# WATER INVESTMENT NEWSLETTER

**Volume 18, Number 12** "A Newsletter On Water Stocks and Investments" **December 15, 2004**


## STOCK PROFILE

# Watts Water Technologies seeks growth through sales, acquisitions

By Roy W. Urrico

NORTH ANDOVER, Mass. — Plumber Joseph E. Watts' invention of a steam-pressure valve was the catalyst for the founding of the Watts Regulator Co., in Lawrence, Mass. in 1874. Back then, the small machine shop supplied parts to nearby New England textile mills, but today the company — known as **Watts Water Technologies, Inc (NYSE:WTS)** and based in North Andover, Mass. is an international manufacturer of safety and flow control products for the residential and commercial plumbing, heating, and water quality markets.

Watts' strategy focuses on five strategic water applications: quality, conservation, safety, comfort and flow control products for residential and commercial markets in North America and Europe. "We want to offer our customers all the equipment from where water enters the structure until it goes three feet down the drain," says William C. McCartney, chief financial officer of Watts Water Technologies.

The organization's major objective is to increase earnings by growing sales within existing markets, cultivate new markets, fashion selected acquisitions and decrease manufacturing costs. Wholesale distributors, major do-it-yourself (DIY) chains, and original equipment manufacturers (OEMs) sell Watts products.

Over the years, Watts gradually expanded its distribution and products lines and widened its focus beyond manufacturing for the water industry.

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***Water, sewer infrastructure spending estimated at $11.4 bilion***

# Market size, emotion will likely drive investments in rehab arena

By Stephen J. Hoffmann

The nation's deteriorating water and wastewater infrastructure remains one of the most visible yet most elusive themes in the water business. The magnitude of the problem is daunting, both in terms of dollars and political effort.

The water infrastructure differs in a critical way from other basic infrastructure systems — such as highways, airports and transit systems — which have received substantial federal funding. Water systems generally have geo-political boundaries that inhibit the formation of a national consensus and complicate the relationship between funding and beneficiaries.

Figuring all this out simply delays the solution and many municipalities can ill-afford to wait. It is for this reason that restoration and rehabilitation, as opposed to the outright replacement, of infrastructure components is a more timely and compelling investment theme.

According to the seventh annual municipal sewer and water infrastructure survey taken by Underground Construction and Rehabilitation Technology magazines, total planned spending for sewer and water construction and rehabilitation is estimated at $11.4 billion or a 2.8% increase over the prior year. The increase would have been much greater except for a major anticipated decrease in new water construction spending, down from about $3.6 billion to $3 billion, or a decrease of 15.1%.

Conversely, according to the survey, water rehabilitation should see a major increase in spending, rising by 18.5% to $727 million. Also encouraging is a projected increase in sewer rehabilitation by 6.7% to $2.8 billion.

With the debate over funding water infrastructure improvements still in its early stages, municipalities will likely seek interim, and less costly, solutions to new construction. Regardless of federal spending support, it is apparent that most municipalities across the U.S. have significant

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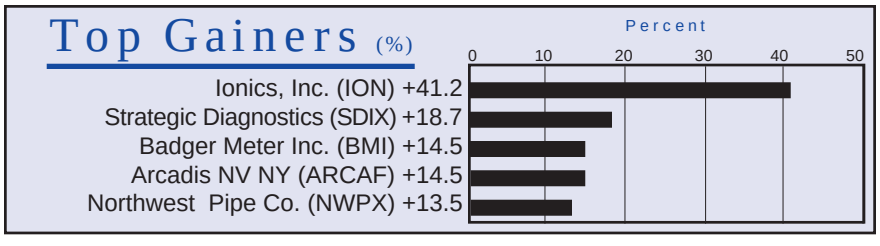
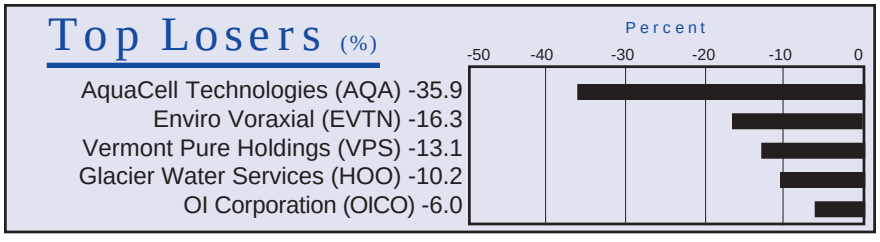
## WIN Monthly Top Gainers/Losers



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# Watts Water Technologies grows through sales, acquisitions...

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In 1976, the company recorded $24 million in sales; in 1986 when Watts went public, sales totaled $123 million. Watts became incorporated in Delaware in 1985 under the name Watts Industries, Inc. In 1999, company revenues of Watts Technologies reached $825 million with just the water division contributing about $425 million.

Sales increased by $90.1 million, or 15 percent, to $705.7 million in 2003 from $615.5 million in 2002.

However, with the company crossing over into multiple markets the management team determined that in order to provide maximum value to shareholders "we would do a spin off," recalls the CFO. Therefore, in October 1999 the industrial, oil and gas assets were spun-off.

Watts has exhibited an ongoing 6 percent growth rate since then, mostly through new product introductions and the very successful open of new distribution channels in the DIY market. During that period, the company further added 6 percent through acquisitions.

The company's assets today total $902 million. In 2003, earnings and sales attained the highest levels in the company's history with net sales for the twelve-month period ending December 2003 increasing 15 percent to $705.7 million from $615.5 million in 2002. Net income increased 12 percent to $36.5 million in 2003 from $32.6 million in 2002. "We have brought [revenues] to about where it was before the spin," explains McCartney.


Graph courtesy of *MoneySense* at www.moneysense.ca.

Results for the third quarter ending September 26, 2004, reflected increases in sales and net income of 22 percent and 54 percent, respectively, over the third quarter ended September 28, 2003. Sales were $214,843,000, an increase of $39,334,000, or 22 percent, compared to 3Q 2003. Net income was $13,705,000, an increase of $4,800,000, or 54 percent, compared to 3Q 2003. Net income for 3Q 2004 and 3Q 2003 included losses from discontinued operations of $125,000 and $114,000, respectively. At September 2004, the last twelve months showed $809 million in sales. For the nine-month period ending Sept. 26, 2004, the company reported sales of $616.18 million and diluted earning per share of $1.14.

"We generate a lot of positive cash flow," offers McCartney. The company believes its plan of supplying residential and commercial customers with point-of-use water-based solutions provides the company with above-average growth in sales and profits. In addition, because of the demand for water conservation, water purification products, and safety, "we've never been better situated," states McCartney.

The company's diverse product offerings range from under-sink water shutoffs to residential and commercial water filtration units to complex turf warming systems used in professional stadiums. "Comfort, quality, safety, conservation, and control and are the pillars where we focus our product lines," says McCartney.

Watts's residential applications include products for kitchens, radiant under-floor heating, and snow melting systems, hydrocontrol panels, electronic temperature controls, laundry rooms, water heaters, and boilers. Commercial applications include wastewater drainage, irrigation, fire protection, HVAC, and potable water systems.

Watts Water Technologies's principal product lines include:

• Backflow preventers for stopping potable water contamination caused by reverse flow within water supply lines and fire protection systems.

• A wide range of water pressure regulators for both commercial and residential applications.

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**Contributing Editors:**
Stephen J. Hoffmann
Roy W. Urrico

**Publisher:**
Thomas C. Bell

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Subscription rate: $140 for one year, $245 for two years. Mail subscriptions with check or money order to Water Investment Newsletter, Circulation Dept., 230 Main St., Halstead, KS 67056. Or place your subscription order by calling toll-free 1(800)251-0046. For renewals or change of address, please mail label appearing on envelope. If label is not available, send former address with address change. Or email win@uswaternews.com.

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# Market size, emotion to drive investments in rehab...

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needs to rehabilitate large portions of their systems. These dynamics should lead to rapid growth in the rehabilitation segment of the infrastructure market as municipal budgets recover along with an improving economy.

The rehabilitation business is comprised of technologies utilized to upgrade, maintain and restore the vast network of pipes that make-up the backbone of the water and wastewater infrastructure. Trenchless technology is by far the most important aspect of the rehabilitation market and includes a variety of methods such as cured-in-place pipe, directional drilling, microtunneling, pipe bursting, and sliplining. Rehabilitation projects using trenchless technologies accounted for over 50% of all wastewater rehab and are projected to increase to 61% this year. Expanded knowledge, acceptance and diversity of modern trenchless techniques are primarily the driving force for the increased share of wastewater activity.

