



Utilities Monthly

Natural Gas and Water

February 2010

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Note Important Disclosures on page 29
Note Analyst Certification on page 29

Contents

Gas Utilities	3
Price Performance.....	3
Commentary and Outlook.....	4
Natural Gas Prices.....	4
Natural Gas Storage.....	6
Temperature Data.....	8
Degree Days.....	8
Recent Events	9
Hilliard Lyons Gas Utility Coverage List.....	11
Gas Utility Comparisons.....	12
Water Utilities.....	13
Price Performance.....	13
Commentary and Outlook.....	14
Precipitation and Temperatures by State	16
Drought Monitor and Outlook	17
Precipitation Data for Hilliard Lyons Coverage List.....	18
Recent Events	23
Hilliard Lyons Water Utility Coverage List	24
Water Utility Comparisons	25
Glossary	26
Recent Published Research.....	28
Disclosures.....	29

NATURAL GAS UTILITIES

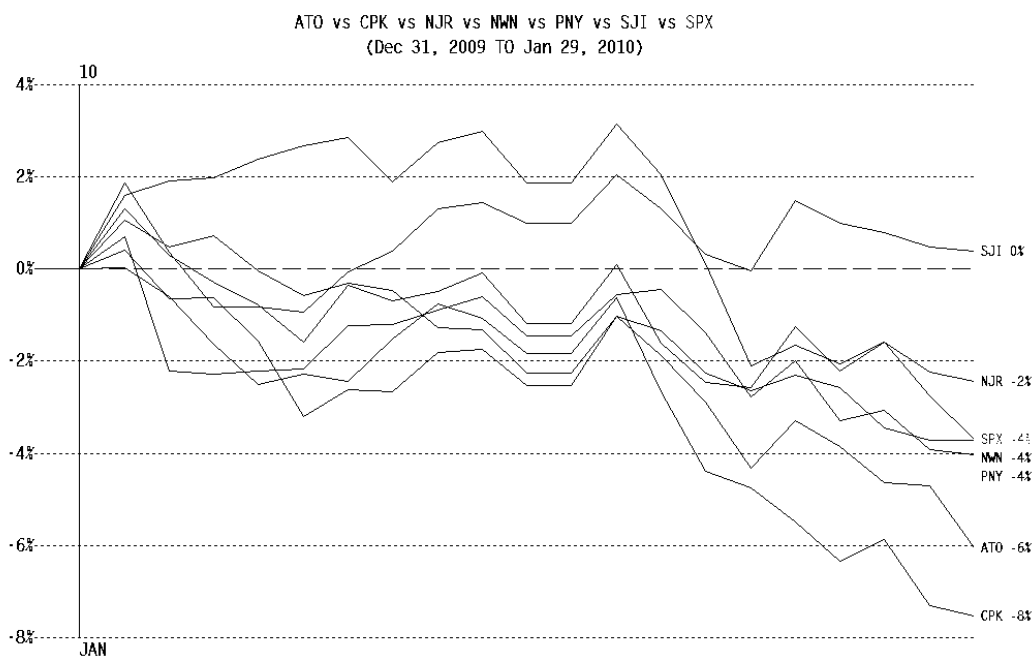
Stock price performance from gas utilities under our coverage was weak in January, with the group averaging a decline of 3.9% and negating most of December's 6.5% increase and just behind a 3.7% decrease for the S&P 500. All of our covered companies posted losses for the month with the exception of South Jersey Industries, which increased 0.4%.

For the trailing 12 months, the group is in the black but averaging just a 1.5% increase versus a 30.0% gain for the S&P. Atmos Energy (ATO) had the best price performance for the trailing 12 months with a 12.5% gain, and South Jersey Industries (SJI) and Chesapeake Utilities (CPK) had gains of 2.8% and 2.3%, respectively. New Jersey Resources (NJR) had the worst performance with a 9.0% decline.

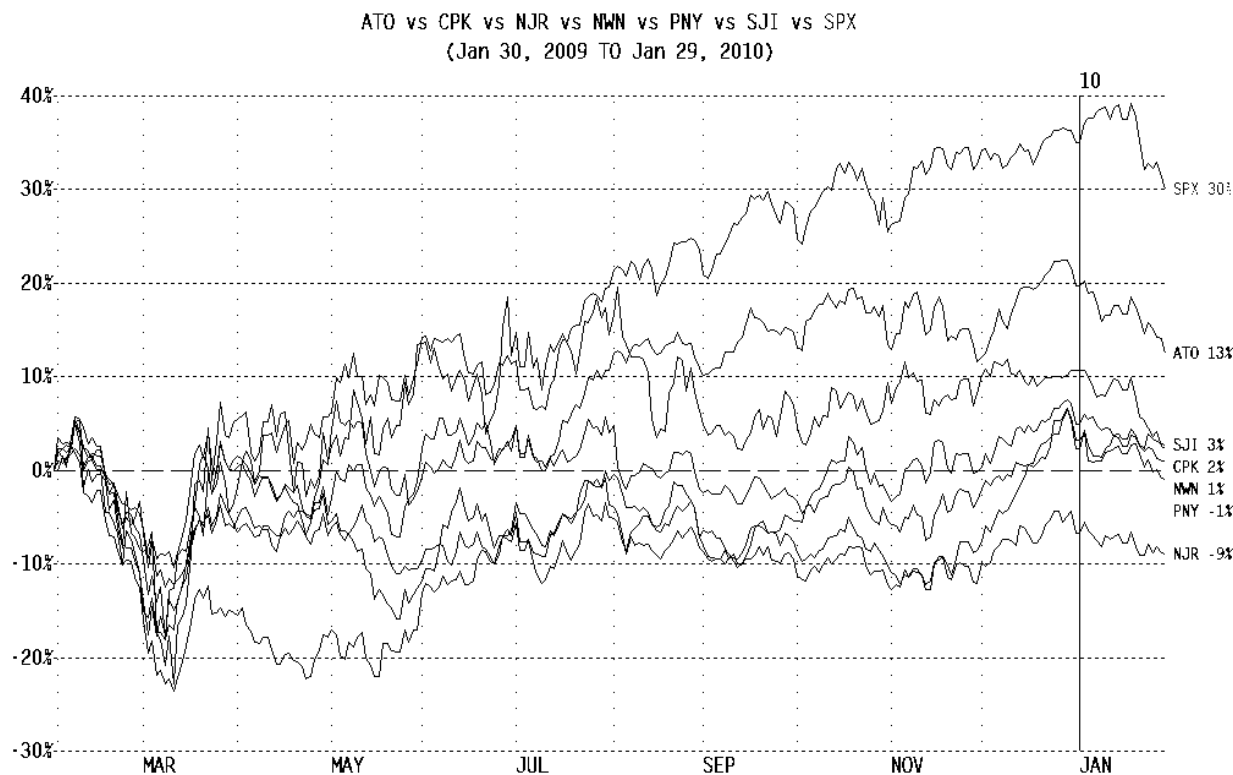
We are positive on ATO, NJR, NWN, PNY, and SJI. We have maintained a Neutral rating on CPK since 8/06.

Exhibit 1

Hilliard Lyons Covered Gas Utilities Monthly Price Performance vs. S&P 500



Source: Baseline

Exhibit 2**Hilliard Lyons Covered Gas Utilities One-year Price Performance vs. S&P 500**

Source: Baseline

COMMENTARY AND OUTLOOK

The group has just begun reporting quarterly results, and thus far results have been somewhat disappointing. However, earnings below expectations have been driven by difficult market conditions and positively, we have seen no reductions in company guidance thus far. Atmos Energy (ATO) reported FQ1 EPS of \$0.71 versus \$0.95 (excluding unrealized gains/losses), well below our forecast of \$0.84 and the \$0.90 consensus, but FQ2 should have realized gains that basically make our prior first half estimate a wash. And to be or not to be? After the company announced on its FQ4 conference call it was looking to sell its interest in its Ft. Necessity Storage project (proposed three 5 Bcf salt caverns in Louisiana) it is now in negotiations to develop the project as a JV, although a sale remains a possibility. However, it would likely be ~2014 before there would be any benefit to EPS, so we don't consider this anything to get excited about over the near-term.

New Jersey Resources also came in below our estimate with EPS (net financial earnings) of \$0.66 versus \$0.77 compared to our \$0.81 estimate and the \$0.83 consensus due to the company's Energy Services segment. But with easy comparisons for the remainder of the year from this part of the business and no reduction in guidance, any improvement in market conditions could translate to meaningful EPS upside.

Following a couple of misses and a challenging environment related to storage/trading operations from market conditions, many may assume the entire group could be in for a difficult quarter. We are not of

this opinion. We recently saw positive results from WGL Holdings (WGL) related to its Retail Energy Marketing segment, with non-GAAP EPS of \$0.15 versus \$0.12 from this part of the business. Moreover, after speaking with others in the group we are not of the opinion that commodity volatility will be as much of a negative impact for SJI, and we believe that our Q4 estimate for NWN of \$1.20, which is \$0.08 ahead of consensus, could be too low. Storage has trended downward and natural gas prices have increased slightly (see below). While the higher natural gas prices do not benefit utility operations, regarding SJI's investment in the Marcellus shale, this is a positive, and any increased volatility will benefit all that are players in the storage business.

Additionally, related to SJI, we have learned that ExxonMobil (XOM) recently signed a 50/50 JV with Pennsylvania General Energy including 365,000+ acres in the Marcellus with 4 of 18 permitted wells near SJI's parcel, and related to the possible benefit of gas in or near SJI's parcel in the Marcellus – we think it's hard to get any more positive than this. Moreover, we have also learned that PGE plans to invest \$8 million in a major 75-square-mile 3D seismic shoot in March. This should enable the company to learn more about subterranean formations in eastern McKean County, and we note that a 3D seismic is done by many operators prior to any serious development to optimize the landing of lateral wells.

The industry has had to deal with some rather significant economic challenges over the past year, such as the slowdown in new construction starts, reduced industrial demand, and decreased commodity volatility. However, we remain positive on the group, and believe many of the macro issues negatively impacting the industry in 2009 could translate to easier comparisons in 2010. Stock price performance has been abysmal for the group, but this has made valuations much more appealing. We remain puzzled at how poorly the group performed in 2009, but again make the point that many of the stocks in the group are on sale, in our view.

Natural Gas Prices

According to the EIA (Energy Information Administration), since last Wednesday, January 27, natural gas spot prices posted relatively modest increases at most market locations amid continued cold temperatures. Cold winter temperatures throughout most of the lower 48 states and rising crude oil prices likely contributed to rising natural gas prices. On the week, price increases were generally less than \$0.10 per MMBtu at most markets. However, market locations in Texas and the northeast posted gains ranging up to \$0.21 and \$0.59 per MMBtu, respectively. In contrast to the overall upward trend in most areas, prices at select Rockies and midcontinent markets declined by as much as \$0.08 per MMBtu, or less than 2%.

