



Analysts:
GARIK SHMOIS
 T: 216-525-8414
 E: gshmois@longbowresearch.com

Industry: **WATER UTILITIES**

Coverage:

Ticker	Rating	Price
AWK	BUY	\$25.42
WTR	NEUTRAL	\$23.44

Water Utilities: Water Consumption Trends Better Than Expected

- **Bottom Line:** Consumption in 4Q increased 2% y/y according to our survey contacts. This compares favorably to our previous -5% and -1% forecasts for AWK and WTR, respectively. Additionally, data gathered from a number of municipalities also supports low single-digit consumption growth. Consequently, we raised our forecasts modestly for 4Q10E.
- **Key Takeaways:** Consumption increased in most markets we surveyed. Particularly robust demand was evident in most Texas markets as well as the Midwest. For AWK and WTR, we believe this should offset modest consumption declines reported in the Northeast and California.
- In Texas, according to data received directly from various municipal water systems, 4Q demand increased 14%, while in California and the Northeast, was down low- to- mid-single-digits, and grew low- to- mid-single-digits in the Midwest.
- In most markets, improved industrial and residential demand contributed to volume growth. While weather is less important for water demand in 4Q, areas where the demand growth was the strongest experienced drier than normal weather and areas where demand was the weakest had the most precipitation.
- **Estimate Revisions:** We are increasing our 4Q10 consumption forecast to +1% y/y from -5% for AWK and from -1% for WTR. For AWK, we now forecast 4Q10E EPS of \$0.27 (+\$0.02), while for WTR, we are at \$0.24 (+\$0.01). Our FY11E changes by \$0.01 to \$1.72 and \$1.00 for AWK and WTR, respectively.
- **Recommendation:** We continue to rate AWK shares BUY with a 12-month \$29 target price. We remain NEUTRAL-rated on WTR shares. For both names, we expect a strong 4Q relative to consensus on stronger revenue growth driven by consumption trends. We like AWK due to its relative valuation.

IMPORTANT DISCLOSURES ARE LOCATED IN THE APPENDIX.



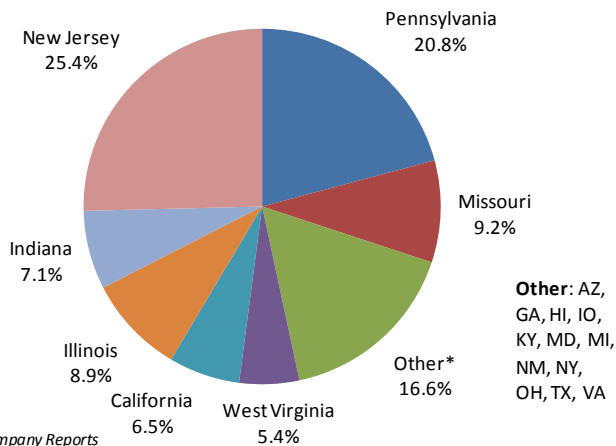
SUMMARY

- Consumption in 4Q increased 2% y/y, according to our survey contacts, and increased 4% (albeit mixed by market) from data gathered from various key municipalities. Overall, results were better than our previous -5% and -1% consumption forecasts for AWK and WTR, respectively.
- On a regional basis, consumption was reported as the strongest in Texas, on average up 14% y/y in 4Q. In the Northeast, demand was reported as down in the low- to- mid-single-digits, reversing a trend of strong y/y growth recognized in 2Q-3Q10. Our contacts told us it was part weather/part commercial and industrial declines. Conversely, demand in the Midwest (IL, IN, OH, MO) increased in the low-to-mid-single-digits. In California, demand was reported as down low- to- mid-single-digits, but the rate of the decline appears to be moderating.
- As a result of the survey results, we increased our 4Q10 consumption forecast to +1% y/y from -5% for AWK and from -1% for WTR. For AWK, we now forecast 4Q10E EPS of \$0.27 (+\$0.02) while for WTR, we are at \$0.24 (+\$0.01). Our FY11E EPS changes by \$0.01 to \$1.72 and \$1.00 for AWK and WTR, respectively.
- We continue to rate AWK shares BUY with a 12-month \$29 target price. We maintain our NEUTRAL rating on WTR shares. While WTR has been accelerating its acquisition pace nicely at the end of 4Q10, we think the shares are fairly valued at 23x our FY11E forecast (in-line with historical average valuations). For AWK, we think the shares are cheap relative to the peer group and believe it should continue to deliver an earnings outperformance from relatively strong organic demand as well as revenue growth from rate case relief.

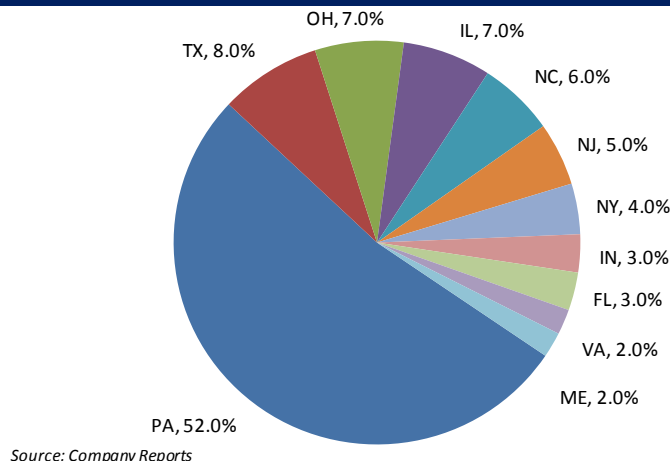
REVENUE BY STATE

In the following survey, we address water consumption trends in those markets where the companies under our coverage derive the majority of their revenues. For AWK, no single state accounts for more than ~25% of revenues, with New Jersey (25% of revenues), Pennsylvania (21%) and Missouri (9%) contributing the most. Water sales account for 89% of AWK’s total revenues. While WTR does operate in 14 states, the majority (52%) of its revenues are derived from Pennsylvania, half of which is generated in the areas surrounding Philadelphia. Sixty-percent of WTR’s regulated segment’s revenues are generated from water service to residential customers. The large residential base typically provides a predictable revenue stream and stability during economic downturns, as residential water consumption is affected more so by weather and foreclosure activity, rather than economic cycles.

AWK - Water Revenue by State (89% of Revenue)



WTR - Water Revenue by State (98% of Revenue)





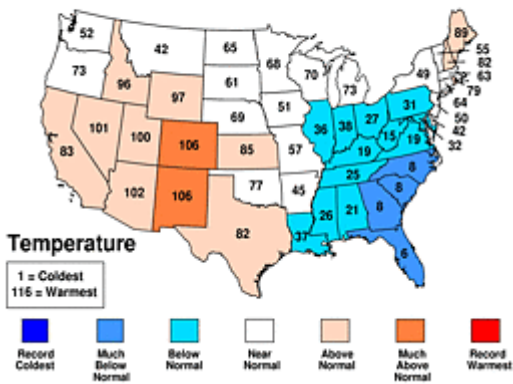
SURVEY RESULTS

In our survey, we spoke with officials at municipal water systems across the country and received monthly consumption data through November/December from Newark, Philadelphia, Pittsburgh, Dallas, Austin, San Antonio, Santa Fe, Los Angeles, Naperville, IL (Chicago suburb), Fort Wayne, IN and the Cleveland Departments of Water. In addition, we spoke with a number of directors at smaller water systems in geographies of interest. There was notable difference in y/y consumption trends in various parts of the country depending on regional economic and weather conditions, along with water conservation measures due to drought in some parts of the country. Broadly, our contacts indicated that demand was up 2% in our survey, but the results varied by region. Demand in California declined 6% y/y. In the Northeast, demand declined 6% as well. In Illinois and Indiana, volumes grew 7-10% while demand was flat in parts of Missouri we surveyed. In Texas, however, volumes grew 11%.

The Northeast demand declines could be partially explained by cold and wet weather during the quarter. While in California, poor weather and a still weak economy negatively impacted demand. A relatively stronger economic profile in Texas and the Midwest, as well as favorable weather, contributed to growth. However, we note that weather is typically less impactful in 4Q than during 2Q and 3Q, in particular.

