

**FIN/ENT 4310**  
**ENTREPRENEURIAL FINANCE**  
**FALL 2008**

Instructor: Bill Petty  
Office: 338—Finance Department  
Phone number: 710-2260 (office) 751-7483 (home)  
Email: [bill\\_petty@baylor.edu](mailto:bill_petty@baylor.edu)  
Office hours: 9:00-10:30 a.m. Monday and Wednesday;  
2:00-3:00 p.m. Tuesday and Thursday.  
Other times as available.

**COURSE PREREQUISITE: FINANCE 3310. Minimum grade of C**

**COURSE OBJECTIVE AND STRUCTURE (A bit long and wordy, but important!)**

1. The course builds on the concepts of finance learned in the basic corporate finance course (FIN 3310) that have relevance to the entrepreneurial venture, beginning with the startup and concluding with the "harvest." While we are interested in the entrepreneur as a person, we are even more interested in the entrepreneurial process, especially as it relates to finance.
2. The central focus of the course is to gain an understanding of the financing of entrepreneurial ventures, including ways entrepreneurs identify and commit the necessary resources to create and finance their ventures. Consistent with financial theory, we will be evaluating decisions and alternatives on the basis of their impact on firm value. To accomplish these objectives the course addresses specific skills, concepts, and know-how relevant for financing and building entrepreneurial ventures. In developing these concepts and skills, we look at the following basic areas:
  - Understanding the entrepreneurial process
  - Evaluating the opportunity
  - Developing the business plan
  - Financing the venture
  - Valuing and structuring the deal
  - Harvesting the venture
3. We will read extensively during the semester. Our reading should be aimed at (1) understanding what each article or chapter is about; (2) understanding the important principles presented by the author; and (3) either modeling the concepts or applying the principles to an actual situation, when possible. As the instructor, my lectures will focus primarily on concepts, rationales, and reasons why, as opposed to conclusions. We will then have significant exposure to business guests who will be speaking from their "rice bowl", providing us insights on conventional practice, or the "hows" and "whats". The combination should allow a balance in our studies not otherwise possible.

4. **Please come to class prepared.** The mere act of listening to wise statements and sound advice does little for anyone. In the process of learning, the learner's cooperation is required. Such cooperation from students does not arise automatically, however. It has to be provided for and continually encouraged. It will be hard work, requiring a willingness to be stretched. However, it can be challenging and fun, if we want it to be. We are on the same team, working together to develop a deeper understanding of entrepreneurship, finance and ourselves. You will never intentionally be embarrassed in class for giving wrong answers. We learn from our mistakes. However, if you come without having done the assigned work, you will detract from the quality of the learning experience for yourself and the other students in the class.

5. When you are assigned a reading from the text or an article, I will frequently call on a student to summarize the reading. I ask that you come to class prepared to give an effective and organized presentation of the main ideas of the reading. Too often, students read the assignment, but are not prepared to present in class. Please come prepared to give an effective overview of the reading assignment.
6. In preparing for problems and cases, you are to complete the assignment, AND be able to **present effectively** what you have done and why.
7. Although being prepared for class is our expectation, I do realize that time pressures are not evenly distributed. There are times when we are all better prepared than other times. Because the class is discussion oriented, there is a temptation not to come to class when you do not feel adequately prepared. Thus, on an infrequent occasion you will be allowed to be present in class without having to participate. Each student is given two "indulgences". On any day that you do not want to be responsible to lead or participate in the discussions, you may write your name on a piece of paper and place it on the podium before class starts. I will then abstain from calling on you. Otherwise, I will assume you are prepared to participate fully in class discussions. However, you may not use an indulgence when we have a business guest in class. Finally, be aware that being absent without prior approval if you are selected to make a presentation will be costly to your participation grade.
8. It simply is not possible to start and grow a new company without a good understanding of the firm's historical and proforma financial information. Thus, among the skills to be developed will be the ability to model the following financial data using a computer spreadsheet:
- a. Financial statements and ratios
  - b. Cash flow statement
  - b. Cash budgets and proforma financial statements
  - c. Valuing and structuring deals
  - e. Free cash flow valuation of the firm

