

AQUA AMERICA INC. (WTR)

CHK's Utica Shale Announcement Underscores Non-Reg. Growth Opportunity; Reit. BUY

Market Data

Current Price (as of 08/01/11):	\$21.30
52 Week Range:	\$18.9-\$23.79
12 Month Target:	\$25
Market Capitalization (MM):	\$2,944
Shares Outstanding (MM):	138.2
Enterprise Value (MM)	\$4,588
Institutional Holdings:	46.9%
Avg Daily Volume (Th):	641.0
Dividend:	\$0.62
Indicated Yield:	2.93%

Capitalization

TBV/ Share	\$8.3
Total Debt / Cap'l:	58.1%

Fundamental Summary

3-Yr. Hist. Rev CAGR:	8.9%
Return on Avg. Equity:	11.0%

EPS	2010	2011E	2012E	2013E
1Q	\$0.16	\$0.18	A	
2Q	\$0.22	\$0.22	E	
3Q	\$0.32	\$0.33	E	
4Q	\$0.21	\$0.23	E	
Annual	\$0.90	\$0.96	\$1.05	\$1.16
Annual	\$0.59	\$0.63	\$0.69	\$0.76
EBITDA (\$M)	\$393	\$417	\$446	\$486

P/E	23.6x	22.3x	20.4x	18.4x
EV/EBITDA	11.7x	11.0x	10.3x	9.4x

Source: CapIQ & Ladenburg Thalmann & Co, Inc.

Note: Excludes one-time items & disc. ops.

Highlights:

- **Last Friday, Chesapeake Energy (CHK-NR) announced that it has accumulated 1.25 million acres in the Utica Shale of Eastern Ohio** prospective for natural gas and NGLs, worth \$15B-\$20B net of production costs. CHK plans to quadruple its rig count in the state to 20 by the end of 2012.
- **This has important implications for WTR, which recently expanded its presence in Ohio through its purchase of all of American Water's (AWK-Neutral) Ohio assets.** After closing, Ohio will account for ~10% of WTR's consolidated revenue and Aqua Ohio will be the largest water utility in the state.
- **Unconventional natural gas drilling is a highly water-intensive process, requiring roughly 6 million gallons of freshwater per well.** WTR has been attempting to capitalize on its access to excess water resources in the nearby Marcellus Shale in Pennsylvania by establishing attractively located "fill-up" stations to sell water to drillers on a non-regulated basis. Given initial success, the company is actively expanding this venture in parts of Pennsylvania.
- **The prospect of a rapid and prolonged increase in drilling activity in the eastern portion of Ohio, the location of Aqua's primary utility assets in the state, is likely to expand the opportunity set for Aqua to grow its shale gas water supply venture,** and further shift the business from the "interesting idea" category to the "potentially highly material to the growth outlook" category, in our view. On page 2 of this report, we provide an overview of Aqua's service territory and the targeted Utica shale drilling area in Ohio.
- **When the Ohio deal closes, nearly 3/4 of WTR revenue will come from Ohio, Pennsylvania, and Texas,** three states likely to witness exponential growth in nat. gas-related water usage due to the productivity of the Marcellus, Barnett, Utica, Eagle Ford, and Haynesville shales, which all underlie parts of each state.
- **Aqua is scheduled to report earnings tomorrow, August 3rd.** A conference call is scheduled for 11 AM EST. We believe the company will likely provide an update of its shale gas water supply venture on the call.
- **As shares have traded down with the broader market in recent weeks, we believe current valuation presents a highly attractive entry point. WTR shares purchased at less than 22x forward earnings have offered a 25% 1-Year return on average over the last 10 years, and have had a positive 1-Year return 93% of the time.** We reiterate our BUY rating and \$25 target. Our target is based on WTR trading at 23.8x our 2012 EPS estimate, in-line with the 10-year avg. FY+2 multiple. Our 2012 EPS est. is \$0.02 below consensus.

Michael Roomberg

212.409.2048

mroomberg@ladenburg.com

Disclosures and Analyst Certifications can be found in Appendix A.

NEW YORK, NY MELVILLE, NY PRINCETON, NJ MIAMI, FL BOCA RATON, FL

520 Madison Avenue, New York, NY 10022 • Telephone: 212-409-2000

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WTR and the Shale Plays

In 2010, Aqua America began selling water directly to gas drillers operating in the Marcellus shale, a natural gas-rich rock formation that underlies much of the company’s service area in Pennsylvania, building upon a 125-year old business model of providing sustainable, reliable supplies of freshwater to residential, industrial, and commercial customers. The cornerstone of the venture is the company’s burgeoning network of “fill-up” stations, often located just beyond the edge of a small town, wherein tanker trucks are able to purchase water for use on nearby drill-sites. With each “frack-job” requiring 30+ tanker trucks to ferry enormous volumes of water to the well pad, these water filling stations provide a convenient service point for truckers that might otherwise be forced to drive into congested small towns to get water, in the process reducing the nuisance their presence often causes residents.

