



September 30, 2009

AQUA AMERICA INC. (WTR)

Rating: NEUTRAL
Current Price: \$17.20
Target Price: NA

Garik Shmois
T: 216-525-8414
E: gshmois@longbowresearch.com

Industry: Water Utilities							Valuation		Valuation	
Fiscal Year: Dec		1Q09A	2Q09A	3Q09E	4Q09E	FY09E	Multiple	FY10E	Multiple	
Market Cap (\$MM):	2,337	EPS:	\$0.14	\$0.19	\$0.26	\$0.20	\$0.79	21.8x	\$0.91	18.9x
		Prior:	-	-	\$0.29	-	\$0.82		-	
Net Debt (\$MM):	1,213	Consensus:			\$0.27	\$0.21	\$0.82	21.0x	\$0.91	18.9x
Enterprise Value (\$MM):	3,550	Last Year:	\$0.11	\$0.17	\$0.26	\$0.19	\$0.73			
Shares - FD (MM):	135.9									
		EBITDA:	\$0.56	\$0.64	\$0.77	\$0.67	\$2.65	9.9x	\$2.89	9.0x
Dividend:	\$0.58	Growth:	18%	13%	10%	8%	12%		7%	
Yield:	3.4%									
Beta:	0.74	Revenue:	\$155	\$167	\$191	\$169	\$681	5.2x	\$743	4.8x
Rel. P/E (FY2009E):	114%	Growth:	11%	11%	8%	6%	9%		9%	

WTR: Highlights from Analyst Day

SUMMARY

- Yesterday, we attended WTR's analyst day. We are reducing our 3Q09 estimate by \$0.03 to \$0.26 to account for wet weather in the northeast during the quarter.
- That being said, long-term earnings prospects for the company remain favorable. On organic growth, a normal course of rate case filings and the implementation of surcharges, management indicated an expectation of a 7% CAGR in its rate base through 2013. This excludes acquisitions.
- The company continues to expect the M&A environment to accelerate as cash strapped municipalities look to offload their water systems. Increasingly stringent regulatory environment, cost inflation, lower revenues and other priorities should see more municipal sellers come to market. We note however, that we expects this to be a multi-year process as the recession, so far, has not generally forced municipalities to sell their water systems.
- In the South, WTR has spent \$223M in capital improvements after paying \$125M for the Aqua Source acquisition. The company now has filed at least one rate case in each division and in some areas has also filed a second rate case. While earned ROE here in FY10 could be 5% (vs. 0% over the past three to four years), there is still a ways to go to reach allowable ROE's elsewhere of 10.0-10.5%.
- WTR is seeing up to 20% decline in project costs due to lower material, labor and transportation inputs. Municipalities have not seen a significant decline as contractors bid higher to account for payment delay and other red tape.
- We continue to rate WTR as Neutral. Despite the slight discount, the shares are trading relative to historical averages (18.9x FY10E P/E vs. historical average of 23x), and we see potential upside relative to our preferred names of CWT and AWK as less attractive.

INVESTMENT THESIS

We rate Aqua America, Inc. (WTR) as a NEUTRAL. Frankly, we see downside risk to WTR as fairly limited as the company is trading at an 18% discount to its historical forward P/E of 23x. Additionally, at 2.2x price-to-book, it is trading significantly below its average 2.9x ratio (on book value of \$7.91/share). Compared to the peer group, we see WTR's valuation as reasonable given the company's size and operational efficiency (O&M ratio is industry leading). We believe this justifies WTR as a proxy play on the water utilities space. However, despite the slight discount the shares are trading relative to historical averages, we see the potential upside relative to our preferred names of CWT and AWK as lower.

Overall, we like WTR's position as one of the leading publicly traded water utilities serving approximately three million people in 13 states. The water utilities industry is highly regulated, but also fragmented, which presents opportunities for acquisitive growth, especially as cash strapped municipalities and smaller private participants look to raise cash to weather the current economic downturn by potentially selling off water systems. More important, we expect 2009 and 2010 to be catch-up years for rate increases. \$64.7M and \$27.4M in rate increases were approved in 2008 and 2009 YTD, respectively, and \$58.9M in increases are either pending or will be filed in the remainder of 2009. Additionally, WTR has surcharges in six of its 13 states of operations, which allows the company to start earning a return on its investment between rate increases. These factors, coupled with lower equity dilution from increased operating cash flow generation, should accelerate the pace of EPS growth in the next three years. We see WTR's estimated earnings growth of 11.3% from FY09E to FY11E outpacing the flat growth from FY05 to FY08.