The use of trenchless construction methods on the water side is projected to rise even more dramatically, from a mere 2% share in 2000 to a 20% share in 2004. The relatively higher share of trenchless activity in wastewater is a result of EPA mandates relative to combined sewer overflows and other regulations. The positive results of rehabilitation methods in wastewater, horizontal directional drilling in particular, are now spilling over to the water market.

As the fiber optic business declines, more contractors are viewing the water market as a prime opportunity. Municipalities see trenchless rehabilitation as a cost-effective interim solution to many structural and regulatory issues.

All told, growth in the rehabilitation market is expected to increase 17% to 19% per year for the next several years. And this number could change dramatically for the better, depending upon infrastructure financial support received from the second Bush Administration and Congress.

Horizontal directional drilling (HDD) has widespread application even though the technology is still in its infancy for the water and wastewater industry. The benefits to drilling under, rather than through, the existing landscape are clear. The water and sewer markets represent a 22.7% share of the HDD markets, second only to the once booming telecommunications market. Pipe bursting is another rehabilitation technique used to retrofit aging pipes. During pneumatic pipe bursting, the pipe bursting tool is guided through a fracturable host pipe. As the tool travels through the pipe its percussive action breaks apart the old pipe, displaces the fragments into the surrounding soil and simultaneously pulls in the new pipe (usually HDPE).

The ability of water utilities to afford necessary water supply infrastructure improvements has been the subject of numerous studies. Urban areas commonly face problems of deterioration of aging distribution systems that have outlived their useful service lives. While aged pipes are not inherently a problem, many need in-place cleaning and lining and others must be replaced completely. Old pipes frequently leak which can result in strained supplies, inadequate pressure for fire protection, and degradation of water quality. Because of the large need for restoration of sewers and water pipelines, this segment has compelling investment interest over the long term.

There are a variety of trenchless equipment manufacturers in this fragmented market such as TT Technologies, Wirth Service Inc., and Vermeer. The market for rehabilitation technology services is also extremely fragmented and the vast majority of these companies are smaller private firms such as Miller Pipeline Corp., New Hope Pipe Liners Inc., CSR Hydro Conduit Corp., National EnviroTech Group, Inliner Technologies, Advantica Technologies, Ltd., Starline Trenchless Technology, FirstLiner USA, Masterliner and Axel Johnson Inc.

The purest play in the public arena is **Insituform Technologies (NASDAQNM:INSU)** and is currently included in the "WIN" Model Water Stock Portfolio because it is one of the few ways to invest specifically in the rehabilitation segment of the water infrastructure theme. As a result, Insituform is a recognized proxy for this market and the stock price remains at somewhat of a premium after rebounding from its lows. Third quarter 2004 earnings were $3.5 million or $0.13 per diluted share, essentially flat over the same period last year. Revenues, however, increased 23.4% reflecting growth in tunneling, several regional rehab businesses and the impact of 2003 acquisitions.

Despite lessened earnings visibility in the interim, Insituform's fundamentals remain strong and speak to the overall health of the rehab business. The company indicated that the market, both in the U.S. and Europe, continues to be "buoyant" with strong order intake relative to past seasonal trends.

In line with expectations for the industry, Insituform's Tunneling and TiteLiner segments operating income is expected to experience renewed growth. The recent acquisition of Kinsel Industries illustrates the attraction of other rehab technologies and the strategy of offering a broader range of rehab capabilities. Kinsel's water/sewer business focuses on pipebursting and micro-tunneling rehabilitation methods, two areas forecast to achieve above average growth.

**Underground Solutions (OTC:UGSI.PK)** is a smaller but increasingly visible player in water infrastructure technology. It's Duraliner product is a structural PVC lining system that rehabilitates aging water pipes and provides a "pipe within a pipe." The company recently announced a joint development agreement with McElroy Manufacturing to develop a new line of specialized PVC fusion equipment for use with UGSI's line of fusion products.

The infrastructure theme is one with a great deal of investment interest due to the potential size of the market and the emotion associated with our deteriorating water systems. The reality for many water suppliers, however, is that a consensus is some time off and the mechanisms for funding are even more distant. This creates an ideal setting for the growing application of innovative technologies. With the proliferation of rehabilitation methods offering viable, practical and economical alternatives to traditional water and wastewater piping infrastructure needs, this segment is poised for rapid growth as municipal budgets improve with a growing economy.

