Q. At page 42 of 67 it is stated that, "dollar earnings on book value [should equate to] the investors' dollar return requirements on market value" and that the equity risk premium test is "a return on the market value of common stocks, not the book value." The returns on equity presented in schedules 18 and 20 appear to be returns on book value. Please provide schedules comparable to those in schedules 18 and 20 showing the corresponding returns on market value. Also, explain the proper way to convert these book returns to market returns.

A. Attachment A contains returns on market value for the period 1992-2001 for the companies listed in Schedules 18 and 20 of Ms. McShane's prepared testimony. The annual return on market value equals the annual dividend paid plus the change in market value. Specifically, the annual market return is calculated as:

$$\frac{P_1 + D_1 - P_o}{P_o}$$

where: P_1 = average of 12 monthly close prices for the current year

P_o = average of 12 monthly close prices for prior year

D_1 = dividend paid during current year

To Ms. McShane's knowledge, there is no accepted methodology to translate book returns into market returns, since the underlying market valuations reflect a myriad of factors, including general investor pessimism/optimism.

Returns on Market Value

RETURNS ON MARKET VALUE FOR
15 LOW RISK CANADIAN INDUSTRIALS

	Returns on Market Value											
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Arithmetic Average	Compound Average
CANADIAN TIRE CORP	-23.7	-13.3	-18.0	26.6	24.5	52.3	39.5	5.9	-46.1	20.2	6.8	2.2
CARA OPERATIONS LTD	-13.7	-5.8	-9.2	-0.7	13.2	28.9	22.7	-32.1	1.0	41.9	4.6	2.5
EMPIRE CO LTD	-2.9	21.9	12.9	-7.6	-7.5	41.6	52.6	3.2	20.0	7.4	14.2	12.6
FINNING INTERNATIONAL INC	-9.0	37.5	24.4	-2.0	23.5	40.1	-19.2	-4.7	-5.4	45.2	13.0	10.8
JEAN COUTU GROUP	26.5	-8.0	-40.0	17.3	2.1	53.8	69.5	34.7	9.3	48.4	21.3	16.9
LEONS FURNITURE LTD	21.6	15.8	-3.5	0.6	13.4	36.6	15.4	15.0	0.9	9.2	12.5	12.0
LOBLAW COS LTD	-7.7	24.8	4.4	22.7	31.9	67.8	57.6	20.5	16.6	19.5	25.8	24.1
MAGNA INTERNATIONAL	151.2	72.5	15.0	0.6	16.8	30.0	18.8	-17.6	-14.0	33.4	30.7	23.9
MAPLE LEAF FOODS INC	4.2	-12.2	-5.7	20.4	19.7	82.6	14.3	-14.1	-25.9	7.6	9.1	5.9
MOLSON INC	13.3	-16.1	-10.4	-0.8	6.4	13.3	1.8	5.1	28.7	58.5	10.0	8.3
ROTHMANS INC	54.5	32.1	-12.8	37.6	21.0	37.8	43.2	-6.3	-38.2	52.9	22.2	17.9
SHAW COMMUNICATN INC	38.1	19.6	11.5	-29.2	16.2	23.8	134.8	88.5	38.1	-6.3	33.5	26.8
THOMSON CORP	-0.5	7.1	11.2	13.0	35.4	37.7	25.8	9.6	27.9	-2.8	16.4	15.6
TORSTAR CORP	-1.6	3.7	10.3	-8.4	28.3	64.5	2.9	-22.9	19.3	6.0	10.2	8.1
WESTON (GEORGE) LTD	-8.9	10.1	2.9	13.9	19.6	74.8	57.5	20.6	16.3	43.6	25.0	22.8
Average											**17.0**	**14.0**
Median											**14.2**	**12.6**