9. When using a computer spreadsheet, you are to **bring your work to class on your disk and in printed form—with no exception--and be prepared to present your work on the computer.** ***WORK WILL NOT BE ACCEPTED AFTER CLASS.***
10. Feel free to discuss problems and cases together. Part of the learning process frequently comes through such an exchange of ideas. ***HOWEVER, ANY WORK SUBMITTED IS TO BE YOUR OWN WORK. THERE IS TO BE NO SHARING OF WORK, EITHER BY HAND OR ON THE COMPUTER.*** This request is particularly hard for close friends who frequently work together. Again, working together is often very effective, but please let your spreadsheets be your own creation. Thank you for honoring my request.
11. In addition to the use of a computer spreadsheet, it will be assumed that you know how to use a financial calculator that has finance functions. You will need the calculator on exams.
12. For the most part you will work individually on assignments. However, we will use **four-person** teams on two case studies in the class: The business plan case to be selected (October 15<sup>th</sup>) and *Vision Research Organization* (November 19<sup>th</sup>). Please submit the names of your four team members by **September 29<sup>th</sup> via email in alphabetical order, with first name first.** Also, after you have received team grades, I will request each member of a team to recommend a distribution of the grade points among the members.
13. When we have a business guest, we want it to be a great experience, both for the class and for the guest. We want to treat the guest with great hospitality by:
  - a. Preparing before class. On any assignment relating to a business guest, I may ask for a written report (limited to one page text) to be submitted by each student. But regardless of the assignment, you should search the internet to have some basis for a conversation with the guest.
  - b. Being actively involved in the discussion—asking good questions. In a Q&A time, there should be **at least two hands** in the air at any given time.
  - c. Expressing our appreciation by a **standing ovation** and expressing our gratitude to the guest after class.
  - d. Dressing **business casual—and no baseball caps.**
14. We will begin class on time, and to add a little incentive for punctuality (and a little fun time), anyone coming late will get to do a little “performing” for the class.
15. While we will be greatly interested in finance as an important "input" into the entrepreneurial process, it cannot provide us with the "final and complete answer" to success, either professionally or personally. Business leaders are critical of business schools that teach only the quantitative dimension at the exclusion of other important matters. Don't be deceived by these criticisms -- technical skills are important inputs that cannot be ignored if we want to be competitive; but there is more. Thus, we will try to place the subject of finance within the context of the "bigger picture" -- hence, the book by Steven Covey.

16. As a personal goal, I want to come to know each student in the class. Only by knowing each other can we have any meaningful relationship. The time constraints will press against us not to become better acquainted, but let's work to counter this pressure. Thus, please feel free to come by just to visit, with or without a specific agenda.

### COURSE MATERIALS:

Jeffrey Timmons, customized version of *New Venture Creation*, Irwin, 7<sup>th</sup> edition.

Supplementary readings and cases will be provided on Blackboard.

Harvard Cases and notes: *Steven Belkin and Edocs*.

Stephen Covey, *The Seven Habits of Highly Effective People*, Simon & Schuster.

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### CLASS SCHEDULE:

#### SESS.

NO.	DATE	ASSIGNMENT
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<b>BEGINNING THE STORY</b>
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|---|------------------------|---|
| 1 | August 25              | Setting the stage   |
| 2 | August 27 <sup>1</sup> | “The Entrepreneurial Mind” (Timmons, Chapter 1, pp. 1-21) |

	September 1	Labor Day
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<b>UNDERSTANDING FINANCIAL INFORMATION</b>
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|---|---------------------------|---|
| 3 | September 3               | <i>Note on Evaluating Firm Performance</i> (blackboard)<br>Work end-of-note problems 1 and 2-- <u>use computer spreadsheets for your computations</u>   |
| 4 | September 8               | Sarabeth Swagerty Corp. and Kit Collins, Inc. (Blackboard) <u>Use excel spreadsheets posted on blackboard to perform your analysis.</u><br>Covey (Inside-Out)   |
| 5 | September 10 <sup>2</sup> | Lipsitz Iron and Metal (Blackboard)   |
| 6 | September 15              | “Preparing the Cash Budget and Proforma Statements” (Blackboard)<br>Jordan Zellos Corporation, Part 1, Excel model of cash budgets and proforma financial statements (Blackboard)<br>Covey (The Seven Habits-An Overview) |
| 7 | September 17              | Jordan Zellos Corporation continued, Parts 2-4  |

<sup>1</sup> Guest lecturers: Julie Burleson and Suzy Nettles, Founders, Young Chefs International, Waco.

<sup>2</sup> Guest lecturer: Tom Salome, CEO, Lipsitz Iron and Metal, Waco.

