

## This Morning's Highlights

**WTR:** Reports 1Q11; Maintaining Buy Rating and Raising Target Price to \$29

**AWR:** Reports 1Q11; Maintaining Buy Rating and \$39 Target Price

**XRX:** Xerox Analyst Day Should Be Strategic With Focus On Underlying Business Mechanics

**MDVN:** Reports 1Q11 Results – Finally Formalized Interim Look At AFFIRM Around YE11

**Retail and Consumer Products:** 1Q Earnings Preview: Retailing Temperature Rising

### Aqua America, Inc.

WTR \$22.56

### Reports 1Q11; Maintaining Buy Rating and Raising Target Price to \$29

Buy/Target Price: \$29 (from \$26)

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EPS	Mar	Jun	Sep	Dec	FY	P/E	FY Rev. (mm)
FY10	\$0.16	\$0.22	\$0.32	\$0.21	\$0.90	25.0x	\$726.07
<i>Prior</i>	-	-	-	-	-	-	-
FY11	\$0.19A	\$0.23	\$0.32	\$0.24	\$0.99	22.9x	\$782.12
<i>Prior</i>	\$0.19	\$0.24	\$0.31	\$0.24	\$0.98	-	-
FY12	\$0.21	\$0.27	\$0.36	\$0.25	\$1.10	20.6x	\$813.26
<i>Prior</i>	\$0.21	\$0.26	\$0.34	\$0.25	\$1.07	-	-

Price	\$22.56
52-Week High/Low	\$23.79 - 16.52
Shares Outstanding (mm)	138.20
Market Cap. (mm)	\$3,117.84
Average Daily Volume (mm)	0.57

**Investment Summary** – Aqua America posted 1Q11 results that met expectations. Revenue in the quarter of \$171.3 million came in just below our \$173.3 million estimate and was up 6.7% from the same quarter last year, while adjusted EPS of \$0.19 matched our \$0.19 forecast, a substantial improvement YOY. We've adjusted our forward estimates, are maintaining our Buy rating and raising our target price to \$29, based on the shares attaining a level of 26x our 2012 EPS estimate of \$1.10. Risks to the achievement of our target price include integration of acquisitions, weather, environmental regulations, regulation of rates, energy costs, and interest rates.

#### Discussion

- **1Q11 results met expectations.** Revenue in the quarter of \$171.3 million came in just \$2.2 million shy of our estimate, and increased 6.7% from the same quarter last year. Adjusted EPS in the quarter of \$0.19 met our estimate and came in \$0.01 above consensus. Reported EPS of \$0.22 was positively impacted by a state income tax benefit of \$4.3 million associated with 100% bonus depreciation on the company's capital spending in Pennsylvania, which will continue to positively impact earnings through the remainder of the year.
- **O&M expenses improve.** Operations and maintenance expenses decreased 0.4% to \$67.3 million, due to a gain of \$2.5 million resulting from the sale of the company's Lake Conroe utility system in Texas. Their continued focus on containing expenses has dropped the expense-to-revenue ratio to 39%, down from the 42% from 1Q10.
- **Continued spending.** During the quarter, WTR invested \$60.3 million as part of its capital investment program, and expects to invest more than \$300 million on system improvements over the course of 2011. Aqua will not need to raise equity in 2011 – its cash generated from operations will exceed its capital spending plans. The company is also not planning to borrow for the remainder of 2011 – which should keep a lid on interest expenses.

- **Rate update.** Thus far in 2011, WTR has received rate awards in Indiana and Ohio, as well as infrastructure surcharges in various states estimated to add revenues of \$11.5 million. Currently, the company has \$26 million of rate cases pending before seven state regulatory entities and plans to file cases in seven states later in 2011 that are expected to impact 2012 results.
- **Adjusting/introducing estimates.** We have adjusted our estimates as follows: our adjusted (CORE) 2011 EPS estimate is now \$0.99, up from \$0.98, and our 2012 EPS estimate is now \$1.10, raised from \$1.07. We've introduced two classifications of EPS results for 2011 – "Adjusted (CORE) EPS, which excludes anticipated favorable tax impacts in 2011 due to bonus depreciation effects, and "Reported" EPS, which does include the aforementioned benefits.

