

Aqua America, Inc. (WTR)

4Q09 EPS on Target; On Track for 2010 EPS Rebound; Maintain Rating

Price: (2/25/10)	17.37	Rating:	Outperform	FY Dec	2009A	2010E	2011E
52WK H-L:	20 - 15			Q1	0.14A		
Market Cap (mil):	2,350.16	Suitability:	Lower Risk	Q2	0.19A		
Shares Out (mil):	135.3			Q3	0.25A		
Float (mil):	135.1			Q4	0.20A		
Avg. Daily Vol (mil):	0.99			Total	0.77A	0.90E	1.00E
		Price Target:	22	Previous	0.78E	0.92E	
Dividend	0.58			FY P/E	22.6	19.3	17.4
Yield (%)	3.34						

Please refer to Appendix - Important Disclosures and Analyst Certification.

David E. Parker
dparker@rwbaird.com
813.274.7620

Sonal Wagh
swagh@rwbaird.com
414.298.6130

Action

Maintain Outperform rating. WTR reported another solid quarter as rate relief boosts EPS offsetting the impact of wet weather and a slowed economy. We believe earned ROEs hit a bottom in 2Q08 and should improve to over 10.5% by YE 2010 with received and soon-to-be-received rate relief in the next several quarters. We believe investment opportunities support solid EPS growth fueling attractive returns as WTR looks to strengthen and expand its infrastructure system.

Summary

- **4Q09.** WTR reported 4Q09 EPS of \$0.20 versus \$0.19 in 4Q08 and our consensus-matching estimate of \$0.20. For 2009, WTR reported EPS of \$0.77 vs \$0.73 in 2008. Our 2009 estimate was \$0.78.
- **Pending rate relief requests.** \$37 million of rate relief was received in 2009, \$6 million YTD in 2010. \$65 million in rate relief is pending at state commissions, including statewide cases in Pennsylvania and New Jersey (almost 60% revenue), expected to be decided in 2010.
 - An additional \$30 million in rate requests is expected to be filed in 2010.
- **Customer growth slows, some offset by acquisitions.** Base customer growth is still below historical levels of 4%, but 1% growth was achieved with the completion of 18 acquisitions during 2009.
- **Cost containment keeps O&M flat.** O&M expense remained about flat YOY. However, management expects O&M expenses to return to a more normal runrate (+3-5%) in 2010. Depreciation and amortization expenses increased 16% YOY due to continued infrastructure investments.
- **Continued investment opportunities. Net PP&E has increased about \$285 million YOY (+7% YOY), reflecting continued sizable investment opportunities and recent acquisitions. WTR plans to invest over \$300 million for utility system improvements in 2010.**
- **Adequate access to funding available.** In 4Q09, WTR issued \$75 million of FMB bonds at 4.9% cost of debt.
 - At 12/31/09, \$126.4 million of credit lines were available.
- **Baird estimates.** We fine tuned our 2010 EPS estimates to \$0.90 to reflect continued sluggish economy.

Details

WTR reported 4Q09 EPS of \$0.20 versus \$0.19 in 4Q08 and our consensus-matching estimate of \$0.20. For 2009, WTR reported EPS of \$0.77 vs \$0.73 in 2008. Our 2009 estimate was \$0.78.

Figure 1: Results Variance

Aqua America (WTR - NYSE)									
Quarterly Results Variance									
	Quarterly Results					Percent of Revenue			
	4Q09	4Q08	% Chg	Baird	Variance	4Q09	4Q08	Baird	
Revenue	\$ 168	\$ 160	5.0%	\$ 181	(7.2%)				
Operating Expenses	108	102	5.5%	113	(5.1%)	64.0%	63.8%	62.7%	
Operating Income	60	58	4.3%	68	(10.6%)	36.0%	36.2%	37.3%	
Pretax Income	43	42	4.4%	49	(11.2%)	25.9%	26.1%	27.1%	
Taxes	17	16		21		10.0%	10.0%	11.4%	
Net Income	\$ 27	\$ 26	3.9%	\$ 28	(6.0%)	15.9%	16.1%	15.7%	
EPS	\$0.20	\$0.19	3.2%	\$0.20	(0.8%)				
Diluted Shares	137	136		137					
<i>4Q09 nonrecurring and other items of note: None</i>									
<i>4Q08 nonrecurring and other items of note: None</i>									

Source: Company reports; Estimates of Robert W. Baird & Co.