Last Friday, energy-giant Chesapeake Energy (CHK-NR) announced that it had quietly accumulated mineral rights across 1.25 million acres in eastern Ohio, containing natural gas and natural gas liquids worth an estimated \$15-\$20 billion, net of production costs. These deposits are held within the Utica Shale, a rock formation that rests roughly 8k feet below the eastern 1/3 of Ohio, an area that coincides with much of WTR’s Ohio service area. Given the expected rapid expansion of water-intensive drilling in Pennsylvania’s Marcellus shale, and Texas’ Barnett, Haynesville, Eagle Ford shales, CHK’s recent announcement of unconventional drilling prospects in Ohio seems to ensure the likelihood that plentiful supplies of fresh water – and the associated infrastructure to deliver it - are likely to become critically important matters in Aqua’s 3 biggest states. Thus, given its well-situated footprint, and the company’s novel strategy, it appears increasingly likely that Aqua’s efforts to provide freshwater to drillers may, in coming months and years, begin shifting from being “a nice idea, but not necessarily material” to “a potentially important long-term growth driver”, in our view.

Below we provide overviews of WTR’s Pennsylvania, Ohio and Texas service territories and show the geographic extent of the relevant unconventional natural gas plays in each state:

Exhibit 1: WTR Ohio Service Territory & the Utica Shale

Regulated Customers		Regulated Revenue (\$MM)			Est. Rate Base (\$MM)		
145,000		\$75.0			\$250.0		
Attractive ROEs/ Equity Ratios	Infrastructure Surcharge Mechanism.	Forward Test Year	Favorable Rate Case Timeline	Pass-thru adjust- ments	Rate Consol- idation	Purchase Adjustments	Decoupling
+	+	+	+	+	+	-	-

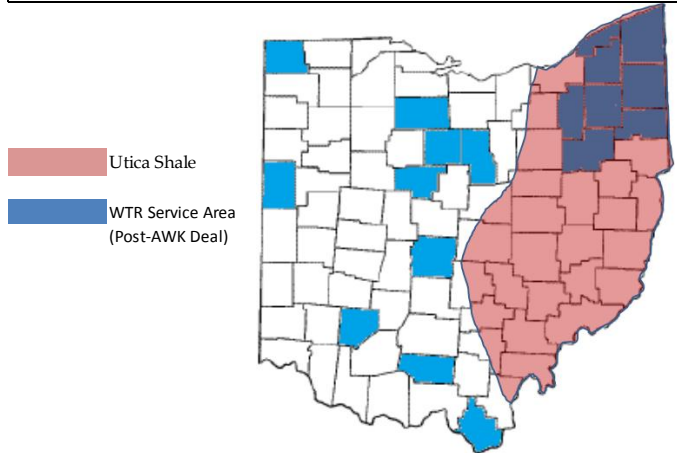
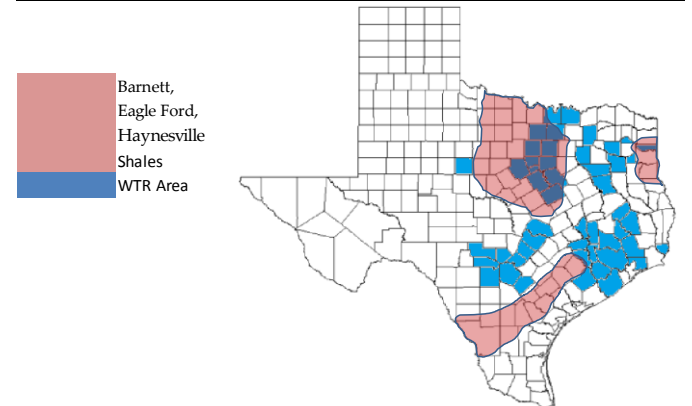


Exhibit 2: WTR Texas Service Territory & the Shale Plays

Regulated Customers		Regulated Revenue (\$MM)			Est. Rate Base (\$MM)		
48,000		\$56.8			\$200.0		
Attractive ROEs/ Equity Ratios	Infrastructure Surcharge Mechanism.	Forward Test Year	Favorable Rate Case Timeline	Pass-thru adjust- ments	Rate Consol- idation	Purchase Adjustments	Decoupling
+	-	-	+	+	+	+	-

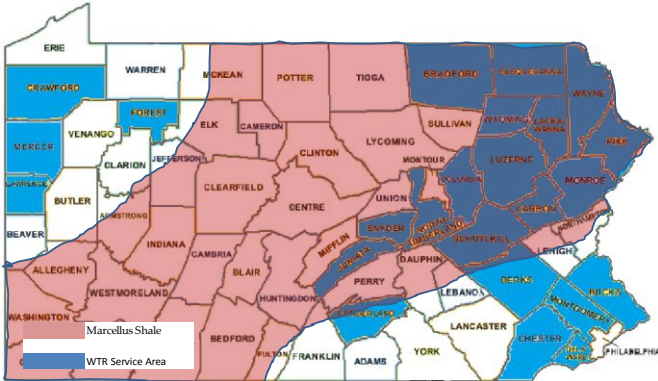


Source: Regulatory filings, Ladenburg Thalmann & Co. estimates

Source: Regulatory filings, Ladenburg Thalmann & Co. estimates
Includes assets recently acquired from AWK, pending regulatory approval

Exhibit 3: WTR PA Territory & the Marcellus Shale

Regulated Customers	Regulated Revenue (\$MM)		Est. Rate Base (\$B)				
462,000	\$382.8		\$1.7				
Attractive ROEs/Equity Ratios	Infrastructure Surcharges Mechanism	Forward Test Year	Favorable Rate Case Timeline	Pass-thru adjustments	Rate Consolidation	Purchase Adjustments	Decoupling
+	+	+	+	+	+	+	-