VALUATION

Despite the slight discount the shares are trading relative to historical averages, we see the potential upside relative to our preferred names of CWT and AWK as less attractive. WTR shares closed yesterday at \$17.20, which is 21.8x our FY09E EPS of \$0.79 and 18.9x our FY10E EPS of \$0.91. The shares are trading at a discount to the company's historical 23x average and normalized range of 20-30x forward P/E.

RISKS

Potential downside risks to our investment thesis include, but are not limited to: 1) a delay in rate case processing or lower rate increases by the regulators than our expectations, 2) a significant revenue loss from lower water demand caused by weather or economic conditions, 3) a significant increase in input costs, including electricity, fuel, chemical and purchase water prices, and 4) large acquisition(s) at excessive valuation(s) (significantly above the rate base).

Potential upside risks to our investment thesis include, but are not limited to: 1) favorable rate case approvals above our expected ROE, 2) weather conditions leading to near-term revenue increases, and 3) a pullback in input costs.

DISCUSSION OF DETAILS

We attended WTR's analyst day held in New York yesterday. The company outlined its expectations of rate base growth with 7% CAGR during 2008-2012 from organic growth, a normal course of rate cases and implementing surcharges. There could be upside from acquisitions, pruning, and rate catch up in the south. Organic growth is derived as 1-1.5% annually in more mature northern markets and 2% in southern states going forward.

OTHER KEY TAKEAWAYS

Downside to 3Q Earnings on Wet Weather

- Wet weather in the northeast during the quarter could have a ~ \$0.03/share negative impact to 3Q09 earnings. Management expects 3Q EPS to be “flat to slightly up” y/y vs. a like-for-like comp of \$0.24/share. We have adjusted our model to \$0.26/share (-\$0.03) as a result.

Long Term Consolidation Still Likely

- The Company expects the M&A environment to accelerate as cash strapped municipalities look to offload their water utilities systems. An increasingly stringent regulatory environment, cost inflation, lower revenues and other priorities should see more municipal sellers come to market. We note however, that WTR expects this to be a multi-year process as the recession, so far, has not generally forced municipalities to sell their water systems. However, as recent economic trends are expected to weigh down municipalities going forward, more opportunities should present themselves.
- The company’s sweet spot for acquisitions appears to be the 56M people being served by small to medium size water systems – those serving less than 10,000 people. These can largely be funded by cash or low cost debt. Larger acquisitions would be partially funded by equity, but naturally, these deals carry greater risk and do not appear as imminent.

Finally Starting to See Benefit from 2003-2004 Acquisitions

- Management is confident that EPS growth should accelerate over the next four to five years vs. flattish growth over the past four. WTR sees rate case catch up as the significant growth driver. In the South, where realized ROE’s were roughly 0% during this time period as a result of integrating major acquisitions, 5% ROE in FY10 is now projected by management – a sizable step up. Future rate case filings in the South should bring realized ROE’s more closely in line with the consolidated average.
- In the South, WTR has spent \$223M in capital improvements after paying \$125M for the Aqua Source acquisition. The company has now been granted at least one rate increase in each rate division there.
- Rate relief in the South is leading to 40-50% rate increase in FL and NC. A second round of rate cases has also been filed in some parts of the region. Given the relatively low bill for water compared to other utilities, management believes markets, particularly those with prior underinvestment, should be able to absorb such rate increases.
- WTR is making good progress in the South by working with PUCs to consolidate rate divisions. For example, Florida has gone from 82 to 8, NC from 23 to 4 and VA from 21 to 2. This compares to more mature northeastern markets that typically have one division.

Cost Control Well in Place, New Project Bids Well Below Prior Trends

- WTR’s industry leading O&M ratio (36% in 2Q09) should be sustainable. Interestingly, management sees executing on efficiencies as much a revenue growing story as increasing customer base.
- WTR is seeing a 20% decline in project costs as the economy has increased the number of bidders as well as materially lowered labor, material and transportation inputs. However, municipalities have not seen a significant decline during the recession as contractors are still bidding as before to account for a greater risk of payment delay. This lower cost is another example management uses for the advantage a privately-run utility has over a municipality.

