One Corporate Center
Rye, NY 10580-1422
Tel (914) 921-3700
Fax (914) 921-5098
www.gabelli.com

March 10, 2011

Gabelli & Company, Inc.

Aqua America (WTR - $22.69 - NYSE) — The Non-Dilutive Water Utility - Buy

Year	EPS	P/E	PMV	
2013P	$1.15	19.7x	$30	Dividend: $0.62 Current Return: 2.7%
2012P	1.08	21.0	28	Shares O/S: 137.8 million
2011E	0.98	23.2	27	52-Week Range: $23.79 - $16.52
2010A	0.90	25.1	-	

SUMMARY AND OPINION

Aqua America is a national water utility serving roughly three million residents in thirteen states in the eastern half of the United States. Roughly 55% of earnings are derived from Aqua Pennsylvania, but Aqua subsidiaries also serve customers in OH, NC, IL, TX, NJ, NY, FL, IN, VA, ME, and MO.

- WTR reported 2010 earnings of $0.90 per share, which was in-line with our estimate, compared to $0.77 per share in 2009. The 17% improvement was driven by rate awards, a return to normal weather, cost-controls and a 1% increase in customers served. During 2010, the company received rate awards estimated to increase annualized revenues by $53.9 million.

Table 1 **Aqua America Comparable Earnings Results**

($ in millions, except per share data)

	Fourth Quarter			Full Year		
	2009	**2010**	**Change**	**2009**	**2010**	**Change**
EBITDA	$ 89.7	$ 96.2	7.3%	$ 352.4	$ 393.1	11.6%
Net Income	26.7	28.9	8.2	104.4	124.0	18.8
EPS	$ 0.20	$ 0.21	5.0	$ 0.77	$ 0.90	16.9

Source: Company data and Gabelli & Company, Inc. estimates.

- Aqua held operations and maintenance expenses to a 3.7% increase during 2010 compared to 2009. The 2010 efficiency ratio (O&M as percent of revenue) declined to 38.6%, from 40.3% in 2009.

- Our 2011, 2012 and 2013 earnings estimates are $0.98, $1.08 and $1.15, respectively. Management stated that it was comfortable with the 2011 consensus earnings estimate of $0.97 per share. Our estimates result in nearly 8.5% annual growth over the 2010-2012 period.

- Year-to-date, WTR subsidiaries have been awarded rate increases estimated to increase annualized revenues by $6.8 million and currently have $26.6 million of rate requests pending. In mid-to-late 2011, WTR plans to file general rate cases in larger states, including PA, NJ, TX and OH, which would positively impact 2012 and 2013 earnings.

- In 2010, WTR internally funded over 90% of its record $327 million capital expenditure budget and expects to invest over $300 million annually with a significant portion allocated toward surcharge eligible pipe replacement. We expect that the positive cash impact of bonus depreciation and growing internal cash will fund the capital program without the need for an equity offering.

- WTR is a well-managed, low-risk, high quality conservative utility with unique growth opportunities. WTR's national presence, diverse geographic footprint, technical expertise, operating reputation and financial resources favorably position it to consolidate the fragmented water industry. Over the past 15 years, the company has completed more than 250 growth ventures, and tripled its customer base. We continue to rate shares Buy.

2010 Results Rise 17%

On February 24, 2011 WTR reported 2010 earnings of $0.90 per share, which was in-line with our estimate, compared to $0.77 per share in 2009. The 17% improvement was driven by rate awards, a return to normal weather, cost-controls and a 1% increase in customers served. During 2010, the company received rate awards in Pennsylvania, New Jersey, New York, North Carolina, Missouri, Ohio, Indiana, Florida, Maine and Virginia and infrastructure surcharges or other pass-through charges estimated to increase annualized revenues by $53.9 million. Overall 2010 customer growth was approximately 1% and was driven primarily by 23 acquisitions. WTRs ongoing acquisition program was concentrated in its faster-growing states such as Texas, where it completed 10 acquisitions. WTR also “traded” a Missouri water system for a Texas water system with American Water Works and sold a small wastewater system in South Carolina. Organic growth was a modest 0.4%, which remains well below historical norms, primarily due to the housing slowdown.

Aqua held operations and maintenance expenses to a 3.7% increase during 2010 compared to 2009. The 2010 efficiency ratio (operations and maintenance expense-to-revenue) declined to 38.6%, from 40.3% in 2009. We consider the improvement encouraging given that the company experienced a 200% increase in the number of main breaks in the extremely cold December 2010 period.