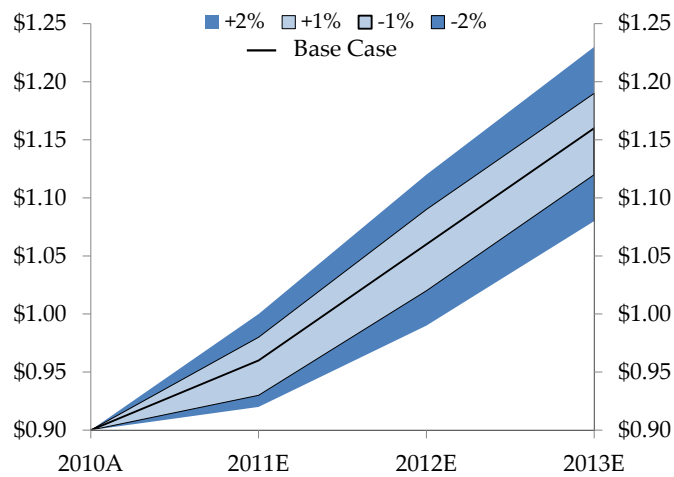
Source: Regulatory filings, Ladenburg Thalmann & Co. estimates

What to Look for in 2Q11

Ladenburg and Consensus 2Q11 EPS expectations for WTR are \$0.22 and \$0.24, respectively. We expect that a wet spring in the Mid-Atlantic states compared to 2010’s mild/dry conditions contributed to a slight decline in sales, though this may have been partially offset by record heat in Texas. Below we provide an overview of the sensitivity of our WTR EPS estimates to adjustments of our water consumption assumptions as well as provide an overview of precipitation in the Philadelphia, PA region, within 200 miles of which lies 2/3 of Aqua’s customers. Thus far, 3Q11 has been one of the mildest and driest in the Eastern United States in history.

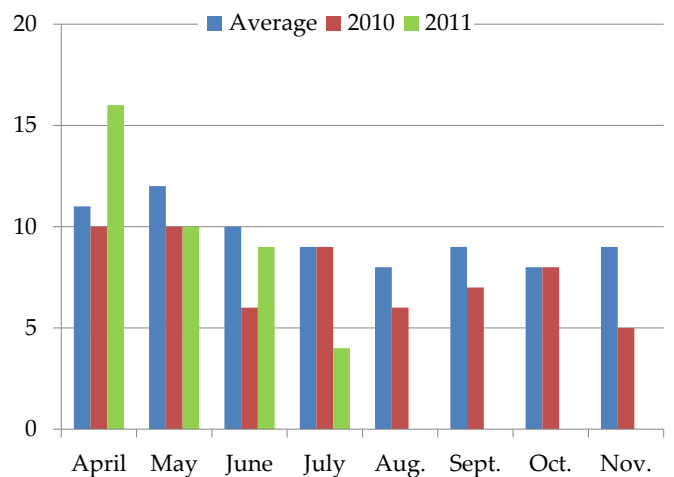
Aqua’s largest rate case currently underway is in North Carolina. Recently, the North Carolina Utilities Commission staff recommended a revenue increase far below Aqua’s \$8.3 million initial request. No ruling has been issued, though we expect one by 4Q11. The company has additional cases pending in Ohio, Illinois, and Texas, and we expect a case to be filed in New Jersey by year end.

Exhibit 4: WTR EPS Sensitivity to Water Consumption



Source: Ladenburg Thalmann & Co, Inc. estimates

Exhibit 5: Philadelphia, PA Precipitation Days Per Month

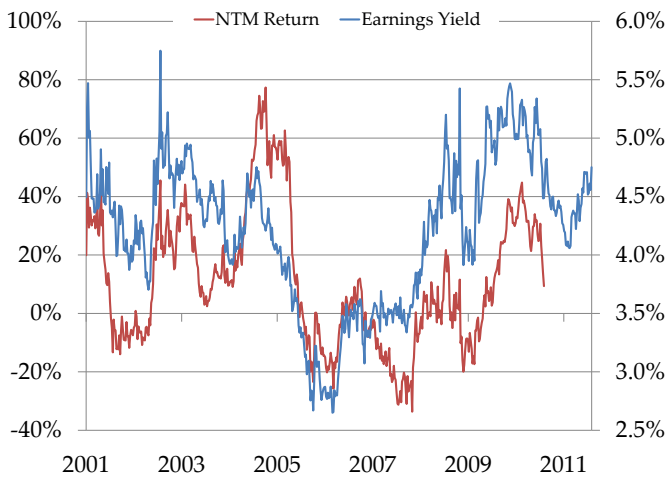


Source: NOAA, Ladenburg Thalmann & Co, Inc.