Other Odds and Ends

- Management believes the regulatory environment is improving as evidenced by infrastructure surcharges being allowed in five WTR-served states. Additionally, 7.5% rate increase currently allowed in PA, up recently from 5%, is one such example.
- WTR’s weighted-average interest rate has come down ~180bp over the past 10 years. With a current interest rate of ~5.58%, and \$156M in debt due by the end of 2013 with a blended rate north of 6%, the company can save ~\$900K annually in lower interest expense by refinancing.

Aqua America - Annual Income Statement																
Garik Shmois/ Vishal Khatriwal, CFA																
Longbow Research																
216-525-8414																
<i>(dollars in millions, except per share data)</i>																
<i>FY ends December 31</i>	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09E	4Q09E	1Q10E	2Q10E	3Q10E	4Q10E
Total Operating Revenue	137.3	150.6	165.5	149.1	139.3	150.8	177.1	159.8	154.5	167.3	190.5	168.7	164.2	185.2	212.6	180.8
Operation & Maintenance	60.3	63.3	67.1	62.4	64.3	65.1	66.7	65.9	67.0	68.5	74.1	66.0	67.5	72.6	83.3	74.3
Depreciation	20.1	20.5	21.1	21.5	21.5	20.6	22.8	23.9	26.4	25.0	25.4	25.4	25.6	26.2	26.7	27.4
Amortization	1.2	1.2	1.2	1.2	1.2	1.0	1.8	1.5	2.8	3.1	3.0	3.0	3.0	3.0	3.0	3.0
General Taxes	11.9	10.8	10.8	11.8	12.1	10.8	11.2	10.6	11.6	11.9	12.4	11.8	12.3	13.0	12.8	12.7
Recovery of restructuring costs																
Total Expenses	93.6	95.9	100.1	96.9	99.1	97.6	102.5	102.0	107.7	108.5	114.9	106.2	108.4	114.8	125.8	117.4
Income from Operations	43.7	54.8	65.3	52.2	40.2	53.1	74.6	57.9	46.8	58.9	75.6	62.5	55.8	70.4	86.8	63.4
Operating Margin (%)	31.9%	36.4%	39.5%	35.0%	28.9%	35.2%	42.1%	36.2%	30.3%	35.2%	39.7%	37.1%	34.0%	38.0%	40.8%	35.1%
All. for Borrowed Funds Used in Const.	0.7	0.7	0.7	0.8	1.0	1.1	1.0	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Gain (loss) on sale of other assets	0.1	0.3	0.3	2.8		0.6	0.5	0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other																
EBIT	44.5	55.8	66.3	55.8	41.2	54.8	76.1	59.0	47.5	59.5	76.3	63.2	56.5	71.1	87.5	64.1
EBIT (%)	32.4%	37.1%	40.0%	37.5%	29.6%	36.3%	43.0%	36.9%	30.8%	35.6%	40.0%	37.5%	34.4%	38.4%	41.2%	35.5%
Interest Expense	16.5	16.4	17.1	16.8	17.1	17.1	17.0	17.4	16.6	16.8	17.0	17.2	17.6	18.0	18.4	18.6
Income Before Taxes	28.0	39.4	49.2	39.0	24.0	37.7	59.1	41.7	30.9	42.7	59.3	46.0	38.9	53.1	69.1	45.5
Provision for Income Taxes	11.1	15.7	19.6	14.1	9.7	15.2	23.7	16.0	12.5	16.9	24.0	18.2	15.6	21.2	27.6	17.7
Implied Tax Rate	39.8%	39.8%	40.0%	36.1%	40.4%	40.2%	40.1%	38.4%	40.5%	39.5%	40.5%	39.5%	40.0%	40.0%	40.0%	39.0%
Net Income before extraord. Item	16.9	23.7	29.5	24.9	14.3	22.6	35.4	25.7	18.4	25.9	35.3	27.9	23.4	31.9	41.5	27.8
Reclassification adj. for gains reported in net income				(1.3)			(0.2)			0.0						
Unrealized gain on securities																
Unrealized holding gain on investments	0.0	0.2	0.9	-	-	0.2	0.0		0.0	0.2						
Minimum pension liability adjustment		-	-													
Comprehensive Income	16.9	23.9	30.4	23.6	14.3	22.7	35.2	25.7	18.4	26.1	35.3	27.9	23.4	31.9	41.5	27.8
Diluted Net Income Per Share	0.13	0.18	0.22	0.19	0.11	0.17	0.26	0.19	0.14	0.19	0.26	0.20	0.17	0.23	0.30	0.20
Weighted Avg. Shares	133.2	133.5	133.8	134.0	134.0	134.1	135.3	135.6	135.9	135.9	136.2	136.4	136.8	137.3	137.7	138.2
Financial Summary (values in %)																
Revenue Growth	16.4%	14.3%	12.6%	8.9%	1.4%	0.1%	7.0%	7.2%	10.9%	11.0%	7.6%	5.6%	6.3%	10.7%	11.6%	7.2%
Operations & Maintenance/Revenue	43.9%	42.0%	40.5%	41.9%	46.2%	43.2%	37.7%	41.2%	43.4%	41.0%	38.9%	39.1%	41.1%	39.2%	39.2%	41.1%
EBIT (% of rev.)	32.4%	37.1%	40.0%	37.5%	29.6%	36.3%	43.0%	36.9%	30.8%	35.6%	40.0%	37.5%	34.4%	38.4%	41.2%	35.5%
General taxes as % of revenue	8.7%	7.2%	6.6%	7.9%	8.7%	7.2%	6.3%	6.7%	7.5%	7.0%	6.2%	7.0%	7.5%	7.0%	6.0%	7.0%
EBITDA	65.9	77.5	88.5	78.6	63.8	76.4	100.7	84.4	76.7	87.5	104.7	91.6	85.1	100.3	117.2	94.5
Net Income Growth	1.8%	6.0%	8.0%	-3.2%	-15.0%	-5.0%	19.9%	3.0%	28.3%	14.6%	-0.3%	8.5%	27.1%	23.3%	17.6%	-0.4%
EPS Growth	0.0%	4.0%	7.1%	-3.6%	-15.5%	-5.3%	18.6%	1.8%	26.5%	13.0%	-1.0%	7.9%	26.3%	22.1%	16.3%	-1.7%