Source: Standard & Poor's Research Insight

RETURNS ON MARKET VALUE
FOR 84 LOW RISK U.S. INDUSTRIALS

	Returns on Market Value											
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Arithmetic Average	Compound Average
AIRGAS INC	73.3	111.4	51.4	8.9	57.6	-18.7	-20.4	-21.5	-38.0	72.7	27.7	17.9
ALBANY INTL CORP	1.6	6.6	11.0	16.7	-0.3	14.1	-3.6	-13.6	-26.8	43.2	4.9	3.4
ALBERTO-CULVER CO	-7.3	-1.2	-2.6	33.9	38.3	39.3	-5.4	-6.9	17.7	43.5	14.9	13.1
ASHLAND INC	-5.9	10.1	27.8	-4.5	20.5	20.8	9.0	-21.2	-10.7	24.4	7.0	5.8
AUTOZONE INC	60.7	37.2	9.4	0.2	13.7	-10.6	14.5	-2.7	-14.6	74.7	18.2	15.1
AVERY DENNISON CORP	18.0	8.7	14.6	36.3	42.1	40.9	25.9	21.6	-0.1	-7.5	20.1	19.0
BANDAG INC	25.4	-14.4	3.3	5.1	-13.2	4.9	-11.5	-25.7	-1.9	8.7	-1.9	-2.9
BARRA INC	-31.7	-12.5	-12.1	65.3	107.3	37.3	7.1	-0.3	113.1	37.4	31.1	22.7
BEMIS CO	37.5	-4.0	4.9	18.1	23.4	29.9	-1.7	-10.2	-4.5	27.1	12.0	10.9
BIG LOTS INC	95.4	23.9	-8.9	26.8	66.1	62.0	-11.6	-28.8	-46.5	-6.7	17.2	9.0
BLAIR CORP	13.3	8.4	-8.8	-15.8	-26.9	-24.5	51.4	-25.0	8.1	-5.2	-2.5	-4.9
BOMBAY CO INC	153.8	141.0	-29.7	-52.7	-17.3	-17.3	-7.2	7.6	-44.6	-12.5	12.1	-3.9
BURLINGTON COAT FACTORY WRHS	69.5	63.2	10.6	-42.9	0.9	68.9	14.1	-12.5	-13.0	30.2	18.9	12.9
BUTLER MFG CO	-13.7	79.6	23.0	51.6	19.5	6.7	-13.1	-11.5	-7.9	11.8	14.6	11.3
CACI INTL INC	38.6	2.1	92.2	21.5	32.4	20.7	7.8	5.4	11.4	101.5	33.4	29.7
CARPENTER TECHNOLOGY	1.1	15.4	18.7	19.8	6.0	27.3	3.1	-35.8	4.4	5.2	6.5	5.0
CASEYS GENERAL STORES INC	43.4	20.1	28.6	56.1	5.9	7.8	36.4	-8.3	-13.2	9.9	18.7	16.8
CHEVRONTEXACO CORP	-0.9	31.7	4.4	14.8	28.4	28.2	12.1	12.9	-2.3	9.0	13.8	13.3
CHURCH & DWIGHT INC	6.6	-2.2	-16.5	-10.7	8.7	34.2	12.4	51.5	-16.4	33.8	10.1	8.0
CLARCOR INC	0.4	3.6	8.5	14.4	2.3	23.1	14.6	-3.0	7.0	34.5	10.5	10.0
CLEVELAND-CLIFFS INC	12.9	2.0	19.5	5.4	8.0	6.2	11.7	-23.9	-25.0	-25.3	-0.8	-2.3
CLOROX CO/DE	20.3	14.0	6.9	28.3	43.5	48.5	42.5	10.6	-20.0	-9.6	18.5	16.4
COMMERCIAL METALS	20.7	41.9	6.1	3.1	16.7	3.2	-3.8	-2.0	-0.2	7.7	9.4	8.6
CVS CORP	0.2	23.3	10.0	10.6	22.9	15.2	4.1	6.9	13.5	11.5	11.8	11.6
DEERE & CO	8.2	-5.6	-16.0	-3.6	14.4	41.1	52.5	13.9	-4.5	-1.4	9.9	8.1
DONNELLEY (R R) & SONS CO	-9.8	48.2	16.9	20.8	43.0	28.9	-10.1	-12.6	2.8	5.5	13.4	11.5
EASTMAN KODAK CO	25.2	4.9	2.1	25.7	-4.3	6.9	19.0	-21.1	-25.3	29.0	6.2	4.6
