Global Water Resources, Inc.
Form 424B4
April 28, 2016
Table of Contents

Filed Pursuant to Rule 424(b)(4)
Registration No. 333-209025

PROSPECTUS

1,164,800 Shares

Common Stock

We are offering 1,164,800 shares of our common stock. This is our initial public offering and no public market currently exists for shares of our common stock. The initial public offering price is $6.25 per share.

Our common stock has been approved for listing on the NASDAQ Global Market under the symbol GWRS. The common shares of GWR Global Water Resources Corp., which currently owns approximately 47.8% of our outstanding common stock, are publicly listed on the Toronto Stock Exchange. Concurrently with the consummation of this offering, GWR Global Water Resources Corp. will merge with and into us and on the effectiveness of the merger all of the outstanding common shares of GWR Global Water Resources Corp. will be exchanged for shares of our common stock. See The Transactions Reorganization Transaction for additional information.

We are an emerging growth company, as defined in Section 2(a) of the Securities Act of 1933, as amended, and will be subject to reduced public reporting requirements. This prospectus complies with the requirements that apply to an issuer that is an emerging growth company.

Investing in our common stock involves risks. See Risk Factors beginning on page 8.

	Per Share	Total
Initial public offering price	$ 6.25	$ 7,280,000
Underwriting discounts and commissions(1)	$ 0.4375	$ 509,600
Proceeds to us, before expenses	$ 5.8125	$ 6,770,400

(1) See Underwriting for additional information regarding underwriting compensation.

We have granted the underwriter an option to purchase up to 174,720 additional shares of our common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriter expects to deliver the shares of common stock to purchasers on or about May 3, 2016.

Roth Capital Partners

Prospectus dated April 28, 2016

Table of Contents

TABLE OF CONTENTS

Neither we nor the underwriter have authorized anyone to provide any information or to make any representations other than those contained in this prospectus or in any free writing prospectuses we have prepared. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of shares of our common stock. Our business, financial condition, results of operations, and prospects may have changed since that date.

Until May 22, 2016 (25 days after the commencement of our initial public offering), all dealers that buy, sell, or trade shares of our common stock, whether or not participating in our initial public offering, may be required to deliver a prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a prospectus when acting as underwriter and with respect to its unsold allotments or subscriptions.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights information contained in greater detail elsewhere in this prospectus. This summary is not complete and does not contain all of the information you should consider in making your investment decision. You should read the entire prospectus carefully before making an investment in our common stock. You should carefully consider, among other things, our consolidated financial statements and the related notes and the sections entitled Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. Unless the context requires otherwise, references in this prospectus to the Company, we, us and our refer to Global Water Resources, Inc., a Delaware corporation, and its consolidated subsidiaries. All references to CAD$ and Canadian dollars are to the lawful currency of Canada and references to $, US$ and U.S. dollars are to the lawful currency of the United States.

Our Company

We are a water resource management company that owns, operates and manages water, wastewater and recycled water utilities in strategically located communities, principally in metropolitan Phoenix, Arizona. We seek to deploy our integrated approach, which we refer to as Total Water Management, a term we use to mean managing the entire water cycle by owning and operating the water, wastewater and recycled water utilities within the same geographic areas in order to both conserve water and maximize its total economic and social value. We use Total Water Management to promote sustainable communities in areas where we expect growth to outpace the existing potable water supply. Our model focuses on the broad issues of water supply and scarcity and applies principles of water conservation through water reclamation and reuse. Our basic premise is that the world s water supply is limited and yet can be stretched significantly through effective planning, the use of recycled water and by providing individuals and communities resources that promote wise water usage practices.

We currently own nine water and wastewater utilities in strategically targeted communities principally in metropolitan Phoenix. We currently serve more than 50,000 people in approximately 20,000 homes within our 332 square miles of certificated service areas, which are serviced by five wholly-owned regulated operating subsidiaries as of December 31, 2015. Approximately 94.9% of our active service connections are customers of our Santa Cruz and Palo Verde utilities, which are located within a single service area. We have grown significantly since our formation in 2003, with total revenues increasing from $4.9 million in 2004 to $32.0 million in 2015, and total service connections increasing from 8,113 as of December 31, 2004 to 38,744 as of December 31, 2015, with regionally planned service areas large enough to serve approximately two million service connections.