Source: Company reports and Longbow estimates



Aqua America - Annual Income Statement								
Garik Shmois/ Vishal Khetriwal, CFA								
Longbow Research								
216-525-8414								
<i>(dollars in millions, except per share data)</i>								
<i>FY ends December 31</i>	2004A	FY05A	FY06A	FY07A	FY08A	FY09E	FY10E	FY11E
Total Operating Revenue	442.0	496.8	533.5	602.5	627.0	681.0	742.8	816.0
Operation & Maintenance	178.3	203.1	219.6	253.1	262.1	275.6	297.7	325.9
Depreciation	54.6	60.7	70.9	83.2	88.8	102.2	105.9	112.8
Amortization	4.3	4.7	4.1	4.8	5.5	11.8	12.0	12.0
General Taxes	27.6	31.7	33.3	45.4	44.7	47.7	50.7	55.7
	-	-	-	-	-	-	-	-
Total Expenses	264.8	300.3	327.9	386.5	401.2	437.3	466.4	506.4
Income from Operations	177.2	196.5	205.6	216.0	225.8	243.7	276.4	309.6
Operating Margin (%)	40.1%	39.6%	38.5%	35.9%	36.0%	35.8%	37.2%	37.9%
Allow. for Borrowed Funds Used in Const.	2.3	2.4	3.9	3.0	3.7	2.4	2.4	2.4
Gain (loss) on sale of other assets	1.3	1.2	1.2	3.5	1.6	0.4	0.4	0.4
Other	-	-	-	-	-	-	-	-
EBIT	180.8	200.1	210.7	222.5	231.1	246.5	279.2	312.4
EBIT (%)	40.9%	40.3%	39.5%	36.9%	36.9%	36.2%	37.6%	38.3%
Interest Expense	48.7	52.1	58.4	66.9	68.6	67.6	72.6	81.6
Income Before Taxes	132.1	148.1	152.3	155.5	162.5	178.9	206.6	230.8
Provision for Income Taxes	52.1	56.9	60.2	60.5	64.6	71.6	82.2	91.8
Implied Tax Rate	39.4%	38.4%	39.6%	38.9%	39.7%	40.0%	39.8%	39.8%
Net income	80.0	91.2	92.0	95.0	97.9	107.3	124.4	139.0
Reclassification adj. for gains reported in net income	(0.2)	-	-	(1.3)	(0.2)	-	-	-
Unrealized gain on securities	0.1	-	-	-	-	-	-	-
Unrealized holding gain on investments	-	-	0.2	1.1	0.2	0.3	-	-
Minimum pension liability adjustment	(1.7)	(1.3)	3.1	-	-	-	-	-
Comprehensive Income	78.1	89.8	95.3	94.8	97.9	107.6	124.4	139.0
Diluted Net Income Per Share	0.64	0.71	0.70	0.71	0.73	0.79	0.91	1.00
Weighted Avg. Shares	125.7	129.2	131.8	133.6	134.7	136.1	137.5	138.8
Financial Summary (values in %)								
Revenue Growth	20.4%	12.4%	7.4%	12.9%	4.1%	8.6%	9.1%	9.9%
Operations & Maintenance/Revenue	40.3%	40.9%	41.2%	42.0%	41.8%	40.5%	40.1%	39.9%
Dep/Net Fixed Asset	3.0%	2.9%	3.1%	3.3%	3.2%	3.4%	3.3%	3.3%
Depreciation Growth	12.5%	11.3%	16.7%	17.3%	6.7%	15.1%	3.7%	6.5%
General taxes as % of revenue	6.2%	6.4%	6.2%	7.5%	7.1%	7.0%	6.8%	6.8%
Interest Exp/ Average Net Debt	5.6%	5.3%	5.8%	5.9%	5.2%	5.3%	5.3%	5.6%
Interest Expense/Revenue	11.0%	10.5%	11.0%	11.1%	10.9%	9.9%	9.8%	10.0%
EBITDA	239.7	265.6	285.7	310.5	325.4	360.5	397.2	437.2
Net income growth	13.0%	13.9%	0.9%	3.3%	3.1%	9.6%	15.9%	11.7%
Average ROE	11.4%	11.7%	10.6%	10.0%	9.6%	9.9%	10.8%	11.4%
EPS Growth (ex special items and FAS 123)	7.0%	10.9%	-1.0%	1.9%	2.2%	8.5%	14.8%	10.6%
Source: Company reports and Longbow estimates								

WATER INDUSTRY PEER VALUATION
(\$ in millions, except per share data)

