Stomping Grounds Coffee Inc.

BALANCE SHEET
(dollars in thousands)

ASSETS	
Current Assets	
Cash and Cash Equivalents	5,000
Accounts Receivable	4,000
Inventory	7,000
Other Current Assets	1,000
Total Current Assets	**17,000**
Property, Plant, and Equip.	22,500
Other Assets	500
Total Assets	**40,000**
LIABILITIES	
Current Liabilities	
Accounts Payable	4,000
Bank Line of Credit	1,000
Commercial Paper	2,000
Total Current Liabilities	**7,000**
Mortgage Bonds	10,000
Debenture Bonds	1,500
Total Liabilities	**18,500**
STOCKHOLDERS' EQUITY	
Preferred Stock	1,500
Common Stock	14,000
Retained Earnings	6,000
Total Stockholders' Equity	**21,500**

Stomping Grounds Coffee owns and operates a small chain of gourmet coffee shops.

The company has been quite successful over the past five years, growing from one store in Cincinnati to 20 stores throughout the Midwest.

Questions for Discussion

1. Stomping Grounds has financed its growth in a variety of ways since it started five years ago. Based on the information shown, what are the two <u>largest</u> sources of capital have they used?

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2. For <u>each</u> of the two sources you listed above, provide one <u>advantage</u> and one <u>disadvantage</u>.

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3. Stomping Grounds has used three types of <u>short-term debt financing</u>. What are they and briefly describe each one.

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4. Stomping Grounds has sold both <u>Common Stock</u> and <u>Preferred Stock</u> to investors. What is the difference between the two?

5. What is one advantage of Preferred Stock to Stomping Grounds (the <u>issuer</u>)? What is one advantage of Preferred Stock to the <u>investors</u>?

6. If the Preferred Stock was actually "<u>Convertible</u> Preferred Stock", what would that mean?

7. Stomping Grounds has sold two types of long-term debt: Mortgage Bonds and Debenture Bonds. What is the main <u>difference</u> between the two?

8. What <u>payment</u> does Stomping Grounds have to make to the holders of the Mortgage Bonds and Debentures in exchange for the ability to use the money? What payment might they have to make to the investors in their Common Stock and Preferred Stock? Which one is tax deductible to the company?

9. Stomping Grounds has used <u>Retained Earnings</u> to finance part of its growth over the past five years. What does this mean?

10. We do not have an income statement available, but what can you infer from the balance sheet about whether the company is <u>profitable</u>? Explain. *(hint: your answer to #9 should help you out)*