

Effective Direct and Cross-Examination of  
Business Valuation Experts

by:

Arnold B. Stein

ABA Section of Family Law  
Spring CLE Meeting  
San Juan, Puerto Rico  
April 2004

---

EFFECTIVE DIRECT AND CROSS-EXAMINATION  
OF BUSINESS VALUATION EXPERTS

by

ARNOLD B. STEIN

**I. Introduction**

The effective direct or cross-examination of a business valuation expert in a matrimonial matter does not begin or end with the preparation of the valuation report or the trial examination conducted in connection therewith. Rather, the process is an ever developing one which evolves through the entire pre-trial and trial process. For example, effective direct examination of an expert commences with the selection of the expert, develops through the appropriate use of the expert's skills in the initial discovery and fact-finding stages of the case relating to the valuation of the subject company, continues through the deposition stage of the case and culminates with his trial testimony and presentation of the report. Each stage in the process is important. During each stage it is incumbent that the lawyer and his expert work in consort sharing ideas, skills and abilities.

Similarly, effective cross-examination is much more than asking clever questions of the opponent's expert on the witness stand. Interrogation of the expert is the culmination of months of work during which financial records are accumulated and analyzed and strategies are developed. The interrogation is only as effective as the trial preparation preceding it.

---

This paper will focus on the presentation of effective direct and cross-examination of business valuation experts. Due to the limited time available, portions of the process will be touched upon generally and in summary fashion. Greater emphasis will be placed on the presentation of a direct exam and suggested tips for your cross-examination of your opponent's

expert. Attached to this paper is Appendix “A”. Included within Appendix “A” for your review are several financial summaries, projected financial statements, a discounted cash flow analysis, comparative company financial performance analysis and controlled transactions analyses.

## **II. Direct Examination**

### **A. Qualification of Expert**

It is important that you clearly distinguish your expert and distinguish him from your adversary’s expert. You should focus on the expert’s training, education and experience as it relates to business valuation in general and more specifically within the industry of the subject company. Listed below are several important points which should be developed by proper questioning. The list is not intended to be all inclusive, but provides a useful guide or overview.

1. Educational Background – Specifically, does the expert have a degree in accounting, economics, finance or law?
  2. Work Experience – Review all jobs held since graduation and define job duties and responsibilities.
  3. Professional Background and Training:
    - a. Professional Designations
    - b. Membership in recognized appraisal organizations
    - c. Identify all prior valuation of business experience
    - d. Identify all books, papers and articles written by the expert on business valuation. If the expert has written any, discuss the nature and theory of the work.
    - e. Identify all lectures given by the expert and the subject matter of the presentation.
-

4. Appraisal Qualifications

During this portion of your inquiry, ask questions of the expert which will evidence his working knowledge of Internal Revenue Rulings, business valuation theories and standards to be applied by business valuers. This questioning serves many purposes:

- a. Allows the trial judge to become aware of the quality of your expert's knowledge;
- b. Allows you to lay the groundwork for subsequent portions of your examination where theory is applied to fact;
- c. Under appropriate circumstances may allow you to begin critiquing your opponent's expert during your own case.

Listed below are several suggested areas of inquiry:

- a. What does the term "book value" mean and how does it apply to the valuation of the subject company?
  - b. What is Internal Revenue Ruling 59-60 and what significance does it have to this case?
  - c. Cite the eight valuation guidelines set forth in Internal Revenue Ruling 59-60.
  - d. Identify the classic methodologies to valuation. Discuss the strengths and weaknesses of each approach.
  - e. Articulate the proffered expert's experience in appraising business interests. For example, has he been involved in representing sellers or purchasers? Has he been involved in mergers or acquisitions? Has he
-

testified in prior litigation? If so, what were the issues in the case, what was his role, and what was the ultimate outcome of the litigation?

- f. Has the expert ever been appointed by a court of competent jurisdiction to render expert testimony as an accounting, economic, finance or valuation expert?

**RULE:** Reject opposing counsel's offer to stipulate that your valuator is an expert unless counsel will state for the record that he is universally held as a leading authority on the valuation of closely-held businesses.

**B. Direct Exam After Qualification of Expert – Retention and Purpose of Assignment**

After your expert has been qualified, you should move the direct exam into its next phase, namely: who hired you, what were you hired to do, and what steps and procedures did you follow in pursuit of this objective. Considerable time should be spent on this portion of the interrogation because it affords you the unique opportunity to convince the Court that your expert has done his homework and should be viewed as credible. Take your time and do it slowly and methodically. Listed below are several areas of questioning which should be developed during direct exam:

1. When were you first contacted to work on this case and who contacted you?
2. What were you hired to do? Effective date of the appraisal?
3. What steps did you take in order to begin your assignment?
4. What financial information did you request? Example:
  - a. Financial statements and supporting schedules;
  - b. Asset Appraisals;

- c. Leases and Contracts;
- d. Facilities inspected;
- e. Economic data sources used;
- f. Industry data sources used;
- g. Comparative company data sources used;
- h. Specific sources used in determining marketability and/or minority discounts.

Why did you request this information?

- 5. What financial information did you receive?
  - 6. Did you fail to receive any documents requested? If the answer is yes, what procedures did you follow in order to seek compliance.
  - 7. What, if any, impact did your inability to obtain financial information have upon your opinion of value?
  - 8. Did you meet with management of the subject company? Identify the individuals interviewed, the purpose of the interview, length of the interview and information obtained from each interviewee, i.e., such as principal product lines, product mix, markets, competitors, revenues by product lines, expenses, budgets and forecasts.
  - 9. After identifying the financial information obtained and the interviews conducted, ask the expert to answer the following questions which track Revenue-Ruling 59-60:
    - a. History of company;
    - b. Economic outlook in general and effect on demand for company's products;
-

- c. Size and growth potential of markets for company's products;
- d. Breadth of product line;
- e. Dividend paying capacity – stability of earnings;
- f. Competitive position;
- g. Sales and marketing capabilities;
- h. Quality and depth of management;
- i. Financial strength of company;
- j. General regard investors hold for the subject company's industry as an investment medium at time of valuation.

