

Buying A Business?

Humans are complex animals. The study of human behavior and motivation is fascinating. Why do people do what they do?

Why might a person want to own a business? Buy a business? Certainly, the reasons are unique to each person. Motives range from the material (i.e., money, possessions) to the spiritual; may originate from within (i.e., reside within oneself) or outside us (i.e., be socially or relationship-motivated); may be substantially selfish (i.e., greed, power) or altruistic; may be healthy and rational (i.e., strategic or self-actualizing*) or unhealthy and irrational (i.e., an inappropriate and unwise response to pressure, fear or deficiency).



Buying a business is a big decision. It's not for the timid, tired or tethered. Before you buy, ask yourself a few questions.

Question 1: Is this right for me?

From a personal standpoint, this is a tough one. This is the stuff of philosophers, psychologists, spiritual advisors, career counselors and maybe mothers. This subject goes well beyond the scope of this publication, but I do believe that to find happiness and fulfillment every person must spend time navel gazing getting to know who you are: what are your talents, abilities, strengths and weaknesses; at what are you most well suited; and what endeavors give you the most satisfaction.

At times, I've found the work of Abraham Maslow helpful – the 20th Century psychologist spent his life studying and writing on such issues. For a brief introduction, read the article herein titled "Maslow's Hierarchy."

It also might be helpful to consider that successful business owners tend to be:

- Energetic and motivated
- Comfortable being in charge
- Confident

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MARCH / APRIL 2006 • VOLUME 30, No. 2

From The Editor

A common business strategy is to set oneself apart by becoming skilled at things others don't want or are unable to do. This issue of *The Business Owner* covers two areas at which few small and mid-size companies are skilled – acquisitions (purchases of other companies) and public relations.



David L. Perkins, Jr.

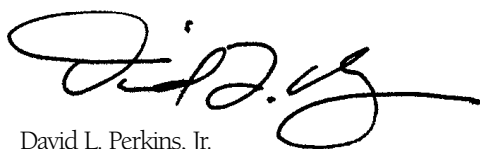
Buying a business has some intrigue. Maybe even a little romance. Certainly, it can be profitable and exciting. It can also be distracting, expensive ... and put you out of business. Just ask Bob Sorum. Seeking to make his mark and launch a new era of expansion, he overpaid on an acquisition and lost the 75-year-old business he took over from his father-in-law. Talk about problems! The story just breaks my heart.

As a business owner, you will, from time to time, have to decide whether to pursue the purchase of another business. It's not for the ill informed, I can assure you. But for the few that have the competency, it can be a very valuable skill set.

Similarly, few small and mid-size companies employ public relations as a marketing strategy. Luckily, it's not nearly as complex, risky or expensive as buying a company. The rewards are well within the reach of all of us. Put it in your game plan today.

What does it take to achieve breakthrough success today? Everything. Put acquisitions and public relations in your toolbox and set yourself apart.

Sincerely,



David L. Perkins, Jr.
Publisher and Editor

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Price \$199⁰⁰ per year.

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BUSINESS PURCHASE

How To Handle The Balance Sheet When Buying A Business

The buyer of a business, having selected his minimum required rate of return, justifies purchase price of a “going concern” by the cash he expects the business to generate. Implied is:

- The cash to which the buyer is referring is cash generated from operations, as opposed to cash generated from any changes in assets or liabilities; and
- The business was valued based on an estimate of the cash the business will generate from operations on an annual basis; and
- To justify the price, the business should generate 1/365th of such on the first day of ownership; 30/365th during the first 30 days of ownership; 90/365th in the first 90 days; etc.

Businesses should be valued on the operating cash flow they will generate. If the deal structure impacts the cash flow, such as delays when the operating cash will begin to flow, then the purchase price should be modified accordingly.

The only way for the above to actually hold true in an acquisition is if the buyer pays his price in cash and, in exchange, receives the entire business including:

- a. All assets necessary to operate the business – cash, accounts receivable, inventory, accruals, furniture, fixtures, equipment, etc. (at “normal” levels with no deficiencies); and
- b. All “normal” non-interest bearing liabilities of the business – typically accounts payable and accruals – are assumed by the buyer.

Only via this “deal structure” will cash flow be “normal” and in-line with the purchase price. For example, every business needs some cash to operate. If XYZ business requires \$5,000 in cash but such was not “left in the business” by the seller, the buyer will have to contribute the \$5K on his first day of ownership. Now if the buyer paid full price for the business, he has now paid full price plus \$5K. He’s over paid.

For another example, let’s say the working assets of XYZ average \$500,000 and the working liabilities average \$350,000. XYZ, thereby, needs \$150,000 in working capital. Buyer “B” has valued XYZ ... based on its annual “profit” (i.e., cash flow) ... at \$1 million. The seller, however, wants to keep for himself all working assets and pay off all working liabilities. As such, the buyer will inherit a business that, on the first day of operation, has no current assets and no current liabilities. The impact of this deal structure will be that the operating cash of XYZ will be hindered, over the first month or two, for a negative \$150K. In other words, the buyer will have to contribute \$150K into the business for working capital. The buyer, in effect, paid his target price of \$1 million plus \$150K to cover the impact of the deal structure. And deal structure strikes again. □

**“The secret? Come early. Stay late. Work hard.
Play by the rules. Never cheat to win.
Stay physically fit.”**

T. Boone Pickens

Recasting Financial Statements

Buyers of private companies purchase businesses for the profit they generate, or can generate. They look at the past as an indicator of the business' ability to generate cash or profits. They also look at the value of the assets, liabilities and equity of the business. For private companies, the financial statements often do not reflect the true profitability and asset values of the business. This is because:

- Accrual accounting can distort the reported profits and balance sheet values.
- Lack of conformity to generally accepted accounting principles (GAAP)
- Tax-reduction strategies used to reduce reported profit.
- Value of assets and liabilities on the balance sheet can change over time and may not be reflected on the balance sheet.

Therefore, to obtain an accurate estimate of value, one must adjust the income statements and balance sheets to show the true profitability of the business and the true value of the assets and liabilities.

