COURSE SYLLABUS

COURSE DETAILS	
Course	Finance 374S – Entrepreneurial Finance
Semester	Fall 2012
Instructor	William T. Charlton, Jr., Ph.D., CFA
Office	CBA 6.304D
Phone	(512) 232-6834
Email	billy.charlton@mccombs.utexas.edu (***The best way to reach me***)
Office Hours	T,Th 4:00-5:30pm. Others by appointment
Classroom	T,Th 9:30-11:00am, UTC 3.104
Teaching Assistant	TBA

COURSE OBJECTIVES

In this course we will study the financing of small and medium sized businesses from the perspective of both the entrepreneur and investors. Students will learn how the financing decisions of small and medium sized private companies differ from those of public firms. They will also see how the use of real options and milestones relate to the strategy and the value on an opportunity. We will begin by building financial forecasts that will allow for the estimation of the firm's cash flow needs. Following that, we will look at the valuation of small firms and medium sized businesses from both the entrepreneur and investors' perspectives. With that background we will then examine ways to structure agreements to properly align the incentives between the entrepreneur and investors. Finally we will discuss realization of returns through various liquidation events and the sources of financing for small companies including angels and the various types of private equity.

COURSE MATERIALS	
Required Materials	*Entrepreneurial Finance*, 2011, Janet Smith, Richard Smith, & Richard Bliss, Stanford University Press, ISBN: 978-0-8047-7091-0. i>clicker The *Wall Street Journal* should be read on a daily basis. To subscribe: http://subscribe.wsj.com/semester

Perquisites	Finance 374S is a Restricted Course for students who are currently enrolled in a major program in the College of Business Administration. Note that several prerequisites apply for this course and are published in the Course Schedule. Prior completion of Finance 357 or Finance 357 H (with a grade of at least a C).

COURSE POLICIES	
Students With Disabilities	Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512- 471-6259, *http://www.utexas.edu/diversity/ddce/ssd/.* Please review the SSD Policies and Procedures document for this course posted on BlackBoard.
Religious Holidays	By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.
BlackBoard	Students should check Blackboard regularly. I will post announcements, assignments, changes to the course schedule, and other useful information there.
Participation	Participation is one of the best ways for a student to insure that they understand the material. I intend to create an environment that encourages open discussion and allows you to feel comfortable in asking any question. An unasked question, particularly about a basic point, may impede the student's learning.
Feedback	I am open to and encourage students to offer suggestions on how to improve the course both for the existing semester and future ones. My goal is to optimize my approach to helping students understand the important topics that we will be covering this semester. Any suggestions for improvements will be much appreciated.
Electronic Devices	**The use of laptops and other electronic devices including cell phones is prohibited during class lectures and exams.** All electronic devices must be stored during the lecture, that is electronic devices are not allowed on desks, in hands, or in laps. There will be several days where we will work on spreadsheets in class. Students are encouraged to bring and use laptops on those days. **All photography and audio recording is prohibited unless authorized by me.**
Calculators	A financial calculator is recommended. Students are responsible for learning the operation of their calculators including Time Value of Money functions. I will post a review of TVM problems based on the TI BAII plus calculator on Blackboard. Calculators will be cleared prior to taking the exams and cannot be shared. Note: You may NOT use a cell phone calculator application on the exams.

COURSE POLICIES	
Honor Code	The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the Policy Statement on Scholastic Dishonesty for the McCombs School of Business: The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the BBA Program's Statement on Scholastic Dishonesty at http://www.mccombs.utexas.edu/BBA/Code-of-Ethics.aspx. By teaching this course, I have agreed to observe all faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all student responsibilities described in that document. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification. Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at http://deanofstudents.utexas.edu/sjs/ to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty. You are expected to abide by the University Honor Code at all times. All violations will be handled according to University procedures and referred to proper authorities. I will pursue any violations to the fullest extent of the code. If you are ever in doubt about a particular issue, please ask! The course is intentionally structured to give students multiple opportunities to achieve an appropriate grade. For example, any single test will not determine a student's grade (see discussion of the optional final below). It is my hope that this structure will minimize the incentives to violate the Honor Code.
Campus Safety	Please note the following recommendations regarding emergency evacuation from the Office of Campus Safety and Security, 512-471-5767, http://www.utexas.edu/safety/: .. Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside. .. Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building. .. Students requiring assistance in evacuation should inform their instructor in writing during the first week of class. .. In the event of an evacuation, follow the instruction of faculty or class

