

Natural Resources

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Michael Gaugler, 212-702-6539

gauglerm@bmur.com

Christopher Noon, 212-702-6623

noonc@bmur.com**Natural Resources and Infrastructure Conference Recap**

Water Utilities, Flow Technology and Purification

Company	Ticker	Rating	Price	Target	10E EPS / (P/E)	11E EPS / (P/E)
American Water Works Company, Inc.	AWK	Buy	\$21.05	\$28.00	\$1.40 (15.0x)	\$1.55 (13.6x)
Calgon Carbon Corp.	CCC	Buy	\$15.92	\$24.00	\$0.89 (17.9x)	\$1.09 (14.6x)
Met-Pro Corp.	MPR	Buy	\$10.14	\$12.00	\$0.30 (33.8x)	\$0.48 (21.1x)
Mueller Water Products, Inc.	MWA/B	Buy	\$4.84	\$11.00	\$0.81 (6.0)	- (-)
Sabesp	SBS	Buy	\$35.49	\$66.00	\$7.28 (4.9x)	\$7.54 (4.7x)
SJW Corp.	SJW	Buy	\$23.89	\$28.00	\$1.27 (18.8x)	\$1.36 (17.6x)
Aqua America, Inc.	WTR	Buy	\$16.73	\$26.00	\$0.91 (18.4x)	\$0.98 (17.1x)
Watts Water Technologies, Inc.	WTS	Hold	\$31.06	NA	\$1.71 (18.2x)	\$1.90 (16.3x)
The York Water Company	YORW	Buy	\$13.96	\$18.00	\$0.65 (21.5x)	- (-)

Investment Summary

We held the fourth annual Brean Murray, Carret & Co. Global Resources and Infrastructure Conference on Friday, March 5, 2010 in New York, NY. Our key takeaways from management presentation and investor question-and-answer sessions from the aforementioned companies in the table above are contained in the following pages. Turnout was strong, with 34 companies presenting and 140 investors participating in one-on-one meetings and 'fireside chats'. Interest in the Natural Resources and Infrastructure sectors remains robust, as investors sift through the myriad of opportunities for capital appreciation and substantial yield among both the defensive names and those that stand to benefit from a global economic recovery. Our top picks include Sabesp, Aqua America, Mueller Water Products, and Calgon Carbon.

American Water Works Corporation (AWK \$21.05, Buy)

- The company believes that its strong growth opportunities will be driven by regulated capital investments that earn appropriate returns, enhanced opportunities for public private partnerships, and industry consolidation.
- Aging U.S. infrastructure investment remains capital intensive. The EPA estimates that the total 20 year need of U.S. public water systems is \$334.8 billion. If we add in wastewater needs, that estimate begins pushing the \$1 trillion level.
- The company continues its ongoing capital expenditure program of \$800 million to \$1 billion per year. The program focuses on infrastructure replacement, capacity projects, source of supply needs, and acquisitions.
- As of March 1, 2010, rates cases awaiting final order totaled \$244.8 million in annualized revenue. In 2009, American Water Works subsidiaries received authorized ROEs in the range of 9.9% to 12.0% from rate orders.
- AWK continues to maintain its financial flexibility. The company has made significant progress since the IPO in strengthening the balance sheet (through an equity offering in June 2009 of \$250 million and a debt offering in September 2008 of \$830 million). The company is committed to maintaining solid investment grade ratings, and targets a 45%-50% equity ratio over the long-term.
- American Water Works remains committed to its dividend. The target payout ratio is 50%-70%, and as of March 2, 2010 the shares were yielding 4.1%. The Board of Directors recently increased the dividend 5% to \$0.84 per year.
- Perhaps the most interesting point discussed was the 2010 EPS guidance range of \$1.30-1.40 that management issued when it reported year end 2009 results. Investors were curious as to what scenarios would need to happen to come in at the bottom and top of that range. Management's response was that they took everything into account when they issued that guidance, including capital raises.

