LADENBURG THALMANN

ESTABLISHED 1876

Water Utilities
Initiating Coverage

6/9/2011
BUY

AQUA AMERICA INC. (WTR)

Initiating Coverage with a BUY Rating – Top-Flight Water Utility, At Yes, an Attractive Valuation

Market Data

Current Price (as of 06/08/11):	$21.30
52 Week Range:	$16.7-$23.79
12 Month Target:	$25
Market Capitalization (MM):	$2,944
Shares Outstanding (MM):	138.2
Enterprise Value (MM)	$4,588
Institutional Holdings:	48.5%
Avg Daily Volume (Th):	735.0
Dividend:	$0.62
Indicated Yield:	2.90%

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		$1.06	$1.16
EBITDA ($M)	$393	$418		$449	$485
P/E	23.6x	22.2x		20.1x	18.4x
EV/EBITDA	11.7x	11.0x		10.2x	9.5x

Source: CapIQ & Ladenburg Thalmann & Co, Inc.
Note: Excludes one-time items & disc. ops.

Michael Roomberg
212.409.2048
mroomberg@ladenburg.com

Highlights:

- For over a decade, Aqua has delivered industry leading results by nearly every financial and operational metric on which regulated water utilities can be measured – 1) O&M expense ratios, 2) EBITDA margins, 3) Net Profit margins, 4) consolidated earned ROEs, 5) rate base growth, 6) earnings growth, 7) book value per share growth and 8) dividend growth.

- Looking ahead, we see a fairly straightforward path for the 12-state utility holding company to sustain this level of performance through at least 2013 (our forecast period). Our view is based on the expected continuation of four central pillars of Aqua's success: 1) progressive regulatory environments in Aqua's key states, 2) proactive upgrades of aging water infrastructure and simultaneous aggressive pursuit of equitable regulatory relief on an ever-expanding rate base, 3) creative replacement of volatile pass-through operating expenses with capital solutions on which an investment return can be earned by shareholders, and 4) access to inexpensive credit used to fund utility system improvements at favorable rates for shareholders and Aqua customers.

- In light of this track record, we're hardly surprised to find that the company consistently commands one of the richest valuations of any regulated water utility on a forward PE basis. Though instinctually this fact gave us some initial pause in recommending the stock, two key data points give us firm comfort with our BUY recommendation:

  - Trading at an 11.5% premium on Consensus next-twelve-months (NTM) EPS, WTR shares are actually ~200 bps below their long-term average premium to our peer group, which includes all exchange-traded U.S. water utilities, despite no change in its comparatively favorable outlook, in our view.

  - At 21.1x NTM earnings, WTR shares trade well below their 24.6x 10-year average. WTR shares have changed hands at less than 22x NTM EPS on only 29% of days in the last 10 years. Purchases on these days have delivered a 25% 12-month total return on average (std. dev. of 15%), and have yielded a positive 12-month total return 93% of the time.

- We initiate coverage of WTR shares with a BUY rating and a $25 price target, representing a total return of 20%. Our target is based on the shares trading at 23.8x our 2012 EPS estimate of $1.06, in-line with the 10-year avg. FY+2 multiple. Our 2012 EPS est. is $0.02 below consensus.

Disclosures and Analyst Certifications can be found in Appendix A.

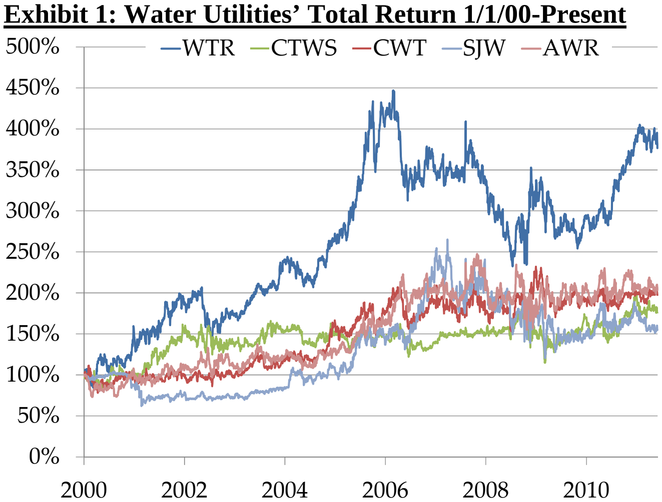
Investment Overview

We initiate coverage on WTR with a BUY rating and 12-month price target of $25, which represents a projected one-year total return of 20%. Our price target is based on the stock trading at 23.8x our 2012 EPS estimate of $1.06, in-line with the shares' 10-year average FY+2 multiple.

