

Entrepreneurial Finance - EMBA 693EF - Provo 2008

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Course Summary: The objective of the course is to apply financial skills and tools specifically to entrepreneurial ventures. This course focuses on real-world applications. The financial tools are not presented in a vacuum, but as an integral part of the overall business plan.

Learning Objectives:

By the end of the course, students should be able to:

1. Recognize how entrepreneurial finance fits into the entrepreneurial process and the business plan.
2. Value entrepreneurial ventures.
3. Explain the fundamentals of securities law and how it impacts new venture financing.
4. Compare and contrast options for capital structure and financing of new ventures to include venture capital, bootstrap financing, equity, debt, warrants, and options.
5. Understand pros and cons of various harvest strategies.
6. Implement turnaround strategies for distressed firms.

Class Procedures: We will begin each class on time with an opening prayer. Please be seated in time for the prayer if at all possible. We will end all classes on time. We will take a 5-10 minute break between each class segment. I encourage active learning and hope to have a discussion-oriented class.

Materials

1. *Entrepreneurial Finance, 3rd Ed.*, by Leach and Melicher, Thomson South-Western © 2009.
2. *The Handbook of Financing Growth: Strategies and Capital Structure*, by Marks, Robbins, Fernandez. And Funkhouser, Wiley, © 2005.

Grading Policy and Student Responsibilities

1. The course grade will be based on each student's performance in the following areas:

Participation/Preparation	40%
Quizzes (3 @ 20% each)	60%

Participation includes attendance, preparation, and in-class discussion. The quizzes are closed note and closed book. Quizzes are at the beginning of class on the assigned chapters for that day.

2. The BYU Honor Code will be strictly enforced. I encourage you to work in teams; however, quizzes will be on an individual basis.

Aims of a BYU Education: Throughout this course, please contemplate how the material we cover correlates with the aims of BYU. These aims are that BYU will provide an experience that is: 1) spiritually strengthening, 2) intellectually enlarging, 3) character building, and 4) that inspires lifelong learning and service. I will do my best to make the gospel an integral part of our class.

My Goals for the Class *(Taken from the BYU Student Ratings and Learning Experience)*

1. Students learn a great deal in this course.
2. Course materials and learning activities are effective in helping students learn.
3. This course is well organized.
4. Evaluations of student's work (e.g., exams, graded assignments and activities) are good measures of what students learn in this course.
5. Course grading procedures are fair.
6. This course helps students develop intellectual skills (such as critical thinking, analytical reasoning, and integration of knowledge).
7. This course provides knowledge and experiences that help strengthen student's testimony of the Gospel of Jesus Christ.

8. Class time is used efficiently.
9. An appropriate amount of work for this level of class is assigned.
10. Busy work is minimized.

My Goals for Myself

1. Have genuine interest in students and their learning.
2. Provide adequate opportunities for students to get help when needed.
3. Provide opportunities for students to become actively involved in the learning process.
4. Give students prompt feedback on their work.
5. Provide students with useful feedback on their work.
6. Respond respectfully to students' questions and viewpoints.
7. Effectively explain difficult concepts and ideas.
8. Appropriately bring Gospel insights into secular subjects.
9. Be spiritually inspiring insofar as the subject matter permits.
10. Contribute to the Mission and Aims of a BYU education (listed above).

My Professional Mission Statement

To build the kingdom of God by providing the best educational experience for my students in a spirit-filled environment so they may be better prepared to be outstanding managers and leaders throughout the world. I accomplish this mission through:

- Preparing the best curriculum possible.
- Fostering an enthusiastic environment in the classroom.
- Ensuring the gospel is at the core of learning.
- Increasing the academic reputation of BYU, the Marriott School, and myself through my research agenda.

Measures of Success

- Student proficiency in subject material.
- The construction and administration of outstanding classes.
- The quality and quantity of my research.

Assessments

- Evaluation system for students (e.g., quizzes, exams, cases, projects).
- Student evaluation scores for the professor (me).
- Peer-reviewed journal articles.

Suggestions for Further Study: As listed above, the fourth aim of the university is to inspire life-long learning and service. Following is a brief list of books and resources that I suggest to help you in this aim. Book citations contain book title, edition where applicable, author(s) last name, latest publication date, and publisher.