Calgon Carbon Corporation (CCC \$15.92, Buy)

- Calgon Carbon focused a large portion of its time discussing current end-market conditions for its activated carbon products (they're robust). The company anticipates increasing demand and strong pricing for the foreseeable future, and does not believe excess capacity will be an issue for its primary product lines. Proposed legislation for mercury removal (at the state level) in 10 states should drive sales higher upon passage. Additionally, the potential for a multi-nation pact covering 140 countries, possibly by 2013, is under consideration. Calgon Carbon has the flexibility to add low-cost capacity to meet expanding demand, as needed.
- Reactivation expansions across three continents should not only boost results from the Carbon & Service segment, but also further diversify revenue streams in that reporting segment.
- Ultraviolet technology sales should continue to accelerate in drinking water, wastewater and ship ballast water end markets. The company's internal forecast of 25%+ growth per year for the 2008-2012 time period could prove to be conservative as utilities begin to place orders in 2011 and 2012 ahead of LT2-mandated deadlines.
- The company will be holding an investor day for analysts and investors on an unannounced day in May to discuss end-market conditions and long-term revenue and earnings trends. We look forward to that day, as it will provide a bit more clarity into the company's future prospects.

Met-Pro Corporation (MPR \$10.14, Buy)

- After discussions with management, it was clear that they were encouraged by the fact that 2HFY10 outperformed the first half of the year.
- Met-Pro believes its growth will be coming from (1) global growth of green manufacturing processes, (2) geographical and vertical market expansion (which means attacking niche markets geographically), (3) new product introductions (i.e., smart fans, nano filters), (4) acquisitions, technology licensing, and strategic business partnerships, (5) maintenance, repair, upgrade and retro-fit opportunities, from an expanding installed base, and (6) new markets.
- The company has a strong new line of products. Those products include: the Smart System™ energy-saving laboratory exhaust system, an upgrade to their Bio-Pro™ biological scrubber line, nano-technology filtration products, development of the world's most extensive line of mag-drive "All-FRP" pumps, and Hydro-Lance™ wet dust collectors with Clean-In-Place (CIP) features required for use in food and beverage industry applications.

- Met-Pro's balance sheet remains strong, with cash of \$31.4 million and total debt of only \$3.4 million.
- The company has paid dividends for 35 consecutive years, and its strong cash flows should allow to continue doing so.

Mueller Water Products (MWA \$4.84, Buy)

- Mueller discussed the need to address the aging water infrastructure in the United States. The company highlighted the current and future infrastructure situation: water leakage rates are as high as 20%-40%; systems serve 2-3 times more people than originally anticipated; by 2020, 45% of all pipes in the U.S. will be classified as poor, very poor, or elapsed (according to an EPA analysis); water infrastructure has twice been graded "D-" by the American Society of Civil Engineers; existing and future legislation could lead to increased infrastructure investment.
- Mueller management also gave updates on the company's end markets. For municipal spending, the company noted that since 4QCY08, the declines have slowed, and actually rebounded in 4QCY09. For residential construction, the company noted that residential construction is expected to remain at very low levels through CY10, and it would expect to lag any recovery in the residential construction market. And in the non-residential construction market, the company expects the cyclical downturn to be on the heels of the residential market, and is seeing CY10 forecasts that have the market declining as much as 16%.
- What actions is the company taking? To start, it amended its credit facility and completed an equity offering in September 2009, which it used to reduce debt by 36%. It has also implemented cost-savings initiatives. In the near term, the company has reduced headcount and temporarily closed plants, and for the longer-term outlook, it has completed synergy cost-savings programs and closed numerous facilities, including the North Birmingham ductile iron pipe operation.
- The company's new mini-mill operation should position it as the low cost producer of ductile iron pipe, leading to both market share gains and sustainable profitability.
- One question that came up was the possibility of selling off the Anvil business to reduce debt. The company responded by saying it is constantly reviewing all options that will benefit shareholders.

Sabesp (SBS \$35.49, Buy)

- As always, Sabesp drew a large audience in the "fireside chat" group meeting. The company answered questions regarding the new regulatory environment, and what investors could expect going forward. It views the ongoing developments surrounding a new "tariff formula" as positive in nature, and the framework remains on track for a 2011 implementation.
- The upcoming election cycle will undoubtedly bring changes to the relationship between the company and its majority shareholder, the State of Sao Paulo. The current management/operational team has done an excellent job of managing expenses, lowering costs (particularly interest expense) and reducing water losses. From all identifiable metrics, the company is operating at its most efficient level in its history.