Natural gas spot prices in the northeast region continue to exhibit considerable strength, despite declines heading into last weekend. Prices in the northeast posted the largest net gains since last Wednesday, in a week of considerable price variability. As another cold blast moved into the region, prices at several market locations in the northeast posted gains ranging between \$1.15-\$4.13 per MMBtu on Friday, January 29, with the largest increase occurring at the New York Citygate. Moderating temperatures since the weekend contributed to largely offsetting declines in trading following Monday, February 1. Ample supplies, including increased LNG sendout, likely mitigated the extent of these price runups. Net gains in the region since last Wednesday ranged between 1%-10%, following gains in trading on Wednesday, February 3 on reports of a new cold front moving in over the weekend.

Natural gas prices at most markets in the Rocky Mountains and mid-continent regions posted slight declines since last Wednesday, January 27. Prices at most markets in the Rockies fell less than 1%, likely because of relatively moderate winter demand for natural gas and continued strong production in the region. The Rocky Mountains Express Pipeline (REX) returned to service on January 27 at 88%

capacity, and likely contributed to declining prices at many markets in the mid-continent. Prices in the mid-continent declined by as much as \$0.05 per MMBtu. However, several market locations in the region managed small gains of less than 1%.

Natural gas spot prices at the Henry Hub continue to trade above year-ago levels. With the recent cold temperatures over the last several weeks, prices at market locations across the lower 48 are trading at a premium to year-ago levels. At \$5.51 per MMBtu in trading on February 3, prices at the Henry Hub were 9%, or \$0.47, above year-ago levels. Elsewhere in the lower 48, natural gas spot prices at most markets outside the northeast region are trading at about 20%-50% above year-ago levels.

At the NYMEX, the prices for natural gas delivery contracts through February 2011 increased between \$0.12-\$0.20 per MMBtu, or up to 4%, during the report week. On the week, the price of the March contract increased \$0.195 per MMBtu, or about 4%, posting the largest gain on the 12-month (March 2010-February 2011) futures strip. The other remaining 11 contracts on the 12-month strip rose between \$0.12-\$0.18 per MMBtu, or about 2%-4%. Overall, prices for the 12-month futures strip averaged \$5.85 per MMBtu as of Wednesday, February 3. The March 2010 contract has traded at a discount to the Henry Hub spot price, suggesting that producers have an incentive to withdraw natural gas from storage to meet current demand.

Exhibit 3 Natural Gas Prices

Spot Prices (\$ per MMBtu)	Thu 28-Jan	Fri. 29-Jan	Mon. 1-Feb	Tue. 2-Feb	Wed. 3-Feb
Henry Hub	5.32	5.25	5.30	5.47	5.51
New York	10.18	8.29	6.73	6.33	6.60
Chicago	5.51	5.43	5.49	5.64	5.69
Cal. Comp. Avg.*	5.45	5.44	5.48	5.61	5.64
Futures (\$/MMBtu)					
January delivery	5.138	5.131	5.434	5.454	5.419
February delivery	5.128	5.120	5.405	5.432	5.389

*Avg. of NGI's reported avg. prices for: Malin, PG&E citygate, and Southern California Border
Source: NGI's Daily Gas Price Index (<http://intelligencepress.com>).

Source: Energy Information Administration

Natural Gas Storage

According to the EIA, working gas in storage decreased to 2,406 Bcf as of Friday, January 29. The implied net withdrawal was 115 Bcf, compared with the 5-year (2005-2009) average withdrawal of 178 Bcf and last year's net withdrawal of 194 Bcf for the report week. Warmer than normal temperatures likely contributed to the below normal rate of withdrawals during the report week. Working gas inventories were 199 Bcf higher than year ago levels and 150 Bcf above the 5-year average level. Working gas in storage continues to exceed historical levels and year ago levels for this time of year in each of the three storage regions. Since the first reported net withdrawal of the heating season (for the week ending December 4) through January 29, cumulative withdrawals from storage totaled 1,431 Bcf, or 19% greater than the 5-year average of 1,204 Bcf over the same period.

Temperatures were generally warmer than normal in most Census Divisions in the lower 48 states during the week ended January 28. Based on the National Weather Service's degree day data, temperatures in the lower 48 states during the week ending January 28 were, on average, about 4° warmer than normal and 7° warmer than last year's levels. Temperatures were warmest in the West South Census Division, where the average temperature was 52°. Elsewhere in the lower 48, average temperatures ranged between 26°-46°. In contrast to the rest of the lower 48, the Pacific Census Division reported colder than normal temperatures.

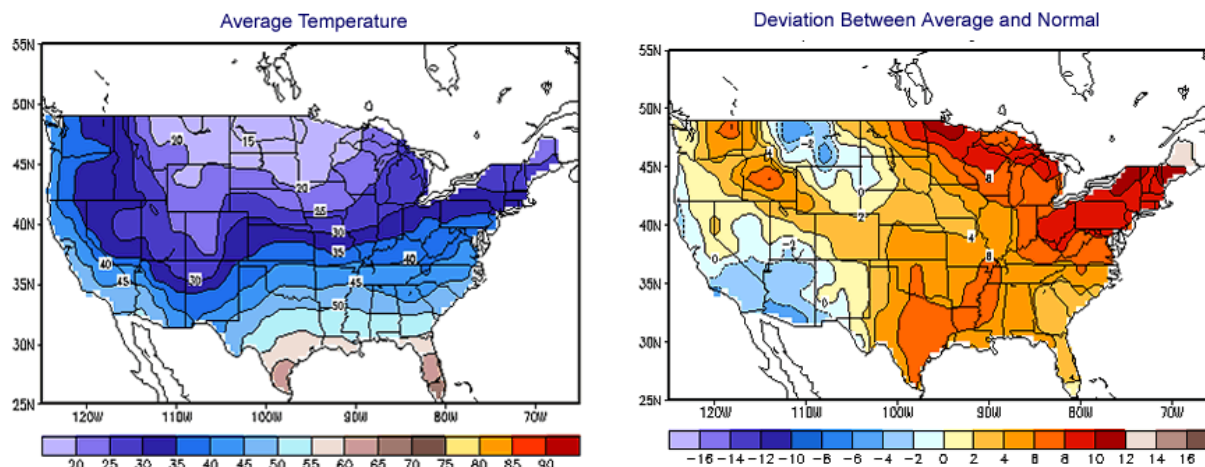
Exhibit 4
Working Gas in Underground Storage (week ended February 3, 2010)

	Current Stocks 01/29/10	One-Week Prior Stocks 01/22/10	Implied Net Change from Last Week	Estimated Prior 5-Year (2005-2009) Average	Percent Difference from 5 Year Average
All Volumes in Bcf					
East Region	1,251	1,334	-83	1,236	1.2
West Region	359	380	-21	301	19.3
Producing Region	796	807	-11	720	10.6
Total Lower 48	2,406	2,521	-115	2,256	6.6
Source: Energy Information Administration: Form EIA-912, "Weekly Underground Natural Gas Storage Report," and the Historical Weekly Storage Estimates Database. Row and column sums may not equal totals due to independent rounding.					

Source: Energy Information Administration

Exhibit 5
Temperature Data

Temperature Data for Week Ending January 28, 2010



Source: National Oceanic and Atmospheric Administration, National Weather Service

Source: Energy Information Administration, National Oceanic and Atmospheric Administration, National Weather Service

Exhibit 6
Degree Days

Data for Week Ending January 28, 2010

Region	HDD Current	HDD Deviation from Normal	HDD Deviation from Last Year	CDD Current	CDD Deviation from Normal	CDD Deviation from Last Year
NEW ENGLAND	223	-52	-86	0	0	0
MIDDLE ATLANTIC	208	-55	-77	0	0	0
E N CENTRAL	248	-46	-93	0	0	0
W N CENTRAL	274	-37	-89	0	0	0
SOUTH ATLANTIC	145	-35	-33	6	-2	2
E S CENTRAL	148	-38	-28	0	-1	0
W S CENTRAL	93	-42	-36	1	-3	0
MOUNTAIN	224	-3	0	0	-1	0
PACIFIC	131	15	10	0	-1	0
UNITED STATES	191	-31	-50	1	-1	0

Note: HDD: heating-degree-day; CDD: cooling-degree-day

Source: National Oceanic and Atmospheric Administration, National Weather Service

Source: Energy Information Administration, National Oceanic and Atmospheric Administration, National Weather Service

RECENT EVENTS (*Hilliard Lyons coverage universe*)

Atmos Energy Corp. (ATO - \$26.95, Long-term Buy, \$33 TP) 2/4/10 announced the retirement of two members of the company's board of directors, Travis W. Bain II and Thomas J. Garland, effective 2/3/10. Messrs. Bain and Garland had been on the board since 1988 and 1997, respectively.

Chesapeake Energy Co. (CPK - \$29.52, Neutral) 2/4/10 announced its Sharp Energy subsidiary acquired the operating assets of Virginia LLP Gas, a propane distributor serving Northampton and Accomack Counties in Virginia which serves about 1,000 retail customers.

New Jersey Resources Corp. (NJR - \$35.33, Buy, \$43 TP) 2/3/10 NJR reported Q1'10 EPS (NFE) ended December of \$0.66 versus \$0.77, compared to our \$0.81 estimate and the \$0.83 consensus. The miss was driven by difficult market conditions negatively impacting the company's Energy Services segment.

New Jersey Natural Gas (NJNG): Total utility gross margin declined negligibly to \$75.0 million and net income increased 1.9% to \$23.5 million. Results were driven largely by incremental gross margin from customer growth and lower interest expense, partially offset by lower gross margin from the company's gas supply incentive programs. The company added 1,438 new customers during the quarter (which is expected to drive ~\$0.7 million annually to gross margin), with customer growth just below 1% which continues to be pressured by a weak new construction market affecting all gas utilities.

NJ Energy Services (NJRES): Financial margin decreased 54.1% to \$9.2 million, and net financial earnings fell 73.4% to \$2.5 million. Again this quarter, lower commodity volatility negatively impacted asset optimization opportunities and lower basis spreads drove a decline in the value of the company's transportation portfolio.

Midstream Assets (new segment that includes the Steckman Ridge storage facility, a joint venture with Spectra Energy in addition to the company's 5.53% investment in the Iroquois pipeline): Net income was \$1.9 million versus \$0.5 million, but we note that Steckman Ridge became operational in the spring of last year.

Importantly, despite weak Energy Services results (which have continued into FQ2) management maintained FY'10 guidance of \$2.45-\$2.60 per basic share (~\$2.43-2.58 diluted). The company is up against much more favorable Energy Services comparisons for the remainder of FY'10, so any positive impact related to this segment has the potential to meaningfully lever up EPS.

We decreased our FY'10 EPS estimate by \$0.12 per share to \$2.48 due to Q1 earnings below our expectations, but made no change to our FY'11 EPS estimate of \$2.70 or our \$43 price target. The company now anticipates NJNG contributing 60%-70% of overall earnings, 20%-30% from NJR Energy Services, and 5%-10% from its newly created Midstream Assets segment which will include Steckman Ridge storage (2%-6%) and the Iroquois pipeline (3%-4%).

