

October 16, 2009

This Morning's Highlights

FTEK: Initiating Coverage with a Buy Rating; Well Positioned to Take Advantage of Likely Upcoming Tighter NOx Emissions Standards in the U.S. and Overseas

MWA: Raising FY10 Estimates; Introducing FY11 Estimates; Upgrading to Buy from Hold

Water Utilities, Flow Technology and Purification: Quarterly Water Industry Preview

AEO: Holiday Preview Bedazzles Us Enough to Raise Target Price, But Not to Drop Sell Rating

SGMS: Incorporating Latest Outlook for Italy JV into our Estimates

Fuel-Tech, Inc.**FTEK \$11.20**

Initiating Coverage with a Buy Rating; Well Positioned to Take Advantage of Likely Upcoming Tighter NOx Emissions Standards in the U.S. and Overseas

Initiating Coverage at Buy/Target Price: \$13

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EPS	Mar	Jun	Sep	Dec	FY	P/E	FY Rev. (000)
FY08	\$0.06	\$0.02	\$0.09	\$(0.02)	\$0.15	NA	\$81,074
FY09	\$(0.07)A	\$(0.01)A	\$0.01	\$0.03	\$(0.04)	NA	\$76,576
FY10	NA	NA	NA	NA	\$0.30	37.3x	\$97,658

Price	\$11.20
52-Week High/Low	\$14.15 - 6.05
Shares Outstanding (000)	24,134
Market Cap. (000)	\$270,301
Average Daily Volume	126,493

Investment Summary

Initiating Coverage. We are initiating coverage of Fuel Tech, Inc. (FTEK) with a Buy rating and a \$13 target price. **Overall, we believe that Fuel Tech is very well positioned to benefit from the global trend to make fossil fuels, particularly coal, cleaner.** In our opinion, as one of the only pure-play "clean coal" equities, Fuel Tech is likely to get more positive recognition by investors, as the U.S. and other nations, including China, begin to enact stricter emissions standards for coal.

What Is Fuel Tech? The company has **two main business segments, Air Pollution Control (APC) and FUEL CHEM.** Regarding APC, its key revenue driver is typically compliance with environmental regulations. APC's technology and equipment reduces NOx emissions at fossil fuel (typically coal-fired) plants. Regarding FUEL CHEM, it is driven mostly by utilities' ability to deploy capital. FUEL CHEM applies specialty chemicals to fossil fuel plants in order to increase overall boiler efficiency and reduce emissions levels by reducing slag and corrosion.

Timing of U.S. Regulations. The timing of U.S. and global emissions regulations is the biggest question mark surrounding Fuel Tech. However, we believe that **it is much more likely than not that the EPA (or even Congress) will act in the next 6-8 months.** We expect NOx standards to be at least as stringent as under the Clear Air Interstate Rule (CAIR) of 2005. Regulatory uncertainty—CAIR was vacated in mid-2008, and later reinstated, but then the EPA suggested that NOx credits may become worthless when the rule is rewritten, causing major uncertainty among utilities—combined with the global financial crisis, has hurt Fuel Tech this year. However, longer-term, we believe Fuel Tech is in excellent shape. With the economy improving, and transparency on U.S. NOx regulations likely to occur soon, we expect 2010 and 2011 to be good years for Fuel Tech. If a NOx cap and trade system is abandoned (we think this is the most likely scenario), utilities may very well need to be compliant with something close to current NOx standards by the end of 2010. **Thus, we'd expect a significant pick-up in 2010 revenues for Fuel Tech.**

Significant Overseas Potential. In addition, **we expect another catalyst for Fuel Tech to come in the form of overseas emissions reductions mandates. In particular, China holds tremendous potential.** While Fuel Tech has been gaining traction in China, it still represents a small part of overall revenues. China generates the vast majority of its electricity from coal, which is expected to grow by over 50% by 2015, according to the IEA. We believe it is very likely that China addresses the NOx issue in its next 5-year plan, which begins in 2011. In fact, there have already been some encouraging signs at the provincial level. Guangdong has enacted NOx emissions

limits, which call for NOx reductions of 20% of 1997 levels by 2010, in time for next year's Asia Games. We believe Fuel Tech could win some of this business over the next 6 months, which would be a positive.

