



**February 26, 2010**

**AQUA AMERICA INC. (WTR)**

**Rating: NEUTRAL**  
**Current Price: \$17.49**  
**Target Price: NA**

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

Industry: Water Utilities							Valuation		Valuation	
Fiscal Year: Dec		1Q10E	2Q10E	3Q10E	4Q10E	FY10E	Multiple	FY11E	Multiple	
<b>Market Cap (\$MM):</b>	2,387	<b>EPS:</b>	\$0.15	\$0.20	\$0.31	\$0.22	\$0.88	19.9x	\$0.95	18.4x
		Prior:	\$0.17	\$0.23	\$0.30	\$0.20	\$0.93		\$1.00	
<b>Net Debt (\$MM):</b>	1,302	Consensus:	\$0.16	\$0.22	\$0.29	\$0.22	\$0.90	19.4x	\$0.96	18.2x
<b>Enterprise Value (\$MM):</b>	3,689	Last Year:	\$0.14	\$0.19	\$0.25	\$0.20	\$0.77			
<b>Shares - FD (MM):</b>	136.5									
		<b>EBITDA:</b>	\$0.59	\$0.70	\$0.88	\$0.73	\$2.91	9.3x	\$3.12	8.7x
<b>Dividend:</b>	\$0.58	Growth:	5%	8%	20%	11%	11%		7%	
<b>Yield:</b>	3.3%									
<b>Beta:</b>	0.72	<b>Revenue:</b>	\$163	\$178	\$212	\$183	\$737	5.0x	\$794	4.6x
<b>Rel. P/E (FY2010E):</b>	134%	Growth:	6%	7%	17%	9%	10%		8%	

**WTR: Mostly In-Line Quarter; Maintain NEUTRAL**

**SUMMARY**

- WTR reported 4Q09 EPS of \$0.20, in-line with consensus and below our estimate of \$0.21. Revenue was \$168M, up 5% y/y and essentially in-line with our forecast of +6%. O&M/Rev of 39.3% was slightly above our forecast of 39.1% for the quarter. The company expects another 50-100bps y/y improvement in 2010E driven mainly by top-line growth.
- WTR received \$37M in annualized rate increases in 2009, has \$65M of rate cases currently pending and expects to file \$30M of rate requests in 2010. We expect almost all of the pending requests to hit revenues in 2H10, including comparatively large rate cases in Pennsylvania and New Jersey.
- Although D&A was up 22% in 2009, management guided to only a 7-8% increase in 2010. Even though this is a significant y/y decrease, it is higher than our prior expectation and accounts for the principal change in our estimates forecast.
- Management indicated that it would like to increase its pace of acquisitions but admitted that in the near-term, it is limited by few acquisition targets and higher valuation expectations by private sellers. We do not expect any increase in 2010 over the 1% customer growth through acquisitions that WTR achieved in 2009.
- We are reducing our 2010E EPS from \$0.93 to \$0.88 and our 2011E EPS from \$1.00 to \$0.95 to mainly reflect higher D&A expenses relative to our prior 4% increase assumption.
- The stock closed yesterday at \$17.49, which is 19.9x our 2010E EPS and 18.4x our FY11E EPS. We remain NEUTRAL-rated on WTR shares.

## Discussion of Details

- WTR reported 4Q09 EPS of \$0.20, in-line with consensus and below our estimate of \$0.21. Revenue was \$168M, up 5% y/y and essentially in-line with our forecast of +6%.
- O&M/Rev (efficiency ratio) of 39.3% was slightly above our forecast of 39.1% for the quarter. The company expects a further decline of 50-100bps y/y in its O&M/Rev in 2010 driven by top-line growth and cost containment. Even though 2009 saw a substantial weather and economy-related decrease in water sales, the company was able to improve the ratio by 150bps y/y (41.8% to 40.3%). We have modeled a 100bps improvement in 2010 to 39.3%, given the \$66M revenue increase we are expecting in the year from rate increases and a bounce-back in water sales. We note that WTR already has the highest efficiency ratio among the large publicly traded water utilities, driven by infrastructure updates that the company has been making over time. Regulators look favorably on this industry leading efficiency ratio, which translates into higher allowed ROE for the company.