## American States Water Company

### Reports 1Q11; Maintaining Buy Rating and \$39 Target Price

**AWR \$33.65**  
**Buy/Target Price: \$39**

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EPS	Mar	Jun	Sep	Dec	FY	P/E	FY Rev. (mm)
FY10	\$0.44	\$0.47	\$0.62	\$0.44	\$1.98	17.0x	\$398.94
<i>Prior</i>	-	-	-	-	-	-	-
FY11	\$0.37A	\$0.53	\$0.67	\$0.45	\$2.02	16.7x	\$412.15
<i>Prior</i>	\$0.48	\$0.56	\$0.67	\$0.45	\$2.15	-	-
FY12	\$0.50	\$0.58	\$0.73	\$0.46	\$2.27	14.8x	\$438.33
<i>Prior</i>	\$0.53	\$0.58	\$0.73	\$0.46	\$2.29	-	-

Price	\$33.65
52-Week High/Low	\$39.44 - 31.24
Shares Outstanding (mm)	18.66
Market Cap. (mm)	\$627.77
Average Daily Volume (mm)	0.09

#### Investment Summary

**American States Water's quarter failed to impress.** Revenue in the quarter of \$94.3 million (a 6.6% increase) missed our estimate of \$97.5 million. The revenue increase was driven by higher water revenues, due to rate increases that were approved by the CPUC in 4Q10; electric and contracted services both decreased. EPS in the quarter of \$0.37 came in well shy of our \$0.48 estimate. We have adjusted our estimates, and are maintaining our Buy rating and \$39 target price based on the shares attaining a level of 17x our 2012 EPS estimate of \$2.27. While 1Q wasn't the best quarter ever, our outlook remains positive due to improving fundamentals, favorable valuation, and a dividend yield of 3.3%. Risks to the achievement of our target price include integration of acquisitions, weather, environmental regulations, regulation of rates, and interest rates.

#### Discussion

- **1Q11 results breakdown.** Revenue from continuing operations of \$94.3 million came in a bit shy of our \$97.5 million estimate, and was up 6.6% from the same quarter last year. Water revenues in the quarter increased 14.8% to \$64.3 million, due primarily to rate increases granted by the CPUC for all Golden State Water Company water regions in 4Q10. Electric revenues dropped 2.3% to \$10.7 million due to the recording of \$958,000 in March 2010 in a memorandum account approved by the CPUC, of which there was no similar revenue recognition this quarter. The decrease was partially offset by an increase in rates granted by the CPUC. Contracted services revenue decreased 10.1% during the quarter due to \$5.6 million in management fees received in 1Q10 regarding two requests for equitable adjustments resolved with the U.S. government. Excluding the two adjustments, contracted services revenues increased by \$3.4 million in 1Q11 due to increases in construction revenues at the Fort Bliss military base.
- **Expenses ticked up.** Operating expenses in the quarter increased \$7 million to \$76.3 million, due to increases in water and electric supply costs, D&A (due to an increase in the depreciation rates approved by the CPUC and additions to utility plant), construction expenses (due to an increase in construction activities).
- **Rate case update.** In 4Q10, the CPUC approved rate increases for each of GSWC's water regions. The company plans on filing a general rate case for all three regions as well as the general office in July 2011, for the years 2013, 2014, and 2015. The new

general rate case will have an 18-month processing schedule. Further, the company filed its cost of capital proceeding on May 2, 2011.

- **Capex update.** GSWC capex was \$17 million in 1Q11, up from \$16 million the same quarter last year. GSWC plans on spending \$75 million in 2011 on capital improvements.

