



Aqua America, Inc. (WTR)

1Q Beats on Cost Control and Bonus Depreciation; Maintain Rating

Price: (5/6/11)	22.56	Rating:	Neutral	FY Dec	2010A	2011E	2012E
52WK H-L:	24 - 17			Q1	0.16A	0.22A	
Market Cap (mil):	3,091	Suitability:	Lower Risk	Q2	0.22A	0.25E	
Shares Out (mil):	137.0			Q3	0.32A	0.36E	
Float (mil):	136.8			Q4	0.21A	0.24E	
Avg. Daily Vol (mil):	0.62	Price Target:	24	Total	0.90A	1.06E	1.09E
Dividend	0.58			Previous		1.00E	1.07E
Yield (%)	2.57			FY P/E	25.1x	21.3x	20.7x

Please refer to Appendix - Important Disclosures and Analyst Certification.

David E. Parker
dparker@rwbaird.com
813.274.7620

Heike M. Doerr
hdoerr@rwbaird.com
215.553.7816

Benjamin C. Gaither
bgaither@rwbaird.com
414.298.2480

Maggie Hughes
mhughes@rwbaird.com
414.765.3968

Action

WTR's focus on operational excellence and infrastructure investment is expected to generate above-average EPS growth (8-10%), helping to fuel attractive returns over the long term. We maintain our Neutral rating, however, as we believe the stock has moved close to fair value on price strength. We would likely be buyers under \$21. We consider WTR a core long-term holding, as accelerated infrastructure investment combined with effective cost control strategies should drive above-average EPS growth.

Summary

- **Solid 1Q results.** WTR reported 1Q11 EPS of \$0.22, which included a \$0.03 benefit from PA treatment of bonus depreciation. Operating results of \$0.19 bested our \$0.17 estimate and was a 18% YOY improvement.
- **Regulatory update.** Currently the company has \$26 million of pending rate cases outstanding across seven states and expects to file in an additional requests in North Carolina, Florida, Illinois. We also anticipate a 4Q11 request in Pennsylvania, the company's largest operating jurisdiction.
- **Capex spending.** Aqua spent \$60 million on capital investment in 1Q11 and remains on track to spend over \$320 million in 2011. A large portion of this capital program goes toward pipe replacement, which the company can earn a current return on through an infrastructure surcharge mechanisms, minimizing regulatory lag.
 - Bonus depreciation will help reduce external capital needs in 2011.
- **Acquisition strategy.** Management expects to close 15-20 tuck-in acquisitions during 2011, generating 1% customer growth.
- **Raising estimates.** On a weather-normalized basis, management stated that it is comfortable with 2011 YOY EPS growth of 8% from continuing operations (~\$0.97). We have adjusted our estimate to reflect the continued benefit from bonus depreciation throughout the remainder of the year.
- **Maintain Neutral rating and \$24 price target.** Despite WTR's best-in-class business model and successful cost mitigation strategy, we believe WTR trades close to full value; however, we consider WTR a core long-term holding.

Details

WTR reported 1Q11 EPS of \$0.22, well above our \$0.17 estimate and the consensus estimate of \$0.18. This was a 40% improvement over 1Q10 results of \$0.16. Bonus depreciation helped reduce WTR's effective tax rate, boosting YOY EPS by about \$0.03/share, or \$4.3 million.

Figure 1: 1Q11 Results Variance

Aqua America (WTR - NYSE)								
Quarterly Results Variance								
	Quarterly Results					Percent of Revenue		
	1Q11	1Q10	% Chg	Baird	Variance	1Q11	1Q10	Baird
Revenue	171	161	6.7%	\$173	(1.0%)			
Operating Expenses	110	110	0.5%	115	(4.4%)	64.4%	68.4%	66.7%
Operating Income	61	51	20.3%	58	5.8%	35.6%	31.6%	33.3%
Pretax Income	43	36	20.8%	38	13.7%	25.2%	22.3%	21.9%
Taxes	13	14		15		7.5%	8.9%	8.6%
Net Income	30	22	41.1%	\$23	31.6%	17.7%	13.4%	13.3%
EPS	\$0.22	\$0.16	39.5%	\$0.17	30.7%			
Diluted Shares	138	137		137				
<i>1Q11 nonrecurring and other items of note: None</i>								
<i>1Q10 nonrecurring and other items of note: None</i>								

