

THE WHARTON SCHOOL  
THE UNIVERSITY OF PENNSYLVANIA  
MGMT 811: Entrepreneurship Through Acquisition

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### **Course Description**

#### **Overview**

The objective of this course is to enable students to develop the skills and knowledge of the acquisition process as it relates to entrepreneurial businesses. Students will be expected to apply both their academic training and prior business experience to the class. The course requirements will consist of assigned readings, class discussions, caselets, and a final project.

Some of the topics that will be discussed in class include locating a business, due diligence, valuation, adding synergy, tax considerations, obtaining capital, search funds, structuring purchases, employee retention plans, and post-closing integration.

The course is practical and comprehensive. It is designed to provide you with the skills, techniques, and tools to assess, evaluate, synthesize, value, structure, and consummate a business acquisition while having a meaningful and challenging learning experience. A day or two before each class, I will post the lecture slides on Canvas. The slides are designed to provide an outline, but not a complete transcript, of the topics that will be covered in class. Since the class discussions are an important part of the learning process, you should not register for this course unless you are prepared to attend and actively participate in each class. If you do not attend the first class meeting, you cannot be enrolled in the course.

To encourage candid conversations in class, you should not record any of the lectures.

#### **Course Submissions and Grade Composition**

The course submission requirements, deadlines, and grade composition are as follows:

- Class participation- 30%

Your contributions will be evaluated after each class.

- Homework- 20%

There will be four homework assignments that will be posted on Canvas the Thursday before the second, third, fourth, and fifth classes. The assignments, which are short caselets, will be due at 9 p.m. the night before these classes. Your response should be two pages or less, and you will be expected to discuss and defend your answers in class. The homework is designed to encourage you to think about the readings and facilitate active participation in class. In many cases, there is no single correct answer to the homework problems.

- Final Project- 50%

The final project will be a case study that will be distributed before the last class. As an alternative to the final project, you have the option of preparing an acquisition analysis of an existing business. The requirements for the acquisition analysis are posted on Canvas and will be distributed in the first class. Either project can be prepared individually or in a group of 2 to 5 students. Regardless of whether you choose to do the final or alternative project, they are both due on March 7, 2014.

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The homework assignments and the final project should be submitted via Canvas. If an assignment is submitted late, your grade will be penalized.

**Accessibility**

I am available to meet and can be reached via email and telephone to assist you. I will try to meet as many students as possible for lunch or dinner during the course.

**Reading Materials**

- Chalfin, Robert J.; *Selling Your IT Business: Valuation, Finding the Right Buyer, and Negotiating the Deal*. John Wiley & Sons, Inc. (2006) ISBN 0-471-74076-4 (RJC).
- The bulk pack can be obtained from Study.net through Wharton Reprographics.
- A selection of the lecture's slides will be posted before each class on Canvas.

**Course Schedule:**

**Class 1 – January 13, 2014:**

**Topics:** Course Overview  
Chronology of an Acquisition  
Defining Your Goals  
Sourcing Businesses  
Confidentiality Agreements  
Preparation Prior to Meeting the Owner(s)

**Readings:**

Lecture Notes  
RJC pages 1 – 17, 149-160 [Chapters 1, 2, and 14]  
*Purchasing A Business: The Search Process*. HBS 9-388-044. (Walton, Ennis J. and Roberts, Michael J.)  
*Would-Be Entrepreneurs Learn From The Search*  
*Corporate Field Trip: Learning from Startups*  
*How to Sell a Small Business*  
*Turning Managers Into Takeover Artists*

**Class 2 – January 27, 2014:**

**Topics:** The Art and Science of the Evaluation Process  
Meeting the Owner  
Key Metrics and Indices  
Due Diligence

**Readings:**

Lecture Notes  
RJC pages 51 - 69, 167 – 188 [Chapters 6 and 16]  
*Ten Ways Earnings Lie*  
*Earnings, but Without the Bad Stuff*  
*Troubled Audit Opinions*  
*Fuzzy Accounting Enriches Groupon*  
*Auditors Sharpen Queries in China*  
*Start Ups Get Snapped Up for Their Talent*  
*Inside H-P's Missed Chance to Avoid a Disastrous Deal*  
*When a Founder is the Face of a Brand*  
***Homework Assignment #1 due before class***

