

Venture Capital Finance and Investment (ENT 5585)

Bloch School of Business and Public Administration, UMKC

Fall 2007

(revised 8/27/07)

Lecturer: Eric Mikkelson
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Date & Time: Monday, 7:00 p.m. - 9:45 p.m.

Room: LAW 4

Class Materials: *Venture Capital and the Finance of Innovation*
By Andrew Metrick (Wiley 2007) ("VCFI")

Deal Terms: The Finer Points of Venture Capital Deal Structures, Valuations, Term Sheets, Stock Options and Getting Deals Done
By Alex Wilmerding (Aspatore 2005) ("DT")

Additional reading materials may be provided at least one week in advance of the related class. There may be an additional cost for such materials, not to exceed \$100, which will be paid for at the conclusion of the course. Grades will not be issued until payment is received.

Optional: *Fundamentals of Venture Capital*
By Joseph Bartlett

Summary:

This course is designed for students who wish to learn about or become involved in the venture capital market as investors, intermediaries or entrepreneurs in emerging growth companies seeking capital. With this goal, the course will define the venture capital market and where it fits relative to other sources of capital, examine how private equity funds are raised and structured, how investments are sought, sourced, selected, and negotiated, and the role of the value-added investor through investment to liquidity. The course presents and provides applications for various frameworks of valuing and structuring

investment opportunities. Suggested Prerequisites: BA 531, BA 532, BMA 506, and one of the following ENT 525, ENT 535, or ENT 541.

Learning Objectives:

My goals for this course include:

- 1) To provide students an appropriate background and context to understand the role and function of venture capital and private equity investments;
- 2) To familiarize students with the specialized vocabulary and practical insight into how venture capital investment decisions are considered, negotiated, documented and closed from the perspectives of entrepreneurs, intermediaries and investors; and
- 3) To teach and analyze finance frameworks often used in valuing venture capital investments.

Schedule:

(A=first half of classtime, B=Second half of classtime) Generally, there will be a break of approximately fifteen minutes between A & B.

*=homework due at the beginning of Class A

Aug. 20	A: Introductions, Course Overview B: Intro to VC
Aug. 27	A: VC Players B: VC Returns Reading: VCFI, 2 and 3
Sept. 3	No Class (Labor Day)
Sept. 10	A: The Cost of VC B: The Best VCs/VCs around the World Reading: VCFI, Ch. 4, 5 and 6 Homework: (*VCFI Exercises 2.1, 3.1, 3.3, 4.1, 4.2, 6.1)
Sept. 17	A: Choice of Entity/Tax Considerations B: Governing Entity Documents Handouts
Sept. 24	A: Employee Issues

- B: IP Protection Issues
Handouts
- Oct. 1 A: Initial Funding, Friends/Family, Government
B: Angel and Bridge Financing
Reading: DT 6 and 9, handouts
- Oct. 8 A: MIDTERM
B: The Analysis of VC Investments
Reading: VCFI, Ch. 7
- Oct. 15 A: Term Sheets
B: Preferred Stock
Reading: VCFI, Ch. 8* and 9*; DT 2, 3, 4 and 5
Homework: (*VCFI Exercises t/b/a)
- Oct. 22 A: The VC Method
B: Valuation, DCF Analysis of Growth Companies
Reading: VCFI, Ch. 10* and 11; DT 1
Homework: (*VCFI Exercises t/b/a)
- Oct. 29 A: Comparables Valuation
B: Options in VC
Reading: VCFI 12 and 13
- Nov. 5 A: Valuation of Preferred Stock
B: Later-Round Investments
Reading: VCFI 14 and 15
- Nov. 12 A: Participating Convertible Preferred Stock
B: Implied Valuation
Reading: VCFI 16 and 17
- Nov. 19 No Class (Thanksgiving Break)
- Nov. 26 A: PPMs, IPOs and Securities Law Compliance
B: Doing the Deal, Negotiations & Closing
Reading: DT 7 and 8
- Dec. 3 A: Current Issues and Legislation Re: Private Equity
B: Review
Handouts
- Dec. 10 A & B: Final

Other class topics may supplant or supplement those listed above and alter the schedule accordingly including: Guest speakers, case studies, joint ventures, strategic partnerships, non-VC private equity deals (auctions, LBOs, etc), purchase agreements/ancillary docs, VCFI 18 (complex transactions), etc. Such changes, if any, will be announced at least one week in advance.