Valuation. We are initiating coverage with a Buy rating and a \$13 target price, which we derive from a detailed earnings model using both a P/E and EV/EBITDA multiple approach. We are using a 25x P/E multiple of our 2011 EPS estimate of \$0.50, and a 12.5x EV/EBITDA multiple of our 2011 EBITDA estimate of \$24 million.

Mueller Water Products, Inc.

MWA \$5.50

Raising FY10 Estimates; Introducing FY11 Estimates; Upgrading to Buy from Hold

Buy (from Hold)/Target Price: \$8

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EPS	Dec	Mar	Jun	Sep	FY	P/E	FY Rev. (mm)
FY09	\$0.00	\$(0.13)	\$(0.16)	\$(0.04)E	\$(0.34)E	NM	\$1,430.18E
<i>Prior</i>	-	-	-	-	-	-	-
FY10	\$(0.01)	\$(0.03)	\$0.03	\$0.06	\$0.05	NM	\$1,448.24
<i>Prior</i>	\$(0.04)	\$(0.06)	\$0.02	-	\$(0.01)	-	-
FY11	\$0.09	\$0.09	\$0.16	\$0.18	\$0.51	10.7x	\$1,550.91
<i>Prior</i>	-	-	-	-	-	-	-

Price	\$5.50
52-Week High/Low	\$8.55 - 1.48
Shares Outstanding (mm)	116.53
Market Cap. (mm)	\$640.93
Average Daily Volume (mm)	3.50

Investment Summary

We are maintaining our 4QFY09 estimates, raising our FY10 EPS estimates and establishing FY11 EPS estimates on the shares of Mueller Water Products. We are also upgrading our rating from Hold to Buy and establishing an \$8 target price based on (1) a lowered risk profile as it pertains to debt levels, (2) an expectation that municipal and residential end markets will improve in mid-year 2010, and (3) an increase in the valuation multiples we expect the market will pay for the equity.

Discussion

- Lowered risk profile.** The recent equity offering raised approximately \$176 million, which the company will use to repay debt obligations. Debt levels have been the major concern surrounding our Hold rating for quite some time; debt/equity levels have fluctuated substantially in 2009. The recently signed credit agreement was particularly unfavorable with regard to interest rate levels, and interest expense was set to rise meaningfully before the recent equity offering was completed. The shelf registration from June of 2009 indicated the company could offer or sell up to \$300 million of equity, debt, or other types of securities. Given the high cost of the credit agreement debt, we'd become incrementally more positive on the shares' long-term outlook if the company were to decide to continue offering equity to remove debt, especially if it can do so to gain enough leverage to return to interest levels on its remaining debt commensurate with its previous agreement (which was LIBOR +1.75), with the provision that it not be meaningfully dilutive to FY11 EPS.
- Key end markets appear to have stabilized.** Starting first with the municipal end market, we have noted that more numerous high-profile line breaks continue to occur in key metropolitan regions. The cities of Los Angeles and Boston have been experiencing large numbers of breaks (Los Angeles breaks doubled YoY in September). We attribute the high level of breaks we are seeing in the news to delayed, necessary maintenance not just from the last year of difficult credit market conditions for municipalities overall, but also from years prior. The breaks in Los Angeles and Boston that have materialized recently were certainly not from weather conditions (freezing and thawing) given the time of year they are occurring. Our view is that increasing breaks from delayed maintenance of aging infrastructure will contribute to stabilization and eventual growth in the repair and maintenance end market over the next several years.