## Xerox Corp.

XRX \$10.25

### Xerox Analyst Day Should Be Strategic With Focus On Underlying Business Mechanics

Buy/Target Price: \$14

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EPS	Mar	Jun	Sep	Dec	FY	P/E	FY Rev. (mm)
FY09	\$0.05	\$0.16	\$0.14	\$0.27	\$0.63	16.3x	\$15,179.00
Prior	-	-	-	-	-	-	-
FY10	\$0.18	\$0.24	\$0.22	\$0.29	\$0.94	11.0x	\$21,633.00
Prior	-	-	-	-	-	-	-
FY11	\$0.23A	\$0.23	\$0.24	\$0.38	\$1.07	9.6x	\$22,544.26
Prior	-	-	-	-	-	-	-

Price	\$10.25
52-Week High/Low	\$12.08 - 7.67
Shares Outstanding (mm)	1,401.18
Market Cap. (mm)	\$14,362.14
Average Daily Volume (mm)	14.25

#### Investment Summary

**Xerox holds its Analyst Day tomorrow in NYC** – we expect the day to be mostly strategic in nature, with perhaps a focus on the underlying “mechanics” of the printing and services businesses providing additional insight on how to gauge their progress.

**We view this pull-back as an opportunity to accumulate the shares, particularly for investors with a six-month or longer investment horizon.** Even for a shorter-term “opportunistic” investor, we believe the stock has “oversold” relative to Mar Q results / Jun Q guidance, and we note that the stock subsequently appreciated after similar action coming off the Dec Q earnings call, but this time around having posted more solid results and guidance.

#### Specific topics we look for Xerox to cover include -

- **Guidance** – we’re not necessarily expecting Xerox to “update” their 2011 or 2012 EPS guidance, but we don’t believe it’s “out of the question” they’d update 2012. That said, we’d expect recently announced CEO Luca Maestri to perhaps “put his stamp” on the communication of the L-T financial model. So we’d anticipate either some additional insight into his philosophy or perhaps some updated commentary about the L-T model potential after 2012, etc.
  - We note that current EPS guidance stands at \$1.05 - \$1.10 for 2011, and \$1.10 - \$1.20 for 2012; Street for 2012 stands at \$1.24, so above current guidance, but a number that we believe is quite reasonable (we believe \$1.25 - \$1.30 is reasonable.)
- **Cash Flow** – we wouldn’t be surprised to see Xerox provide a little more hand-holding on the mechanics of 2011 cash flow given they re-affirmed 2011 CFO guidance of \$2.5B despite Mar Q cash flow being softer than expected. We believe this would be greatly appreciated by investors, as cash flow is perhaps the most important part of the Xerox story.
- **Share Repurchase** – we’re not expecting Xerox to provide great specifics on the commencement of a buy-back (15% - 20% of float between Sep Q 2011 and Dec Q 2012), other than to remain committed to 2H11.
- **Printing Business** – we expect Xerox to spend time walking through the “Technology” business (legacy hardware and supplies) and perhaps provide more of toolset to more easily track the progress of reported pages / installs to the target XRX Technology business

model. We're not sure if they'd do this by providing additional data or ultimately tweak how they present the current data, but we'd hope for additional visibility into Technology.

*Please see additional strategic points on the following page*

## Medivation, Inc.

### Reports 1Q11 Results – Finally Formalized Interim Look At AFFIRM Around YE11

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MDVN \$22.79  
 Sell/Target Price: \$6

EPS	Mar	Jun	Sep	Dec	FY	P/E	FY Rev. (mm)
FY10	\$(0.51)	\$(0.21)	\$(0.16)	\$(0.11)	\$(0.99)	NM	\$62.51
<i>Prior</i>	-	-	-	-	-	-	-
FY11	\$(0.24)A	\$(0.32)	\$(0.43)	\$(0.55)	\$(1.54)	NM	\$58.84
<i>Prior</i>	\$(0.11)	\$(0.22)	\$(0.36)	\$(0.54)	\$(1.27)	-	-
FY12	-	-	-	-	\$(2.33)	NM	\$58.84
<i>Prior</i>	-	-	-	-	\$(2.09)	-	-

Price	\$22.79
52-Week High/Low	\$25.50 - 8.43
Shares Outstanding (mm)	34.70
Market Cap. (mm)	\$790.72
Average Daily Volume (mm)	0.50

#### Investment Summary

**MDV3100 update.** Medivation has finally formalized its interim analysis for the Phase 3 AFFIRM trial and said that the unblinding may occur before year end or possibly go into 1Q12. Prior to this, we never could quite figure out why the company claimed that it may not take an interim look, other than to keep us in the dark about a missed primary endpoint. Furthermore, the company cited the analysis of the abiraterone data as the reason for the decision to perform the interim analysis. The unblinding is event driven, but Medivation would not give any color on the number of deaths or whether it would be more or less than in J&J's abiraterone trial. In 2Q11, Medivation plans to initiate a Phase 2 trial for MDV3100 in patients who have not had hormonal therapy or surgical castration (160mg/day dose, as in previous prostate cancer trials).