WTR Summary 4Q09						
<i>FY Ends December 31</i>	4Q08A	4Q09A	y/y act.	LBR 4Q09	y/y est.	Actual/LBR
<b>Total Revenue</b>	<b>159.8</b>	<b>167.9</b>	<b>5%</b>	<b>169.2</b>	<b>6%</b>	<b>-1%</b>
Operations & Maintenance	65.9	66.0	0%	66.2	0%	0%
Depreciation and Amortization	25.4	29.3	15%	28.4	12%	3%
General Taxes	10.6	12.2	15%	11.8	11%	3%
<b>Total Expenses</b>	<b>102.0</b>	<b>107.5</b>	<b>5%</b>	<b>106.4</b>	<b>4%</b>	<b>1%</b>
<b>Income from Operations</b>	<b>57.9</b>	<b>60.4</b>	<b>4%</b>	<b>62.8</b>	<b>9%</b>	<b>-4%</b>
Other Income & Expenses (net)	1.2	1.2	4%	0.7	-39%	72%
<b>EBIT</b>	<b>59.0</b>	<b>61.6</b>	<b>4%</b>	<b>63.5</b>	<b>8%</b>	<b>-3%</b>
Interest Expense	17.4	17.9	3%	17.2	-1%	4%
<b>Income Before Taxes</b>	<b>41.7</b>	<b>43.7</b>	<b>5%</b>	<b>46.3</b>	<b>11%</b>	<b>-6%</b>
Provision for Income Taxes	16.0	16.8	5%	18.3	14%	-8%
<b>Net Income</b>	<b>25.7</b>	<b>26.8</b>	<b>5%</b>	<b>28.0</b>	<b>9%</b>	<b>-4%</b>
EPS (fully diluted)	<b>0.19</b>	<b>0.20</b>	<b>3%</b>	<b>0.21</b>	<b>9%</b>	<b>-5%</b>

Source: Company Reports, LBR Estimates

- Rate Increases:** WTR received \$37M in annualized rate increases in 2009, has \$65M of rate cases currently pending and expects to file \$30M of rate requests in 2010. We expect almost all of the pending requests to hit revenues in 2H10, including large rate cases in Pennsylvania and New Jersey. Consecutively, we expect most of the earnings growth in 2010 to occur in the second half of the year. We do not expect newly announced rate cases to impact revenues before 2011.
- Water Sales:** 2009 was the third wettest and coldest year in recorded history in Pennsylvania, WTR's largest state. There were similar conditions in rest of the Northeast and Midwest, where WTR receives most of its revenue. The weather, along with the depressed economy, resulted in a 4-5% water sales decline in 2009, reducing EPS by ~\$0.03. We expect 50-60% of this decline to turnaround in 2010.
- Capex:** The company reiterated its capex target of ~\$300M in 2010. Almost 80-90% of this is expected to be financed from internally generated funds. Although the company indicated that it will issue 1-1.5M shares in 2010 or early 2011, due to the uncertainty around the timing of this issue, we have layered this sequential share count increase over 2010 and 2011.

