

1 **Q. Evidence of Dr. Vander Weide: Business risk Pages 10-14: When discussing the**
2 **impact of financial leverage would Dr. Vander Weide confirm that financial**
3 **leverage simply magnifies any operating income variability, but if there is none, due**
4 **to the use of deferral accounts, then there is no additional risk due to financial**
5 **leverage, since there is nothing to be magnified.**

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7 A. No. Financial leverage does not magnify operating income variability because interest
8 expense is not included in operating income. Rather, financial leverage magnifies the
9 variability of net income and the variability of the earned return on equity. Dr. Vander
10 Weide also does not agree that the use of deferral accounts eliminates all variability in
11 operating income.