Valuation

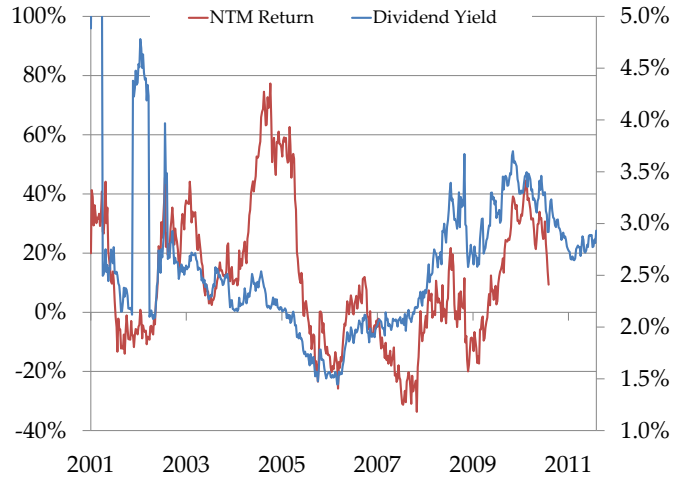
In Exhibit 6, below, we plot the 10-year historical forward earnings yield (1/PE), and in Exhibit 7, the forward dividend yield, for WTR shares (blue lines). We plot this against the 1-Year return for WTR shares purchased over the last 10 years (red lines). Historically, there has been a strong relationship between the price paid for WTR shares on these bases and investors' 1-year realized return. We note that shares purchased above an earnings yield of 4.5% have had a 1-Year average return of 25% and have had a positive 1-Year return 93% of the time. As a result of what we believe to be among the industry's most attractive fundamentals, it is not surprising that WTR shares rarely trade "cheap". Still, the shares' premium to peers on a forward PE basis is firmly below its historical average of 14% (Exhibit 8), offering a compelling entry point for initiating new positions in the company's stock, in our view. (We define peers as all publicly listed U.S. water utility holding companies.)

Exhibit 6: WTR Earnings Yield (R) vs. 1-Yr. Return (L)



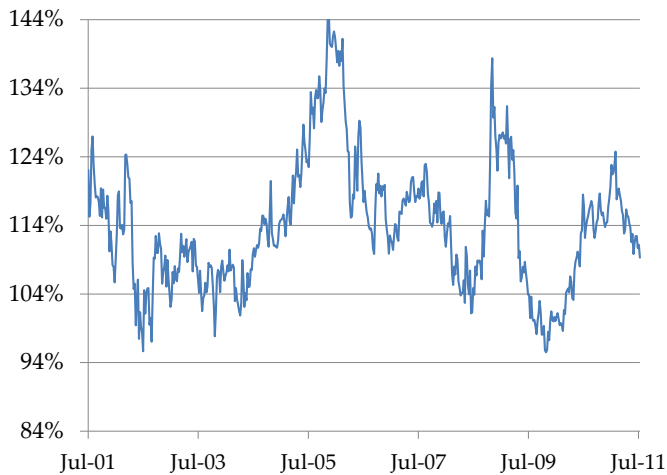
Source: Capital IQ
 Note: Past Performance is Not Indicative of Future Results

Exhibit 7: WTR Dividend Yield (R) vs. 1-Yr. Return (L)



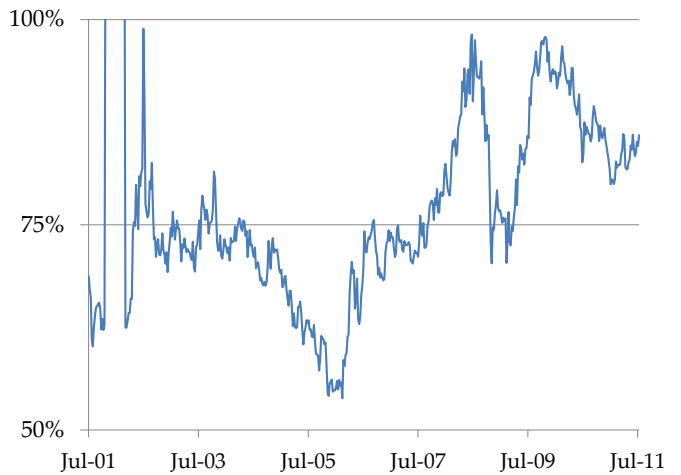
Source: Capital IQ
 Note: Past Performance is Not Indicative of Future Results

Exhibit 8: PE NTM as a % of Water Utility Average



Source: Capital IQ
 Note: Past Performance is Not Indicative of Future Results

Exhibit 9: Dividend Yld as a % of Water Utility Average



Source: Capital IQ
 Note: Past Performance is Not Indicative of Future Results

Aqua America Inc. (WTR - NYSE)

Consolidated Income Statement (12/31 Year-end)

(\$MM, except per share data)

