

Blue Shark's Business Principals

1. Although our form is that of an Limited Partnership (LTD) our attitude is that of a partnership with our shareholders. Karl Dickey, our Chairman, thinks all involved in the company should feel as owner-partners, and himself as a managing partner. Karl Dickey in fact is employed by the Managing Partner and has no personal ownership in the companies. Karl Dickey does not view the company itself as the ultimate owner of the business assets but instead views the company as a conduit through which our owner-partners own the assets.
2. In line with Blue Shark's owner-orientation, most of our directors may have a major portion of their net worth invested in the company. We eat our own cooking so-to-speak.
3. Our long-term economic goal is to maximize Blue Shark's average annual rate of gain in intrinsic business value. We do not measure the economic significance or performance of Blue Shark by its size; we measure the ROI and ROE's progress. We are certain the rate of both the ROI and ROE may diminish in the future as the LTD gains in size due to its enlarged capital base. We will be disappointed if our rate does not exceed that of the average large American corporation.
4. Our preference would be to reach our goal by directly owning a diversified group of businesses that generate cash and consistently earn above-average returns on capital. Our second choice is to own parts of similar businesses, attained primarily through purchases of private or public common stock through one of our subsidiaries. The price and availability of businesses and the need for capital determine any given year's capital allocation.
5. Because of our two-pronged approach to business ownership and because of the limitations of conventional accounting, consolidated reported earnings may reveal relatively little about our true economic performance. We virtually ignore consolidated numbers. However, we will also report to you the earnings of each major business asset we control, numbers we consider of great importance. These figures, along with other information we will supply about the individual businesses, should generally aid you in making judgments about them.
6. Accounting consequences do not influence our operating or capital-allocation decisions. When acquisition costs are similar, we much prefer to purchase \$2 of earnings that is not reportable by us under standard accounting principles than to purchase \$1 of earnings that is reportable. This is precisely the choice that often faces us since entire businesses (whose earnings will be fully reportable) frequently sell for double the pro-rata price of small portions (whose earnings will be largely unreportable). In aggregate and over time, we expect the unreported earnings to be fully reflected in our intrinsic business value through capital gains.
7. We use debt sparingly and when we do borrow, we attempt to structure our loans on a long-term fixed-rate basis. We will reject interesting opportunities rather than over-leverage our balance sheet. This conservatism has penalized our results,

but it is the only behavior that leaves us comfortable, considering our fiduciary obligations to our owner-partners.

8. We feel noble intentions should be checked periodically against results. We test the wisdom of retaining earnings by assessing whether retention, over time, delivers owner-partners at least \$1 of market value for each \$1 retained. We will continue to apply it on a five-year rolling basis. As our net worth grows, it is more difficult to use retained earnings wisely.

9. We will only bring in additional owner-partners when we receive as much in business value as we give. This rule applies to all forms of issuance – not only mergers, acquisitions and public stock offerings, but stock-for-debt swaps, stock options, and convertible securities as well. We will not sell small portions of the company – and that is what adding owner-partners amounts to – on a basis inconsistent with the value of the entire enterprise.

10. One should be fully aware of one attitude shared by Karl Dickey that may hurt the financial performance of the company. Regardless of price, we have no interest in selling any good businesses that Blue Shark owns. We are also very reluctant to sell sub-par businesses as long as we expect them to generate at least some cash and as long as we feel good about their managers and labor relations. We react with great caution to suggestions that our poor businesses can be restored to satisfactory profitability by major capital expenditures. (The projections will be dazzling and the advocates sincere, but, in the end, major additional investment in a terrible industry usually is about as rewarding as struggling in quicksand.) Nevertheless, gin rummy managerial behavior (discard your least promising business at each turn) is not our style. We would rather have our overall results penalized a bit than engage in that kind of behavior.

11. We will be candid in our reporting, emphasizing the pluses and minuses important in approaching business value. Our guideline is to tell you the business facts that we would want to know if our positions were reversed. We owe you no less. Moreover, it would be inexcusable for us to apply lesser standards of accuracy, balance and incisiveness when reporting on ourselves than we would expect others to report. We also believe candor benefits us as managers of your investment: The CEO who misleads others in public may eventually mislead himself in private.

12. To the extent possible, we would like each Blue Shark owner-partner to record a gain or loss in market value during their period of ownership that is proportional to the gain or loss in per-share intrinsic value recorded by the company during that holding period. For this to come about, the relationship between the intrinsic value of Blue Shark would need to remain constant, and by our preferences at 1 to 1. As that implies we would rather see Blue Shark's business assets valued at a fair level than a high level. Our it's-as-bad-to-be-overvalued-as-to-be-undervalued approach may disappoint some owner-partners. We believe, however, that it affords Blue Shark the best prospect of attracting long-term investors who seek to profit from the progress of the company rather than from the investment mistakes of their partners.

WHAT IS INTRINSIC VALUE?

Intrinsic value is an all-important concept that offers the only logical approach to evaluating the relative attractiveness of investments and businesses. Intrinsic value can be defined simply: It is the discounted value of the cash that can be taken out of a business during its remaining life.

The calculations of intrinsic value, though, is not so simple. As our definitions suggests, intrinsic value is an estimate rather than a precise figure, and it is additionally an estimate that must be changed if interest rates move or forecasts of future cash flows are revised. Two people looking at the same set of facts, moreover will almost inevitably come up with at least slightly different intrinsic value figures. That is one reason we never give out estimates of intrinsic value. What our annual reports will supply, though are the facts that we ourselves use to calculate this value.

Meanwhile, we regularly report our per-share book value, an easily calculable number, though one of limited use. The limitations do not arise from our holdings of marketable securities, which are carried on our books at their current price, rather the inadequacies of book value have to do with the companies we control, whose values as stated on our books may be far different from their intrinsic values.

MANAGEMENT OF Blue Shark

As stated earlier, Karl Dickey is employed by the managing partner of Blue Shark. But all the “heavy lifting” is done by our managers of our subsidiaries. In fact, we delegate almost to the point of abdication. We choose to keep Blue Shark’s offices to a bare minimum allowing our subsidiaries employ as many as they need to be profitable.

The managing partner of Blue Shark spend time on capital allocation and the care and feeding of our key managers. Most managers of the subsidiaries are happiest when left along to run their businesses, and that is customarily just how we leave them. That puts them in charge of all operating decisions and of dispatching the excess cash they generate back to Blue Shark. By sending the excess cash to Blue Shark, they don’t get diverted by the various enticements that would come their way were they responsible for deploying cash their business threw off. Furthermore, we are exposed to a much wider range of possibilities of investing these funds than any of our managers could find in his or her own industry.

As for the allocation of capital, that’s an activity your managing partner enjoys and which has acquired some experience.