- **The Industry Gold Standard, In our View:** Through the years, a confluence of factors have combined to provide Aqua investors with industry-leading returns. Among these are 1) its heavy exposure (~60% of rate base) to the state of Pennsylvania, which has for many years featured the county' most progressive water utility regulation, enabling rapid rate base growth and minimizing regulatory lag, 2) the company's robust infrastructure repair and replacement program that has fueled one of the industry's fastest rate base growth rates, 3) a systematic conversion of operating expenses (a 1:1 pass-through to customers) to capital investments, which reduce production cost volatility and increase rate base and earnings power, 4) access to inexpensive credit that has minimized the cost of these investments for customers and fueled strong consolidated earned ROEs, and 5) Aqua's strong regulatory relationships, a prime example of which is evidenced by the company's 2008 PA rate case Order, in which the state Commission authorized, based on "exemplary managerial performance", an additional 22 bps in allowed ROE. Steps such as these are exceedingly rare for Public Utility Commissions, in our view, and underscore a unique and important company strength.

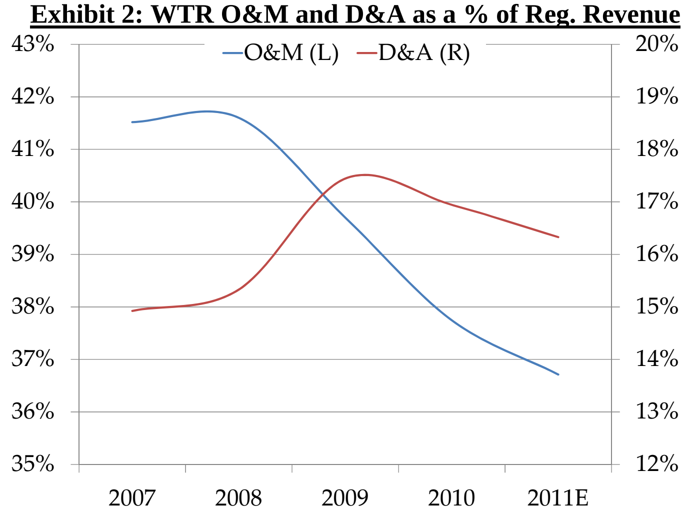
  Looking ahead, we see no change in these trends, and believe Aqua's track record of both nurturing constructive regulatory policies in its key territories and receiving favorable rate relief on a robust program of upgrading used and useful infrastructure should remain on target. Aqua's near-exclusive focus on regulated water operations, with their favorable risk/reward profile (WTR's non-reg. biz is proportionally the smallest of the utilities in our coverage), supports the premium multiple, in our view.

Exhibit 1: Water Utilities' Total Return 1/1/00-Present



Source: Company filings, Ladenburg Thalmann & Co, Inc. est. Excludes Non-Covered Water Utilities and AWK; Past performance not necessarily indicate of future results. Ladenburg coverage initiated: WTR-6/9/11, CTWS-5/18/11, CWT-5/18/11, SJW-6/9/11, AWR-5/26/11

Exhibit 2: WTR O&M and D&A as a % of Reg. Revenue



Source: Company filings, Ladenburg Thalmann & Co, Inc. est.

- **An Appealing Entry Point:** At 21.1x next-twelve-months (NTM) earnings, WTR shares are trading well below their 24.6x average. Shares have changed hands at less than a 22x NTM PE (or a 4.55% earnings yield) on only 29% of the days in the last 10 years. WTR share purchases on these days have on average yielded a 25% 1-yr. total return (std. dev. of 15%). Moreover, the NTM return on shares purchased at these levels was positive 93% of the time over the last 10 years. For more detail on valuation, please see our valuation section on page 20.