C. Selection of Appropriate Valuation Method, Explanation of Conclusion of Value

Once you have identified the scope and purpose of the expert's assignment, the financial data and other information viewed and relied upon and questioned the expert concerning his observations, it is now appropriate to get into the heart of his testimony, namely, the valuation methods selected, application of the method used to the financial data obtained, and statement of his opinion of value. During this phase of your direct exam, focus upon the following:

- 1. Discussion of Valuation Approaches
    - a. Discounted Cash Flow – technique which involves projecting the company's future cash flows and discounting these cash flows back to the present at a rate appropriate for the relative risk of the company's equity and debt securities. With discounted cash flow ("DCF") analysis, a company is viewed as an operating entity with
-

the principal focus on its cash-generating capabilities. Reasonable projections of revenues, margins, earnings and related asset and working capital requirements are used as a basis for estimating the free cash flow which a company can generate annually from its operating activities. The resulting annual free cash flows are then discounted back to the present at a rate which reflects both the relative risk associated with these flows as well as the rates of return which investors expect to realize on alternative investment opportunities. The present values of the expected free cash flows are totaled to derive the total value of the company (representing the combined debt and equity portions) based on the sum of the present values of the expected cash flows.

Explain to the court through your expert the primary assumptions underlying the DCF analysis. Specific discussion of the following assumptions should be conducted:

- (1) Revenues;
- (2) Gross Profit;
- (3) Operating Expenses;

---

- (4) Capital Spending;
- (5) Depreciation Expense;
- (6) Working Capital;
- (7) Income Tax Rate;
- (8) Discount Rate.



See Charts 1, 2 and 3 to Appendix “A”.

b. Control Transactions Analysis

For purposes of this presentation, assume we are valuing a block of stock representing a controlling interest with the power to liquidate, sell, or merge the company. Under this method, the objective is to determine the control value of the company which corresponds to the proceeds which would be available to the equity holders if the company were sold.

Effort is made to identify several mergers and acquisitions within recent years involving companies in the same industry as the subject company for which pricing information was available. It is suggested that you prepare with your expert a summary table illustrating the data accumulated including data about the closing dates of the transactions, the target and acquiring companies, the enterprise value paid for the target companies and pertinent implied pricing multiples.

See Chart 4 to Appendix “A”.

---

c. Comparative Company Analysis

Under this approach, market date of comparative public companies is reviewed to determine market prices and resulting valuation multiples for public companies engaged in businesses that may be considered comparable to those of the subject company.

1. Identify public companies that have common characteristics and similar risks in their respective businesses:
  - (a) Products;
  - (b) Markets;
  - (c) Revenue – Size;
  - (d) Debt and Capital Structure.
2. Apply market multiples of publicly traded companies to subject – See Charts 5 through 7 of Appendix “A”.

### **III. Cross-Examination**

#### **A. Use of Discovery to Prepare Cross-Examination**

##### **1. Interrogatories**

- a. Obtain information regarding expert’s qualifications, work experience, valuation experience in subject company’s business, work performed for attorney historically, fees paid.
  - b. Obtain all material used, reviewed or relied upon in valuation process:
    - (1) Financial Documents;
    - (2) Books, Treatises, Periodicals;
    - (3) Interview Notes of Company Management.
  - c. Obtain disclosure of basis of expert’s opinion and all facts relied upon in reaching conclusion.
-

- d. Seek all valuation reports prepared by expert of companies in same industry as subject company.

2. Deposition

- a. Use deposition to plan your cross-examination.
    - (1) Deposition should be used to find out what the expert did, why he did it and how he did it.
    - (2) Do not perform your cross-examination at deposition.  
Example: Your opponent's expert has used a comparative company method of value. Interrogate him at his deposition to find out the criteria he used in selecting his comparable companies, the material he reviewed in making the selections.
-

**Able Corp.**  
**Summary of Operating Results and Financial Condition**  
**For the Years Ended December 31, 1987 - 1992**  
(in \$000's)

	1987	1988	1989	1990	1991	1992P
<b>ASSETS</b>						
Cash and equivalents	\$ 7	\$ 138	\$ 141	\$ 39	\$ 255	\$ 19
Due from Factor, net	699	1,158	0	0	0	0
Accounts Receivable, trade	1,681	973	4,127	7,236	8,679	7,223
Inventories	1,517	2,944	3,255	4,613	5,019	5,321
Other current assets	529	517	577	616	1,483	1,186
<b>Current assets</b>	<b>4,433</b>	<b>5,731</b>	<b>8,100</b>	<b>12,504</b>	<b>15,436</b>	<b>13,749</b>
Property and equipment	892	1,792	2,219	2,974	3,985	5,141
Less: accum. depreciation	(457)	(1,071)	(1,586)	(2,102)	(2,542)	(3,154)
<b>Net property and equipment</b>	<b>435</b>	<b>720</b>	<b>633</b>	<b>872</b>	<b>1,442</b>	<b>1,987</b>
Accounts receivable, other	0	0	0	0	382	0
Due from affiliate	0	0	0	569	356	359
Deferred income taxes	0	0	0	96	96	96
Other assets	31	130	187	57	114	397
<b>Total Assets</b>	<b>\$4,899</b>	<b>\$6,581</b>	<b>\$8,920</b>	<b>\$14,098</b>	<b>\$17,826</b>	<b>\$16,588</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Accounts payable	\$1,050	\$2,279	\$2,170	\$2,820	\$3,829	\$3,774
Accrued liabilities	0	0	0	0	518	570
Cash overdraft	0	0	0	0	0	576
Note payable / Current portion long-term debt (a)	2,456	2,059	3,796	1,281	1,401	1,400
Other current liabilities	113	112	154	21	18	65
<b>Current liabilities</b>	<b>3,619</b>	<b>4,450</b>	<b>6,120</b>	<b>4,122</b>	<b>5,766</b>	<b>6,386</b>
Long-term debt (a)	0	0	0	6,828	8,711	7,029
Note payable, officer, net (b)	354	798	855	837	849	925
<b>Total long-term debt</b>	<b>354</b>	<b>798</b>	<b>855</b>	<b>7,665</b>	<b>9,560</b>	<b>7,954</b>
Common stock	200	237	237	233	233	233
Retained earnings	761	1,132	1,744	2,191	2,381	2,129
Less: Treasury stock	(36)	(36)	(36)	(113)	(113)	(113)
<b>Shareholders' Equity</b>	<b>926</b>	<b>1,333</b>	<b>1,945</b>	<b>2,310</b>	<b>2,501</b>	<b>2,249</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$4,899</b>	<b>\$6,581</b>	<b>\$8,920</b>	<b>\$14,098</b>	<b>\$17,826</b>	<b>\$16,588</b>
Common shares outstanding	14,167	14,757	14,757	14,167	14,167	14,167

(a) D&P has assumed Able will renew its revolving line of credit (total outstanding \$7,898M at 12/31/92 due to expire June 1, 1993) and has therefore classified as current an estimate of the amount due in 1993 based on prior year results.