Outlook

Management expects net income to grow 5-7% in 1H10 with normalized weather and moderate organic customer growth. This net income growth should accelerate to more normalized levels (5-8%) in the 2H10, supported by rate case completions and increased effective rates in Pennsylvania and New Jersey. Capital expenditures are expected to grow to over \$300 million in 2010 (~2.5x depreciation), which should further support EPS growth. We also expect WTR to maintain its 60-70% dividend payout ratio, which at current valuations provides a 3.4% dividend yield.

Longer term, we expect a continuation of WTR's constructive regulatory environments to allow for solid 5-8% annual EPS growth as WTR has substantial investment opportunities to strengthen its water delivery systems. More widespread acceptance of DSIC-like mechanisms would elicit increased investment, given decreased regulatory lag. Acquisitions of water and wastewater systems, that typically have substantial capital investment needs to improve water quality and strengthen the water delivery system, should continue to provide additional upside.

Results

Revenue increased by 5% driven by rate relief and acquisitions, partially offset by unfavorable weather. In 2009, management stated that water sendout was reduced by 4-5%, 80% of which is being attributed to abnormally wet weather. For 2009, base customer organic growth continued to be pressured by the housing slowdown (+4,000), but with acquisitions (+6,000), customer growth was slightly positive at 1% compared to the historical 4% area.

Operating expenses increased 5.5% YOY with O&M expenses up 3% YOY, driven by increased pension, insurance and acquisition-related expenses, offset by lower water production costs. Depreciation expenses increased 16% YOY to \$26.2 million due to increased infrastructure investments. Taxes other than income taxes increased 14.6%, while amortization expenses increased \$2 million YOY to \$3.1 million.

Net interest expense increased \$0.55 million YOY to \$17.9 million, reflecting higher debt balances. AFUDC increased \$0.3 million to \$0.9 million, reflecting higher average CWIP balances during the quarter.

Rate Cases

WTR received about \$37 million of annualized rate increases in 2009 and nearly \$6 million thus far in 2010. \$65 million of rate cases are still pending and under review at state commissions, including statewide cases in Pennsylvania and New Jersey (almost 60% revenue), expected to be decided in 2010. Management thinks these rate cases could likely settle in 3Q10 but certainly by year-end 2010. WTR is also planning on requesting an additional \$30 million in rate requests that will impact 2011 earnings, more substantial cases in Indiana and Ohio.

In 2009, Pennsylvania also increased its DSIC from 5% to 7.5% of revenue, showing regulatory progress and further decreasing regulatory lag when replacing pipe. The acceptance of DSIC-like mechanisms in other operating states would likely spur increased pipe investment and capital expenditures.

Acquisitions

WTR successfully completed 18 acquisitions in 2009, displaying the company's commitment and success in its growth by acquisition model.

On 12/31/09, Aqua Pennsylvania acquired Athens Township Authority assets which will allow WTR to complete a public-private partnership which will include approximately \$1 million of additional transmission main, potential for additional customers outside of the Authority served area, revenues from a bulk water sales contract, and a 20-year professional services agreement at a total acquisition cost of \$70,000.

On 12/22/09, WTR announced the acquisition of a wastewater treatment, disposal and re-use system in Lumpkin County, Georgia which leads to the launch of new operating subsidiary, Aqua Georgia. Purchase price is yet to be disclosed.

Investment Thesis

We rate Aqua America Outperform with a 12-month price target of \$22. Our price target is 22x our 2011 EPS estimate, we believe in line with its peers when fully valued due to its relative earnings consistency, longer-term growth opportunities and wider potential shareholder base reflecting its relative size and liquidity.

Key investment considerations include the following:

