants*”) that will give Greenmont the right to purchase 333,333 additional Series A Preferred Shares at an exercise price of \$1.50/share within 3 years (or, if earlier, the date upon which the Company sells at least \$4,000,000 of its capital stock at a per share purchase price of \$3.00 or more).
- Closing: Anticipated to take place no later than August 15, 2008 (the “*Closing*”).

TERMS OF SERIES A PREFERRED STOCK

- Dividends: The holders of the Series A Preferred shall be entitled to receive cumulative dividends (under certain circumstances outlined below under liquidation) payable in preference to any dividend on the Common Stock at the rate of 8% of the Original Purchase Price (as adjusted) per annum, whether or not declared by the Board (the “*Cumulative Dividend*”). The holders of the Series A Preferred also shall be entitled to participate pro rata in any dividends paid on the Common Stock on an as-if-converted basis.
- Liquidation Preference: In the event of any liquidation or winding up of the Company, the holders of Series A Preferred shall be entitled to receive in preference to the holders of the Common Stock a per share amount equal the Original Purchase Price (as adjusted for any stock splits, dividends, and the like) plus the Cumulative Dividend (the “*Liquidation Preference*”).
- After the payment of the Liquidation Preference, the remaining assets shall be distributed ratably to the holders of the Common Stock.
- A merger, acquisition, sale of voting control or sale of substantially all of the assets of the Company in which the stockholders of the Company do not own a majority of the outstanding shares of the surviving corporation shall be deemed to be a liquidation.
- Conversion: The holders of the Series A Preferred shall have the right to convert the Series A Preferred, at any time, into shares of Common Stock. The initial conversion rate shall be 1:1, subject to adjustment as provided below.
- Automatic Conversion: The Series A Preferred shall be automatically converted into Common Stock, at the then applicable conversion price, (i) in the event that the holders of at least a majority of the outstanding Series A Preferred consent to such conversion or (ii) upon the closing of a firmly underwritten public offering of shares of Common Stock of the Company at a per share price not less than three times the Original Purchase Price (as adjusted for stock splits, dividends and the like) and for a total offering of not less than \$25 million (before deduction of underwriters commissions and expenses) (a “*Qualified IPO*”).
- Anti-dilution Provisions: The conversion price of the Series A Preferred will be subject to a broad-based weighted average adjustment to reduce dilution in the event that the Company issues additional equity securities (other than (i) shares reserved

Eco-Products, Inc.

as employee shares described under “Employee Pool” below, (ii) shares issued for a business combination approved by the Board of Directors of the Company (the “*Board*”), (iii) shares issued pursuant to any equipment loan or leasing arrangement, real property leasing arrangement or debt financing from a bank or similar financial institution approved by the Board and (iv) shares with respect to which the holders of a majority of the outstanding Series A Preferred waive their antidilution rights) at a purchase price less than the applicable conversion price. The conversion price will also be subject to proportional adjustment for stock splits, stock dividends, recapitalizations and the like.

Voting Rights:

Except with respect to the election of directors and certain protective provisions discussed below, the holders of Series A Preferred will have the right to that number of votes equal to the number of shares of Common Stock issuable upon conversion of the Series A Preferred. The holders of Common Stock will be entitled to one vote per share.

Board of Directors:

At Closing, the size of the Board shall be initially set at six members.

So long as Greenmont continues to hold at least 1% of the outstanding shares of capital stock calculated on an as converted, fully-diluted basis, Greenmont shall have the right to designate a member of the board of directors (the “*Series A Director*”).

The Board will have an Audit Committee and a Compensation Committee. The representative designated by Greenmont will be a member of each committee.

So long as Greenmont continues to hold at least 1% of the outstanding shares of capital stock calculated on an as converted, fully-diluted basis, Greenmont shall have the right to appoint a representative to observe all meetings of the Board in a non-voting capacity as a Board Observer.

The Company shall reimburse expenses of Greenmont for costs incurred in attending meetings of the Board and other meetings or events attended on behalf of the Company.

Board Meetings:

The Company shall hold in-person meetings at least four times per year.

