

Q. NLH-118 CA (Re: Table, page 28)

Please confirm that the basis for the adjustment is Dr. Kalymon's belief that the return on equity is equal to the cost of equity if the market-to-book ratio is 1.0. If it cannot be confirmed, please explain why.

A. **The cost of equity, by definition, is that return which if consistently allowed and earned, will maintain the market value of the stock equal to its book value. Under these conditions, any provision which exceeds the cost of equity will result in the stock trading at levels which exceed the book value.**