It is tempting to look at the forward PE on the S&P500, which is currently 17% below its 10 year average, and conclude that Aqua should, like the market, trade at a discount to its historical average multiple. We feel, however, that given the unique characteristics of the regulated water utility industry, in particular its favorable risk/reward profile vis-à-vis an economy that continues to feature elevated tail-risks, it is more important to view WTR's current NTM PE ratio in relation to its publicly traded regulated water utility peers. On this score, WTR shares look quite reasonably priced, at just an 11.5% premium to the peer group, below their 13.5% 10-year average and down from historical premiums of as much as 40%. Importantly, we note that WTR shares have only traded at a discount to peers 4% of the time in the last 10 years, including just six days in the last seven years.

- **Converting OpEx to CapEx:** In addition to a laser-like focus on identifying and replacing aging critical water infrastructure within its service territories, Aqua America has been among the best in the industry at identifying and implementing opportunities to convert often volatile operational expenses to capital-based alternatives. For shareholders, this strategy provides two useful benefits. First, operational expense items, most importantly chemicals, electricity, and gasoline, are often highly volatile. By upgrading equipment that either obviates the need for these items or reduces the quantity required, Aqua reduces exposure to items for which there is often no immediate cost recovery, and that can severely cloud earnings visibility. The capital alternative provides a highly predictable lifetime expense schedule (depreciation). Secondly, under the regulated return system, operations expenses are merely passed through to the customer, whereas capital investments are allowed a return on investment. By substituting the former for the latter, Aqua is able to grow the rate base on which it ultimately generates earnings, thus increasing earnings power.

Below we profile a few of the ways that Aqua has sought to reduce these expenses in recent years.

Cost Saving Capital Investments: Converting OpEx to CapEx

Regulated utilities' shareholders earn a return only on capital expenses. Operating expenses, such as those for labor, electricity, and chemicals are pass- throughs, with no earnings margin permitted. Therefore, a capital-heavy cost structure is highly favorable for investors. Aqua America is the industry leader at developing cost-effective ways to convert operating expenses to capital expenses, providing operational, environmental, and shareholder benefits, as well as lower all-in lifetime costs for customers.

Operations Expense	Aqua's Capital Solution
Water Treatment Chemicals	Ultra-violet Filtration Arrays
Purchased Electricity Consumption	On-site Solar Installations
Gas-guzzling Truck Fleet	Chevy Volt Electric Vehicle
Inefficient Aging Pumps	Variable Drive Frequency Pumps
Meter Reading Personnel	Automated Radio-Read Meters
High-residual Intake Water	Pre-Screening Equipment

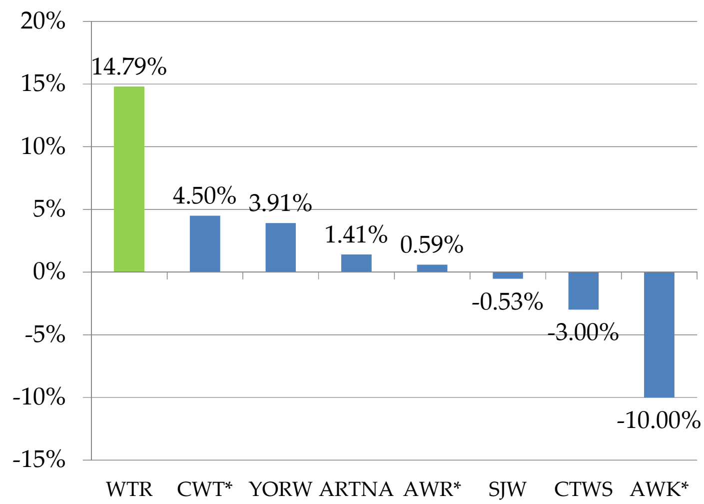
Source: Company filings, Ladenburg Thalmann & Co, Inc.

- **Bolt-on Acquisitions More Than Just Long-Term "Gravy"**. Like many followers of the U.S. water utility industry, we are strong believers in the potential for long-term industry consolidation through privatization. Our view is rooted in the belief that the economic benefits of consolidating the 84% of the 54,000 municipally-owned water systems in the U.S. will prove too compelling to a citizenry that may be ambivalent about private ownership of water infrastructure, but will ultimately be forced to take actions to maintain ever-aging critical infrastructure against the backdrop of increasingly strained public budgets.