San Jose Water (SJW \$23.89, Buy)

- San Jose Water management spent time reminding investors why it believes the company represents a good investment:
 - It has sustained rate base growth and demonstrated earnings power. It has over a \$200 million of rate base authorized in the 2010-2012 general rate case, and has recorded consistent earnings and dividends.
 - It maintains a strong balance sheet with quality assets and capital reserves. Utility plant assets total \$944 million, and the capital structure is 50/50.
 - SJW has two high-quality regulated water utility operations in economically vibrant regions: San Jose Water Company and SJWTX, Inc.
- The company remains poised to grow through three sources: acquisitions, organically, and regulatory measures. Through acquisitions, the company plans to leverage historical success and target multiple systems in adjacent areas. On the organic side, SJW has grown customers 26% since 2006, and should see substantial growth coming in Texas through its I-35 corridor expansion. And on the regulatory side, the company saw a 10% rate increase in 2008, a 14% increase in 2009, and will file its next rate case in 4Q10.

- As an added positive, SJW has leased two-thirds of the office space portion of its previously vacant real estate property in Tennessee to a college. The vacancy had previously been holding back results in the real estate segment, which should begin to tick up going forward. The company is also looking to fill the remainder of the office complex and the warehouse complex. Costs to prep the site for the tenant will be amortized over a 10-year period.

Aqua America (WTR, \$16.73, Buy)

- Aqua management began by talking about the U.S. water industry, noting that it is highly fragmented, with 85% municipal and only 15% private. It also pointed out the company's growth through acquisition potential -- where most utilities look for 1% customer growth, Aqua's 10 year average is 5.7%.
- Aqua plans on growing the top line through acquisitions (completed 18 in 2009), capital expenditures (it plans on investing \$300 million annually for five year CAGR of approximately 7%), and organically.
- Aqua also stressed the need for national water infrastructure improvement, noting that \$335 billion is needed over the 2007-2027 period, which is up from a \$227 billion estimate made in 2003, according to the EPA.
- The company again noted that water is the most affordable utility at only 0.5% of the household income.
- Aqua is able to keep its rates down due to their low cost of debt structure (the lowest in the industry) and its low operating cost structure (the most efficient in the industry).
- Overall, Aqua represents a large multi-state water utility with a unique growth story, focus on asset ownership model, and a history of profitability coupled with dividend growth.

Watts Water Technologies (WTS \$31.06, Hold)

- During the meetings, one of the takeaways was that management believes it can grow organically at DGP + 3%, and in total in the 10-12% per year range, split between organic growth and growth through acquisitions.
- A question of costs came up, in which Watts management explained that 65% of COGS are materials, and the #1 metal is copper/zinc, then steel, then iron. Most importantly, they have the ability to raise prices as the spot market moves up, and it can typically go to customers for price increases 2-3 times per year.
- Watts management believes growth will come through heat loss standards in Europe, residential fire protection in new construction, and energy and water legislation.
- The company pays 15-20% of net income as dividends as a "rule of thumb."
- Management believes there are many reasons to invest in the company: it is a pure-play opportunity in an attractive water market, it is well positioned to benefit from water market stability and renewable energy, as well as an economic recovery, it has a strong track record of delivering growth, it is a leader in industry consolidation, and it has a stable, diversified business with a conservative capital structure.

The York Water Company (YORW \$13.96, Buy)

- York reiterated its growth strategies: organically, acquisitions, and replacing old infrastructure (growing the rate base).
- An interesting point that came up was the fact that more and more people are moving to York County from the Baltimore/DC area, where the average home price is around \$133,000 vs. an average home price of over \$400,000.
- York also mentioned that municipality-owned water systems have the following issues working against them: decreased tax base and revenues with increasing costs (salary, pension, O&M, etc.). They noted that there are over 100 independent water utilities in York and Adams counties that serve over 200,000 total residents. Plenty of opportunities exist for bolt-on acquisitions in their immediate service territories.