(b) Notes payable to stockholder and officer, both due on demand, have been classified as long-term debt by D&P in above schedule

SOURCE: Audited 1987-1992 financial statements.

NOTE: Results for the year ended December 31, 1992 are based on preliminary audited financial statements and reflect a change in auditors.

**APPENDIX "A"**

**Chart 1**

**Able Corp.**  
**Summary of Operating Results and Financial Condition**  
**For the Years Ended December 31, 1987 - 1992**  
(in \$000's)

	1987	1988	1989	1990	1991	1992P
Total Sales	\$13,508	\$22,107	\$24,786	\$28,723	\$37,189	\$37,974
Cost of goods sold	7,576	13,734	15,197	17,246	22,889	21,652
Gross profit	5,931	8,372	9,589	11,477	14,300	16,322
Operating expenses:						
Selling	0	0	0	0	7,420	7,969
General and administrative (includes Selling 1987-90)	4,143	6,267	7,091	9,284	4,571	6,279
Research and development	1,086	934	833	615	983	1,144
Total operating expenses	5,229	7,201	7,924	9,899	12,974	15,392
Operating Income	703	1,171	1,665	1,578	1,326	930
Interest expense	523	642	880	1,065	1,235	1,147
Interest income	0	0	0	0	102	81
Other expense (income)	0	0	0	0	(59)	31
Pretax income	179	529	786	513	252	(167)
Income tax provision (refund)	41	159	174	66	61	84
Net Income (loss)	\$ 138	\$ 371	\$ 612	\$ 447	\$ 191	(\$ 251)
Depreciation and amortization	265	615	515	555	495	653
Operating cashflow	968	1,785	2,180	2,133	1,822	1,583
Capital expenditures	382	900	427	764	677	1,149
Dividends paid / Distribution to shareholder	0	0	0	4	0	0

SOURCE: Audited 1987-1992 financial statements.

NOTE: Results for the year ended December 31, 1992 are based on preliminary audited financial statements and reflect a change in auditors.

**Able Corp.**  
**Summary of Operating Results and Financial Condition**  
**For the Years Ended December 31, 1987 - 1992**  
(in \$000's)

Annual Growth Rates	1988	1989	1990	1991	1992P <sup>1</sup>	Compound Annual Growth Rates	
						3 years 1989-92	5 yrs. 1987-92
Total Sales	63.7%	12.1%	15.9%	29.5%	2.1%	15.3%	23.0%
Gross profit	41.2%	14.5%	19.7%	24.6%	14.1%	19.4%	22.4%
Selling general and administrative	51.3%	13.1%	30.9%	29.2%	18.8%	26.2%	23.0%
Research and development	(14.0%)	(10.8%)	(26.2%)	59.9%	16.4%	11.2%	1.1%
Operating cashflow	84.4%	22.1%	(2.2%)	(14.6%)	(13.1%)	(10.1%)	10.3%
Operating income	66.6%	42.2%	(5.2%)	(16.0%)	(29.8%)	(17.6%)	5.8%
Pretax income	195.0%	48.4%	(34.6%)	(50.9%)	(166.2%)	NM	NM
Net income	167.9%	65.0%	(26.9%)	(57.2%)	(231.4%)	NM	NM

  

Profitability Margins	1987	1988	1989	1990	1991	1992P <sup>1</sup>	Averages	
							3 years 1990-92	5 years 1988-92
Gross profit margin	43.9%	37.9%	38.7%	40.0%	38.5%	43.0%	40.5%	39.6%
Operating expenses	38.7%	32.6%	32.0%	34.5%	34.9%	40.5%	36.6%	34.9%
Operating cashflow margin	7.2%	8.1%	8.8%	7.4%	4.9%	4.2%	5.5%	6.7%
Operating income	5.2%	5.3%	6.7%	5.5%	3.6%	2.5%	3.8%	4.7%
Net income margin	1.0%	1.7%	2.5%	1.6%	0.5%	(.7%)	0.5%	1.1%

  

Working Capital Analysis	1987	1988	1989	1990	1991	1992P <sup>1</sup>	Averages	
							3 years 1990-92	5 years 1988-92
Working capital	\$814	\$1,280	\$1,980	\$8,382	\$9,670	\$7,363	\$8,472	\$5,735
Working capital / Sales	6.0%	5.8%	8.0%	29.2%	26.0%	19.4%	24.9%	17.7%
Current ratio: as stated	1.2	1.3	1.3	3.0	2.7	2.2	2.6	2.1
Accounts receivable, days	45.4	16.1	60.8	92.0	85.2	69.4	82.2	64.7
Inventory, turns	5.0x	4.7x	4.7x	3.7x	4.6x	4.1x	4.1x	4.3x
Accounts payable, days	50.6	60.6	52.1	59.7	61.1	63.6	61.5	59.4
Accrued expenses as a % of sales	0.0%	0.0%	0.0%	0.0%	1.4%	1.5%	NA	NA

  