Protective Provisions:

For so long as any shares of Series A Preferred remain outstanding, consent of the holders of at least a majority of the Series A Preferred shall be required for any action that (i) alters or changes the rights, preferences or privileges of the Series A Preferred so as to affect them adversely (whether by amendment, merger or otherwise), (ii) increases or decreases the authorized number of shares of Series A Preferred, (iii) creates (by reclassification or otherwise) any new class or series of shares having rights, preferences or privileges senior to the Series A Preferred and issues such shares in a financing transaction with a per share consideration of less \$1.50 per share, (iv) increases the authorized size of the Board to a number in excess of 7 or decreases the authorized size of the Board to a number in

Eco-Products, Inc.

less than 5, or (v) involves the investment of funds in Ellie's Organic Home Center in excess of \$200,000 beyond its current approved operating budget.

Information Rights:

So long as Greenmont continues to hold at least 1% of the outstanding shares of capital stock calculated on an as converted, fully-diluted basis (i) the Company shall deliver to Greenmont the Company's annual budget, as well as audited annual financial statements (ii) as soon as reasonably possible, the Company shall furnish a report to Greenmont comparing each annual budget to such financial statements and (iii) Greenmont shall also be entitled to standard inspection and visitation rights. Additionally, the Company shall provide unaudited quarterly financial statements to Greenmont. These provisions shall terminate upon a Qualified IPO.

Registration Rights:

Demand Rights: If holders of Common Stock (other than Common Stock issuable upon exercise of employee stock options) and Preferred Stock, including Common Stock issued or issuable upon conversion of Series A Preferred ("**Registrable Securities**"), holding more than a majority of the Registrable Securities or a lesser percentage if the anticipated aggregate offering price to the public is not less than \$5,000,000, request that the Company file a Registration Statement, the Company will use its best efforts to cause such shares to be registered; provided, however, that the Company shall not be obligated to effect any such registration prior to the third anniversary of the Closing. The Company shall have the right to delay such registration under certain circumstances for one period not in excess of ninety (90) days in any twelve (12) month period.

The Company shall not be obligated to effect more than two registrations under these demand right provisions, and shall not be obligated to effect a registration (i) during the one hundred eighty (180) day period commencing with the date of the Company's initial public offering, or (ii) if it delivers notice to the holders of the Registrable Securities within thirty (30) days of any registration request of its intent to file a registration statement for such initial public offering within ninety (90) days.

Company Registration: The Registrable Security holders shall be entitled to "piggy-back" registration rights on all registrations of the Company or on any demand registrations of any other investor subject to the right, however, of the Company and its underwriters to reduce the number of shares proposed to be registered pro rata in view of market conditions. If the Registrable Security holders are so limited, however, no party shall sell shares in such registration other than the Company or Registrable Security holders, if any, invoking the demand registration. Unless the registration is with respect to the Company's initial public offering, in no event shall the shares to be sold by Registrable Security holders be reduced below 10% of the total amount of securities included in the registration. No stockholder of the Company (other than Registrable Security holders) shall be granted piggyback registration rights which would reduce the number of shares includable by the holders of the Registrable Securities in such registration without the consent of the holders of at least two-thirds of the Registrable Securities.

Eco-Products, Inc.

S-3 Rights: The holders of Registrable Securities shall be entitled to unlimited demand registrations on Form S-3 (if available to the Company) so long as such registered offerings are not less than \$1,000,000.

Expenses: The Company shall bear registration expenses (exclusive of underwriting discounts and commissions) of all such demands, piggy-backs, and S-3 registrations (including the expense of one special counsel of the selling stockholders not to exceed \$25,000).

Transfer of Rights: The registration rights may be transferred to (i) any partner or retired partner or affiliated fund of any holder which is a partnership, (ii) any member or former member of any holder which is a limited liability company, (iii) any family member or trust for the benefit of any individual holder, or (iv) any transferee who acquires at least 10% of the Registrable Securities; provided the Company is given written notice thereof.

Lock-Up Provision: The Registrable Security holders shall agree that they will not sell its shares for a specified period (but not to exceed 180 days) following the effective date of the Company's initial public offering; provided that all officers, directors, and other 1% stockholders are similarly bound.