Covey (Habit 1)

**OPPORTUNITY RECOGNITION**

- 8 September 22 “The Entrepreneurial Process” (Timmons, Chapter 3, pp. 46-63)
- 9 September 24 “The Opportunity” (Timmons, Chapter 4, pp. 65-91)  
Covey (Habit 2)

**DETERMINING THE RESOURCE REQUIREMENTS  
AND DEVELOPING THE PLAN**

- 10 September 29 “The Business Plan” (Timmons, Chapter 6, 93-101)  
Case: Steven Belkin (Harvard)
- Submit names of team members via email (alpha order—first name first)**
- 11 October 1 *Note on Forecasting Financial Requirements* (Blackboard)  
Jordan Hiller, Inc. Excel model on forecasting financial requirements: (Blackboard)
- 12 October 6 Jordan Hiller, Inc. (Continued)  
Covey (Habit 3)

- 13 October 8 *A DAY OF REFLECTION (EXAM I)*

**FINANCING THE VENTURE**

- 14 October 13 “Entrepreneurial Finance” (Timmons, Chapter 12)  
“Obtaining Venture and Growth Capital” (Timmons, Chapter 13)
- 15 October 15 **Business plan case: To be selected**  
Team written analysis to be submitted.
- 16 October 20 Timmons (Chapter 15)  
Covey (Paradigms of Interdependency)
- 17 October 22<sup>3</sup> Case: Culvert Toyota (Blackboard)

<sup>3</sup> Guest lecturer: Mike Calvert, Owner, Calvert Toyota, Houston

## VALUING AND STRUCTURING THE DEAL

- 18 October 27 *Note on Valuing and Structuring Deals: The Venture Capitalist's Approach* (Blackboard) and work the problem at the end of the note  
Covey (Habit 4)
- 19 October 29 Mark Miller, Inc. A problem on deal structuring (Blackboard)  
Case: eDocs: Part I
- 20 November 3 Case: eDocs: Part II  
Covey (Habit 5)
- 21 November 5<sup>4</sup> Case: Davaco
- 22 November 10 *A Note on Firm Valuation* (blackboard)  
Covey (Habit 6)
- 23 November 12 Jennifer Sedio Corporation. Excel model to value a firm (blackboard)  
Case: The Bonneau Company: Part I (blackboard)
- 24 November 17<sup>5</sup> Case: The Bonneau Company: Part II
- 25 November 19<sup>6</sup> Case: Vision Research Organization (to be provided) Team written analysis to be submitted and discussed in class.
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- 26 November 24 *A DAY TO REFLECT AGAIN* (EXAM II)
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- November 27 TURKEY DAY!!!

## THE HARVEST

- 27 December 1<sup>7</sup> Cecilia Levine: An Entrepreneurial Story  
The Harvest (Blackboard)
- 28 December 3<sup>8</sup> Case: Glamour Shots, Inc. (To be provided in class)
- 29 December 8 The Conclusion of the Matter  
Covey (Habit 7)

<sup>4</sup> Guest lecturer: Rick Davis, Founder and CEO, Davaco Corporation, Dallas

<sup>5</sup> Guest lecturer: Ed Bonneau, Founder and CEO, The Bonneau Company, Dallas.

<sup>6</sup> Guest lecturer: Tyler Self, founder and CEO, Vision Research Organization, Inc.

<sup>7</sup> Guest lecturer: Cecilia Levine, Founder and President, MFI International, Inc.

<sup>8</sup> Jimmy O'Neal, CEO, Glamour Shots, Inc., Dallas

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**FINAL EXAM (9 a.m., Saturday, December 13th)**

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**DETERMINING YOUR GRADE**

**Exams**

The weight of the three exams will be as follows:

Exam I    15%            Exam II    15%            Final exam    25%

**Team case analyses**

The *Vision Research Organization* and the *business plan* cases are to be analyzed as teams and submitted in writing; together these two cases represent 15 percent of your grade.

**Individual excel models**

The excel models related to the financial statements and firm valuation will count for 5 percent of your grade. **These models are to be prepared on an individual basis. THEY WILL NOT BE ACCEPTED LATE. You should come to class with your solution on disk AND a hard copy. AND WORK WILL NOT BE ACCEPTED LATE—NO MATTER WHAT!!! If you cannot submit your hard copy in class, it will not be accepted. Only work submitted in class when due will be accepted.**

**Class contribution**

The final 25 percent of your grade will be based on the amount AND quality of individual participation in the class discussions. This is a significant part of your grade, which means that you will not do well in the final grade if you have not actively participated in the class discussions.

**The final grade**

The final grade will be based on the scale of 90 or above is an A, 80-89 is a B, 70-79 is a C, 60-69 is a D, and below 60 is an F.

**Make-up exams**

There will be no make-up exams. If you are absent from an exam, the portion of the grade related to the missed exam will be assigned to the final exam. If an exam is to be missed, you will need to acquire permission in advance.