Returns	1987	1988	1989	1990	1991	1992P <sup>1</sup>	Averages	
							3 years 1990-92	5 years 1988-92
Average assets	NA	\$5,740	\$7,750	\$11,509	\$15,962	\$17,207	\$14,893	\$11,634
Invested capital								
Total debt	\$2,810	\$2,857	\$4,651	\$8,946	\$10,960	\$9,354	\$9,753	\$7,353
Stockholders' equity	\$ 926	\$1,333	\$1,945	\$2,310	\$ 2,501	\$2,249	\$2,353	\$2,068
Total invested capital	\$3,735	\$4,190	\$6,596	\$11,256	\$13,461	\$11,602	\$12,106	\$9,421
Average invested capital	NA	\$3,963	\$5,393	\$ 8,926	\$12,359	\$12,532	\$11,272	\$8,634
Operating income / average assets	NA	20.4%	21.5%	13.7%	8.3%	5.4%	9.1%	13.9%
Return on average assets*	NA	13.33%	14.88%	9.57%	5.96%	2.64%	6.1%	9.3%
Net income / average equity	NA	32.8%	37.3%	21.0%	7.9%	(10.6%)	6.1%	17.7%
Return on average invested capital*	NA	19.3%	21.4%	12.3%	7.7%	3.6%	7.9%	12.9%

  

Miscellaneous calculations	1987	1988	1989	1990	1991	1992P
Capital expenditures	\$381.7	\$900.0	\$427.5	\$764.1	\$676.9	\$1,148.8
Depreciation expense, total	\$265.3	\$614.5	\$515.0	\$554.8	\$495.5	\$ 652.7
Depreciation expense / NFA beg. bal.	NA	141.3%	71.5%	87.7%	56.8%	45.3%
capital expenditures / sales	2.8%	4.1%	1.7%	2.7%	1.8%	3.0%
Sales / Net fixed assets	31.1	30.7	39.2	32.9	25.8	19.1
Sales / Total assets	2.8	3.4	2.8	2.0	2.1	2.3

\*The numerators of the Returns on Average Assets and Returns on Average Invested Capital consist of net income plus interest expense adjusted for taxes using a 38% marginal tax rate.

SOURCE: Audited 1987-1992 financial statements.

NOTE: Results for the year ended December 31, 1992 are based on preliminary financial statements and reflect a change in auditors.

**Able Corp.**  
**Projected Financial Statements**  
**For the Years Ending December 31, 1993-2002**

	Actual 1992	Projected 1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>Assumptions:</b>											
Net Sales; % change	2.1%	(12.8%)	10.0%	10.0%	10.0%	9.0%	9.0%	7.5%	6.0%	5.0%	5.0%
COGS; % of sales	57.0%	58.0%	58.0%	58.0%	58.0%	58.0%	58.0%	58.0%	58.0%	58.0%	58.0%
Selling expense; % of sales	21.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Research and development; % sales	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Gen'l and admin.; % sales	16.5%	15.0%	13.0%	14.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
<b>P P &amp; E; beginning net balance</b>	1,442	1,987	1,938	1,792	1,787	1,724	1,747	1,736	1,778	1,801	1,856
capital expenditures	1,149	600	624	649	675	702	730	759	790	821	854
depreciation expense	653	795	775	717	715	690	699	695	711	720	743
- percentage of beginning bal.:	40.0%										
Sales/NFA end. bal.	19.1	17.1	20.3	22.4	25.6	27.5	30.2	31.7	33.1	33.8	34.6
<b>Working Capital: assumptions</b>											
- accounts receivable days	69.4	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
- inventory turns	4.1	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
- accounts payable days	63.6	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0	63.0
- accrued expenses as % sales	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
<b>implied balances: (12/31/xx)</b>											
- accounts receivable	7,223	6,352	6,987	7,686	8,454	9,215	10,044	10,798	11,446	12,018	12,619
- inventory	5,321	4,467	4,914	5,405	5,946	6,481	7,064	7,594	8,050	8,452	8,875
- accounts payable	3,774	3,316	3,647	4,012	4,413	4,810	5,243	5,636	5,975	6,273	6,587
- accrued expenses	570	497	546	601	661	721	786	845	895	940	987
<b>Net noncash working capital</b>	8,200	7,007	7,707	8,478	9,326	10,165	11,080	11,911	12,626	13,257	13,920
- as % sales	21.6%	21.2%	21.2%	21.2%	21.2%	21.2%	21.2%	21.2%	21.2%	21.2%	21.2%
<b>Corporate income tax rate</b>	39.5%										

**Able Corp.**  
**Projected Financial Statements**  
**For the Years Ending December 31, 1993-2002**

	Actual 1992	Projected 1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>Projected Income Statement:</b>											
Net Sales	\$37,974	\$33,120	\$36,432	\$40,075	\$44,083	\$48,050	\$52,375	\$56,303	\$59,681	\$62,665	\$65,798
Cost of goods sold	21,652	19,210	21,131	23,244	25,568	27,869	30,377	32,656	34,615	36,346	38,163
Gross Profit	16,322	13,910	15,301	16,832	18,515	20,181	21,997	23,647	25,066	26,319	27,635
Selling expenses	7,969	6,624	7,286	8,015	8,817	9,610	10,475	11,261	11,936	12,533	13,160
Research and development	1,144	994	1,093	1,202	1,322	1,442	1,571	1,689	1,790	1,880	1,974
General and administrative	6,279	5,299	5,465	5,611	5,731	6,247	6,809	7,319	7,759	8,146	8,554
Total Operating expenses	15,392	12,917	13,844	14,828	15,870	17,298	18,855	20,269	21,485	22,559	23,687
Operating Income	930	994	1,457	2,004	2,645	2,883	3,142	3,378	3,581	3,760	3,948
Income taxes		392	576	791	1,045	1,139	1,241	1,334	1,414	1,485	1,559
Net Operating Profit After Taxes		\$ 601	\$ 882	\$ 1,212	\$ 1,600	\$ 1,744	\$ 1,901	\$ 2,044	\$ 2,166	\$ 2,275	\$ 2,388
<b>Implied Margins (as % Sales):</b>											
gross profit margin	43.0%	42.0%	42.0%	42.0%	42.0%	42.0%	42.0%	42.0%	42.0%	42.0%	42.0%
operating expenses	40.5%	39.0%	38.0%	37.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
operating income	2.4%	3.0%	4.0%	5.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
operating cashflow	4.2%	5.4%	6.1%	6.8%	7.6%	7.4%	7.3%	7.2%	7.2%	7.1%	7.1%