# WIN WATER STOCKS PERFORMANCE

| | | Stock Price | | | | | | | Trend to Market | | | | Earnings/Share | | | | | P/E | Dividends | | | Financial Position | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | from 11/19/04 – 12/13/04 | | | | | | | Price trend (% per day) | | Volume trend (% per day) | | | Latest 12 Months vs. Preceding 12 Months Change | | 5-Year Annual Growth | | | Indicated Dvd. Rate | | | Last Fiscal Year | | | Last Fiscal Year (per Share) | | |
| | | | | | Change | | 52-week | | Last 30 | Last 5 | Last 30 | Last 5 | Last Fiscal | | | | | Latest P/E | | | Last X-Dvd | | | Current | Long Term | Common Stock | Last Bal. Sheet |
| Company (Exchange) | Symbol | High | Low | Close | Amt | Pct | High | Low | Days | Days | Days | Days | Year | Amt | Pct | Rate | Margin | Ratio | Amt | Yield | Rate | Revenue | Earnings | Ratio | Debt | Equity | Date |
| | | $ | $ | $ | $ | % | $ | $ | % | % | % | % | $ | $ | % | % | % | - | $ | % | - | $ Mil | $ Mil | - | $ | $ | - |
| American States Water Co (N) | AWR | 26.45 | 23.2 | 24.46 | -0.44 | -1.77 | 26.8 | 20.92 | -0.19 | -0.45 | 3.24 | 19.54 | 0.78 | -0.21 | N -18.6 | -7 | 5.6 | 26.6 | 0.9 | 3.7 | 11/10/08 | 212.7 | 11.9 | 0.6 | 15.11 | 13.97 | 1203 |
| Ameron Internat Cp (N) | AMN | 38.93 | 35.8 | 37.05 | -0.75 | -1.98 | 40.47 | 27.77 | 0.09 | -0.53 | -0.08 | NC | 3.67 | -2.58 | N -73.9 | -10 | 5 | 40.7 | 0.8 | 2.2 | 10/27/08 | 600.5 | 29.9 | 2.5 | 10.47 | 31.17 | 1103 |
| Aqua America Inc. (N) | WTR | 23.99 | 22.88 | 23.43 | -0.01 | -0.04 | 23.99 | 18.9 | 0.06 | -0.29 | -0.6 | -14.31 | 0.79 | 0.01 | N 1.2 | 12 | 19.3 | 28.6 | 0.52 | 2.2 | 11/11/08 | 367.2 | 70.8 | 0.4 | 7.52 | 7.11 | 1203 |
| AquaCell Technologies Inc (A) | AQA | 0.65 | 0.4 | 0.41 | -0.23 | -35.94 | 2.02 | 0.4 | -1.68 | -4.36 | 1.46 | -1.29 | -0.4 | 0.07 | Q NE | NC | NC | NE | 0 | 0 | 00-00-00 | 0.7 | -4.5 | 0.8 | 0.03 | 0.07 | 604 |
| Arcadis NV NY Reg Shs (O) | ARCAF | 17.85 | 15.27 | 17.75 | 2.25 | 14.52 | 17.85 | 10.65 | 0.32 | 2.67 | 4.4 | 30.27 | 1.32 | 0.04 | S 3.1 | 8 | 3.6 | 13.2 | 0.58 | 3.3 | 5/11/08 | 748.6 | 26.9 | 1.6 | 1.83 | 8.4 | 1203 |
| Argan Inc (O) | AGAX | 6.5 | 5.65 | 5.65 | -0.01 | -0.18 | 7.75 | 5.62 | 0.09 | 0.13 | 2.5 | -25 | -0.41 | -1.28 | S NE | NC | -8.8 | NE | 0 | 0 | 00-00-00 | 6.8 | -0.6 | 4.1 | 0 | 7.15 | 104 |
| Artesian Resources (O) | ARTNA | 30.06 | 28.31 | 28.57 | -0.18 | -0.63 | 30.06 | 22.77 | 0 | -0.1 | 3.27 | 32.58 | 0.96 | -0.06 | N -5.7 | 2 | 10.8 | 28.9 | 0.85 | 3 | 11/9/08 | 36.3 | 3.9 | 0.5 | 20.57 | 13.45 | 1203 |
| Badger Meter Inc (A) | BMI | 58.79 | 50.25 | 56.75 | 7.2 | 14.53 | 58.79 | 34.12 | 0.6 | 0.18 | 0 | -2.96 | 2.3 | 0.99 | N 47.1 | 3 | 4.1 | 18.4 | 1.12 | 2 | 11/30/08 | 184 | 7.6 | 1.7 | 7.44 | 16.77 | 1203 |
| BIW Limited (A) | BIW | 20.1 | 18.15 | 19.75 | 1.75 | 9.72 | 21.85 | 17.6 | 0.3 | -0.17 | 0.33 | 9.09 | 0.49 | 0.25 | N 73.5 | -8 | 12.8 | 33.5 | 0.68 | 3.4 | 9/15/08 | 6.4 | 0.8 | 0.4 | 2.38 | 7.76 | 1203 |
| Calgon Carbon Cp (N) | CCC | 9.7 | 7.38 | 8.38 | 0.93 | 12.48 | 9.7 | 5.25 | 0.89 | -0.19 | 4.41 | -8.33 | 0.11 | 0.11 | N 157.1 | NC | 1.6 | 46.6 | 0.12 | 1.4 | 11/9/08 | 278.3 | 4.5 | 2.8 | 1.37 | 4.15 | 1203 |
| Califomia Wtr Srvc (N) | CWT | 35.37 | 30.4 | 34.55 | 3.43 | 11.02 | 35.37 | 26.08 | 0.42 | 0.56 | 2.21 | -6.54 | 1.21 | 0.71 | N 73.2 | 0 | 7 | 20.6 | 1.13 | 3.3 | 11/5/08 | 277.1 | 19.4 | 0.7 | 16.08 | 14.44 | 1203 |
| Ceco Environmental (O) | CECE | 3.94 | 2.75 | 3.33 | 0.3 | 9.9 | 3.94 | 1.45 | 0.48 | 0.17 | -4.07 | -20.49 | -0.02 | -0.07 | N -100 | NC | -0.2 | NE | 0 | 0 | 00-00-00 | 69 | -0.2 | 1.4 | 1.34 | 0.92 | 1203 |
| Clearly Canadian Bev Co (O) | CCBC | 0.25 | 0.18 | 0.2 | 0.01 | 5.26 | 0.45 | 0.14 | 0.55 | 4.71 | -1.19 | -23.44 | -0.55 | 0.15 | S NE | NC | -28 | NE | 0 | 0 | 5/15/94 | 13.3 | -3.7 | 0.4 | 0.26 | 0.16 | 1203 |
| Connecticut Water (O) | CTWS | 28.98 | 25 | 26.21 | -0.09 | -0.34 | 29.76 | 23.83 | 0.07 | 0.13 | 1.93 | -7.3 | 1.15 | 0.16 | N 15 | 3 | 19.5 | 21.3 | 0.84 | 3.2 | 11/30/08 | 47.1 | 9.2 | 0.7 | 8.13 | 10.46 | 1203 |
| Consolidated Water Co Inc (O) | CWCO | 28.99 | 24.25 | 27.27 | 2.82 | 11.53 | 30 | 17.42 | 0.49 | 0.11 | 0.47 | -20.83 | 0.83 | 0.14 | N 19.2 | 7 | 21.9 | 31.3 | 0.46 | 1.7 | 6/29/08 | 19.1 | 4.2 | 2.4 | 2.92 | 7.77 | 1203 |
| CUNO Inc (O) | CUNO | 67.07 | 59.28 | 62.93 | -0.21 | -0.33 | 67.07 | 40.44 | 0.06 | 0.5 | -1.43 | -18.79 | 1.58 | 0.34 | N 22.5 | 20 | 9.3 | 34 | 0 | 0 | 00-00-00 | 288.2 | 26.8 | 2.5 | 0.02 | 12.35 | 1003 |
| Danaher Corp (N) | DHR | 58.9 | 56.38 | 57.35 | -0.56 | -0.97 | 58.9 | 43.83 | -0.06 | 0.06 | -0.73 | 2.33 | 1.69 | 0.49 | N 29.3 | 18 | 10.1 | 26.6 | 0.06 | 0.1 | 9/23/08 | 5293.9 | 536.8 | 2.1 | 4.18 | 11.86 | 1203 |
| Ecology&Environmnt (A) | EEI | 9 | 8.36 | 8.38 | -0.14 | -1.64 | 11.52 | 8.3 | -0.2 | -1.32 | -2.45 | -23.8 | 0.59 | 0.88 | F NE | NC | 2.7 | 14.2 | 0.34 | 4.1 | 12/16/08 | 89.5 | 2.4 | 2.3 | 0.07 | 9.62 | 704 |
| Enviro Voraxial (O) | EVTN | 0.85 | 0.64 | 0.67 | -0.13 | -16.25 | 1.23 | 0.61 | -0.34 | -6.8 | -2.53 | -88.46 | -0.09 | -0.01 | N NE | NC | NC | NE | 0 | 0 | 00-00-00 | 0.1 | -1.3 | 0.4 | 0 | -0.02 | 1203 |
| Franklin Electric Co (O) | FELE | 41.5 | 39.71 | 40.85 | 0.2 | 0.49 | 43.48 | 28.66 | 0.03 | 0.34 | -0.7 | -11.59 | 1.53 | 0.15 | N 10 | 9 | 9.6 | 24.8 | 0.32 | 0.8 | 11/3/08 | 359.5 | 34.5 | 2.8 | 0.69 | 8.84 | 1203 |
| Glacier Water Srvcs (A) | HCO | 27 | 24.25 | 24.25 | -2.75 | -10.19 | 28.75 | 17.65 | -0.43 | -1.68 | -7.78 | 50 | -0.68 | -0.28 | N NE | NC | -1.9 | NE | 0 | 0 | 00-00-00 | 72.3 | -1.4 | 1.2 | 39.92 | -11.7 | 1203 |