Earnings Outlook

Our 2011, 2012 and 2013 earnings estimates are $0.98, $1.08 and $1.15, respectively. Management stated that it was comfortable with the 2011 consensus earnings estimate of $0.97 per share. Our estimates result in nearly 8.5% annual growth over the 2010-2012 period. Strong growth will be driven by rate relief, including large revenue increases in PA ($24 million) and NJ ($4 million) in mid 2010, the acquisition of smaller systems, and continued cost control. Notably, WTR’s cash generation condition continues to improve driven by recent bonus depreciation and frequent infrastructure improvement surcharges where nearly immediate returns are earned on a capital investment.

We expect the under-earning utility subsidiaries in the higher growth regions of NC and FL, which were acquired in 2004 and 2005, to continue to show improvement. Given that management has spent several years working to improve operational performance, we expect continued rate relief and efficiency improvement to improve returns closer to the 10%-plus levels earned in WTR’s more established states by 2012.

So far in 2011, WTR subsidiaries have been awarded rate increases estimated to increase annualized revenues by $6.8 million. Other state subsidiaries currently have $26.6 million of rate cases pending. In addition, WTR plans to file general rate case in larger states, including PA, NJ, TX and OH, which would positively impact 2012 and 2013 earnings.

WTR subsidiaries benefit from growing recognition of automatic rate adjustments for certain infrastructure investment. Aqua Pennsylvania, WTRs largest subsidiary, is allowed to implement up to a 7.5% revenue increase before filing for a general rate case. The regulatory mechanism, referred to as Distribution Improvement Surcharge (DSIC), is a quarterly surcharge applied to customer bills to recognize (including return on) investment in pipe replacement and/or refurbishment. The mechanism is designed to encourage the state’s water utilities to invest in the water distribution system, which had been neglected for decades. States with similar infrastructure surcharge mechanisms include Missouri, Indiana, Illinois, Ohio, and New York. Connecticut and Delaware also have pipe investment mechanisms.

WTR has implemented a new program of “water stations” to fill the trucks that service the drillers in the Marcellus Shale. Drilling natural gas in the vast reserves of the Marcellus requires significant water use to force gas out of the rock formation. Drilling related water consumption represented a modest one-tenth of one percent in 2010, but is expected to grow to 0.35% in 2011.

Capital Expenditures

In 2010, WTR internally funded a significant portion of its record $327 million capital expenditure budget, which was primarily allocated toward improvements in the distribution network (primarily pipe replacements). Management expects to invest more than $300 million annually for utility system improvements with a significant portion allocated toward surcharge eligible pipe replacement. We expect that the positive cash impact of bonus depreciation and growing internal cash will fund the capital program without the need for an equity offering. We have modeled an additional $25 million per year for utility acquisitions.

WTR has ample access to capital as evidenced by its balance sheet (41.6% common equity), A+ rated subsidiary debt and historical valuation multiples ranging between 200-375% of book value. WTR boasts among the highest credit ratings of any publicly-traded utility and its overall embedded cost of debt is among the lowest.

Table 2 Aqua America Private Market Value Analysis, 2006A-2014P

($ in millions, except per share data)	2006A	2007A	2008A	2009A	2010A	2011E	2012P	2013P	2014P
Utility Revenue	$533.5	$602.5	$627.0	$670.5	$686.5	$711.4	$737.2	$763.6	$791.5
Utility EBITDA	281.6	305.6	319.9	355.7	400.8	421.4	457.8	489.1	525.2
Book Value	921.6	976.3	1,058.4	1,108.9	1,174.8	1,233.4	1,301.0	1,373.4	1,459.5
Multiple	2.5	2.5	2.5	3.0	3.0	3.0	3.0	3.0	3.0
Value of regulated utilities	$2,304.1	$2,440.7	$2,646.1	$3,326.7	$3,524.5	$3,700.1	$3,902.9	$4,120.3	$4,378.5
Less: Net Options Payments (1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0
Private Market Value	$2,304.1	$2,440.7	$2,646.1	$3,326.7	$3,524.5	$3,700.1	$3,902.9	$4,119.3	$4,377.5
Shares outstanding	131.8	133.6	134.7	136.1	137.3	137.4	138.1	138.8	139.4
PMV per share	$17	$18	$20	$24	$26	$27	$28	$30	$31
Discount to PMV	*-30%*	*-24%*	*-16%*	*7%*	*12%*	*16%*	*20%*	*24%*	*28%*
EPS	$0.70	$0.71	$0.73	$0.77	$0.90	$0.98	$1.08	$1.15	$1.25
P/E	32.5	31.9	31.2	29.6	25.1	23.2	21.0	19.7	18.2
Year End Book Value	$6.93	$7.28	$7.82	$8.12	$8.57	$8.95	$9.40	$9.87	$10.45
P/B	327%	312%	290%	279%	265%	253%	241%	230%	217%
ROE	10.6%	10.0%	9.6%	9.6%	10.8%	11.1%	11.8%	12.0%	12.3%

Source: Company data and Gabelli & Company, Inc. estimates

(1) Payments to buy out options holders at PMV, net of taxes.