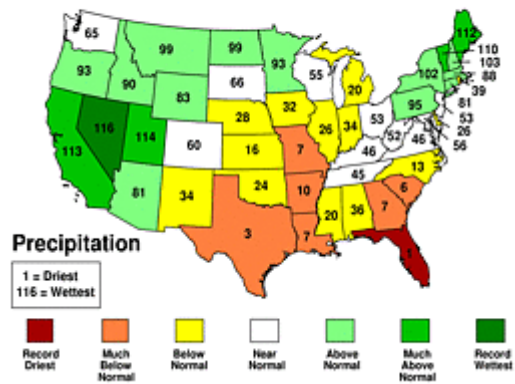
October-December 2010 Statewide Ranks

National Climatic Data Center/NESDIS/NOAA



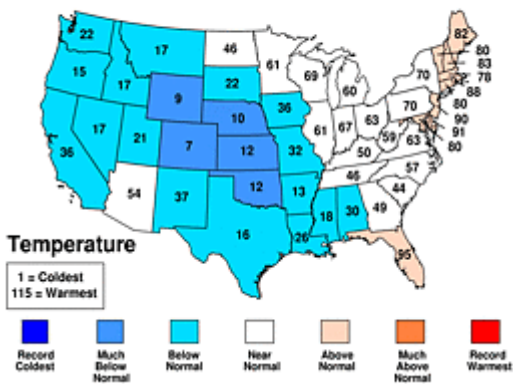
October-December 2010 Statewide Ranks

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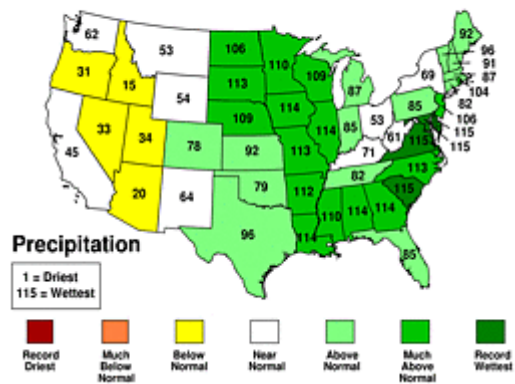
October-December 2009 Statewide Ranks

National Climatic Data Center/NESDIS/NOAA



October-December 2009 Statewide Ranks

National Climatic Data Center/NESDIS/NOAA



Source: National Climatic Data Center



From our compilation of actual consumption data from various municipalities (see below), we found that water consumption in Texas in 4Q surged on average 14% y/y, with Dallas (+16% y/y), Austin (+16%) and San Antonio (+10%) all contributing to the strong demand. In the Northeast, demand was down in the low- to mid-single-digits, reversing a trend of strong y/y growth recognized in 2Q-3Q10. Conversely, demand in the Midwest (IL, IN, OH, MO) increased in the low- to mid-single-digits. Finally, as has been the trend for some time, demand in Los Angeles and other parts of California continues to trend lower amid calls for conservation coupled with a still weakened economy. However, the rate of decline appears to be moderating.

4Q Demand by Market		
	Survey Results	Municipal Data
New Jersey	-5%	-3%
Philadelphia	-	-8%
Pittsburgh	-	-6%
Dallas	-	16%
Austin	-	16%
San Antonio	-	10%
Texas	11%	14%
Santa Fe, MN	-	0%
Los Angeles	-	0%
California	-6%	-
Fort Wayne, IN	-	-3%
Naperville, IL	-	10%
Cleveland	-	5%
Midwest	9%	-
Average	2%	4%

Source: Longbow Research

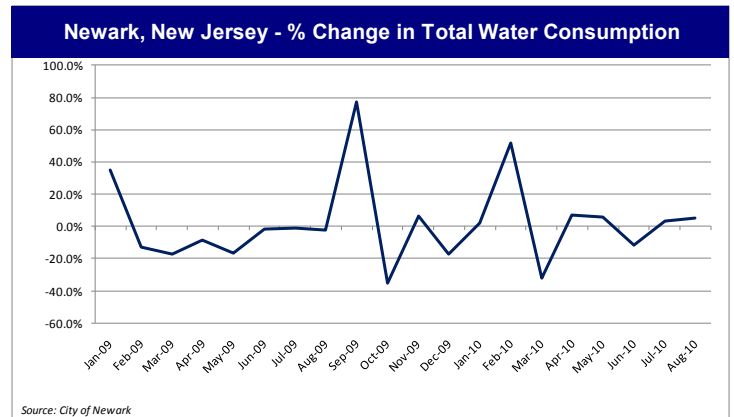
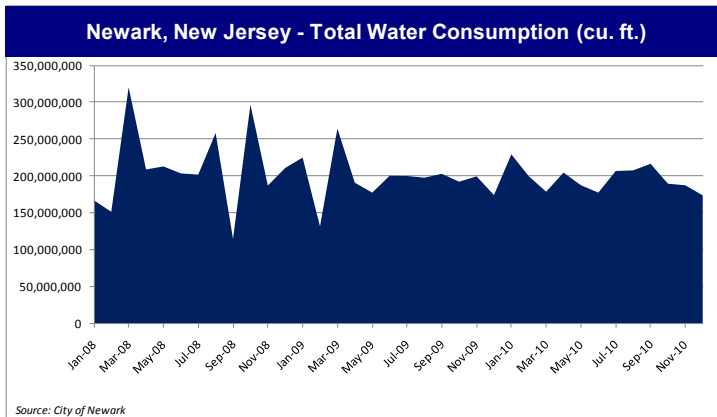
Overall, for AWK and WTR, weaker Northeast demand should be offset by improving trends elsewhere. Consequently, relative to our prior expectations of consumption declines of -5% for AWK in 4Q10E and -1% for WTR, we see the results as a net positive.



DETAILED RESULTS BY GEOGRAPHY

New Jersey

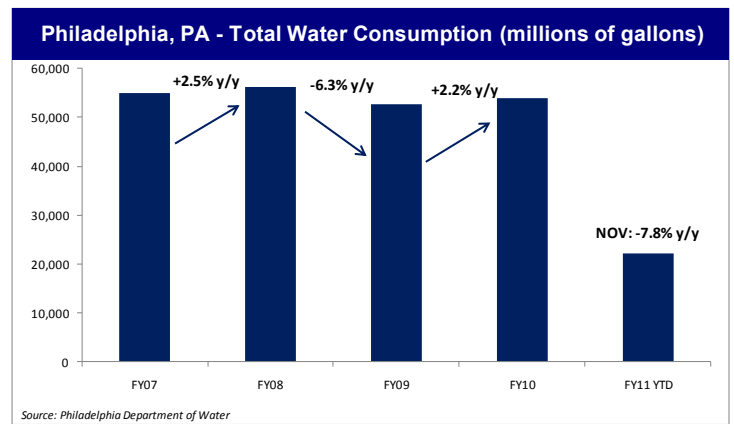
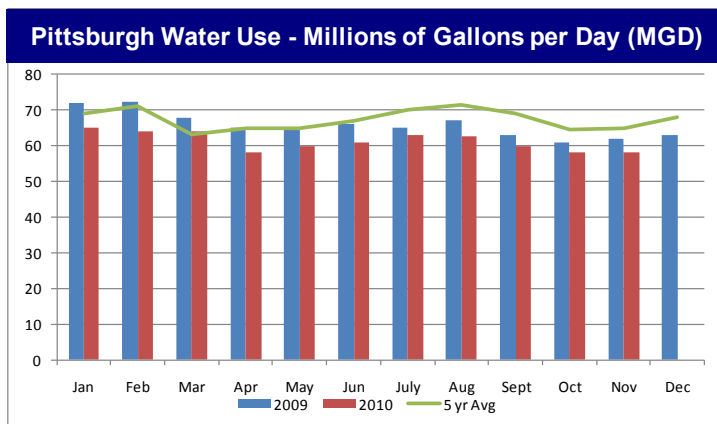
According to data collected in Newark, NJ, demand has declined marginally in recent months from the comparable period last year. Demand in December slipped 0.2% y/y, while usage declined a more notable 6% y/y in November. 4Q10 demand appears to have declined nearly 3% from the year-ago period, compared to the 5% y/y increase reported in 3Q10. The decline may be partially attributable to above-normal precipitation in recent months.



According to our survey contacts throughout the state, demand decreased on average by 6% y/y. The weather appears to have played a limited role in the decline, with most contacts noting that deteriorating economic conditions were to blame. "Our production in December of 2010 was 5% less than it was in 2009 and 12% less than the five-year average. It's mostly due to the economic climate in our state...the significant decrease in our commercial and industrial accounts. We have a decent amount of office space, but not so much heavy industry [in our region]," explained one contact in the state.