- **DISC in NJ:** Management discussed the pending request in New Jersey to implement an infrastructure surcharge. Although there is no certainty around the timing and final outcome on this request, a favorable decision could be a positive for the company to increase its capex program in the state. We note that New Jersey accounts for approximately 5% of WTR's total revenues.
- **D&A:** Although D&A was up 22% in 2009, management guided to only a 7-8% increase in 2010. Even though this is a significant y/y decrease, it is higher than our prior expectation.
- **Acquisitions:** Management indicated that it would like to increase its pace of acquisitions but admitted that in the near-term, it is limited by: (i) a small number of acquisition targets – municipalities and cities looking to privatize their water systems or private owners looking to exit their water business, and (ii) private owners' expectations of higher valuations. Being a regulated utility, WTR is unable to earn a return on any acquisition premium paid over the book value unless the premium is pre-approved by regulators. Regulators usually approve a premium only to change ownership of troubled systems. Given these circumstances, we do not expect any increase in 2010 over the 1% customer growth through acquisitions that WTR achieved in 2009.
- **State-Level Rate Consolidation:** Over the last few years, WTR has made significant progress in consolidating its service areas for rate setting. In Florida, the total number of service areas has gone down from 80 to 8. North Carolina now just has single service areas for water and wastewater except for one separate large system. In Virginia, the consolidation request is currently in hearing. Ohio, Indiana and Illinois are the only states which have separate areas for large systems. Management expects to consolidate these states over the next three-to-five years. Consolidating service areas is a positive for the company as it reduces administrative workload and also spreads rate increases over a larger number of customers.

## ESTIMATE REVISIONS

---

We are reducing our 2010E EPS from \$0.93 to \$0.88 and our 2011E EPS from \$1.00 to \$0.95 to mainly reflect higher D&A expenses relative to our prior 4% increase assumption. We continue to expect 10% revenue growth in 2010E. For the year, we are modeling a 100bps improvement in the company's O&M ratio which is at the upper end of management's target of a 50-100bps improvement. For 2011E, we are modeling a 20bps increase. We note that every 20bps change in WTR's O&M ratio impacts EPS by ~\$0.02.

## INVESTMENT THESIS

---

We continue to rate WTR shares NEUTRAL. We would potentially become more positive on the shares if we see earnings growth from improved ROEs under earning systems that were acquired in the southern states in 2003-04 and/or an acceleration of acquisitions. Overall, we see downside risk potential to WTR as fairly limited as the company is trading at a 24% discount to its historical forward P/E of 23x. While we believe WTR should be valued at a premium given the company's size and operational efficiency (the O&M ratio is currently industry leading), we have difficulty justifying the magnitude of WTR's valuation premium when compared to other names under our research coverage. We note that the peer group is currently valued at 18.2x 2011E.

## VALUATION

---

WTR shares closed yesterday at \$17.49, which is 19.9x our 2010E EPS and 18.4x our 2011E EPS. 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 and estimates 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 and estimates 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.