Important Disclosures

Ratings and Target Price History

For historical rating and target price information please use the following links:

AWK: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=AWK&analystid=93&re=1&width=500&height=350&wmf=1

CCC: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=CCC&analystid=93&re=1&width=500&height=350&wmf=1

MPR: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=MPR&analystid=93&re=1&width=500&height=350&wmf=1

MWA/B: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=MWA/B&analystid=93&re=1&width=500&height=350&wmf=1

SBS: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=SBS&analystid=93&re=1&width=500&height=350&wmf=1

SJW: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=SJW&analystid=93&re=1&width=500&height=350&wmf=1

WTR: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=WTR&analystid=93&re=1&width=500&height=350&wmf=1

WTS: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=WTS&analystid=93&re=1&width=500&height=350&wmf=1

YORW: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=YORW&analystid=93&re=1&width=500&height=350&wmf=1

All prices are as of the market close on 3/08/10.

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Buy - Expected to appreciate by at least 10% within the next 12 months.

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	# of Securities	% of Total Securities	# of IB-Related Securities in Past 12 mos.	% of Total Securities
BUY	130	68.06%	17	13.08%
HOLD	51	26.7%	0	0%
SELL	7	3.66%	0	0%
NOT RATED	3	1.57%	0	0%
TOTAL	191			

Note : Stock price volatility may cause temporary non-alignment of some ratings with some target prices.

Valuation Methodology and Risks

American Water Works (AWK): Our \$28 target price is based on the shares achieving a P/E multiple of 20x our 2010 EPS estimate of \$1.40. Risks to the achievement of our target price include weather, acquisition integration, regulatory environment, additional equity offerings, potential goodwill impairments and changes in interest rates.

Aqua America (WTR): Our target price of \$26 is based on the shares attaining a P/E multiple of 26x our 2011 EPS estimate of \$0.98. Risks to the achievement of our target price include weather, acquisitions, interest rates, environmental / public health responsibilities and regulatory climate.

Calgon Carbon (CCC): Our \$24 target price is based on the shares attaining a level of approximately 22x our 2011 EPS estimate of \$1.09. Risks to the achievement of our target price include global macroeconomic conditions, foreign exchange exposure, changes in environmental regulations.

Met-Pro Corp. (MPR): Our \$12 target price is based on a multiple of 18x our FY11 EPS estimate of \$0.50, plus \$2 per share in cash. Risks to the achievement of our target price include acquisition integration, geopolitical concerns, currency fluctuations, and economic sensitivity.

Mueller Water Products (MWA): We are using our FY11 EPS estimate of \$0.53 to derive our \$8 target price, assigning a 16x multiple. Risks to the achievement of our target price include global economic conditions, natural disasters, commodity pricing, labor issues, and foreign exchange exposure.

Sabesp (SBS): Our target price of R\$57/\$66 is based on the shares attaining a P/E multiple of 9x our 2010 EPS/EPADR estimates of R\$6.44/\$7.28, respectively. Risks to the achievement of our target price include majority government ownership, legislation, currency fluctuations, environmental regulations, outstanding accounts receivable, water supply agreements and weather.

SJW Corp. (SJW): Our \$28 target price is based on the shares attaining a level of 19x our 2011 EPS estimate of \$1.36, plus \$2 per share for the value of the California Water Group share holdings. Risks to the achievement of our target price include acquisitions, weather, environmental regulations, regulation of rates, and interest rates fluctuations.

York Water (YORW): Our \$18 target price is based on a multiple of 28x our 2010 EPS estimate of \$0.65. Risks to the achievement of our target price include unfavorable weather, acquisition integration, interest rate variability, environmental/ public health responsibilities, macroeconomic conditions and regulatory climate.

Analyst Certification

We, Michael Gaugler and Christopher Noon, hereby certify that the views expressed in this research report accurately reflect our personal views about any and all of the subject securities or issuers referred to in this document. The analyst and associate analyst further certify that they have not received and will not be receiving direct or indirect compensation in exchange for expressing the recommendation contained in this publication.

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