| Gorman-Rupp Co (A) | GRC | 23.7 | 22 | 23.7 | 1.55 | 7 | 23.7 | 18.6 | 0.06 | 0.84 | 0.16 | 34.77 | 0.92 | 0.22 | N 29.7 | -7 | 5 | 24.7 | 0.56 | 2.4 | 11/10/08 | 195.8 | 9.8 | 4.3 | 0 | 10.91 | 1203 |
| Great Lakes Chem (N) | GLK | 29.83 | 27.12 | 28.9 | 1.36 | 4.94 | 29.83 | 22.19 | 0.32 | 0.44 | 1.19 | 3.09 | -0.95 | 0.36 | N 3600 | NC | -3.3 | 78.1 | 0.4 | 1.4 | 12/30/08 | 1464.6 | -48.1 | 1.9 | 8.45 | 14.69 | 1203 |
| Idexx Laboratories (O) | IDXX | 52.58 | 49.5 | 52.04 | 0.74 | 1.44 | 68.82 | 44.11 | -0.16 | 0.59 | -0.76 | -1.85 | 1.59 | 0.43 | N 26.5 | NC | 12 | 25.4 | 0 | 0 | 00-00-00 | 476 | 57.1 | 3.7 | 0.02 | 11.92 | 1203 |
| INEI Corp (O) | INEY | 0.55 | 0.5 | 0.51 | 0.01 | 2 | 1.55 | 0.5 | -2.06 | 0.13 | -4.96 | NC | 0.5 | 0.89 | F NE | NC | NC | 1 | 1 | 196.1 | 11/3/08 | 2.2 | 2.2 | 7.3 | 0 | 1.9 | 604 |
| Insituform Technologies A (O) | INSU | 24.01 | 21.18 | 23.44 | 1.56 | 7.13 | 24.01 | 14.5 | 0.22 | 1.01 | -1.17 | -0.94 | 0.13 | -0.92 | N -100 | NC | 0.7 | NE | 0 | 0 | 00-00-00 | 487.3 | 3.5 | 2.5 | 4.32 | 10.55 | 1203 |
| Ionics Inc (N) | ION | 43.48 | 29.48 | 43.35 | 12.64 | 41.16 | 43.48 | 23.07 | 1.6 | 0.15 | 3.79 | -12.51 | -2.53 | 0.12 | N NE | NC | -12.9 | NE | 0 | 0 | 7/2/89 | 347.4 | -44.8 | 2.7 | 0.5 | 23.25 | 1203 |
| Layne Christensen (O) | LAYN | 20.3 | 16.32 | 18.27 | 1.07 | 6.22 | 20.3 | 10.96 | 0.34 | -1.32 | 0.35 | -6.75 | 0.21 | 0.51 | S 728.6 | NC | 1 | 31.5 | 0 | 0 | 00-00-00 | 272.1 | 2.7 | 1.8 | 3.35 | 7.48 | 104 |
| Lindsay Manufactrg (N) | LNN | 29.51 | 25.31 | 26.67 | -0.1 | -0.37 | 29.51 | 22.45 | 0.36 | -1.24 | -0.56 | -12.68 | 0.78 | -0.3 | F -27.8 | -2 | 4.7 | 34.2 | 0.22 | 0.8 | 11/11/08 | 196.7 | 9.3 | 3.3 | 0 | 9.53 | 804 |
| Maxwell Technlgs (O) | MXWL | 11.31 | 9.9 | 10.06 | -0.38 | -3.64 | 17.64 | 6.7 | -0.29 | -0.73 | 0.53 | 8.36 | -0.51 | 0.67 | N NE | NC | -15.9 | NE | 0 | 0 | 10/31/95 | 45 | -7.2 | 1.8 | 0 | 3.33 | 1203 |
| Met-Pro Corp (N) | MPR | 13.68 | 12.82 | 13.36 | -0.15 | -1.11 | 18 | 12.65 | -0.24 | 0.4 | -1.1 | -48.1 | 0.76 | -0.15 | N -19.5 | -5 | 8.5 | 21.5 | 0.31 | 2.3 | 11/24/08 | 75.1 | 6.3 | 3.4 | 0.65 | 7.24 | 104 |
| Middlesex Water (O) | MSEX | 20.72 | 18.37 | 19.65 | -0.2 | -1.01 | 21.81 | 16.65 | 0.11 | 0.15 | 1.13 | -25.25 | 0.61 | -0.04 | N -5.8 | -1 | 10.3 | 30.2 | 0.67 | 3.4 | 11/11/08 | 64.1 | 6.6 | 0.5 | 9.22 | 7.53 | 1203 |
| Millipore Corp (N) | MIL | 50.67 | 46.7 | 50.2 | 2.57 | 5.4 | 57.2 | 41.95 | 0.16 | 0.65 | -1.05 | -13.95 | 2.06 | 0.48 | N 26.5 | 8 | 12.6 | 21.9 | 0 | 0 | 12/25/05 | 799.6 | 100.8 | 2.3 | 4.42 | 9.43 | 1203 |
| Northwest Pipe Co (O) | NWPX | 20.23 | 17.5 | 19.97 | 2.37 | 13.47 | 20.23 | 11.85 | 0.46 | 0.36 | -0.98 | 1.57 | 0.53 | 0.73 | N 109 | -15 | 1.4 | 14.3 | 0 | 0 | 00-00-00 | 245 | 3.5 | 2 | 5.47 | 20.08 | 1203 |
| OI Cp (O) | OICO | 11.08 | 9.5 | 10.28 | -0.66 | -6.03 | 11.55 | 7.45 | -0.43 | -1.05 | -1.7 | 33.78 | 0.58 | 0.04 | N 7 | 13 | 6.5 | 16.9 | 0 | 0 | 00-00-00 | 25.2 | 1.6 | 3.9 | 0 | 6.62 | 1203 |
| Pall Cp (N) | PLL | 29.8 | 26.39 | 29.15 | 1.77 | 6.46 | 29.8 | 22 | 0.21 | 0.09 | 3.05 | -21.61 | 1.2 | 0.37 | F 44.6 | 12 | 8.6 | 24.3 | 0.36 | 1.2 | 10/27/08 | 1770.7 | 151.6 | 2.6 | 3.82 | 8.24 | 704 |
| Pennichuck Corp (O) | PNNW | 27.5 | 23.98 | 26.84 | 1.86 | 7.45 | 29.78 | 23.98 | 0.16 | 0.1 | 3.65 | -42.43 | 0.52 | -0.89 | N -82.4 | -26 | 5.8 | 141.3 | 0.86 | 3.2 | 11/11/08 | 21.4 | 1.2 | 1.1 | 11.23 | 12.6 | 1203 |
| Schlumberger (N) | SLB | 67.8 | 61.2 | 62.99 | -2.66 | -4.05 | 69.89 | 49.95 | -0.11 | 0.18 | -0.18 | -9.84 | 0.66 | 6.38 | N NE | NC | 2.8 | 35.2 | 0.75 | 1.2 | 12/21/08 | 13893 | 383 | 1.5 | 10.41 | 10.04 | 1203 |
| SJW Cp (A) | SJW | 39.29 | 36.04 | 37.43 | 1.11 | 3.06 | 39.29 | 28.18 | 0.36 | 0.15 | 1.9 | -28.27 | 2.04 | -0.36 | N -17.9 | 4 | 12.5 | 22.7 | 1.02 | 2.7 | 11/5/08 | 149.7 | 18.7 | 1.8 | 15.28 | 18.22 | 1203 |
| Southwest Water (O) | SWWC | 13.93 | 12.54 | 13.18 | 0.13 | 1 | 15.79 | 11.36 | -0.05 | 0.48 | 1.04 | -7.26 | 0.49 | -0.01 | N -2.4 | 1 | 4.2 | 32.1 | 0.21 | 1.6 | 12/30/08 | 173 | 7.2 | 1.1 | 4.98 | 5.4 | 1203 |
| Strategic Dgnstcs (O) | SDIX | 3.18 | 2.39 | 2.92 | 0.46 | 18.7 | 5.75 | 2.06 | 0.5 | 2.18 | 1.67 | 3.8 | -0.04 | -0.07 | N -100 | NC | -3.3 | NE | 0 | 0 | 00-00-00 | 25.6 | -0.9 | 6 | 0.05 | 1.56 | 1203 |
| URS Cp (N) | URS | 30.92 | 28.04 | 29.32 | 0.27 | 0.93 | 31.34 | 22.12 | 0.1 | -0.57 | 2.01 | 0.3 | 1.76 | 0.18 | N 13.3 | -4 | 1.8 | 19.2 | 0 | 0 | 2/23/94 | 3186.7 | 58.1 | 1.9 | 23.43 | 22.73 | 1003 |
| Valmont Ind Inc (N) | VMI | 25.97 | 23.25 | 24.8 | 0.9 | 3.77 | 25.97 | 19.35 | 0.34 | 0.06 | -1.62 | -12.49 | 1.06 | -0.1 | N -9.4 | -1 | 3 | 25.8 | 0.32 | 1.3 | 9/23/08 | 837.6 | 25.5 | 2.1 | 5.65 | 11.14 | 1203 |
| Veolia Environnement ADS (N) | VE | 34.04 | 31.02 | 33.1 | 1.47 | 4.65 | 34.04 | 24.9 | 0.04 | 0.63 | 3.59 | -22.79 | -6.45 | 5.62 | S NE | NC | -7.2 | 254.6 | 0.66 | 2 | 5/26/08 | 35960 | -2583 | 1 | 39.06 | 11.09 | 1203 |
| Vermont Pure Holdings (A) | VPS | 1.99 | 1.62 | 1.73 | -0.26 | -13.07 | 3.57 | 1.62 | -0.48 | 1.47 | 1.76 | -34.83 | 0.06 | -0.03 | N -50 | NC | 1.8 | 57.7 | 0 | 0 | 00-00-00 | 76.2 | 1.4 | 1.5 | 2.26 | 2.35 | 1003 |
| Watts Water Technologies Inc (N | WTS | 31.54 | 28.16 | 30.03 | 1.49 | 5.22 | 31.54 | 21.05 | 0.35 | -0.53 | 0.87 | -15.07 | 1.21 | 0.4 | N 35.1 | 15 | 4.7 | 19.5 | 0.28 | 0.9 | 11/25/08 | 705.7 | 33.4 | 2.8 | 5.59 | 13.61 | 1203 |
| York Water Company, The (O) | YORW | 20 | 17.67 | 19.52 | 1.57 | 8.75 | 21.04 | 16.5 | 0.4 | -0.32 | -0.77 | 2.28 | 0.7 | 0.11 | N 16.7 | NC | 21.3 | 25.3 | 0.62 | 3.2 | 12/30/08 | 20.9 | 4.4 | 0.3 | 4.66 | 6.09 | 1203 |