Aqua America - Annual Income Statement																
Garik Shmois/ Vishal Khetriwal, CFA																
Longbow Research																
216-525-8414																
(dollars in millions, except per share data)																
FY ends December 31																
	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10E	2Q10E	3Q10E	4Q10E	1Q11E	2Q11E	3Q11E	4Q11E
<b>Total Operating Revenue</b>	<b>139.3</b>	<b>150.8</b>	<b>177.1</b>	<b>159.8</b>	<b>154.5</b>	<b>167.3</b>	<b>180.8</b>	<b>167.9</b>	<b>163.5</b>	<b>178.4</b>	<b>211.8</b>	<b>182.9</b>	<b>177.8</b>	<b>192.7</b>	<b>226.1</b>	<b>197.2</b>
<b>Operation &amp; Maintenance</b>	64.3	65.1	66.7	65.9	67.0	68.5	68.5	66.0	70.8	71.4	78.1	69.5	73.1	74.8	85.5	77.1
Depreciation	21.5	20.6	22.8	23.9	26.4	25.0	25.4	26.2	26.6	27.2	28.3	29.1	29.4	29.6	29.9	31.2
Amortization	1.2	1.0	1.8	1.5	2.8	3.1	3.0	3.1	3.2	3.2	3.2	3.2	3.4	3.4	3.4	3.4
General Taxes	12.1	10.8	11.2	10.6	11.6	11.9	12.4	12.2	12.3	12.5	12.7	12.8	13.3	13.5	13.6	13.8
Recovery of restructuring costs																
<b>Total Expenses</b>	<b>99.1</b>	<b>97.6</b>	<b>102.5</b>	<b>102.0</b>	<b>107.7</b>	<b>108.5</b>	<b>109.4</b>	<b>107.5</b>	<b>112.9</b>	<b>114.3</b>	<b>122.4</b>	<b>114.6</b>	<b>119.2</b>	<b>121.3</b>	<b>132.3</b>	<b>125.5</b>
<b>Income from Operations</b>	<b>40.2</b>	<b>53.1</b>	<b>74.6</b>	<b>57.9</b>	<b>46.8</b>	<b>58.9</b>	<b>71.5</b>	<b>60.4</b>	<b>50.6</b>	<b>64.2</b>	<b>89.4</b>	<b>68.2</b>	<b>58.6</b>	<b>71.4</b>	<b>93.8</b>	<b>71.7</b>
<b>Operating Margin (%)</b>	<b>28.9%</b>	<b>35.2%</b>	<b>42.1%</b>	<b>36.2%</b>	<b>30.3%</b>	<b>35.2%</b>	<b>39.5%</b>	<b>36.0%</b>	<b>31.0%</b>	<b>36.0%</b>	<b>42.2%</b>	<b>37.3%</b>	<b>33.0%</b>	<b>37.1%</b>	<b>41.5%</b>	<b>36.3%</b>
All. for Borrowed Funds Used in Const.	1.0	1.1	1.0	0.6	0.6	0.6	0.7	0.9	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Gain (loss) on sale of other assets		0.6	0.5	0.5	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other																
<b>EBIT</b>	<b>41.2</b>	<b>54.8</b>	<b>76.1</b>	<b>59.0</b>	<b>47.5</b>	<b>59.5</b>	<b>72.4</b>	<b>61.4</b>	<b>51.4</b>	<b>65.0</b>	<b>90.3</b>	<b>69.2</b>	<b>59.5</b>	<b>72.3</b>	<b>94.7</b>	<b>72.6</b>
<b>EBIT (%)</b>	<b>29.6%</b>	<b>36.3%</b>	<b>43.0%</b>	<b>36.9%</b>	<b>30.8%</b>	<b>35.6%</b>	<b>40.0%</b>	<b>36.6%</b>	<b>31.5%</b>	<b>36.4%</b>	<b>42.7%</b>	<b>37.8%</b>	<b>33.4%</b>	<b>37.5%</b>	<b>41.9%</b>	<b>36.8%</b>
Interest Expense	17.1	17.1	17.0	17.4	16.6	16.8	17.3	17.9	18.2	18.6	18.9	19.1	19.5	20.0	20.4	21.0