Source: Company reports; RW Baird estimates

Outlook

A better-than-expected start to 2011 positions WTR well to achieve or beat our 8-10% YOY EPS growth expectations. While bonus depreciation helped boost 1Q11 EPS well above expectations, 1Q11 EPS was up over 20% YOY absent that benefit. Tight cost control, enhanced regulatory cost/investment recovery mechanisms and timely rate relief have all combined to reduce regulatory lag and improve earned ROEs.

Capex outlook. Aqua spent \$60 million on capital investment in 1Q11 and intends to spend over \$320 million in 2011. Over 90% of 2011 capital will be invested in similar system upgrades (main, pipes, hydrants, etc.), which provide direct value to customers; while <10% will be invested in mandatory compliance upgrades. These discretionary system upgrade investments are targeted for states with enhanced recovery mechanisms as discussed above (i.e., DSIC), which improve margin and earnings consistency. Management also stated that it will begin to transition a portion of its spending towards cost saving capital, investments that reduce future operating expenses (purchased water, electric, chemicals, etc.).

Customer growth. Organic customer growth remains low, as the economy and housing market remain challenging. WTR reiterated its 1% customer growth target for 2011, generated through 15-20 tuck-in acquisitions. This is similar to 2010 levels, however, the company expects to return to its historical customer growth level (+3-4%) over the next few years, as both organic and acquisition growth opportunities return.

Regulatory update: Currently the company has \$26 million of pending rate cases outstanding across seven states and expects to file in an additional requests in North Carolina, Florida, Illinois. We also anticipate a 4Q11 request in Pennsylvania, the company's largest operating jurisdiction. We assume rates take effect in the second half of

2012, as the company has historically completed PA rate cases in 9 months.

Growth expectations. On a weather-normalized basis, management stated that it is comfortable with 2011 YOY EPS growth of 8% from continuing operations (~\$0.97) and expressed confidence in achieving an EBITDA CAGR in the historical 7-10% range. We have adjusted our EPS estimate to reflect the continued benefit from bonus depreciation throughout the remainder of the year. On an EBITDA basis, which eliminates the noise of this benefit, we assume annual EBITDA growth of 7-8.5% over the next three years, driven by 6-7% revenue growth and operating expense management.

Earnings Highlights

1Q11 Results

Quarterly revenue increased 6.7% driven primarily by rate relief as customer growth remains muted. Excluding the benefit in 1Q10 from the gain on sale of a Texas system, operating & maintenance expense rose 2.5% YOY, declined 0.4% and the quarterly efficiency ratio (O&M as a percentage of revenue) improved to 39.3% from 40.9% as a result. Operating income increased 20%, while net income grew 41%, due to the bonus depreciation tax benefit.

Investment Thesis

We rate Aqua America Neutral with a 12-month price target of \$24. Our price target is 21x our 2012 EPS estimate, we believe in line with its peers when fully valued due to its relative earnings consistency, longer-term growth opportunities and wider potential shareholder base reflecting its relative size and liquidity.

Key investment considerations include the following:

- **Strong leadership team.** We believe Aqua has a strong leadership team that has demonstrated a keen focus on developing strong regulatory relationships and engineering innovative solutions to improve water system quality while providing investors with appropriate recovery. We believe management has executed regulatory and investment plans that provide stable and consistent value creation for investors.
- **Attractive total return potential.** We expect 8-10% long-term annual EPS growth with a 60-70% dividend payout ratio, providing a current dividend yield of 2.6% to add up to attractive total returns in the long term. Upside exists if WTR is able to accelerate its acquisition program of water and wastewater systems.
- **Constructive regulatory mechanisms.** The majority of WTR's regulatory operations are located in states that maintain enhanced regulatory recovery mechanisms that enable stable earned returns, including infrastructure investment riders, statewide rates and incentive mechanisms for acquisitions of troubled water systems. We believe such mechanisms provide a constructive regulatory environment in which to make capital investments, enabling improved and more consistent earned returns, which should lead to a premium peer valuation.
- **Acquisition growth.** Aqua has successfully acquired hundreds of water and wastewater systems in the past decade to supplement its internal growth. Acquisitions also provide significant follow-on investment opportunities as WTR improves the quality of an acquired water system. We believe such acquisitions are a key value driver for the company and the stock, as it continues to be a key player in consolidating some of the 53,000 water systems outstanding in the U.S. and rehabilitating those systems to improve water quality and drive investment growth.
- **Investment shifting to pipe replacement.** Following significant investment into water

