# JKAM

We have spent significant time strategizing how we will be setting up our capital structure and have planned both in the short term during the initial quarters one through roughly three and then how our capital structure will change over time based upon projections. Because our current debt/equity (D/E) ratio is we have decided to elect to issue more debt in lieu of equity financing. We came to the conclusion that at the beginning of this scenario that it was not in the best interest of the shareholders both in the short and long term to have a follow-on offering which would dilute the shareholders ownership within the corporation. When comparing equity financing to the low three-year interest rates, even if projected to increase, we found this to be the lowest cost of capital and with the least opportunity cost. We will continue to monitor interest rates, the bond market, consumer demand, our own firms liquidity, and our share price to judge if our capital structure needs to be modified any sooner than Q3. We have elected to not issue dividends as a growing company. Historically speaking when corporations elect to start offering a dividend you will see complacency with that firms share price. On top of that we have decided that it would not be a responsible business decision to provide a dividend if we are using debt financing since, outside of keeping a safe buffer of cash on hand and the tax penalty since you cannot deduct dividends before tax, we could be paying off the debt financing earlier if we elected to not use our retained earnings towards dividends. We hold the strong belief to not offer preferred stock unless in an emergency situation as we have seen recently with Goldman Sachs and Warren Buffett. We also have elected to not issue more common stock, unless market conditions show a need for us to otherwise, for the respect of shareholders as the financial market conditions have shown that debt provides the lowest cost of capital and fits our desired risk tolerance.

As a means to efficiently use resources we do not find it within our risk tolerance to expand capacity in PP&E unless we can forecast with reasonable confidence that we will use it within one quarter. A point could be made that in the business world if you do not have the capacity to meet demand for a big order you may lose out on a sizeable long-term customer which may have a future value higher than what financing would cost to have extra capacity, this is a risk we have accepted. As of the current projections we are able to justify a 1% cash discount on payments made.

We will be closely monitoring our company through Return On Equity (ROE), D/E Ratio, CR, EPS, and WACC. We can also use historic performance and modeling to find correlation within our decisions as quarter’s progress to find where there may inefficiencies within our business decisions. We understand that correlation is not causation but this will allow us to more effectively find trends that we may not otherwise see.