<b>Income Before Taxes</b>	<b>24.0</b>	<b>37.7</b>	<b>59.1</b>	<b>41.7</b>	<b>30.9</b>	<b>42.7</b>	<b>55.1</b>	<b>43.5</b>	<b>33.2</b>	<b>46.4</b>	<b>71.4</b>	<b>50.1</b>	<b>39.9</b>	<b>52.3</b>	<b>74.2</b>	<b>51.6</b>
<b>Provision for Income Taxes</b>	<b>9.7</b>	<b>15.2</b>	<b>23.7</b>	<b>16.0</b>	<b>12.5</b>	<b>16.9</b>	<b>21.6</b>	<b>16.8</b>	<b>13.3</b>	<b>18.6</b>	<b>28.6</b>	<b>19.5</b>	<b>16.0</b>	<b>20.9</b>	<b>29.7</b>	<b>20.1</b>
<b>Implied Tax Rate</b>	<b>40.4%</b>	<b>40.2%</b>	<b>40.1%</b>	<b>38.4%</b>	<b>40.5%</b>	<b>39.5%</b>	<b>39.3%</b>	<b>39.5%</b>	<b>40.0%</b>	<b>40.0%</b>	<b>40.0%</b>	<b>39.0%</b>	<b>40.0%</b>	<b>40.0%</b>	<b>40.0%</b>	<b>39.0%</b>
<b>Net Income before extraord. Item</b>	<b>14.3</b>	<b>22.6</b>	<b>35.4</b>	<b>25.7</b>	<b>18.4</b>	<b>25.9</b>	<b>33.5</b>	<b>26.7</b>	<b>19.9</b>	<b>27.9</b>	<b>42.9</b>	<b>30.6</b>	<b>24.0</b>	<b>31.4</b>	<b>44.5</b>	<b>31.5</b>
Reclassification adj. for gains reported in net income			(0.2)			0.0										
Unrealized gain on securities																
Unrealized holding gain on investments	-	0.2	0.0		0.0	0.2	(0.1)	0.2								
Minimum pension liability adjustment																
<b>Comprehensive Income</b>	<b>14.3</b>	<b>22.7</b>	<b>35.2</b>	<b>25.7</b>	<b>18.4</b>	<b>26.1</b>	<b>33.3</b>	<b>26.8</b>	<b>19.9</b>	<b>27.9</b>	<b>42.9</b>	<b>30.6</b>	<b>24.0</b>	<b>31.4</b>	<b>44.5</b>	<b>31.5</b>
<b>Diluted Net Income Per Share</b>	<b>0.11</b>	<b>0.17</b>	<b>0.26</b>	<b>0.19</b>	<b>0.14</b>	<b>0.19</b>	<b>0.25</b>	<b>0.20</b>	<b>0.15</b>	<b>0.20</b>	<b>0.31</b>	<b>0.22</b>	<b>0.17</b>	<b>0.23</b>	<b>0.32</b>	<b>0.23</b>
Weighted Avg. Shares	134.0	134.1	135.3	135.6	135.9	135.9	136.3	136.5	136.8	137.3	137.7	138.2	138.2	138.6	139.1	139.5
<b>Financial Summary (values in %)</b>																
Revenue Growth	1.4%	0.1%	7.0%	7.2%	10.9%	11.0%	2.1%	5.0%	5.8%	6.6%	17.1%	8.9%	8.7%	8.0%	6.8%	7.8%
Operations & Maintenance/Revenue	46.2%	43.2%	37.7%	41.2%	43.4%	41.0%	37.9%	39.3%	43.3%	40.0%	36.9%	38.0%	41.1%	38.8%	37.8%	39.1%
EBIT (% of rev.)	29.6%	36.3%	43.0%	36.9%	30.8%	35.6%	40.0%	36.6%	31.5%	36.4%	42.7%	37.8%	33.4%	37.5%	41.9%	36.8%
General taxes as % of revenue	8.7%	7.2%	6.3%	6.7%	7.5%	7.1%	6.9%	7.3%	7.5%	7.0%	6.0%	7.0%	7.5%	7.0%	6.0%	7.0%
EBITDA	63.8	76.4	100.7	84.4	76.7	87.5	100.8	90.7	81.2	95.4	121.8	101.5	92.2	105.3	128.0	107.2
Net Income Growth	-15.0%	-5.0%	19.9%	3.0%	28.3%	14.6%	-5.4%	3.9%	8.4%	7.8%	28.1%	14.6%	20.3%	12.7%	3.9%	3.0%
EPS Growth	-15.5%	-5.3%	18.6%	1.8%	26.5%	13.0%	-6.1%	3.2%	7.7%	6.8%	26.7%	13.2%	19.2%	11.6%	2.9%	2.0%