Dividend Policy

On August 3, 2010, the WTR Board raised the annual dividend by $0.04, or 6.9%, to $0.62 from $0.58, which represents the twentieth time in the last 19 years that the dividend has been increased. The $0.62 annual rate represents 63% of our 2011 EPS estimate of $0.98.

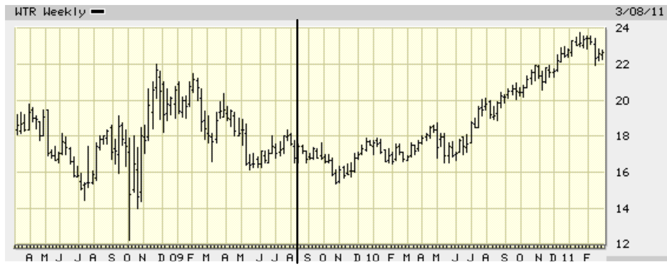
Valuation

We regard WTR as a well-managed, low-risk, high quality conservative utility with ample growth opportunities. WTR shares currently trade at 23.2x and 21.0x our 2011 and 2012 earnings estimates and 266% of book value, which compares to group multiples of 21.6x and 20.4x and 184% of book value. Over the past ten years, WTR shares have traded between 15-35x forward earnings and significant premium multiples to the group. We believe that the Private Market Value of WTR is around $27-28 per share, at a premium of 300-325% to book value, which compares to 250-325% premiums in the last ten takeover agreements, including the recent acquisition of Southwest Water at 268% of tangible book value by a private equity infrastructure group. We believe WTR shares warrant premium multiples given the company's national presence, strong financial condition, successful track record, EPS outlook, and strong reputation

Primary Risks to our recommendation include regulatory risk (poor rate decision), an acquisition announcement at a premium multiple, potential retirement of the CEO, higher interest rates, and market risk.

Other Companies Mentioned:
American Water Works (AWK – NYSE)

Aqua America Price Performance Chart



Source: Public Data. As of March 10, 2007 WTR was rated a HOLD and on August 6, 2009 we changed to a BUY.

We, ***Tim Winter, CFA, and Jose Garza*** the Research Analysts who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analysts have not been, are not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

Tim Winter, CFA (314) 238-1314
Jose Garza (914) 921-7788

Important Disclosures

ONE CORPORATE CENTER RYE, NY 10580 GABELLI & COMPANY, INC. TEL (914) 921-3700 FAX (914) 921-5098

Gabelli & Company, Inc. ("we" or "us") attempts to provide timely, value-added insights into companies or industry dynamics for institutional investors. Our research reports generally contain a recommendation of "buy," "hold," "sell" or "non-rated." We do not undertake to "upgrade" or "downgrade" ratings after publishing a report. We currently have reports on 708 companies, of which 42%, 40%, 3% and 15% have a recommendation of buy, hold, sell or non-rated, respectively. The percentage of companies so rated for which we provided investment banking services within the past 12 months is 0%, 0%, 0% and less than 1%.

Ratings

Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.

A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

We prepared this report as a matter of general information. We do not intend for this report to be a complete description of any security or company and it is not an offer or solicitation to buy or sell any security. All facts and statistics are from sources we believe to be reliable, but we do not guarantee their accuracy. We do not undertake to advise you of changes in our opinion or information. Unless otherwise noted, all stock prices reflect the closing price on the business day immediately prior to the date of this report. We do not use "price targets" predicting future stock performance. We do refer to "private market value" or PMV, which is the price that we believe an informed buyer would pay to acquire 100% of a company. There is no assurance that there are any willing buyers of a company at this price and we do not intend to suggest that any acquisition is likely. Additional information is available on request.

As of February 28, 2011 our affiliates beneficially own on behalf of their investment advisory clients or otherwise less than 1% of American Water Works and Aqua America. Because the portfolio managers at our affiliates make individual investment decisions with respect to the client accounts they manage, these accounts may have transactions inconsistent with the recommendations in this report. These portfolio managers may know the substance of our research reports prior to their publication as a result of joint participation in research meetings or otherwise. One of our affiliates serves as an investments advisor to Aqua America and is compensated for these services. The analyst who wrote this report may receive commissions from our customers' transactions in the securities mentioned in this report. Our affiliates may receive compensation from the companies referred to in this report for non-investment banking securities-related services, or may be soliciting these companies as clients for non-investment banking securities-related services. The analyst who wrote this report has an indirect financial interest in, and exercises discretion over an account which holds shares of the above mentioned companies. The analysts who wrote this reports or member of their households owns no shares of the companies mentioned.