Water Utilities, Flow Technology and Purification

AWK, AWR, CCC, CWCO, CWT, IEX, MPR, MWA, SBS, SJW, SWWC, VE, WTR, WTS, YORW

Quarterly Water Industry Preview

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Company	Ticker	Rating	Price	Target	09E EPS / (P/E)	10E EPS / (P/E)
American Water Works Company, Inc.	AWK	Buy	\$19.76	\$28.00	\$1.32 (15.0x)	\$1.39 (14.2x)
American States Water Company	AWR	Buy	\$36.26	\$42.00	\$1.92 (18.9x)	\$2.32 (15.6x)
Calgon Carbon Corp.	CCC	Buy	\$16.29	\$17.00	\$0.50 (32.6x)	\$0.83 (19.6x)
Consolidated Water Co., Ltd.	CWCO	Buy	\$14.67	\$24.00	\$0.80 (18.3x)	\$1.00 (14.7x)
California Water Service Group	CWT	Buy	\$39.63	\$44.00	\$2.16 (18.3x)	\$2.30 (17.2x)
IDEX Corp.	IEX	Sell	\$29.33	\$16.00	\$1.43 (20.5x)	\$1.61 (18.2x)
Met-Pro Corp.	MPR	Hold	\$9.51	NA	\$0.65A (14.6x)	\$0.40 (23.8x)
Mueller Water Products, Inc.	MWA	Buy	\$5.50	\$8.00	\$-0.34 (NA)	\$0.05 (110.0x)
Sabesp	SBS	Buy	\$43.32	\$66.00	\$7.17 (6.0x)	\$7.36 (5.9x)
SJW Corp.	SJW	Hold	\$22.79	NA	\$0.76 (30.0x)	\$1.02 (22.3x)
Southwest Water Co.	SWWC	Hold	\$5.44	NA	\$0.18 (30.2x)	\$0.38 (14.3x)
Veolia Environnement SA	VE	Hold	\$35.34	NA	\$1.54 (22.9x)	\$2.14 (16.5x)
Aqua America, Inc.	WTR	Buy	\$16.59	\$26.00	\$0.78 (21.3x)	\$0.95 (17.5x)
Watts Water Technologies, Inc.	WTS	Hold	\$31.18	NA	\$1.40 (22.3x)	\$1.68 (18.6x)
The York Water Company	YORW	Buy	\$14.73	\$18.00	\$0.65 (22.7x)	\$0.65 (22.7x)

Distribution

Defined. The Distribution segment comprises those companies with more than 75% of total revenues derived from providing potable water service. For the U.S.-based companies, customer rates are regulated.

Outlook. We remain positive on both the short- and long-term fundamentals for the majority of our Distribution coverage universe. Rate case filings have been timely, regulatory awards have largely met expectations, and capex trends to build its rate base have been tracking higher. Municipal budget problems brought on by declining tax receipts should create a more conducive environment for acquisitions by the publicly traded players in the space, due to their superior access to capital markets and economies of scale. That said, weather impacts (drought conditions in California, extremely wet conditions during the past six months in the Northeast region) are presenting challenges to achieving maximum EPS for many.

Names to Watch: American Water Works (AWK), Aqua America (WTR), and Sabesp (SBS).

Flow Technology

Defined. The Flow Technology segment comprises those companies with products that are involved in the transmission of water, including the residential, municipal, commercial or industrial end markets. Products typically falling within this category include pipes, pumps and valves.

Outlook. We consider valuations within this sector to be extremely rich at current levels. Many names are trading at or near historically high forward P/E levels, despite continued weak economic conditions and relatively high raw material costs, particularly copper. In our view, this segment holds the highest risk for a significant pullback in share prices, particularly if the overall market pulls back from its YTD 20%+ gains. We like the group long term, but recommend investors await a better entrance point from positive identifiable catalysts on a name-by-name basis before considering adding to or taking new positions with the exception of Mueller Water Products, which we are upgrading to Buy from Hold.

Names to Watch: Watts Water Technologies (WTS) Mueller Water Products (MWA).

Water Solutions

Defined. The Water Solutions segment comprises those companies involved in solving complex water problems (disinfection or purification, which includes desalination and filtration technologies).

Outlook. Although valuations have moved up along with the recent general market rallies, we still see excellent values within this segment. Fundamentals are strengthening for some of our covered names, and several have significant, identifiable catalysts to maintain EPS and share momentum to the upside.

Names to Watch: Calgon Carbon Corp (CCC), Consolidated Water (CWCO).

American Eagle Outfitters Inc.