  Still, the consolidation theme has been ever-slow to play out, as municipalities have regularly looked to kick the proverbial financial can down the road rather than remove the albatross of a deteriorating water system from the public's books, even in light of the muni-market turmoil of recent years. As a result, we find it somewhat difficult to give any of our covered companies meaningful credit for this growth potential – with one exception – Aqua America. Since 2003, Aqua has been the only publicly listed water utility to consistently augment its customer base with acquisitions, as demonstrated in **Exhibit 3**, below, which charts the amount each company has spent on water system acquisitions, net of divestitures since 2003 in proportion to total capital expenditures. Indeed, three of our covered companies have been net sellers of water systems during this period. (Note: Our AWK figure is pro-forma for the expected closing of the company's $470 million divestiture of its New Mexico & Arizona assets later this year.)

  Despite this reality, we believe that over time scale economies will favor meaningful acquisitive growth opportunities for substantially all of our covered companies. In particular, we believe that WTR and AWK are uniquely positioned to bolt-on literally hundreds of small, impracticable systems, given their massive footprints, which collectively should add meaningful growth over time.

Exhibit 3: Acquisition Expenditures as a % of Total CapEx (2003-Present)



Source: Company filings, Ladenburg Thalmann & Co, Inc.

**CWT since 2004, AWR since 2005, AWK since 2006, AWK pro-forma for 2011 announced divestiture*

Note: Stocks in chart are Not Rated by Ladenburg Thalmann & Co, Inc., except for American Water Works (AWK-$28.75-NEUTRAL), American States Water (AWR-$33.53-BUY), Connecticut Water Service (CTWS-$24.33-NEUTRAL), and California Water Service (CWT-$36.05-BUY), SJW Corp (SJW-$22.29-BUY), Aqua America (WTR-$21.30-BUY)

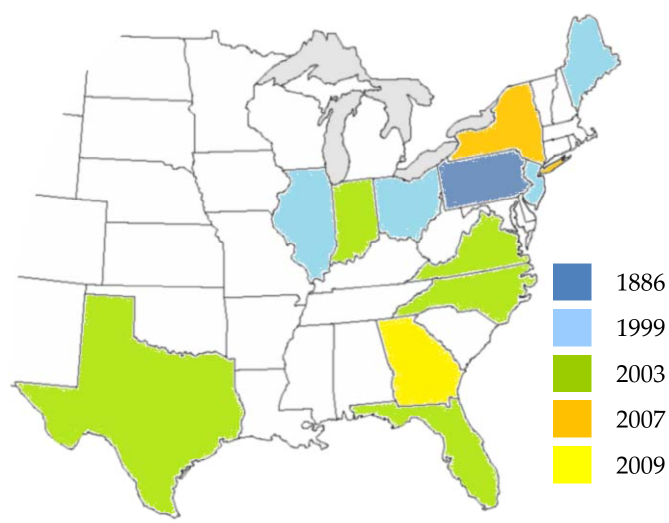
- **Ready Access to Low Cost Credit & Bonus D&A:** Aqua has consistently accessed the credit markets over the last decade at some of the lowest rates afforded to any of the water utilities in the U.S. Its largest subsidiary, Aqua PA, is rated A+ by Standard & Poors (as of 6/8/11). In our estimation there are only two levers a water utility can pull to keep rates low for customers without harming shareholder interests. The first is minimizing operational expense, as discussed above, and the second is low interest rates. Aqua has been a key proponent and beneficiary of both state and federal borrowing programs that subsidize infrastructure investment. Aqua should continue to find relatively inexpensive cost of funds for capital expenditures, which we expect will significantly enhance shareholder returns over time.

Meanwhile, the recent extension of Federal and Pennsylvania Bonus Depreciation should push back any need for the company to raise equity (barring a sizable acquisition) to 2014 or 2015 at the earliest, in our view. Though the corresponding impact of bonus D&A on deferred tax liabilities will slow rate base growth, the benefits of reduced interest expenses and delay of an equity raise outweigh this, in our view.