	2003	2004	2005	2006	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11E	3Q11E	4Q11E	2011E	2012E	2013E
Regulated Revenue	\$365.2	\$440.0	\$493.5	\$526.3	\$589.7	\$615.2	\$658.9	\$158.0	\$175.6	\$205.0	\$175.9	\$714.5	\$168.4	\$182.3	\$209.3	\$183.7	\$743.7	\$792.0	\$849.2
Other and Eliminations	\$2.0	\$2.1	\$3.3	\$7.2	\$12.8	\$11.8	\$11.6	\$2.5	\$2.9	\$2.8	\$3.4	\$11.6	\$3.0	\$2.9	\$2.8	\$3.4	\$12.0	\$14.4	\$15.9
Operating Revenues	\$367.2	\$442.0	\$496.8	\$533.5	\$602.5	\$627.0	\$670.5	\$160.5	\$178.4	\$207.8	\$179.3	\$726.1	\$171.3	\$185.2	\$212.1	\$187.1	\$755.7	\$806.4	\$865.0
O&M Expense - Regulated	\$140.6	\$181.7	\$202.7	\$216.9	\$244.9	\$255.9	\$261.6	\$66.1	\$66.5	\$70.1	\$67.0	\$269.7	\$68.7	\$68.9	\$69.4	\$66.4	\$273.3	\$291.9	\$305.9
O&M Expense - Other		(\$1.0)	\$0.4	\$2.6	\$9.3	\$10.3	\$9.5	\$1.5	\$2.8	\$2.9	\$3.0	\$10.3	\$1.1	\$2.8	\$2.9	\$3.0	\$9.8	\$10.0	\$10.2
O&M Expense - Consolidated	\$140.6	\$180.7	\$203.1	\$219.6	\$254.2	\$266.2	\$271.1	\$67.6	\$69.3	\$73.0	\$70.1	\$280.0	\$69.8	\$71.6	\$72.3	\$69.4	\$283.1	\$301.9	\$316.1
Property & Other Taxes	\$21.6	\$27.6	\$31.7	\$33.3	\$45.4	\$44.7	\$48.1	\$12.9	\$12.9	\$14.2	\$13.0	\$53.0	\$13.8	\$13.5	\$14.8	\$13.5	\$55.6	\$58.9	\$63.1
EBITDA	\$205.0	\$233.8	\$262.0	\$280.6	\$302.9	\$316.0	\$351.4	\$80.1	\$96.2	\$120.6	\$96.2	\$393.1	\$87.8	\$100.0	\$125.0	\$104.2	\$417.0	\$445.7	\$485.8
Operating D&A	\$51.5	\$58.9	\$65.5	\$75.0	\$88.0	\$94.3	\$114.9	\$29.4	\$30.1	\$31.1	\$30.5	\$121.1	\$29.2	\$29.9	\$30.8	\$31.6	\$121.6	\$127.4	\$134.3
Operating Income	\$153.6	\$174.9	\$196.5	\$205.5	\$214.9	\$221.7	\$236.5	\$50.7	\$66.1	\$89.6	\$65.7	\$272.1	\$58.5	\$70.1	\$94.2	\$72.6	\$295.5	\$318.2	\$351.5
Interest Expense	(\$44.7)	(\$48.7)	(\$52.1)	(\$58.4)	(\$66.9)	(\$68.6)	(\$68.6)	(\$18.4)	(\$18.5)	(\$19.2)	(\$19.6)	(\$75.7)	(\$19.9)	(\$20.5)	(\$20.9)	(\$21.3)	(\$82.6)	(\$84.9)	(\$89.0)
AFUDC Income	\$2.1	\$2.3	\$2.4	\$3.9	\$3.0	\$3.7	\$2.9	\$1.5	\$1.5	\$1.1	\$1.0	\$5.1	\$2.0	\$1.0	\$1.0	\$1.0	\$5.0	\$6.5	\$6.0
Other Income (Expense), Net	\$5.7	\$1.3	\$1.2	\$1.2	\$3.5	\$1.6	\$0.5	\$1.9	\$0.1	\$0.3	\$0.3	\$2.6	\$0.1	\$0.5	\$0.5	\$0.5	\$1.6	\$2.4	\$2.8
Income Before Taxes	\$116.7	\$129.8	\$148.1	\$152.3	\$154.4	\$158.4	\$171.2	\$35.7	\$49.1	\$71.8	\$47.4	\$204.1	\$40.7	\$51.1	\$74.8	\$52.8	\$219.4	\$242.2	\$271.3
Effective Tax Rate	39%	40%	38%	40%	39%	40%	39%	40%	39%	39%	39%	39%	40%	40%	40%	40%	40%	40%	40%
Income Tax Expense	\$45.9	\$51.3	\$56.9	\$60.2	\$60.1	\$62.9	\$67.4	\$14.2	\$19.3	\$28.1	\$18.5	\$80.1	\$16.1	\$20.2	\$29.6	\$20.9	\$86.7	\$95.7	\$107.2
NI Applicable to Common	\$70.8	\$78.5	\$91.2	\$92.0	\$94.4	\$95.5	\$103.8	\$21.5	\$29.9	\$43.8	\$28.9	\$124.0	\$24.6	\$30.9	\$45.3	\$32.0	\$132.7	\$146.5	\$164.2
Other Comprehensive Income, Net	(\$0.1)	\$1.9	\$1.3	(\$3.3)	\$0.2	\$0.0	(\$0.3)	\$0.4	\$0.0	(\$0.3)	(\$0.4)	(\$0.2)	(\$0.0)	\$0.0	\$0.0	\$0.0	(\$0.0)	\$0.0	\$0.0
Comprehensive Income	\$70.9	\$76.6	\$89.8	\$95.3	\$94.2	\$95.5	\$104.0	\$21.1	\$29.9	\$44.0	\$29.2	\$124.2	\$24.6	\$30.9	\$45.3	\$32.0	\$132.7	\$146.5	\$164.2
FD Operating EPS	\$0.59	\$0.62	\$0.71	\$0.70	\$0.71	\$0.71	\$0.76	\$0.16	\$0.22	\$0.32	\$0.21	\$0.90	\$0.18	\$0.22	\$0.33	\$0.23	\$0.96	\$1.05	\$1.16
Avg. Shares Outstanding - Basic	117.7	124.3	127.4	130.7	132.8	134.3	135.8	136.5	136.8	137.1	137.4	136.9	137.7	138.1	138.4	138.8	138.3	139.6	141.0
Avg. Shares Outstanding - Diluted	119.0	125.7	129.2	131.8	133.6	134.7	136.1	136.8	137.0	137.4	138.0	137.3	138.3	138.7	139.0	139.4	138.8	140.2	141.6
After-Tax Non-Recurring Items	0.0	1.5	0.0	0.0	0.7	2.4	0.6	0.0	0.0	0.0	0.0	0.0	5.8	3.0	3.0	3.0	14.8		
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GAAP Net Income	70.8	80.0	91.2	92.0	95.0	97.9	104.4	21.5	29.9	43.8	28.9	124.0	30.4	33.9	48.3	35.0	147.5	146.5	164.2
After-Tax Non-Recurring Items PS	\$0.00	\$0.01	\$0.00	\$0.00	\$0.00	\$0.02	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.04	\$0.02	\$0.02	\$0.02	\$0.11	\$0.00	\$0.00
Discontinued Operations (PS)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
GAAP EPS	\$0.59	\$0.64	\$0.71	\$0.70	\$0.71	\$0.73	\$0.77	\$0.16	\$0.22	\$0.32	\$0.21	\$0.90	\$0.22	\$0.24	\$0.35	\$0.25	\$1.06	\$1.05	\$1.16

Source: Company reports and Ladenburg Thalmann & Co.