Company	Ticker	FY End	Rating	Target	% Upside	Share Price	52 Week		Mkt Cap	Revenue FY			Earnings per Share			P/E		Dividend Rate	Price/Book
							Hi	Lo		End	Last FY	Current FY	Next FY	Current FY	Next FY				
U.S. WATER UTILITIES																			
American Water Works	AWK	Dec.	BUY	\$24	20%	\$ 20.19	\$22.35	\$16.22	\$ 3,524	\$ 2,337	1.17	1.31	1.50	15.4x	13.5x	4.2%	0.8x		
Aqua America	WTR	Dec.	Neutral			\$ 17.20	\$22.00	\$12.20	\$ 2,338	\$ 627	0.73	0.79	0.91	21.8x	18.9x	3.4%	2.6x		
American States Water	AWR	Dec.	Neutral			\$ 36.17	\$39.50	\$27.00	\$ 669	\$ 319	1.06	1.74	1.91	20.8x	18.9x	2.8%	1.8x		
California Water Service Group	CWT	Dec.	BUY	\$45	15%	\$ 39.21	\$48.28	\$27.68	\$ 813	\$ 410	1.90	2.12	2.20	18.5x	17.8x	3.0%	2.4x		
Southwest Water Company	SWWC	Dec.	NR			\$ 5.06	\$12.75	\$2.67	\$ 126	\$ 222	-0.19	0.1	0.39	50.6x	13.0x	2.0%	0.7x		
Artesian Resources Corporation	ARTNA	Dec	NR			\$ 16.99	\$18.14	\$12.81	\$ 127	\$ 56	0.86	1.07	1.11	15.9x	15.3x	4.2%	1.3x		
Consolidated Water Co	CWCO	Dec	NR			\$ 16.58	\$21.29	\$6.35	\$ 241	\$ 60	0.50	0.78	0.82	21.3x	20.2x	1.8%	1.5x		
Connecticut Water Service	CTWS	Dec	NR			\$ 22.73	\$28.95	\$17.31	\$ 194	\$ 61	1.12	1.08	1.06	21.0x	21.4x	4.0%	1.9x		
Middlesex Water Company	MSEX	Dec	NR			\$ 15.45	\$17.93	\$11.64	\$ 208	\$ 91	0.90	0.69	0.79	22.4x	19.6x	4.6%	1.7x		
Pennichuck Corporation	PNNW	Dec	NR			\$ 22.38	\$24.80	\$14.75	\$ 95	\$ 31	0.57	0.59	0.76	37.9x	29.4x	3.1%	1.8x		
York Water Company	YORW	Dec	NR			\$ 13.98	\$17.95	\$9.74	\$ 160	\$ 33	0.57	0.67	0.7	20.9x	20.0x	3.6%	2.0x		
U.S. Water Utility Average													24.2x	18.9x	3.3%	1.7x			
EQUIPMENT/FILTRATION/TREATMENT SECTOR																			
Calgon Carbon Corp.	CCC	Dec.	NR			\$ 15.31	\$21.64	\$9.11	\$ 838	\$ 400	0.56	0.5	0.77	30.6x	20.0x	0.0%	3.3x		
Danaher	DHR	Dec.	NR			\$ 67.38	\$70.23	\$47.20	\$ 21,544	\$ 12,697	4.23	3.37	3.72	20.0x	18.1x	0.2%	1.8x		
ITT Technologies	ITT	Dec.	NR			\$ 52.33	\$56.17	\$31.94	\$ 9,545	\$ 11,695	4.04	3.65	3.81	14.3x	13.7x	1.6%	2.7x		