Income Statement Adjustments

Common income statement adjustments include the following:

- *Owner compensation*: compensation that deviates from what it would cost to hire someone to perform the duties of the owner or owners
- *Expenses not necessary for the ongoing operation of the business*: may include expensive cars or trucks, excessive travel, etc.
- *Non-recurring expenses*: such as one-time bad debt write-offs, non-recurring operating losses, legal fees, etc.
- *Non-cash expenses*: depreciation and amortization

See the accompanying income statement for XYZ Company.

Although it is the future income that buyers of the business are considering when assigning value, it is the historical performance that provides the basis for the projection. This is the reason historical income statements should be adjusted.

XYZ Company Historical Income Statements (with Adjustments)

\$000's	2002	2003	2004	2005
Revenue	\$1,000	\$1,200	\$1,150	\$1,400
Cost of Goods.	<u>(\$600)</u>	<u>(\$720)</u>	<u>(\$700)</u>	<u>(\$840)</u>
Gross Profit.	\$400	\$480	\$450	\$560
Operating Expense	<u>(\$364)</u>	<u>(\$409)</u>	<u>(\$371)</u>	<u>(\$467)</u>
Operating Profit	\$36	\$71	\$79	\$93
Taxes and Other	<u>(\$11)</u>	<u>(\$21)</u>	<u>(\$21)</u>	<u>(\$28)</u>
Net Income	<u>\$25</u>	<u>\$50</u>	<u>\$58</u>	<u>\$65</u>
<i>Adjustments</i>				
Excess Owner Compensation	\$100	\$110	\$110	\$125
Depreciation	\$50	\$50	\$50	\$50
Non-Recurring Legal Fees	\$0	\$50	\$0	\$0
Owner Benefits in Excess of Market . .	\$50	\$50	\$70	\$70
Taxes	<u>\$11</u>	<u>\$21</u>	<u>\$21</u>	<u>\$28</u>
Total Adjustments	\$211	\$281	\$251	\$273
Adjusted Pre-Tax Net Income	<u>\$236</u>	<u>\$331</u>	<u>\$309</u>	<u>\$338</u>

XYZ Balance Sheet – Actual and Adjusted

\$000's	YE 2005 Actual	YE 2005 Adjusted
Cash	\$100	\$0
Receivables	\$400	\$375
Inventory	\$400	\$350
Other Current	<u>\$50</u>	<u>\$0</u>
<i>Total Current Assets</i>	<i>\$950</i>	<i>\$725</i>
Furniture, Fixtures and Equip. Net of Depr.	\$200	\$400
Real Estate.	\$250	\$400
Other Fixed Assets	<u>\$40</u>	<u>\$0</u>
<i>Total Long Term Assets</i>	<i><u>\$490</u></i>	<i><u>\$800</u></i>
TOTAL ASSETS	<u>\$1,440</u>	<u>\$1,525</u>
Trade Payables	\$300	\$300
Other Current Liabilities.	<u>\$100</u>	<u>\$100</u>
<i>Total Current Liabilities</i>	<i>\$400</i>	<i>\$400</i>
Long Term Debt	\$650	\$650
Note Payable To Owner	<u>\$50</u>	<u>\$0</u>
<i>Total Long Term Debt</i>	<i><u>\$700</u></i>	<i><u>\$800</u></i>
TOTAL LIABILITIES	<u>\$1,100</u>	<u>\$1,050</u>
Equity.	<u>\$340</u>	<u>\$475</u>
TOTAL DEBT AND EQUITY	<u>\$1,440</u>	<u>\$1,525</u>

continued on next page

Recasting Financial Statements, continued from previous page

Balance Sheet Adjustments

Common balance sheet adjustments include:

- *Accounts receivable*: to reflect the actual collectable amount
- *Inventory*: to reflect the value of the inventory that is actually sellable, and at a cost that will allow for it to be sold, over a reasonable amount of time, at normal profit margins
- *Cash*: exclude cash that will not be sold with the business
- *Other assets*: any asset that will not be sold with the business, or would not have real value to a new owner, should be excluded
- *Fixed assets and real property*: should be listed at their current fair market values
- *Depreciation*: should be eliminated altogether
- *Debt*: should reflect the actual payoff value of the obligations of the company, or at least those that a prospective new buyer would assume

The standard of value which should be used for the adjusted balance sheet is fair market value. Because fair market value can only be truly determined in an actual sale, these values are estimated. And although there will be no liquidation of assets in a sale of a business as a going concern, the true market value of such assets is important to both the buyer and seller. This is because the lowest price a buyer should accept is the sum of the values of the underlying assets themselves, less the cost that would be incurred to liquidate them (i.e., sell them off piecemeal).

Restating the assets and liabilities of the business provides an accurate picture for the buyer and seller, which eliminates uncertainty. In addition, it will help the buyer estimate the amount he or she can borrow against the assets to apply toward the purchase. The higher the amount that can be borrowed, the higher the purchase price that can be paid. □

**“It’s not about being smart,
it’s about being persistent.”**

John W. Thompson

Buying A Business?, continued from cover

- Decisive
- Calm under pressure
- Competitive
- People-friendly

Question 2: Is this business a good fit for me? For my business?

This question deals more with strategy. Is the business a good fit for you as an individual? How well does it fit with your skills, abilities, experiences, contacts and financial resources? Are you fully prepared for the challenge? If you were accused of being “out of your league,” would a jury convict?

If it’ll be an add-on to your existing business, is it a good fit? Do others readily see the fit? Is the fit real and practical and in the here and now or is it more intellectual or emotional?

Will you enjoy real and immediate synergies? If the purchase goes bad, can you survive? Could it sink your whole ship and, if so, are you really sure you want to risk that?

Question 3: Will the right people be on board and committed?

Ownership ... that’s committed and clearly in control?

Leadership ... that’s clear and passionate?

Management ... that’s proven, committed and has “bought in?”

Employees ... that are experienced, committed and dependable?