- **Strategic Focus on Sunbelt and Exurban Expansion:** In recent years Aqua has attempted to position itself for the next several decades by focusing its expansion in areas of the country likely to experience higher than average growth over time, namely the Exurbs (areas typically more than 35 miles from metro centers) and the Sun-belt states. Until the U.S. housing downturn that began in 2007, this strategy paid tangible dividends in the form of ~1% organic customer growth per annum, though the recession has derailed this in recent years. Nonetheless, we believe the strategy will once again pay-off as the market stabilizes, positioning Aqua nicely for the future.

  Importantly, the company regularly evaluates these expansion opportunities with respect to the local regulatory environment as well as its ability to realize economies of scale in each state in order to not undertake "adventurous" growth strategies at shareholder expense. We believe similar factors were important considerations in the company's recent decision to exit both Missouri and South Carolina, despite otherwise favorable demographic trends.

Exhibit 4: Aqua America Service Territory Expansion



Source: Company filings, Ladenburg Thalmann & Co, Inc.

- **Our $25 Price Target Assumes a 23.8x PE Multiple on Our In-Line 2012 EPS Estimate:** We think WTR's tried and true strategy still makes sense for investors after many years of stellar returns. Simply put, we think Aqua continues to be *the* name to own long-term in the water utility space. Our 2011/2012/2013 continuing EPS estimates are $0.96/$1.06/$1.16, respectively. We foresee dividends growing ~8%/year through 2013.

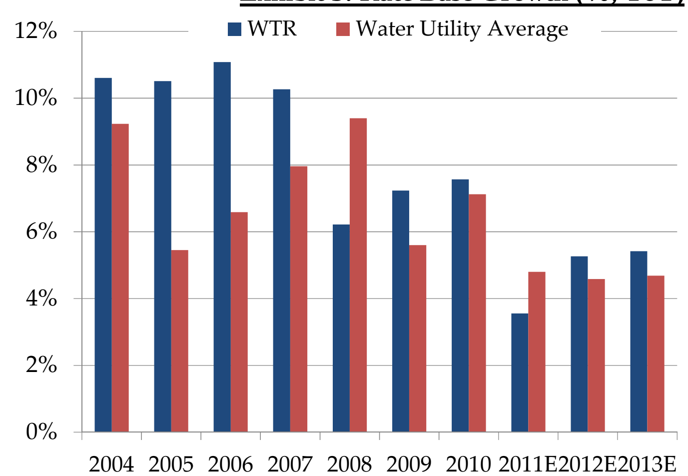
Rate Base Outlook

Management estimates the company will spend roughly $1.27 billion on capital improvements through 2014, with much of this seasonally weighted in 2Q and 3Q. Our estimates call for $304.3 million of company-funded CapEx in 2011, $330 million in 2012, and $350 million in 2013, as compared to 2010's $326.6 million. WTR's CapEx budget has doubled since 2003. We anticipate CapEx may appear to be behind schedule given the wet spring in 2Q11, but anticipate this will be made up through the summer months, assuming a normal summer weather pattern.

Our 2013 CapEx estimate assumes passage of a DSIC mechanism in New Jersey, which we believe would be slightly additive to the current consolidated CapEx run-rate. We expect a little more than half of the budget will go towards infrastructure surcharge-eligible investments. We estimate the company replaces roughly 2% of its pipes in Pennsylvania per year, and at a meaningfully slower pace in less constructive regulatory states.

Overall, we estimate CapEx/D&A will average roughly 2.6x, compared to the industry's 2.5x average. Looking forward we see 4-5% rate base growth, and note that bonus depreciation will have a moderately negative impact on rate base growth in 2011 and 2012 by our calculations.

Exhibit 5: Rate Base Growth (%, YoY)



Source: Company filings, Ladenburg Thalmann & Co, Inc.