Pennsylvania

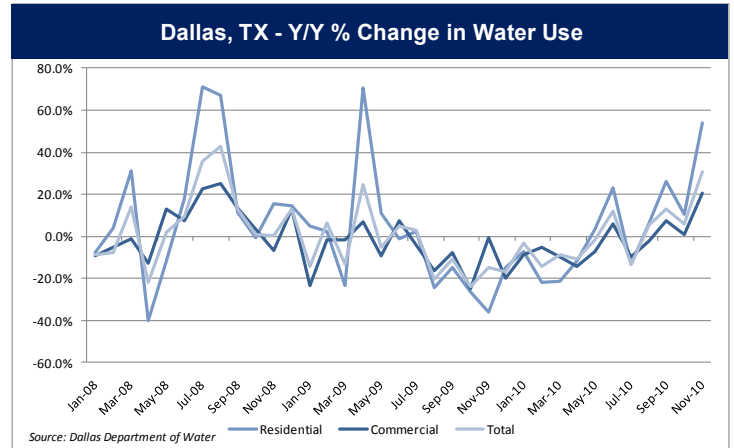
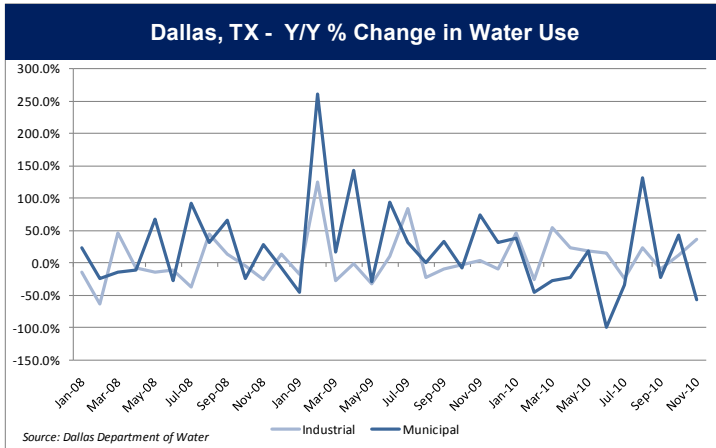
Demand trends across Pennsylvania varied by geography, with the areas surrounding Philadelphia showing relative weakness. In November, demand in Philadelphia declined 8% y/y. Likewise, demand in Pittsburgh declined 7% y/y in November and is nearly 15% below the historical five-year average. Quarter-to-date demand in Pittsburgh is down 6% from the year-ago period. We note that while 50% of WTR's revenues are derived from Pennsylvania, more than half of that amount is derived from Philadelphia and the areas surrounding the city.



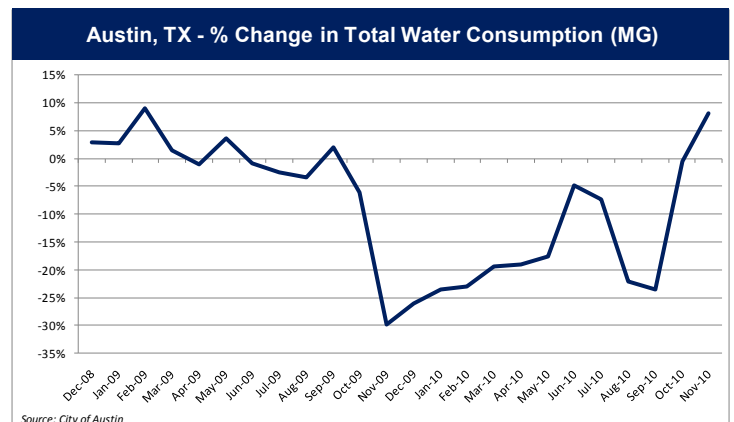
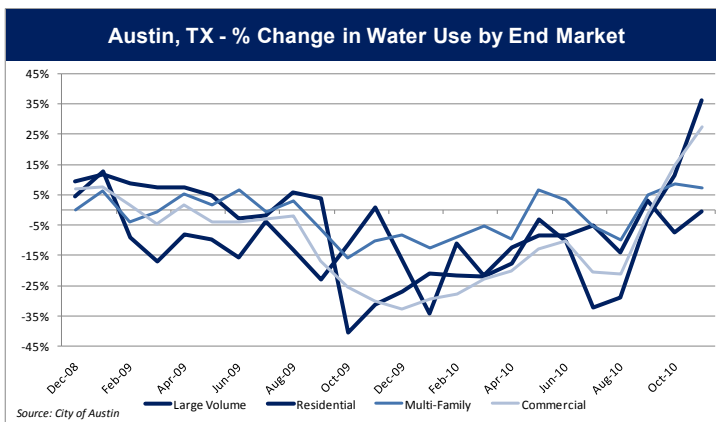


Texas and Southwest

Quarter-to-date demand in Dallas is up 16% from the comparable period last year. The seasonal m/m decline of 13% was considerably more muted than the last four years, when demand typically declined between 25-37% m/m. All end user segments posted notable y/y gains, with the exception of the more volatile municipal segment, which declined 57% y/y. We note that the municipal segment typically accounts for only 1-3% of total water volume sold. Residential demand led the advance, increasing 54% y/y. Industrial demand increased 2% m/m, reversing the historical trend of low-single-digit m/m declines. Likewise, y/y demand surged 37% as compared to historical declines in the mid-single-digits. Commercial increased 21% y/y, but declined 10% m/m, in line with historical trends. In general, improving economic trends in the Dallas market, along with easier y/y comparisons due to usually wet weather during the comparable period last year led to the outperformance.

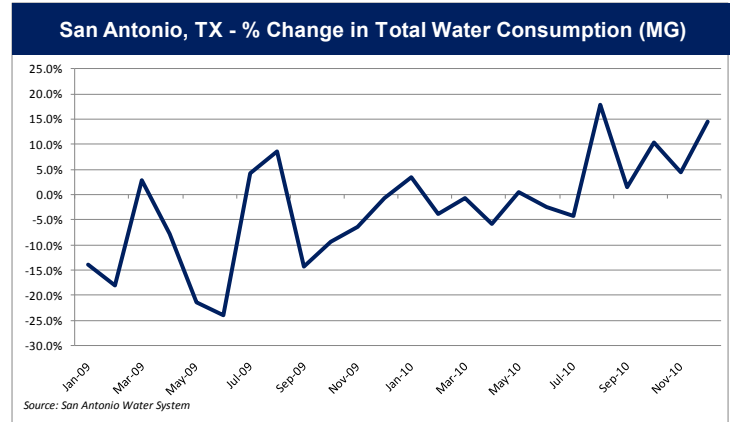
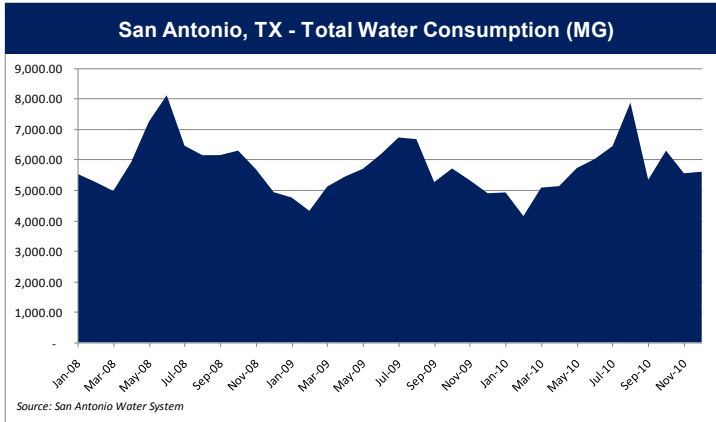


In Austin, a market that witnessed greater declines in water consumption than Dallas due to water conservation measures, reported its first y/y increase in demand since August 2009. Total demand in November increased 25% y/y, with all end markets reporting strong y/y gains. Quarter-to-date volumes are up 16% from the year-ago period. Residential and commercial usage, which account for a combined 70% of overall demand, surged 36% and 27% compared to the same period last year, respectively. On a m/m basis, residential usage increased a modest 2.8%, while commercial usage slipped 5.5%. Multi-family usage slipped 8% m/m, but increased 7% y/y. Usage by manufacturers (large volume) declined 9% m/m and was flat vs. the comparable period last year. Last, demand for wholesale bulk water by surrounding cities surged 50% y/y. We note that improving economic trends in Austin, along with easier y/y comparisons due to usually wet weather during the comparable period last year led to the outperformance.