- **Strong leadership team.** We believe Aqua has a strong leadership team that has demonstrated a keen focus on developing strong regulatory relationships and engineering innovative solutions to improve water system quality while providing investors with appropriate recovery. We believe management has executed regulatory and investment plans that provide stable and consistent value creation for investors.
- **Attractive total return potential.** We expect 4-6% long-term annual EPS growth with a 60-70% dividend payout ratio, providing a current dividend yield of 3.5%. We believe growth could accelerate beyond this level if WTR is able to accelerate its acquisition program of water and wastewater systems.
- **Constructive regulatory mechanisms.** The majority of WTR's regulatory operations are located in states that maintain enhanced regulatory recovery mechanisms that enable stable earned returns, including infrastructure investment riders, statewide rates and incentive mechanisms for acquisitions of troubled water systems. We believe such mechanisms provide a constructive regulatory environment in which to make capital investments, enabling improved and more consistent earned returns, which should lead to a premium peer valuation.
- **Acquisition growth.** Aqua has successfully acquired hundreds of water and wastewater systems in the past decade to supplement its internal growth, which also provides significant follow-on investment opportunities as it improves the quality of the acquired water system. We believe such acquisitions are a key value driver for the company and the stock, as it continues to be a key player in consolidating some of the 53,000 water systems outstanding in the U.S. and rehabilitating those systems to improve water quality and drive investment growth.
- **Investment shifting to pipe replacement.** Following significant advancements in water quality standards that necessitated major water project investments into water treatment systems, Aqua's investment mix is shifting toward pipe replacement as its system quality has generally met the more stringent EPA water quality standards. While substantial capital investments will still be required to fund pipe replacement, the level of rate base growth could decline versus historical levels.
- **Water utility valuation.** We expect solid earned ROEs, 5-8% longer-term EPS growth potential and constructive regulatory investment recovery mechanisms should support a 20-22x forward P/E. The valuation is a premium to its regulated electric and gas utility peers reflecting significant industry consolidation and rate base growth opportunities with lowered regulatory risk, and generally more constructive regulatory mechanisms that enable earnings consistency.

Risks & Caveats

Our suitability rating on Aqua America is Lower Risk. Key risks include, but are not limited to, the following:

- **Regulation.** Regulated operations are subject to local, state and federal regulations. Changes in the regulatory environment can affect WTR's near-term and long-term performance.
- **Weather.** WTR's businesses are sensitive to fluctuations in the weather. Particularly wet or dry weather can impact near-term financial results.

- **Acquisition risk.** WTR may have the opportunity to purchase assets or companies in the near future. Acquisitions carry risks related to personnel, expected-versus-actual growth and a myriad of unforeseen hurdles, all of which can negatively affect earnings.
- **Product quality.** Unique among its sister regulated utility sectors, water utilities provide a product that is ingested. Despite robust mandated service quality standards that lower risk, a quality failure could materially impact the earnings and stock of WTR.
- **Dividend legislation.** Congress has extended tax legislation that reduced the tax rate on dividends received. However, the extensions only last through 2009 and there can be no assurance that further extensions of the tax relief will occur or that a future Congress would not repeal the current legislation, which could have an adverse impact on the after-tax value of dividends and the stock.

Company Description

Aqua America is a holding company for numerous regulated water and wastewater utilities operating in the eastern half of the U.S. that serve over 2.8 million people. It is the second-largest investor-owned water utility in the U.S. Known as Philadelphia Suburban Corporation until 2004, Aqua America is headquartered in the Philadelphia suburbs where its corporate roots date back to 1886 for providing water and/or wastewater service.