Question 4: Am I gambling or investing?

The most successful business buyer of the past 100 years is Warren Buffett. He explains, “Investing is not gambling. Know the difference.” Said another way, when you buy a business, risk return ON investment, if you wish (i.e., rate of return), but don’t risk return OF investment (i.e., whether or not you eventually get back what you invested). Gambling is for entertainment. Investing is for making money. Before you agree to a purchase, make sure it’s a winner.

Question 5: Will I earn a fair rate of return?

You must not buy until you have a very good handle on what will be your minimum after-tax, cash-on-cash, rate of return. That’s after (i.e., over and above) fair compensation for the time and talent of all laborers – both owner and non-owner. That includes YOU.

More particularly, you should require a return on equity that fully compensates you for the burdens and risks inherent in a private-company investment. Private companies are incredibly illiquid, undiversified, and require a tremendous amount of management/oversight time. Compare this to investment alternatives such as high quality, publicly traded stocks and bonds. They consistently provide annual rates of return of 6% – 18% and they’re liquid, require almost none of your time, are easily diversified, and there’s almost no chance you’ll lose your equity (as long as you DO diversify).

So what should your equity return be on investment in a private company? Well, 25% per year or more.

To conclude, buying a business is a serious matter. It requires substantial financial outlay and obligation, plus considerable time, energy and responsibility. Fail, and although you no longer risk being stoned to death, you could lose all your material possessions and more. It’s not for the uncommitted, unprepared or undercapitalized. □

* Self-Actualization is a term primarily associated with the work of famed psychologist Abraham Maslow. He defines it as the drive every person has to fully use and exploit his unique talents, abilities, capacities, potentialities, etc. See the accompanying article titled, “Maslow’s Hierarchy: A Framework for Understanding Ourselves?”

Checklist For A Safe And Smart Acquisition

- Seller financing:** Not only does seller financing help minimize the equity required, it provides ready and meaningful recourse in the event the seller breaches duties, obligation, representations or warranties. Try to get “right of offset.”
 - Assets, not stock:** Buying stock is risky. A foolproof method for reducing risk is to buy only assets. Asset purchases also reduce taxes.
 - Real and physical possession of important assets at closing:** Regardless of how well you know and trust the seller, resist all temptation to allow trust to override prudence. Money and fear can make people do incredible things.
 - Fair compensation:** If the business can't safely pay, beginning on day one, a fair compensation for you and a comfortable repayment/return to debt and equity, you're paying too much.
 - Each promise in writing:** Don't accept the ol' “I'll agree to such and such, but I don't want to put it in the agreement.” Insist that it be written into the purchase/sale agreement.
 - A clear, actionable penalty for every seller promise:** Seller promises are weak and often meaningless if your agreement doesn't have specific, clear, actionable and valuable recourse outlined for each.
 - UCC/lien search and releases:** Search filings for secured creditors a month before the purchase and the day of purchase. You must ensure that all secured creditors are notified of the pending purchase, provide current payoff terms in writing and agree to release and remove the lien upon full payoff at closing.
 - Payoff of unsecured creditors:** Unless you're purchasing assets out of bankruptcy, you want to be sure all unsecured creditors are paid in full, or agree to settlement terms, before or at closing. Sure, you may not have a legal obligation, but if some get stiffed, they can blame you and cause all kinds of problems.
 - Verify seller's ownership and rights to sell:** Don't trust that the owner actually legally owns anything, especially intellectual rights like trademarks, trade names, web domains, websites, formulas, patents, copyrights, etc. Similarly, have him prove that he has the right to authorize a sale.
 - Ensure that the non-compete is enforceable:** I can assure you, no matter how sick or old or ill or tired or incompetent the seller says he is, nor how far away he says he's moving, get a non-compete that your competent lawyer says is enforceable and has “teeth.”
 - Run both a background check and credit check on the seller:** Charlatans usually leave a trail, and greed can make a guy an incredible salesperson. No matter how well you think you know him ...
 - Pay no more than can be comfortably serviced by proven, historical cash flow:** Feel free to analyze and estimate all the synergies and cost reductions you'll gain after the purchase, but pay only for the profits that are historically stable and proven.
 - Get personal recourse for seller breaches:** For each and every promise, get the seller to agree to be held personally liable for any breach.
 - Title search on any real property:** Of course. And your mortgage lender will require it.
 - Environmental audit on any real property being purchased or leased:** Just ask any attorney.
 - New, valid, long-term lease on important real estate or assets.** Never assume that a landlord will renew a lease or keep the same terms. Get it in writing, firm, unequivocal, irrevocable, unchangeable, etc.
 - List the three things that could put you out of business the fastest.** Then, for each one, answer: “When x occurs, how will I survive?” Don't accept, “Oh, it won't happen,” as an answer. If it “could,” you better plan for it.
- Assure that all these are covered, and I can almost guarantee you'll be spared any of the following fates:
- a. personal financial demise
 - b. a nomination for “dumbest person in the solar system award” (or worse, win the darn thing!)
 - c. your friends avoid you because they're so tired of hearing you say, “I just, never in a million years, thought ...”
- Note:* This article, as are nearly all articles in *The Business Owner Journal*, was written by me, David Perkins. If you buy a company, no matter how large or small, I urge you to exercise extreme caution before you waive a single one of these items. In buying a business for my own account, I failed to heed my own advice and in each instance, to my peril. I suffered the fate of “b” and “c” above, and narrowly avoided “a.” In consulting others in the purchase and sale of companies, I've also seen these items save and sink. Do as you wish, but now that you've read this my hands will be clean!

Maslow's Hierarchy: A Framework For Understanding Ourselves?

The business manager must first become skilled at managing himself before he can hope to effectively manage others. This wisdom is from Peter Drucker, the man who literally defined modern business management. But where does one begin to better understand oneself? The easy answer is by continually watching, listening and pondering. A framework for interpretation can also be helpful.

One widely accepted framework for understanding human behavior was developed by Abraham Maslow (1908-1970), a renowned psychologist who spent his life studying people. And in contrast to most of his peers, he spent considerable time studying healthy, happy and highly productive people, rather than the sick.