About the Lecturer:

Eric Mikkelson is a partner in the Corporate Practice Group of Sonnenschein Nath & Rosenthal LLP, an international law firm with approximately 700 lawyers practicing in all areas of business law. In over thirteen years as a practicing business lawyer, Eric has led or significantly participated in structuring, negotiating and closing dozens of venture capital and other private equity transactions for clients involving hundreds of millions of dollars. He has represented high technology, Internet, life sciences and other entrepreneurial companies and clients in a wide range of decisions and transactions, from start-up through financings and exits. Eric holds an undergraduate degree from Stanford University in Human Biology with an area of Concentration in Economics and Ethics and a Juris Doctor degree from the University of Kansas School of Law.

Grading:

Attendance:	10%
Class Participation:	15%
Homework:	15%
Midterm:	20%
Final:	40%

With respect to attendance, two unexcused absences per student will be allowed without penalty during the semester, but homework and exam deadlines and times will not be extended for unexcused absences (resulting in no credit for the missed assignment or exam). Illness and other compelling circumstances beyond the student’s reasonable control are the only excused absences; student will be responsible for completing any missed assignments and scheduling any missed exam as soon as reasonably practicable after an excused absence. To count as an excused absence, the student must provide a written statement to the instructor citing the reason within one week from such absence (in advance if possible). Tardiness (other than isolated incidents) may adversely affect the class participation component of grading. Grading will not necessarily be curved. A “+” or “-“ may be added to a grade as appropriate. Extra credit is not available. The instructor adheres to the grading system accepted by the Bloch School faculty which follows the following standards:

Letter	UMKC	Operational Translation
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Grade	Description	
A	The highest grade	Excellent work; highest level of mastery of the material and scholarship; shows distinction in the quality of thinking, effort and results.
B	Work of distinction	Meets expectations for graduate work in terms of mastery of the material and scholarship. Quality of thinking, effort and results are acceptable.
C	Average work	Work that is minimally acceptable at the graduate level, A passing grade for a course but below overall expectations for graduation from a master's program.
D	Passing, but unsatisfactory	Work that does not meet basic expectations in terms of mastery and scholarship; not considered passing at the graduate level.
F	Failure without credit	Work that shows little mastery of the material and scholarship. Quality of thinking, effort and results are unacceptable

Changes:

All course requirements, course grading standards, due dates, reading assignments, and other aspect of this syllabus are subject to change at the discretion of the instructor. Changes will be explained by the instructor; however it is the student's responsibility to keep up with any modifications that are made throughout the semester.

Academic Honesty:

A student enrolling in any UMKC course is expected to exhibit high standards of academic honesty. In the case of academic misconduct, I will assess the affected work and report the incident to Bloch School administration according to the guidelines printed in the University catalog. See student conduct policies at:

<http://www.umkc.edu/umkc/catalog/html/append/policy/0020.html>

Cheating and plagiarism will not be tolerated. Unless otherwise indicated, all exams are closed book, closed notes, and are to be taken without help or assistance. Persons observed cheating on tests will receive a grade of zero for the exam. Similarly, plagiarism of assignments, projects, and papers is unacceptable, and a grade of zero will be assigned on any such item where plagiarism has been detected.

Withdrawal:

All course withdrawals must be completed through the Registration Center in the UMKC Administrative Center. Students intending to withdraw from the course

after the eighth week of class are required to obtain a signature of both the instructor and an academic advisor before the course withdrawal is official. *Telling the instructor that you intend to withdraw from the course or ceasing to attend class does not constitute an official withdrawal.* The academic calendar in the class schedule/registration guide lists the official withdrawal dates.

Bloch School Support Services:

- Bloch School Computer Lab: The Bloch School Computer Lab is available for your use. It is located in Bloch 110; the lab's website is: <http://www.umkc.edu/is/oa/IS-Lab-Brochure.pdf>
- Office of Disabled Student Services: If you have any questions about a disability or desire accommodation under the Americans with Disability Act, please contact the Office Of Disabled Student Services at 816-235-5696. The Office's website can be accessed at: <http://www.umkc.edu/disability/>
- UMKC Writing Lab: Students who desire assistance in written assignments may contact the UMKC Writing Lab at 816-235-1146. The Lab is located at 5201 Rockhill Road.

Weather:

Any inclement weather class cancellations will be posted on the UMKC website.