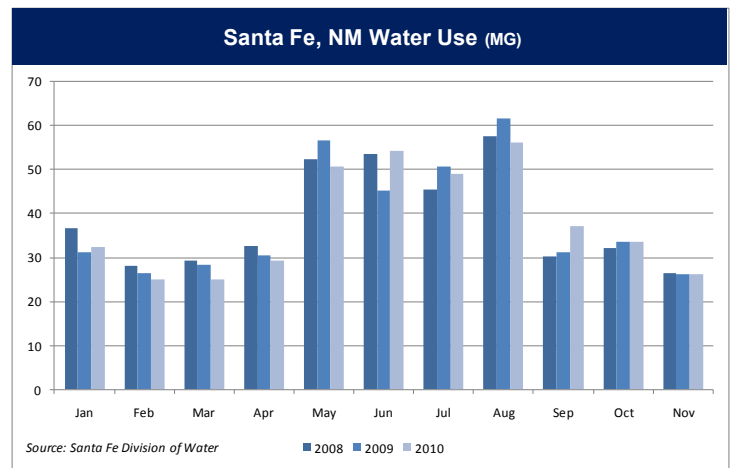
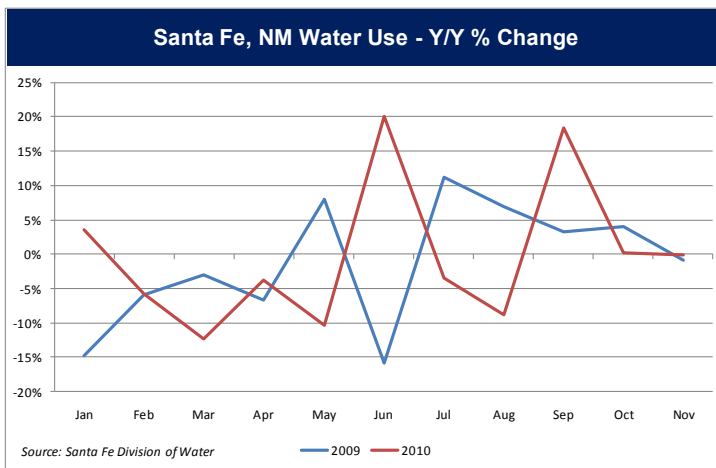


In San Antonio, demand increased 1% m/m and 14% y/y in December. 4Q10 demand appears to have jumped nearly 10% from the year-ago period, compared to the 5% y/y increase reported in 3Q10. As with the aforementioned cities in Texas, the uptick in water consumption is largely attributable to easier y/y comparisons due to wet weather during the comparable period last year.



Our survey contacts in Texas reported that demand increased on average 11% y/y, generally in line with the data we collected from the various municipalities. “November was a very active month for us in terms of water volume sold. Usage for the month was up almost 15% from a year ago, mostly because the weather at that time wasn't very good. Variability in pumpage has been fairly noticeable this year - more so than in years past,” reported one contact in Texas.

In Santa Fe, NM, demand trends have been variable during much of 2010. Total demand in October and November was flat y/y. Likewise, quarter-to-date volumes were reported as largely stable.

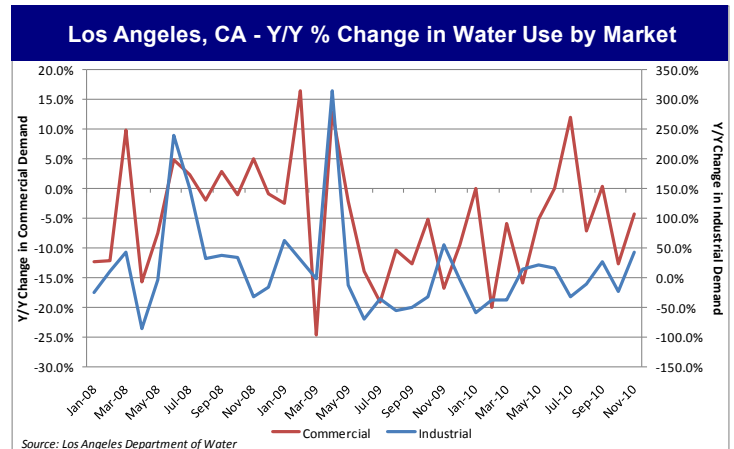
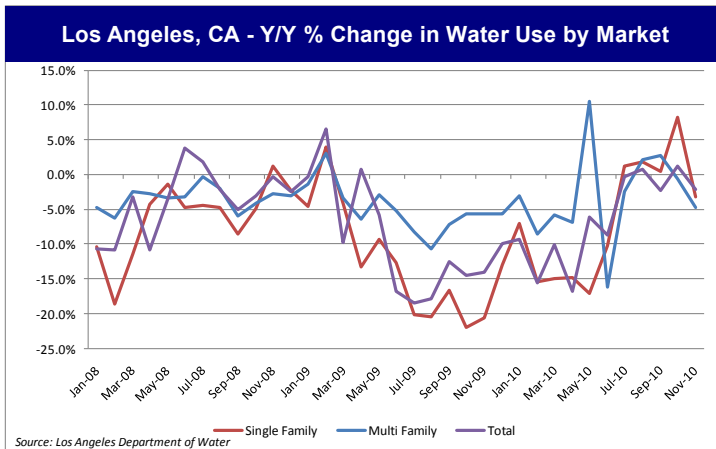




Los Angeles

In Los Angeles, and more broadly in California, water consumption remains at historically low levels, and in most instances continues to decline in the low- to- mid-single-digits. Quarter-to-date demand in LA is largely stable compared to the year-ago period. The continued decline in some areas throughout the state comes as no surprise to us given foreclosure activity, economic concerns, increased conservation efforts and recent storm activity in November/December. Altogether, based on the water usage statistic collected from the Los Angeles Department of Water, total demand in November declined 2.2% y/y. Demand increased 1.3% y/y in October. As a reminder, August marked the first positive y/y comparison in 17 months (1Q09) when demand increased a meager 0.8% y/y. Demand stemming from the highly variable industrial end market (6% of sales) surged 44% y/y after declining 23% y/y during the previous month. All of the remaining end market segments posted declines in the low- to- mid-single-digits. Single-family consumption dropped 3.2% y/y, while multi-family consumption declined 4.8% y/y. Likewise, both commercial and municipal (schools, courts, etc.) consumption declined 4.3% y/y. We note that single-family and multi-family usage accounted for a combined 71% of sales.

Our contacts throughout California reported that consumption declined on average 6%. Inclement weather in December along with conservation efforts were viewed as the main drivers of the decline, according to our contacts. Again, we note that since the implementation of WRAM and MCBA in California, revenues and costs have been decoupled from water consumption and therefore direct consumption trends are less impactful on reported quarterly results.



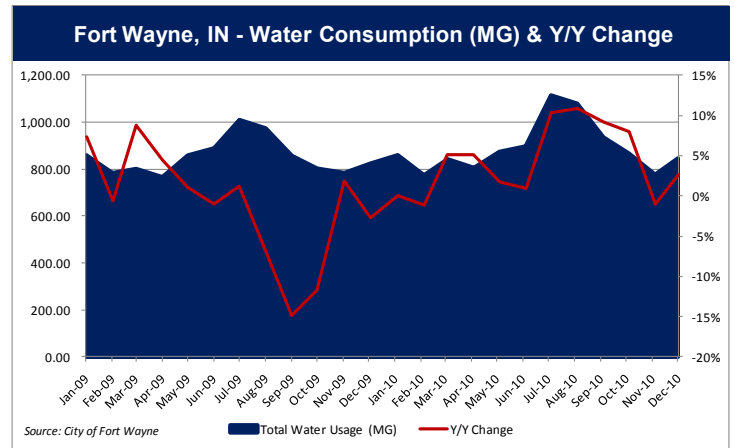
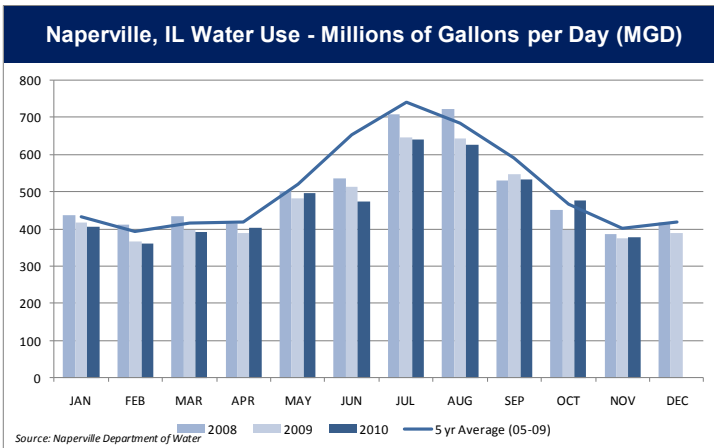


Indiana and Illinois

In Fort Wayne, water consumption increased 8.9% m/m and 2.7% y/y. Demand in C4Q10 increased 3% from the comparable period last year. Below-normal precipitation may have played a part in the y/y increase in consumption. We note that WTR has a number of water systems in the suburbs surrounding Fort Wayne.

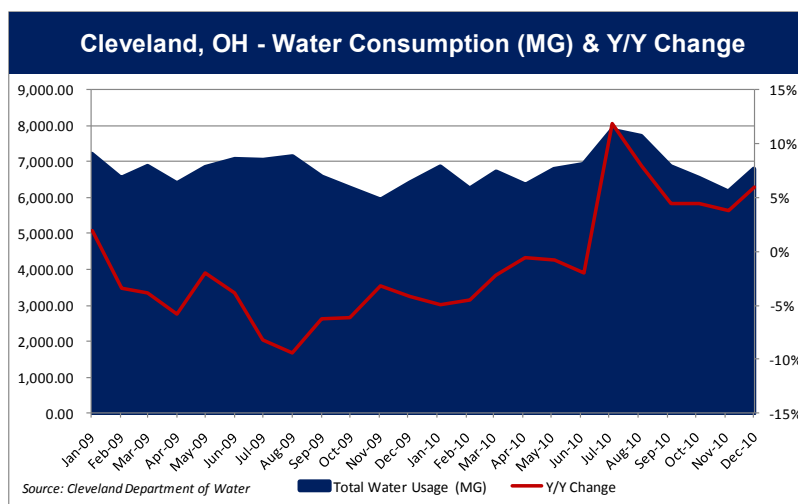
The data we collected from the Naperville, IL Department of Water generally supports our contacts' responses. In Naperville, water consumption increased a modest 0.4% in November, but was up more than 20% in October due to easy y/y comparisons. Quarter-to-date volumes are up 10% from the comparable period last year.