AEO \$19.35

Holiday Preview Bedazzles Us Enough to Raise Target Price, But Not to Drop Sell Rating

Sell/Target Price: \$14 (from \$10.50)

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EPS	Apr	Jul	Oct	Jan	FY	P/E	FY Rev. (mm)
FY09	\$0.21	\$0.29	\$0.30	\$0.19	\$0.99	19.5x	\$2,988.87
FY10	\$0.08A	\$0.14A	\$0.19	\$0.30	\$0.70	27.7x	\$2,996.94
FY11	-	-	-	-	\$0.89	21.8x	\$3,153.32

Price	\$19.35
52-Week High/Low	\$19.50 - 6.98
Shares Outstanding (mm)	207.38
Market Cap. (mm)	\$4,012.73
Average Daily Volume (mm)	5.67

Investment Summary

We are raising our target price to \$14 (from \$10.50) but maintaining our Sell rating on AEO after the company previewed its holiday offerings and offered a cautiously optimistic view going forward. While we can see the path to a return to prominence, we believe in many respects the current valuation of AEO almost fully reflects a quick turn in both the top line and operating margins; we remain skeptical both of those will shift in the holiday season. Further, we believe the American Eagle presentation provided material confirmation that the holiday teen season is going to be one of the most aggressive in terms of pricing in recent history and that the “ultra bull” case of a return to peak margins, also in the short term, is misplaced. Our favorite name in the teen space remains Aeropostale; we saw nothing in the American Eagle presentation which leads us to believe Aero will not once again be the key market share leader in the holiday season. We note our new target price of \$14 translates to 15.7x our FY11 EPS estimate; we believe, even if the company were to drive material upside to our projections, that AEO is, at best, fairly valued; if we assume a 15% operating margin in FY11 (within management’s goal of a mid-teen operating margin) our models register EPS of \$1.50, or 9.3x our target price; we believe, given the still uncertainty of the turn, that the risk/reward at \$14 is more than fair.

Discussion

- **Fashion show looks good...in a vacuum.** We were impressed with the company’s offerings for holiday and believe they are more focused than in prior periods and the emphasis on key price/value offerings has been improved. Key points include: 1) an even deeper emphasis on denim, with more washes, colors and looks, including skinny, distressed and boyfriend styles; further, almost 95% of looks will be in the more forgiving stretch fabric configuration; 2) a de-emphasis of logo wear on all levels, even on graphic tees; we believe Aeropostale will be one of the few players offering material logo-driven looks for the season; 3) even more flannel shirts, in a wider variety of colors and looks; 4) the sweater for girls and knit tops for boys will be the key tops trend and represent a fun shift; 5) accessories, especially jewelry, will see a major upgrade in terms of depth and new fixtures; and 6) a deeper fashion and depth emphasis on outerwear, from moto jackets to pea coats. Frankly, in the vacuum of not knowing how the other competitors’ offerings are going to play out, the potential promotional cadence and overall traffic levels, the line seemed to be a positive, and management believes it can leverage a strong holiday season, and continued easy comparisons into a solid spring 2010; we shall see in the real world (in all fairness, we can make the above comments for virtually every fashion/product offering we have seen in our careers).

Scientific Games Corp.

Incorporating Latest Outlook for Italy JV into our Estimates

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SGMS \$19.15

Hold/Target Price: NA

EPS	Mar	Jun	Sep	Dec	FY	P/E	EBITDA (mm)
FY08	\$0.24	\$0.33	\$0.27	\$0.10	\$0.94	20.4x	\$355.99
<i>Prior</i>	-	-	-	-	-	-	-
FY09	\$0.13A	\$0.18A	\$0.16	\$0.18	\$0.64	29.8x	\$315.47
<i>Prior</i>	-	-	-	-	-	-	-
FY10	\$0.20	\$0.24	\$0.19	\$0.20	\$0.84	22.9x	\$347.67
<i>Prior</i>	\$0.21	\$0.25	\$0.22	\$0.23	\$0.91	-	-

Price	\$19.15
52-Week High/Low	\$20.16 - 10.05
Shares Outstanding (mm)	92.45
Market Cap. (mm)	\$1,770.42
Average Daily Volume (mm)	1.01
Total Debt (mm)	\$1,369.08
Net Debt (mm)	\$1,134.25
Total Debt/EBITDA	3.79x