COURSE POLICIES	
	instructors. .. Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office. .. Behavior Concerns Advice Line (BCAL): 512-232-5050 .. Further information regarding emergency evacuation routes and emergency procedures can be found at: http://www.utexas.edu/emergency/
Privacy	Password-protected class sites will be available for all accredited courses taught at The University. Syllabi, handouts, assignments and other resources are types of information that may be available within these sites. Site activities could include exchanging e-mail, engaging in class discussions and chats, and exchanging files. In addition, class e-mail rosters will be a component of the sites. Students who do not want their names included in these electronic class rosters must restrict their directory information in the Office of the Registrar, Main Building, Room 1. For information on restricting directory information see: http://www.utexas.edu/student/registrar/catalogs/gi02-03/app/appc09.html

MCCOMBS CLASSROOM PROFESSIONALISM POLICY	
The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas BBA experience hinges on this. Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects. The Texas BBA classroom experience is enhanced when:	
Students arrive on time	On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.
Students are fully prepared for each class	Much of the learning in the Texas BBA program takes place during classroom discussions. When students are not prepared they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.
Students attend the class section to which they are registered	Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
Students respect the views and opinions of their colleagues	Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.

MCCOMBS CLASSROOM PROFESSIONALISM POLICY	
Laptops are closed and put away	When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of laptops in class. Faculty will let you know when it is appropriate to use them. In such cases, professional behavior is exhibited when misuse does not take place.
Phones and wireless devices are turned off	We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.

EVALUATION	
Weighting	Exams I, II, III — 100 pts./each Assignments 50 pts. Attendance 30 pts. Team 20 pts. A,A,&T — 100 pts. **Total — 400 pts.** Your grade for the course will be based on your performance on the exams, the assignments, attendance, your team grade, and the final; there is no opportunity for extra work. Pass/fail students must take all exams and average a passing grade to receive a passing grade for the course.
Scale	A 92.1 and above — C 72.1-77.9 A- 90.0-92.0 — C- 70.0-72.0 B+ 88.0-89.9 — D+ 68.0-69.9 B 82.1-87.9 — D 62.1-67.9 B- 80.0-82.0 — D- 60.0-62.0 C+ 78.0-79.9 — F 59.9 and below Course grades are rounded to the nearest tenth decimal point. Final course grades and the final exam may be curved at my discretion. Any curve that is applied will only improve students' grades.

EVALUATION	
Textbook Problems	Students are expected to work the specified problems in the textbook. Although the problems will not be collected, students may be called on in class to explain their answers. Solutions can be found in the optional solutions manual. Note that the solutions manual has several mistakes.
Exams	All exams will be held during regularly scheduled class times. The date of each exam is specified in the Tentative Course outline. Unless you have prior approval, you are required to take the exam with the section that you are registered for. Exams will not be given before the scheduled class time. Exams will be closed book, however a formula sheet will be provided for the exams. A sample formula sheet will be issued early in the semester so that students can familiarize themselves with it. The exams will be multiple choice, with a student's score calculated from the number of their correct answers. Students with questions about the exam can address them during office hours. Due to the optional final structure (discussed below) individual exams will not be curved. For each exam, I do examine the statistics on each individual question and may drop questions that I deem excessively difficult.
Make-ups	**No make-up or early exams will be given**. Students unable to take the exam at the scheduled time for any reason may use the final to replace the exam that they missed.
Final	The final is optional and will be comprehensive. Your score on the final may substitute for the lowest score on one of the semester exams, but may not substitute for an unexcused absence. If your score on the final is lower than your lowest exam, the final will not be used to calculate your grade. Thus, the final can only help your course grade. At the end of the semester, I will ask you to inform me as to whether you wish to take the final or not. I have structured the optional final for several reasons. First, to give students an opportunity to replace an exam score they think is not representative of their knowledge. Second, to provide a mechanism for students to replace an exam missed due to an excused absence. Finally, I believe this structure rewards students that have preformed well on the semester exams by allowing them to opt out of the final if they like their grade. Per University policy, **a make-up for the final will only be given if appropriate documentation** (doctor's note, letter from the dean) is produced. Without documentation, a student's grade will calculated from their performance on the semester exams including a grade of 0 for any missed exams. **Note:** I caution you not to take the semester exams lightly. While the final provides the opportunity to replace an exam grade we are covering a great deal of material during the semester and the final is comprehensive.