Our Growth Strategy

Our long-term goal is to become one of the largest investor-owned operator of integrated water and wastewater utilities in areas of the arid western United States where water scarcity management is necessary for long-term economic sustainability and growth. Our growth strategy involves the elements listed below:

- acquiring or forming utilities in the path of prospective population growth;
- expanding our service areas geographically and organically growing our customer base within those areas; and

deploying our Total Water Management approach into these utilities and service areas.

We believe this plan can be executed in our current service areas and in other geographic areas where water scarcity management is necessary to support long-term growth and in which regulatory authorities recognize the need for water conservation through water recycling.

Table of Contents

Our Competitive Strengths

Our Utilities Are Located in Areas of Strong Population Growth Where We Have Contracted Service Areas

We have three regional planning areas located in the metropolitan Phoenix area with area-wide permits and contractual service rights relating to over 500 square miles of territory. Our Maricopa-Casa Grande regional planning area and Eloy regional planning area are located in Pinal County, Arizona. Pinal County is rapidly changing from primarily rural to an area of suburbanization. According to a U.S. Census estimate, Pinal County grew by 124% from a population of 179,727 in 2000 to 401,918 in 2014, and by 7% between years 2010 and 2014, ranking it as a third fastest growing county in Arizona based on percentage population growth for this period.

Our West Valley regional planning area is located in Maricopa County. Maricopa County gained 797,927 residents between 2000 and 2011, and 270,074 residents between years 2010 and 2014. Maricopa County is one of the fastest growing counties in Arizona and Maricopa County is now the fourth largest county in the U.S. with approximately 4.0 million residents.

Modern Infrastructure Provides Foundation for Future Growth With Low Future Capital Expenditures

We believe that as demand for new homes continues to recover in the regions we serve, there will be opportunities for growth, particularly in the Maricopa-Casa Grande region, where our local utilities have considerable infrastructure already in place. As a result of our investment in modern infrastructure, we expect our regulated utilities business in our current service areas to have relatively low capital expenditures for the foreseeable future because greater than 90% of our infrastructure was built in the last twelve years compared to most U.S. drinking water infrastructure, which were built 50 or more years ago.

Leader in Utilization of Technology and Innovation

We use technology to reduce costs, increase revenues and save water. We focus on technological innovations that allow us to deliver high-quality water and customer service with lower potential for human error, delays and inefficiencies. Our comprehensive technology platform includes FATHOM , which includes customer information systems, automated meter reading and geographical information system technologies, and supervisory control and data acquisition systems, which we use to map and monitor our physical assets and water resources on an automated, real-time basis with fewer employees than the standard water utility model requires. Our innovative approaches to utility planning, water conservation and technology utilization have led to our development of strong relationships with key regulatory bodies.

Unique and Proven Advanced Technology Platform

We believe that we are one of the only water utilities that has developed its own integrated suite of advanced services, which we branded as FATHOM . Initially developed to support and optimize our utility operations, implementation of the FATHOM system has consistently demonstrated cost savings for third party utilities and provides opportunities for increased utility revenues. We sold the FATHOM business in June 2013 (retaining a minority ownership position, which is currently approximately 8%), although we continue to use and benefit from the internally developed FATHOM service suite. For additional information, see Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Events Sale of FATHOM Business.

2

Table of Contents

Proven Ability to Acquire and Consolidate

We have acquired or formed 16 regulated water and wastewater utilities (four of which have subsequently been divested and three of which have been merged), five of which are operating with active customer service connections. We have successfully consolidated the operations, management, infrastructure, technology and employees of these utilities. Not all utilities acquired by us can accommodate the Total Water Management model, as it is necessary that we own both the water and the wastewater infrastructure in the area. In those cases, we seek to improve operational and administrative efficiencies of the utility using our technology platform and through economies of scale. We believe that our success to date engenders positive relationships and credibility with regulators, municipalities, developers and customers in both existing and prospective service areas.