**Able Corp.**  
**Projected Financial Statements**  
**For the Years Ending December 31, 1993-2002**

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>Projected Cash Flow Statement:</b>										
Net Operating Profit After Taxes	\$601	\$882	\$1,212	\$1,600	\$1,744	\$1,901	\$2,044	\$2,166	\$2,275	\$2,388
Add: Depreciation	795	775	717	715	690	699	695	711	720	743
Total Sources	1,396	1,657	1,929	2,315	2,434	2,600	2,738	2,878	2,995	3,131
Less: Capital expenditures	600	624	649	675	702	730	759	790	821	854
Change in working capital	(1,193)	701	771	848	839	915	831	715	631	663
Total Uses	(593)	1,325	1,420	1,523	1,541	1,645	1,590	1,504	1,452	1,517
Net Cash Flow	\$1,989	\$332	\$509	\$792	\$893	\$955	\$1,148	\$1,373	\$1,543	\$1,614
	* to reflect est. .75 portion of 1993 cash flow likely to occur post 6/30/93									
										\$1,492

**Discounted Cash Flow Analysis:**

Present Value of 1993-2002 Net Cash Flows	12.5%	13.0%	13.5%								Implied Valuation Multiples @ WACC
	\$6,119	\$6,008	\$5,900								Enterprise Value / 1992 OPCF: 13.0%
Continuing Value using perpetuity growth of: 4.0%	21,113	19,941	18,891								Enterprise Value / est. 1993 OPCF: 8.0x
Present Value of Year 2002 Continuing Value	7,315	6,638	6,044								Enterprise Value / PV est. 1994 OPCF: 7.1x
											Enterprise Value / 1990-92 average OPCF: 7.2x
											Enterprise Value / 1992 Revenues: 6.9x
											Enterprise Value / 1992 Revenues: 33.3%
Total Enterprise Value	\$13,434	\$12,646	\$11,944								2002 Continuing Value / Est. 2002 OPCF: 4.3x
Less: Total debt outstanding at 12/31/92	(9,354)	(9,354)	(9,354)								Equity Value / Book Value at 12/31/92 136.7%
Bank overdraft at 12/31/92	(576)	(576)	(576)								Equity Value / 1990-92 average NI 23.8x
Subtotal	\$3,503	\$2,715	\$2,013								Equity Value / PV Est. 1994 NI 6.1x
Add: Note receivable from affiliated company	359	359	359								(based on 7.5% interest on \$8.4MM bank debt only)
Total Equity Value	\$3,863	\$3,075	\$2,373								

**Able Corp.**  
**COMPARATIVE FINANCIAL PERFORMANCE**  
**FINANCIAL PROFILE**  
**1992-1993**

	FISHER-PRICE	GALCOB TOYS	HASBRO INC.	JUST TOYS	MATTEL INC.	OHIO ART COMPANY	SIM INTER-NATIONAL	TYCO TOYS	Able Corp.*
Quarterend Month (I.TM)	Mar93	Mar93	Mar93	Mar93	Mar93	Mar93	Mar93	Mar93	Dec92
I.TM (In mills except per share)									
Sales	\$674,500	\$151,835	\$2,575,522	\$37,390	\$1,868,039	\$56,265	\$244,066	\$734,667	\$37,974
Operating Cash Flow	99,600	-0,079	393,866	5,682	328,774	15,994	34,895	49,502	1,583
Pretax Income	59,700	-2,866	296,695	4,641	220,738	4,644	23,855	7,859	-0,167
Net Income	36,900	-3,104	182,336	2,674	147,438	2,935	17,647	2,153	-0,252
Net Per Share	1.16	-0.66	2.04	1.08	1.41	5.69	1.53	0.11	-17.79
Fiscal Yearend Month	Dec92	Dec92	Dec92	Dec92	Dec92	Dec92	Dec92	Dec92	Dec92
I.TM (In mills except per share)									
Sales	\$693,900	\$166,280	\$2,541,055	\$32,468	\$1,847,897	\$56,792	\$231,460	\$768,589	\$37,974
Operating Cash Flow	108,700	2,168	386,625	5,453	324,903	7,122	30,559	63,771	1,583
Pretax Income	67,600	-2,209	292,162	4,352	215,948	5,656	21,944	30,136	-0,167
Net Income	41,300	-2,447	178,950	3,332	143,948	3,442	16,309	18,012	-0,232
Net Per Share	1.30	-0.59	1.96	1.57	1.38	6.68	1.45	0.60	-17.79
1/B/E/S Estimates Date	05/26/93	05/26/93	05/26/93	05/26/93	05/26/93	05/26/93	05/26/93	05/26/93	NA
Next Fiscal Yearend Date	Y93	Y93	Y93	Y93	Y93	Y93	Y93	Y93	NA
Projected Next Fiscal Year Net Per Share	1.52	0.22	2.33	1.25	1.70	NA	2.15	0.93	NA

\*Results for the year ended December 31, 1992 are based on preliminary financial statements and reflect a change in auditors.  
Source: Standard & Poor's Compustat Services, Inc.