Layne Christensen	LAYN	Jan.	NR			\$ 31.59	\$35.50	\$10.36	\$ 615	\$ 1,008	2.20	0.62	0.95	51.3x	33.1x	0.0%	0.7x		
Mueller Water Products	MWA	Sept	NR			\$ 5.45	\$9.12	\$1.48	\$ 635	\$ 1,859	0.46	(0.38)	-	-	95.6x	1.3%	0.8x		
Nalco	NLC	Dec.	NR			\$ 20.83	\$20.78	\$7.80	\$ 2,878	\$ 4,212	1.30	0.8	1.17	26.1x	17.8x	0.7%	4.0x		
Pall Corp.	PLL	Jul.	NR			\$ 32.95	\$34.64	\$18.20	\$ 3,886	\$ 2,329	1.94	1.85	2.08	18.6x	16.9x	1.8%	3.2x		
Pentair	PNR	Dec.	NR			\$ 29.83	\$35.33	\$17.23	\$ 2,933	\$ 3,382	2.17	1.42	1.73	21.0x	17.3x	2.4%	1.2x		
Watts Water Technologies	WTS	Dec.	NR			\$ 30.31	\$32.88	\$15.85	\$ 1,110	\$ 1,459	1.83	1.31	1.45	23.1x	20.9x	1.5%	1.1x		
Equipment/Filtration/Treatment Average (*ex BWTR and CCC)													25.6x	28.2x	1.1%	2.1x			
WATER RESOURCES/INFRASTRUCTURE																			
Insituform Technologies	INSU		NR			\$ 19.13	\$21.28	\$9.26	\$ 743	\$ 537	0.77	0.97	1.13	19.7x	16.9x	0.0%	1.5x		
Lindsay Manufacturing	LNN		NR			\$ 39.89	\$76.00	\$20.89	\$ 491	\$ 475	3.11	1.06	-	31.3x	27.9x	0.8%	5.1x		
Tetra Tech	TTEK		NR			\$ 26.76	\$32.00	\$14.20	\$ 1,621	\$ 2,145	1.02	1.24	1.42	19.1x	19.6x	0.0%	2.8x		
Water Resources/ Infrastructure Average													23.4x	21.5x	0.3%	3.1x			
Relevant Indices						Share Price													
Dow Jones Industrials						DJ30 \$ 9,742.20													
S&P 500						SPX \$ 1,060.61													
Nasdaq Composite						NDX \$ 1,717.67													

Source: Baseline; Company reports and LBR Estimates. EPS reflects diluted EPS, excluding extraordinary items. Numbers in italics reflect consensus estimates.

** Time period for annual estimates may vary based on reporting date.



APPENDIX

IMPORTANT DISCLOSURES

REGULATION ANALYST CERTIFICATION ("REG AC"): The Research Analyst(s) who prepared this research report hereby certifies that the views expressed in the research report accurately reflect the analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certifies that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.