treatment systems to meet advancements in water quality standards, Aqua's investment mix is shifting toward pipe replacement. While substantial capital investments will still be required to fund pipe replacement, the level of rate base growth could decline versus historical levels.

- **Water utility valuation.** We expect solid earned ROEs, 8-10% longer-term EPS growth potential and constructive regulatory investment recovery mechanisms should support a 20-22x forward P/E. The valuation is a premium to its regulated electric and gas utility peers reflecting significant industry consolidation and rate base growth opportunities with lowered regulatory risk, and generally more constructive regulatory mechanisms that enable earnings consistency.

Risks & Caveats

Our suitability rating on Aqua America is Lower Risk. Key risks include, but are not limited to, the following:

- **Regulation.** Regulated operations are subject to local, state and federal regulations. Changes in the regulatory environment can affect WTR's near-term and long-term performance.
- **Weather.** WTR's businesses are sensitive to fluctuations in the weather. Particularly wet or dry weather can impact near-term financial results.
- **Acquisition risk.** WTR may have the opportunity to purchase assets or companies in the near future. Acquisitions carry risks related to personnel, expected-versus-actual growth and a myriad of unforeseen hurdles, all of which can negatively affect earnings.
- **Product quality.** Unique among its sister regulated utility sectors, water utilities provide a product that is ingested. Despite robust mandated service quality standards that lower risk, a quality failure could materially impact the earnings and stock of WTR.
- **Dividend legislation.** Congress has extended tax legislation that reduced the tax rate on dividends received. However, the extensions only last through 2011 and there can be no assurance that further extensions of the tax relief will occur or that a future Congress would not repeal the current legislation, which could have an adverse impact on the after-tax value of dividends and the stock.

Company Description

Aqua America is a holding company for numerous regulated water and wastewater utilities operating in the eastern half of the U.S. that serve over 2.8 million people. Known as Philadelphia Suburban Corporation until 2004, Aqua America is headquartered in the Philadelphia suburbs where its corporate roots date back to 1886 for providing water and/or wastewater service.

Aqua America (WTR - NYSE)



Income Statement (\$millions)

Robert W. Baird & Co., Inc.

