

Syllabus/Outline

Capital Structures and Valuation for Early Stage Companies and Venture Capital Investment

Intersession 2025

Prof. Lipshaw

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For more information about me, see <http://www.professorlipshaw.com>

Course Information:

Meetings:

Credit Hours: 1*

Information about you: Please go to the “Student Bio Information” tab on the left sidebar in Canvas. There will be instructions on posting some basic biographical information about you.

Overview

This is a one-credit overview of the capital structures and investment issues for early-stage companies receiving venture capital funding. Topics to be covered include: an introduction to early stage investing; financial valuation concepts (the time value of money, discount rates, internal rates of return, and valuation methodologies for both mature and early stage companies); the basics of convertible preferred stock investment term sheets. Students should expect to undertake basic arithmetic and simple algebra. Prerequisite: Business Entity Fundamentals; basic familiarity with balance sheets and income statements helpful but not required. Evaluation: Pass/Fail. Passing requires participation in 80% of in-class “Poll Everywhere” polling questions and correctly answering 30 out of 40 multiple choice questions on an open book “final examination” that will be available on Canvas throughout the course and the following weekend.

* I am required by the school administration to advise you that a “credit hour” is an amount of work that reasonably approximates not less than one hour of classroom or direct faculty instruction and two hours of out-of-class student work per week for fifteen weeks, or the equivalent amount of work over a different amount of time, namely, the one week of this intersession. So it will be pretty intense.

Be forewarned. This class is designed to teach lawyers some basics about financial valuation of business entities. There is simple arithmetic and algebra involved, as well as mathematical models used to determine the value of companies and the consequence of various forms of capital structure.

Although the course does not cover financial accounting, and it is not absolutely necessary to taken a course that teaches it, it would be helpful to have some basic understanding of income statements and balance sheets. If you took accounting classes as an undergrad or in business school, took accounting for lawyers, or took my section of Business Entity Fundamentals, you will know more than enough. If not, you have two resources. First, you can read the portion of the Palmiter & Partnoy excerpt on financial accounting. Second, I have posted the relevant portions of my Business Entity Fundamentals class notes from the unit on financial structures. There is enough there that, if you read through it carefully, you should be able to follow any references to accounting or its terminology that pop up in this class.

Zoom and Class Protocol

This is going to be an interesting and intense experience. There won't be that many of us, so we should all be visible to each other on the Zoom screen. **PLEASE PLEASE PLEASE keep your video on as much as possible.** I realize we are running through dinner time, but the idea of talking for 2.5 hours to a bunch of names is abhorrent to me. Indeed, I am thinking about experimenting with everybody being unmuted as well so as to replicate a real class.

I will take at least two five-minute breaks during each class session.

There will also likely be some quiet time as I ask you to figure out some of the problems on your own before going over the answers.

Required Materials:

Course Pack:

Wasserman, *The Founder's Dilemma*, Harv. Bus. Rev. (Feb. 2008)

Reed, *Doing documents vs. doing deals: a lawyer confronts a venture capitalist*, Business Law Today 13 (Sept./Oct. 2001)

Palmiter & Partnoy, *Corporations: A Contemporary Approach* (West Academic) ("Palmiter") [Chapter 9 – Numeracy]

Zider, *How Venture Capital Works*, Harv. Bus. Rev. 131-139 (Nov.- Dec. 1998).

Lerner, *A Note on Valuation in Private Equity Settings* in Lerner, *Venture Capital and Private Equity* (2000).

Maynard, Warren & Treviño, *Business Planning: Financing the Start-Up Business and Venture Capital Financing*, 3d ed. (“MWT”); pp. 1-17; 505-617 and Anti-Dilution Worksheet

Recording

All classes are recorded via Suffolk’s Media Services, which will post links to the recordings on Canvas after the end of each class.

If you take notes, concentrate on engaging with what’s important - you can always go back and pick up details later.

NOTICE: YOU MAY ONLY VIEW THE RECORDINGS VIA THE LINK PROVIDED ON CANVAS, AND MAY NOT DOWNLOAD OR RECORD THEM. THE RECORDINGS ARE MY PROPERTY, AND YOU ARE PERMITTED TO USE THEM FOR THIS CLASS ONLY. ANY REBROADCAST, REPUBLICATION, OR RETRANSMISSION WITHOUT THE EXPRESS WRITTEN CONSENT OF ME IS STRICTLY PROHIBITED.