**All data are based on sources believed to be reliable, but its accuracy is not guaranteed. Every effort will be made to correct errors, when discovered, in future issues.**

**Footnotes:**

N – New York Stock Exchange
A – American Stock Exchange
O – NASDAQ Over-the-Counter

NA – Not Applicable
NC – Not Calculable

NE – Negative Earnings
NM – No Meaningful

Q – First Quarter
S – First 6 Months

N – First 9 Months
F – Fiscal Year

# WATER INVESTMENT NEWSLETTER

## WIN "Model" Water Stock Portfolio

| Company | Symbol | # Of Shares | Date Selected | Date Deleted | Initial Price ($) | Total ($) | Current Price (12/14/2004) | Market Value ($) | Price at Deletion ($) | Increase -Decrease ($) | Change (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Badger Meter | BMI | 1,000 | 11/5/99 | | 15.56 | 15,562 | 28.50 | 28,500 | | 12,938 | 83.1% |
| | | 1,000 | 6/27/00 | | 12.88 | 12,875 | 28.50 | 28,500 | | 15,625 | 121.4% |
| Calgon Carbon | CCC | 1,000 | 6/18/98 | | 10.46 | 10,455 | 8.65 | 8,650 | | -1,805 | -17.3% |
| Danaher Corp | DHR | 400 | 1/9/01 | | 29.56 | 11,826 | 57.50 | 23,000 | | 11,174 | 94.5% |
| Gorman-Rupp | GRC | 250 | 2/5/04 | | 19.51 | 4,878 | 24.05 | 6,013 | | 1,135 | 23.3% |
| Franklin Electric | FELE | 400 | 6/27/00 | | 16.13 | 6,456 | 41.38 | 16,552 | | 10,096 | 156.4% |
| Insituform Technologies | INSU | 200 | 7/20/01 | | 33.00 | 6,600 | 23.96 | 4,792 | | -1,808 | -27.4% |
| | | 200 | 7/31/02 | | 17.00 | 3,400 | 23.06 | 4,612 | | 1,212 | 35.6% |
| | | 200 | 1/5/03 | | 13.45 | 2,690 | 23.96 | 4,792 | | 2,102 | 78.1% |
| Ionics, Inc. | ION | 200 | 10/23/98 | | 29.63 | 5,926 | 43.29 | 8,658 | | 2,732 | 46.1% |
| | | 200 | 4/14/00 | | 22.04 | 4,408 | 43.29 | 8,658 | | 4,250 | 96.4% |
| | | 200 | 6/4/02 | | 24.67 | 4,934 | 43.29 | 8,658 | | 3,724 | 75.5% |
| ITT Industries | ITT | 100 | 3/11/04 | | 72.15 | 7,230 | 84.65 | 8,465 | | 1,235 | 17.1% |
| Met-Pro Corp. | MPR | 667 | 3/20/98 | | 11.67 | 7,778 | 13.50 | 9,005 | | 1,227 | 15.8% |
| | | 667 | 1/31/99 | | 7.65 | 5,100 | 13.50 | 9,005 | | 3,905 | 76.6% |
| | | 667 | 6/27/00 | | 6.66 | 4,438 | 13.50 | 9,005 | | 4,567 | 102.9% |
| | | 667 | 8/27/03 | | 11.99 | 7,995 | 13.50 | 9,005 | | 1,010 | 12.6% |
| | | 300 | 6/14/04 | | 15.55 | 4,665 | 13.50 | 4,050 | | -615 | -13.2% |
| Pall Corporation | PLL | 300 | 6/18/01 | | 23.34 | 7,002 | 29.13 | 8,739 | | 1,737 | 24.8% |
| | | 200 | 3/11/04 | | 22.99 | 4,613 | 29.13 | 5,826 | | 1,213 | 26.3% |
| Strategic Diagnostics | SDIX | 300 | 1/30/02 | | 6.70 | 2,010 | 3.03 | 909 | | -1,101 | -54.8% |
| | | 300 | 2/5/03 | | 3.87 | 1,161 | 3.03 | 909 | | -252 | -21.7% |
| Trojan Technologies | TUV.TO | 400 | 6/18/98 | | 11.60 | 4,638 | 8.42 | 3,368 | | -1,270 | -27.4% |
| | | 400 | 7/26/99 | | 9.18 | 3,672 | 8.42 | 3,368 | | -304 | -8.3% |
| | | 800 | 5/7/03 | | 6.25 | 5,000 | 8.42 | 6,736 | | 1,736 | 34.7% |
| Watts Water Technologies | WTS | 300 | 10/28/97 | | 14.75 | 4,425 | 30.37 | 9,111 | | 4,686 | 105.9% |
| Zenon Environmental | ZEN.TO | 200 | 8/26/03 | | 11.61 | 2,322 | 17.84 | 3,568 | | 1,246 | 53.7% |
| Cash--Money Market | | | | | | | | 62,898 | | | |
| | | | | | | *Portfolio Total* | | $305,350 | Overall Change | | 205.3% |
| | | | | | | | | | Annualized | | 19.6% |
| | | | | | | *DJIA* | 10,638.17 | | **(since inception 5/1/94)** | | |

**December 2004**: The strength in the markets has continued, having found some leadership in a number of stocks in the news; Oracle finally announced the acquisition of Peoplesoft, Intel gained on an increase in PC forecasts, Sprint is said to be looking at Nextel and Verizon is reportedly after Sprint. While there is no shortage of cheer on the merger front, the economic picture remains unclear and it is likely that any of these large combinations would spell more job cuts. The Fed is widely expected to lift its key Fed Funds rate by a quarter percent to 2.25% and the trade deficit continues to widen; a key factor in the dollar's recent decline. The weight of the evidence would favor stability in the equity markets into next year but many stocks remain fairly valued at these levels.

The positive outlook associated with merger-related activities was also apparent in many selected water stocks. The acquisition of Ionics by GE for $1.1 billion lifted many stocks in the water sector. Calgon Carbon, Pall and Zenon all benefited from the news. But it is clear that many of these mergers are precipitated by weakness rather than strength. Fortunately, the large diversified strategic investors can easily pay significant premiums to the market to get these deals done. It is likely that water technology companies will continue to be absorbed by the industrial sector. While this certainly has investment potential, it can also leave smaller players behind. Selectivity will remain the key. Badger Meter reflects the 2 for 1 stock split. Companies that are being followed for initial selection, averaging or additions at appropriate prices include: Emerson (EMR), IDEXX Labs (IDXX), ITT Industries (ITT), Cuno (CUNO), Pentair (PNR), Great Lakes Chemical (GLK), Astec Industries (ASTE), Euro-Tech Holdings (CLWT), Ashland Corp (ASH), IDEX Corp (IEX), and Zenon (ZEN.TO). Companies that are being watched for removal or partial deletion due to fundamentals or valuation include Calgon Carbon (CCC), Watts Water (WTS) and Strategic Diagnostics (SDIX).

# Industry reports, company performance

*GE to buy Ionics for $1.1B*

BOSTON — **General Electric Co. (NYSE:GE)** will buy **Ionics Inc. (NYSE:ION)** for $1.1 billion to build out its water treatment and services business, one of its major growth initiatives, the companies announced. GE said it would pay $44 per share for Ionics, a premium of 48 percent over Ionics' closing price on the day the buy was announced. The deal marks the second acquisition in as many weeks for GE's infrastructure unit, which handles everything from security and sensing to clean water technology and automation. The infrastructure division is GE's smallest business unit but one of its fastest growing. It possesses two of GE's major growth initiatives: security and water purification. The Ionics deal is subject to approval by holders of two-thirds of Ionics' outstanding common shares. Stockholders representing 20 percent of the outstanding shares have already agreed to the transaction, the companies said in a statement. GE will also assume Ionics' debt. The deal is expected to close in the first half of 2005.

Bill Woodburn, head of GE Infrastructure, told Reuters in an interview that Ionics' strong position in desalination technology would help GE's $1.4 billion water purification business expand into parts of China, where drinking water is scarce. "A combination of scarcity and the importance of purity gives us a dynamic in a marketplace that is very strong for growth," Woodburn said. Ionics designs, installs, operates and maintains water purification and waste-water treatment systems. The Watertown, Massachusetts-based company generated revenue of $347 million and posted a net loss of $32.3 million, after restructuring charges, in 2003. "Their (order) backlog is quite sizable. It's over $4 billion," said Woodburn. GE targets water purification as one of its growth platforms amid more and more stringent environmental controls. The company's other growth initiatives include security and sensing, oil and gas, Hispanic media, consumer finance and health-care technology.