	2003	2004	2005	2006	2007	2008	2009	2010	1Q11	2Q11E	3Q11E	4Q11E	2011E	2012E	2013E
Operating Revenue	367.2	442.0	496.8	533	602	627	670.5	726.1	171.3	190.1	220.6	192.0	774.0	826.8	877.0
<i>Growth (%)</i>	14%	20%	12%	0	0	0	7%	8%	6.7%	6.5%	6.2%	7.1%	6.6%	6.8%	6.1%
Expenses															
O&M	141	181	203	220	253	262	270	280	67	73	77	73	291	304	319
Depreciation	49	55	61	71	83	89	103	108	27	28	29	29	114	124	131
Amortization	3	4	5	4	5	6	12	13	2	3	4	3	12	13	14
Taxes other than income tax	22	28	32	33	45	45	48	53	14	14	15	14	57	60	63
Total Expense	214	267	300	328	386	401	433	454	110	118	125	120	474	501	526
Operating Ratio	58.2%	60.4%	60.4%	1	1	1	64.6%	62.5%	64.4%	62.3%	56.8%	62.3%	61.2%	60.6%	60.0%
<i>Expense Growth (%)</i>	18%	25%	12%	0	0	0	8%	5%	0.5%	5%	6%	5%	4%	6%	5%
EBITDA	205	234	262	281	304	320	352	393	90	104	128	105	427	463	495
EBIT	154	175	197	206	216	226	237	272.1	61	72	95	72	300.4	325.8	351
<i>EBIT Margin</i>	41.8%	39.6%	39.6%	0	0	0	35.4%	37.5%	35.6%	37.7%	43.2%	37.7%	38.8%	39.4%	40.0%
<i>Growth (%)</i>	9%	14%	12%	0	0	0	5%	15%	20.3%	9%	6%	10%	10%	8%	8%
Other expense (income)	38	43	48	53	60	63	65	68	18	20	20	20	78	84	87
Pretax Income	115	132	148	152	156	163	172	204	43	52	75	52	222	242	264
<i>PT Margin</i>	31.4%	29.9%	29.8%	0	0	0	25.7%	28.1%	25.2%	27.2%	34.1%	27.0%	28.7%	29.3%	30.1%
<i>Tax Rate (%)</i>	39.8%	39.4%	38.4%	0	0	0	39.4%	39.2%	29.6%	34.5%	34.5%	35.0%	33.7%	37.5%	38.0%
Net Income	70	80	91	92	95	98	104	124	30	34	49	34	147	151	164
Shares Outstanding, Diluted	119	126	130	132	134	135	136	137	138	138	138	139	139	139	140
Continuing Ops EPS	\$0.59	\$0.64	\$0.70	\$0.70	\$0.71	\$0.73	\$0.77	\$0.90	\$0.22	\$0.25	\$0.36	\$0.24	\$1.06	\$1.09	\$1.17
<i>Growth (%)</i>	3%	9%	11%	-1%	2%	2%	5%	18%	39.5%	12%	12%	15%	18%	2.3%	7.8%
GAAP EPS	\$0.59	\$0.64	\$0.70	\$0.70	\$0.71	\$0.73	\$0.77	\$0.90	\$0.22	\$0.25	\$0.36	\$0.24	\$1.06	\$1.09	\$1.17
Dividend	\$0.34	\$0.37	\$0.40	\$0.44	\$0.48	\$0.51	\$0.55	\$0.59	\$0.16	\$0.16	\$0.16	\$0.17	\$0.63	\$0.67	\$0.71
<i>Payout Ratio (%)</i>	58%	58%	57%	64%	68%	70%	72%	65%	71%	63%	44%	68%	59%	62%	61%

Expense Ratios (% Total Rev)

O&M	38.3%	40.9%	40.9%	41.2%	42.0%	41.8%	40.3%	38.6%	39.3%	38.2%	35.0%	38.3%	37.5%	36.7%	36.4%
Depreciation	13.2%	12.3%	12.2%	13.3%	13.8%	14.2%	15.4%	14.9%	15.9%	14.9%	13.2%	15.3%	14.7%	15.0%	14.9%
Amortization	0.8%	1.0%	1.0%	0.8%	0.8%	0.9%	1.8%	1.8%	1.1%	1.8%	1.7%	1.6%	1.6%	1.6%	1.5%
Taxes other than income tax	5.9%	6.2%	6.4%	6.2%	7.5%	7.1%	7.2%	7.3%	8.0%	7.3%	6.9%	7.2%	7.3%	7.3%	7.2%

Source: Company Reports & Baird estimates

Please refer to Appendix - Important Disclosures and Analyst Certification.

Dave Parker 813.765.3968

Heike Doerr 215.553.7816

Ben Gaither 414.765.2480

Aqua America (WTR - NYSE)



Balance Sheet (\$mln)

