

**Seminar in Entrepreneurial Finance**  
**MBA 289T, three units**  
**Syllabus**

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**Class Time:** TBA

**Office Hours:** TBA

**COURSE OBJECTIVES:**

Seminar in Entrepreneurial Finance is designed to provide our graduate students with the unique perspectives and analytical tools required for effective financial decision making in an entrepreneurial environment. An entrepreneurial environment is characterized by uncertainty and rapid change on part of both entrepreneurs and investors. In such an environment the fate of any venture at any point in its life cycle, and regardless of its product and market position, may just depend on the types of financial contracts that that specific venture has entered into.

In addition to detailed analytical analysis, students will also be introduced to new findings from the field of cognitive psychology; specifically psychological phenomena like biases (predisposition towards error), heuristics (mental shortcut to make decisions or rules of thumb) and framing effects (context sensitivity).

In this class, we will cover issues that are important to both entrepreneurs and investors in all types of venture deals and throughout the whole entrepreneurial process from startup to harvest/exit. Evaluating venture opportunities (also known in the venture capital industry as Due Diligence), Valuing businesses, Structuring deals, and Raising risk capital are among the major topics covered in this course. Other important topics to be covered in the class include Financing growth and expansion, Minimizing failure risk, and Exit strategies (also known as splitting equity and compensation).

**PRIMARY LEARNING OUTCOMES:**

Upon successful completion of this course, students are expected to:

1. Understand the entrepreneurial process as a whole and the vital role that funding and “deal making” plays in that process;
2. Understand the inner-working of the venture capital industry which provides financing and related operational support to all types of entrepreneurs and ventures;
3. Be able to determine the varying nature of risks and rewards in an entrepreneurial setting- as opposed to a public market setting;
4. Evaluate and analyze for investment purposes different business opportunities especially from the vantage point of an investor or venture capitalist;

5. Value (price) any given risky venture- either new or existing- in any industry and at any stage of development;
6. Determine the percentage share of a given venture that should be given up by an entrepreneur in return for a given financing offered by an investor;
7. Understand and practice how venture deals are made; and how such deals can affect the continued operation of a venture and consequently the life of both the entrepreneur and her/his investor(s);
8. Be able to provide preliminary advice relative to raising capital in different settings or investing in a venture;
9. Be able to help design and develop plans for further expansion and growth of a venture;
10. Understand how to avoid or at least minimize venture losses and venture failures; and finally,
11. Understand the role that biases, heuristics, and framing effects play in the decision making process for both entrepreneurs and entrepreneurs.

**CLASS PREREQUISITE:** Except for graduate standing, there is no prerequisite for this class.

**REQUIRED TEXTBOOK:**

Packet of cases from Harvard Business School. More information will be given in class on how to obtain such cases.

**GRADING:**

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|--|------|
| 1. Case analysis and presentation in class – group assignment –..... | 30%  |
| 2. Midterm and Final, with equal weights,.....                       | 60%  |
| 3. Class participation – mainly participation in case analysis ..... | 10%  |
| Total Grade.....   | 100% |

**MORE ON GRADEING:**

**CASE ANALYSIS.**

Each group of 2-3 students will be given two cases for analysis, write-up, and class presentation during the semester. There will be a maximum of three people, with at least one finance/accounting major, in each group. Some cases need only two students. Cases will be prepared and presented in class by each group. At the time of presentation, each presenting group needs to submit to me a detailed report on the case presented. Such reports should be typewritten, double-spaced, and should stay within a five-page limit with no limit on appendices. The finished report shall include the group's analysis, direct and detailed responses to the questions raised in the assigned case, along with any needed recommendations.

Due to the nature of the class, students are highly encouraged to utilize excel spreadsheets in their analysis and reports. Furthermore, I highly encourage the groups prepare and distribute to every student in the class some form of handout for their

presentations. This will much facilitate the presentation and the follow-up discussions.

Finally, case presentations are group responsibilities and will be graded accordingly. Specifically, each team member must either “carry its weight” or face lower grade for such a assignment.

## **EXAMS**

There will be both a midterm and a final exam for this class. More details will be given in class.

## **CLASS PARTICIPATION**

Students are expected to effectively participate in case presentations and class discussions. I also reserve the right to call on students regarding case presentations.

## **ATTENDANCE POLICY:**

1. Please note attendance is very important in this class. Students are expected to attend all classes. You may use your two penalty-free "allowance" for "can't miss" situations. Emergency situations will be handled on a case by case basis. However, a letter grade will be lost for each two additional non-excused absences.

2. Once a student is in class, I expect him/her to stay for the full duration of the session. Leaving early and while a class is in session naturally disrupts the class. Therefore, such action will be counted as non-attendance and treated accordingly. If you have to leave early and you know it, please talk to me before the class.

**POLICY ON MAKEUPS:** As a matter of fairness to all other students, **NO MAKEUPS** will be given to any individual. Emergency cases, if any, will be handled on a case by case basis.