Atmos Energy Corp. (ATO - \$26.95, Long-term Buy, \$33 TP) 2/2/10 reported FQ1'10 ended Dec. EPS (excl. unrealized gains/losses and one-time items) were \$0.71 vs. \$0.95, compared to our forecast of \$0.84 and the \$0.90 consensus. GAAP results of \$1.00 include \$0.29 in unrealized gains – the vast majority of which will be realized in Q2'10, basically making our previous 1H'10 forecast a wash so overall the Q1 miss isn't as bad as it appears.

Natural gas distribution net income rose 2.6% to \$51.5M due primarily to new rates. Regulated transmission and storage rose 10.4% to \$8.5M, but was negatively impacted by transportation volumes and reduced spreads. Natural gas marketing fell 76.4% to \$6.3M, negatively impacted by storage and trading activities. Pipeline, storage and other was 93.6% lower at \$0.4M, negatively impacted by lower margins under asset management plans and reduced basis gains from leased pipeline capacity. O&M fell 6.6% to \$123.9M mostly from lower pipeline maintenance costs.

Ft. Necessity Storage Project: In Q1 the company was looking to sell its interest in the project (proposed three 5 Bcf salt caverns in Louisiana), and while a sale remains a possibility, ATO is now in negotiations to develop the project as a JV. This is a potential catalyst on the horizon, although it does not appear there would be any benefit to EPS until ~2014.

Management maintained FY'10 EPS guidance of \$2.15-\$2.25. Related to the unrealized gains, we assume a \$0.10 benefit in Q2 and a penny in Q3, and are raising our estimates accordingly. However, our FY'10 EPS estimate gets a \$0.02 per share haircut to \$2.15 but there is no change to our FY'11 EPS estimate or \$33 price target.

New Jersey Resources Corp. (NJR - \$35.33, Buy, \$43 TP) 1/27/10 increased its share buyback program by two million shares to 8.75 million. Since the plan began in September 1996, NJR has invested over \$185 million, repurchasing 6.4 million shares at a split-adjusted average price of \$28.83.

New Jersey Resources Corp. (NJR - \$35.33, Buy, \$43 TP) 1/20/10 received approval from the New Jersey BPU to extend its CIP (Conservation Incentive Program), or decoupling mechanism through September 30, 2013. We view this mechanism favorably, as it makes core utility operations more predictable and enables the company to encourage conservation without being penalized for reduced usage.

South Jersey Industries (SJI - \$38.26, Buy, \$53 TP) 1/20/10 received approval from the New Jersey BPU to extend its CIP (Conservation Incentive Program), or decoupling mechanism for up to four years. We view this mechanism favorably, as it makes core utility operations more predictable and enables the company to encourage conservation without being penalized for reduced usage.

Hilliard Lyons Natural Gas Utilities Coverage List

Company	Tkr	Price 11-Feb-10	Target Price	Rating	LFY Margin (\$000's)	Mkt Cap (\$MM)	Cap / Margin	LTD / Cap. (%)	EPS			P / E			3-Yr Avg EPS Growth	LFY EBITDA/ Share	LFY EV / EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio
									FY'09E	FY'10E	FY'11E	FY'09E	FY'10E	FY'11E						
Atmos Energy	ATO	\$ 26.95	\$ 33	LT Buy	1,321,326	2,495.6	0.2x	49.0	\$2.12	\$2.17	\$2.27	12.7x	12.4x	11.9x	3%	7.0x	6.7x	4.97%	69	1.7%
Chesapeake Utilities	CPK	\$ 29.52	NA	Neutral	87,438	203.7	0.2x	40.0	\$2.08	\$2.27	-	14.2x	13.0x	-	7%	5.4x	7.5x	4.27%	56	3.2%
New Jersey Resources	NJR	\$ 35.33	\$ 43	Buy	505,967	1,469.2	0.3x	38.0	\$2.40	\$2.48	\$2.70	14.7x	14.2x	13.1x	3%	6.0x	7.6x	3.85%	57	5.6%
Northwest Natural	NWN	\$ 42.03	\$ 55	Buy	356,215	1,114.5	0.3x	50.0	\$2.79	\$2.90	-	15.1x	14.5x	-	5%	8.1x	7.8x	3.95%	56	5.5%
Piedmont Natural Gas	PNY	\$ 24.57	\$ 28	Buy	552,973	1,796.3	0.3x	44.0	\$1.67	\$1.57	\$1.62	14.7x	15.6x	15.2x	7%	3.3x	13.0x	4.40%	65	4.8%
South Jersey Industries	SJI	\$ 38.26	\$ 53	Buy	282,535	1,140.0	0.4x	39.0	\$2.38	\$2.95	-	16.1x	13.0x	-	6%	6.1x	8.3x	3.45%	57	3.8%
<i>Average:</i>							<i>0.3x</i>	<i>43.3</i>				<i>14.6x</i>	<i>13.8x</i>	<i>13.4x</i>	<i>5.2x</i>	<i>6.0x</i>	<i>8.5x</i>	<i>4.1x</i>	<i>60.0x</i>	<i>4.9%</i>

Source: Company reports, Baseline, and Hilliard Lyons estimates

Natural Gas Utilities

Company	Tkr	Price 11-Feb-10	LFY Revs (\$MM)	Mkt Cap (\$MM)	Cap/ Sales	LTD/ Cap. (%)	EPS			P / E			3-Yr Avg EPS Growth	LFY EBITDA Share	LFY EV / EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.
							FY'09E	FY'10E	FY'11E	FY'09E	FY'10E	FY'11E							
AGL Resources	AGL	\$ 35.12	2,317.0	2,718.3	1.2x	53.0	\$2.94	\$3.11	\$3.24	11.9x	11.3x	10.8x	4%	7.9x	8.3x	5.01%	62	0.9%	250,747
Atmos Energy	ATO	\$ 26.95	4,969.1	2,495.6	0.5x	49.0	\$2.12	\$2.17	\$2.27	12.7x	12.4x	11.9x	3%	7.1x	6.9x	4.97%	69	1.7%	389,255
Chesapeake Utilities	CPK	\$ 29.52	260.4	203.7	0.8x	40.0	\$2.08	\$2.27	-	14.2x	13.0x	-	7%	5.8x	7.0x	4.27%	56	3.2%	26,081
Delta Natural Gas	DGAS	\$ 29.50	105.6	98.2	0.9x	49.0	\$1.65	-	-	17.9x	-	-	4%	5.0x	10.1x	4.41%	97	0.0%	2,595
Energy West	EGAS	\$ 10.01	82.3	43.7	0.5x	29.0	-	-	-	-	-	-	-10%	1.8x	4.1x	5.39%	69	0.0%	13,654
Laclede Group	LG	\$ 31.24	1,895.2	692.5	0.4x	41.0	\$2.46	\$2.58	-	12.7x	12.1x	-	11%	7.4x	7.7x	5.06%	62	2.2%	103,795
National Fuel Gas	NFG	\$ 46.99	2,057.9	3,785.6	1.8x	39.0	\$2.63	\$2.88	\$3.14	17.9x	16.3x	15.0x	9%	5.1x	8.0x	2.85%	51	1.3%	329,387
New Jersey Resources	NJR	\$ 35.33	2,592.5	1,469.2	0.6x	38.0	\$2.40	\$2.48	\$2.70	14.7x	14.2x	13.1x	3%	2.0x	13.6x	3.85%	57	5.6%	283,129
Nicor	GAS	\$ 38.83	2,811.9	1,756.3	0.6x	33.0	\$2.75	\$2.88	\$3.10	14.1x	13.5x	12.5x	-6%	8.7x	6.4x	4.79%	66	4.8%	359,711
Northwest Natural Gas	NWN	\$ 42.03	1,069.0	1,114.5	1.0x	50.0	\$2.79	\$2.90	-	15.1x	14.5x	-	5%	8.3x	7.5x	3.95%	56	5.5%	86,776
ONEOK	OKE	\$ 41.62	11,409.7	4,390.5	0.4x	67.0	\$2.82	\$2.96	\$3.19	14.8x	14.1x	13.0x	2%	9.7x	9.7x	4.23%	63	2.8%	611,703
Piedmont Natural Gas	PNY	\$ 24.57	1,638.1	1,796.3	1.1x	44.0	\$1.67	\$1.57	\$1.62	14.7x	15.6x	15.2x	7%	3.7x	10.9x	4.40%	65	4.8%	412,272
South Jersey Industries	SJI	\$ 38.26	692.5	1,140.0	1.6x	39.0	\$2.38	\$2.95	-	16.1x	13.0x	-	6%	6.4x	9.1x	3.45%	57	3.8%	186,748
Southwest Gas	SWX	\$ 26.94	827.0	1,211.1	1.5x	54.0	\$1.97	\$2.11	\$2.28	13.7x	12.8x	11.8x	-14%	8.8x	6.2x	3.53%	58	2.5%	170,483
UGI Corp.	UGI	\$ 24.44	5,737.8	2,658.6	0.5x	55.0	\$2.31	\$2.42	\$2.53	10.6x	10.1x	9.7x	13%	6.6x	6.1x	3.27%	35	0.6%	912,773
WGL	WGL	\$ 31.75	2,702.3	1,592.0	0.6x	35.0	\$2.31	\$2.44	\$2.60	13.7x	13.0x	12.2x	12%	6.8x	6.9x	4.63%	58	6.3%	256,435
<i>Average:</i>					<i>0.9x</i>					<i>14.3x</i>	<i>13.3x</i>	<i>12.5x</i>	<i>3.5%</i>	<i>6.3x</i>	<i>8.0x</i>	<i>4.3x</i>	<i>61.3x</i>	<i>3.1%</i>	

Source: Company reports, Baseline, and Hilliard Lyons estimates

WATER UTILITIES

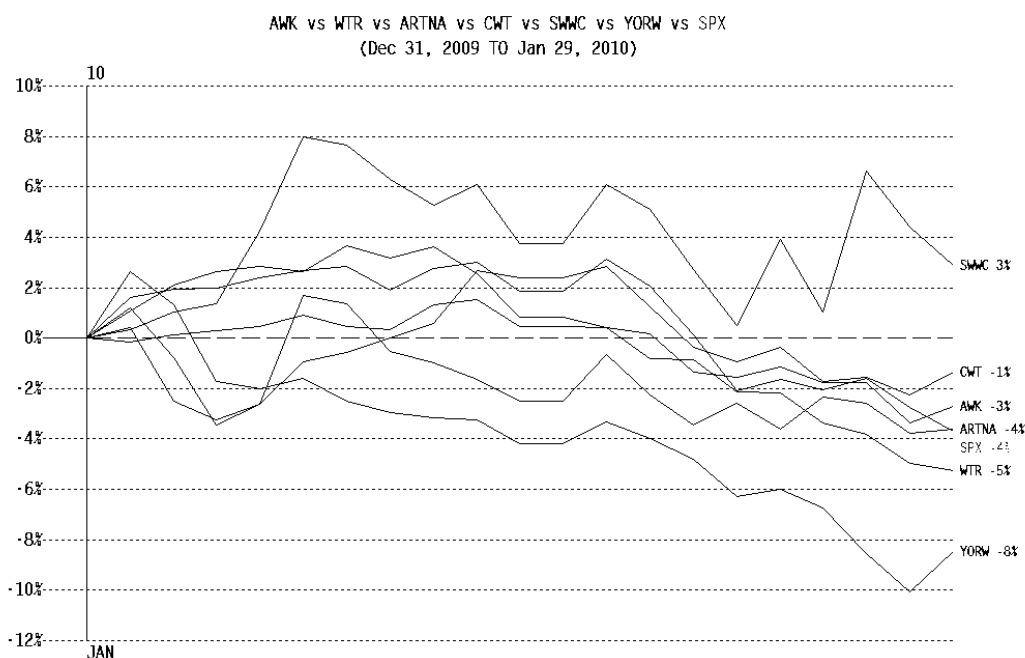
For the month of January, our covered water utilities averaged a 3.1% loss compared to a 3.7% loss for the S&P 500. All were in the red for the month, excluding Southwest Water (SWWC), which had a gain of 2.9%. The next best price performance came from California Water Service Group (CWT) with a loss of 1.4%, followed by American Water Works Co. (AWK) which declined 2.7%. The largest decline for the month was from The York Water Co. (YORW), which fell 8.5%.