Anecdotal demand in the Midwest, according to our contacts, increased on average 9% in November from the comparable period last year. Most contacts noted that the increase in consumption was largely due to weather related activity.



Ohio

Demand in C4Q10 increased 5% from the comparable period last year. The y/y increase is a result of near-normal precipitation levels in recent months, whereas the state witnessed above-normal precipitation levels last year, resulting in a decline in water consumption levels. Broadly improving economic conditions were also credited for the resurgence in water consumption. We note that the majority of WTR's facilities in Ohio (7% of sales) are in the suburbs surrounding Cleveland.





MOST NOTABLE QUOTES

Related to Demand

- “For last year, for the month of November, we sold 204M gallons, whereas this year we were up a little bit and did 218M gallons. We didn’t add or lose many connections, so it's probably just associated with the weather more than anything else.” – *Municipal Water System, IL*
- “The pumpage for the city in 2009 was 91.45MG and this year it was 79.45 MG, a 13% decline. The decline was due to a loss of a few large commercial connections, as well as just an overall decline in consumption.” – *Municipal Water System, NJ*
- “November was a very active month for us in terms of water volume sold. Usage for the month was up almost 15% from a year ago, mostly because the weather at that time wasn't very good. Variability in pumpage has been fairly noticeable this year - more so than in years past.” – *Municipal Water System, TX*
- “For our December vs. December volumes, we're off just about 6%. The decline is about in line with the declines we saw earlier this year. The reason for the decline is probably due to the bad weather we had here in December, as well as conservation and the overall economy.” – *Municipal Water System, CA*
- “With the way the economy is as well as how we promote water conservation, our production is down about 5-6% from this time last year.” – *Municipal Water System, CA*

SURVEY METHODOLOGY

In our survey, we spoke with officials at municipal water systems across the country and received monthly consumption data through November/December from Newark, Philadelphia, Pittsburgh, Dallas, Austin, San Antonio, Santa Fe, Los Angeles, Naperville, IL (Chicago suburb), Fort Wayne, IN and the Cleveland Departments of Water. We also collected publicly available data from various municipalities regarding actual water consumption. Our takeaways are based on a compiled mosaic of these survey responses and acquired data points, including our analytical interpretation of investment implications.

AWK INVESTMENT THESIS

We continue to rate AWK shares BUY with a 12-month \$29 target price as we see AWK as offering an attractive risk/reward at current valuations with a significant catalyst including earnings power acceleration over the next 1-2 years from rate relief following the RWE exit. Indeed, we cite the company’s 3Q earnings beat as a principal example. The company should continue to demonstrate strong operating leverage from rate relief and cost control which has enabled earned ROEs to more closely approach allowed ROEs, and we expect this to lead to earnings growth ahead of the peer group. Additionally, we like management’s confidence in not having to issue equity due to improved cash flows from improved operating earnings. We thought the potential threat of a significant equity raise had been a headwind for valuations. Overall, as AWK delivers more consistent earnings surprises and a greater reliance on internal funds to support capital projects, we would expect its multiple to expand, as it has over the last year, going from 12-15x forward P/E. Last, we note that our target multiple of 17x our FY11E EPS still incorporates a 20% discount to the peer group average multiple.



AWK VALUATION

AWK shares closed yesterday at \$25.42, which is 16.1x our FY10E EPS of \$1.58 and 14.8x our FY11E EPS of \$1.72. The shares are trading at a discount to the peer group average of 22.5x FY10E. Our 12-month target price of \$29 is based on 17x our FY11E EPS, a valuation that remains at a discount to the peer group. However, we see multiple expansion from current levels as justified given AWK being currently viewed as the largest and most diversified publicly traded water utility in the U.S. and with the potential from earnings growth as the company benefits from rate increases and operating leverage from cost control and rate relief.

AWK RISKS

Potential downside risks to our investment thesis, rating, target price and estimates include, but are not limited to: 1) delays in rate case processing or lower rate increases by the regulators than our expectations, 2) 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, 4) a large acquisition at an excessive valuation (significantly above the rate base), and 5) a large goodwill impairment which could lead to a potential breach of debt covenants or regulatory requirements.

WTR INVESTMENT THESIS

We continue to rate WTR shares NEUTRAL. While we are encouraged by the potential for earnings growth from improved ROEs under systems that were acquired in the southern states in 2003-04, as well as the resumption of acquisition activity, we believe the shares are fairly valued at these levels. The shares are currently trading at 25.2x our FY10E EPS of \$0.93 and 23.5x our FY11E EPS of \$1.00, which is in line with the company's historical 23x average. 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 see less upside potential given that valuations are reflecting historically in-line multiples.

WTR VALUATION

WTR shares closed yesterday at \$23.44, which is 25.2x our FY10E EPS of \$0.93 and 23.5x our FY11E EPS of \$1.00. The shares are trading in line with the company's historical 23x average and within the normalized range of 20-30x forward P/E.

WTR 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.

American Water Works (AWK)
Annual Earnings Statement
(dollars in millions, except per share data)

<i>Income Statement</i>	FY04A	FY05A	2006A	FY07A	FY08A	FY09A	FY10E	FY11E
Regulated Segment	1748.0	1836.1	1854.6	1987.6	2082.7	2207.3	2415.6	2538.0
% Increase		5.0%	1.0%	7.2%	4.8%	6.0%	9.4%	5.1%
Non-Regulated Revenue	290.0	310.8	248.5	242.7	272.2	257.7	328.7	336.7
% Increase		7.2%	-20.0%	-2.3%	12.2%	-5.3%	27.6%	2.4%
Other	-20.17	(10.1)	(10.0)	(16.0)	(18.0)	(24.3)	(43.3)	(25.4)
% Regulated Rev	-1.2%	-0.6%	-0.5%	-0.8%	-0.9%	-1.1%	-1.8%	-1.0%
Operating revenues	2,017.9	2,136.7	2,093.1	2,214.2	2,336.9	2,440.7	2,701.0	2,849.3
Operation and maintenance	1122.0	1201.6	1174.5	1246.5	1303.8	1324.4	1417.1	1501.6
Depreciation and amortization	225.3	261.4	259.2	267.3	271.3	294.2	321.4	307.3
General taxes	170.2	183.3	185.1	183.3	199.1	199.3	213.1	221.1
Loss (gain) on sale of assets	(8.6)	(6.5)	0.1	(7.3)	(0.4)	(0.8)	0.3	0.8
Impairment charges	78.7	385.4	221.7	509.3	750.0	450.0		
EBIT	430.4	111.6	252.5	15.1	(186.9)	173.6	749.1	818.6
<i>Operating Margin (excluding impairment)</i>	25.2%	23.3%	22.7%	23.7%	24.1%	25.6%	27.7%	28.7%
Interest	315.9	345.3	366.0	283.2	285.2	296.5	308.1	324.6
Other, net	(6.4)	(5.9)	(1.2)	(6.4)	(4.9)	(1.1)	0.0	0.0
Other income, net	(11.0)	(9.5)	(4.5)	(12.5)	(21.5)	(11.3)	(13.7)	(11.2)
Total other income (deductions)	305.0	335.7	361.5	270.6	263.7	285.3	294.4	313.4
EBT	125.4	(224.2)	(108.9)	(255.5)	(450.6)	(111.7)	454.6	505.2
Provision for income taxes	66.3	51.0	46.9	86.8	111.8	121.4	178.9	202.1
Implied TaxRate (excl. goodwill impairment)	32.5%	31.6%	41.6%	34.2%	37.3%	35.9%	39.4%	40.0%
Income (loss) from continuing operations	59.1	-275.1	-155.9	-342.3	-562.4	-233.1	275.7	303.1
Income (loss) from continuing operations to common shareholders	59.1	-275.1	-155.9	-342.3	-562.4	-233.1	275.7	303.1
Net Income (loss)	(64.9)	(325.0)	(162.2)	(342.8)	(562.4)	(233.1)	275.7	303.1
Diluted EPS from continuing operations	0.37	(1.72)	(0.97)	(2.14)	(3.52)	(1.39)	1.58	1.72
EPS excl. impairment & one-time expenses	0.86	0.69	0.41	1.04	1.10	1.25	1.58	1.72
Diluted Average Shares	160.0	160.0	160.0	160.0	160.0	168.2	175.0	176.5
Financial Summary								
Total Revenue growth		5.9%	-2.0%	5.8%	5.5%	4.4%	10.7%	5.5%
Non-Regulated Revenue growth			-20.0%	-2.3%	12.2%	-5.3%	27.6%	2.4%
O&M/Revenue	55.6%	56.2%	56.1%	56.3%	55.8%	54.3%	52.5%	52.7%
Depreciation and amortization/ Net Fixed Asset				3.0%	2.8%	2.8%	3.0%	2.8%
Depreciation Growth		16.0%	-0.8%	3.1%	1.5%	8.5%	9.2%	-4.4%
General Taxes/ Regulated Revenue	9.7%	10.0%	10.0%	9.2%	9.6%	9.0%	8.8%	8.7%
Adj. EBITDA	734.3	758.4	733.4	791.8	834.4	917.8	1,070.5	1,125.8
Net Income Growth (excl. goodwill impairment)		338.6%	-1.6%	180.1%	12.6%	15.6%	27.1%	9.9%
EPS growth, (excl. goodwill impairment)			-40.3%	153.8%	5.3%	13.6%	26.0%	9.0%
ROE (excl. goodwill & goodwill impairment)			2.3%	7.0%	8.3%	8.4%	9.7%	9.6%