Aqua America
WTR - NYSE

Date Printed: 2/25/2010

Recent Price: \$17.27

\$mil	Revenue			Operating Expenses			Operating Income			Pretax Income			Tax Rate	Net Income			TTM ROE	Diluted EPS		Div.	Diluted Shares
	\$	Chg.	Int.	\$	%	Chg.	\$	%	Chg.	\$	%	Chg.		\$	%	Chg.		\$	% Chg.		
2003	367.2	14.0%		213.7	58.2%	17.7%	153.6	41.8%	9.3%	116.7	31.8%	6.8%	39.3%	70.8	19.3%	5.4%	12.3%	0.59	2.2%	0.34	119.0
2004	442.0	20.4%	5.4%	267.1	60.4%	25.0%	174.9	39.6%	13.9%	132.1	29.9%	13.2%	39.4%	80.0	18.1%	13.0%	11.4%	0.64	7.0%	0.37	125.7
Q1	114.0	14.3%	8.1%	71.2	62.5%	12.5%	42.8	37.5%	17.4%	30.8	27.0%	19.9%	38.8%	18.9	16.6%	21.2%	11.8%	0.15	17.6%	0.10	128.9
Q2	123.1	15.6%	10.3%	74.5	60.5%	12.8%	48.6	39.5%	20.1%	36.8	29.9%	23.5%	39.6%	22.2	18.0%	24.3%	12.1%	0.17	20.1%	0.10	129.5
Q3	136.8	13.7%	13.7%	77.7	56.8%	12.1%	59.1	43.2%	15.9%	46.3	33.9%	16.3%	39.7%	27.9	20.4%	15.9%	12.2%	0.21	11.6%	0.10	130.2
Q4	122.9	6.5%	6.5%	76.9	62.5%	12.3%	46.1	37.5%	-2.0%	34.2	27.8%	-7.2%	35.1%	22.2	18.0%	-1.4%	11.8%	0.17	-3.4%	0.11	129.8
2005	496.8	12.4%	9.5%	300.3	60.4%	12.4%	196.5	39.6%	12.4%	148.1	29.8%	12.1%	38.4%	91.2	18.3%	13.9%	11.7%	0.71	10.9%	0.40	129.2
Q1	117.9	3.5%	2.0%	77.3	65.6%	8.6%	40.6	34.4%	-5.0%	27.6	23.4%	-10.3%	40.1%	16.6	14.0%	-12.2%	11.3%	0.13	-13.6%	0.11	130.9
Q2	131.7	7.0%	6.1%	81.7	62.0%	9.6%	50.1	38.0%	3.1%	37.1	28.2%	0.9%	39.7%	22.4	17.0%	0.8%	11.0%	0.17	-0.4%	0.11	131.0
Q3	147.0	7.4%	5.8%	87.4	59.5%	12.5%	59.5	40.5%	0.7%	45.6	31.0%	-1.6%	40.0%	27.3	18.6%	-2.1%	10.6%	0.21	-3.9%	0.12	132.7
Q4	136.8	11.3%	8.5%	81.5	59.6%	6.1%	55.3	40.4%	20.1%	41.9	30.7%	22.8%	38.7%	25.7	18.8%	16.1%	10.6%	0.19	13.0%	0.12	133.4
2006	533.5	7.4%	6.4%	327.9	61.5%	9.2%	205.5	38.5%	4.6%	152.3	28.5%	2.8%	39.6%	92.0	17.2%	0.9%	10.6%	0.70	-1.0%	0.44	131.8
Q1	137.3	16.4%	10.5%	93.6	68.1%	21.0%	43.7	31.9%	7.7%	28.0	20.4%	1.3%	39.8%	16.9	12.3%	1.8%	10.4%	0.13	0.0%	0.12	133.2