For the trailing 12-months, the group averaged a gain of 4.5% compared to a 30.0% gain for the S&P, but we note that this was primarily driven by SWWC's 35.3% increase. Artesian Resources Corp. (ARTNA) and YORW led the way with 12.8% and 12.4% increases, respectively, while AWK was 2.9% higher. The biggest loss was from Aqua America (WTR), which declined 20.0%.

We are currently recommending AWK, WTR, ARTNA, and CWT. The other two water utilities under our coverage, SWWC and YORW, are rated Neutral.

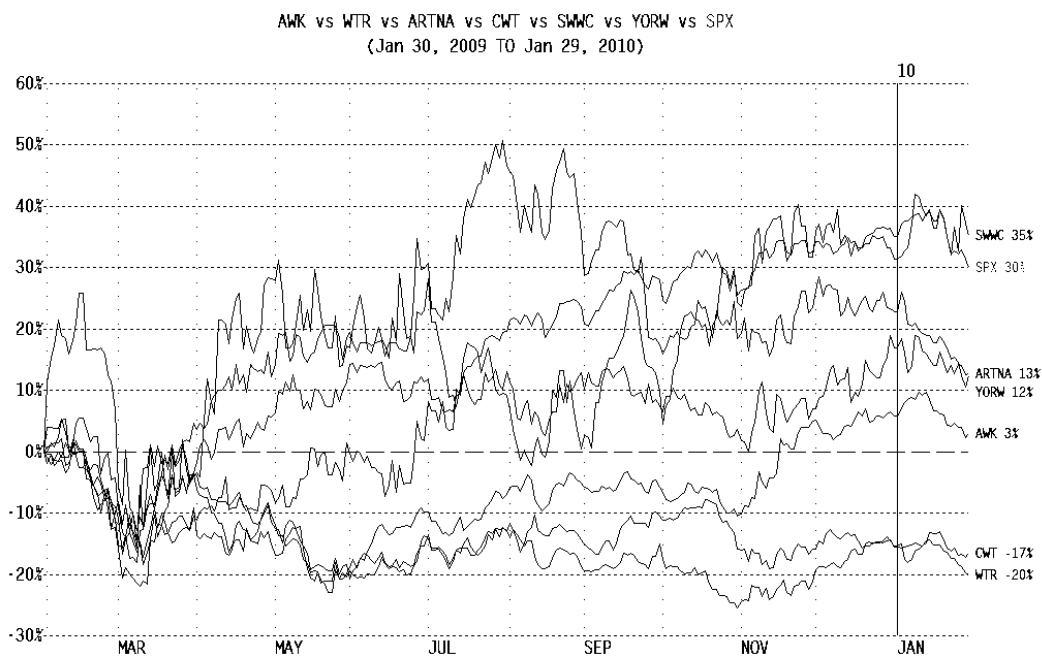
Exhibit 7

Hilliard Lyons Covered Water Utilities Monthly Price Performance vs. S&P 500



Source: Baseline

Exhibit 8
Hilliard Lyons Covered Water Utilities One-Year Price Performance vs. S&P 500



Source: Baseline

COMMENTARY AND OUTLOOK

We recently initiated coverage of American Water Works (AWK) with a Buy rating. We view the company as an attractive total return story with meaningful earnings growth potential coupled with a 3.9% dividend yield. AWK is the biggest player in the space, and actually larger than the rest of the group combined providing over 5% of the United States with drinking water. The company has monopoly-like status, with a non-regulated lever to grow earnings. We anticipate consolidation being a meaningful driver of growth in the industry, and believe AWK will be one of the major players. Additionally, we note that German based RWE's ownership has declined from 100% to nothing, with investors no longer having this overhang on the stock.

Most of the water utilities under our coverage begin reporting fourth quarter results later this month, although this quarter typically makes one of the smallest contributions to overall results due to seasonality. Precipitation in the northeast during October was heavy, so we recently lowered our fourth quarter estimates for Aqua America (WTR), Artesian Resources (ARTNA), and York Water (YORW). Picking up where the third quarter left off, rainfall was above normal, occurred on consecutive days, and temperatures have been below average – all negatives for usage.

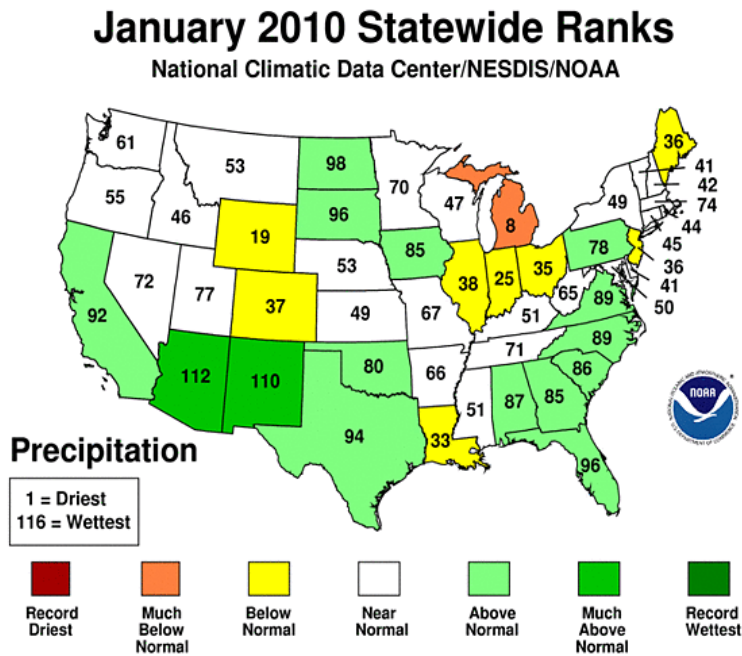
However, we remain bullish on the group and believe one of the biggest growth drivers in 2010 will be consolidation. With the EPA estimating \$335 billion needing to be spent over the next 20 years on water infrastructure and with municipalities continuing to struggle to meet budgets, we think an increasing number of them will seek to monetize assets.

We believe the prime beneficiaries on this front will be WTR and AWK. WTR typically makes about 25-30 acquisitions per year, and with the company making ~200 acquisitions over the past 14 years, this has long been part of the company's successful growth strategy. To a lesser degree, we believe CWT will benefit as well. Moreover, California's Water Action Plan encourages consolidation, and in the state we believe CWT could benefit most.

On the weather front, the biggest question in winter is what the impact will be from main breaks. While December can always be problematic if cold temperatures cause an increased number of main breaks, it does not appear as that was the case although the story could be much different once we have January data. *(Please refer to our Precipitation Data and Exhibit 13.)*

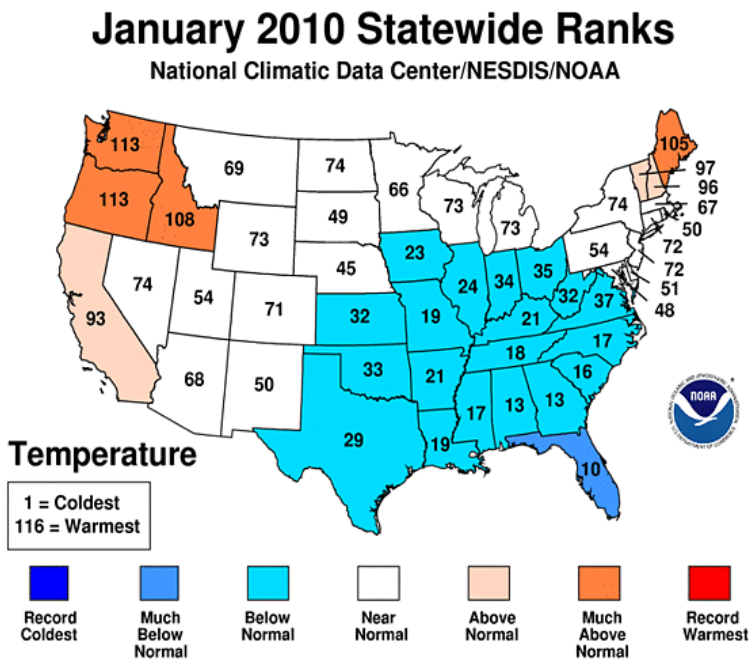
In general, we view valuations among water utilities at present as attractive, and believe the current environment presents an opportunity to buy shares in the group before the seasonal earnings power of the summer begins to be priced into stock prices. Moreover, we note that many in the group will be facing easier comparisons in 2010, given record setting precipitation levels in the northeast negatively impacting several in that portion of the country. This coupled with the anticipated benefit from pending rate case filings could drive significant EPS growth in 2010.