**Able Corp.**  
**COMPARATIVE FINANCIAL PERFORMANCE**  
**GROWTH**  
**1988-1993**

	FISHER-PRICE	GALOOB TOYS	HASBRO INC.	JUST TOYS	MATTEL INC.	OHO ART COMPANY	SLM INTER-NATIONAL	TYCO TOYS	Able Corp.*
<b>Sales</b>									
LTM	13.4	-8.0	12.6	134.5	9.4	7.4	35.6	20.8	21
1992	15.5	10.4	18.7	137.3	13.9	13.9	40.9	40.1	21
1991	-14.5	18.7	40.9	351.9	10.3	20.0	24.3	19.0	29.5
1990	-16.8	-44.2	7.8	45.7	18.9	-20.4	26.8	20.0	15.9
1989	2.8	62.5	3.8	NA	25.0	-16.0	40.6	45.8	12.1
1988	37.7	109.2	1.0	NA	-3.0	-3.3	NA	61.4	63.7
CAGR	3.1	20.0	13.6	NA	12.6	-2.5	32.9	36.3	23.0
<b>Operating Cash Flow</b>									
LTM	2113.4	-104.9	28.6	NA	4.2	NA	54.7	-28.5	-13.1
1992	834.5	211.1	33.4	130.2	10.0	28.4	49.1	1.7	-13.1
1991	-219.4	93.2	30.0	536.8	26.7	518.5	93.7	22.5	-14.6
1990	89.2	-200.4	-3.0	416.7	14.7	-25.0	-25.0	8.9	-2.2
1989	5.0	121.2	6.0	NA	54.8	-96.4	54.0	78.0	22.1
1988	NA	153.4	10.6	NA	27.4	-22.1	NA	79.9	84.4
CAGR	-2.6	NM	14.5	NA	25.8	-5.9	35.1	34.1	10.3
<b>Net Income</b>									
LTM	278.3	48.0	116.1	21.5	17.0	-7.0	77.7	-91.1	-231.4
1992	222.9	67.5	119.2	71.4	21.9	32.2	160.5	-6.2	-231.4
1991	9.9	74.2	-8.4	584.7	29.5	313.7	294.5	473.0	-57.2
1990	-171.3	-249.2	-3.3	1572.2	14.5	29.8	-218.2	-79.1	-26.9
1989	-9.5	195.7	27.3	NA	121.7	-154.7	11.6	36.9	65.0
1988	NA	126.7	50.2	NA	138.8	-29.2	NA	70.1	167.9
CAGR	8.8	NM	30.0	NA	NM	-5.2	60.8	21.2	NM
<b>EPS</b>									
LTM	NA	-32.7	115.5	-2.7	18.7	-7.0	3.4	-89.7	-231.94
1992	NA	48.2	110.0	52.4	14.4	32.3	57.6	-38.1	-231.94
1991	NA	67.2	-9.1	NA	25.7	314.0	284.0	288.0	-57.27
1990	NA	-280.3	-1.3	NA	12.5	30.0	-219.0	-78.1	-23.92
1989	NA	168.1	25.8	NA	113.3	-154.7	10.5	16.3	64.96
1988	NA	126.2	51.2	NA	133.2	-12.7	NA	45.2	158.09
CAGR	NA	NA	29.1	NA	NA	-1.1	39.8	-2.3	NM

\*Results for the year ended December 31, 1992 are based on preliminary financial statements and reflect a change in auditors.  
Source: Standard & Poor's Compustat Services, Inc.

**ABLE CORP.**  
**COMPARATIVE FINANCIAL PERFORMANCE**  
**PROFITABILITY RATIOS**  
**1988-1993**

	FISHER- PRICE	GALOOB TOYS	HASBRO INC.	JUST TOYS	MATTEL INC.	OHIO ART COMPANY	SLM INTER- NATIONAL	TYCO TOYS	Able Corp.*
<b>Gross Margins (%)</b>									
LTM	48.9	37.5	23.7	43.1	53.5	39.3	42.7	42.8	43.0
1992	49.4	37.4	59.4	45.7	53.5	42.0	41.8	43.3	43.0
1991	37.2	37.5	57.3	43.4	52.7	40.3	38.1	45.1	38.5
1990	37.4	35.7	56.7	46.0	51.1	31.0	35.1	43.8	40.0
1989	41.8	50.9	57.3	32.1	52.9	30.9	37.4	42.9	38.7
1988	41.3	49.7	57.6	NA	51.6	42.6	34.1	39.8	37.9
Average	41.4	42.2	57.6	41.8	52.4	37.4	37.3	43.0	39.6
<b>Operating Cash Flow (%)</b>									
LTM	14.8	-0.1	15.3	NA	17.6	NA	14.3	6.7	4.2
1992	15.7	1.3	15.2	16.8	17.6	12.5	13.2	8.6	4.2
1991	-2.5	-1.3	13.5	17.3	18.2	11.1	12.5	11.8	4.9
1990	1.8	-22.5	14.7	12.3	15.8	2.2	8.0	11.4	7.4
1989	13.6	12.5	16.3	3.5	16.4	0.5	13.5	12.6	8.8
1988	14.7	9.2	16.0	NA	13.2	12.1	12.4	10.3	8.1
Average	8.7	-0.2	15.1	12.5	16.3	7.7	11.9	10.9	6.7
<b>EDIT Margins (%)</b>									
LTM	NA	-0.8	12.8	NA	14.9	8.6	11.4	3.8	2.6
1992	11.7	0.9	12.9	14.2	14.7	10.3	11.1	6.3	2.6
1991	-6.1	-1.3	11.5	16.1	15.0	8.7	10.2	9.9	4.0
1990	-2.8	-20.6	12.6	21.5	12.7	-2.4	5.5	5.3	5.5
1989	11.4	12.7	12.8	2.8	14.0	-2.8	11.4	10.8	6.7
1988	12.9	8.8	NA	NA	11.4	10.2	11.3	9.8	5.3
Average	5.4	0.1	NA	13.6	13.5	4.8	9.9	8.4	4.8
<b>Net Income Margins (%)</b>									
LTM	5.5	-2.0	7.1	7.2	7.9	5.2	7.2	0.3	-0.7
1992	6.0	-1.5	7.0	10.9	7.8	6.1	7.0	2.3	-0.7
1991	-5.6	-5.0	3.8	15.1	7.3	5.2	3.8	3.5	0.5
1990	-5.3	-23.0	5.9	9.9	6.2	-2.9	-2.4	0.7	1.6
1989	6.2	8.6	6.5	0.9	6.4	-3.3	2.6	4.2	2.5
1988	7.0	4.7	5.3	NA	3.6	5.1	3.3	4.4	1.7
Average	1.7	-3.2	5.7	9.2	6.3	2.0	2.9	3.0	1.1

\*Results for the year ended December 31, 1992 are based on preliminary financial statements and reflect a change in auditors.  
Source: Standard & Poor's Compustat Services, Inc.

