

# TABLE OF CONTENTS

---

	Page
DEDICATION .....	iii
PREFACE.....	v
<b>CHAPTER 1. CLASSIFYING AND CHARACTERIZING BUSINESSES.....</b>	<b>1</b>
A. Threshold Challenge for Lawyers.....	1
B. Owner Differences .....	2
1. Single-Owner Entities .....	2
2. Employee-Owned Entities .....	3
3. Investor-Owned Entities .....	3
4. Hybrid Entities .....	3
5. Dominant-Owner Entities .....	3
6. Family-Dominated Businesses.....	4
7. Personal Service Organizations .....	5
8. Emerging Public Companies.....	5
9. Public Companies .....	6
C. Entity Differences .....	7
1. Sole Proprietorship.....	8
2. C Corporation.....	8
3. S Corporation .....	8
4. Partnership Options.....	10
5. Limited Liability Companies .....	11
D. Characteristic Differences.....	12
1. Product vs. Service.....	12
2. Asset-Based vs. Operational-Based .....	13
3. Stand-Alone vs. Affiliated .....	14
4. Market Power or Not?.....	15
5. Geographic Expansion Potential or Not?.....	15
6. High-Leverage vs. Low-Leverage .....	16
7. Scalable or Not?.....	17
8. Small vs. Large Employee Base .....	18
9. Union vs. Non-Union .....	19
10. Heavy Regulation or Not?.....	19
11. Internet Dependent or Not? .....	20
12. Low-Tech vs. High-Tech .....	20
13. Strategically-Based vs. Relationship-Based .....	21
14. Institutionalization or Not? .....	21
15. High vs. Low Margin Tolerance .....	22

E. Business Plans .....	22
1. Purpose and Role.....	23
2. Plan Elements.....	23
3. Appealing to Investors .....	24
<i>Student Problem 1-1</i> .....	25
<b>CHAPTER 2. FINANCIAL STATEMENT BASICS .....</b>	<b>26</b>
A. The Language of Business .....	26
B. Underlying Concepts.....	26
1. Objectivity – GAPP and IFRS .....	26
2. Entity Focus .....	27
3. Going Concern .....	28
4. Monetary Measure .....	28
5. Historical Dollar Cost.....	28
6. Realization.....	29
7. Accrual .....	29
8. Conservatism.....	29
9. Consistency .....	30
10. Disclosure.....	31
C. Reading Financial Statements .....	31
<i>SEC Guide to Financial Statements</i> .....	31
D. Sample Financial Statements .....	38
<i>Balance Sheet</i> .....	40
<i>Income Statement</i> .....	41
<i>Comprehensive Income Statement</i> .....	42
<i>Cash Flow Statement</i> .....	43
<i>Changes in Shareholders' Equity Statement</i> .....	44
E. Safeguards .....	45
1. The Audit Process .....	45
2. Enron and Sarbanes-Oxley.....	46
3. Responsible Parties .....	50
4. Example Audit and Internal Controls Opinion.....	53
<i>Student Problems 2-1 and 2-2</i> .....	55
<b>CHAPTER 3. CORE BUSINESS PERFORMANCE FACTORS .....</b>	<b>57</b>
A. Fundamental Business Concepts – <i>Party Time Inc.</i> .....	57
B. Ten Key Factors .....	58
1. Income and EBITDA- <i>Party Time Exhibit 1</i> .....	58
2. Cash Flow - <i>Party Time Exhibit 2</i> .....	59
3. Current and Quick Asset Ratios - <i>Party Time Exhibit 3</i> .....	60
4. Opportunity Costs .....	61
5. Fixed vs. Variable Expenses .....	61
6. Economies of Scale .....	62
7. Leverage and Return on Equity.....	62
8. Debt-to-Equity Ratio .....	63
9. Gross Multipliers and Capitalization Rates.....	63
10. Goodwill and Going Concern Value .....	64
<i>Student Problem 3-1</i> .....	64