Note: Pro-forma estimates, net of Disc. Operations

Aqua America Inc. (WTR - NYSE)

Consolidated Balance Sheet (12/31 Year-end)

(\$MM, except per share data)

	2003	2004	2005	2006	2007	2008	2009	2010	1Q11
Cash and Cash Equivalents	\$10.8	\$14.2	\$11.9	\$44.0	\$14.5	\$14.9	\$21.9	\$5.9	\$7.3
Accounts Receivable & Unbilled Revenues	\$62.3	\$64.5	\$62.7	\$72.1	\$82.9	\$84.5	\$78.7	\$85.9	\$79.1
Income tax Receivable	\$0.0	\$0.0	\$8.3	\$0.0	\$0.0	\$0.0	\$0.0	\$33.6	\$33.6
Materials & Supplies	\$5.8	\$6.9	\$7.8	\$8.4	\$8.8	\$9.8	\$9.5	\$9.2	\$10.9
Prepayments & Other	\$5.1	\$5.6	\$7.6	\$10.2	\$9.2	\$11.8	\$11.4	\$10.8	\$26.0
Total Current Assets	\$84.0	\$91.2	\$98.3	\$134.7	\$115.5	\$121.0	\$121.6	\$145.4	\$156.9
Total Utility Plant	\$2,302.3	\$2,626.2	\$2,900.6	\$3,185.1	\$3,574.0	\$3,848.4	\$4,141.7	\$4,489.7	\$4,532.4
Accumulated Depreciation	(\$478.0)	(\$556.3)	(\$620.6)	(\$679.1)	(\$781.2)	(\$851.0)	(\$927.1)	(\$1,020.4)	(\$1,035.6)
Utility Plant, Net	\$1,824.3	\$2,069.8	\$2,280.0	\$2,506.0	\$2,792.8	\$2,997.4	\$3,214.6	\$3,469.3	\$3,496.8
Regulatory Assets	\$98.8	\$122.9	\$131.0	\$165.1	\$164.0	\$235.0	\$226.4	\$217.4	\$223.0
Deferred Charges & Other	\$34.3	\$34.1	\$37.1	\$38.1	\$41.3	\$50.6	\$59.5	\$65.1	\$60.1
Restricted Cash	\$28.4	\$17.2	\$68.6	\$11.5	\$76.6	\$52.9	\$84.8	\$135.1	\$134.4
Goodwill	\$0.0	\$20.1	\$20.2	\$22.6	\$36.6	\$41.0	\$43.1	\$40.2	\$41.1
Total Assets	\$2,069.7	\$2,355.4	\$2,635.0	\$2,877.9	\$3,226.9	\$3,497.9	\$3,749.9	\$4,072.5	\$4,112.3
Long-term Debt, Current Portion	\$39.4	\$50.2	\$24.6	\$31.2	\$23.9	\$7.3	\$59.6	\$28.4	\$28.4
Short-term Debt	\$96.5	\$74.8	\$138.5	\$119.2	\$56.9	\$80.6	\$27.5	\$89.7	\$92.0
Accounts Payable	\$32.3	\$34.9	\$55.5	\$49.4	\$45.8	\$50.0	\$57.9	\$45.4	\$29.5
Accrued Interest	\$11.1	\$12.0	\$13.1	\$14.1	\$15.7	\$16.1	\$16.3	\$15.9	\$21.0
Accrued Taxes	\$16.8	\$9.0	\$9.4	\$19.4	\$16.7	\$15.4	\$18.8	\$16.4	\$15.4
Other	\$35.9	\$33.5	\$30.6	\$22.5	\$24.1	\$23.8	\$21.0	\$28.0	\$23.1
Total Current Liabilities	\$232.0	\$214.4	\$271.7	\$255.6	\$183.2	\$193.2	\$201.0	\$223.7	\$209.3
Deferred Income Taxes & Tax Credits	\$190.4	\$223.9	\$250.3	\$273.2	\$307.7	\$355.2	\$408.6	\$478.7	\$514.2
Customer Advances for Construction	\$72.5	\$73.1	\$74.8	\$76.8	\$85.8	\$73.0	\$76.9	\$67.0	\$66.7
Regulatory Liabilities	\$0.0	\$11.9	\$11.8	\$11.6	\$12.5	\$27.9	\$28.8	\$35.9	\$37.6
Other	\$9.4	\$21.3	\$32.0	\$64.9	\$68.8	\$120.3	\$114.5	\$116.3	\$112.4
Contributions in Aid of Construction	\$209.7	\$277.8	\$302.6	\$320.7	\$375.7	\$419.7	\$424.0	\$444.1	\$449.4
Long-term Debt	\$696.7	\$784.5	\$878.4	\$951.7	\$1,215.1	\$1,248.1	\$1,386.6	\$1,532.0	\$1,530.1
Commitments & Contingencies	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Liabilities	\$1,410.7	\$1,606.9	\$1,821.6	\$1,954.5	\$2,248.6	\$2,437.3	\$2,640.4	\$2,897.6	\$2,919.6
Minority Interest	\$0.9	\$1.2	\$1.6	\$1.8	\$2.0	\$2.2	\$0.6	\$0.0	\$0.6
Common Shareholder Equity	\$658.1	\$747.2	\$811.9	\$921.6	\$976.3	\$1,058.4	\$1,108.9	\$1,174.8	\$1,192.1
Total Liabilities and Capitalization	\$2,069.7	\$2,355.4	\$2,635.0	\$2,877.9	\$3,226.9	\$3,497.9	\$3,749.9	\$4,072.5	\$4,112.3