Evaluation

I am far more interested in having you engaged with the materials during class than worrying about the evaluation. Given that it is a pass/fail class, you will earn a “pass” simply by:

1. Participating in 80% of the in-class polling questions (which I can tabulate through Poll Everywhere). The only requirement is that you participate. It doesn’t matter, except for your ego when I post the responses, what you answer to get credit.
2. Correctly answer at least 30 of the 40 multiple choice questions about the material on a “final examination” that will be posted on Canvas and available to you from the beginning of the course. Also, the questions are largely arranged in the order that we will cover the material so that you can begin answering them during or after each session of the class during the week.

Out of Class Availability

I am almost always available by phone or e-mail. Don’t be shy if you need to talk about this class or anything else.

Mental health, stress and substance abuse

As a student, you may experience a range of issues that can cause barriers to learning, such as strained relationships, increased anxiety, health issues, alcohol/drug problems, feeling down, difficulty concentrating, lack of motivation, or feeling ill. These concerns or other stressful events may lead to diminished academic performance or may reduce your ability to participate in daily activities. Suffolk University services are available to assist you in addressing these and other concerns you may be experiencing. You can learn more about the broad range of medical services and confidential mental health services available on campus at the following websites:

[Counseling Center](http://www.suffolk.edu/offices/989.html) -- <http://www.suffolk.edu/offices/989.html>,

[Office of Health and Wellness Services](http://www.suffolk.edu/offices/932.html) --<http://www.suffolk.edu/offices/932.html>

Law Students may also wish to access the services of Lawyers Concerned for Lawyers –

www.lclma.org

In addition, the Law School Dean of Students Office is available to discuss resources and possible approaches to address the academic/enrollment impact of the above issues. (The Law Dean of Students Office is on the 4th floor, within the Dean’s Suite –LawDeanOfStudents@suffolk.edu).

Unit Outlines

Unit 1: Business startups, the entrepreneurial mindset, early stage investing

Reading:

Wasserman

Reed

Zider

MWT, pp. 1-17

- I. Background on Entrepreneurship and New Business Financing
 - A. What is an entrepreneur?
 - B. Lawyerly mindset – models and contracts
- II. Overview of Capital Formation
 - A. Angel Funding
 - 1. Who are they?
 - 2. What do they want?
 - 3. Investment structures
 - B. Venture Capital Funds
 - 1. Industry overview
 - 2. Fund structures

Unit 2: Business Evaluation and Valuation

Reading:

Palmiter

Lerner

- I. Evaluation
 - A. What VCs Do
 - B. The Nature of the Game
 - 1. Uncertainty
 - 2. Asymmetric Information
 - 3. Nature of Assets
 - C. Controlling Risk
 - 1. Financing Techniques
 - 2. Monitoring
- II. Valuation
 - A. Time Value of Money
 - 1. Basic Concept
 - 2. Discount Rates
 - a. Mature Firms
 - b. Startups
 - B. Internal Rates of Return
 - C. Methodologies
 - 1. Earnings Capitalization
 - 2. Comparables
 - 3. NPV (or DCF)
 - 4. Venture Capital Method
 - a. Pre-Money, Post-Money, and Fully-Diluted Values
 - b. Calculation

Unit 3: Typical VC investment forms – convertible preferred stock and the issue of dilution

Reading:

Boyce
MWT, pp. 505-617

- I. Overview of Venture Capital Financing – Convertible Preferred Stock Investment
- II. Convertible Preferred Stock Documentation and Rights
 - A. The amended and restated certification of incorporation
 - B. The nature of preferred stock
 - C. Substantive terms
 1. Dividend preferences
 2. Liquidation preference
 3. Conversion rights
 - D. Anti-dilution provisions
 1. What is dilution?
 2. Good dilution in the VC context
 3. Bad dilution
 - a. Why it happens
 - b. Adjustments for technical dilution to the participation right
 - c. Real dilution to the economic value of the shares
 - i. How it happens (arithmetically)
 - ii. Anti-dilution protection
 - (A) What it is
 - (B) Full ratchet
 - (C) Weighted average ratchet