EVALUATION	
Assignments	There will be weekly assignments that will be turned in as a PDF file via Blackboard. The **assignments and due date/time will be posted on Blackboard**. At least one assignment grade will be dropped in the computation of this component. Assignments will be graded on a 10-point scale. **Students are graded on both the answer and uploading a readable PDF format file by the due date/time**. Late submissions will be accepted until midnight of the due date. The maximum score for late submissions will be 8 points.
Attendance	Attendance/polls will be taken via i>clicker at least twice each non-exam class period beginning on Tuesday, September18th. Students can earn up to 2 points for each class they attend. Students not in class when the attendance/polls are administered will not receive credit for that iteration. **Clicking in with somebody else's i>clicker is a violation of the Honor Code.** Students that forget their i>clickers or have problems using them will be allowed to sign a sheet documenting their attendance for that day. However, they will receive a **maximum of 1 point** for that day's attendance. The equivalent of one attendance/quiz class days will be dropped in the computation of this component. Students can earn additional dropped days by registering their i>clickers according to the schedule below: **i>clicker registered** — **Additional Days Dropped** — **Total Days Dropped** Prior to midnight 10/2 — 2 — 3 10/3 to midnight 11/1 — 1 — 2 After 11/1 — 0 — 1 The maximum score for this component is 30 points. Note: Attendance at both of the team presentation days in the last week of the course is **MANDATORY**. Absences at either of those classes will not be used in the dropped computation.
Team Project	You will be randomly assigned to a team after the 12th day of class. The team project involves researching and presenting an industrial sector that would be of interest to a private equity fund. You will be evaluated on the appropriateness of the selection as well as the team's ability to present a convincing case for investment in that sector. More details on the project will be provided during the semester.
Team Grade	The team grade will be computed in two parts. First, I will assign a grade to the team as a whole that represents my assessment of the team's overall performance across the semester with a maximum of 15 points. Second, team members will anonymously give other team members a grade from 1-5. The sum of the team grade and the average of each individual's team member scores will be the student's grade for this component.

TENTATIVE COURSE OUTLINE			
Date	**Topic**	**Chapter**	**Assignment**
	Introduction		
8/30 9/4	**Course Introduction, Overview** **Investments Bootcamp**	-	
	Financial Forecasting		
9/6	**Introduction & New Venture Financing** – Types of entrepreneurship, stages of new venture development, business plans, sources of financing, information issues, term sheets	1 2	1
9/11	**Methods of Financial Forecasting: Revenue –** Forecasting for established companies, forecasting for new companies, fundamental analysis, incorporating uncertainty	6	
9/13 9/18	**Methods of Financial Forecasting: Integrated –** Cash conversion cycle, working capital, developing assumptions, financial modeling for start-ups, incorporating uncertainty	7	2
9/25 9/27	**Assessing Financial Needs** – Sustainable growth, cash flow breakeven, planning for rapid growth, scenario analysis, staged investing	8	3
	Valuation & Strategy		
10/2	**Foundations of New Venture Valuation** – Myths, discounted cash flow, RADR, CEQ, relative value, venture capital method, rates of return	9	None
10/4	***** EXAM I (Thur): Chapters 1, 2, 6, 7, 8 *****		
10/9 10/11	**Valuation in Practice** – Continuing value, multiples, estimating risk free, market risk premium & beta, applying RADR & CEQ, advantages & disadvantages or RADR & CEQ	10	4
10/16	**The Entrepreneur's Perspective on Value** – Undiversified investors, partial-commitments, valuing partial commitment with RADR & CEQ	11	5
10/18 10/23	**Deal Structure –** Outside investors, contracts, proportional risk sharing, asymmetric risk & return, subsidized investors, active investors, implementation & negotiation, informational issues	12	6

TENTATIVE COURSE OUTLINE			
Date	**Topic**	**Chapter**	**Assignment**
	Deal Structuring & Financial Contracting		
10/25 10/30	**Value Creation & Contract Design** - Staged investing, signaling beliefs, alignment of interests, valuation-based contracting	13	7
11/1	***** EXAM II (Thur): Chapters 9-13 *****		None
11/6	**Choice of Financing** - Financing alternatives, considerations, financial decision process, cumulative financing needs, organizational structure, reputation & relationships, financial distress	14	8
11/8	**Harvesting** - Liquidation events, IPO's, underwriting, trade sales, valuing private transactions, management buyouts, employee stock ownership plans, the harvesting decision	15	
	Harvesting & Private Equity Markets		
11/13 11/15	**New Venture Strategy** - Strategic planning, financial strategy, real vs. financial options, expansion & abandonment options, decision trees, game trees, game theory	4	9
11/20	**Venture Capital** - Types of private equity funds, how funds are structured, raising private equity funds, how funds work, calculating carry, private equity returns, fund of funds	3	10
11/27	**The Future of Entrepreneurship –** Completing the circle, breaking new ground, public policy**,** institutional structure, changes in private markets	16	None
11/29	***** EXAM III (Thur): Chapters 14, 15, 4, 3, 16 *****		
12/4 12/6	**Team Project Presentations (Mandatory Attendance)**	-	None
Final	**Wednesday, December 18, 9 am-12 noon**		

Note: This is a tentative course outline. Topics may be re-sequenced, dropped or added depending on our progress throughout the semester. I will inform you of any changes as they are made and post any changes on BlackBoard.