

Key Variables in Estimating the Cost of Capital

2011 Ibbotson S&P Valuation Yearbook Appendix C, Table C-1

As of December 31, 2010

Yields (Riskless Rates)

Long-term (20-year) U.S. Treasury Coupon Bond Yield¹ 4.1%

Equity Risk Premium

Long-horizon expected equity risk premium (historical): Large company stock total returns minus long-term government bond income returns² 6.7%

Long-horizon expected equity risk premium (supply side): historical equity risk premium minus price-to-earnings ratio calculated using three-year average earnings³ 6.0%

Size Premia (market capitalization in millions)⁴

Decile	Smallest Company		Largest Company	Size Premium (Return in Excess of CAPM)
Mid-Cap (3-5)	\$1778.756	-	\$6793.876	1.20%
Low-Cap (6-8)	478.102	-	1775.966	1.98
Micro-Cap (9-10)	1.222	-	477.539	4.07

Breakdown of Deciles 1-10

1-Largest	15,273.943	-	314,622.574	-0.38
2	6,885.258	-	15,079.529	0.81
3	3,714.445	-	6,793.876	1.01
4	2,512.137	-	3,710.985	1.20
5	1,778.756	-	2,509.152	1.81
6	1,214.679	-	1,775.966	1.82
7	772.795	-	1,212.290	1.88
8	478.102	-	771.789	2.65
9	235.725	-	477.539	2.94
10-Smallest	1.222	-	235.647	6.36

Breakdown of the 10th Decile

10a	143.887	-	235.647	4.55
	10w	179.554	235.647	3.99
	10x	143.887	179.316	4.96
10b	1.222	-	143.379	10.06
	10y	85.706	143.379	9.15
	10z	1.222	85.670	12.06

¹ Maturity is approximate.

² Expected risk premium for equities is based on the difference of historical arithmetic mean returns for 1926-2010. Large company stocks are represented by the S&P 500.

³ A supply side equity risk premium estimate was first published in Ibbotson's 2004 S&P Valuation Edition Yearbook.

⁴ Return in excess of CAPM estimation. Mid-Cap stocks are defined here as the aggregate of size-deciles 3-5 of the NYSE/AMEX/NASDAQ. Low-Cap stocks are defined here as the aggregate of size-deciles 6-8 of the NYSE/AMEX/NASDAQ. Micro-Cap stocks are defined here as the aggregate of size-deciles 9-10 of the NYSE/AMEX/NASDAQ. The betas used in CAPM estimation were estimated from CRSP NYSE/AMEX/NASDAQ decile portfolio monthly total returns in excess of the 30-day U.S. Treasury bill total return versus the S&P 500 total returns in excess of the 30-day U.S. Treasury bill, January 1926-December 2010. Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database ©2011 Center for Research in Security Prices (CRSP), The University of Chicago Booth School of Business. Used with permission.