Q2	150.6	14.3%	7.9%	95.9	63.6%	17.4%	54.8	36.4%	9.3%	39.4	26.2%	6.2%	39.8%	23.7	15.8%	6.0%	10.3%	0.18	4.0%	0.12	133.5
Q3	165.5	12.6%	5.4%	100.1	60.5%	14.5%	65.3	39.5%	9.8%	49.2	29.7%	7.9%	40.0%	29.5	17.8%	8.0%	10.3%	0.22	7.1%	0.13	133.8
Q4	149.1	8.9%	7.1%	96.9	65.0%	18.9%	52.2	35.0%	-5.7%	39.0	26.2%	-7.0%	36.1%	24.9	16.7%	-3.2%	10.0%	0.19	-3.6%	0.13	134.0
2007	602.5	12.9%	7.6%	386.5	64.1%	17.9%	216.0	35.9%	5.1%	155.5	25.8%	2.2%	38.9%	95.0	15.8%	3.3%	10.0%	0.71	1.9%	0.48	133.6
Q1	139.3	1.4%	1.0%	99.1	71.1%	5.9%	40.2	28.9%	-8.1%	24.0	17.3%	-14.1%	40.4%	14.3	10.3%	-15.0%	9.6%	0.11	-15.5%	0.13	134.0
Q2	150.8	0.1%	-0.1%	97.6	64.8%	1.8%	53.1	35.2%	-3.0%	37.7	25.0%	-4.2%	40.2%	22.6	15.0%	-5.0%	9.3%	0.17	-5.3%	0.13	134.1
Q3	177.1	7.0%	4.5%	102.5	57.9%	2.4%	74.6	42.1%	14.1%	59.1	33.4%	20.2%	40.1%	35.4	20.0%	19.9%	9.8%	0.26	18.6%	0.13	135.3
Q4	159.8	7.2%	-0.2%	102.0	63.8%	5.2%	57.9	36.2%	11.0%	41.7	26.1%	6.8%	38.4%	25.7	16.1%	3.0%	9.7%	0.19	1.8%	0.14	135.6
2008	627.0	4.1%	3.1%	401.2	64.0%	3.8%	225.8	36.0%	4.5%	162.5	25.9%	4.5%	39.7%	97.9	15.6%	3.1%	9.6%	0.73	2.2%	0.51	134.7
Q1	154.5	10.9%	10.0%	107.7	69.7%	8.7%	46.8	30.3%	16.3%	30.9	20.0%	28.5%	40.5%	18.4	11.9%	28.3%	9.9%	0.14	26.5%	0.14	135.9
Q2	167.3	11.0%	9.2%	108.5	64.8%	11.1%	58.9	35.2%	10.8%	42.7	25.5%	13.2%	39.5%	25.9	15.5%	14.6%	10.0%	0.19	12.2%	0.15	136.9
Q3	180.8	2.1%	-0.1%	109.4	60.5%	6.7%	71.5	39.5%	-4.2%	55.1	30.5%	-6.7%	39.3%	33.5	18.5%	-5.4%	9.8%	0.25	-6.1%	0.15	136.3
Q4	167.9	5.0%	3.5%	107.5	64.0%	5.5%	60.4	36.0%	4.3%	43.5	25.9%	4.4%	38.7%	26.7	15.9%	3.9%	9.7%	0.20	3.2%	0.15	136.5
2009	670.5	6.9%	6.4%	433.1	64.6%	8.0%	237.5	35.4%	5.2%	172.2	25.7%	6.0%	39.4%	104.4	15.6%	6.6%	9.7%	0.77	5.5%	0.57	136.1
2010E	738.6	10.2%	7.2%	461.4	62.5%	6.5%	277.3	37.5%	16.8%	203.7	27.6%	18.3%	39.4%	123.4	16.7%	18.3%	11.0%	0.90	17.9%	0.61	136.5
2011E	796.2	7.8%	5.6%	492.8	61.9%	6.8%	303.5	38.1%	9.5%	226.3	28.4%	11.1%	39.4%	137.2	17.2%	11.1%	11.6%	1.00	10.1%	0.65	137.8