Maslow concluded that humans have a natural, automatic, internal drive to pursue that which they need. Further, human needs are organized in a hierarchy, such that our basic needs must be filled before we can pursue higher-level needs. The accompanying diagram shows Maslow's now famous "hierarchy of needs." Here's a brief explanation:

Level 1, Physiological Needs: Oxygen, food, water, rest, moderate temperatures, sex, etc.

Level 2, Safety Needs: When physiological needs are largely met, energy can be spent in search of safety and security.

Level 3, Belonging Needs: When Level 1 and 2 needs are largely met, we begin to feel a need for friends, affection, a family, and love.

Level 4, Esteem Needs: When Levels 1 through 3 are met, we begin to feel the need to garner respect from others and to develop self-respect. If successful, we enjoy a sense of confidence, competence, achievement, freedom, independence, etc.

According to Maslow, most of us have the first two Levels covered. Some of us, however, struggle to get the love and friendship we need. As a result, we suffer loneliness and exhibit social anxieties. A great many more suffer from esteem deficiencies (Level 4). Deficits at this Level manifest themselves as low self-esteem and inferiority complexes. Maslow claims that most psychological problems today are rooted therein.

Level 1 through 4 needs are "deficit needs." C. George Boree explains them this way: "If you don't have enough of one of these, you feel the need. But if you get all you need, you feel nothing at all! In other words, they cease to be important and motivating." But, if all your deficit needs are met, you'll begin to feel the need for:

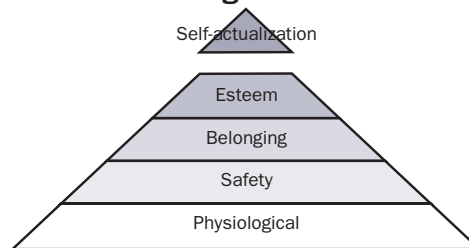
Level 5, Self-Actualization Needs: A pressing need to realize your potential – to apply your unique talents and abilities to their fullest. Pursue this and real happiness, fulfillment and contentment are possible. In fact, unlike the deficit needs, the more we work toward self-actualization the better we feel! Ultimately, sustained feelings of satisfaction, joy and even euphoria are possible.

If more people exhibited Level 5 traits, the world would be a much better place. Unfortunately, Maslow believed that only a very small percentage of the population operates solidly in Level 5, perhaps as little as 2% of the population.

How can you get there? Begin working more on the path of your "calling" (a religious term), "highest and best use" (a real estate term) or "self-actualization" (Maslow's term). Of course, make sure your deficit needs are being met. That includes addressing any hang-ups that might be blocking you from fully satisfying and moving beyond a Level.

Once your deficit needs are largely met, Maslow says there are two processes necessary for self-actualization: self exploration and action. The deeper the self exploration, the closer one comes

Being Needs



Deficit Needs

About the Publisher



David L. Perkins, Jr. owns, writes, edits and publishes *The Business Owner*, the newsletter of choice for more than 35,000 paid

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Highly self-actualized people – often the accomplished artists, authors, athletes, doctors and politicians – possess many of the following characteristics:

- Realistic, logical and efficient – superior ability to reason, see truth and differentiate between the fake and dishonest and the real and genuine.
- Problem-centered – treat difficulties simply as problems that need solutions.
- Enjoy solitude and themselves without regret or apology. Rely on inner self, not others, for satisfaction.
- Accept themselves, others and the natural world as they are.
- Not very responsive to social pressure. Can be non-conformist.
- Meaningful degree of detachment from physical and social needs, traditions, formality, etc.
- Profound, intimate relationships with a few rather than many shallow relationships. Affection and friendliness shown to everyone.
- Strong ethics. Spiritual, but seldom conventionally religious.
- Freshness of appreciation – ability to see things, even ordinary things, with wonder.
- Spontaneous in their inner life, thoughts and impulses.
- No unnecessary inhibitions – not threatened or frightened by the unknown.
- Self starter – motivated to continually improve. Has a life mission that requires much energy and gives them reason to live.
- Other-centered – focused on problems outside themselves.
- Unflappable – able to retain dignity amid confusion and misfortune.
- Responsible and takes responsibility for self.
- Humble – able to learn from anyone.
- Jokes not at the expense of others, but often about own personal flaws or the shared human condition.
- Indignation with injustice.
- Painfully aware of own imperfections, joyfully aware of own growth process.

Maslow's Tips For Living A More Fulfilling Life

(i.e., at a higher Level of “self-actualization”)

Experience things fully, vividly, selflessly. Throw yourself into the experience of something and concentrate on it fully. Let it totally absorb you.

Make the growth choice a dozen times a day. Life is an ongoing process of choosing between safety (out of fear and need for defense) and risk (for the sake of progress and growth).

Let the self emerge. Try to shut out what others might think you should think, feel, say, do and so on. Let your experience enable you to say what you truly feel.

When in doubt, be honest. If you look into yourself and are honest, you'll also take responsibility. Taking responsibility is self-actualizing.

Listen to your own tastes. Be prepared to be unpopular.

Use your intelligence. Work to do well the things you want to do, no matter how insignificant they seem to be.

Learn what you are good at and at what you are not. Make peak experiencing more likely – get rid of illusions and false notions.

Open yourself up for examination and you'll identify defenses. Then, find the courage to give them up. Find out who you are, what you are, what you like and don't like, what is good and what is bad for you, where you are going, what your mission is.

Note: There are suggestions developed by Abraham Maslow, as summarized at <http://psikoloji.fisek.com.tr/0maslow.htm>. □

Maslow's Hierarchy: A Framework For Understanding Ourselves?, continued from page 7

to self-actualization. Some helpful tools for self-exploration include investigating and exploring topics of interest no matter how whimsical or “off the beaten path.” Also, prayer, meditation and sessions with a counselor, mentor or spiritual leader where free exploration and discovery is the goal are helpful.