The Transactions

Concurrently with the consummation of this offering, GWR Global Water Resources Corp. (GWRC), which currently owns approximately 47.8% of our outstanding common stock, will merge with and into the Company with the Company surviving as a Delaware corporation, subject to the satisfaction of certain conditions, including GWRC s shareholder approval. At the effective time of the merger, following a 100.68-for-1 forward stock split with respect to our common stock, holders of GWRC s common shares will receive one share of the Company s common stock for each outstanding common share of GWRC. We refer to this as the Reorganization Transaction. The Reorganization Transaction and the consummation of this offering will be contingent upon each other and will occur simultaneously. In addition, following the consummation of this offering and the Reorganization Transaction, we plan to refinance all of our tax-exempt bonds. For additional information, see The Transactions elsewhere in this prospectus.

The Reorganization Transaction may give rise to both U.S. and Canadian tax liability for us. See Risk Factors Risks Related to This Offering and Ownership of Our Common Stock The Reorganization Transaction occurring concurrently with this offering may give rise to both U.S. and Canadian tax liability for us.

Implications of Being an Emerging Growth Company

As a company with less than $1.0 billion in revenue during our last fiscal year, we qualify as an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012 (the JOBS Act), under the rules and regulations of the Securities and Exchange Commission (SEC). An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include:

- a requirement to have only two years of audited financial statements and only two years of related management s discussion and analysis of financial condition and results of operations disclosure;
- reduced disclosure obligations regarding executive compensation in periodic reports;
- no requirement for non-binding advisory votes on executive compensation or golden parachute arrangements; and

an exemption from the auditor attestation requirement in the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act).

We may take advantage of these provisions for up to five years or such earlier time that we are no longer an emerging growth company. In future years, we will cease to be an emerging growth company if we have more than $1.0 billion in annual revenue, have more than $700 million in market value of our common stock held by non-affiliates, or issue more than $1.0 billion of non-convertible debt securities over a three-year period. We may choose to take advantage of some but not all of these reduced requirements.

Table of Contents

We have elected to take advantage of some of the reduced disclosure obligations regarding financial statements and executive compensation in this prospectus and may elect to take advantage of other reduced requirements in future filings. As a result, the information we provide to our stockholders may be different than you might receive from other public reporting companies in which you hold equity interests.

The JOBS Act permits an emerging growth company, like us, to elect to delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We are choosing to take advantage of this extended transition provision. See Risk Factors Risks Related to This Offering and Ownership of Our Common Stock Our election to take advantage of the JOBS Act extended accounting transition period may make our financial statements more difficult to compare to other public companies.

Summary Risk Factors

Participating in this offering involves substantial risk. Our ability to execute our strategy is also subject to certain risks. The risks described under the heading Risk Factors included elsewhere in this prospectus may cause us to be unable to successfully execute all or part of our strategy. Some of the most significant challenges and risks include the following:

- we may have difficulty accomplishing our growth strategy within and outside of our current service areas;
- our operations of regulated utilities are currently located exclusively in the state of Arizona;
- our active service connections are primarily concentrated in one water utility and one wastewater utility located in the same service area;
- our growth depends significantly on increased residential and commercial development in our service areas;
- the growth of our customer base and revenues could be materially and adversely affected by a deep or prolonged slowdown of development or population growth within our service areas;
- any growth that may occur outside the location and capacity of our existing infrastructure may require significantly more capital expenditures than currently anticipated;
- we may not be permitted to increase our rates;
- we may be required to alter our existing treatment facilities or build additional facilities as a result of changes to environmental and other regulations;

seasonal fluctuations and other weather-related conditions, such as droughts, could adversely affect the supply of and demand for our services;

inadequate water and wastewater supplies could have a material adverse effect upon our ability to achieve the customer growth;

our water and wastewater systems are subject to condemnation by governmental authorities;

the concentration of our stock ownership with our officers, directors, certain stockholders and their affiliates will limit our stockholders ability to influence corporate matters;

we have elected to take advantage of the reduced disclosure requirements applicable to emerging growth companies;

The Reorganization Transaction occurring concurrently with this offering may give rise to both U.S. and Canadian tax liability for us;

our ability to expand into new service areas and to expand current water and wastewater service depends on approval from regulatory agencies; and

if our financial performance deteriorates, we may need to decrease or eliminate our dividends.

