

**Table 2 Key Variables in Estimating  
the Cost of Capital**

(As of Year-end 2005)

				<b>Value</b>
<b>Yields (Riskless Rates)<sup>3</sup></b>				
Long-Term (20-year) U.S. Treasury Coupon Bond Yield				4.6%
<b>Equity Risk Premium<sup>4</sup></b>				
Long-horizon expected equity risk premium (historical): large company stock total returns minus long-term government bond income returns				7.1%
Long-horizon expected equity risk premium (supply side): historical equity risk premium minus price-to-earnings ratio calculated using three-year average earnings				6.3%
<b>Size Premium<sup>5</sup></b>				
	Market Capitalization of Smallest Company (in millions)		Market Capitalization of Largest Company (in millions)	Size Premium (Return in Excess of CAPM)
Decile				
Mid-Cap, 3-5	\$1,729.364	-	\$7,187.244	1.02%
Low-Cap, 6-8	\$587.243	-	\$1,728.888	1.81%
Micro-Cap, 9-10	\$1.079	-	\$586.393	3.95%
Breakdown of Deciles 1-10				
1-Largest	\$16,091.015	-	\$367,495.144	-0.37%
2	\$7,189.887	-	\$16,016.450	0.67%
3	\$3,968.998	-	\$7,187.244	0.85%
4	\$2,525.472	-	\$3,961.425	1.10%
5	\$1,729.364	-	\$2,519.280	1.49%
6	\$1,282.276	-	\$1,728.888	1.73%
7	\$872.443	-	\$1,280.966	1.67%
8	\$587.243	-	\$872.103	2.33%
9	\$265.056	-	\$586.393	2.76%
10-Smallest	\$1.079	-	\$264.981	6.36%
Breakdown of the 10th Decile				
10a	\$169.245	-	\$264.981	4.39%
10b-Smallest	\$1.079	-	\$169.195	9.83%

<sup>3</sup> As of December 31, 2005. Maturity is approximate.

<sup>4</sup> See Chapter 5 of Ibbotson's *SBBi Valuation Edition Yearbook* for complete methodology.

<sup>5</sup> Expected return in excess of that predicted by the capital asset pricing model, also known as the beta-adjusted size premium. Underlying data provided by CRSP, the Center for Research in Security Prices. See Chapter 7 of Ibbotson's *SBBi Valuation Edition Yearbook* for methodology.