Other Provisions: Other provisions shall be contained in the Investor Rights Agreement with respect to registration rights as are reasonable, including cross-indemnification, the period of time in which the Registration Statement shall be kept effective, and underwriting arrangements.

Right of Participation: Greenmont shall have the right in the event the Company proposes to offer equity securities to any person (other than the shares carved out of the Anti-Dilution Provisions set forth above) to purchase their pro rata portion of such shares calculated on a fully diluted as converted basis. Such right of first offer will terminate upon a Qualified IPO.

Purchase Agreement: The investment shall be made pursuant to a Stock Purchase Agreement reasonably acceptable to the Company and Greenmont, which agreement shall contain, among other things, appropriate representations and warranties of the Company, covenants of the Company reflecting the provisions set forth herein and appropriate conditions of closing, including a management rights letter and an opinion of counsel for the Company.

Employee Pool: Prior to the Closing, the Company will reserve an additional 1,500,000 shares of its Common Stock for future issuance under its equity incentive plan so that 13% of its fully diluted capital stock following the issuance of its Series A Preferred has been granted or is available for future issuances to directors, officers, employees and consultants. The term "Employee Pool" shall include both shares reserved for issuance as well as current options outstanding.

Eco-Products, Inc.

Stock Vesting: All stock and stock equivalents issued after the Closing to employees, directors, consultants and other service providers will be subject to vesting as follows (unless different vesting is approved by the Board): 25% to vest at the end of the first year following such issuance, with the remaining 75% to vest monthly over the next three years.

Restrictions on Sales: The Company's Bylaws shall contain a right of first refusal of the Company on all transfers of Common Stock, subject to normal exceptions.

Co-Sale Agreement: The shares of the Company's securities held by Stephen and Judy Savage and The Savage Living Trust (the "Founders") shall be made subject to a co-sale agreement (with certain reasonable exceptions) with Greenmont such that the Founders may not sell, transfer or exchange their stock unless Greenmont has an opportunity to participate in the sale on a pro-rata basis. This right of co-sale shall not apply to and shall terminate upon a Qualified IPO.

Employment agreements: Steve Savage will enter into a standard employment contract with the Company.

OTHER MATTERS

Confidentiality: Greenmont and the Company agree to keep confidential this term sheet and any information and data provided by one party to the other in connection with the transactions contemplated by this term sheet. Greenmont and the Company further agree they will not (i) use any portion of the information and data provided to such party by the other party for any purpose other than the consummation of the transaction contemplated by this summary of terms, or (ii) except as contemplated by this term sheet, disclose any portion of the information and data provided to such party by the other party to any persons or entities other than the officers, employees, and consultants of such party who reasonably need to have access to the information and data provided to such party for purposes of the consummation of the transaction contemplated by this term sheet.

Indemnification: The bylaws and / or other charter documents of the Company shall limit board member's liability and exposure to damages to the broadest extent permitted by applicable law.

The Company shall carry D&O insurance that covers the Board of Directors as approved by the Board of Directors.

Legal Fees and Expenses: Cooley Godward shall draft the transaction documents. The Company shall bear its own fees and expenses and shall pay the reasonable fees (not to exceed \$25,000) and expenses of Kendall, Koenig and Oelsner P.C. regardless of if, and only if, the transactions contemplated by this term sheet are actually consummated.

Eco-Products, Inc.

Conditions Precedent
to Financing:

Except for the provisions contained herein entitled “Legal Fees and Expenses”, “Exclusivity”, and “Confidentiality”, which are explicitly agreed by the Greenmont and the Company to be binding upon execution of this term sheet, this summary of terms is not intended as a legally binding commitment by Greenmont, and any obligation on the part of Greenmont is subject to the following conditions precedent:

1. Completion of legal documentation satisfactory to the parties.
2. Satisfactory completion of due diligence by Greenmont including a review of Ellie’s Organic.
3. Submission of detailed budget for the following twelve months, acceptable to Greenmont.

Acknowledged and agreed:

GREENMONT CAPITAL PARTNERS II, LP

By: _____

Print Name _____

Title: _____

ECO-PRODUCTS, INC.

By: _____

Print Name _____

Title: _____