

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.

Topics that will be discussed in class include locating a business, due diligence, valuation, adding synergy, tax considerations, obtaining capital, 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, I request that you do 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.

- Final Project- 50%

The final project will be a case study that will be distributed after the fifth 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 1, 2013.

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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 14, 2013:**

**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 For a Big Score, Think Small Towns*  
*Buying a Small Company Takes Patience, Too*  
*How to Sell a Small Business*  
*Turning Managers Into Takeover Artists*

#### **Class 2 – January 28, 2013:**

**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]  
*Know Your Enemy*  
*Ten Ways Earnings Lie*  
*Troubled Audit Opinions*  
*Fuzzy Accounting Enriches Groupon*  
*Auditors Sharpen Queries in China*  
*Start Ups Get Snapped Up for Their Talent*  
**Homework Assignment #1 due before class**

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**Class 3 – February 4, 2013:**

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

**Readings:**

Lecture Notes  
RJC pages 87 – 140 [ Chapters 9,10,11, and 12]  
Pratt pages 201 – 234 – *Understanding Discount and Capitalization Rates*  
*Valuation Techniques*. HBS 9-384-185(Roberts, Michael J. and Stevenson, Howard )  
*How Much Is That Business Really Worth?*  
*The Benefits of Using a Formula*  
*Determining Your Company's Value: Multiples and Rules of Thumb*  
*Digits – Facebook Clamps Down*  
*Twins' Facebook Fight Rages On*  
*A Brief Overview of LLCs*  
*Make the Most of Buy-Sell Agreements*  
*Estate of Cohen, ex rel. Perelman v. Booth Computers, et al.*  
**Homework Assignment #2 due before class**

**Class 4 – February 11, 2013**

**Topics:** Sources of Funds  
Obtaining Capital

**Readings:**

Lecture Notes  
RJC pages 189 – 206 [Chapter 17]  
*A Meeting of the Minds*  
*Investors Pay Business Plans Little Heed, Study Finds*  
*To Get a Business Loan, Know How the Bank Thinks*  
*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?*  
*Businesses Feel the Pinch as China Tightens Lending*  
*The Backers Who Made It Big*  
**Homework Assignment #3 due before class**

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**Class 5 – February 18, 2013:**

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

**Readings:**

RJC pages 161-166 [Chapter 15]  
Lecture Notes  
*In Tough Times, Companies Coddle Their Regulars*  
*Timing Is Ripe for Negotiation*  
*Outsourcing Finds New Niche*  
*Independent Contractor or Not*  
*The Transactional Lawyer and the Art of Plate Spinning*  
*Letters of Intent...*  
**Homework Assignment #4 due before class**

**Class 6 – February 25, 2013**

**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]  
*How to Deal With Noncompete Agreements*  
*Cashing Out Start-Ups Gets More Complicated*  
*How Employees Value (Often Incorrectly) Their Stock Options*  
*Phantom Stock Plans*  
*Merge Right*  
*Integration Acceleration*

course info pkg Spring 2013 q3/Wharton