Periodicals in the Lee Library

- *Entrepreneur Magazine*
- *Entrepreneurship: Theory and Practice*, Baylor University
- *Journal of Business Venturing*, Elsevier Press
- *Journal of Small Business Management*, Blackwell
- *Small Enterprise Development: An International Journal*, IT Publications
- *Venture Capital Journal*, <http://www.venturecapitaljournal.net/>

On-Line Resources

- Blank Entrepreneurial Center, <http://www3.babson.edu/eship/>
- BYU Center for Entrepreneurship, <http://marriottschool.byu.edu/cfe/>
- International Council for Small Business (ICSB), <http://www.icsb.org/>

- Jim Moran Institute for Global Entrepreneurship, <http://www.cob.fsu.edu/jmi/index2/index.asp>
- National Federation of Independent Business (NFIB) National Small Business Poll, nfib.com
- National Venture Capital Association (NVCA), <http://www.nvca.org/home-frame2.html>
- US Association for Small Business and Entrepreneurship (USASBE), <http://www.usasbe.org/>
- US Small Business Administration, <http://www.sba.gov/>

Local Angels, VC Firms, and Private Equity

- Utah Angels, <http://www.utahangels.org/>
- UV Partners, <http://www.utahventures.com/>
- vSpring Capital, <http://www.vspring.com/>
- Wasatch Venture Fund, <http://www.wasatchvc.com/>
- University Venture Fund, <http://www.uventurefund.com/>
- BYU Cougar Capital, <http://www.byucougarcapital.org/>
- UTFC (Utah Venture Debt Fund), <http://www.utfc.biz/>
- Sorenson Capital, <http://www.sorensoncapital.com/>
- Peterson Partners, <http://www.petersonpartnerslp.com/>

High Value-added Books

- *Art of the Start*, Guy Kawasaki, © 2004.
- *The Portable MBA in Entrepreneurship*, 3 Ed, Bygrave and Zacharakis, Wiley, © 2003.
- *New Venture Creation*, 7e, Timmons and Spinelli, McGraw-Hill, © 2007.
- *Entrepreneur's Toolkit: Tools and Techniques to Launch and Grow Your New Business*, Harvard Business Essentials, © 2005.

Something to think about...

"Genius is one per cent inspiration and ninety-nine per cent perspiration."

-Thomas Edison, 1931

Marriott School Policies (<http://marriottschool.byu.edu/classroompolicies/>)

The following seven policies are official statements of the Marriott School.

1. Academic Honesty

The first injunction of the BYU Honor Code is the call to "be honest." Students come to the university not only to improve their minds, gain knowledge, and develop skills that will assist them in their life's work, but also to build character. President David O. McKay taught that "character is the highest aim of education" (*The Aims of a BYU Education*, p. 6). It is the purpose of the BYU Academic Honesty Policy to assist in fulfilling that aim. BYU students should seek to be totally honest in their dealings with others. They should complete their own work and be evaluated based upon that work. They should avoid academic dishonesty and misconduct in all its forms, including but not limited to plagiarism, fabrication or falsification, cheating, and other academic misconduct.

2. Preventing Sexual Harassment

Title IX of the Education Amendments of 1972 prohibits sex discrimination against any participant in an educational program or activity that receives federal funds. The act is intended to eliminate sex discrimination in education. Title IX covers discrimination in programs, admissions, activities, and student-to-student sexual harassment. BYU's policy against sexual harassment extends not only to employees of the university, but to students as well. If you encounter unlawful sexual harassment or gender based discrimination, please talk to your professor; contact the Equal Employment Office at 422-5895 or 367-5689 (24-hours); or contact the Honor Code Office at 422-2847.

3. Students with Disabilities

Brigham Young University is committed to providing a working and learning atmosphere, which reasonably accommodates qualified persons with disabilities. If you have any disability which may impair your ability to complete this course successfully, please contact the Services for Students with Disabilities Office (422-2767). Reasonable academic accommodations are reviewed for all students who have qualified, documented disabilities. Services are coordinated with the student and instructor by the SSD Office. If you need assistance or if you feel you have been unlawfully discriminated against on the basis of disability, you may seek resolution through established grievance policy and procedures. You should contact the Equal Employment Office at 422-5895, D-285 ASB.