Please refer to "Appendix - Important Disclosures" and Analyst Certification.

Date Printed: 2/25/2010

Fiscal Year: DEC

(in millions)

Aqua America WTR - NYSE

Dave Parker (813) 274-7620

Sonal Wagh (414) 298-6130

Balance Sheet	2004	2005	2006	2007	2008	3Q09	Cash Flow Statement	2004	2005	2006	2007	2008	2009	2010E	
ASSETS							Net Income	80.0	91.2	92.0	95.0	97.9	104.4	123.4	
Cash & Equivalents	13.1	11.9	44.0	14.5	14.9	13.8	Depreciation & Amort	58.9	65.5	75.0	88.0	94.3	114.9	120.1	
Receivables	51.2	56.3	57.7	62.3	64.5	62.7	Net changes in (CA) & CL	(1.9)	20.5	(14.4)	(14.6)	(9.7)	19.5	(6.0)	
Inventory	4.4	4.4	4.6	5.8	6.9	7.8	Deferred taxes/Non-Cash	36.6	22.5	18.1	25.8	39.0	25.9	(8.6)	
Other	21.4	17.3	28.4	32.8	34.7	38.2	Cash Flow from Operations	173.6	199.7	170.7	194.2	221.5	264.8	228.8	
Total Current	90.1	90.0	134.7	115.5	121.0	122.5	Dividend Payments	(45.8)	(51.1)	(58.0)	(63.8)	(68.5)	(77.4)	(83.2)	
Fixed Assets	2,069.8	2,280.0	2,506.0	2,792.8	2,997.4	3,060.5	Net Capital Expenditures	(195.7)	(237.5)	(271.7)	(238.1)	(267.4)	(280.0)	(280.0)	
Goodwill & Intangible Asset	20.1	20.2	22.6	36.6	41.0	40.8	Free Cash Flow	(\$67.9)	(\$88.9)	(\$159.0)	(\$107.7)	(\$114.4)	(\$92.6)	(\$134.4)	
Other Assets	160.2	236.6	214.6	282.0	325.6	306.4	Operating Cash Flow Per Share	\$1.38	\$1.55	\$1.30	\$1.45	\$1.64	\$1.95	\$1.68	
Total Assets	2,340.2	2,626.7	2,877.9	3,226.9	3,485.0	3,530.3	Free Cash Flow Per Share	(\$0.54)	(\$0.69)	(\$1.21)	(\$0.81)	(\$0.85)	(\$0.68)	(\$0.98)	
LIAB. & EQUITY							Du Pont Formula	2004	2005	2006	2007	2008	2009	2010E	
Current Debt	271.2	298.5	313.5	231.2	168.7	111.9	Net Margins (N/S)	18.1%	18.3%	17.2%	15.8%	15.6%	15.6%	16.7%	
Payables	20.6	27.7	31.1	32.3	23.5	55.5	Assets Turnover (S/A)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Other	(74.4)	(62.8)	(88.9)	(80.3)	0.9	24.6	Leverage (A/E)	3.1	3.2	3.2	3.2	3.3	3.3	3.3	
Total Current	217.4	263.3	255.6	183.2	193.2	192.0	Return on Equity	11.4%	11.7%	10.6%	10.0%	9.6%	9.7%	11.0%	
L/T Debt & Lease	784.5	878.4	951.7	1,215.1	1,248.1	1,226.2	Valuation Parameters	2004	2005	2006	2007	2008	2009	Recent	
Deferred Taxes	414.3	474.2	523.5	580.9	662.8	365.5	Price (Common) - WTR	High	18.48	29.22	29.79	26.62	22.00	21.50	17.27
Other Liabilities	658.9	788.7	896.9	1,018.7	1,172.9	635.4	Low	14.18	17.49	20.13	18.86	12.20	16.12		
Preferred Stock	-	-	-	-	-	-	Forward P/E Ratio	High	25.7x	37.0x	34.9x	32.2x	26.4x	25.0x	
Common Equity	747.2	811.9	921.6	976.3	1,058.4	1,075.4	Low	20.5x	23.8x	25.2x	22.8x	14.7x	17.1x		
Total Liab. & Equity	2,822.3	3,216.7	3,549.4	3,974.1	4,335.4	3,494.6	Close	25.5x	33.8x	27.6x	25.4x	21.4x	18.9x	21.4x	
Ratio Analysis:							Book Value	\$5.88	\$6.30	\$6.96	\$7.28	\$7.78	\$8.05	\$8.39	
Current Ratio	0.4	0.3	0.5	0.6	0.6	0.6	Price/Book Ratio	High	3.1x	4.6x	4.3x	3.7x	2.8x	2.7x	2.4x
Working Capital	(\$5)	(\$22)	(\$15)	(\$1)	\$1	\$18	Low	2.4x	2.8x	2.9x	2.6x	1.6x	2.0x	2.0x	
Working Cap/Assets	(0.2%)	(0.8%)	(0.5%)	(0.0%)	0.0%	0.5%	Close	3.1x	4.3x	3.3x	2.9x	2.6x	2.5x	2.3x	
Inventory Turns	NM	NM	NM	NM	NM	NM	EBITDA	\$235.4	\$260.9	\$281.6	\$305.6	\$319.9	\$343.8	\$388.4	
Total Debt/Capital	60%	62%	59%	59%	58%	58%	Enterprise Value	High	\$3,230	\$4,805	\$4,983	\$4,838	\$4,285	\$4,468	\$4,384
LT Debt/Equity	105%	108%	103%	124%	118%	115%	Low	2,689	3,290	3,711	3,801	2,964	3,736	3,989	
EBIT/Interest Expense	3.7x	3.8x	3.6x	3.3x	3.4x	3.5x	EV / EBITDA	High	13.7x	18.4x	17.7x	15.8x	13.4x	13.0x	11.3x
Total Debt/EBIT	5.1x	5.2x	5.2x	5.8x	5.8x	5.6x	Low	11.4x	12.6x	13.2x	12.4x	9.3x	10.9x	10.3x	
							Close	13.7x	17.5x	14.4x	13.5x	12.8x	12.4x	11.0x	

Please refer to "Appendix - Important Disclosures" and Analyst Certification.

Appendix - Important Disclosures and Analyst Certification



¹ Robert W. Baird & Co. maintains a trading market in the securities of WTR.

Robert W. Baird & Co. and/or its affiliates expect to receive or intend to seek investment banking related compensation from the company or companies mentioned in this report within the next three months.

Investment Ratings: **Outperform (O)** - Expected to outperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months. **Neutral (N)** - Expected to perform in line with the broader U.S. equity market over the next 12 months. **Underperform (U)** - Expected to underperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months.