**1Q11 Results.** Medivation reported revenue of \$14.7 million and EPS of \$(0.24), which was essentially in-line with consensus of \$16.07 million and \$(0.23) respectively. The revenue constitutes the amortization of upfront payments made by Pfizer and Astellas, as per the collaboration agreements, and are being recognized on a straight-line basis until 2Q13 and 4Q14, respectively. R&D expense was \$17.6 million and significantly increased in comparison to 3Q10 and 4Q10. SG&A expense was about \$6.2 million, an increase of 30% over 4Q10. Medivation ended the quarter with \$195 million in cash and investments, which should provide a cash runway at least through 2012, regardless of Pfizer's continued involvement in the Dimebon collaboration.

**2011 guidance.** Medivation reiterated the operating expense guidance for 2011 of \$100 to \$110 million and indicated that most of this spending will be in R&D. Therefore, we have forecasted about \$88 million in R&D expenses for 2011. Additionally, Medivation previously stated that its expense guidance does not factor in any regulatory filing expenses, and we certainly would not expect any such expense.

**Valuation.** Our target price is derived by calculating the company's cash value at year end 2010, since we do not ascribe any value to Medivation's pipeline.

**Risks.** Risks applicable to Medivation not achieving our target price include, but are not limited to, the following: (1) product development; (2) business development; (3) financial; and (4) high stock-price volatility.

**Retail and Consumer Products**

CACH, FOSL, MFB, RICK

**1Q Earnings Preview: Retailing Temperature Rising**

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[bedere@bmur.com](mailto:bedere@bmur.com)**Investment Summary**

As we enter the heart of our earnings season, this week offers further reads on the international and accessories scenes and discretionary spending. We reiterate our Buy ratings on FOSL, MFB & RICK and Hold on CACH.

We continue to view the changes at Cache in a positive light, but question what the potential earnings power will be at the end of the day.

The good news should continue at Fossil, with the accessories trend still going strong; we believe our price target remains a way station to further upside if the current fashion shifts continue.

Maidenform should remain on track for solid results, but we believe an explosive upside is not in the cards; we remain fans of MFB, though.

Rick's will provide further guidance on the Vegas closing upside and spending trends; we believe trends are slowly moving in the company's favor.

### Important Disclosures

#### Ratings and Target Price History

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

AWR: [http://www2.investars.com/cgi-bin/charts/\\_nasdaq.exe?f=1&s=AWR&analystid=93&re=1&width=500&height=350&wmf=1](http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=AWR&analystid=93&re=1&width=500&height=350&wmf=1)

CACH: [http://www2.investars.com/cgi-bin/charts/\\_nasdaq.exe?f=1&s=CACH&analystid=93&re=1&width=500&height=350&wmf=1](http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=CACH&analystid=93&re=1&width=500&height=350&wmf=1)

FOSL: [http://www2.investars.com/cgi-bin/charts/\\_nasdaq.exe?f=1&s=FOSL&analystid=93&re=1&width=500&height=350&wmf=1](http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=FOSL&analystid=93&re=1&width=500&height=350&wmf=1)

MDVN: [http://www2.investars.com/cgi-bin/charts/\\_nasdaq.exe?f=1&s=MDVN&analystid=93&re=1&width=500&height=350&wmf=1](http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=MDVN&analystid=93&re=1&width=500&height=350&wmf=1)

MFB: [http://www2.investars.com/cgi-bin/charts/\\_nasdaq.exe?f=1&s=MFB&analystid=93&re=1&width=500&height=350&wmf=1](http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=MFB&analystid=93&re=1&width=500&height=350&wmf=1)

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

XRX: [http://www2.investars.com/cgi-bin/charts/\\_nasdaq.exe?f=1&s=XRX&analystid=93&re=1&width=500&height=350&wmf=1](http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=XRX&analystid=93&re=1&width=500&height=350&wmf=1)

All prices are as of the market close on 5/6/11.