Also, pay attention to your environment. Although Maslow says self-actualizers are robust and not highly influenced by their environment, they tend to want:

- truth, not dishonesty
- goodness, not evil
- beauty, not ugliness or vulgarity
- unity, wholeness, and transcendence, not arbitrariness or forced choices
- aliveness, not deadness or mechanization
- uniqueness, not bland uniformity
- perfection and necessity, not sloppiness, inconsistency or accident
- completion, not incompleteness
- justice and order, not injustice and lawlessness
- simplicity, not unnecessary complexity
- richness, not environmental impoverishment
- effortlessness, not strain
- playfulness, not grim, humorless, drudgery
- self-sufficiency, not dependency
- meaningfulness, not senselessness

When a self-actualizer doesn't pursue his or her “calling” and/or is stifled by a highly disruptive environment, the result can be

continued on next page

PROFESSIONAL DEVELOPMENT

Maslow's Hierarchy: A Framework For Understanding Ourselves?,
continued from previous page

stress, depression, despair, disgust, alienation, and a degree of cynicism.

Finally, Maslow says we can gain insight into what needs an individual does or does not have covered by asking "What would a perfect world be like, for you?" □

Sources:

- > <http://psikoloji.fisek.com.tr/0maslow.htm>
- > Posting of Dr. C. George Boeree at www.ship.edu

For more information:

- *Toward a Psychology of Being*, Abraham Maslow
- *Motivation and Personality*, Abraham Maslow
- *The Further Reaches of Human Nature*, Abraham Maslow



"Listen, we're dominating honey, maybe it's time we diversify into jelly."

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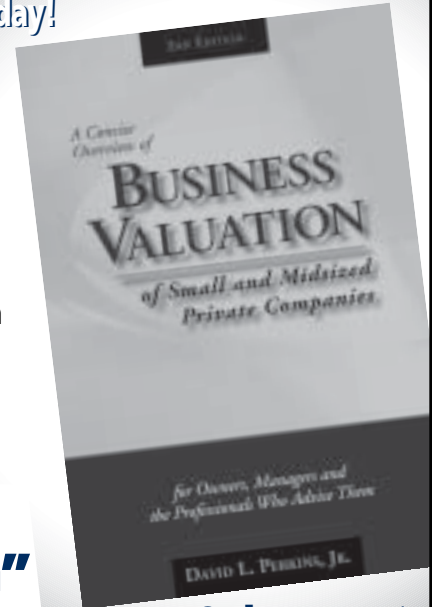
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FINANCE

Q&A Financial Statement Quality (Company Prepared, Compiled, Reviewed and Audited)

Q: What is the difference between audited and reviewed statements?

A: Although these terms may be thrown around loosely in some circles, each has important meaning and should be clearly understood.

Company Prepared statements are financials (income statement, balance sheet and statement of cash flows) that have not been compiled, reviewed or audited as described below. They are simply issued by the company itself with no third-party assurance of accuracy or completeness.

Compiled Statements have been organized in a manner that conforms to how statements are supposed to "look" but the accountant has not tested or reviewed the data and does not render any opinion as to accuracy, conformity or completeness.

Reviewed Statements have received a limited "review" by an independent auditor or certified public accountant who offers limited assurance as to accuracy and conformity with GAAP. However, it is understood that if an audit was performed, material errors could be found.

Audited Statements have been checked by an independent auditor or certified public accountant for accuracy and conformity with GAAP principals and standards. The audit is much more extensive than a review, and each audit will come with an auditor's opinion letter. In the letter, the auditor will identify herself, her firm and will summarize what she did and whether she is willing to attest to the financial statements without reservation ("unqualified opinion") or with reservation (i.e., "qualified opinion"). □

"People should learn to use things and love people instead of loving things and using people."

Harness The Press To Pull In More Customers ('PR')

What is it going to take for your business to succeed? Everything. You must use every club in the bag. Public Relations (PR) is a club that resides in the proverbial bag of each and every business owner. Few ever take the time to learn how to use it, to their substantial detriment. Are you using yours?

Let's face it – publicity is a beautiful thing. Okay, *free and favorable* publicity is a beautiful thing. It creates awareness, the first step in getting the phone to ring. It also builds credibility – a key for getting orders.

What is PR? It's a term generally used to describe efforts aimed at utilizing the free press – newspapers, trade journals, radio, television – to create awareness and influence what people think. It is one of the four essential components of marketing. The other three are advertising (paid exposure), sales promotion (incentives to purchase) and selling (person-to-person).

Your marketing stool needs all four legs – each sound and strong. If you're like most small businesses, your PR effort is weak at best, largely ignored as an important and effective means for driving growth. Can you afford to continue this way?

Read this article, give copies to your staff, and get your PR effort in gear. It's neither hard nor costly – compared to advertising, promotion and direct sales.

Again, you should employ PR to do the following:

Introduce your company, executives, products, services, concepts and ideas.

Influence what the public and media think about you, your company and products and how they interpret *developments* at your company.

Most small and mid-size companies suffer from a lack of coverage and, therefore, limited awareness. PR efforts, then, focus on getting attention – and mention. Other companies have enjoyed prior coverage but wish to modify impressions. Every company, however, should stand ready to proactively influence how the media might cover events such as layoffs, relocations,

ownership changes, lawsuits, fines or arrests. Bad press can kill a business and career.

To be sure, PR is more than a press release. By all means, the press release is an integral part of a PR campaign. But a press release alone does not a PR campaign make. A successful publicity campaign should include the following:

The Story: An interesting story or newsworthy event that is of interest to a meaningful portion of the audience of the media outlet you target. For more on this see the accompanying article titled "You Can Get Press Coverage ..."

Press Release: A concise and articulate descriptive summary of the story; a summary of supporting information; where additional information may be found; and relevant and credible interview sources. For more, see "How to Write a Press Release" herein.

The Verbal Pitch: A script of what you will say when you talk to a writer or reporter. A concise summary of the story and three reasons the media outlet's audience will be interested.

