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With the near-death experience we have all felt in capital markets around the world, our senses are heightened to what makes our financial system work—or not. As the daily flows of finance from Dubai to Amsterdam to Tokyo to New York and back to Kuwait slowly regain their footings, we in the venture capital and buy-out fields begin to think anew on the essentials that drive our business. This issue will focus on topics including legal concerns, potential opportunities, equity valuation techniques, and sources of success that will impact our funds in the coming year.

Selecting the right CEOs is one topic everyone thinks about, and never more than now, given that many companies have been negatively impacted by the recent series of shocks to the financial system. Leslie Pratch presents data on predictions made while selecting CEOs. Although her sample size is small with just nine executives tested, she tracks the outcomes driven by the analysis provided by her technique. We all use past performance and a series of interviews to select executives, but Pratch points out that in many cases, the people we hire face new and different challenges. How will they react to new problems? She pivots on that point and posits that an effective assessment of the new hire can both better predict success (or failure) and improve your chances of working with the executive in times of difficulty. Given the significant changes to so many business plans we are now seeing, the promise of better ways to work with existing executives is of special interest.

Since we are reading about success, how about some data on the success of private equity sponsored buy-outs. Goossens, Manigart and Meuleman review the change in efficiency and growth after a buy-out. Their data set includes 167 companies in Belgium between 1996 and 2003. They contrast the outcomes between professional private equity firms as purchasers versus non-PE financed buyouts. Do Private Equity sponsored buy-outs perform better than those without private equity sponsors? If I told you that PE-backed buy-outs grow less in assets and more in people yet show no increased sales growth or efficiency, would you be surprised?

What data correlate with success in the venture capital world? How much are we as partners responsible for, and how much is explained by the movement of markets and outside factors? Xiaoqing Xu uses quarterly return data from 1,111 venture capital funds in the United States over the period of 1987 to 2004 to investigate which outside variables track with the movement of VC returns. Of the following variables, how many would you guess have an important impact on VC returns: 1) Growth in industrial production; 2) Unemployment rate; 3) Overall stock market performance? If you aren't sure, this article will show you how many are linked with high portfolio returns.

Our next article shifts gears and takes us to the internal issue of pricing the various slices convertible preferred stock so commonly used in VC financing. Early investors take the most risk, so as additional rounds of convertible preferred are raised, the price of those shares usually changes. But how to calculate an appropriate value? John Finnerty proposes a way to accomplish this, and provides an example of how the various rounds of convertible preferred would price. This method is especially helpful when valuing a late-stage investment in firms with complex capital structures that include multiple classes of equity from earlier venture rounds.

If you're not busy pricing slices of equity at the later stages of a deal, you may be busy searching for intellectual property inside a university at the beginning. DeCleyn and Braet present a series of challenges you will confront if you find technology useful to a portfolio company. This piece covers various ownership issues of background and foreground intellectual property, confidentiality issues and non-disclosure agreements, among other topics. If you are trying to import IP from university sources, this article will help benchmark your activities.

Utterly different than IP, real estate presents a different sort of investment opportunity. Bracken White takes us to the MENA countries, that is, the region of the Middle East and North Africa, and helps us understand how this energy-price related boom may be different from other periods. His thesis is that this time, major infrastructure projects, industry, and real estate investments are changing the face of the region with a long-term impact. His data and reports of government and market changes present the case for long-term change in the region.

Whatever happens with the economy, lawyers will always be with us and legal issues can't be ignored. Our final three articles tackle a series of independent legal issues. First up is a chilling recent decision with potentially long-range effects. Let's say you have a portfolio company file for bankruptcy protection. Do you think the partners in a private equity fund can be held liable for the pension obligations of the bankrupt portfolio company? Misher and Brock take us through the tortured legal "reasoning" that allowed the Pension Benefit Guaranty Corporation to designate the activities of a private equity sponsor as that of a "trade or business" and therefore in the same "controlled group" as that of its portfolio group. Holding aside for a moment the incredible unintended effects this ruling may have, the immediate issues are how to make sure you are protected from this unexpected surprise.

Next up is Jeffery Blomberg with a review of a troubling recent decision from a Delaware court stating that a corporation could retroactively terminate the right of a director to seek advancement of expenses in defense of a lawsuit. As so many of us are directors, this decision begins to change the nature of what we rely on in our fiduciary positions.

Our final article reviews the tricky topic of tort reform in the securities sector. Joe Bartlett tackles the issue of why so many IPOs take place in foreign markets, and how our securities rules might be changed to attempt to right this balance. Yes, Sarbanes-Oxley is a problem but there is a deeper one, the idea of securities lawsuits as a sort of "lawyer relief act" (as stated by Bartlett). What can be done to make it more attractive for companies to list here in the USA? It's a big, tough topic but this article lays out a plan worthy of further consideration and discussion.

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