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

American Water Works (AWK)
Annual Earnings Statement
(dollars in millions, except per share data)

	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
	1Q08A	2Q08A	3Q08A	4Q08A	1Q09A	2Q09A	3Q09A	4Q09A	1Q10	2Q10A	3Q10A	4Q10E	1Q11E	2Q11E	3Q11E	4Q11E
Income Statement																
Regulated Segment	449.9	527.1	603.7	502.1	497.4	554.9	621.0	532.5	519.5	602.2	713.1	580.8	549.0	648.8	746.0	594.1
% Increase	7.3%	3.6%	5.6%	2.9%	10.6%	5.3%	2.9%	6.1%	4.4%	8.5%	14.8%	9.1%	5.7%	7.7%	4.6%	2.3%
Non-Regulated Revenue	61.0	67.0	73.9	70.3	57.5	64.2	65.2	70.9	90.9	76.6	80.3	80.9	92.9	78.6	82.3	82.9
% Increase	14.4%	20.8%	9.4%	4.1%	-5.7%	-4.2%	-11.7%	0.9%	57.9%	19.3%	23.1%	14.1%	2.2%	2.6%	2.5%	2.5%
Other	(4.1)	(4.7)	(5.4)	(3.9)	(4.7)	(6.3)	(6.3)	(5.6)	(22.3)	(7.6)	(6.5)	(7.0)	(5.5)	(6.5)	(7.5)	(5.9)
% Regulated Rev	-0.9%	-0.9%	-0.9%	-0.8%	-1.0%	-1.1%	-1.0%	-1.0%	-4.3%	-1.3%	-0.9%	-1.2%	-1.0%	-1.0%	-1.0%	-1.0%
Operating revenues	506.8	589.4	672.2	568.6	550.2	612.7	680.0	597.8	588.1	671.2	786.9	654.8	636.4	720.9	820.9	671.1
Operation and maintenance	311.3	330.6	342.2	319.8	314.4	330.6	340.9	338.5	330.4	344.9	378.0	363.8	356.4	369.1	394.0	382.1
Depreciation and amortization	63.9	67.3	68.4	71.6	68.8	73.2	74.9	77.3	76.2	76.5	79.4	89.3	76.1	76.1	77.1	78.0
General taxes	52.1	49.6	49.4	48.0	52.5	51.7	50.6	44.4	55.4	53.9	55.3	48.4	57.4	55.9	57.3	50.4
Loss (gain) on sale of assets	(0.1)	(0.8)	0.5	(0.0)	(0.2)	0.0	(0.8)	0.2	(0.1)	(0.0)	0.2	0.2	0.2	0.2	0.2	0.2
Impairment charges	750.0				450.0											
EBIT	(670.4)	142.7	211.8	129.1	(335.4)	157.2	214.4	137.4	126.1	196.0	274.0	153.0	146.3	219.6	292.3	160.4
Operating Margin (excluding impairment)	15.7%	24.2%	31.5%	22.7%	20.8%	25.7%	31.5%	23.0%	21.4%	29.2%	34.8%	23.4%	23.0%	30.5%	35.6%	23.9%
Interest	70.0	70.1	72.7	72.4	72.0	73.7	74.1	76.8	78.7	78.7	74.9	75.8	80.7	80.9	81.3	81.7
Other, net	(1.2)	0.5	(0.9)	(3.4)	(1.1)											
Other income, net	(3.7)	(3.1)	(6.7)	(8.0)	(4.8)	(2.6)	(1.5)	(2.3)	(2.9)	(4.3)	(3.6)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)
Total other income (deductions)	66.2	67.0	66.0	64.5	67.1	71.1	72.6	74.5	75.8	74.4	71.2	73.0	77.9	78.1	78.5	78.9
EBT	(736.6)	75.7	145.8	64.6	(402.5)	86.1	141.8	62.9	50.3	121.6	202.7	80.1	68.4	141.5	213.8	81.4
Provision for income taxes	(4.1)	30.2	57.5	28.2	10.6	34.1	50.2	26.5	19.5	48.8	78.6	32.0	27.4	56.6	85.5	32.6
Implied Tax Rate (excl. goodwill impairment)	-31%	40%	39%	43.6%	22%	39.6%	35.4%	42.2%	38.7%	40.2%	38.8%	40.0%	40.0%	40.0%	40.0%	40.0%
Income (loss) from continuing operations	-732.5	45.5	88.2	36.4	-413.1	52.0	91.6	36.4	30.8	72.8	124.1	48.0	41.0	84.9	128.3	48.8
Income (loss) from continuing operations to common share	-732.5	45.5	88.2	36.4	-413.1	52.0	91.6	36.4	30.8	72.8	124.1	48.0	41.0	84.9	128.3	48.8
Net Income (loss)	(732.5)	45.5	88.2	36.4	(413.1)	52.0	91.6	36.4	30.8	72.8	124.1	48.0	41.0	84.9	128.3	48.8
Diluted EPS from continuing operations	(4.58)	0.28	0.55	0.23	(2.58)	0.32	0.52	0.21	0.18	0.42	0.71	0.27	0.23	0.48	0.73	0.28
EPS excl. impairment & one-time expenses	0.11	0.28	0.55	0.23	0.19	0.32	0.52	0.21	0.18	0.42	0.71	0.27	0.23	0.48	0.73	0.28
Diluted Average Shares	160.0	159.9	160.0	159.9	159.9	164.8	174.7	174.8	174.8	174.9	175.1	175.2	175.6	176.2	176.9	177.5
Financial Summary																
Total Revenue growth	8.2%	5.5%	6.2%	2.7%	8.6%	4.0%	1.2%	5.2%	6.9%	9.5%	15.7%	9.5%	8.2%	7.4%	4.3%	2.5%
Non-Regulated Revenue growth	14.4%	20.8%	11.3%	4.1%	-5.2%	-4.5%	-10.3%	-0.3%	27.6%	19.3%	25.3%	14.1%	2.0%	2.0%	2.0%	2.0%
O&M/Revenue	61.4%	56.1%	50.9%	56.2%	57.1%	54.0%	50.1%	56.6%	56.2%	51.4%	48.0%	55.6%	56.0%	51.2%	48.0%	56.9%
General Taxes/Regulated Revenue	11.6%	9.4%	8.2%	9.6%	10.6%	9.3%	8.2%	8.3%	10.7%	8.9%	7.8%	8.3%	10.5%	8.6%	7.7%	8.5%
D&A/Net Fixed Asset	0.68%	0.71%	0.70%	0.72%	0.68%	0.71%	0.72%	0.73%	0.71%	0.71%	0.73%	0.8%	0.7%	0.7%	0.7%	0.7%
Interest/Avg. Total Debt (Annualized)	5.53%	5.53%	5.75%	5.59%	5.40%	5.48%	5.53%	5.67%	5.74%	5.73%	5.37%	5.4%	5.7%	5.7%	5.7%	5.7%
Adj. EBITDA	143.6	210.0	280.2	200.7	183.5	230.4	289.3	214.7	202.3	272.5	353.4	242.3	222.4	295.7	369.3	238.4
EPS growth, excluding goodwill impairment charge	620.8%	-8.9%	6.0%	34.0%	73.6%	10.9%	-4.8%	-8.6%	-7.2%	31.9%	35.2%	31.8%	32.6%	15.8%	2.3%	0.4%

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



Aqua America (WTR)
Annual Earnings Statement
(dollars in millions, except per share data)