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>	FY04A	FY05A	FY06A	FY07A	FY08A	FY09A	FY10E	FY11E
<b>Total Operating Revenue</b>	<b>442.0</b>	<b>496.8</b>	<b>533.5</b>	<b>602.5</b>	<b>627.0</b>	<b>670.5</b>	<b>736.5</b>	<b>793.7</b>
Operation & Maintenance	178.3	203.1	219.6	253.1	262.1	270.1	289.8	310.4
Depreciation	54.6	60.7	70.9	83.2	88.8	103.0	111.2	120.1
Amortization	4.3	4.7	4.1	4.8	5.5	11.9	12.8	13.6
General Taxes	27.6	31.7	33.3	45.4	44.7	48.1	50.3	54.2
	-	-	-	-	-	-	-	-
<b>Total Expenses</b>	<b>264.8</b>	<b>300.3</b>	<b>327.9</b>	<b>386.5</b>	<b>401.2</b>	<b>433.1</b>	<b>464.1</b>	<b>498.3</b>
<b>Income from Operations</b>	<b>177.2</b>	<b>196.5</b>	<b>205.6</b>	<b>216.0</b>	<b>225.8</b>	<b>237.5</b>	<b>272.4</b>	<b>295.4</b>
<b>Operating Margin (%)</b>	<b>40.1%</b>	<b>39.6%</b>	<b>38.5%</b>	<b>35.9%</b>	<b>36.0%</b>	<b>35.4%</b>	<b>37.0%</b>	<b>37.2%</b>
Allow. for Borrowed Funds Used in Const.	2.3	2.4	3.9	3.0	3.7	2.9	3.1	3.1
Gain (loss) on sale of other assets	1.3	1.2	1.2	3.5	1.6	0.5	0.5	0.5
Other	-	-	-	-	-	-	-	-
<b>EBIT</b>	<b>180.8</b>	<b>200.1</b>	<b>210.7</b>	<b>222.5</b>	<b>231.1</b>	<b>240.8</b>	<b>275.9</b>	<b>299.0</b>
<b>EBIT (%)</b>	<b>40.9%</b>	<b>40.3%</b>	<b>39.5%</b>	<b>36.9%</b>	<b>36.9%</b>	<b>35.9%</b>	<b>37.5%</b>	<b>37.7%</b>
Interest Expense	48.7	52.1	58.4	66.9	68.6	68.6	74.8	80.9
<b>Income Before Taxes</b>	<b>132.1</b>	<b>148.1</b>	<b>152.3</b>	<b>155.5</b>	<b>162.5</b>	<b>172.2</b>	<b>201.1</b>	<b>218.1</b>
<b>Provision for Income Taxes</b>	<b>52.1</b>	<b>56.9</b>	<b>60.2</b>	<b>60.5</b>	64.6	67.8	80.0	86.7
<b>Implied Tax Rate</b>	<b>39.4%</b>	<b>38.4%</b>	<b>39.6%</b>	<b>38.9%</b>	<b>39.7%</b>	<b>39.4%</b>	<b>39.8%</b>	<b>39.8%</b>
<b>Net income</b>	<b>80.0</b>	<b>91.2</b>	<b>92.0</b>	<b>95.0</b>	<b>97.9</b>	<b>104.4</b>	<b>121.2</b>	<b>131.4</b>
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	-	-	-	-	-
<b>Comprehensive Income</b>	<b>78.1</b>	<b>89.8</b>	<b>95.3</b>	<b>94.8</b>	<b>97.9</b>	<b>104.7</b>	<b>121.2</b>	<b>131.4</b>
<b>Diluted Net Income Per Share</b>	<b>0.64</b>	<b>0.71</b>	<b>0.70</b>	<b>0.71</b>	<b>0.73</b>	<b>0.77</b>	<b>0.88</b>	<b>0.95</b>
Weighted Avg. Shares	125.7	129.2	131.8	133.6	134.7	136.1	137.5	138.8
<b>Financial Summary (values in %)</b>								
Revenue Growth	20.4%	12.4%	7.4%	12.9%	4.1%	6.9%	9.8%	7.8%
Operations & Maintenance/Revenue	40.3%	40.9%	41.2%	42.0%	41.8%	40.3%	39.3%	39.1%
Dep/Net Fixed Asset	3.0%	2.9%	3.1%	3.3%	3.2%	3.4%	3.5%	3.5%
Depreciation Growth	12.5%	11.3%	16.7%	17.3%	6.7%	16.0%	8.0%	8.0%
General taxes as % of revenue	6.2%	6.4%	6.2%	7.5%	7.1%	7.2%	6.8%	6.8%
Interest Exp/ Average Net Debt	5.6%	5.3%	5.8%	5.9%	5.2%	5.3%	5.3%	5.4%
Interest Expense/Revenue	11.0%	10.5%	11.0%	11.1%	10.9%	10.2%	10.2%	10.2%
EBITDA	239.7	265.6	285.7	310.5	325.4	355.7	400.0	432.7
Net income growth	13.0%	13.9%	0.9%	3.3%	3.1%	6.6%	16.1%	8.4%
Average ROE	11.4%	11.7%	10.6%	10.0%	9.6%	9.7%	10.7%	11.0%
EPS Growth (exspecial items and FAS 123)	7.0%	10.9%	-1.0%	1.9%	2.2%	5.5%	15.0%	7.4%