## **GRADING:**

Grades for this class will be determined by the following arrangement:

- A: 90%-100%
- B: 80%- 89%
- C: 70%- 79%
- F: 69% and below

## **COURSE OUTLINE:**

### **I- Introduction and Investors' Due Diligence Process- Four Weeks**

- Investors' Principles and Due Diligence
- How Venture Capitalists Evaluate Potential Venture Opportunities
- Managing Risk and Reward in the Entrepreneurial Venture
- New Venture Financing
- Note on Business Model Analysis for the Entrepreneur
- Walnut Venture Associates (A): RBS Group Investment Memorandum- Case
- Never Fail Computing- Case

### **II- Deal Structuring and Deal Valuation- Five Weeks**

- Note on Different Valuation Methods
- Funding New Ventures: Valuation, Financing, and Capitalization Tables
- Note on Free Cash Flow Valuation Models
- A Note on Valuation of Venture Capital Deals
- Deal Structure and Deal Terms
- ONSET Ventures- case
- SpiffyTerm, Inc- case
- Endeca Technologies (A)- case

### **III- Venture Financing/Risk Capital and Expansion Issues- Three Weeks**

- The Market for Risk Capital
- A Note on Managing the Growing Venture
- Cases to be assigned

### **IV- Entrepreneur/Investor and the Troubled Company- One Weeks**

- Failure Factors
- Small Business Truisms To Avoid Failure;
- Avoid Business Failure;
- Failure Prevention.

All above readings to be handed in to students in class

### **V- Exit/Harvest Strategies and Issues- Two Week**

- Sara's Options- case
- NanoGene Technologies, Inc- case
- Business Plan for Room for Dessert- case

### **VI- Role of Biases, Heuristics and Framing Effects on Entrepreneur's and Investor's Decision Making Process - One Week**

- Notes to be handed in to students in class

## **NOTE ON PLAGIARISM**

The university's policy on plagiarism will be in full force for all the evaluation instruments throughout the semester:

**Honor Code:** "Members of the CSU Fresno academic community adhere to principles of academic integrity and mutual respect while engaged in university work and related activities." You should:

- a) understand or seek clarification about expectations for academic integrity in this course (including no cheating, plagiarism and inappropriate collaboration)
- b) neither give nor receive unauthorized aid on examinations or other course work that is used by the instructor as the basis of grading.
- c) take responsibility to monitor academic dishonesty in any form and to report it to the instructor or other appropriate official for action.

Cheating and Plagiarism: "Cheating is the actual or attempted practice of fraudulent or deceptive acts for the purpose of improving one's grade or obtaining course credit; such acts also include assisting another student to do so. Typically, such acts occur in relation to examinations. However, it is the intent of this definition that the term 'cheating' not be limited to examination situations only, but that it include any and all actions by a student that are intended to gain an unearned academic advantage by fraudulent or deceptive means. Plagiarism is a specific form of cheating which consists of the misuse of the published and/or unpublished works of others by misrepresenting the material (i.e., their intellectual property) so used as one's own work." Penalties for cheating and plagiarism range from a 0 or F on a particular assignment, through an F for the course, to expulsion from the university. For more information on the University's policy regarding cheating and plagiarism, refer to the Class Schedule (Legal Notices on Cheating and Plagiarism) or the University Catalog (Policies and Regulations).

Again, please note that university's policy on plagiarism will be in full force for all the evaluation instruments throughout the semester.

4. Other. No excuses- like "I mistakenly uploaded the wrong file". Imagine what happens if you do this to your boss/client in the real world! Finally, if any instruction item throughout this course is not clear to you, do not assume anything- just ask!

### **More on Plagiarism- Definition**

Academic dishonesty, including cheating and plagiarism, will not be tolerated. It is a violation of ethical principles and university policy. Plagiarism involves taking or using the writings or inventions of another and claiming them as one's own. It also means quoting directly from any source without giving credit to the true author and without using quotation marks.

Cheating is defined as any intent to deceive your instructor in her effort to grade you fairly based on your own effort and work. Cheating involves anything that can possibly affect the fairness of grading. This also means that when you collaborate, as is permitted in many of the work for this course, you may not use the words of your classmates or anyone else from whom you obtain information. Instead, you may consult, but you must write in your own words.

To reiterate, academic dishonesty includes, but is not limited to:

- Copying another persons' examination, paper, research or creative project;
- Submitting another's work as one's own (emphasis added)"

The syllabus clearly provides for a remedy in the case of cheating:

"Anyone caught cheating or plagiarizing can suffer any of the following sanctions: 0 for an exam or assignment, F for the course, and/or expulsion from the university. Additional potential penalties include suspension, probation, and termination of financial aid, and any other University remedies. At a minimum, cheating or plagiarism in this class will result in a zero for the assignment involved and a report of the incident to the Dean of Student Affairs."

Source: Professor Ida Jones' paper on plagiarism, Spring 07

**FINAL SYLLABUS NOTE:** The above schedule and procedures for this course are subject to change in the event of extenuating circumstances.