<i>Income Statement</i>	FY04A	FY05A	FY06A	FY07A	FY08A	FY09	FY10E	FY11E
Total Operating Revenue	442.0	496.8	533.5	602.5	627.0	670.5	734	786
Operation & Maintenance	178.3	203.1	219.6	253.1	262.1	270.1	282.1	301.3
Depreciation	54.6	60.7	70.9	83.2	88.8	103.0	108.2	113.6
Amortization	4.3	4.7	4.1	4.8	5.5	11.9	13.3	13.6
General Taxes	27.6	31.7	33.3	45.4	44.7	48.1	53.1	53.7
	-	-	-	-	-	-	-	-
Total Expenses	264.8	300.3	327.9	386.5	401.2	433.1	456.7	482.1
Income from Operations	177.2	196.5	205.6	216.0	225.8	237.5	277.7	303.7
Operating Margin (%)	40.1%	39.6%	38.5%	35.9%	36.0%	35.4%	37.8%	38.6%
Allow. for Borrowed Funds Used in Const.	2.3	2.4	3.9	3.0	3.7	2.9	5.3	5.1
Gain (loss) on sale of other assets	1.3	1.2	1.2	3.5	1.6	0.5	2.9	2.3
Other	-	-	-	-	-	-	-	-
EBIT	180.8	200.1	210.7	222.5	231.1	240.8	285.9	311.1
EBIT (%)	40.9%	40.3%	39.5%	36.9%	36.9%	35.9%	38.9%	39.6%
Interest Expense	48.7	52.1	58.4	66.9	68.6	68.6	75.3	81.4
Income Before Taxes	132.1	148.1	152.3	155.5	162.5	172.2	210.7	229.7
Provision for Income Taxes	52.1	56.9	60.2	60.5	64.6	67.8	82.6	91.4
Implied Tax Rate	39.4%	38.4%	39.6%	38.9%	39.7%	39.4%	39.2%	39.8%
Net income	80.0	91.2	92.0	95.0	97.9	104.4	128.0	138.4
Comprehensive Income	78.1	89.8	95.3	94.8	97.9	104.7	126.7	138.4
Diluted Net Income Per Share	0.64	0.71	0.70	0.71	0.73	0.77	0.93	1.00
Weighted Avg. Shares	125.7	129.2	131.8	133.6	134.7	136.1	137.4	138.8
Financial Summary (values in %)								
Revenue Growth	20.4%	12.4%	7.4%	12.9%	4.1%	6.9%	9.5%	7.0%
Operations & Maintenance/Revenue	40.3%	40.9%	41.2%	42.0%	41.8%	40.3%	38.4%	38.3%
Dep/Net Fixed Asset	3.0%	2.9%	3.1%	3.3%	3.2%	3.4%	3.4%	3.3%
Depreciation Growth	12.5%	11.3%	16.7%	17.3%	6.7%	16.0%	5.0%	5.0%
General taxes as % of revenue	6.2%	6.4%	6.2%	7.5%	7.1%	7.2%	7.2%	6.8%
Interest Exp/ Average Net Debt	5.6%	5.3%	5.8%	5.9%	5.2%	5.0%	5.0%	5.1%
Interest Expense/Revenue	11.0%	10.5%	11.0%	11.1%	10.9%	10.2%	10.3%	10.4%
EBITDA	239.7	265.6	285.7	310.5	325.4	355.7	407.4	438.3
Net income growth	13.0%	13.9%	0.9%	3.3%	3.1%	6.6%	22.7%	8.1%
Average ROE	11.4%	11.7%	10.6%	10.0%	9.6%	9.6%	9.4%	8.4%
EPS Growth (exspecial items and FAS 123)	7.0%	10.9%	-1.0%	1.9%	2.2%	5.5%	21.6%	7.0%

Source: Aqua America and Longbow Research

Garik Shmos

216-525-8414

gshmois@longbowresearch.com

Aqua America (WTR)
Quarterly Earnings Statement
(dollars in millions, except per share data)

FY ends December 31

	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10E	1Q11E	2Q11E	3Q11E	4Q11E
Total Operating Revenue	139.3	150.8	177.1	159.8	154.5	167.3	180.8	167.9	160.5	178.4	207.8	187.6	175.1	193.4	220.7	196.6
Operation & Maintenance	64.3	65.1	66.7	65.9	67.0	68.5	68.5	66.0	67.6	69.3	73.0	72.2	72.3	75.2	79.0	74.7
Depreciation	21.5	20.6	22.8	23.9	26.4	25.0	25.4	26.2	26.2	26.8	27.5	27.7	27.9	28.1	28.3	29.3
Amortization	1.2	1.0	1.8	1.5	2.8	3.1	3.0	3.1	3.2	3.3	3.6	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	12.9	12.9	14.2	13.1	13.1	13.5	13.2	13.8
Recovery of restructuring costs																
Total Expenses	99.1	97.6	102.5	102.0	107.7	108.5	109.4	107.5	109.8	112.4	118.2	116.2	116.8	120.3	123.9	121.2
Income from Operations	40.2	53.1	74.6	57.9	46.8	58.9	71.5	60.4	50.7	66.1	89.6	71.3	58.4	73.2	96.7	75.4
Operating Margin (%)	28.9%	35.2%	42.1%	36.2%	30.3%	35.2%	39.5%	36.0%	31.6%	37.0%	43.1%	38.0%	33.3%	37.8%	43.8%	38.4%
All. for Borrowed Funds Used in Const.	1.0	1.1	1.0	0.6	0.6	0.6	0.7	0.9	1.5	1.5	1.1	1.3	1.3	1.3	1.2	1.3
Gain (loss) on sale of other assets		0.6	0.5	0.5	0.1	0.1	0.2	0.1	1.9	0.1	0.3	0.6	0.7	0.4	0.5	0.6
Other																
EBIT	41.2	54.8	76.1	59.0	47.5	59.5	72.4	61.4	54.2	67.6	90.9	73.2	60.4	74.9	98.5	77.3
EBIT (%)	29.6%	36.3%	43.0%	36.9%	30.8%	35.6%	40.0%	36.6%	33.7%	37.9%	43.8%	39.0%	34.5%	38.7%	44.6%	39.3%
Interest Expense	17.1	17.1	17.0	17.4	16.6	16.8	17.3	17.9	18.4	18.5	19.2	19.2	19.4	19.6	19.8	22.6
Income Before Taxes	24.0	37.7	59.1	41.7	30.9	42.7	55.1	43.5	35.7	49.1	71.8	54.0	41.1	55.3	78.7	54.7
												7%	5%	6%	3%	18%
Provision for Income Taxes	9.7	15.2	23.7	16.0	12.5	16.9	21.6	16.8	14.2	19.3	28.1	21.1	16.4	22.1	31.5	21.3
Implied Tax Rate	40.4%	40.2%	40.1%	38.4%	40.5%	39.5%	39.3%	38.7%	39.8%	39.3%	39.1%	39.0%	40.0%	40.0%	40.0%	39.0%
Net Income before extraord. Item	14.3	22.6	35.4	25.7	18.4	25.9	33.5	26.7	21.5	29.8	43.7	33.0	24.6	33.2	47.2	33.4
Comprehensive Income	14.3	22.7	35.2	25.7	18.4	26.1	33.3	26.8	21.1	29.8	43.7	33.0	24.6	33.2	47.2	33.4
Diluted Net Income Per Share	0.11	0.17	0.26	0.19	0.14	0.19	0.25	0.20	0.16	0.22	0.32	0.24	0.18	0.24	0.34	0.24
Weighted Avg. Shares	134.0	134.1	135.3	135.6	135.9	135.9	136.3	136.5	136.8	137.3	137.4	138.2	138.2	138.6	139.1	139.5
Financial Summary (values in %)																
Revenue Growth	1.4%	0.1%	7.0%	7.2%	10.9%	11.0%	2.1%	5.0%	3.9%	6.6%	14.9%	11.7%	9.1%	8.4%	6.2%	4.8%
Operations & Maintenance/Revenue	46.2%	43.2%	37.7%	41.2%	43.4%	41.0%	37.9%	39.3%	42.1%	38.8%	35.1%	38.5%	41.3%	38.9%	35.8%	38.0%
EBIT (% of rev.)	29.6%	36.3%	43.0%	36.9%	30.8%	35.6%	40.0%	36.6%	33.7%	37.9%	43.8%	39.0%	34.5%	38.7%	44.6%	39.3%
General taxes as % of revenue	8.7%	7.2%	6.3%	6.7%	7.5%	7.1%	6.9%	7.3%	8.0%	7.3%	6.8%	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	83.5	97.8	122.0	104.1	91.7	106.4	130.2	110.0
Net Income Growth	-15.0%	-5.0%	19.9%	3.0%	28.3%	14.6%	-5.4%	3.9%	17.1%	15.5%	30.6%	23.6%	14.5%	11.1%	8.0%	1.3%
EPS Growth	-15.5%	-5.3%	18.6%	1.8%	26.5%	13.0%	-6.1%	3.2%	16.3%	14.4%	29.5%	22.1%	13.4%	10.0%	6.7%	0.3%