<b>CHAPTER 4. LEVERAGING DEBT .....</b>	<b>66</b>
A. Business Debt Basics .....	66
B. Five Illustrative Debt Transactions .....	66
<i>Carla's Certificate of Deposit</i> .....	66
<i>Ned's Equipment Note</i> .....	68
<i>Martha's Mortgage</i> .....	70
<i>Lucy's Line of Credit</i> .....	71
<i>Duke's Letter of Credit</i> .....	73
<i>Student Problem 4-1</i> .....	74
C. Bonds .....	75
<i>Student Problem 4-2</i> .....	77
D. Leveraging Real Estate - An Example .....	77
<i>Linda's Triumph</i> .....	77
<i>Student Problem 4-3</i> .....	79
E. Ned's Amortization Schedule .....	80
<b>CHAPTER 5. TIME-VALUE-OF-MONEY BASICS .....</b>	<b>83</b>
A. Time is Money .....	83
B. Concepts and Calculations .....	83
<i>Bob's Signing Bonus</i> .....	83
1. Present Value .....	83
2. Future Value .....	84
<i>Bob's Supplemental Retirement Benefit</i> .....	84
3. Future Value from Periodic Payments .....	84
4. Periodic Payment from Present Value .....	85
5. Present Value from Future Periodic Payments .....	85
6. Periodic Payments from a Future Value .....	86
7. Annuities .....	86
8. Internal Rate of Return - <i>Bob's Real Estate Investment</i> .....	87
<i>Student Problem 5-1</i> .....	88
<b>CHAPTER 6. VALUING A BUSINESS ENTERPRISE .....</b>	<b>89</b>
A. The Lawyer's Non-Role .....	89
B. Scope of the Challenge .....	90
C. Alternative Valuation Methods .....	92
<i>Student Problem 6-1</i> .....	93
<b>CHAPTER 7. BASIC MICROECONOMICS CONCEPTS .....</b>	<b>95</b>
A. For Lawyers? .....	95
B. The Demand Side .....	95
<i>Exhibit 1 - Demand Curves</i> .....	96
<i>Exhibit 2 - Market Power Hypothetical Market</i> .....	97
<i>Exhibit 3 - Judy's Revenue Analysis</i> .....	97
<i>Exhibit 4 - Demand vs. Marginal Revenue Curves</i> .....	98
C. The Cost - Supply Side .....	98
<i>Exhibit 5 - Judy's Revenue and Cost Analysis</i> .....	99
<i>Exhibit 6 - Average and Marginal Cost Curves</i> .....	100

D. Profit Maximization .....	100
<i>Exhibit 7 - Judy's Profit Analysis with Market Power</i> .....	101
<i>Exhibit 8 - Market Power Profit Maximization Graph</i> .....	101
<i>Exhibit 9 - Judy's Profit Analysis with No Market Power</i> .....	102
<i>Exhibit 10 - Deadweight Loss Graph</i> .....	103
<i>Exhibit 11 - Wealth Transfer Graph</i> .....	103
<i>Student Problem 7-1</i> .....	104
<b>CHAPTER 8. FUNDING THE ENTERPRISE .....</b>	<b>105</b>
A. Public Companies.....	105
1. Pros and Cons of Being a Public Company .....	105
2. Going Public Process .....	106
3. Public Markets: Factors and Lingo .....	108
<i>Stock Markets</i> .....	108
<i>Stock Exchanges</i> .....	109
<i>Stock Indexes</i> .....	109
<i>Transaction Processing</i> .....	110
<i>Market Trading Breakers</i> .....	112
<i>Derivatives - Options, Swaps, Forwards, Futures</i> .....	112
<i>Mutual Funds</i> .....	113
<i>Exchange-Traded Funds</i> .....	114
<i>Hedge Funds</i> .....	115
<i>REITS</i> .....	115
<i>Common Trading Strategies and Related Terms</i> .....	116
<i>Student Problems 8-1 and 8-2</i> .....	118
B. Closely Held Enterprises .....	119
1. Start-up Capital Sources.....	119
2. Securities Law Registration Exemptions and Risks.....	123
3. Dangerous Misconceptions .....	130
<i>Student Problem 8-3</i> .....	134
<b>CHAPTER 9. BUSINESS ENTERPRISE TAXATION BASICS .....</b>	<b>136</b>
A. The World Tax Stage .....	136
1. Corporate Taxes around the Globe.....	136
2. Role and Challenges of Transfer Pricing .....	139
B. U.S. Business Entity Tax Concepts .....	140
1. Corporate Tax Basics: Q&As.....	140
2. LLC and Partnership Tax Basics: Q&As .....	150
3. Self-Employment and Payroll Tax Basics: Q&As .....	154
<i>Student Problem 9-1</i> .....	157
<b>CHAPTER 10. CHOOSING THE BEST ENTITY FORM.....</b>	<b>158</b>
A. Moving Targets and Collateral Consequences.....	158
B. Key Factors and Consequences .....	159
<i>Example Case One: Jason</i> .....	159
Factor 1: Earnings Bailout.....	159
Factor 2: Self-Employment Taxes.....	160
Factor 3: Tax-Free Reorganization Potential .....	161

Factor 4: Control Rights.....	161
Factor 5: Sellout Tax Hit.....	161
Factor 6: Passive Income Potential .....	162
<i>Example Case Two: Sue and Joyce</i> .....	163
Factor 7: Owner Fringe Benefits.....	163
Factor 8: The Bracket Racket.....	164
Factor 9: Tax-Year Flexibility .....	165
<i>Example Case Three: Charles</i> .....	165
Factor 10: Different Ownership Interests.....	166
Factor 11: Loss Utilization.....	166
Factor 12: Real Estate .....	167
<i>Example Case Four: Jurden Inc.</i> .....	168
Factor 13: C Corporation Conversion Flexibility .....	168
<i>Example Case Five: Peter</i> .....	168
Factor 14: Going Public Prospects.....	169
Factor 15: The "Not My Return" Factor .....	169
Factor 16: Reinvestment Growth .....	169
<i>Student Problems 10-1 through 10-4</i> .....	170
 INDEX.....	 173