

Band-of-Investment Method

Type	% of Capital Structure	Current Cost	Weighted Cost
Debt	50%	13.00%	6.500%
Preferred	10%	13.25%	1.325%
Common	40%	16.00%	<u>6.400%</u>
Basic Discount Rate as Calculated			14.225%

DCF Method

(A) The DCF model, stated mathematically, is as follows:

$$K_e = \frac{D_1}{P_0} + g$$

K_e = The cost of equity capital

D_1 = The estimated annual dividend for the next period

P_0 = The current price of the common stock

g = The expected rate of growth

CAPM Method

(B) The CAPM, stated mathematically, is as follows:

$$K_e = R_f + B_i(R_p)$$

K_e = The entity's cost of equity

R_f = Risk free interest rate (30-year U.S. government bonds or notes)

R_m = Market or portfolio rate of return

B_i = Beta factor for the entity

R_p = Risk Premium = ($R_m - R_f$)