Exhibit 9
Precipitation by State



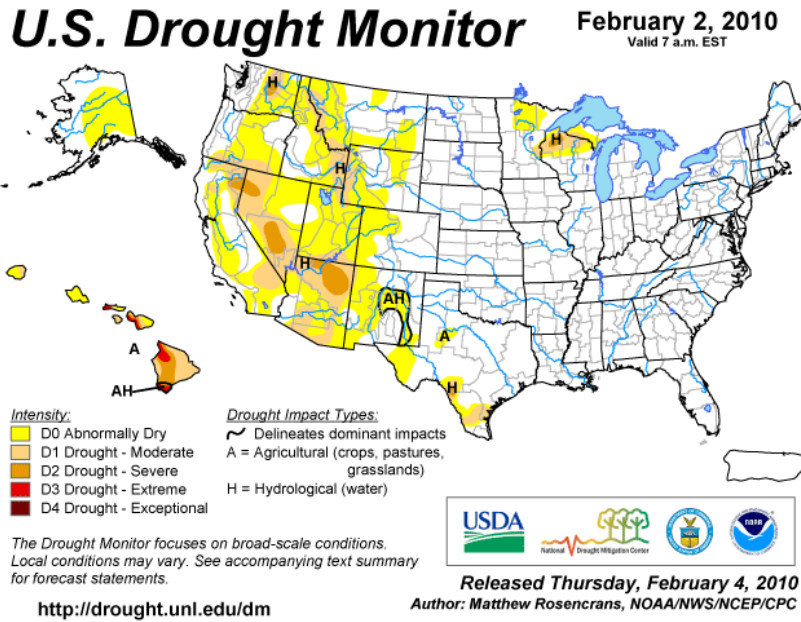
Source: National Climatic Data Center

Exhibit 10
Temperatures by State



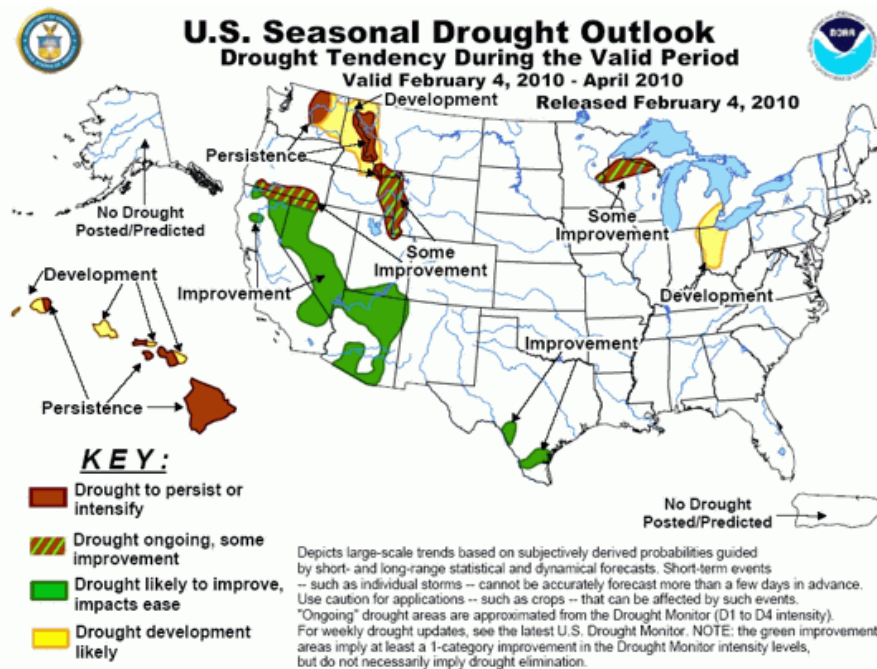
Source: National Climatic Data Center

Exhibit 11
U.S. Drought Levels



Source: National Climatic Data Center

Exhibit 12
U.S. Seasonal Drought Outlook



Source: National Climatic Data Center

PRECIPITATION DATA

Water utilities are heavily impacted by rainfall. The peak revenue months typically occur during the summer months when usage is highest, driven by activities such as landscape irrigation, filling swimming pools, and washing automobiles. Additionally, in general a higher average in temperatures will drive an increase in water consumption. During the winter, the concern from cold temperatures is what the impact will be from main breaks.

The bulk of the summertime activities will often occur on weekends, and the number of days of consecutive rainfall is important, as two days in a row of slight rainfall can have more of a negative impact on revenues than one day of heavy rainfall. Our precipitation data (Exhibit 13) is drawn from several areas and states where water utilities under our coverage have operations, which we believe can be used as an indicator for revenues.

While precipitation has a meaningful impact on summer revenues, it is important in other times of the year as well – but for different reasons. Lacking snow and rain, reservoirs and underground aquifers will not be full. The lower the reservoir levels starting with spring, the greater the likelihood water companies could be impacted by drought conditions if the government imposes restrictions and limits usage. We do note, however, that precipitation data for CWT is mitigated now that the company has the benefit of a decoupling mechanism. We have highlighted data we believe could cause a deviation from the prior year(s):

October Data

Poor September weather continued into October, but the good news is that Q4 and Q1 make the smallest contributions to overall results and rainfall/snow is needed in the fall and winter to replenish supply. Impacting AWK, New Brunswick (NJ ~19% of water customers) had 14 (5.29 in.) versus 9 (3.28 in.) days, 13 versus 8 continuous days, cooler temperatures, and significantly heavier weekend rainfall. In St. Louis (MO ~14% of water customers) there were 15 (13.3 in.) versus 7 (1.24 in.) days, 12 versus 5 continuous days, and significantly cooler temperatures.

Impacting AWK and WTR, in Philadelphia (PA ~20% and 50% of water customers, respectively) there were 18 versus 6 days of precipitation and 6.21 in. versus 3.21 in. Continuous increased to 16 versus 4, and there were 5 versus 0 rainy Saturdays.

Also impacting AWK and WTR, Williamsport had similar results with 17 (5.43 in.) versus 8 (2.09 in.) days of precip and 15 versus 4 continuous days and 5 versus 2 rainy Saturdays.

Charlotte (NC ~ 8% of water customers) had heavy rainfall as well, with 12 (2.26 in.) versus 5 (1.76 in.) days and 11 versus 2 continuous days. While 1.76 in. this year in Raleigh was roughly the same as the year ago comparison, there were 13 versus 8 days of rainfall and continuous days were 11 versus 3. Rainy Saturdays were 5 versus 1, and total weekends with precip were 2 versus 0.

Texas (TX ~6% of water customers) was even worse – in Dallas there were 18 (10.73 in.) versus 4 (2.29 in.) days and 17 versus 2 continuous days and cooler temperatures as the highs averaged 71.1° versus 78.8°. Houston had 15 (14.63 in.) and 7 (1.93 in.) days and 12 versus 5 continuous days.

Impacting ARTNA, Wilmington had 13 (8.44 in.) versus 4 (2.26) days and 9 versus 2 continuous days.

York had 12 (5.75 in.) versus 6 (1.90 in.) days and 8 versus 5 continuous days, and Saturdays with rain were 4 versus 1.

November Data

The November data almost seems irrelevant - reservoirs have been full for some time now, usage is seasonally low, and in general temperatures are not cold enough to cause main breaks.

Impacting AWK and WTR, in Philadelphia the average high of 55.3° was above 51.5° in the year ago period, and the average low was 36.0° versus 39.9°. In Williamsport the average high was 55.3° versus 46.8° compared to 36.0° and 33.0° for the lows, respectively.

For WTR, Houston likely provided a (very) minor boost to revenues – and while not enough to move the needle, it is one bright spot among the monthly data as total rainfall was 2.41 in. versus 5.55 in. and 4 versus 6 continuous days. However, this was probably offset in Florida (~3% of water customers) where there were 6 days (3.33 in.) of rainfall versus 1 day (0.35 in.) and 4 versus 0 consecutive days.

Temperatures were even warmer around YORW's service territory, with the high averaging 58.6° versus 52.2° and lows averaging 43.0° and 38.7°.

December Data

In December, the two most important things to monitor which impact water utilities are snowfall and temperatures. Snowfall is important for filling reservoirs – which was accomplished many weeks ago with heavy rainfall. Prolonged cold temperatures increase the number of main breaks, but in December this did not seem to be much of an issue. In general, the differences across the midwest and northeast do not appear to be at levels that should drive a meaningful change on this front. The most notable differences (impacting AWK) were from Charleston where the average high was 42.7° versus 47.8° and Beaver Falls (PA) with 26.5° compared to 30.9°.