Note: Rate Base is approximated using formula Net Utility Plant Less Deferred Taxes & Credits, CIAC, CAC;

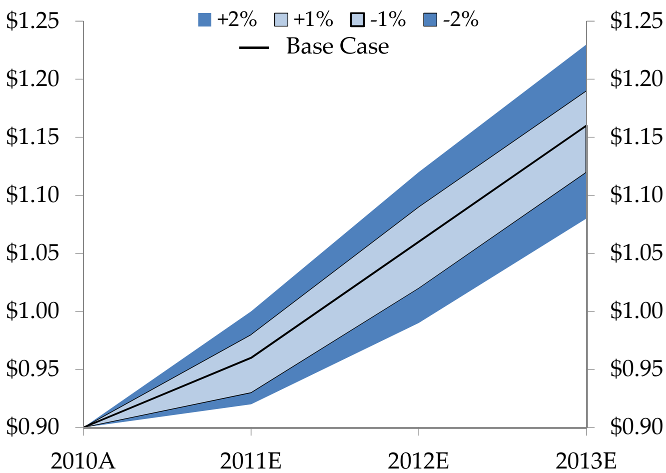
Water Utility Peer Group includes: Artesian Resources (ARTNA-$18.64-NR), American States Water (AWR-$33.53-BUY), American Water Works (AWK-$28.75-NEUTRAL), Connecticut Water Service (CTWS-$24.33-NEUTRAL), California Water Service (CWT-$36.05-BUY), Middlesex Water (MSEX-$18.44-NR), SJW Corp. (SJW-$22.29-BUY), Aqua America (WTR-$21.30-BUY), York Water (YORW-$16.69-NR)

Summary Financial Outlook

Our outlook for the company through 2013 can best be described as status-quo, which is to say we expect a continuation of the stellar track record of recent years. Earnings have been on a solid upward trend since 2008, and we expect this will continue through the forecast period driven by continued modest rate base growth and timely rate relief. We do not expect non-regulated operations, which have always been a very small piece of the Aqua pie, to play a meaningful role in the earnings trajectory through 2013. The biggest variable in projecting full-year earnings in 2011 and beyond is the impact of water consumption changes. Below we provide an overview of the impacts to our EPS estimates given a +/–2% change in water consumption over the following 2.5 years vs. our base case assumptions. As demonstrated, earnings are highly sensitive to consumption-related deviations. We note this effect is most pronounced in the summer months, when consumption is typically about 1/3rd greater than in winter.

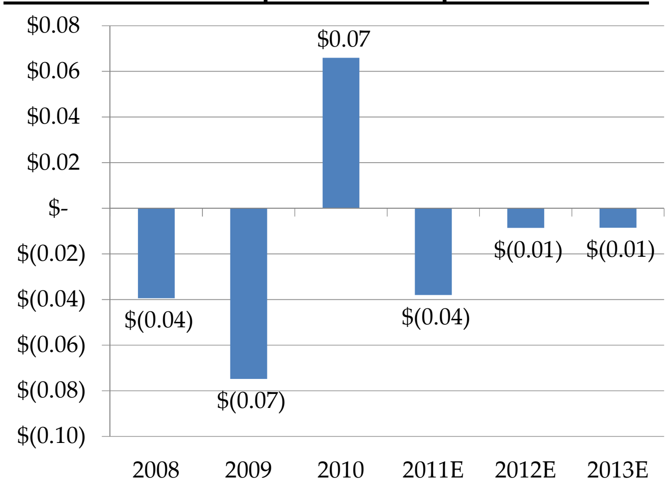
Management's current guidance calls for $0.97 in 2011 EPS.

Exhibit 6: Adj. EPS Sensitivity to Water Consumption



Source: Company filings, Ladenburg Thalmann & Co, Inc. est

Exhibit 7: Est. EPS Impact of Consumption Fluctuations



Source: Company filings, Ladenburg Thalmann & Co, Inc. est.

2011 Expectations

We expect 2011 continuing EBITDA and EPS of $417.7 million and $0.96, respectively. The company's EPS guidance is currently $0.96, excluding the tax benefit of bonus D&A and the sale of a small Texas water system in 1Q11, which we estimate will collectively add $0.11 to 2011 GAAP EPS. The most significant driver of operating EPS growth is the PA general rate case that granted $23.6 million in additional revenues beginning in 2H10 and the PA DSIC. We anticipate water volumes to decline by 60bps in 2011, which assumes continued positive economic growth and less favorable summer weather than last summer's ideal dry/hot conditions. Full year results however, are impacted to a much greater degree by weather in the key summer consumption months. Please see **Exhibit 7**, above, for an overview of the EPS impact of water consumption in recent years.