GENERAL DISCLOSURES: Longbow Securities does not make a market in any securities, nor does it hold a principal position in any security. However, any officer, director or stockholder of Longbow Securities or any member of their families may have a position in and may from time to time purchase or sell any of the securities mentioned or any related securities. Security prices in this report may either reflect the previous day's closing price or an intraday price, depending on the time of distribution. Consensus estimates are derived from either Thomson/Reuters, Bloomberg or Baseline. Designated trademarks and brands are the property of their respective owners.

SPECIFIC DISCLOSURES:

- Longbow Securities does not make a market in the securities of any company mentioned in this Report, and is not a market-maker in any securities generally. Nor does the firm does hold a principal position in any security.
- As of the date of this Report, no officer, director or stockholder of Longbow Securities, or any member of their immediate families, holds securities of any company mentioned in the Report. In the event such persons purchase, hold or sell securities of a company mentioned in the Report for their own account, any subsequent Report shall disclose the fact of any such ownership or transactions.
- No employee of Longbow Securities serves on the Board of Directors of the subject security or any other security mentioned in this report.
- Neither the Research Analyst nor a member of the Research Analyst's household has a financial interest in the securities of the subject company or any other security mentioned in this report.
- Neither the Research Analyst nor a member of the Research Analyst's household serves on the Board of Directors of the subject company or any other security mentioned in this report.
- Neither Longbow Securities nor its affiliates beneficially own 1% or more of an equity security of the subject company or any

other security mentioned in this report.

RATINGS DISTRIBUTIONS FOR LONGBOW RESEARCH:

Rating Category	Count	Percent
Buy	58	28.4%
Neutral	138	67.6%
Sell	8	3.9%

RATING SYSTEM:

“Buy” means that Longbow Securities expects total return to exceed 20% over a 12-month period.

“Neutral” means that Longbow Securities expects total return to be within a range of plus or minus 20% over a 12-month period.

“Sell” means that Longbow Securities expects total return to be negative by greater than 20% over a 12-month period.

Longbow Research’s full research universe and related applicable disclosures can be obtained by calling (216) 986-0700 or via postal mail at: Editorial Department, Longbow Research, 6000 Lombardo Center, Suite #500, Independence, Ohio 44131.

DISCLAIMER: The information, opinions, estimates and projections contained in this report were prepared by Longbow Securities LLC, a wholly owned subsidiary of Longbow Research LLC, and constitute the current judgment of Longbow Securities as of the date of this report. Additional information may be available from Longbow Securities upon request. The information contained herein is believed to be reliable and has been obtained from sources believed to be reliable, but Longbow Securities makes no representation or warranty, either expressed or implied, as to the accuracy, completeness or reliability of such information. Longbow Securities does not undertake, and has no duty, to advise you as to any information that comes to its attention after the date of this report or any changes in its opinion, estimates or projections. Prices and availability of securities are also subject to change without notice. By accepting this report, the reader acknowledges that the report does not purport to meet the objectives or needs of specific investors, and, accordingly, constitutes only “impersonal advisory services” as that term is defined in Rule 204-3 under the Investment Advisers Act of 1940 and that any advice in this report is furnished solely through uniform publications distributed to subscribers thereto within the meaning of Section 2(a)(20)(i) of the Investment Company Act of 1940. The securities discussed in Longbow Research reports may be unsuitable for some investors depending on their specific investment objectives, financial status, risk profile, or particular needs. Investors should consider this report as only a single factor in making their investment decisions and should not rely entirely on this report in evaluating whether or not to buy or sell the securities of the subject company. Longbow Research archives and reviews outgoing and incoming email. Such may be produced at the request of regulators. Sender accepts no liability for any errors or omissions arising as a result of transmission. Use by other than intended recipients is prohibited.

DESCRIPTION: Longbow Securities LLC, a wholly owned subsidiary of Longbow Research LLC, is a primary research provider established in 2003 and headquartered at 6000 Lombardo Center, Suite 500, Independence, Ohio 44131 USA. The company provides research services to institutional investors, investment advisers, and professional money managers. MEMBER FINRA/SIPC. Copyright 2009. All rights reserved. Additional information supporting the statements in this report is available upon request.