*Aqua America's Pennsylvania subsidiary maintains standard & Poor's A+ credit rating*

BRYN MAWR, Pa. — **Aqua America, Inc. (NYSE:WTR)** has reported that Standard and Poor's (S&P) has confirmed an A+ corporate credit rating on Aqua America's largest subsidiary, Aqua Pennsylvania, Inc., and its AA- rating on the company's first mortgage bonds. Aqua Pennsylvania's A+ rating reflects its parent company's consolidated credit quality, according to S&P. Aqua Pennsylvania serves 400,000 of Aqua America's more than 835,000 customer accounts. S&P cited factors determining Aqua Pennsylvania's credit including, a good business profile characterized by an above-average service territory; a stable customer base, a supportive regulatory environment and solid, interconnected water operations. The company received a business profile ranking of two with one being highest and 10 being the lowest. "Our continued dedication to implementing a growth-through-acquisition strategy and use of lower-cost, tax-exempt financing to enhance shareholder value is validated with S&P's confirmation of our A+ credit rating," said Aqua America Chairman and Chief Executive Officer Nicholas DeBenedictis. "We are also pleased that S&P recognized that our dividend payout ratio 'has been very stable and is reasonable, at 57 percent'."

The S&P report follows significant announcements of growth ventures in 2004 for Aqua America including the integration of the 130,000 customer acquisition of AquaSource, Inc., closed in 2003. In addition, the company recently added approximately 67,000 customers with the acquisitions of North Carolina-based Heater Utilities, Inc. (Heater), and Florida Water Services (FWS), contributing to Aqua America's year-to-date customer growth of 11.6 percent. The recapitalization associated with the Heater and FWS acquisitions included the issuance of $70 million in short-term debt in May 2004 at 2.3 percent and the recent sale of 1.955 million shares of common stock at a public offering price of $22.70 through an underwritten secondary offering completed on November 12, 2004. The proceeds of the offering were used to repay a portion of Aqua America's short-term debt with the balance used for working capital and other general corporate purposes, which will improve the company's capitalization ratio.

Aqua America, Inc. is the largest U.S.-based publicly-traded water utility serving more than 2.5 million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, Maine, Missouri, New York and South Carolina.

*AquaCell to spin off subsidiary to stockholders*

RANCHO CUCAMONGA, Calif. — **AquaCell (AMEX:AQA)** has formed a new subsidiary, Aquacell Water Inc. that it will be spinning off to the holders of common stock of AquaCell Technologies. Aquacell Water will operate as a holding company to acquire companies in the water industry with the first acquisition to be Water Science Technologies Inc. (WST), currently a wholly owned subsidiary of AquaCell Technologies. AquaCell Technologies' stockholders as of the record date of Jan. 3, 2005, will receive one share of common stock in Aquacell Water for every share of common stock held in AquaCell Technologies. The stock in Aquacell Water will be issued Feb. 2, 2005. James C. Witham, AquaCell's CEO said: "Many stockholders have asked me recently, 'How can we as stockholders benefit from the increased focus and growing demand in the water industry while continuing to benefit from the growth of our water cooler advertising program?' The answer is simple. We are going to spin off our Aquacell Water subsidiary, that will acquire WST as its initial acquisition of water purification companies, which will benefit all of us as stockholders."

Witham continued: "Most of our stockholders don't realize WST, a company we have owned for over two and a half years, manufactures large water treatment systems, capable of treating from 10 gallons of water per day to millions of gallons of water per day. Nearly every product manufactured requires some level of water treatment or purification. WST provides turnkey solutions - from initial water analysis to design, production, installation and service of systems and has installed systems around the world for large corporations and governments to address a myriad of needs, including desalination plants, high purity water systems for the micro-chip industry, purification systems for water bottling plants and restaurants, spot free rinse systems for car washes and many other applications. The

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# Industry reports, company performance . . .

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company will continue to build customized systems; however, it intends to focus on four primary targets, whereby specific product lines can be produced. These target markets include bottling plants and water stores, food service, car washes and emergency water systems."

Witham concluded: "In articles of General Electric's recent acquisition of Ionics, it was reported that GE estimates the global water services market is about $360 billion. It is our intention to file a registration statement for Aquacell Water Inc. in 2005, to become a publicly trading company."

AquaCell, based in Rancho Cucamonga, through its Aquacell Media Inc. operating subsidiary, installs its patented self-filling Aquacell 1000 Bottled Water Cooler Systems free of charge into various locations, including retail establishments. Aquacell Media retains ownership of the coolers, and revenue is generated through the sale of targeted advertising on the band of the cooler's permanently attached five-gallon bottle of products and/or services pertinent to the location, similar to the concept of billboard advertising.

### *Consolidated Water Co. Ltd. reports earnings decline due to Hurricane Ivan*

GEORGE TOWN, Cayman Islands, B.W.I. — **Consolidated Water Co. Ltd. (NASDAQ: CWCO)**, which develops and operates seawater conversion plants and water distribution systems in areas where natural supplies of drinking (i.e., potable) water are scarce, has reported its operating results for the third quarter and first nine months of 2004. For the three months ended September 30, 2004, the company reported record revenue of $5.3 million, compared with $5.0 million in the third quarter of 2003. Net income declined to $424,032, or $0.07 per diluted share, in the most recent quarter, versus $1,121,298, or $0.20 per diluted share, in the three months ended September 30, 2003.

For the nine months ended September 30, 2004, total revenue increased 31% to a record $18.0 million, versus $13.7 million in the corresponding period of the previous year. Net income also increased 31% to a record $4,111,990, or $0.70 per diluted share, compared with $3,149,579, or $0.66 per diluted share, in the first nine months of the previous year. The weighted average number of fully-diluted shares outstanding increased 23% to 5,861,790 in the nine months ended September 30, 2004, compared with 4,770,941 in the prior-year period, reflecting the issuance of shares in a public stock offering in July 2003 and shares issued in conjunction with acquisitions completed in February 2003.

"Our retail and bulk water sales were growing at rates that were in line with management's expectations until Hurricane Ivan arrived in mid-September," noted Rick McTaggart, President and Chief Executive Officer of Consolidated Water Co. Ltd. "The impact of the hurricane upon buildings and property on Grand Cayman Island was devastating with, thankfully, very little loss of life. While we have resumed water production and distribution to residential and commercial customers throughout our license areas, many of our retail customers have not recovered from the storm's damage, and tourist arrivals were halted until the island's infrastructure could be repaired. Cruise ship visits to the island resumed on November 1st, and tourists began arriving by air on November 20, 2004. While we expect water sales to recover during the balance of the year, our fourth quarter will undoubtedly reflect additional storm-related costs and below-normal sales from our Grand Cayman customers. Third quarter sales trends within our other markets in the Caribbean were consistent with the Company's performance during the first half of the year, and we expect a recovery in our business on Grand Cayman to benefit operating results in the upcoming year."

"Because of the manner in which we must account for property damage and lost revenues due to the hurricane, Consolidated incurred significant non-recurring expenses during the most recent quarter," continued McTaggart. "This caused our third quarter net income to decline from prior-year levels, even though we expect to recoup much of the hurricane related costs through payments under our property/