Risk Ratings: **L - Lower Risk** - Higher-quality companies for investors seeking capital appreciation or income with an emphasis on safety. Company characteristics may include: stable earnings, conservative balance sheets, and an established history of revenue and earnings. **A - Average Risk** - Growth situations for investors seeking capital appreciation with an emphasis on safety. Company characteristics may include: moderate volatility, modest balance-sheet leverage, and stable patterns of revenue and earnings. **H - Higher Risk** - Higher-growth situations appropriate for investors seeking capital appreciation with the acceptance of risk. Company characteristics may include: higher balance-sheet leverage, dynamic business environments, and higher levels of earnings and price volatility. **S - Speculative Risk** - High-growth situations appropriate only for investors willing to accept a high degree of volatility and risk. Company characteristics may include: unpredictable earnings, small capitalization, aggressive growth strategies, rapidly changing market dynamics, high leverage, extreme price volatility and unknown competitive challenges.

Valuation, Ratings and Risks. The recommendation and price target contained within this report are based on a time horizon of 12 months but there is no guarantee the objective will be achieved within the specified time horizon. Price targets are determined by a subjective review of fundamental and/or quantitative factors of the issuer, its industry, and the security type. A variety of methods may be used to determine the value of a security including, but not limited to, discounted cash flow, earnings multiples, peer group comparisons, and sum of the parts. Overall market risk, interest rate risk, and general economic risks impact all securities. Specific information regarding the price target and recommendation is provided in the text of our most recent research report.

Distribution of Investment Ratings. As of January 29, 2010, Baird U.S. Equity Research covered 621 companies, with 45% rated Outperform/Buy, 53% rated Neutral/Hold and 2% rated Underperform/Sell. Within these rating categories, 8% of Outperform/Buy-rated, and 5% of Neutral/Hold-rated, and 14% of Underperform/Sell-rated companies have compensated Baird for investment banking services in the past 12 months and/or Baird managed or co-managed a public offering of securities for these companies in the past 12 months.

Analyst Compensation. Analyst compensation is based on: 1) The correlation between the analyst's recommendations and stock price performance; 2) Ratings and direct feedback from our investing clients, our sales force and from independent rating services; and 3) The analyst's productivity, including the quality of the analyst's research and the analyst's contribution to the growth and development of our overall research effort. This

compensation criteria and actual compensation is reviewed and approved on an annual basis by Baird's Research Oversight Committee. Analyst compensation is derived from all revenue sources of the firm, including revenues from investment banking. Baird does not compensate research analysts based on specific investment banking transactions. A complete listing of all companies covered by Baird U.S. Equity Research and applicable research disclosures can be accessed at

<http://www.rwbaird.com/research-insights/research/coverage/research-disclosure.aspx>.

You can also call 1-800-792-2473 or write: Robert W. Baird & Co., Equity Research, 24th Floor, 777 E. Wisconsin Avenue, Milwaukee, WI 53202.

Analyst Certification. The senior research analyst(s) certifies that the views expressed in this research report and/or financial model accurately reflect such senior analyst's personal views about the subject securities or issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

Disclaimers

Baird prohibits analysts from owning stock in companies they cover.

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST

The Dow Jones Industrial Average, S&P 500, S&P 400 and Russell 2000 are unmanaged common stock indices used to measure and report performance of various sectors of the stock market; direct investment in indices is not available.

Baird is exempt from the requirement to hold an Australian financial services license. Baird is regulated by the United States Securities and Exchange Commission, FINRA, and various other self-regulatory organizations and those laws and regulations may differ from Australian laws. This report has been prepared in accordance with the laws and regulations governing United States broker-dealers and not Australian laws.

Copyright 2010 Robert W. Baird & Co. Incorporated

Other Disclosures

UK disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited holds an ISD passport.

This report is for distribution into the United Kingdom only to persons who fall within Article 19 or Article 49(2) of the Financial Services and Markets Act 2000 (financial promotion) order 2001 being persons who are investment professionals and may not be distributed to private clients. Issued in the United Kingdom by Robert W. Baird Limited, which has offices at Mint House 77 Mansell Street, London, E1 8AF, and is a company authorized and regulated by the Financial Services Authority. For the purposes of the Financial Services Authority requirements, this investment research report is classified as objective.

Robert W. Baird Limited ("RWBL") is exempt from the requirement to hold an Australian financial services license. RWBL is regulated by the Financial Services Authority ("FSA") under UK laws and those laws may differ from Australian laws. This document has been prepared in accordance with FSA requirements and not Australian laws.

[Ask the analyst a question](#)

[Click here to unsubscribe](#)