

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.

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 at least three days before they are due. The assignments, which are short caselets, will be due at 10 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 project of an existing business. The requirements for the acquisition analysis are posted on Canvas and will be discussed 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 5, 2015.

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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.

It is important that the entire class is engaged. When class begins, all electronic devices should be turned off and put away. The only exception is if you are using a laptop or tablet to take notes and your internet access and Wi-Fi are turned off. If you need to use a device for a language or disability issue, please advise me before class. The misuse of an electronic device (such as for texting, email, or surfing) will adversely affect your course grade.

### **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 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 that will be posted before each class on Canvas.

### **Course Schedule:**

#### **Class 1 – January 14, 2015:**

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

#### **Readings:**

Lecture Slides

#### **Required**

RJC pages 1 – 17 [Chapters 1 and 2]

#### **Optional**

*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 26, 2015:**

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

#### **Readings:**

Lecture Slides

#### **Required**

RJC pages 141-160, 51 - 69, 167 – 188 [Chapters 13, 14, 6, and 16]

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*Ten Ways Earnings Lie*  
*When a Founder is the Face of a Brand*  
*Troubled Audit Opinions*

**Optional**

*Earnings, but Without the Bad Stuff*  
*Inside H-P's Missed Chance to Avoid a Disastrous Deal*  
*For the Youngest Startups, No Billions*

**Homework Assignment #1 due at 10:00 pm the day before class**

**Class 3 – February 2, 2015**

**Topics: Due Diligence (continued)**

**Legal Structures**  
**Utilizing Professionals**  
**Buy Sell Agreements**

**Readings:**

Lecture Slides

**Required**

*Estate of Cohen, ex rel. Perelman v. Booth Computers, et al.*

*What is the Difference Between a Compilation, a Review and an Audit? Comparative Overview*  
*Independent Contractor or Not*

**Class 4 – February 9, 2015:**

**Topics: Definition of Fair Market Value**

**Types of Buyers**  
**Valuation Guidelines and Determinants**  
**Minority Interest Discounts**  
**Valuation Methods**

**Readings:**

Lecture Slides

**Required**

RJC pages 87 – 124 [ Chapters 9,10, and 11]

RJC pages 125-140 [Chapter 12]

*The Benefits of Using a Formula*

*Determining Your Company's Value: Multiples and Rules of Thumb*

*Twins' Facebook Fight Rages On*

*A Brief Overview of LLCs*

*How Much Is That Business Really Worth?*

*Valuation Techniques*. HBS 9-384-185(Roberts, Michael J. and Stevenson, Howard)

*Dodgy Home Appraisals Make a Comeback*

**Optional**

*Understanding Discount and Capitalization Rates (Pratt pages 201 – 234)*

*Disruptions: The Logic (or Lack of it) in Appraising Start-Ups*

**Homework Assignment #2 due at 10:00 pm the day before class**

**Class 5 – February 16, 2015:**

**Topics: Sources of Funds**

**Obtaining Capital**  
**Search Funds**

**Readings:**

Lecture Slides

**Required**

*Search Funds: An MBA Shortcut to the C-Suite*

*A Meeting of the Minds*

*Financing, With Strings Attached*

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*Entrepreneurs Hit Up Family, but Payback is Slow*  
*A Plea for Direct Lending to Small Businesses*  
*Small-Business Lending Is Slow to Recover*  
*Structuring Waterfall Provisions*  
*Earn-Outs: Bridge the Gap, With Caution*  
*Alternative Lenders Peddle Pricey Commercial Loans*  
*As Refinancing Wanes, Banks are Wary of New Loans*  
*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*  
*Law Opens Financing of Start-Ups to Crowds*  
*Crowdfunding for Internet Stock Sales Approved by SEC*  
*The Backers Who Made It Big*

**Optional**

*Firms Puzzle Over Tax Riddle*  
*Timing Is Ripe for Negotiation*  
*JOBS Act Title III: Investment Being Democratized, Moving Online*  
*The JOBS Act leaves crowdfunding investors unprotected-the SEC is working with a flawed law*  
**Homework Assignment #3 due at 10:00 pm the day before class**

**Class 6 – February 23, 2015:**

**Topics: Deal Structures**  
**Adding Synergy**  
**Tax Consequences**  
**Letters of Intent**

**Readings:**

Lecture Slides

**Required**

RJC pages 161-166 [Chapter 15]

*Letters of Intent*

**Homework Assignment #4 due at 10:00 pm the day before class**

**Class 7 – March 2, 2015:**

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

**Readings:**

Lecture Slides

**Required**

RJC pages 41 – 50, 189-206, and 207-211 [Chapters 5, 17, and 18]

*The Transactional Lawyer and the Art of Plate Spinning*

*How Employees Value (Often Incorrectly) Their Stock Options*

*Cashing Out Start-Ups Gets More Complicated*

*After Rocky Year for Start-Ups, Investors Are Pickier*

*Phantom Stock Plans*

**Optional**

*Integration Acceleration*

*Yahoo Says New Policy is Meant to Raise Morale*

*How to Deal With Noncompete Agreements*