

# Contents

<b>Preface</b>	<b>xvii</b>
<b>Acknowledgements</b>	<b>xxi</b>
<b>MODULE I</b>	
<b>The History of Private Equity</b>	<b>1</b>
<b>CHAPTER 1</b>	
<b>The Private Equity Process</b>	<b>3</b>
Introduction	3
General Terms and Brief Overview	5
Understanding Private Equity	9
Private Equity Fund-Raising	29
<b>CHAPTER 2</b>	
<b>Characteristics of the Private Equity Arena</b>	<b>39</b>
A Brief History of Private Equity	39
Geographical Distribution of Private Equity Investments	46
Historical Private Equity Investment Levels	50
Historical Private Equity Returns	54
A Nonmainstream Security?	62
Summary	63

<b>CHAPTER 3</b>	
<b>Trends in Private Equity</b>	<b>65</b>
Introduction	65
Overall Industry Trends	65
The Buyout Arena	70
The Venture Capital Arena	76
<b>CHAPTER 4</b>	
<b>Harvesting Private Equity Investments through IPO</b>	<b>83</b>
Initial Public Offerings	83
<b>CHAPTER 5</b>	
<b>Harvesting Investments through Mergers and Acquisitions</b>	<b>101</b>
M&A Basics	101
Types of Takeovers	102
Reverse Takeovers	103
The Takeover Process and Financial Advisor	
Selection	104
Analyzing Potential Buyers	106
The Sale Process	107
The Bidding Process	109
Reaching an Agreement	111
Historical M&A Trends	112
<b>MODULE II</b>	
<b>Governance Structures in Private Equity</b>	<b>115</b>
<b>CHAPTER 6</b>	
<b>The Private Equity Governance Model</b>	<b>117</b>
Introduction	117
A New Model for Corporate Governance	117
Conclusion	134

<b>CHAPTER 7</b>	
<b>Value of Internal Control</b>	<b>137</b>
Introduction	137
Introduction to COSO and Internal Control	138
Components of Internal Control	140
Control Objectives and Control Components	151
Internal Control and the PE Firm	154
Conclusion	163
<b>CHAPTER 8</b>	
<b>Internal Control Evaluation</b>	<b>167</b>
Introduction	167
PCAOB Auditing Standard No. 5	169
Phase 1: Planning the Audit	171
Phase 2: Using a Top-Down Approach	175
Phase 3: Testing Controls	179
Phase 4: Evaluating Identified Deficiencies	182
Phase 5: Wrapping Up	184
Phase 6: Reporting on Internal Controls	186
<b>CHAPTER 9</b>	
<b>Financial Statement Fraud and the Investment Decision</b>	<b>189</b>
Money Laundering	190
Categories of Fraud	192
What Is Fraud?	193
The Required Elements of Fraud	194
Financial Statement Attestation	197
Recommendations	200
Fraud and Due Diligence Procedures	205
Conclusions	208
<b>CHAPTER 10</b>	
<b>Professional Standards</b>	<b>211</b>
Introduction	211
Federal Trade Commission (FTC)	212

Securities and Exchange Commission (SEC)	217
“Private” Equity Going Public	227
PCAOB Standards	229
AICPA Auditing Standards	233
AICPA Accounting and Review Standards	250
Institute of Internal Auditors (IIA) Standards	252
Information Systems Audit and Control Association	253

**CHAPTER 11****Contemporary Business and Competitive Intelligence 255**

Introduction	255
Contemporary Business Intelligence	256
Competitive Intelligence and The External Environment	259
Normalizing Performance	262
Cost of Capital and the Option to Invest	266
Developing “Idiosyncratic Acumen”	268
An Economic View of Quality	270
Developing Relationships and Navigating Crises	272
Application to Private Equity	273

**MODULE III****Understanding Operations 275****CHAPTER 12****Organizations as Humans 277**

Introduction	277
Organizations as Humans	278

---

<b>CHAPTER 13</b>	
<b>Beginning the Lean Transformation</b>	<b>297</b>
Introduction	297
<b>CHAPTER 14</b>	
<b>Manufacturing Due Diligence: How to Perform Operations Assessments</b>	<b>311</b>
Introduction	311
Performing the Assessment	311
Operational Data and Cost of Sales	325
Conclusion	331
<b>MODULE IV</b>	
<hr/>	
<b>Special Considerations in Private Equity Investments</b>	<b>333</b>
<b>CHAPTER 15</b>	
<b>Private Equity Fund and Portfolio Company Investment</b>	<b>335</b>
Understanding Investors and the Investment Process	335
Mezzanine Financing	343
Private Equity Investment in Distressed Companies	346
<b>CHAPTER 16</b>	
<b>Legal Considerations in Exit Strategies: IPO vs. Sale</b>	<b>357</b>
IPO vs. Sale Transaction	358
Initial Public Offering (IPO)	360
Sale Transactions	376

<b>CHAPTER 17</b>	
<b>Raising Capital through Exempt Offerings of Securities</b>	<b>399</b>
Introduction	399
Exemptions from Securities Act Registration	402
State Securities (“Blue Sky”) Laws	426
Antifraud Provisions	432
Broker-Dealer and Agent Registration Exemptions	433
Restrictions on Resales of Restricted Securities	436
<b>Glossary</b>	<b>441</b>
<b>Index</b>	<b>449</b>

<http://www.pbookshop.com>