	2007	2008	2009	1Q10	2Q10	3Q10	2010	2011	2012	2013
ASSETS										
Cash and Cash Equivalents	15	15	22	15	13	14	6	(15)	(65)	(87)
Accounts Receivable, net	83	85	79	74	86	96	86			
Materials and Supplies	9	10	10	10	10	10	34	35	10	11
Other Current Assets	9	12	11	12	11	29	20	20	11	11
Total Current	116	121	122	110	119	149	145	40	(45)	(65)
Net Property & Equipment	2,793	2,997	3,227	3,258	3,341	3,397	3,469	3,580	3,265	3,361
Regulatory Assets	164	222	226	224	221	219	217	217	217	217
Funds Restricted for Construction	77	53	59	58	82	42	135	135	82	82
Goodwill	37	41	85	85	43	42	40	40	43	43
Other Assets	41	51	43	43	61	63	65	67	63	64
Total Assets	3,227	3,485	3,763	3,778	3,867	3,913	4,072	4,079	3,625	3,702
LIABILITIES & EQUITIES										
Accounts Payable	46	50	58	36	50	37	45	46	46	46
Short-term Borrowing	57	81	27	64	51	69	90	100	85	75
Long-term Debt Due Within One Year	24	7	60	35	35	13	28			
Accrued Liabilities	57	55	56	69	62	88	60	60	60	60
Total Current	183	193	201	204	199	207	224	206	191	181
Long-term Debt & Commercial Paper	1,215	1,248	1,387	1,393	1,462	1,450	1,532	1,605	1,678	1,751
Deferred Income Taxes & Inv. Tax Credits	308	355	409	411	414	447	479	479	479	479
Regulatory Liabilities	12	15	29	30	31	33	36	36	36	36
Customers' Advances for Construction	86	73	77	68	69	69	67	68	68	69
Contributions in Aid of Construction	376	420	437	445	451	455	444	444	444	444
Other Liabilities	69	120	114	111	112	114	116	116	116	116
Shareholder's Equity	976	1,058	1,109	1,115	1,130	1,140	1,175	1,250	1,325	1,404
Total Liabilities and Equity	3,227	3,485	3,763	3,778	3,867	3,913	4,072	4,203	4,337	4,480
Balance Sheet Analysis										
Rate Base	2,024	2,150	2,305	2,334	2,407	2,427	2,479	2,694	2,902	3,191
Current Ratio	0.6	0.6	0.6	0.5	0.6	0.7	0.7	0.2	(0.2)	(0.4)
Days Sales Outstanding (DSO)	5.2	5.4	5.3	5.2	5.2	3.0	6.5	10.4	4.5	#DIV/0!
EBIT/ Interest Expense	3.2	3.3	3.5	3.4	3.4	3.7	3.5	3.7	3.9	#DIV/0!
Debt / Total Cap	56%	54%	57%	56%	57%	56%	57%	56%	56%	56%
Debt / Total Cap (incl Op Leases)	56%	55%	57%	56%	57%	56%	57%	56%	56%	56%
Book Value/Share	\$7.31	\$7.86	\$8.14	\$8.15	\$8.24	\$8.29	\$8.58	\$9.02	\$9.52	#DIV/0!

Source: Company Reports & Baird estimates

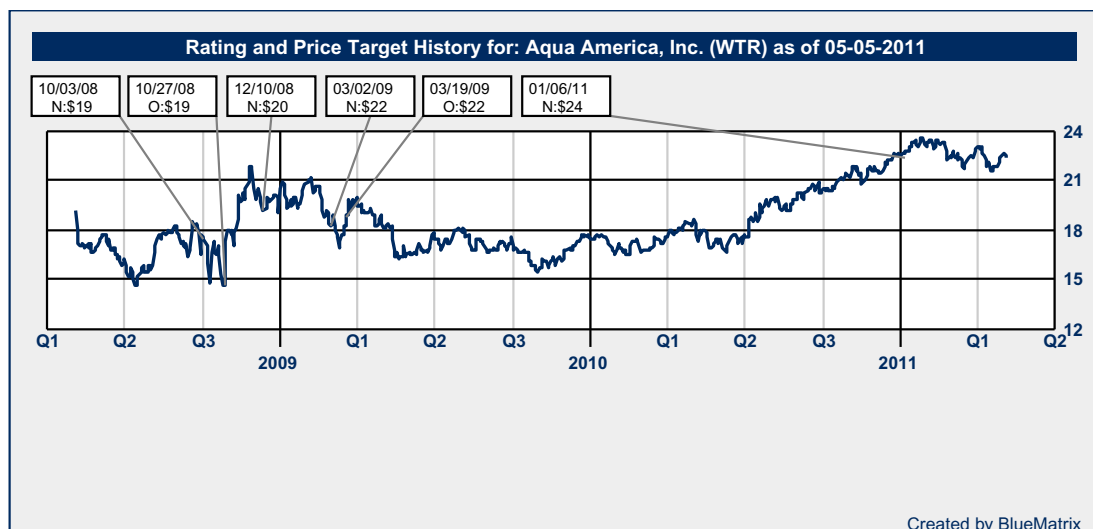
Please refer to Appendix - Important Disclosures and Analyst Certification.