Table of Contents

Our Corporation Information

Global Water Resources, Inc., the issuer of the common stock in this offering, was incorporated as a Delaware corporation on May 2, 2008. Our principal executive offices are located at 21410 N 19th Avenue #220, Phoenix, AZ 85027, and our telephone number is (480) 360-7775. Our website address is www.gwresources.com. Our website and the information contained therein or connected thereto shall not be deemed to be incorporated into this prospectus or the registration statement of which it forms a part.

The Offering

Issuer	Global Water Resources, Inc.
Common stock offered by us	1,164,800 shares
Underwriter s option to purchase additional shares of common stock from us	174,720 shares
Common stock to be outstanding after this offering	19,406,546 shares (after giving effect to the shares of our common stock sold by us in this offering and to the Reorganization Transaction, including the 100.68-for-1 forward stock split with respect to our common stock effected prior to the completion of this offering)
Use of proceeds	We estimate that our net proceeds from the sale of our common stock that we are offering will be approximately $4.6 million, based on the initial public offering price of $6.25 per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.
	Our principal reason for this offering is to provide the Company the option to exercise the redemption of its outstanding tax-exempt bonds, which would need to be completed within 90 days after closing of a public offering of ownership interests in the Company. See The Transactions Planned Refinancing Transaction for additional information. We intend to use the net proceeds from this offering for working capital and other general corporate purposes. However, we have not made a definitive determination as to how to allocate these proceeds among these and other possible general corporate purposes and we do not anticipate doing so prior to the completion of this offering. We do not intend to use the net proceeds from this offering to refinance the tax-exempt bonds.

Dividend policy	Following the completion of this offering, we intend to pay a regular monthly dividend on our common stock of $0.02 per share ($0.24 per share annually), or an aggregate of approximately $4.7 million on an annual basis. However, our future dividend policy is subject to our compliance with applicable law, and depending on, among other things, our results of operations, financial condition, level of

5

Table of Contents

	indebtedness, capital requirements, contractual restrictions, restrictions in our debt agreements and in any preferred stock we may issue in the future, business prospects and other factors that our board of directors may deem relevant. See Dividend Policy and Risk Factors We cannot assure you that we will pay dividends on our common stock, and our indebtedness could limit our ability to pay dividends on our common stock.
Risk factors	See Risk Factors beginning on page 8 to read about factors you should consider before buying shares of our common stock.
NASDAQ Global Market symbol	GWRS

Unless otherwise indicated, this prospectus:

- assumes no exercise by the underwriter of its option to purchase additional shares of our common stock;
- gives effect to a 100.68-for-1 forward stock split with respect to our common stock that will be effected prior to the completion of this offering in connection with the Reorganization Transaction; and
- does not give effect to the consummation of the Reorganization Transaction and the 8,726,747 shares of our common stock to be issued in the Reorganization Transaction.

Table of Contents

Summary Consolidated Financial Data

The following table summarizes selected historical and pro forma consolidated financial data for Global Water Resources, Inc. and its subsidiaries. We have derived the summary consolidated statement of operations data for the years ended December 31, 2014 and 2015 and the consolidated balance sheet data as of December 31, 2014 and 2015 from our audited consolidated financial statements included elsewhere in this prospectus.

We have derived the pro forma consolidated financial data from our unaudited pro forma condensed consolidated financial information appearing elsewhere in this prospectus. The summary pro forma condensed consolidated balance sheet as of December 31, 2015 is adjusted to give effect to the Reorganization Transaction. The summary pro forma condensed consolidated statement of operations data for the year ended December 31, 2015 is adjusted to give effect to a 100.68-for-1 forward stock split with respect to our common stock that will be effected prior to the completion of this offering in connection with the Reorganization Transaction and to the condemnation of the operations and assets of Valencia Water Company, Inc. (Valencia Water Company) as if the transaction had occurred on January 1, 2015.

The summary of our consolidated financial data set forth below should be read together with our consolidated financial statements and the related notes and our unaudited pro forma condensed consolidated financial information and related notes, as well as the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations.