**Exhibit 13
Precipitation Data**

				Oct '09									
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.
AWK	NJ	New Brunswick	3 SE	14	5.29	13	63.9/42.4	4	4	3.5	0.68	1.83	2.51
AWK	PA	Beaver Falls	1 NE	13	2.71	10	43.3 (at obs.)	5	1	1	1.49	0.06	1.55
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	15	13.30	12	61.9/46.6	2	0	0	0.15	0.00	0.15
AWK	IN	Indy	Carmel 3E	11	5.40	9	59.1/40.1	3	0	0	1.34	0.00	1.34
AWK	WV	Charleston	WSFO	10	2.58	6	63.6/41.1	4	1	1	1.15	0.14	1.29
AWK/CWT	CA	San Jose	Fremont	4	2.93	4	70.7/51.6	0	0	0	0.00	0.00	0.00
AWK/SWWC	CA	LA, W. Covina	Pomona Fairplex	1	0.36	0	79.5/53.8	0	0	0	0.00	0.00	0.00
AWK/WTR	PA	Philadelphia	Franklin Institute	18	6.21	16	64.0/50.0	5	1	1	2.63	0.01	2.64
AWK/WTR	PA	Williamsport	Williamsport 2	17	5.43	15	59.4/43.1	5	1	1	1.97	0.03	2.00
WTR	OH	Cleveland	Warren 3S	14	3.80	12	57.8/37.4	5	2	2	2.06	0.12	2.18
WTR	NC	Charlotte	Concord	12	2.26	11	69.6/48.4	2	0	0	0.08	0.00	0.08
WTR	NC	Raleigh	4 SW	13	1.76	11	71.9/51.3	2	1	0	0.20	0.23	0.43
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	18	10.73	17	71.1/53.1	1	3	1	0.29	1.12	1.41
WTR	TX	Houston	NWSO	15	14.63	12	79.6/62.2	1	1	1	0.21	0.48	0.69
WTR	IL	Kankakee	Metro WWTP	15	8.18	12	57.2/41.9	4	1	0	1.76	0.24	2.00
WTR	FL	Ocala	Ocala	9	1.18	6	87.6/65.6	1	0	0	0.04	0.00	0.04
ARTNA	DE	Newark	Wilmington	13	8.44	9	61.9/46.6	4	1	1	2.66	0.75	3.41
YORW	PA	York	York Haven	12	5.75	8	63.4/47.3	4	2	2	1.57	1.45	3.02
				Oct '08									
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.
AWK	NJ	New Brunswick	3 SE	9	3.28	8	66.6/40.5	1	2	1	0.03	0.95	0.98
AWK	PA	Beaver Falls	1 NE	8	1.80	4	41.3 (at obs.)	2	0	0	0.40	0.00	0.40
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	7	1.24	5	69.3/49.9	2	0	0	0.03	0.00	0.03
AWK	IN	Indy	Carmel 3E	5	2.20	4	66.4/41.7	1	0	0	0.53	0.00	0.53
AWK	WV	Charleston	WSFO	6	2.59	2	68.0/39.3	1	0	0	1.30	0.00	1.30
AWK/CWT	CA	San Jose	Fremont	2	0.07	2	74.8/51.1	0	0	0	0.00	0.00	0.00
AWK/SWWC	CA	LA, W. Covina	Pomona Fairplex	No Oct data									
AWK/WTR	PA	Philadelphia	Franklin Institute	6	3.21	4	66.1/46.6	0	1	0	0.00	0.55	0.55
AWK/WTR	PA	Williamsport	Williamsport 2	8	2.09	4	62.8/39.8	2	0	0	1.63	0.00	1.63
WTR	OH	Cleveland	Warren 3S	11	2.73	8	60.0/37.1	1	0	0	0.48	0.00	0.48
WTR	NC	Charlotte	Concord	5	1.76	2	71.8/46.5	2	0	0	0.93	0.00	0.93
WTR	NC	Raleigh	4 SW	8	1.71	3	71.5/48.4	3	2	1	1.09	0.06	1.15
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	4	2.29	2	78.8/55.5	0	0	0	0.00	0.00	0.00
WTR	TX	Houston	NWSO	7	1.93	5	79.5/58.3	0	1	0	0.00	0.01	0.01
WTR	IL	Kankakee	Metro WWTP	8	2.95	7	66.0/43.0	1	0	0	0.40	0.00	0.40
WTR	FL	Ocala	Ocala	7	2.19	5	82.1/60.2	2	0	0	0.11	0.00	0.11
ARTNA	DE	Newark	Wilmington	4	2.26	2	62.9/44.9	1	0	0	0.99	0.00	0.99
YORW	PA	York	York Haven	6	1.90	5	65.5/46.5	1	1	1	0.10	1.30	1.40
				Oct '07									
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.
AWK	NJ	New Brunswick	3 SE	10	4.89	9	73.0/51.8	3	1	1	1.81	0.38	2.19
AWK	PA	Beaver Falls	1 NE	11	2.40	7	50.4 (at obs.)	2	1	1	0.33	0.05	0.38
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	9	2.40	4	74.9/56.7	1	1	0	0.07	0.01	0.08
AWK	IN	Indy	Carmel 3E	10	2.99	7	71.1/48.0	2	0	0	0.17	0.00	0.17
AWK	WV	Charleston	WSFO	11	3.68	8	75.0/46.9	2	1	1	0.07	0.01	0.08
AWK/CWT	CA	San Jose	Fremont	7	1.34	5	70.5/49.9	1	0	0	0.07	0.00	0.07
AWK/SWWC	CA	LA, W. Covina	Pomona Fairplex	0	0.00	0	79.9/54.5	0	0	0	0.00	0.00	0.00
AWK/WTR	PA	Philadelphia	Franklin Institute	9	5.46	8	72.0/56.6	2	0	0	0.71	0.00	0.71
AWK/WTR	PA	Williamsport	Williamsport 2	10	2.63	9	70.6/47.6	1	0	0	0.42	0.00	0.42
WTR	OH	Cleveland	Warren 3S	8	2.76	6	68.0/45.9	2	1	1	0.29	0.04	0.33
WTR	NC	Charlotte	Concord	7	4.65	6	79.4/53.8	2	0	0	0.63	0.00	0.63
WTR	NC	Raleigh	4 SW	8	6.54	6	79.3/56.2	1	0	0	1.71	0.00	1.71
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	6	4.90	2	80.6/58.7	0	1	0	0.00	1.30	1.30
WTR	TX	Houston	NWSO	6	3.21	5	81.9/61.6	1	1	1	1.30	1.30	2.60
WTR	IL	Kankakee	Metro WWTP	9	2.73	7	70.5/49.0	1	0	0	0.51	0.00	0.51
WTR	FL	Ocala	Ocala	15	6.67	14	84.4/66.5	3	2	2	1.14	0.75	1.89
ARTNA	DE	Newark	Wilmington	7	5.94	4	70.5/54.5	1	0	0	1.38	0.00	1.38
YORW	PA	York	York Haven	9	4.03	5	74.9/54.3	2	1	1	1.94	0.50	2.44

				Nov '09											
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.		
AWK	NJ	New Brunswick	3 SE										0.00		
AWK	PA	Beaver Falls	1 NE	9	1.44	8	38.5 (at obs.)	1	1	1	0.11	0.01	0.12		
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	6	5.66	4	59.9/42.7	0	1	0	0.00	0.42	0.42		
AWK	IN	Indy	Carmel 3E	11	1.23	10	54.4/35.3	0	0	0	0.00	0.00	0.00		
AWK	WV	Charleston	WSFO	9	1.00	7	60.8/34.2	1	1	0	0.09	0.43	0.52		
AWK/CWT	CA	San Jose	Fremont	4	0.47	2	64.6/44.0	1	0	0	0.24	0.00	0.24		
AWK/SWWC	CA	LA, W. Covina	Pomona Fairplex	Data not available											
AWK/WTR	PA	Philadelphia	Franklin Institute	8	1.70	6	55.3/36.0	0	0	0	0.00	0.00	0.00		
AWK/WTR	PA	Williamsport	Williamsport 2	8	1.70	6	55.3/36.0	0	0	0	0.00	0.00	0.00		
WTR	OH	Cleveland	Warren 3S	11	1.24	10	55.3/33.2	1	2	1.5	0.04	0.26	0.30		
WTR	NC	Charlotte	Concord	9	6.08	6	63.7/42.2	0	1	0	0.00	0.85	0.85		
WTR	NC	Raleigh	4 SW	12	5.57	10	65.7/44.1	1	2	1.5	0.01	0.62	0.63		
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	4	2.17	2	69.5/48.5	1	2	0	0.05	0.33	0.38		
WTR	TX	Houston	NWSO	7	2.41	4	71.5/51.0	1	1	0	0.21	0.06	0.27		
WTR	IL	Kankakee	Metro WWTP	9	1.82	7	55.3/44.0	0	0	0	0.00	0.00	0.00		
WTR	FL	Ocala	Ocala	6	3.33	4	77.7/55.8	0	1	0	0.00	1.25	1.25		
ARTNA	DE	Newark	Wilmington	Data not available											
YORW	PA	York	York Haven	11	1.72	9	58.6/43.0	2	1	0.5	0.15	0.20	0.35		
				Nov '08											
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.		
AWK	NJ	New Brunswick	3 SE	9	2.84	7	53.0/34.9	1	3	1	0.31	0.80	1.11		
AWK	PA	Beaver Falls	1 NE	10	1.33	10	33.9 (at obs.)	2	2	2	0.32	0.41	0.73		
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	8	1.25	7	55.6/38.3	1	0	0	0.38	0.00	0.38		
AWK	IN	Indy	Carmel 3E	8	1.88	6	50.6/30.4	1	2	1	0.42	0.43	0.85		
AWK	WV	Charleston	WSFO	12	3.70	8	52.9/29.0	2	2	1	0.74	0.32	1.06		
AWK/CWT	CA	San Jose	Fremont	7	1.56	7	66.2/49.2	1	2	1	0.72	0.47	1.19		
AWK/SWWC	CA	LA, W. Covina	Pomona Fairplex	4	9.28	3	76.4/51.6	0	0	0	0.00	0.00	0.00		
AWK/WTR	PA	Philadelphia	Franklin Institute	14	4.21	12	51.5/39.9	3	3	2	1.14	0.66	1.80		
AWK/WTR	PA	Williamsport	Williamsport 2	10	2.99	3	46.8/33.0	2	2	0	0.60	0.78	1.38		
WTR	OH	Cleveland	Warren 3S	13	6.20	11	48.1/28.1	3	2	1	1.19	0.28	1.47		
WTR	NC	Charlotte	Concord	6	1.55	5	60.7/35.9	1	1	0	0.46	0.55	1.01		
WTR	NC	Raleigh	4 SW	10	4.08	7	61.6/38.3	3	1	1	1.62	1.38	3.00		
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	4	4.09	2	68.5/46.6	0	0	0	0.00	0.00	0.00		
WTR	TX	Houston	NWSO	8	5.55	6	73.3/52.0	1	0	0	0.14	0.00	0.14		
WTR	IL	Kankakee	Metro WWTP	7	1.03	5	48.4/32.1	0	0	0	0.00	0.00	0.00		
WTR	FL	Ocala	Ocala	1	0.35	0	73.6/47.7	0	1	0	0.00	0.35	0.35		
ARTNA	DE	Newark	Wilmington	10	4.02	5	50.6/37.1	2	1	0	1.42	0.80	2.22		
YORW	PA	York	York Haven	10	2.15	5	52.2/38.7	2	2	0	0.22	0.46	0.68		
				Nov '07											
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.		
AWK	NJ	New Brunswick	3 SE	11	1.90	7	53.4/33.7	1	0	0	0.03	0.00	0.03		
AWK	PA	Beaver Falls	1 NE	14	3.42	11	36.1 (at obs.)	1	1	0	0.04	0.04	0.08		
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	5	1.45	3	58.4/38.6	0	1	0	0.00	0.01	0.01		
AWK	IN	Indy	Carmel 3E	8	2.65	5	53.6/32.6	0	1	0	0.00	0.88	0.88		
AWK	WV	Charleston	WSFO	11	3.60	9	57.0/31.9	1	0	0	0.05	0.00	0.05		
AWK/CWT	CA	San Jose	Fremont	0	0.00	0	66.0/46.1	0	0	0	0.00	0.00	0.00		
AWK/SWWC	CA	LA, W. Covina	Pomona Fairplex	1	1.14	0	72.1/49.0	0	0	0	0.00	0.00	0.00		
AWK/WTR	PA	Philadelphia	Franklin Institute	13	1.93	10	52.4/39.2	1	2	1	0.01	0.76	0.77		
AWK/WTR	PA	Williamsport	Williamsport 2	16	7.85	16	49.3/32.2	2	1	1	0.06	4.21	4.27		
WTR	OH	Cleveland	Warren 3S	12	2.83	8	49.0/29.9	0	1	0	0.00	0.20	0.20		
WTR	NC	Charlotte	Concord	4	0.67	2	64.4/36.4	0	0	0	0.00	0.00	0.00		
WTR	NC	Raleigh	4 SW	4	0.85	2	63.0/43.0	0	0	0	0.00	0.00	0.00		
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	5	1.34	2	69.1/49.3	1	1	1	0.39	0.86	1.25		
WTR	TX	Houston	NWSO	9	5.01	6	72.2/53.8	3	2	2	0.88	2.12	3.00		
WTR	IL	Kankakee	Metro WWTP	6	1.91	0	50.4/31.8	0	1	0	0.00	0.30	0.30		
WTR	FL	Ocala	Ocala	4	1.05	0	76.4/52.4	0	0	0	0.00	0.00	0.00		
ARTNA	DE	Newark	Wilmington	10	1.78	9	51.0/37.2	0	2	0	0.00	0.30	0.30		
YORW	PA	York	York Haven	12	2.90	10	55.4/38.4	43.5/32.5	0	0	0.13	0.00	0.13		

