



Cost of Capital Corner in BVU

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COST OF CAPITAL

Treasury yields¹

30-day: 4.83% 5-year: 4.59% 20-year: 4.96%

High yield estimate:¹

Mean 18.14% Median 13.43%

DUFF & PHELPS' 2007 Premiums over Long-Term Riskless Rate ²

Historical Equity Risk Premiums: Averages Since 1963

Data for Year Ending December 31, 2006

Measure Used for Size ³	1st	13th	25th
5-Year Average EBITDA	4.5%	9.3%	13.0%
5-Year Average Net Income	4.0%	9.1%	13.3%
Sales	5.8%	9.4%	12.4%
Total Assets	4.4%	9.0%	12.5%

Dow Jones Industrials P/E ratios:¹

On current earnings: 17.29
 On '06 operating earnings est.: 16.70
 On '07 operating earnings est.: 15.30

Long-term inflation estimate:⁶ **2.50%**

Long-term rate of growth GDP:⁶ **3.10%**

¹ Barron's, April 30, 2007.

² Source: *Risk Premium Report 2007* © Duff & Phelps LLC. Report includes premiums where size is measured by market value of equity, market value of invested capital, book value of equity, and number of employees. We highly recommend that analysts using Duff & Phelps data for cost of capital have the current year's Report and thoroughly understand the derivation of the numbers used. Complete current and historical Duff & Phelps cost of capital data available at BVRresources.com.

³ Each measure for size is organized by Duff & Phelps, LLC into 25 portfolio ranks, with portfolio rank 1 being the largest and portfolio rank 25 being the smallest. Smoothed average premiums are presented here because they are considered a better indicator than the actual historical observation for most of the portfolio groups.

⁴ Source: *Stocks, Bonds, Bills and Inflation®: Valuation Edition 2006 Yearbook*, (with data through year end 2005) ©2006 Ibbotson Associates, Inc. All rights reserved. Used with permission. We highly recommend that analysts using Ibbotson data for cost of capital have the current year's book and thoroughly understand the derivation of the numbers used.

⁵ Represents the historical equity risk premium adjusted downward to remove historical price to earnings growth.

⁶ 10-year forecast; Federal Reserve Bank of Philadelphia, *Livingston Survey*, December 7, 2006.

IBBOTSON'S 2006 Arithmetic mean equity risk premium⁴

Historical equity risk premium (S&P 500) for 30-day horizon, 1926-2005	8.55%
Historical equity risk premium (S&P 500) for 5-year horizon, 1926-2005	7.55%
Historical equity risk premium (S&P 500) for 20-year horizon, 1926-2005	7.08%
Micro-cap size premium (S&P 500), 1926-2005	3.95%
10th decile size premium (S&P 500), 1926-2005	6.36%
Supply side equity risk premium (S&P 500) for 20-year horizon, 1926-2005	6.28% ⁵

Prime lending rate:¹ **8.25%**

Dow Jones 20-bond yield:¹ **5.65%**

Barron's intermediate-grade bonds:¹ **6.86%**



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