Source: Company reports and Ladenburg Thalmann & Co.

Note: Pro-forma estimates, net of Disc. Operations

Aqua America Inc. (WTR - NYSE)

Consolidated Cash Flow Statement (12/31 Year-end)

(\$MM, except per share data)

	2003	2004	2005	2006	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11E	3Q11E	4Q11E	2011E	2012E	2013E
Net Income	\$70.8	\$80.0	\$91.2	\$92.0	\$95.0	\$97.9	\$104.4	\$21.5	\$29.9	\$43.8	\$28.9	\$124.0	\$24.6	\$30.9	\$45.3	\$32.0	\$132.7	\$146.5	\$164.2
Depreciation & Amortization	51.5	58.9	65.0	75.0	88.0	94.3	114.9	29.4	30.1	31.1	30.5	121.1	29.2	29.9	30.8	31.6	121.6	127.4	134.3
Deferred Taxes	26.7	40.6	26.0	10.8	22.0	45.8	47.2	1.8	2.7	31.1	38.6	74.2	20.7	20.2	29.6	20.9	91.3	95.7	53.6
Provision for Doubtful Accounts	0.0	0.0	0.0	0.0	0.0	6.8	5.9	1.1	1.1	1.3	1.3	4.8	1.0				1.0		
Share based compensation	0.0	0.0	0.5	3.6	4.3	3.9	3.6	0.9	1.2	0.9	0.9	4.0	1.0				1.0		
AFUDC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				0.0		
Other	(5.7)	(3.6)	(1.2)	(1.2)	(4.6)	(5.7)	(1.5)	(1.9)	(0.1)	(0.3)	(0.3)	(2.6)	(6.5)				(6.5)		
Receivables, inventory, prepayments	(0.3)	(2.8)	7.6	(8.8)	(7.2)	(10.1)	(1.7)	3.6	(11.6)	(11.8)	11.6	(8.3)	5.6				5.6		
Payables, accrued interest & taxes, other	7.8	0.9	12.9	(5.6)	(7.4)	(6.2)	(8.5)	10.9	(17.6)	(6.5)	(4.1)	(17.3)	(4.7)				(4.7)		
Income tax receivable	0.0	0.0	0.0	0.0	0.0	(0.2)	0.0		0.0	0.0	(33.6)	(33.6)	0.0				0.0		
Other	(7.4)	(0.3)	(2.3)	4.9	4.0	(4.9)	(5.8)	(2.9)	(0.4)	0.1	0.7	(2.5)	(2.6)				(2.6)		
Change in Working Capital	0.1	(2.2)	18.2	(9.5)	(10.6)	(21.4)	(16.0)	11.7	(29.6)	(18.2)	(25.5)	(61.6)	(1.7)	(10.0)	(10.0)	(5.0)	(26.7)	0.0	0.0
Operating Cash Flow	143.4	173.6	199.7	170.7	194.2	221.5	258.6	64.5	35.3	89.6	74.5	263.8	68.3	71.0	95.6	79.5	314.3	369.7	352.1
Operating Cash Flow per Share	\$1.20	\$1.38	\$1.55	\$1.30	\$1.45	\$1.64	\$1.90	\$0.47	\$0.26	\$0.65	\$0.54	\$1.92	\$0.49	\$0.51	\$0.69	\$0.57	\$2.26	\$2.64	\$2.49
Capex	(163.3)	(195.7)	(237.5)	(271.7)	(238.1)	(267.4)	(283.6)	(67.2)	(73.6)	(98.7)	(87.2)	(326.6)	(60.3)	(68.0)	(88.0)	(88.0)	(304.3)	(330.0)	(350.0)
Acquisitions/(Divestitures), Net	(181.8)	(47.5)	(10.3)	(10.6)	(44.2)	6.2	(1.2)	2.8	(1.2)	(0.0)	(5.6)	(4.0)	3.2	(1.0)	(1.0)	(1.0)	0.2	3.5	(0.5)
Restricted Cash & Other, Net	15.0	10.7	(51.3)	56.9	(61.7)	22.5	(35.9)	0.0	(1.5)	39.5	(91.7)	(53.6)	5.8				5.8		
Cash Flow from Investing Activities	(330.2)	(232.5)	(299.1)	(225.3)	(344.0)	(238.8)	(320.7)	(64.3)	(76.2)	(59.2)	(184.4)	(384.2)	(51.3)	(69.0)	(89.0)	(89.0)	(298.3)	(326.5)	(350.5)
Construction Advances (Contributions), Net	3.9	9.3	9.9	6.9	4.0	0.4	2.1	(1.4)	0.8	1.1	0.2	0.6	(0.3)				(0.3)		
Proceeds from Debt Issuance (Repayment)	91.5	44.2	127.5	59.4	166.5	37.4	124.0	19.4	54.9	(15.8)	115.2	173.8	0.4	20.0	15.0	30.0	65.4	35.0	90.0
Change in Overdraft Position	5.2	(2.2)	(8.8)	11.2	(4.7)	2.0	4.3	(9.4)	0.1	(0.9)	3.2	(7.0)	(7.8)				(7.8)		
Proceeds from Equity Issuance (Repurchase)	133.5	55.1	7.9	57.1	9.5	43.9	11.6	2.7	2.9	2.9	3.2	11.8	2.5	2.5	2.5	2.5	9.9	10.0	10.1
Options Exercised	0.0	0.0	11.8	8.0	7.3	2.3	1.7	1.1	0.3	2.5	1.8	5.7	4.9				4.9	5.0	5.0
Common Stock Dividends	(39.9)	(45.8)	(51.1)	(58.0)	(63.8)	(68.5)	(74.7)	(19.8)	(19.9)	(19.9)	(21.3)	(80.9)	(21.4)	(21.6)	(21.6)	(23.2)	(87.7)	(96.7)	(107.4)
Tax benefits of Stock-based Comp.	0.0	0.0	0.0	2.3	1.4	0.2	0.1	0.1	0.0	0.2	0.1	0.4	0.3				0.3		
Other	(0.0)	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				0.0		
Cash Flow From Financing	194.2	60.8	97.1	86.8	120.4	17.7	69.0	(7.2)	39.2	(29.9)	102.3	104.4	(21.4)	0.9	(4.1)	9.3	(15.3)	(46.7)	(2.3)
Total Change in Cash & Equivalents	7.4	1.9	(2.3)	32.2	(29.5)	0.4	6.9	(7.1)	(1.7)	0.4	(7.6)	(15.9)	(4.5)	2.9	2.5	(0.2)	0.7	(3.5)	(0.7)
Cash at Beginning of Period	4.9	12.3	14.2	11.9	44.0	14.5	14.9	21.9	14.8	13.1	13.6	21.9	5.9	1.5	4.4	6.8	5.9	6.6	3.1
Cash at End of Period	12.3	14.2	11.9	44.0	14.5	14.9	21.9	14.8	13.1	13.6	5.9	5.9	1.5	4.4	6.8	6.6	6.6	3.1	2.4