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**Class 3 – February 3, 2014:**

**Topics:** Definition of Fair Market Value  
Types of Buyers  
Valuation Guidelines and Determinants  
Minority Interest Discounts  
Valuation Methods

**Readings:**

Lecture Notes  
RJC pages 87 – 140 [ Chapters 9,10,11, and 12]  
*Understanding Discount and Capitalization Rates (Pratt pages 201 – 234)*  
*Valuation Techniques*. HBS 9-384-185(Roberts, Michael J. and Stevenson, Howard )  
*The Benefits of Using a Formula*  
*Determining Your Company's Value: Multiples and Rules of Thumb*  
*Twins' Facebook Fight Rages On*  
*Disruptions: The Logic (or Lack of it) in Appraising Start-Ups*  
**Homework Assignment #2 due before class**

**Class 4 – February 10, 2014:**

**Topics:**  
Legal Structures  
Buy Sell Agreements

**Readings:**

Lecture Notes  
A Brief Overview of LLCs  
*How Much Is That Business Really Worth?*  
Estate of Cohen, ex rel. Perelman v. Booth Computers, et al.  
**Homework Assignment #3 due before class**

**Class 5 – February 17, 2014:**

**Topics:** Sources of Funds  
Obtaining Capital  
Search Funds

**Readings:**

Lecture Notes  
*A Meeting of the Minds*  
*Investors Pay Business Plans Little Heed, Study Finds*  
*To Get a Business Loan, Know How the Bank Thinks*  
*Trinket-Seller Rides Out Turbulence*  
*Want to Buy a Private Stock?*  
*Financing, With Strings Attached*  
*Entrepreneurs Hit Up Family, but Payback is Slow*  
*A Plea for Direct Lending to Small Businesses*  
*Earn-Outs: Bridge the Gap, With Caution*  
*On Wall Street, So Much Cash, So Little Time*  
*Using Your 401(K) to Buy A Small Business*  
*Is The Crowdfund Act Really Good News for Private Business?*  
*A Year Later, the Missed Opportunity of the JOBS Act*  
*SEC Clears Way for Entrepreneurs to Tweet, Blog About Unregistered Shares*  
*Law Opens Financing of Start-Ups to Crowds*  
*The Backers Who Made It Big*  
*Search Funds: An MBA Shortcut to the C-Suite*

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**Class 6 – February 24, 2014:**

**Topics:** Adding Synergy  
Utilizing Professionals  
Tax Consequences  
Letter of Intent

**Readings:**

RJC pages 189 – 206 [Chapter 17]  
RJC pages 161-166 [Chapter 15]  
Lecture Notes  
*Letters of Intent*  
*In Tough Times, Companies Coddle Their Regulars*  
*Firms Puzzle Over Tax Riddle*  
*Timing Is Ripe for Negotiation*  
*Outsourcing Finds New Niche*  
*Independent Contractor or Not*  
*For Dell Investors, a Safety Valve*  
***Homework Assignment #4 due before class***

**Class 7 – March 3, 2014:**

**Topics:** Contract / Asset Purchase Agreement  
Designing Incentive Plans  
Equity Sharing  
Preparing for Closing  
Post Deal Suggestions

**Readings:**

Lecture Notes  
RJC pages 41 - 50, 207 – 210 [ Chapters 5 and 18]  
The Transactional Lawyer and the Art of Plate Spinning  
*How Employees Value (Often Incorrectly) Their Stock Options*  
*How to Deal With Noncompete Agreements*  
*Cashing Out Start-Ups Gets More Complicated*  
*After Rocky Year for Start-Ups, Investors Are Pickier*  
*How Employees Value (Often Incorrectly) Their Stock Options*  
*Phantom Stock Plans*  
*Integration Acceleration*  
*Yahoo Says New Policy is Meant to Raise Morale*