Supporting Material: Corroborative and supporting data (third-party) such as photos (digital and hard copy), samples, related articles, additional interview sources, references, etc.

List of Media Targets: Should include all media outlets with editorial profiles that match your target audience. The list should contain the name of the organization, name of the appropriate individual, circulation, website address, phone number, fax number, email address, mailing address and preferred communication method. A lot of work may be necessary to compile this data, but once you have, it will be a valuable asset.

Distribution Method: A dependable and accountable means for getting your press release directly into the hands of each target. As with any direct marketing effort, it's essential that the effort be addressed to a *specific* individual, not

just the organization or department. Beware of press release distribution services that indiscriminately spew your release to hundreds of untargeted media outlets with little or no results.

Follow-up and Follow-through: Sending the initial press release is just the start. First, you must confirm that the target successfully received it. This may take some doing. Keep in mind that media persons are very busy and inundated with stories and deadlines. Also, just because they don't initially respond or run a story doesn't mean your pitch has no interest. Don't be afraid to resend, remind, re-introduce and sell the story – all while being respectful of their time and who they serve (their audience, not you!).

Track Success: You want to know the effect of your PR campaign. You also want to use "mentions" in your marketing efforts. Media placements are a validation of your business/product. For more information see the accompanying article titled "How to Monitor What the Press Says ..."

If you're committed to growth, get committed to a consistent and effective PR effort. Few small and mid-size companies have one. It's an essential leg to your marketing stool and a powerful and low-cost way for you to set your company apart. □

These experts generously contributed their expertise to this and all the PR-related articles in this issue:

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www.cyberalert.com

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Relations, Inc., Lawrence, KS
www.spreadthenewspr.com

You Can Get Press Coverage. Here's How.

Peruse the publications that garner the audience you covet. They have two types of information: "stories" and "stuff." Stories are ... stories – they're long and interesting. Stuff is short – short articles, lists and "mentions."

Your first PR task is pretty easy – get mentioned in the stuff at every opportunity. Over time, it'll add up and create awareness. It will also provide a base from which to build relationships with members of the media.

So, in the publications that have the audience you target, study the stuff they include and give them your stuff. Typically it's employee hires and promotions, product launches, relocations, industry awards, certifications and recognition. Many times, if you attempt to write your own stuff to fit their format, they'll print it verbatim.

Getting written-up in stories is a different challenge altogether. But have no doubt –

the media needs story ideas. They need to write about something and, as any human, they'd love a little help. So your task is pretty darn simple – give them some easy-to-write stories their audience will find interesting. Of course, make sure the stories have some connection to you, your company or its products or services. Surely there's something that fits the bill.

Wow. You have a blank look on your face. Fear not. Here are some suggestions. But first, get clear that media contacts, when it comes to stories, aren't interested in giving you free publicity. They don't care about you, your business or what you're selling. Editors care only about finding stories that are interesting to their readers. Stories that make their readers want to subscribe again next year. Generally, they want news, not marketing. There is a difference.

Marketing is about products and services. It's about things that can be bought. News, on the other hand, is ... news! It's about an interesting topic, trend or development.

It's "Hey, did you hear we're all gonna die from the fluoride in our water?" It's timely information that was not known before, and it's free.

Brainstorm about the following:

- What is impacting, or soon will, the audience of the media outlet you target?
- What industry trends might be of interest to the audience of your targeted media outlet?
- Can you find a unique take on an old story?

Once you've identified some stories, consider:

- a. Does this story have a tie-in to you, your company, products or services?
- b. Does anyone, outside your company and family, really give a darn about this?

continued on page 12

How To Monitor What The Media Says About Your Company

If your company is mentioned in the media, you want to know about it. First, you want to know what is being said so you can manage it. Second, you want to use the favorable coverage in your marketing.

The good news is tracking media "mentions" has never been easier or cheaper. Credit, once again, the Internet – and Google.

At www.google.com click "more >>" and then *Google Alerts*. Fill out the forms and Google will send you, via email, as frequently as you desire, alerts of news articles (and some blog commentary) that contain terms you request to be monitored. For example, request that Google send you anything that mentions your company name. Yes, it's that simple, and it's FREE.

What about hard copy publications like daily newspapers? Almost every hard copy publication today has a parallel web or electronic version. As such, *Google Alerts* finds them too.

Google is far from perfect, however. Google doesn't search every publication and it doesn't *specialize* in locating and providing you with the media mentions you desire. If you want or need a more thorough job, more services and/or more handholding, there are "clipping services" that specialize in these areas. They tend to search farther, wider, more thoroughly and help you organize, analyze and maintain the results.

Here are some helpful links:

www.clippingservice.com: A wealth of information on various print, broadcast and web clipping services and links to scores of service providers. Be aware, however, that this is a "pay to play" site so the data does not necessarily include all suppliers.

www.cyberalert.com: A fully automated, internet-based, worldwide press clipping, broadcast monitoring and Web clipping service. It targets smaller firms. Founded in 1999.

www.intelliseek.com: Offers technologies that create real-time marketing and business intelligence from structured and unstructured data. Primarily monitors *consumer* discussion for mentions of companies and brands. Founded in 1996.

www.bacons.com: A worldwide leader in public relations, investor relations, marketing, corporate communications and business intelligence. Founded in 1932.

www.burrellesluce.com: One of the oldest and largest of the media monitoring services. Primarily a print clipping service, but also offers an electronic web clipping service.

For more information, search the Internet for [Internet Monitoring and Clipping: Strategies for Public Relations, Marketing and Competitive Intelligence](#) by Anelia Kassel. □

You Can Get Press Coverage. Here's How., continued from page 11

If your story passes these tests, you're in business. Now the work begins. Put the story together. Research the facts and gather source material. List people with in-depth knowledge of the issue whom will share their knowledge, experience and opinions with the media. Get it all in a press release.

Next, to whom are you going to send it? You can either compile the list yourself or outsource it. The major press release "blast" services include prnewswire.com and businesswire.com. They cost money but they're quick, easy and have a very broad distribution. They're not targeted and not as good at helping you build personal relationships with editors.