4. Diversity

I aim to make my classroom similar to the workplace. In the workplace, it is illegal to discriminate based on race, color, religion, sex, national origin, disability, or age. Furthermore, I believe Christ would never belittle anyone based on their race, color, religion, sex, national origin, disability, or age. Therefore, I feel strongly that no one in my classroom should be belittled for any reason. If you experience such an offense in my class (caused either by me or a fellow student), I strongly encourage you to contact me.

5. Policy on the Use of Technology in the Classroom

Technology is an essential part of today's learning environment. That is why the Marriott School requires every student to own a laptop. However, technology, when used inappropriately, can also hinder learning. Most Marriott School students have, at some point, sat next to students who use their laptops or PDAs in class to check e-mail, talk to friends, instant message, search the internet or play on-line games. Unfortunately, every person sitting around such students is distracted by this behavior and classroom learning decreases. As a result of these distractions, the Marriott School has implemented the following policy effective Fall semester, 2006: *Using laptops or PDAs in class to legitimately take notes or work on class projects is allowed, but all other use of laptops or PDAs in class is prohibited.* Please respect your fellow students and professors and abide by this Marriott School policy.

6. Cell Phone Policy

Students are not allowed to use cell phones in classes in the Marriott School. Please turn them off as you enter the classroom and keep them stored out of sight in your backpack or pocket.

7. The Marriott School Learning Outcomes for Students (August 2006) are as follows. Through the semester we will address all six objectives. We will particularly focus on Objectives c and d.

- a. Learning to work in groups and being part of an effective team
- b. Being able to communicate effectively, both orally and in writing
- c. Developing a sense of ethical values that translate into the business community
- d. Becoming proficient in the subject matter of the degree
- e. Developing the ability to use technology efficiently
- f. Being able to participate effectively in a global environment

Syllabus Changes: The course outline that follows is subject to change. Any necessary changes will be announced and discussed in class. We will do our best to adhere closely to the existing schedule; however if we need to make adjustments to prevent student overload we will.

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Course Schedule

Please read each assignment prior to class. The *Leach/Melicher* assignments are required for grading purposes. The *Handbook* readings are optional. If you do not have time to read each assignment carefully, please at least skim prior to class. *For quiz purposes, you will be responsible only for material we cover in class and for the key terms at the back of each chapter.*

Overview and Business Plan (10/2/08)

Session 1a Leach/Melicher 1: Introduction and Overview (pp. 3-34)
Handbook 1: Introduction (pp. 3-5)

Session 1b Leach/Melicher 2: From the Idea to the Business Plan (pp. 44-82)
Handbook 2: Business Performance and Strategy (pp. 6-14)

Organizing a New Venture (10/9/08)

Session 2a: Leach/Melicher 3: Organizing and Financing a New Venture (pp. 95-131)
Handbook 7: Expert Support (pp. 262-277)

Session 2b: Leach/Melicher 8: Securities Law Fundamentals (pp. 298-324)
Handbook 6: Documentation/Regulatory Compliance (pp 161-251)

VC and Enterprise Valuation (10/16/08) Quiz 1

Session 3a: Leach/Melicher 10: Venture Capital Valuation Methods (pp. 395-418)
Handbook 3: Valuation (pp. 15-16)

Session 3b: Leach/Melicher 13: Security Structures and Enterprise Value (pp. 517-543)
Handbook 4: Capital Structure (pp 22-40)

Venture Capital and Private Equity (10/23/08)

Session 4a: Leach/Melicher 11: Professional Venture Capital (pp. 445-468)
Handbook 5: VC Funds (pp. 94-123)

Session 4b: JAFCO American Ventures (Harvard Case 9-899-099)

Alternative Financing Alternatives and NetFlix (10/30/08) Quiz 2

Session 5a: Leach/Melicher 12: Other Financing Alternatives (pp. 471-506)
Handbook 5: Sources of Capital (44-93, 124-155)

Session 5b: Case - NetFlix.com, Inc (HBS 9-201-037)

Harvesting (11/6/08)

Session 6a: Leach/Melicher 14: Harvesting the Business Venture Investment (557-586)
Handbook 8: Closing the Deal (279-286)

Session 6b: RightNow Technologies (HBS 9-805-032)

Walnut Ventures and Course Synthesis (11/13/08) Quiz 3

Session 7a: Walnut Venture Associates Parts A-D (HBS 9-899-062/063/064/097)

Session 7b: Course Synthesis