**Able Corp.**  
**COMPARATIVE FINANCIAL PERFORMANCE**  
**RETURNS**  
**1988-1993**

	FISHER-PRICE	GALOOB TOYS	HASBRO INC.	JUST TOYS	MATTEL INC.	OHIO ART COMPANY	SIM INTER-NATIONAL	TYCO TOYS	Able Corp.*
<b>Returns on Average Assets (%)**</b>									
LTM	NA	-3.4	10.6	NA	NA	14.0	13.6	2.4	2.6
1992	10.9	-2.2	10.0	34.9	15.3	14.4	12.8	4.7	2.6
1991	-5.6	-9.2	6.7	64.7	15.2	13.2	10.1	8.9	6.0
1990	-5.4	-28.5	7.8	NA	13.7	-2.7	2.8	4.0	9.6
1989	10.4	23.9	9.1	NA	14.5	-2.4	NA	11.4	14.9
1988	NA	13.2	8.3	NA	9.5	12.5	NA	14.6	13.3
Average	2.6	-0.6	8.4	NA	13.6	7.0	NA	8.7	9.3
<b>Returns on Average Invested Capital (%)**</b>									
LTM	NA	NA	NA	NA	22.1	NA	NA	2.9	3.6
1992	13.5	-3.5	14.6	45.4	24.3	24.3	15.1	6.4	3.6
1991	-6.7	-14.0	9.3	98.1	25.2	22.0	11.8	12.4	7.7
1990	-6.5	-40.6	10.4	NA	22.5	-4.0	3.2	5.4	12.3
1989	12.2	34.2	11.8	NA	22.7	-3.7	NA	15.4	21.4
1988	NA	18.0	10.6	NA	13.8	23.5	NA	20.7	19.3
Average	3.1	-1.2	11.3	NA	21.7	12.4	NA	12.0	12.9
<b>Returns on Average Common Equity (%)**</b>									
LTM	16.3	NM	17.5	NA	28.7	21.6	23.0	0.7	10.6
1992	19.0	NM	17.4	52.8	28.8	24.7	21.5	7.0	-10.6
1991	-10.8	NM	9.0	181.5	30.8	23.2	19.6	13.8	8.0
1990	-8.4	-131.2	10.7	NA	33.7	-11.3	-28.6	3.5	21.4
1989	11.1	59.8	12.0	NA	46.2	14.0	NA	22.1	17.1
1988	NA	32.7	10.4	NA	30.5	26.6	NA	26.1	32.5
Average	2.8	-7.9	11.9	NA	34.0	9.8	NA	14.7	17.8

\*Results for the year ended December 31, 1992 are based on preliminary financial statements and reflect a change in auditors.  
 \*\*The numerators of the Returns on Average Assets and Returns on Average Invested Capital consist of net income plus interest expense adjusted for taxes using a 38% marginal tax rate.  
 The numerators of the Returns on Average Invested Capital consist of net income only.  
 Source: Standard & Poor's Compustat Services, Inc.

**Able Corp.**  
**COMPARATIVE FINANCIAL PERFORMANCE**  
**LATEST BALANCE SHEET DATA**  
**1991-1992**

	FISHER-PRICE	GALOOB TOYS	HASBRO INC.	JUST TOYS	MATTEL INC.	OHIO ART COMPANY	SLM INTER-NATIONAL	TYCO TOYS	Able Corp.*
	Mar93	Mar93	Mar93	Mar93	Mar93	Mar93	Mar93	Mar93	Dec92
Current Ratio	2.7	2.2	1.8	3.6	2.2	2.2	2.4	2.3	1.0
Quick Ratio	1.5	1.1	1.0	1.6	1.5	1.3	0.8	1.2	0.5
Total Assets (millions)	\$443,000	\$57,263	\$1,921,804	\$15,797	\$1,240,543	\$22,248	\$177,599	\$668,032	16,588
Cash and Cash Equivalents	11,900	1,782	100,250	1,167	151,191	2,978	4,406	69,034	0,019
Total Invested Capital (millions)**	\$361,600	\$36,622	\$1,380,574	\$11,873	\$879,521	\$16,241	\$153,514	\$548,893	\$11,602
Total Debt	122,300	5,517	258,693	0,000	324,869	0,059	53,821	221,187	9,353
Deferred Taxes	8,700	0,000	0,000	0,000	0,000	0,651	0,000	1,843	0,000
Minority Interest	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Preferred Stock	0,000	36,790	0,000	0,000	0,009	0,000	0,000	0,000	0,000
Common Equity	230,600	(5,685)	1,121,881	11,873	554,644	15,331	99,693	325,863	2,249
Total Invested Capital (percent)	34	15	19	0	37	0	35	40	81
Total Debt	2	0	0	0	0	4	0	0	0
Deferred Taxes	0	0	0	0	0	0	0	0	0
Minority Interest	0	100	0	0	0	0	0	0	0
Preferred Stock	0	-16	81	100	63	0	0	0	0
Common Equity	64	-16	81	100	63	96	65	59	19

\*Results for the year ended December 31, 1992 are based on preliminary financial statements and reflect a change in auditors.  
 \*\*Due to a lack of available data, Total Invested Capital for Ohio Art Company is as of 12/31/92.  
 All other amounts represent I.T.M.

Source: Standard & Poor's Compustat Services, Inc.

**Able Corp.**  
**SELECTED CONTROL TRANSACTIONS IN THE TOY INDUSTRY**

Closing Date	Target	Acquirer	Enterprise Value (Millions)	Enterprise Value / Sales	Offering Price / Net Income	Offering Price / Book Value	Multiples	
							Enterprise Value / Oper. Income	Enterprise Value /
Aug-91	Tunka Corp.	Hasbro Bradley Inc.	\$694.83	0.88x	-3.07x	0.4x	6.73x	10.36x
Dec-91	Spearhead Industries Inc.	Manufacture and wholesale toy products.	21.24	0.76x	12.95x	2.5x	7.83x	9.87x
Feb-92	International Games, Inc.*	Manufacture and wholesale toys and holiday trinkets.	58.5*	2.2x	8.74x	NA	NA	NA
Oct-92	Universal Matchbox Group	Producer of family and educational card and board games.	100.29	0.60x	51.58x	1.71x	7.40x	15.48x
		Producer of toy products including puzzles Tyco Toys model kits, dolls and doll-houses, games, and plush toys.						