				Dec '09										
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.	
AWK	NJ	New Brunswick	3 SE										0.00	
AWK	PA	Beaver Falls	1 NE	12	3.82	9	26.5 (at obs.)	2	1	1	1.01	0.17	1.18	
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	Data not yet available										
AWK	IN	Indy	Carmel 3E	14	7.03	11	37.7/23.0	2	2	1	0.71	1.99	2.70	
AWK	WV	Charleston	WSFO	18	21.70	12	42.7/24.5	3	3	2	11.02	6.18	17.20	
AWK/CWT	CA	San Jose	Fremont	11	2.20	8	56.6/41.5	1	2	1	0.31	0.82	1.13	
AWK/SWWC	CA	LA, W. Covina	Pomona Fairplex	Data not yet available										
AWK/WTR	PA	Philadelphia	Franklin Institute	Data not yet available										
AWK/WTR	PA	Williamsport	Williamsport 2	14	15.38	10	37.4/24.3	3	2	1	4.33	0.40	4.73	
WTR	OH	Cleveland	Warren 3S	7	3.03	2	37.1/17.5	1	1	0	1.08	0.09	1.17	
WTR	NC	Charlotte	Concord	11	5.85	6	50.3/30.3	3	1	0	2.91	0.15	3.06	
WTR	NC	Raleigh	4 SW	9	6.74	3	51.9/32.5	2	1	0	1.33	0.32	1.65	
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	9	3.25	8	51.5/32.9	0	1	0	0.00	0.01	0.01	
WTR	TX	Houston	NWSO	17	6.76	13	58.5/42.3	2	1	0	0.19	1.41	1.60	
WTR	IL	Kankakee	Metro WWTP	2	2.97	0	29.0/14.2	0	0	0	0.00	0.00	0.00	
WTR	FL	Ocala	Ocala	10	3.98	9	71.4/50.7	3	0	0	1.34	0.00	1.34	
ARTNA	DE	Newark	Wilmington	Data not yet available										
YORW	PA	York	York Haven	12	21.50	7	42.4/29.6	4	2	2	0.96	15.67	16.63	
				Dec '08										
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.	
AWK	NJ	New Brunswick	3 SE	15	11.03	13	46.0/26.8	2	3	2	2.04	0.11	2.15	
AWK	PA	Beaver Falls	1 NE	13	3.10	9	30.9 (at obs.)	2	1	1	1.23	0.10	1.33	
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	12	4.56	8	43.2/23.7	1	1	1	0.09	1.13	1.22	
AWK	IN	Indy	Carmel 3E	16	5.88	11	40.0/18.6	2	2	2	0.44	0.79	1.23	
AWK	WV	Charleston	WSFO	20	10.36	17	47.8/24.5	3	2	1	1.21	0.87	2.08	
AWK/CWT	CA	San Jose	Fremont	10	2.22	9	56.2/39.9	1	2	1	0.03	0.24	0.27	
AWK/SWWC	CA	LA, W. Covina	Pomona Fairplex	8	3.59	6	62.1/41.7	1	1	0	0.01	0.20	0.21	
AWK/WTR	PA	Philadelphia	Franklin Institute	12	4.77	10	46.6/30.8	3	1	1	0.12	0.12	0.24	
AWK/WTR	PA	Williamsport	Williamsport 2	16	12.79	13	38.8/23.9	2	2	1	0.16	0.70	0.86	
WTR	OH	Cleveland	Warren 3S	18	10.08	13	39.8/20.5	4	2	2	3.81	3.40	7.21	
WTR	NC	Charlotte	Concord	11	4.70	8	56.1/36.2	1	2	1	0.01	0.92	0.93	
WTR	NC	Raleigh	4 SW	13	2.95	13	61.9/36.9	2	2	2	0.02	0.04	0.06	
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	4	0.73	0	59.0/34.5	1	0	0	0.27	0.00	0.27	
WTR	TX	Houston	NWSO	11	2.85	7	65.4/45.7	1	2	1	0.11	0.07	0.18	
WTR	IL	Kankakee	Metro WWTP	11	8.33	5	33.1/13.8	1	0	0	0.44	0.00	0.44	
WTR	FL	Ocala	Ocala	7	1.30	6	73.9/48.9	1	1	1	0.04	0.03	0.07	
ARTNA	DE	Newark	Wilmington	11	4.46	8	48.6/28.3	1	1	0	0.08	0.24	0.32	
YORW	PA	York	York Haven	15	5.50	11	44.5/30.1	2	2	1	0.15	0.02	0.17	
				Dec '07										
Company	State	City	Station	Days of Precip.	Total Inches	Continuous Precip. Days	Temp. range Avg. hi/lo °F	Saturday Precip. Days	Sunday Precip. Days	Tot. Weekends w/Precip.	Saturday Precip. In.	Sunday Precip. In.	Tot. Weekends w/Precip. In.	
AWK	NJ	New Brunswick	3 SE	15	8.07	11	42.7/28.4	1	3	0	0.50	2.37	2.87	
AWK	PA	Beaver Falls	1 NE	15	4.88	13	29.2 (at obs.)	1	3	0	0.21	0.36	0.57	
AWK	MO/IL	St. Louis	St. Louis Sci Ctr	14	6.89	12	44.9/30.6	1	4	1	0.09	5.37	5.46	
AWK	IN	Indy	Carmel 3E	17	13.08	14	39.3/25.03	2	4	1	0.15	3.54	3.69	
AWK	WV	Charleston	WSFO	19	11.20	16	49.1/28.4	3	2	1	1.23	0.64	1.87	
AWK/CWT	CA	San Jose	Fremont	5	1.12	0	56.5/40.8	1	0	0	0.11	0.00	0.11	
AWK/SWWC	CA	LA, W. Covina	Pomona Fairplex	5	1.41	5	62.5/40.7	0	0	0	0.00	0.00	0.00	
AWK/WTR	PA	Philadelphia	Franklin Institute	16	6.26	12	42.4/32.9	1	5	1	0.03	2.58	2.61	
AWK/WTR	PA	Williamsport	Williamsport 2	17	12.76	14	38.4/26.5	2	5	2	0.08	5.50	5.58	
WTR	OH	Cleveland	Warren 3S	16	11.79	14	38.4/23.7	1	4	0	0.01	0.94	0.95	
WTR	NC	Charlotte	Concord	8	3.69	5	59.3/36.3	1	2	0	0.35	0.92	1.27	
WTR	NC	Raleigh	4 SW	8	4.39	4	60.3/39.4	1	3	1	0.10	3.18	3.28	
WTR	TX	Dallas/Ft. Worth	Ft. Worth WSFO	8	1.49	8	59.0/35.8	1	1	0	0.12	0.06	0.18	
WTR	TX	Houston	NWSO	11	2.98	8	69.5/48.9	2	1	0	1.20	0.05	1.25	
WTR	IL	Kankakee	Metro WWTP	No Dec data										
WTR	FL	Ocala	Ocala	5	2.37	2	72.2/52.7	0	2	0	0.00	1.75	1.75	
ARTNA	DE	Newark	Wilmington	14	5.28	10	41.4/31.2	2	5	2	0.54	3.54	4.08	
YORW	PA	York	York Haven	14	5.38	8	43.5/32.5	1	2	0	0.53	0.37	0.90	

Source: National Climatic Data Center

Precipitation includes both rainfall and snow. We also note that due to CWT's decoupling mechanism the impact of usage has been mitigated, so while weather readings from its service area are no longer relevant we have included one station for informational purposes.

RECENT EVENTS (*Hilliard Lyons coverage universe*)

Aqua America Inc. (WTR - \$16.69, Buy, \$23 TP) 2/1/10 announced Nick DeBenedictis will remain CEO through January 2013. We view another three years with Nick extremely favorably, as we consider him one of the most talented CEO's of any of the companies under our coverage.

American Water Works Co. (AWK - \$21.82, Buy, \$26 TP) 1/11/10 acquired Nittany Water Company, which serves about 1,500 customers in Centre and Clinton counties in north-central Pennsylvania for approximately \$0.5 million.

California Water Service Group (CWT - \$35.86, Buy, \$48 TP) 1/27/10 raised its quarterly dividend by ~1% to \$0.2975, payable February 19, 2010 to stockholders of record on February 8, 2010. This marks the 43rd consecutive year the company has increased its dividend.

Southwest Water Co. (SWWC - \$6.84, Neutral) 1/27/10 named Ben Smith interim CFO, succeeding David Stanton, who is no longer with the company. Mr. Smith has served as SWWC's principal accounting officer since May 2009, and joined the company as divisional CFO of its contract services group in 2006 and was promoted to the corporate level as VP of financial services in January 2008.

American Water Works Co. (AWK - \$21.82, Buy, \$26 TP) 1/26/10 we initiated coverage of AWK with a Buy rating and \$26 target price. We believe AWK is a unique and enviable total return story, and in our view offers moderate capital appreciation potential coupled with a reasonable dividend yield (with a 50%-70% payout ratio target) which should grow annually given the company's payout expectations.

The industry has high barriers to entry and the regulated businesses are virtual monopolies, which should appeal to risk averse investors. The company's regulated operations are reasonably predictable, inelastic, necessary to sustain life, and not dependent on discretionary consumer spending levels. Moreover, the impact of weather is diminished as the company's operations are spread across broad geographic regions encompassing several states.

Growth opportunities for the company are numerous and should come from an array of drivers that we believe will positively impact earnings. On the regulated side, AWK should benefit from the regulated model - as long as it is treated fairly among its regulatory commissions. An additional lever to ratchet earnings higher comes from the company's non-regulated businesses which are numerous. We anticipate consolidation being a meaningful driver of growth in the industry, and believe AWK will be one of the major players.

Providing 5% of the U.S. with drinking water is significant, and not only is it likely that this percentage will trend higher, but this size creates opportunities in addition to economies of scale and purchasing power. At its core, AWK provides a product necessary for life – an inelastic good that people need versus want. Despite the state of the economy and discretionary spending levels from consumers, the company has monopoly-like status and at a minimum there is a finite amount of the company's services that must be used.