At the time this report was published, Brean Murray, Carret & Co., LLC made a market in the securities of Cache, Inc., Medivation, Inc., Rick's Cabaret International Inc. and Fossil Inc.

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#### Brean Murray, Carret & Co. Stock Rating System

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

Hold - Fully valued, not expected to appreciate or decline materially within the next 12 months.

Sell - Expected to decline by at least 10% within the next 12 months.

	# of Securities	% of Total Securities	# of IB-Related Securities in Past 12 mos.	% of Total Securities
BUY	142	58.68%	16	11.27%
HOLD	67	27.69%	2	2.99%
SELL	6	2.48%	0	0%
NOT RATED	27	11.16%	3	11.11%
<b>TOTAL</b>	<b>242</b>			

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

### Valuation Methodology and Risks

**American States Water Company (AWR):** Our \$39 target price is based on the shares attaining a level of 17x our 2012 EPS estimate of \$2.27. Risks to the achievement of our target price include integration of acquisitions, weather, environmental regulations, regulation of rates, and interest rates.

**Aqua America (WTR):** \$29 target price, based on the shares attaining a level of 26x our 2012 EPS estimate. Risks to the achievement of our target price include weather, acquisitions, interest rates, environmental / public health responsibilities and regulatory climate.

**Fossil (FOSL):** Our target price of \$90 is based on 18.2x our new 2012 EPS projection of \$4.93. Key assumptions include: (1) 11% top-line growth, driven by a 14% increase in the overall store base; (2) 40bp increase in operating margins; (3) a small reduction in YoY share count; and (4) a slight slowdown in the rate of depreciation and amortization growth. We believe, if current fashion trends continue, that our projections could prove conservative.

**Maidenform Brands, Inc. (MFB):** Our \$33 target price is based on the shares trading at our new valuation of 13.8x our FY12 EPS estimate of \$2.39, which we think does not fully reflect the company's growing market share, focus on higher-margin categories and nascent longer-term initiatives (i.e., kiosks, bra fitting events, etc.) and the ability to maintain margins. Risks to the achievement of our target price include: (1) further mix shift changes to the lower margin mass merchant channel could lead to operating deleverage; (2) the company is dependent upon continued technology innovation to drive premium margins and sales; (3) the company depends on a limited customer base – financial difficulties for loyal customers could lead to bad results for Maidenform; and (4) Maidenform's competitors have greater financial resources, resulting in reduced profitability and market share for Maidenform.

**Medivation, Inc. (MDVN):** Our \$6 target price is derived by calculating the company's current cash value since we do not ascribe any value to Medivation's pipeline. Risks applicable to Medivation not achieving our target price include, but are not limited to, the following: (1) product development; (2) business development; (3) financial; and (4) high stock price volatility.

**Rick's Cabaret International Inc. (RICK):** Our \$12 target price translates to 12.0x our FY11 EPS estimate of \$1.00. Risks to the achievement of our target price include: (1) the company's ability to operate is dependent on local, state and federal laws; (2) the industry remains highly competitive; (3) Rick's key Las Vegas club has remained a material drag on earnings; (4) we believe the company's core customer continues to be affected by general economic trends; (5) the company remains highly indebted; (6) a key thesis for investing in Rick's is management's ability to successfully acquire and integrate new clubs; there can be no guarantee they will make further acquisitions or that they will succeed; and (7) for investors the limited trading volume will serve to exacerbate price movements.

**Xerox Corp. (XRX):** Our \$14 target price is based on the shares trading at 11x eventual NTM EPS of ~\$1.25 during 2011/12. Risks to the achievement of our target price include (1) ACS acquisition execution risk, synergies aren't realized, higher-than-expected costs; (2) revenue and associated leverage is softer than we forecast; (3) 2010 cost savings don't materialize to the degree we forecast; and (4) strength in the yen versus the dollar and euro provides a material cost headwind.

### Analyst Certification

We, Michael Gaugler, Christopher Noon, Ananda Baruah, Jonathan Aschoff, Ph.D. and Eric Beder, 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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