**Continued on Page 8**

# Emerging Water Stock Issues

**Stock quotes are provided by Joe Di Lillo of Shemano Group, 11755 Wilshire Blvd., Suite 1650, Los Angeles, CA 90025, toll-free (800)991-7991 or (310)954-8300.**

| 52-Week High | 52-Week Low | Company | Symbol | Bid | Ask | Net Change |
|---|---|---|---|---|---|---|
| 1.39 | .11 | American Water Star, Inc. | AMW | .53 | .56 | - .19 |
| 1.02 | .21 | Capacitive Deionization Tech. Sys. | CDTN | .21 | .34 | + .01 |
| .46 | .06 | Clean Water Technologies, Inc. | CWTI | .16 | .21 | + .04 |
| 14.97 | 3.67 | Cohesant Technologies | COHT | 14.00 | 14.05 | + 1.80 |
| 26.85 | 15.21 | Cott Corp. | COT | 26.25 | 26.26 | + .33 |
| .50 | .03 | Echo Springs Water Corp. (Can.) | EWC.V | NA | NA | |
| .90 | .25 | Electropure, Inc. | ELTP | .07 | .12 | - .07 |
| 2.06 | .60 | Enviro-Voraxial Technology | EVTN | .67 | .85 | - .05 |
| 3.71 | .57 | Euro Tech Holdings Co. | CLWT | 3.33 | 3.39 | - .15 |
| .48 | .01 | Global Water Technologies, Inc. | GWTR | .105 | .14 | - .035 |
| .15 | .05 | Innova/Pure Water, Inc. | IPUR | .025 | .04 | - .01 |
| 24.65 | 15.93 | Itran | ITRI | 22.00 | 22.01 | + 2.03 |
| .01 | .00 | Ocean Power Corp. | PWREQ | .0002 | .004 | - .0018 |
| .97 | .22 | Pure Bioscience | PURE | .90 | .97 | |
| .06 | .01 | Rochem Environmental, Inc. | RCEM | NA | NA | |
| 1.16 | .06 | Southwestern Water Exploration Co. | SWWE | .008 | .012 | - .0001 |
| .15 | .03 | StonePoint Group Ltd. (Can.) | SP | .03 | .035 | ... |
| .076 | .01 | Tropical Beverage, Inc. | TPBV | .03 | .031 | ... |
| .76 | .03 | Ultra Pure Water Mfg. Inc. | UPWT | 1.95 | 2.40 | + 1.60 |
| .68 | .06 | Underground Solutions, Inc. | UGSI | .195 | .25 | + .045 |
| .04 | .00 | Vital Living Products, Inc. | VLPI | .0007 | .0008 | + .0002 |
| .17 | .01 | Water Chef, Inc. | WTER | .165 | .17 | - .045 |
| .09 | .03 | WaterSave Logic Corp. | WVLGF | .07 | NA | ... |
| 14.25 | 9.50 | WEDECO Ag Water Tech | WEDWF | 23.10 | NA | |
| .26 | .09 | WorldWater Corp. | WWAT | .29 | .30 | + .05 |
| 20.23 | 14.00 | York Water Company | YORW | 19.02 | 19.28 | + 1.25 |

# Industry reports, company performance . . .

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casualty and business interruption insurance policies in coming months. Some of these payments will likely be received in the fourth quarter of 2004, and we are cautiously optimistic that our quarterly financial performance in 2005 will more accurately reflect the company's actual operating results."

Consolidated Water Co. Ltd. is engaged in the development and operation of seawater conversion plants and/or water distribution systems in areas of the world where naturally occurring supplies of potable water are scarce or nonexistent. The company currently operates water production and/or distribution facilities in the Cayman Islands, the British Virgin Islands, Barbados, Belize and the Commonwealth of the Bahamas.

### *American Stock Exchange accepts AquaCell's 18-month plan for continued listing*

RANCHO CUCAMONGA, Calif. — **AquaCell (AMEX:AQA)** has been notified by the American Stock Exchange that the Amex has accepted the company's 18-month plan for continued listing, in connection with the Amex's listing requirements. AquaCell received a letter from the Amex on Nov. 29, 2004, informing the company of its non-compliance with the Amex's minimum stockholder equity requirement. Having anticipated this action, the company had proactively prepared a plan in accordance with the Amex Company Guide, which was submitted to and accepted by the Amex. James C. Witham, AquaCell's chairman and chief executive officer said: "We believe that maintaining our listing on the American Stock Exchange is very important for our stockholders. We reviewed our options, and determined that our best course of action was to submit the plan to the Amex."

Witham continued: "We feel that the excessive dilution that would have been created by raising the capital required to keep us in compliance at this time would have been detrimental to the company and its stockholders. We believe we will meet our objectives over the next year and a half and will be in compliance with the Amex's requirements." In accordance with the Amex Company Guide, the plan submitted describes the company's projection for being in compliance with the minimum listing standards within 18 months. Included are specific milestones, quarterly financial projections and details related to strategic initiatives AquaCell intends to complete. The plan was evaluated and accepted by the Amex, indicating that the company made a reasonable demonstration of an ability to regain compliance with the continued listing standards within the allotted time frame. During the 18-month period, the Amex will monitor the company's progress in accordance with the plan.

### *Layne Christensen reports strong third quarter results*

MISSION WOODS, Kan. — **Layne Christensen Company (NASDAQ: LAYN)** has reported very strong net income for the third quarter ended October 31, 2004, of $3,458,000, or $0.27 per share, compared to net income of $541,000 or $0.04 per share, in the same period last year. Revenues for the three months ended October 31, 2004, increased $21,620,000, or 30.9%, to $91,480,000 compared to $69,860,000 the same period last year. "We had another strong quarter as all divisions experienced year-over-year growth," said Andrew B. Schmitt, President and Chief Executive Officer. "We anticipated more of a slowdown given the strength of the second quarter but it clearly did not occur with revenue up 6.1% sequentially. With its water, minerals and energy businesses, the company is positioned in sectors of the economy that are currently very attractive." Gross profit as a percentage of revenues was 27.6% and 27.3% for the three and nine months ended October 31, 2004, compared to 27.3% and 28.4% for the three and nine months ended October 31, 2003. The decrease in gross profit percentage for the nine-month period was primarily attributable to continued pricing pressures in the water resources division along with reduced margins associated with the promotion of certain new water treatment products. The decrease in the water resources division margins was partially offset by increased margins in the mineral exploration division due to increased activity as a result of higher gold and base metal prices.

Water Resources Division revenue increased 18.3% to $51,852,000 for the three months ended October 31, 2004, and 14.0% to $145,058,000 for the nine months ended October 31, 2004, compared to $43,818,000 and $127,191,000 for the three and nine months ended October 31, 2003. The increases were primarily attributable to improvements in municipal spending, results from the company's water treatment initiatives and increased infrastructure needs in metropolitan areas, primarily in the western United States. Income from continuing operations for the water resources division was $7,167,000 and $17,497,000 for the three and nine months ended October 31, 2004 compared to $5,128,000 and $14,642,000 for the three and nine months ended October 31, 2003. The increase in income from continuing operations for the three and nine months ended October 31, 2004, was primarily the combination of increased gross profit associated with the increase in revenues and essentially flat selling, general and administrative expenses. The impact of the relatively fixed selling, general and administrative expenses was a higher income from continuing operations as a percentage of revenues in both the three and nine month periods.

### *Great Lakes increases quarterly dividend by 5.3%*

INDIANAPOLIS, Ind. — **Great Lakes Chemical Corporation (NYSE:GLK)** has reported its board of directors declared a regular quarterly dividend of $.10 per share, an increase of 5.3%. The dividend will be payable on January 31, 2005, to the holders of record of the common stock of the corporation on January 1, 2005. Great Lakes Chemical Corporation is a leading producer of certain specialty chemicals for such applications as water treatment, household cleaners, flame retardants, polymer stabilizers, fire suppressants, and performance products.

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# Industry reports, company performance . . .

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### *Water fund manager discusses investing in water*

*From Standard & Poor's • Greenwich Roundtable Quarterly Volume No. 2 2004. John I. Dickerson is the primary portfolio manager and president of Summit Global Management, Inc.*

How do you invest in water? You invest in securities of companies in the water industry, which is something we've had to define ourselves because Wall Street and others don't 'connect the dots'. Wall Street has never really understood or paid much attention to the water industry, for the most part because it's only about 7% investor-owned. Ironically, the water industry, in terms of assets deployed, is one of the three largest industries in the world. The other two are the energy business and the electricity generation and distribution business. There's a massive infrastructure in place for the water industry, but it's still considered a small business because of only 6% investor ownership. Typically, water service stocks benefit from the same economics as benefits the utilities business model. Even though utilities are 93% municipal (a percentage that's changing rapidly in the U.S.), they still have a very good business model. In the water business, you first have a customer who must have your product on a daily basis. There is no substitute for water at any price. Think about it: There's a substitute for lots of things – gold for silver, kerosene for fuel oil, wheat for oats – but there isn't a substitute for water. You must have water. You must have it daily.