	December 31, 2015	Pro Forma December 31, 2015	December 31, 2014
		(dollars in thousands)	
ASSETS:			
Net property, plant and equipment	$ 194,152	$ 194,152	$ 240,424
Current assets	18,715	18,715	12,293
Other assets	25,108	25,108	54,884
Total Assets	$ 237,975	$ 237,975	$ 307,601
LIABILITIES:			
Current liabilities	$ 10,663	$ 10,841	$ 13,630
Noncurrent liabilities	207,249	207,524	266,291
Total Liabilities	217,912	218,365	279,921
SHAREHOLDERS EQUITY	20,063	19,610	27,680
Total Liabilities and Shareholders Equity	$ 237,975	$ 237,975	$ 307,601

	Year Ended	Pro Forma Year Ended	Year Ended

	December 31, 2015	December 31, 2015	December 31, 2014
	(dollars in thousands, except per share data)		
Revenues	$ 31,956	$ 28,690	$ 32,559
Operating expenses	25,429	22,802	(22,232)
Operating income	6,527	5,888	54,791
Total other income (expense)	35,459	(7,526)	(6,855)
Income (loss) before income taxes	41,986	(1,638)	47,936
Income tax benefit (expense)	(20,623)	784	16,995
Net income (loss)	$ 21,363	$ (854)	$ 64,931
Basic earnings (loss) per common share	$ 117.55	$ (0.05)(1)(2)	$ 356.67
Diluted earnings (loss) per common share	$ 117.55	$ (0.05)(1)(2)	$ 356.67

(1) The adjustments to basic earnings (loss) and diluted earnings (loss) per common share reflect the net income eliminated through the pro forma adjustments for the year ended December 31, 2015 and the elimination of the net gain on the condemnation of the operations and assets of Valencia Water Company.

(2) As adjusted to give effect to a 100.68-for-1 forward stock split with respect to our common stock that will be effected prior to the completion of this offering in connection with the Reorganization Transaction.

Table of Contents

RISK FACTORS

This offering and investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below together with all of the other information contained in this prospectus, including our consolidated financial statements and the related notes appearing at the end of this prospectus, before deciding to invest in our common stock. If any of the following risks actually occurs, our business, prospects, operating results and financial condition could suffer materially, the trading price of our common stock could decline and you could lose all or part of your investment.

Risks Related to Our Business and Industry

We may have difficulty accomplishing our growth strategy within and outside of our current service areas. This would cause us to rely more heavily on regulatory rate increases to increase our revenues, which we may not apply for before May 31, 2017 for our utilities that service approximately 94.9% of our active service connections.

Our ability to expand our business, both within our current service areas and into new areas, involves significant risks, including, but not limited to:

- not receiving or maintaining necessary regulatory permits, licenses or approvals;
- downturns in economic or population growth and development in our service areas;
- risks related to planning and commencing new operations, including inaccurate assessment of the demand for water, engineering and construction difficulties and inability to begin operations as scheduled;
- droughts or water shortages that could increase water conservation efforts to a point that materially reduces revenue;
- regulatory restrictions or other factors that could adversely affect our access to sources of water supply;
- our potential inability to identify suitable acquisition opportunities or to form the relationships with developers and municipalities necessary to form strategic partnerships; and
- barriers to entry presented by existing water utilities in prospective service areas.

If we are unable to execute our growth strategy effectively, we will need to rely more heavily on regulatory rate increases to increase our revenue. However, recent Rate Decision No. 74364 stipulates that none of our utilities can file another rate application before May 31, 2016. Moreover, Global Water-Santa Cruz Water Company (Santa Cruz) and Global Water-Palo Verde Utilities Company (Palo Verde), which service approximately 94.9% of our active service corrections, may not file for another rate increase before May 31, 2017. See Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Rate Case Activity for additional information.

Our operations of regulated utilities are currently located exclusively in the state of Arizona, which increases the impact of local conditions on our results of operations.