Source: Company reports and Ladenburg Thalmann & Co.

Note: Pro-forma estimates, net of Disc. Operations

APPENDIX A: IMPORTANT RESEARCH DISCLOSURES**ANALYST CERTIFICATION**

I, Michael Roomberg, attest that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. Furthermore, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report.

The research analyst(s) primarily responsible for the preparation of this research report have received compensation based upon various factors, including the firm's total revenues, a portion of which is generated by investment banking activities.

COMPANY BACKGROUND

Aqua America, Inc., through its subsidiaries, operates regulated utilities that provide water or wastewater services in the United States. It serves residential, commercial, fire protection, industrial, and other water and wastewater customers in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, New York, Florida, Indiana, Virginia, Maine, and Georgia. As of December 31, 2010, it served approximately 3 million customers.

VALUATION METHODOLOGY

We value equities utilizing a multi-faceted approach which includes: sum-of-the-parts, net asset value, discounted cash flow, leading P/E and EV/EBITDA.

RISKS

On top of normal economic and market risk factors that impact most all equities, Aqua America (WTR) is uniquely at risk to:

The outcome of regulatory filings: We expect the company will be among the fastest growing in the water utility peer group in coming years, as WTR's subsidiaries continue to file requests with state Commissions for rate increases in order to achieve rates of return on water assets commensurate with peers. If state Commissions deny these rate requests in whole or in part, it would likely have a negative impact on earnings.

Extreme weather patterns, including drought or prolonged periods of rainfall can impact consumption, and thus revenue of the company.

Product safety: Water is the only utility that is ingested. Though the company has a strong track record with respect to water contaminants, a breakdown in safety procedures could have a markedly negative effect on the company.

Financial Risk: Aqua America is a particularly capital intensive water utility. Though the company has traditionally accessed the credit markets at some of the lowest rates in this industry, this may not be the case going forward. Such a development could negatively affect earnings.

Fort Wayne Litigation – The company was awarded an initial payment in a recent eminent domain proceeding surrounding certain assets in Fort Wayne, Indiana. The final payment is subject to further litigation. If the final payment amount is determined to be less than the initial payment, the company could be forced to make a one-time payment to the municipality.

STOCK RATING DEFINITIONS

Buy: The stock's return is expected to exceed 15% over the next twelve months.

Neutral: The stock's return is expected to be plus or minus 15% over the next twelve months.

Sell: The stock's return is expected to be negative 15% or more over the next twelve months.

Investment Ratings are determined by the ranges described above at the time of initiation of coverage, a change in risk, or a change in target price. At other times, the expected returns may fall outside of these ranges because of price movement and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review.

RATINGS DISPERSION AND BANKING RELATIONSHIPS (AS OF 7/31/11)

Buy	76%	(35% are banking clients)
Neutral	24%	(15% are banking clients)
Sell	0%	(0% are banking clients)

OTHER COMPANIES MENTIONED/COMPANY SPECIFIC DISCLOSURES:

Chesapeake Energy (CHK-\$34.35-NR).

COMPANY SPECIFIC DISCLOSURES:

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