ECOLAB INC	3.0	34.3	-12.7	29.4	32.1	-1.8	2.4	-3.6	-20.3	-22.2	4.1	2.2
ENESCO GROUP INC	21.9	25.7	6.8	21.5	29.3	37.6	36.9	29.1	-1.1	6.2	21.4	20.7
ESTERLINE TECHNOLOGIES	-0.5	-10.1	14.7	-6.8	-4.3	7.0	-0.9	-31.4	-63.7	-6.1	-10.2	-13.8
EW SCRIPPS	8.7	-20.4	11.9	114.7	11.0	42.8	21.7	-25.6	11.2	17.3	19.3	14.5
FEDERAL SIGNAL CORP	24.1	6.9	7.1	19.8	28.2	-4.4	28.6	-6.9	11.2	26.6	14.1	13.4
FLOWSERVE CORP	21.1	27.1	5.3	16.4	15.2	0.9	-2.6	-4.8	-5.9	15.0	8.8	8.2
FOREST LABORATORIES	5.8	-3.1	10.3	42.1	13.6	9.6	-12.6	-25.4	-4.9	51.2	8.7	6.5
FREDS INC	0.0	3.9	22.6	-1.8	-7.7	-0.4	79.8	31.4	105.5	40.5	27.4	22.9
GRAINGER (W W) INC	NA	5.5	-19.7	-24.9	-0.5	85.7	53.4	-30.1	39.8	72.5	20.2	13.2
HARRIS CORP	21.1	12.2	6.8	1.7	18.0	19.9	11.7	1.6	-18.2	11.3	8.6	8.0
HARSCO CORP	25.3	35.4	17.3	16.8	24.4	36.8	0.7	-25.8	5.1	-5.9	13.0	11.3
HAVERTY FURNITURE	27.0	24.2	7.0	25.2	29.4	26.2	-0.6	-22.6	-10.2	19.0	12.5	11.0
HUGHES SUPPLY INC	24.7	99.6	-4.0	-8.4	0.4	9.4	58.3	40.1	-20.0	29.6	23.0	18.7
INTL FLAVORS & FRAGRANCES	7.4	31.0	32.3	4.5	61.0	15.7	18.2	-23.4	-23.4	23.8	14.7	12.0
JACOBS ENGINEERING GROUP INC	30.7	7.3	12.6	25.2	-4.0	6.4	-7.3	-2.8	-28.9	-0.7	3.8	2.5
KNIGHT-RIDDER INC	22.3	-10.2	-11.8	1.5	13.1	8.6	17.5	13.3	-0.8	73.3	12.7	10.7
LA-Z-BOY INC	19.0	-2.1	-2.0	8.5	28.7	31.2	15.6	3.8	-2.4	14.3	11.5	10.8
LINCOLN ELECTRIC HLDGS INC	14.0	27.1	6.0	-6.7	8.9	23.5	46.6	14.7	-20.7	22.3	13.6	12.1
LONGVIEW FIBRE CO	NA	NA	NA	NA	7.4	30.5	16.7	-2.0	-12.7	31.0	11.8	10.6
LUBRIZOL CORP	27.1	16.4	2.7	-6.6	6.0	4.8	-16.7	-2.9	2.9	-0.3	3.3	2.7
MAY DEPARTMENT STORES CO	23.2	7.2	7.6	-0.6	-6.5	31.6	-15.0	-14.0	-3.8	37.1	6.7	5.3
MEDIA GENERAL	18.4	30.7	2.8	4.5	20.1	9.4	22.5	-2.7	-27.3	33.6	11.2	9.7
MEREDITH CORP	-7.3	28.2	18.0	19.8	7.8	6.8	32.1	10.7	-7.1	3.0	11.2	10.5
MURPHY OIL CORP	-0.3	35.3	32.0	40.1	48.4	27.0	37.8	-8.6	-14.1	15.4	21.3	19.4
MYLAN LABORATORIES	3.5	19.0	7.4	-1.1	13.7	14.0	-8.5	10.1	25.8	26.8	11.1	10.5
NEW ENGLAND BUSINESS SVC INC	56.6	26.2	-15.2	34.2	-15.0	3.3	53.0	-11.6	5.8	22.1	15.9	13.2
O CHARLEYS INC	0.8	8.2	14.8	10.7	-5.1	58.6	17.7	-10.5	-33.8	10.5	7.2	4.8
OCCIDENTAL PETROLEUM CORP	47.3	35.3	54.1	14.4	-5.6	26.5	21.9	12.8	-3.9	33.0	23.6	22.1
OXFORD INDUSTRIES INC	-3.4	10.6	0.8	17.3	15.4	10.7	-3.8	-10.6	9.5	29.4	7.6	7.0