The customers of our regulated utilities are currently located exclusively in the state of Arizona. As a result, we cannot diversify or mitigate the risks presented by local regulatory, economic, demographic and weather conditions in this area. An adverse change in any of these conditions would therefore affect our profitability, results of operations, liquidity and cash flows more significantly than if our utilities also operated in other geographic areas.

Our active service connections are primarily concentrated in one water utility and one wastewater utility.

At December 31, 2015, we had 37,784 active service connections, of which approximately 94.9% are serviced by our Santa Cruz water utility and our Palo Verde wastewater utility. Both our Santa Cruz and Palo

Table of Contents

Verde utilities are located in the same service area. If, for any reason, including those described below under Any disruption or problem at our facilities could increase our expenses, either of these utilities are unable to service this service area, our ability to conduct our business would be adversely affected.

We face competition for new service areas and acquisition targets.

We face competition from other water and wastewater utilities for new service areas and with respect to acquisition of smaller utilities. These competitors consist primarily of municipalities and investor-owned utilities seeking expansion opportunities. Some of our competitors are larger than we are and have more resources and access to capital than we do. If we are unable to compete effectively for new service areas and acquisitions of existing utilities, our ability to increase our rate base and revenue could be adversely affected.

Operating costs, construction costs and costs of providing services may rise faster than revenue.

The ability to increase rates over time is dependent upon approval of rate increases by utility regulators, which may be inclined, for political or other reasons, to limit rate increases. However, our costs are subject to market conditions and other factors, and may increase significantly. The second largest component of our operating costs after water production is made up of salaries and wages. These costs are affected by the local supply and demand for qualified labor. Other large components of our costs are general insurance, workers compensation insurance, employee benefits and health insurance costs. These costs may increase disproportionately to rate increases authorized by utility regulators and may have a material adverse effect on our financial condition and results of operations.

We may have difficulty recruiting and retaining qualified personnel, and due to the technical and specialized nature of our business, our profitability may suffer if we do not have the necessary workforce.

Our plants require some of our employees to be certified operators of record, a designation requiring specialized training and certification in water and wastewater systems. As workers with these qualifications retire in the industry, we may be unable to replace them readily in view of the relatively low number of younger workers that we believe are entering the workforce to pursue this line of work. Our operations require a variety of other technical skills and specialties in the areas of engineering, systems analysis, laboratory work and equipment repair, and we may have difficulty recruiting and retaining personnel with these skills. If we cannot maintain an employee base with the skills necessary to conduct our operations, our efficiency, margins and ability to expand our business could be adversely affected.

Any disruption or problem at our facilities could increase our expenses.

A natural disaster (such as an earthquake, fire or flood) or an act of terrorism could cause substantial delays in our operations, damage or destroy our equipment or facilities and cause us to incur additional expenses and lose revenue. The insurance we maintain against natural disasters may not be adequate to cover our losses in any particular case, which would require us to expend significant resources to replace any destroyed assets, thereby materially and adversely affecting our financial condition and prospects.

Our growth depends significantly on increased residential and commercial development in our service areas, and if developers or builders are unable to complete additional residential and commercial projects, our revenue may not increase.

The growth of our customer base depends almost entirely on the success of developers in developing residential and commercial properties within our Certificate of Convenience and Necessity areas. A Certificate of Convenience and

Necessity is a permit issued by the Arizona Corporation Commission allowing a public service corporation to serve a specified area, and preventing other public service corporations from offering the

Table of Contents

same services within the specified area, which we refer to as service areas. Real estate development is a cyclical industry and the growth rate of development, especially residential development, since 2006, both nationally and in Arizona has been below historical rates. The sale of, for instance, single family residences is affected by a number of national and regional economic factors, including:

- interest rates and general levels of economic output;
- levels of activity in the local real estate market;
- the state of domestic credit markets, mortgage standards and availability of credit;
- competition from other builders and other projects in the area and other states;
- federal programs to assist home purchasers;
- costs and availability of labor and materials;
- government regulations affecting land development, homebuilding and mortgage financing;
- availability of financing for development and for home purchasers;
- changes in the income tax treatment of real property ownership;
- unexpected increases in development costs;
- increased commute times and fuel costs that may adversely affect the desirability of outlying suburbs;
- availability of, among other things, other utilities, adequate transportation and school facilities; and
- environmental problems with such land.