Cash Flow Statement	2007	2008	2009	2010	2011E	2012E	2013E
Net Income	\$95	\$98	\$104	\$124	\$147	\$151	\$33
Depreciation and Amortization	88	94	115	121	126	137	33
Other	27	51	55	80	34	34	9
NWC Changes	(16)	(21)	(16)	(53)	(5)	(5)	(1)
Cash Flow from Ops (CFO)	194	222	259	272	303	317	74
Capital Expenditures	(238)	(267)	(284)	(327)	(325)	(340)	(88)
Free Cash Flow (FCF)	(44)	(46)	(25)	(54)	(22)	(23)	(14)
Acquisitions	(51)	(15)	(3)	(9)	(15)	(4)	(4)
Dividends	(64)	(69)	(75)	(81)	(86)	(22)	(22)
Net Cash Flow (NCF)	(159)	(129)	(103)	(144)	(123)	(48)	(39)
Capex/ Depreciation	2.71	2.84	2.47	2.70	2.57	2.48	2.62
FCF/Share	(0.33)	(0.34)	(0.18)	(0.40)	(0.16)	(0.17)	(0.10)
NCF/Share	(1.19)	(0.96)	(0.76)	(1.06)	(0.91)	(0.36)	(0.29)

Du Pont Formula	2007	2008	2009	2010
Net Margins (NI/S)	15.8%	15.6%	15.6%	15.9%
Assets Turnover (S/A)	0.20	0.19	0.19	0.19
Leverage (A/E)	3.22	3.30	3.34	3.32
ROE (Du Pont)	10.0%	9.6%	9.6%	9.9%
ROE (Rate Base)	10.7%	10.0%	10.4%	10.8%
Return on Assets	3.1%	2.9%	2.9%	3.0%
ROC (after-tax)	6.1%	5.8%	5.7%	5.8%

Valuation Measures	2007	2008	2009	2010
Historical P/E High	37	30	28	29
Historical P/E Low	27	17	20	21
Historical P/FCF High - current yr	-81	-65	-117	-125
Historical P/FCF Low - current yr	-57	-36	-84	-89
		Recent Price:	\$22.48	
Enterprise Value (EV)	2,833	2,774	2,384	3,080
ST+LT Debt	1,296	1,336	1,474	1,352
Cash & Equivalents	15	15	22	14
Total EV	4,115	4,095	3,836	4,418
EBITDA	304	320	352	357
EV / EBITDA	13.5	12.8	10.9	12.4
EV / EBITDA with Op Leases	13.5	12.8	10.9	12.4

Appendix - Important Disclosures and Analyst Certification



¹ Robert W. Baird & Co. Incorporated makes a market in the securities of WTR.

Robert W. Baird & Co. Incorporated and/or its affiliates expect to receive or intend to seek investment banking related compensation from the company or companies mentioned in this report within the next three months.

Investment Ratings: **Outperform (O)** - Expected to outperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months. **Neutral (N)** - Expected to perform in line with the broader U.S. equity market over the next 12 months. **Underperform (U)** - Expected to underperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months.

Risk Ratings: **L - Lower Risk** - Higher-quality companies for investors seeking capital appreciation or income with an emphasis on safety. Company characteristics may include: stable earnings, conservative balance sheets, and an established history of revenue and earnings. **A - Average Risk** - Growth situations for investors seeking capital appreciation with an emphasis on safety. Company characteristics may include: moderate volatility, modest balance-sheet leverage, and stable patterns of revenue and earnings. **H - Higher Risk** - Higher-growth situations appropriate for investors seeking capital appreciation with the acceptance of risk. Company characteristics may include: higher balance-sheet leverage, dynamic business environments, and higher levels of earnings and price volatility. **S - Speculative Risk** - High-growth situations appropriate only for investors willing to accept a high degree of volatility and risk. Company characteristics may include: unpredictable earnings, small capitalization, aggressive growth strategies, rapidly changing market dynamics, high leverage, extreme price volatility and unknown competitive challenges.