MEAN	1.10x	17.55x	1.54x	7.32x	11.90x
MEDIAN	0.82x	10.85x	1.71x	7.40x	10.36x

\* - The company was acquired for 867,737 common shares and 864,293 shares of voting convertible preferred stock valued at \$58.5 million.

**Able Corp.**  
**ANALYSIS OF PUBLICLY TRADED COMPARABLE COMPANIES**  
**MARKET DATA**  
 (\$ in Millions)  
 2 June 93

Common Stock Price	52-Week Range		Primary Market	Dividend Data			Capital Structure Data			% Debt to Capitalized Value	
	High	Low		Indicated Dividend	Current Yield	Percent Payout	Shares Out- standing	Equity Value	Total Debt		Capitalized Value*
21.250	29.250	16.750	NYSE	\$0.20	0.9%	17%	30,629	\$651	\$122	\$761	16%
3.375	7.250	2.250	NYSE	0.00	0.0	0	9,518	32	6	73	8
35.625	36.875	26.375	ASE	0.24	0.7	12	86,793	3,092	259	3,250	8
18.000	20.000	10.500	NSDQ	0.00	0.0	0	3,000	54	0	53	0
24.750	28.875	20.500	NYSE	0.24	1.0	17	95,810	2,371	325	2,545	13
43.000	62.000	40.000	ASE	0.24	0.6	4	0,512	22	0	19	0
32.500	33.500	15.000	NSDQ	0.00	0.0	0	12,388	403	54	452	12
12.125	23.313	11.250	NYSE	0.10	0.8	91	32,081	389	221	541	41

S & P 500 453.850  
 Dow Jones Industrial Avg 3553.450

\* Equity value plus debt, preferred stock, and minority interest, less cash and equivalents.

Sources: Standard & Poor's Compustat Services, Inc., Value Line, Inc. and Monthly Summary I/B/E/S.



ANALYSIS OF PUBLICLY TRADED COMPARABLE COMPANIES  
VALUATION MULTIPLES  
2Jun93

	Price as a Multiple of Earnings Per Share			LTM Relative to S&P 500(%)			Capitalized Value as a Multiple of Operating cash flow				Price as a Multiple of	
	Latest 12 Months	Projected Fiscal Year	3-Year Average	Latest 12 Months	3-Year Average	Relative to S&P 500(%)	Latest 12 Months	Projected Fiscal Year	3-Year Average	Latest 12 Months	Book Value	
Fisher Price	18.3x	14.0x	NA	77.1	NA	77.1	7.6x	6.2x	21.5x	1.13x	2.8x	
Gallob Toys	-5.1	15.3	-1.9	-21.5	-1.9	-21.5	NM	17.1	-7.7	0.48	NM	
Hasbro Incorporated	17.5	15.3	27.3	73.5	27.3	73.5	8.3	7.2	10.8	1.26	2.8	
Just Toys	16.7	14.4	19.6	70.1	19.6	70.1	9.3	NA	19.4	1.41	4.5	
Mattel Incorporated	17.6	14.6	20.9	73.8	20.9	73.8	7.7	6.9	8.9	1.36	4.3	
Ohio Art Company	7.6	NA	13.8	31.8	13.8	31.8	1.2	NA	4.2	0.34	1.5	
SLM International	21.2	15.1	52.1	89.3	52.1	89.3	13.0	NA	22.0	1.85	4.0	
Tyco Toys	110.2	13.0	20.0	463.6	20.0	463.6	10.9	6.7	8.9	0.74	1.2	
Range - High	110.2	15.3	52.1	463.6	52.1	463.6	13.0	17.1	22.0	1.85	4.5	
Low	-5.1	13.0	-1.9	-21.5	-1.9	-21.5	1.2	6.2	-7.7	0.34	1.2	
Mean	25.5	14.5	21.7	107.2	21.7	107.2	8.3	8.8	11.0	1.07	3.0	
Median	17.5	14.6	20.0	73.6	20.0	73.6	8.3	6.9	9.9	1.20	2.8	
S & P 500	23.8	18.0										
Dow Jones Industrial Avg	32.3	17.3										

\* Operating Income plus depreciation and amortization.

**Able Corp.**  
**ANALYSIS OF PUBLICLY TRADED COMPARABLE COMPANIES**  
**OPERATING PERFORMANCE**  
 (\$ In Millions)  
 2 Jun 93

	Earnings Per Share		Operating Cash Flow*		Book Value Per Share	Latest 12 Months Revenues	LTM Ended	Projected EPS for Year Ending
	Latest 12 Months	Projected 3-Year Average	Latest 12 Months	Projected 3-Year Average				
Fisher Price	\$1.16	\$1.52	\$99.6	\$123.2	\$7.53	\$675	Mar93	Y93
Galoob Toys	-0.66	0.22	-0.1	4.3	-0.60	152	Mar93	Y93
Hasbro Incorporated	2.04	2.33	393.9	453.8	12.93	2,576	Mar93	Y93
Just Toys**	1.08	1.25	5.7	NA	3.96	37	Mar93	Y93
Mattel Incorporated	1.41	1.70	328.8	369.0	5.79	1,868	Mar93	Y93
Ohio Art Company**	5.69	NA	16.0	NA	28.66	56	Mar93	NA
SLM International	1.53	2.15	34.9	NA	8.05	244	Mar93	Y93
Tyco Toys	0.11	0.93	49.5	81.0	10.16	735	Mar93	Y93

Fisher Price  
 Galoob Toys  
 Hasbro Incorporated  
 Just Toys\*\*  
 Mattel Incorporated  
 Ohio Art Company\*\*  
 SLM International  
 Tyco Toys

S & P 500 19.09 25.25  
 Dow Jones Industrial Avg 110.01 205.00

\* Operating Income plus depreciation and amortization.  
 \*\* LTM operating cash flow is based on actual LTM operating income and an estimate of LTM depreciation based on 1992 actual results.