Source: Company reports and Longbow estimates

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

Company	Ticker	FY End	Rating	Target	% Upside	52 Week			Mkt Cap	Revenue Last			Earnings per Share			P/E		Dividend Rate	Price/Book
						Share Price	Hi	Lo		FY	Last FY	Current FY	Next FY	Current FY	Next FY				
<b>U.S. WATER UTILITIES</b>																			
American Water Works	AWK	Dec.	BUY	\$24	8%	\$ 22.31	\$23.77	\$16.22	\$ 3,887	\$ 2,337	1.28	1.50	1.62	14.9x	13.8x	3.8%	1.3x		
Aqua America	WTR	Dec.	Neutral			\$ 17.49	\$20.37	\$15.39	\$ 2,353	\$ 627	0.77	0.88	0.95	19.8x	18.5x	3.4%	2.6x		
American States Water	AWR	Dec.	Neutral			\$ 33.33	\$38.79	\$29.76	\$ 620	\$ 319	1.56	1.56	1.56	21.4x	21.4x	3.1%	1.8x		
California Water Service Group	CWT	Dec.	BUY	\$43	17%	\$ 36.76	\$44.06	\$33.49	\$ 773	\$ 449	1.95	2.00	2.40	18.4x	15.3x	3.2%	2.4x		
Southwest Water Company	SWWC	Dec.	NR			\$ 6.80	\$7.59	\$3.67	\$ 169	\$ 222	0.05	0.36	n/a	18.9x	n/a	2.9%	0.7x		
Artesian Resources Corporation	ARTNA	Dec.	NR			\$ 17.90	\$18.85	\$12.81	\$ 134	\$ 56	0.94	1.12	n/a	16.0x	n/a	4.2%	1.3x		
Consolidated Water Co	CWCO	Dec.	NR			\$ 12.40	\$21.29	\$6.35	\$ 180	\$ 60	0.65	0.83	0.8	14.9x	15.5x	2.4%	1.5x		
Connecticut Water Service	CTWS	Dec.	NR			\$ 23.59	\$26.44	\$17.31	\$ 201	\$ 61	1.23	1.15	1.44	20.5x	16.4x	3.9%	1.9x		
Middlesex Water Company	MSEX	Dec.	NR			\$ 17.38	\$18.00	\$11.64	\$ 235	\$ 91	0.69	0.8	0.89	21.7x	19.5x	4.1%	1.7x		
Pennichuck Corporation	PNNW	Dec.	NR			\$ 21.04	\$24.80	\$17.95	\$ 97	\$ 31	0.58	0.74	0.79	28.4x	26.6x	3.4%	1.8x		
York Water Company	YORW	Dec.	NR			\$ 13.85	\$17.95	\$9.74	\$ 174	\$ 33	0.63	0.69	0.82	20.1x	16.9x	3.7%	2.0x		
<b>U.S. Water Utility Average</b>														19.5x	18.2x	3.5%	1.7x		
<b>EQUIPMENT/FILTRATION/TREATMENT SECTOR</b>																			
Calgon Carbon Corp.	CCC	Dec.	NR			\$ 13.67	\$19.31	\$10.93	\$ 765	\$ 400	0.53	0.77	0.9	17.8x	15.2x	0.0%	3.3x		
Danaher	DHR	Dec.	NR			\$ 74.52	\$78.02	\$47.73	\$ 23,938	\$ 11,185	3.53	4.08	4.63	18.3x	16.1x	0.2%	2.1x		
ITT Technologies	ITT	Dec.	NR			\$ 51.24	\$56.95	\$31.94	\$ 9,362	\$ 10,905	3.78	4.07	4.49	12.6x	11.4x	2.0%	2.3x		
Layne Christensen	LAYN	Jan.	NR			\$ 27.62	\$35.14	\$14.13	\$ 537	\$ 1,008	0.85	0.95	1.45	29.1x	19.0x	0.0%	0.7x		
Mueller Water Products	MWA	Sept.	NR			\$ 4.67	\$5.93	\$1.48	\$ 721	\$ 1,428	-0.29	0.02	0.15	233.5x	31.1x	1.5%	1.9x		