Investment Summary

We are incorporating the latest outlook for the new Italian scratch and win contract, which outside of a successful protest by a would be competitor, is significantly better for Scientific Games than previous expectations. Although the upfront payment will be burdensome, we are forecasting SGMS to maintain similar cash flows under the new contract less the cost of its portion of the up-front payments. Although the company's earnings base is potentially (pending the protest outcome) as stable as it has been in years, greater visibility on profit growth in China and/or other opportunities is necessary before we become more aggressive in our rating given the current valuation.

Discussion

- **Revising estimates and initiating 2011 estimates.** We are reducing our 2010 EPS estimate \$0.07 to \$0.84, primarily reflecting the cost of its 20% portion of the 800 million euro fee, due in two installments totaling about \$238 million. Our initial 2011 EPS estimate of \$0.90 incorporates a \$5.5 billion sales run-rate in China, the maintenance of similar profitability in Italy, and modest growth in its other segments.
- **Italian scratch and win (S&W) update.** It appears that CLN (the consortium 63% owned by Lottomatica and 20% owned by SGMS) is the only bidder as other potential vendors have backed out of the bidding process. Additionally, it has recently been publicized that the operator's revenue according to the new contract would be exempt from VAT, which by our estimates will make the profitability similar to the previous contract. However, we are unaware of anything that would change the 800 million euro fee.
- **Vendor protest.** Sisal, another Italian lottery operator that we considered a viable competitor, has reportedly protested the bidding process. A court could decide on the matter by the end of the month. If the bidding process is overturned, then we would expect an extension of the current contract, but there would also be the potential for a worse outcome for SGMS.

Valuation

- SGMS trades at 22.9x our 2010 EPS estimate, compared to the group of gaming equipment suppliers we cover at 24.2x. Although at a discount to the group, we expect an average 2011 EPS growth rate of 23% for the group vs. SGMS at 8%. SGMS certainly has a more solid earnings base than we expected just a couple of weeks ago (assuming the recently completed Italian RFP process is upheld); however, we believe increased visibility on growth prospects in China and/or elsewhere is necessary for significant upside in the shares. Accordingly, we are maintaining a Hold rating.

Important Disclosures

Ratings and Target Price History

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

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

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

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

AWR: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=AWR&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

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

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

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

IEX: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=IEX&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: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=MWA&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

SGMS: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=SGMS&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

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

VE: http://www2.investars.com/cgi-bin/charts/_nasdaq.exe?f=1&s=VE&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 10/15/2009.

At the time this report was published, Brean Murray, Carret & Co., LLC made a market in the securities of Consolidated Water Co., Ltd., Scientific Games Corp., Southwest Water Co. and The York Water Company

Brean Murray, Carret & Co., LLC has managed or co-managed a public offering or placement of securities of American Water Works Company, Inc., American States Water Company and Mueller Water Products, Inc. within the past 12 months.

American Water Works Company, Inc. is, or within the last 12 months has been, a client of Brean Murray, Carret & Co., LLC, and investment banking and/or advisory services are being, or have been provided.

American States Water Company is, or within the last 12 months has been, a client of Brean Murray, Carret & Co., LLC, and investment banking and/or advisory services are being, or have been provided.

Mueller Water Products, Inc. is, or within the last 12 months has been, a client of Brean Murray, Carret & Co., LLC, and investment banking and/or advisory services are being, or have been provided.

Brean Murray, Carret & Co., LLC expects to receive compensation or intends to seek compensation for investment banking and/or advisory services from American Water Works Company, Inc. and Mueller Water Products, Inc. within the next 3 months.

Brean Murray, Carret & Co., LLC has received compensation for investment banking and/or advisory services from American Water Works Company, Inc. and American States Water Company within the past 12 months.

In the normal course of its business, Brean Murray, Carret & Co., LLC does and intends to seek compensation for investment banking and/or non-investment banking services from the companies in its coverage universe. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decisions. Non-U.S. research analysts that may have contributed to this report are not registered/qualified as research analysts with the FINRA.