While many developers presently hold necessary zoning approvals, land development within our service areas could also be affected by changes in governmental policies, including, but not limited to, governmental policies to restrict or control development. This may include, for example, actions by the local school districts to restrict admissions to local schools because of inadequate classroom space or, because of other problems, such as failure by local municipalities to approve plats for the development. An increase in current residential foreclosure rates or a deep or prolonged slowdown of the development process and the related absorption rate within the various developments in our service areas because of any or all of the foregoing could materially and adversely affect growth of our customer base and the generation of revenue.

Many national builders and developers in our service areas own or control substantial amounts of the developable land in these areas. There can be no assurance that these builders and developers have the financial capability to continue and complete their developments. Moreover, given that there are limited restrictions on the ability of developers to sell parcels (or portions thereof), developers may continue to transfer ownership of parcels (or portions thereof) within our service areas to other developers and homebuilders and others prior to completion of development, who may then sell to, among others, ultimate homeowners. There can be no assurance that any subsequent owners will have the financial capabilities to complete development of any land so acquired.

A deep or prolonged slowdown of the development process and growth rate within the various developments in our service areas could materially and adversely affect the growth of our customer base.

Development in our service areas is also contingent upon construction or acquisition of major public improvements, such as arterial streets, drainage facilities, telephone and electrical facilities, recreational facilities, street lighting and local in-tract improvements (e.g., site grading). Many of these improvements are built by municipalities with public financing, and municipal resources and access to capital may not be sufficient to support development in areas of rapid population growth. If municipalities, developers, builders or homeowners are unable, financially or otherwise, to make the improvements necessary to complete new residential or commercial developments, our potential revenue growth from new water and wastewater connections within such developments would be reduced.

Table of Contents

New or stricter regulatory standards or other governmental actions could increase our regulatory compliance and operating costs, which could cause our profitability to suffer, particularly if we are unable to increase our rates to offset such costs.

In Arizona, water and wastewater utilities are subject to regulation by water, environmental, public utility and health and safety regulators, and we are required to obtain environmental permits from governmental agencies in order to operate our facilities. Regulations relate to, among other things, standards and criteria for drinking water quality and for wastewater discharges, customer service and service delivery standards, waste disposal and raw groundwater abstraction limits and rates and charges for our regulated services. There may be instances in the future when we are not in or cannot achieve compliance with new and evolving laws, regulations and permits without incurring additional operating costs. For example, in 2006, the U.S. Environmental Protection Agency (EPA) implemented a new arsenic maximum contaminant level, which effectively required the installation and operation of costly arsenic treatment systems at many of our water production facilities.

Our costs of complying with current and future governmental laws and regulations could adversely affect our business or results of operations. If we fail to comply with these laws, regulations or permits, we could be fined or otherwise sanctioned by regulators and our operations could be curtailed or shut down. We may also be exposed to product liability or breach of contract claims by third parties resulting from our noncompliance. These laws and regulations are complex and change frequently, and these changes may cause us to incur costs in connection with the remediation of actions that were lawful when they were taken.

We may incur higher compliance or remediation costs than expected in any particular period and may not be able to pass those increased costs along to our customers immediately through rate increases or at all. This is because we must obtain regulatory approval to increase our rates, which can be time-consuming and costly and our requests for increases may not be approved in part or in full.

We are required to test our water quality for certain parameters and potential contaminants on a regular basis. If the test results indicate that parameters or contaminants exceed allowable limits, we may be required either to commence treatment to remedy the water quality or to develop an alternate water source. Either of these outcomes may be costly, and there can be no assurance that the regulatory authorities would approve rate increases to recover these additional compliance costs. In addition, by the time that test results are available, contaminated water may have been provided to customers, which may result in liability for us and damage our reputation.

In addition, governments or government agencies that regulate our operations may enact legislation or adopt new requirements that could have an adverse effect on our business, including:

- restricting ownership or investment;
- providing for the expropriation of our assets by the government through condemnation or similar proceedings;
- providing for changes to water and wastewater quality standards;

requiring can