Valuation, Ratings and Risks. The recommendation and price target contained within this report are based on a time horizon of 12 months but there is no guarantee the objective will be achieved within the specified time horizon. Price targets are determined by a subjective review of fundamental and/or quantitative factors of the issuer, its industry, and the security type. A variety of methods may be used to determine the value of a security including, but not limited to, discounted cash flow, earnings multiples, peer group comparisons, and sum of the parts. Overall market risk, interest rate risk, and general economic risks impact all securities. Specific information regarding the price target and recommendation is provided in the text of our most recent research report.

Distribution of Investment Ratings. As of April 29, 2011, Baird U.S. Equity Research covered 654 companies, with 52% rated Outperform/Buy, 47% rated Neutral/Hold and 1% rated Underperform/Sell. Within these rating categories, 12% of Outperform/Buy-rated, and 7% of Neutral/Hold-rated companies have compensated Baird for investment banking services in the past 12 months and/or Baird managed or co-managed a public offering of securities for these companies in the past 12 months.

Analyst Compensation. Analyst compensation is based on: 1) The correlation between the analyst's recommendations and stock price performance; 2) Ratings and direct feedback from our investing clients, our sales force and from independent rating services; and 3) The analyst's productivity, including the quality of the analyst's research and the analyst's contribution to the growth and development of our overall research effort. This

compensation criteria and actual compensation is reviewed and approved on an annual basis by Baird's Research Oversight Committee. Analyst compensation is derived from all revenue sources of the firm, including revenues from investment banking. Baird does not compensate research analysts based on specific investment banking transactions. A complete listing of all companies covered by Baird U.S. Equity Research and applicable research disclosures can be accessed at

<http://www.rwbaird.com/research-insights/research/coverage/research-disclosure.aspx>.

You can also call 1-800-792-2473 or write: Robert W. Baird & Co., Equity Research, 24th Floor, 777 E. Wisconsin Avenue, Milwaukee, WI 53202.

Analyst Certification. The senior research analyst(s) certifies that the views expressed in this research report and/or financial model accurately reflect such senior analyst's personal views about the subject securities or issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

Disclaimers

Baird prohibits analysts from owning stock in companies they cover.

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST

The Dow Jones Industrial Average, S&P 500, S&P 400 and Russell 2000 are unmanaged common stock indices used to measure and report performance of various sectors of the stock market; direct investment in indices is not available.

Baird is exempt from the requirement to hold an Australian financial services license. Baird is regulated by the United States Securities and Exchange Commission, FINRA, and various other self-regulatory organizations and those laws and regulations may differ from Australian laws. This report has been prepared in accordance with the laws and regulations governing United States broker-dealers and not Australian laws.

Copyright 2011 Robert W. Baird & Co. Incorporated

Other Disclosures

UK disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited holds an ISD passport.

This report is for distribution into the United Kingdom only to persons who fall within Article 19 or Article 49(2) of the Financial Services and Markets Act 2000 (financial promotion) order 2001 being persons who are investment professionals and may not be distributed to private clients. Issued in the United Kingdom by Robert W. Baird Limited, which has offices at Mint House 77 Mansell Street, London, E1 8AF, and is a company authorized and regulated by the Financial Services Authority. For the purposes of the Financial Services Authority requirements, this investment research report is classified as objective.

Robert W. Baird Limited ("RWBL") is exempt from the requirement to hold an Australian financial services license. RWBL is regulated by the Financial Services Authority ("FSA") under UK laws and those laws may differ from Australian laws. This document has been prepared in accordance with FSA requirements and not Australian laws.

[Ask the analyst a question](#)

[Click here to unsubscribe](#)