Source: Aqua America and Longbow Research

Garik Shmos

216-525-8414

gshmois@longbowresearch.com

WATER INDUSTRY PEER VALUATION

(\$ in millions, except per share data)

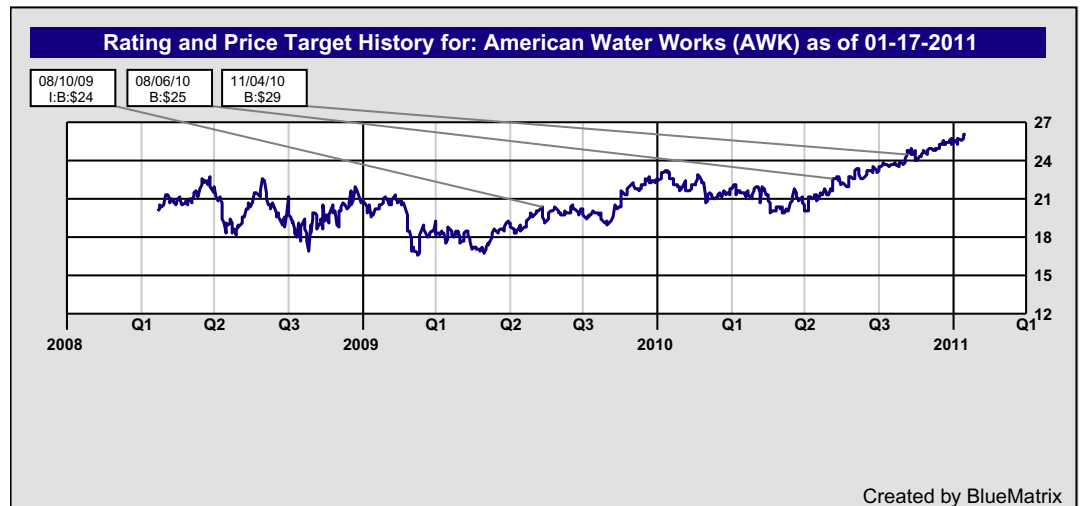
Company	Ticker	FY End	Rating	Target	% Upside	Share Price	52 Week		Mkt Cap	Revenue Last	Last FY	Earnings per Share		P/E		Dividend Rate	Price/Book
							Hi	Lo				Current FY	Next FY	Current FY	Next FY		
U.S. WATER UTILITIES																	
AMER STATES WATER	AWR	Dec.	Neutral			\$34.82	\$39.61	\$31.20	\$ 656	\$ 361	1.62	1.78	2.15	19.6x	16.2x	3.0%	1.8x
AMERICAN WATER WORKS	AWK	Dec.	BUY	\$29	14%	\$25.42	\$25.82	\$19.41	\$ 4,543	\$ 2,849	1.25	1.58	1.72	16.1x	14.8x	3.4%	1.0x
AQUA AMERICA	WTR	Dec.	Neutral			\$23.44	\$23.23	\$16.45	\$ 3,209	\$ 671	0.77	0.93	1.00	25.2x	23.5x	2.7%	2.2x
CALIFORNIA WATER	CWT	Dec.	Neutral			\$37.52	\$39.70	\$33.81	\$ 785	\$ 449	1.95	1.91	2.20	19.6x	17.1x	3.2%	1.8x
ARTESIAN RESOURCES	ARTNA	Dec.	NR			\$19.51	\$19.63	\$16.43	\$ 148	\$ 61	0.97	1.02	1.11	19.1x	17.6x	3.9%	1.5x
CONNECTICUT WATER	CTWS	Dec.	NR			\$26.56	\$28.27	\$20.00	\$ 230	\$ 59	1.19	1.2	1.19	22.1x	22.3x	3.5%	2.0x
MIDDLESEX WATER	MSEX	Dec.	NR			\$18.98	\$19.31	\$14.74	\$ 293	\$ 91	0.72	0.94	0.95	20.2x	20.0x	3.9%	1.7x
PENNICHUCK	PNNW	Dec.	NR			\$27.95	\$28.39	\$19.00	\$ 130	\$ 33	0.55	0.84	0.95	33.3x	29.4x	2.7%	1.8x
SIJW	SIJW	Dec.	NR			\$25.78	\$28.24	\$21.60	\$ 484	\$ 216	0.81	0.98	1.06	26.3x	24.3x	2.6%	1.7x
YORK WATER CO (THE)	YORW	Dec.	NR			\$16.97	\$18.00	\$12.83	\$ 213	\$ 37	0.64	0.71	0.76	23.9x	22.3x	3.1%	2.1x
<i>Average</i>														22.5x	20.8x	3.2%	1.7x
EQUIPMENT/ FILTRATION/ TREATMENT SECTOR																	
PENTAIR	PNR	Dec.	BUY	\$39	5%	\$37.13	\$39.32	\$29.41	\$ 3,650	\$ 2,692	1.47	1.96	2.28	18.9x	16.3x	2.2%	1.6x
WATTS WATER TECH	WTS	Dec.	Neutral			\$36.46	\$37.79	\$27.51	\$ 1,367	\$ 1,234	1.54	1.92	2.23	19.0x	16.4x	1.2%	1.3x
AMERON INT'L	AMN	Nov.	NR			\$80.49	\$85.25	\$55.42	\$ 749	\$ 547	3.05	2.90	3.84	27.8x	21.0x	1.5%	1.1x
BADGER METER	BMI	Dec.	NR			\$41.47	\$45.49	\$32.58	\$ 626	\$ 250	1.80	1.91	2.08	21.7x	19.9x	1.3%	4.1x
CALGON CARBON	CCC	Dec.	NR			\$14.31	\$18.35	\$11.75	\$ 819	\$ 412	0.69	0.68	0.86	21.0x	16.6x	0.0%	2.5x
ENERGY RECOVERY	ERII	Dec.	NR			\$3.89	\$6.89	\$3.08	\$ 215	\$ 47	0.07	(0.08)	-	NM	NM	0.0%	2.9x
FRANKLIN ELECTRIC	FELE	Jan.	NR			\$42.28	\$43.21	\$24.93	\$ 982	\$ 626	1.29	1.86	2.29	22.7x	18.5x	1.2%	1.7x
GORMAN-RUPP	GRC	Dec.	NR			\$32.92	\$37.40	\$22.81	\$ 563	\$ 266	1.15	1.34	1.6	24.6x	20.6x	1.3%	2.6x
ITRON	ITRI	Dec.	NR			\$59.28	\$81.95	\$52.03	\$ 2,392	\$ 1,687	2.09	4.02	4.33	14.7x	13.7x	0.0%	1.9x
LAYNE CHRISTENSEN	LAYN	Jan.	NR			\$32.62	\$36.92	\$22.97	\$ 631	\$ 866	0.81	1.42	1.63	23.0x	20.0x	0.0%	1.1x
MUELLER WATER PRODUC	MWA	Sept.	NR			\$4.44	\$5.99	\$2.21	\$ 705	\$ 1,338	-0.29	(0.17)	0.15	NM	NM	1.5%	1.2x
NORTHWEST PIPE	NWPX	Dec.	NR			\$22.61	\$27.76	\$14.62	\$ 211	\$ 283	-0.26	0.12	0.73	188.4x	31.0x	0.0%	1.0x
PALL	PLL	Jul.	NR			\$50.73	\$51.06	\$31.84	\$ 5,802	\$ 2,402	1.77	2.50	2.5	20.3x	20.3x	1.3%	3.7x
SMITH (A.O.)	AOS	Dec.	NR			\$39.71	\$45.80	\$27.39	\$ 1,833	\$ 1,991	1.90	2.70	2.91	14.7x	13.6x	1.4%	1.7x
<i>Average</i>														44.1x	19.7x	0.7%	2.0x
WATER RESOURCES/ INFRASTRUCTURE																	
INSITUFORM TECH	INSU	Dec.	NR			\$27.30	\$29.17	\$18.52	\$ 1,081	\$ 727	1.04	1.52	1.79	18.1x	15.4x	0.0%	1.6x
LINDSAY	LNN	Aug.	NR			\$67.08	\$72.80	\$30.80	\$ 851	\$ 358	1.11	1.68	2.22	37.1x	31.1x	0.5%	2.0x
TETRA TECH	TTEK	Sept.	NR			\$24.93	\$27.59	\$18.00	\$ 1,537	\$ 2,201	1.22	1.25	1.43	20.4x	18.0x	0.0%	1.7x
<i>Average</i>														25.8x	19.7x	0.7%	2.1x
Relevant Indices																	
Dow Jones Industrials	DJ30																\$11,785
S&P 500	SPX																\$1,295
Nasdaq Composite	NDX																\$2,331

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.



G. Shmois
216-525-8414



APPENDIX

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G. Shmois
216-525-8414

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