PENNEY (J C) CO	67.7	4.2	46.7	-32.9	0.6	71.3	8.1	-20.0	-23.0	26.3	14.9	9.6
PEPSIAMERICAS INC	37.5	37.2	15.4	-7.1	16.1	11.4	15.5	-36.2	-58.4	53.2	8.5	2.1
PHARMACIA CORP	-10.2	9.5	11.4	24.3	21.6	7.1	-18.4	-17.6	-19.3	10.5	1.9	0.6
PHILLIPS PETROLEUM CO	-4.9	5.4	32.5	24.0	79.5	28.8	22.7	-19.0	27.2	-10.5	18.6	15.7
PIER 1 IMPORTS INC/DE	33.0	6.8	-17.2	22.8	55.9	68.8	25.1	-39.9	35.2	15.3	20.6	16.1
PILGRIMS PRIDE CORP	-8.5	22.3	10.3	-9.8	1.2	58.4	48.8	-2.1	-38.5	71.2	15.3	10.6
QUANEX CORP	35.7	-23.2	28.5	4.7	7.9	26.3	-9.3	-7.2	-18.1	30.8	7.6	5.6
REGIS CORP/MN	NA	27.1	32.5	44.7	76.1	-5.4	36.3	11.6	-34.1	35.4	24.9	20.8
SCHOLASTIC CORP	NA	34.4	2.8	40.9	14.2	-47.0	14.4	20.3	30.3	29.7	15.6	11.8
SEARS ROEBUCK & CO	21.4	28.8	-7.4	-4.9	7.3	11.6	1.9	-22.2	-14.9	30.0	5.2	3.7
SMART & FINAL INC	22.2	7.3	-6.1	19.8	33.3	-5.8	-33.5	-35.0	-17.8	38.7	2.3	-0.9
SONIC CORP	33.3	-8.9	-14.2	37.0	17.2	-3.2	40.1	41.1	8.5	41.3	19.2	17.2
STANLEY WORKS	13.2	5.8	-2.8	10.2	36.9	48.5	0.1	-28.6	-3.7	51.6	13.1	10.5
SUNGARD DATA SYSTEMS INC	57.1	36.6	7.4	38.6	50.8	24.6	43.5	-11.1	24.0	41.1	31.2	29.6
SUNOCO INC	-7.0	10.9	13.8	-0.9	-2.2	30.8	12.6	-16.6	-3.5	31.3	6.9	5.9
SYNCOR INTL CORP/DE	19.6	-12.6	-33.2	-32.8	19.0	23.8	45.3	72.0	72.1	14.0	18.7	13.0
SYSCO CORP	20.6	10.4	-4.2	15.4	15.0	15.7	32.8	33.8	35.7	24.2	19.9	19.4
THOMAS INDUSTRIES INC	-9.7	13.7	28.6	25.7	12.6	40.3	19.9	-11.2	7.4	27.2	15.4	14.3
THOR INDUSTRIES INC	93.0	27.2	11.6	-16.6	12.1	27.5	38.3	9.7	-13.0	27.4	21.7	18.6
TOOTSIE ROLL INDUSTRIES INC	38.7	5.9	-11.7	13.9	8.2	40.5	54.1	6.3	-1.1	21.3	17.6	16.0
TREDEGAR CORP	74.5	-2.7	11.1	63.4	81.9	80.5	23.8	2.1	-8.1	-12.9	31.4	26.2
TRIBUNE CO	7.9	22.7	5.6	10.8	22.4	34.3	33.1	38.3	-12.1	2.2	16.5	15.5
TYSON FOODS INC	0.1	16.7	-2.1	9.7	9.8	15.2	-0.8	-5.0	-41.9	8.3	1.0	-0.6
VF CORP	55.4	2.5	8.3	7.5	17.1	40.6	16.2	-13.5	-31.4	41.4	14.4	11.5
VULCAN MATERIALS CO	18.6	13.5	7.0	14.8	9.7	40.2	43.0	17.4	2.6	10.4	17.7	17.1
WAUSAU-MOSINEE PAPER CORP	47.2	14.4	-3.4	0.5	10.5	-0.7	-4.7	-19.8	-30.8	25.5	3.9	1.8
WINN-DIXIE STORES INC	44.1	17.4	-15.0	23.2	17.3	8.7	21.5	-16.6	-47.7	29.6	8.2	4.5
WINNEBAGO INDUSTRIES	36.4	33.3	33.9	-13.3	-4.1	-4.1	56.2	62.6	-17.5	62.4	24.6	20.8
Average											**13.5**	**10.8**
Median											**13.2**	**10.9**

Source: Standard & Poor's Research Insight