Nalco	NLC	Dec.	NR			\$ 22.99	\$26.63	\$9.62	\$ 3,177	\$ 3,747	0.95	1.36	1.65	16.9x	13.9x	0.6%	7.5x		
Pall Corp.	PLL	Jul.	NR			\$ 39.13	\$39.50	\$18.20	\$ 4,574	\$ 2,329	1.77	2.27	2.27	17.2x	17.2x	1.6%	3.2x		
Pentair	PNR	Dec.	BUY	\$37	26%	\$ 32.43	\$34.27	\$17.23	\$ 3,186	\$ 2,692	1.47	1.85	2.28	17.5x	14.2x	2.3%	1.5x		
Watts Water Technologies	WTS	Dec.	Neutral			\$ 29.32	\$32.96	\$15.85	\$ 1,078	\$ 1,234	2.24	2.16	1.83	13.6x	16.0x	1.5%	1.3x		
<b>Equipment/Filtration/Treatment Average (*ex BWTR and CCC)</b>														41.8x	17.1x	1.1%	2.6x		
<b>WATER RESOURCES/INFRASTRUCTURE</b>																			
Insituform Technologies	INSU		NR			\$ 22.87	\$24.22	\$11.42	\$ 889	\$ 537	1.03	1.33	1.47	17.2x	15.6x	0.0%	1.5x		
Lindsay Manufacturing	LNN		NR			\$ 38.03	\$47.45	\$20.89	\$ 472	\$ 336	1.11	1.35	1.82	24.8x	23.0x	0.8%	2.5x		
Tetra Tech	TTEK		NR			\$ 21.11	\$32.00	\$19.51	\$ 1,293	\$ 2,287	1.22	1.15	1.32	18.5x	15.8x	0.0%	2.5x		
<b>Water Resources/Infrastructure Average</b>														20.2x	18.1x	0.3%	2.2x		
<b>Relevant Indices</b>						<b>Share Price</b>													
Dow Jones Industrials	DJ30					\$ 10,321													
S&P 500	SPX					\$ 1,103													
Nasdaq Composite	NDX					\$ 2,234													
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.

### Covered Companies Mentioned In This Report:

Aqua America Inc.	WTR	\$17.27	Neutral
-------------------	-----	---------	---------

**GENERAL DISCLOSURES:** Longbow Securities does not make a market in any securities, nor does it hold a principal position in any security. 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. Nor does the firm 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.
- As of the date of this report, no employee of Longbow Securities serves on the Board of Directors of the subject security or any other security mentioned in this report.
- As of the date of 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.
- As of the date of 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.



- As of the date of 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:**

<b>Rating Category</b>	<b>Count</b>	<b>Percent</b>
Buy	86	38.9%
Neutral	133	60.2%
Sell	2	0.9%

**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 2010. All rights reserved. Additional information supporting the statements in this report is available upon request.