Finally, once the press release is distributed, follow up thoroughly. Be advised, however, that although PR is not conceptually difficult, it is a profession. If you and your staff lack PR experience and/or professional writing skills, consider hiring a professional – if not an agency, maybe a freelance writer or journalist who could work part-time on your project. To find one, try www.guru.com. □

Note: Just before going to press, William J. Comcowich of CyberAlert informed us that a firm called PRWeb (www.prweb.com) will distribute press releases for free. For what it's worth!

Ideas For Using Favorable Press Coverage

Websites: Include them on a "What's being said about XYZ" page or add a "Press Room" button.

Direct Mail: Send copies or transcripts to customers and prospects. Reprints mailed in a tube can be very effective.

Email: Link them to email signatures, blast them in bulk emails or include them in your e-newsletter.

Hard Copy Newsletters: Reprint articles in their entirety or summarize recent press coverage.

Press Kits: Include samples of press coverage when sending information to customers and prospects. Don't include samples in press kits going to media contacts in an attempt to get coverage. Sell your story as "fresh" and sell it on its own newsworthiness.

Product Shipments: Give copies of favorable press a "free ride" in your product shipments. Reinforce that your clients have made the right choice.

Press Releases: Favorable press coverage can garner additional favorable coverage! Okay, this might work well for your local newspaper or your trade association journal, but the fact that the *New York Times* covered your story might not help you with the *Washington Post*. In fact, it might hurt you.

Employees and Shareholders: Your employees need to get "sold" on the quality of your products and services, and they need to know what is being said. Shareholders might also be interested, so include them in employee newsletters, company intranet, annual reports, etc. □

Press Idea & Media Pitch Checklist

The Basics:

- Employee hires and promotions
- Location change, addition or expansion
- New products, services or capabilities
- Ownership change
- BIG new order, expenditure or transaction
- Certification earned or capability attained
- Award or recognition received
- Owner or employee takes leadership position in industry, trade or civic organization
- Exemplary deeds for the common good of society

Beyond The Basics:

- What now or will soon impact the audience of the media outlet you target?
- What industry trends might be of interest to the audience of your targeted media outlet?
- Can you find a unique take on an old story?
- Any radically new or interesting happenings in your company that reflect or impact broad groups of people or businesses?
- Unique ways you've found to address or overcome problems or challenges faced by a sizeable group of others? □

General Audience Press vs. Trade And Business Press

General audience outlets such as national, city and community newspapers, network television stations and wide-audience radio stations are different than trade and business publications, niche journals and targeted audience radio and television programs. They differ in the information they want and the stories they write. You should tailor your pitches accordingly. □

General Audience Media Desire ...

General populous stories

Big-picture and broader concepts

Less interested in "follow-up" stories

Quick stories

Sound bites

Targeted Audience Media Desire ...

Niche stories

More depth and detail

In-depth "follow-up" stories

Deep and thorough stories

Insights and observations

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D.G. LaGere Purchases Blue River Engineering *(LaGere Rapidly Expanding)*

TULSA, Okla. (Feb. 2, 2006) — D.G. LaGere Company of Indianapolis has purchased 80-year-old Blue River Engineering of Spring Creek, Fla. Blue River will remain in Florida and continue to be managed by its established team.

LaGere is a leader in the design and fabrication of custom, high-end ornamental metal staircases. LaGere serves both commercial and residential markets throughout the United States and employs a staff of 100.

Blue River is an engineering and architecture firm well known for its award-winning work on upscale residential, retail and niche commercial structures.

David LaGere, president and majority owner of D.G. LaGere, said, "In our business, Blue River is second to none. We've worked closely with owner Carl Page and his talented professionals for many years. This purchase is a natural for us and we look forward to the growth we all now anticipate."

Carl Page, third generation owner and president of Blue River, will remain with the company as chairman. Page adds, "We're thrilled to find a buyer as solid as LaGere. We're a perfect fit, and I look forward to continuing to be a part of Blue River's success."

LaGere said he sees no reason to change management at Blue River. Steve Lake, long-time executive vice president of Blue River, will assume the title of president. The headquarters of Blue River will remain in Spring Creek.

David L. Perkins, Jr. of Vercor represented Blue River in the transaction. Vercor is a merger and acquisition consulting firm headquartered in Atlanta, Ga. Perkins is a founding partner in Vercor and manages Vercor's South Central office. Vercor consults on the purchase, sale and valuation of companies with annual revenue greater than \$5 million.

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Become A Go-To Expert For The Media

Want repeat media exposure? Become a go-to expert for writers. It's not an impossible dream.

First, get one thing straight – editors write articles. Their articles contain ideas, events, people and perspectives. From where do they come? From people they know or can easily find. You can become one of their go-to people.

Second, let's find out if you can qualify as an expert. Take the following test. Raise your left hand to eye level. Make a fist. Now raise your pinky finger. Look at it, and answer this question: On what subject do you possess more knowledge in your little pinky finger than most persons on the planet? By most, we mean the 99% of the population that does not do what you do? If you have an answer, you're an expert.

Third, can you be interesting and opinionated? Writers don't want wallflowers that take middle-of-the-road positions. They want opinions and passion. They want comments that are insightful, interesting and arouse emotion. If you can't fit the bill, find someone that can represent your company.

Fourth, write a summary of your special expertise. What makes you unique? What makes you an expert? On what topics are you capable of providing insight? List them.

Fifth, prepare and maintain an attractive, interesting and informative bio.

Sixth, identify the media outlets (print, radio, television, web, etc.) that serve your target audience.

Seventh, begin regularly writing "letters to the editor" regarding topics covered by each outlet that relates in some way to your unique expertise. Include your bio and contact

information in each submittal. Make sure they can reach you on impulse (i.e., cell phone).

Eighth, regularly provide good story ideas to writers at the media outlets you target.

Do these things and writers will get to know you. If, when they call, you have the right stuff you will become a go-to expert. □

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PROFESSIONAL DEVELOPMENT

'Righteous Vengeance' Critical To The Common Good?