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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	106	58.56%	10	9.43%
HOLD	63	34.81%	0	0%
SELL	10	5.52%	0	0%
NOT RATED	2	1.1%	0	0%
TOTAL	181			

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 target price of \$42 is based on 18x our 2010 EPS estimate of \$2.32. Risks to the achievement of our target price include integration of acquisitions, weather, environmental regulations, regulation of rates, and interest rates.

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 \$1.41. 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 \$26 target price is based on the shares achieving a P/E multiple of 28x our 2010 EPS estimate of \$0.94. Risks to the achievement of our target price include weather, acquisitions, interest rates, environmental / public health responsibilities and regulatory climate.

California Water Service Group (CWT): Our \$44 target price is based on a multiple of 19x our 2010 EPS estimate of \$2.30. Risks to the achievement of our target price include integration of acquisitions, weather, environmental regulations, and regulation of rates.

Calgon Carbon (CCC): Our \$17 target price is based on the shares attaining a level of approximately 20x our 2010 EPS estimate of \$0.83. Risks to the achievement of our target price include global macroeconomic conditions, foreign exchange exposure, changes in environmental regulations.

Consolidated Water (CWCO): Our \$24 target price is based on a multiple of 24x our FY10 EPS estimate of \$1.00. Risks to the achievement of our target price include weather, acquisition integration, environmental regulations, and political climates in the company’s service territories.

IDEX Corp. (IEX): Our \$16 target price is based on our expectation that the shares will trade at a level just above 10x our 2010 EPS estimate of \$1.61. Risks to the achievement of our target price include accretive acquisitions, acquisition of the company, improving macroeconomic

fundamentals.

Mueller Water Products (MWA): We are using our FY11 EPS estimate of \$0.51 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.

National Coal Corp (NCOC): Our \$5 target price is based on a multiple of 4x our 2010 EPS estimate of \$1.24. Risks to the achievement of our target price include global economic conditions, natural disasters, mining conditions, and labor disruptions.

Sabesp (SBS): Our target price of \$66 is based on the shares attaining a P/E multiple of 9x our 2010 EPADR estimate of \$7.36. 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.

Veolia Environnement (VE): Our €30 and ADR \$40 target prices are based on the shares attaining a level of 18x our 2010 EPS/ADR estimates of €1.63/US\$2.31, respectively. Risks to the achievement of our target price include acquisitions, changes in energy prices, currency effects, contract competition, interest rates, weather, changes in legislation and environmental / public health responsibilities.

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.

Fuel Tech (FTEK): Our \$13 target price is derived from a detailed earnings model using both a P/E and EV/EBITDA multiples approach. We are using a 25x 2011 P/E multiple of our \$0.50 EPS estimate, and a 12.5x 2011 EV/EBITDA multiple of our \$24 million EBITDA estimate. Risks to the achievement of our target price include those associated with cost inflation, a competitive market, risks, the company's focus on the Asian market, its dependence on utilities' capital expenditures, and its dependence on environmental regulations.

American Eagle Outfitters (AEO): Our \$14 target price translates to 15.7x our FY11 EPS estimate. Risks to our short thesis include: (1) the ability for the company to register better margins and same store sales than our projections; (2) the potential success of the MARTIN + OSA and Aerie chains; (3) fashion/pricing missteps by key competitor Aeropostale; (4) a rebound in consumer spending and the company's core customer base; and (5) a quicker than expected return to more normalized inventory levels.

Aeropostale (ARO): Our \$51 target price is 15.0x our FY11 EPS estimate of \$3.40. Risks to the achievement of our target price include: (1) given the company's "high low" pricing model, greater-than-planned discounting can lead to material operating misses; (2) the company's business model is dependent upon continued unit expansion; (3) the company is in the midst of rolling out a new unproven children's apparel concept; (4) Aeropostale competes with players that have greater financial resources; and (5) the company is almost entirely mall-based in the U.S.; as such, changes in mall traffic could materially affect results.

Analyst Certification

We, Jeremy Sussman, Michael Gaugler, Christopher Noon, Eric Beder and Ryan Worst, CFA, 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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