The way our system works, the company with the pipe into your house has the only conveyance and an enforced monopoly. There are huge, impossible barriers to entry. The only way to replace that pipe is to buy the company that owns the pipe. A new company can't come alone and put in another pipe. It's not like having Mobil on one corner and Texaco on the other, and you can go across the street if Texaco has gas a penny cheaper. The demand for water is unaffected by inflation, recession, or interest rates. It's economically intensive. No one thinks, "Gee, times are tough. We are in a recession. I will take fewer showers. We'll only do two loads of laundry a week instead of three". The water industry has an incredibly consistent growth record in all kinds of economic conditions. Yet the underlying asset still does not reflect its true economic value, which eventually will change. In the 1793 Farmers' Almanac Ben Franklin says simply, "When the well is dry, we know the worth of water." In any utility-type business model, attention to service is absolutely critical. If you're a supplier selling to a municipal or investor-owned utility and a pump goes out, the response is to fix it right now with no interruption of service. Water companies don't say, "Gee, we can't fix it until Monday because we don't want to pay overtime for the weekend". They don't say, "It's not in the budget this year". It's fixed right now, and when they buy a spare part, they often buy two of them because they want to have a spare. The effect of the service being so critical trickles down in a positive way throughout the water industry – to the pipes, pumps, valves, filters, and all the rest of the items that must be purchased and maintained. The dominant and most current investment driver in the industry today is consolidation and privatization. That is really driving the stocks, for both utilities and suppliers. There are some 56,000 small water utilities in the U.S. serving less than 2,500 customers. There are also many thousands more that are larger and serve larger areas. However, these 56,000 are the least able to sustain themselves independently and are, in effect, the low-hanging fruit for the consolidation of the industry. When you have just 2,500 customers, you don't have many economies of scale. You don't have a sustainable business in the sense of access to capital markets and maintaining environmental and regulatory standards.

Wall Street hasn't noticed this opportunity because they don't pay any attention to the performance of the industry as a whole. Among water utilities in the last five years, the average annual rate of return is over 16%, while the S&P 500 is down by around 0.5%. In the last 10 years, the water utility rate of return is 14.9%, still well above the S&P 500 at 9.3%. Interestingly, in the last 20 years, water stocks are up 17.5%, but the S&P 500 is up only about 12%.

### *SeaLife 1000 an effective deterrent of zebra mussels*

CULVER CITY, Calif. — A modified version of SeaLife 1000 Antifoul paint was proven by an independent study to be a highly effective and cost-saving coating against zebra mussels infesting the Great Lakes and most freshwater systems in the U.S., according to **SeaLife Corporation (OTCBB:SLIF)**. The tests on SeaLife 1000 were conducted from May to October 2004 in Lake Erie, known for the heavy proliferation of zebra mussels during those months. SeaLife 1000 performed well, resisting all zebra mussel growth. Tests indicated that three coats of SeaLife applied to any surface impeded the attachment of zebra mussels, thus preventing clogs and other damage. "We can conclude from the test results, that SeaLife's coatings are suitable as an effective deterrent to the zebra mussel infestation in freshwater systems," said Dr. Jonathan Matias, an expert on marine antifouling and executive director of the Poseidon Sciences Group, which performed the tests on SeaLife 1000.

In the United States and Canada, total damage to water intake pipes and filter screens is approximately $3.5 billion. Losses in Europe and Asia exceed that of the U.S. Power plants in the U.S., relying on water from the Great Lakes, spend approximately $60 million per year in attempts to prevent power outages resulting from water intake lines that have been clogged by zebra mussels. According to the U.S. Department of State, other zebra mussel deterrents have proven costly and time consuming, generating only "mixed results."

Robert McCaslin, CEO, SeaLife Corporation, said: "This is very exciting news for the company, that SeaLife 1000 has emerged from an independent test as a viable solution to a very large problem."

Zebra mussels, native to the Caspian and Black seas, were first introduced into U.S. in 1988 when water from a ship's ballast tank carrying larvae of the species was discharged into the Great Lakes. The infestation of zebra mussels has since then spread throughout the Eastern United States and down the Mississippi River basin. Water intake pipes used by power plants are a favorite breeding ground of the species, producing five million eggs per year. The mussels can attach themselves to any submerged surface. Once they attach, they proliferate and quickly clog any critical intake pipe or filter screen.

# Watts Water Technologies grows through sales, acquisitions...

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• Water supply and drainage products for commercial and residential applications.

• Temperature and pressure relief valves for water heaters, boilers and associated systems.

• Point-of-use water filtration and reverse osmosis systems for both commercial and residential applications.

• Thermostatic mixing valves for tempering water in commercial and residential applications.

• Systems for under-floor radiant applications.

"Other new Watts products entering the marketplace are thermostatic controls that regulate temperatures at the point of use. It minimizes the chance of scalding," points out McCartney.

Watts markets products to plumbing, heating and mechanical wholesale distributors, major DIY chains, and OEMs. "We have over 7,000 customers worldwide," says McCartney with Home Depot the largest. "Our top 10 customers account for 25 percent of our total sales." (Watts earned the distinction as a Home Depot Partner of Year the last three of four years.)

Watts depends mostly on commissioned manufacturers' representatives. These representatives sell mainly to plumbing and heating wholesalers or service DIY store locations in North America. Watts markets residential construction and home repair products for the remodeling industries through DIY plumbing retailers, national catalog distribution companies, hardware stores, building material outlets and retail home-center chains, and through plumbing and heating wholesalers. In addition, Watts sells directly to some large OEMs and private label accounts. "We go to market under many brand names," adds McCartney.

The distribution breakdown is:

• Wholesalers. Approximately 62 percent of Watt's 2003 sales were to wholesale distributors for both commercial and residential applications.

• DIY. Approximately 20 percent of 2003 sales were to DIY customers, primarily in North America. The Home Depot, Inc., Watts's largest customer, accounted for approximately $74.8 million, or 10.6 percent, of total net sales in 2003. Sales into the North American home improvement grew by 13 percent during 2003 the ninth consecutive year of double-digit sales increases in this market.

• OEMs. Roughly, 18 percent of 2003 sales were to OEMs in both North America and Europe. In North America, typical OEM customers are water heater manufacturers, equipment manufacturers needing flow control devices and water systems manufacturers needing backflow preventers. Sales to European OEMs are primarily to boiler and radiant systems manufacturers.

As consumers continue to demand high-quality water and as the cost of that water continues to increase, Watts believes its products are well suited to address the needs these trends will present to the market. "We've never been better situated," says McCartney.

In addition, Watts has acquired 34 companies that address residential and commercial water needs since 1986, including:

• Premier Systems, a leading manufacturer of water filtration and purification products, acquired in 2001. Product offering includes the Zero-Waste Reverse Osmosis System. According to Watts, standard filtration systems squander four or more gallons for every 1 gallon of drinking water produced. The Zero-Waste system eliminates waste.

• Hunter Innovations. This acquisition in 2002 allowed Watts to provide enhanced back-flow prevention technology. Backflow is the reverse flow of a liquid into the potable water supply. This provides "a significant improvement in backflow technology," claims McCartney, "which allows us to go to market with a product that is much lighter and easier for plumbers to install."

• Flowmatic Systems. In 2003, Watts entered into an agreement to acquire substantially all of the assets of Flowmatic Systems. Flowmatic offers a broad line of high quality reverse osmosis components and filtration equipment.

Watts completed two additional acquisitions during 2003: Martin Orgee UK Ltd., which produces a line of plumbing and heating products for both wholesale, commercial and O.E.M. customers in the United Kingdom., and Giuliani Anello, which manufactures valves and safety devices sold into the European heating market.

On April 16, 2004, the company acquired 90 percent of the stock of TEAM Precision Pipework, Ltd., of the United Kingdom for approximately $17,200,000 subject to final adjustments, if any, as stipulated in the purchase and sale agreement. TEAM custom designs and manufactures manipulated pipe and hose tubing assemblies utilized in heating ventilation and air conditioning markets. Watts's long-range strategy features "a very aggressive manufacturing program," says McCartney. The company aims to reduce manufacturing costs by increasing manufacturing in lower-cost countries and consolidation of manufacturing operations in North America and Europe. The company has opened manufacturing locations in Bulgaria, Tunisia, and China. (One of three factories in China is a joint venture with Watts owning 60 percent; the other two factories in China are wholly owned facilities.)

The company consistently advocates the development and enforcement of plumbing codes and maintains quality control and testing procedures at each of its manufacturing facilities in order to manufacture products in compliance with code requirements. "We work with local code officials to help them understand the codes," explains McCartney.

Watts employs 5,400 people worldwide including 2,400 in North America, 1,500 in Europe and 1,500 in China.

"We have a very talented management group admits McCartney, "We have accomplished a lot…but our bests days are ahead of us."