Hilliard Lyons Water Utilities Coverage List

Company	Tkr	Price 11-Feb-10	Target Price	Rating	LFY Revs (\$MM)	Mkt Cap (\$MM)	Cap / Sales	LTD / Cap. (%)	EPS			P / E			3-Yr Avg EPS Growth	LFY EBITDA Share	LFY EV / EBITDA	Div. Yld.	Payout (%)	Short Interest Ratio	30-day Avg. Vol.
									FY'09E	FY'10E	FY'11E	FY'09E	FY'10E	FY'11E							
American Water Works Co.	AWK	\$ 21.82	\$ 26	Buy	2,452.5	3,809.8	1.6x	57.0	\$1.24	\$1.47	-	17.6x	14.8x	-	-	5.2x	9.5x	3.85%	66	1.5%	1,191,274
Aqua America	WTR	\$ 16.69	\$ 23	Buy	677.4	2,274.4	3.4x	54.0	\$0.79	\$0.97	-	21.2x	17.3x	-	4%	2.4x	12.5x	3.48%	73	10.2%	786,397
Artesian Resources	ARTNA	\$ 17.47	\$ 19	Buy	60.9	130.8	2.1x	54.0	\$0.94	\$1.12	-	18.6x	15.6x	-	-1%	3.4x	9.2x	4.29%	78	2.3%	14,742
California Water Service Group	CWT	\$ 35.86	\$ 48	Buy	448.7	743.9	1.7x	47.0	\$1.93	\$2.19	-	18.6x	16.3x	-	19%	5.8x	10.4x	3.32%	59	2.5%	115,314
Southwest Water Company	SWWC	\$ 6.81	-	Neutral	218.5	169.4	0.8x	56.0	\$0.17	\$0.34	-	40.1x	20.0x	-	NM	0.6x	29.8x	2.94%	-	2.4%	101,722
York Water Company	YORW	\$ 13.55	-	Neutral	36.9	169.8	4.6x	47.0	\$0.63	\$0.60	-	21.3x	22.5x	-	3%	1.6x	12.0x	3.78%	77	2.9%	25,252
<i>Average:</i>							<i>2.5x</i>	<i>51.6</i>				<i>22.9x</i>	<i>17.8x</i>	<i>-</i>	<i>6.3x</i>	<i>2.8x</i>	<i>14.8x</i>	<i>3.6x</i>	<i>71.8x</i>	<i>2.6%</i>	

Source: Company reports, Baseline, and Hilliard Lyons estimates

Water Utilities

Company	Tkr	Price 11-Feb-10	Target		LFY Revs (\$MM)	Mkt Cap (\$MM)	Cap / Sales	LTD / Cap. (%)	EPS			P / E			3-Yr Avg EPS Growth	LFY EBITDA Share	LFY EV / EBITDA	Div. Yld.	Div. Payout (%)	Short Interest Ratio	30-day Avg. Vol.
			Price	Rating					FY'09E	FY'10E	FY'11E	FY'09E	FY'10E	FY'11E							
American States	AWR	\$ 31.89	-	NR	359.9	590.3	1.6x	46.0	\$1.84	\$1.98	\$2.18	17.3x	16.1x	14.6x	7%	5.1x	7.8x	3.26%	55	3.4%	69,130
American Water Works	AWK	\$ 21.82	\$ 26	Buy	2,452.5	3,809.8	1.6x	57.0	\$1.24	\$1.47	-	17.6x	14.8x	-	-	5.2x	9.5x	3.85%	66	1.5%	1,191,274
Aqua America	WTR	\$ 16.69	\$ 23	Buy	677.4	2,274.4	3.4x	54.0	\$0.79	\$0.97	-	21.2x	17.3x	-	4%	2.4x	12.5x	3.48%	73	10.2%	786,397
Artesian Resources	ARTNA	\$ 17.47	\$ 19	Buy	60.9	130.8	2.1x	54.0	\$0.94	\$1.12	-	18.6x	15.6x	-	-1%	3.4x	9.2x	4.29%	78	2.3%	14,742
California Water Service Group	CWT	\$ 35.86	\$ 48	Buy	448.7	743.9	1.7x	47.0	\$1.93	\$2.19	-	18.6x	16.3x	-	19%	5.8x	10.4x	3.32%	59	2.5%	115,314
Connecticut Water Service	CTWS	\$ 22.29	-	NR	59.3	190.4	3.2x	31.0	\$1.23	\$1.15	\$1.44	18.1x	19.4x	15.5x	13%	2.9x	13.3x	4.08%	69	2.7%	18,549
Consolidated Water	CWCO	\$ 12.88	-	NR	58.4	187.3	3.2x	14.0	\$0.76	\$0.83	\$0.80	16.9x	15.5x	16.1x	-1%	1.1x	10.3x	2.33%	46	4.6%	70,038
Middlesex Water	MSEX	\$ 16.49	-	NR	90.4	222.6	2.5x	47.0	\$0.69	\$0.80	\$0.89	23.9x	20.6x	18.5x	0%	2.5x	11.8x	4.37%	97	2.6%	38,398
Pennichuck Corp.	PNNW	\$ 19.80	-	NR	33.3	91.4	2.7x	53.0	\$0.58	\$0.75	\$0.79	34.1x	26.4x	25.1x	15%	3.6x	12.9x	3.64%	118	2.8%	9,520
SJW Corp.	SJW	\$ 22.28	-	NR	217.2	412.2	1.9x	-	\$0.82	\$1.07	\$0.99	27.2x	20.8x	22.5x	-7%	4.0x	6.6x	3.05%	74	2.1%	28,067
Southwest Water Co.	SWWC	\$ 6.81	-	Neutral	218.5	169.4	0.8x	56.0	\$0.17	\$0.34	-	40.1x	20.0x	-	NM	0.6x	16.5x	2.94%	-	2.4%	101,722
York Water Co.	YORW	\$ 13.55	-	Neutral	36.9	169.8	4.6x	47.0	\$0.63	\$0.60	-	21.3x	22.5x	-	3%	1.6x	12.7x	3.78%	77	2.9%	25,252
<i>Average:</i>							2.4x					22.9x	18.8x	18.7x	5.2%	3.2x	11.1x	3.5x	73.8x	3.5%	

Source: Company reports, Baseline, and Hilliard Lyons estimates

GLOSSARY

allowed rate of return the rate of return a regulatory commission allows on rate base in establishing just and reasonable rates for a utility; it is usually based on the composite cost of financing rate base from debt, preferred stock, and common equity

decoupling breaks the link between earnings and revenues, allowing utilities to encourage conservation without being penalized from lower usage

DSIC Distribution System Improvement Charge, infrastructure surcharge allowed in some states (incl. DE, IN, NY, & PA) that allows a portion of costs to be included in rates until a decision is rendered from regulators for a rate case

Bcf one billion cubic feet

dekatherm (Dth) unit of heating value equivalent to 10 therms or 1,000,000 Btu's

desalination removes salt and particulates from seawater, making it potable

heating degree day based on extent to which the daily mean temperature falls below a reference temperature, usually 65 °F

IISM Infrastructure Investment Surcharge Mechanism, similar to DSIC in CA

LDC local distribution company

MCBA Modified Cost Balancing Account, tracks cost changes such as those for supply mix variations for later recovery or refund in rates and includes all wholesale costs, making balancing accounts more equitable in regards to changes in prices for purchased water, pump taxes, and mix for supply sources in California

Mcf one thousand cubic feet

MMcf one million cubic feet

peak-shaving using sources of energy such as natural gas from storage to supplement the normal amounts delivered to customers during peak-use periods; using these supplemental sources prevents pipelines from having to expand their delivery facilities just to accommodate short periods of extremely high demand

QIPS Qualifying Infrastructure Plant Surcharge in IL, similar to DSIC

rate base the value established by a regulatory authority upon which a utility is permitted to earn a specified rate of return, generally representing the amount of property used in public service; the investment included in rate base may be based on fair value, investment, reproduction cost, or original cost; the rate base may provide for the inclusion of working capital with allowances for working capital, materials and supplies

reverse osmosis moves seawater through a series of filtering membranes with pores that let water molecules permeate, but not salt and pollutants

therm unit of heating equivalent to 100,000 Btu's

WNA weather normalization adjustment, the rate adjustment approved by certain regulatory commissions that allow a company to increase the base rate portion of customers' bills when weather is warmer than normal and decrease the base rate when weather is colder than normal

WRAM Water Revenue Adjustment Mechanism, decouples water sales from revenues in CA

Additional information is available upon request.

Prices of stocks mentioned: Exxon Mobil (XOM - \$65.24, NR), RWE AG (RWEYOY \$87.38, NR), Spectra Energy (SE \$20.72, NR), WGL Holdings (WGL - \$31.75, NR)

Recently Published Research

New Jersey Resources Corp. (NJR - \$35.33, Buy, \$43 TP) 2/4/10: FQ1 Results

Atmos Energy Corp. (ATO - \$26.95, Buy, \$33 TP) 2/3/10: FQ1 Results

Atmos Energy Corp. (ATO - \$26.95, Buy, \$33 TP) 2/1/10: FQ1 Earnings Preview

New Jersey Resources Corp. (NJR - \$35.33, Buy, \$43 TP) 2/1/10: FQ1 Earnings Preview

American Water Works Co. (AWK - \$21.82, Buy, \$26 TP) 1/26/10: Initiation of Coverage - Free from RWE, AWK poised for growth

Utilities Monthly 1/14/10

Piedmont Natural Gas Co. (PNY - \$24.57, Buy, \$28 TP) 1/06/10: Q4 results

Piedmont Natural Gas Co. (PNY - \$24.57, Buy, \$28 TP) 12/23/09: Q4 results well ahead of expectations

South Jersey Industries (SJI - \$38.26, Buy, \$53 TP) 12/17/09: Highlights from marketing with management

Utilities Monthly 12/14/09

New Jersey Resources Corp. (NJR - \$35.33, Buy, \$43 TP) 12/11/09: Highlights from marketing with management

New Jersey Resources Corp. (NJR - \$35.33, Buy, \$43 TP) 12/4/09: NJR announces Q4 results in-line with consensus and dividend increase

Atmos Energy Corp. (ATO - \$26.95, Buy, \$33 TP) 11/12/09: Q4 results and dividend increase

Southwest Water Company (SWWC, \$6.84, Neutral) 11/10/09: Q3 results

The York Water Company (YORW - \$13.58, Neutral) 11/9/09: Q3 results above expectations

South Jersey Industries, Inc. (SJI - \$38.26, Buy, \$53 TP) 11/6/09: Q3 results below expectations, but our outlook for 2010 and beyond couldn't be brighter

Artesian Resources Corp. (ARTNA - \$17.57, Buy, \$19 TP) 11/6/09: Q3 results below expectations due to heavy rainfall; Maintain Buy rating

Chesapeake Energy Corp. (CPK - \$29.52, Neutral) 11/6/09: Q3 results above our forecast and company completes FPU acquisition

Aqua America Inc. (WTR - \$16.69, Buy, \$23 TP) 11/5/09: Q3 results in-line with expectations; Reiterate Buy rating and \$23 price target

Northwest Natural Gas Co. (NWN - \$42.03, Buy, \$55 TP) 11/4/09: Margin improvement drives Q3 results well above year ago comparison and consensus, as progress on developmental projects continues

Analyst Certification

I, James O. Lykins, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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Hilliard Lyons has acted as a manager or co-manager of an offering of securities of The York Water Company within the past 12 months.

Hilliard Lyons received investment banking compensation from The York Water Company in the past 12 months.

Hilliard Lyons and/or its affiliates beneficially own 1% or more of the common stock of South Jersey Industries.

Definitions of Ratings: **Buy** - We believe the stock has significant total return potential in the coming 12 months. **Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues. **Neutral** - We believe the stock is holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise. **Underperform** - We believe the stock is vulnerable to a price decline in the next 12 months.

Definitions of Suitabilities: **1** - A large cap, core holding with a solid history. **2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks. **3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage. **4** - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of <u>Stocks Covered</u>	% of <u>Stocks Covered</u>	<u>Banking</u>	<u>No Banking</u>
Rating				
Buy	47	27%	2%	98%
Long-term Buy	37	21%	0%	100%
Neutral	86	49%	6%	94%
Underperform	4	2%	0%	100%

As of 5 February 2010

Other Disclosures

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