A recent *Wall Street Journal* "Science Journal" column by Sharon Begley presented recent research that concludes society benefits greatly from persons who exact "righteous vengeance" on the selfish.

By way of background, all people in human society benefit when members contribute to the common good by donating time, money, labor and resources. One plus one in this case equals three, or four – and every person enjoys the rewards. However, what happens when one person does not contribute? Well, he gets to enjoy the

bounty provided by all the givers AND HE DID NOT HAVE TO SHARE ANY OF HIS OWN, so the non-giver gets more than anyone!

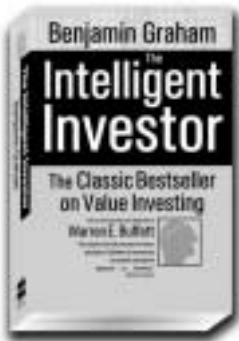
Clearly, from a selfish, individualistic, dog-eat-dog mentality, the smartest thing for an individual to do is to not contribute. But if everyone did that, then everyone would lose. So, the common good of society is buoyed by the givers and contributors. However, subconsciously, individuals know that they are really better off by simply freeloading. And, most people act in their own rational self-interest.

What, then, prevents society from eroding into selfishness? The answer, according to one body of research, is "righteous vengeance." More particularly, there are persons in society who are willing to take time and energy to reprimand persons that they see exhibiting selfish behavior. And it is the existence of these "police," and the pressure they exhibit, that pushes more people to give.

And so, the quality of society in the future just may hinge on the numbers, or effectiveness, of persons willing to take their personal time and energy to inflict righteous vengeance on the selfish. □

Book Review: The Intelligent Investor

Benjamin Graham is arguably the greatest investment philosopher of all time. He brought structure and logic to the business of security analysis. That is, the discipline of investing in companies via their common stock (i.e., equity) and, to a lesser extent, their debt securities (i.e., bonds). He is credited with founding the discipline of value investing, which is the process of identifying and investing in undervalued equity interests.¹ He was



also teacher and mentor to the most successful investor of all time – Warren Buffett. Buffett explains that his secret to investing is simple – he follows the advice of Graham.

To the astounding benefit of you and me, Graham personally outlined his investment philosophy in *The Intelligent Investor*. Is it written, as he says, “for the laymen” and is well within the intellectual reach of common folks like you and me.

What advice does Graham have for owners, and buyers, of private businesses? Well, Graham and Buffett primarily invest in publicly traded companies, but they also invest in private companies. And they will tell you that there’s no difference in analyzing a private company vs. a public one. In fact, they explain that most buyers of publicly traded stocks err in that they focus their analysis (that is, if they do any at all) on the stock itself rather than the company in which they are buying an interest.

To the contrary, they urge investors to analyze prospective investments as if they were buying the entire company. After all, whether you are buying an equity interest that accounts for a small fraction of ownership, or 100%, you are still betting on the future performance of the company (if you are applying Graham’s methods).

True investing is not simply “watching stocks go up and down and jumping in

when you think it’s about to go up.” Graham’s philosophy is disciplined: buy interests in *companies* (as opposed to myopically buying shares of stock); do so only under certain, very special circumstances; and hold the position long-term.

Here are some other themes in *The Intelligent Investor*:

Investing is not “trading in the market”: Trading based on analytics and/or technical or trend analysis, employs methodologies that are in stark contrast to sound business sense. It is unlikely to lead to lasting success (in investing).

Defensive Investor: If the proceeds of investing will be used to live, retire or serve some other important purpose, then the only logical approach is one that ensures safety.

Keep it simple: Buy only at a price that is very safe. Buy only very high-quality and stable companies with outstanding, stable management. Stay diversified (10 to 15 investments). Hold each investment as long as you logically expect the *business* (as opposed to the stock) to continue to perform well.

Nobody can predict the future. Not you; not “Wall Street Experts.” So don’t try, and don’t rely on the predictions of others. Be a defensive investor, stick to the keep-it-simple suggestions, and include an ample “margin of error.”

Buy companies, not stocks: This way, you’ll focus on the intrinsic value of a company – the real stuff that underpins the value of a stock. That is, value based on the balance sheet and income generating performance of the company rather than an arbitrary stock price.

Margin of safety: Absolutely essential in investing. You must not lose principal, so the only prudent thing to do is invest only when there is a

healthy margin of safety. In other words, even if your analysis is flawed or the business has some unforeseen problems (and it will), you will not be at risk of losing your investment.

Investing is not gambling or speculation: Investments are endeavors that hold promise, based on solid and thorough analysis, of safety of principal and an adequate return. Endeavors that don’t meet these criteria are speculative.

Be willing to be different: To obtain a return higher than the average, you must be different. Follow the masses (even the “Wall Street Experts”) and you’ll get the results of the masses (poor ones).

Buffett says, “If you follow the behavioral and business principles that Graham advocates, and if you pay special attention to the invaluable advice in Chapters 8 and 20, you will not get a poor result ...”

The strategy outlined in *The Intelligent Investor* is fairly simple and easy to understand. It IS within the reach of most of us who have *some* education and experience in business, finance, accounting and investments. If you are looking for a sound investment strategy or a means for analyzing a purchase of stock in any company, here are suggestions from the “Oracle of Omaha” – the wealthiest man on the planet (literally) – who built his wealth simply doing what this book, and his teacher, say. What more do you want? □

¹ *Financial Analyst Journal*, November/December 1976 issue

Note: The edition of *The Intelligent Investor* referred to in this review is the Fourth Revised Edition dated 1973.

If the proceeds of investing will be used to live, retire or serve some other important purpose, then the only logical approach is one that ensures safety.

“If you want to be happy, stop being a wimp.”

David L. Perkins, Jr.

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7010 S. Yale, Suite 120
Tulsa, OK 74136

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Important Notice:

In your Nov/Dec '05 issue we referenced a URL that is now re-directing visitors to a site that contains content which is not workplace appropriate humor and is not endorsed by us.

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