In 2011, we expect continuing ops O&M expense will grow 1.3%, compared to 1Q11's 4% yoy growth rate. O&M expense inflation was high in 2H10 as a result of increased water production associated with the hot summer. We anticipate this will make for an easier comparison in 2H11.

2012 Expectations

We expect 2012 EBITDA and EPS of $449.5 million and $1.06, respectively. Key drivers include expected rate relief in PA, TX, NJ, NC, IL, OH, and FL, and DSIC revenue in IL, IN, PA, and NJ (the approval of a limited NJ DSIC mechanism in 2012 is widely anticipated). We assume flattish yoy consumption.

2013 Expectations

We expect 2013 EBITDA and EPS of $484.7 billion and $1.16, respectively. Drivers include new water rates in PA, TX, 2H13 rate relief in FL, NC, and IL and DSIC revenue in IL, IN, PA, NJ. We assume a -60bps yoy change in water consumption.

Water Utility Summary Valuation

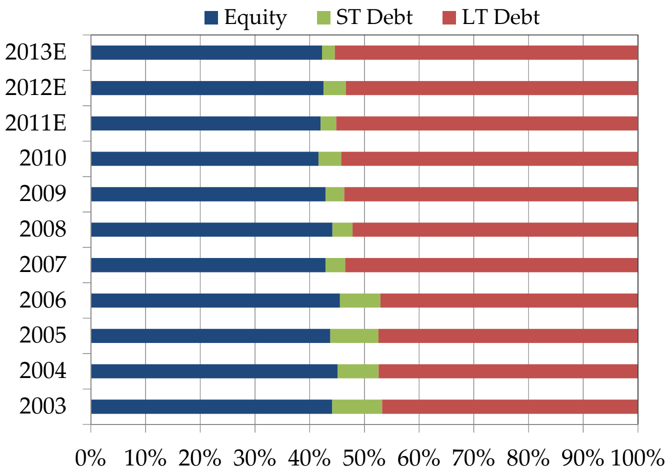
								LTS Estimate P/E					LTS Estimate P/CFO				LTS Estimate EV/EBITDA				
Company	Ticker	Price	Rating	Price Target	12M Target Return	LTM Total Return	Yield	2010	2011E	2012E	2013E	PEG Ratio	2010	2011E	2012E	2013E	2010	2011E	2012E	2013E	Price/ TBV
Artesian Resources	ARTN.A	$18.64	NR	-		14%	4.1%					NA									1.5x
American Water Works	AWK	$28.75	NEUTRAL	$31	10.9%	46%	3.1%	19.9x	17.4x	15.5x	14.9x	1.5x	4.6x	4.3x	4.0x	3.9x	10.1x	9.3x	8.7x	8.3x	2.x
American States Water Co.	AWR	$33.53	BUY	$38	16.7%	6%	3.3%	17.2x	16.9x	15.8x	14.4x	2.4x	11.4x	7.0x	7.4x	6.8x	8.1x	7.8x	7.3x	6.7x	1.7x
Connecticut Water Service	CTWS	$24.33	NEUTRAL	$25	6.6%	25%	3.9%	20.9x	19.3x	20.0x	19.5x	3.5x	10.4x	8.8x	9.4x	9.0x	12.6x	11.5x	10.7x	10.3x	1.9x
California Water Service	CWT	$36.05	BUY	$42	19.9%	8%	3.4%	20.1x	18.0x	17.2x	16.4x	2.7x	9.5x	6.8x	7.3x	6.9x	9.5x	8.1x	7.5x	7.1x	1.7x
Middlesex Water Co.	MSEX	$18.44	NR	-		26%	4.0%					6.6x									1.6x
SJW Corp.	SJW	$22.29	BUY	$29	33.2%	0%	3.1%	27.2x	22.4x	19.4x	17.8x	1.8x	11.6x	6.9x	6.8x	6.3x	10.3x	8.6x	7.7x	7.1x	1.6x
Aqua America Inc.	WTR	$21.30	BUY	$25	20.3%	30%	2.9%	23.6x	22.2x	20.1x	18.4x	2.6x	8.8x	7.4x	6.3x	6.8x	11.7x	11.0x	10.2x	9.5x	2.6x
York Water Co.	YORW	$16.69	NR	-		31%	3.1%					3.9x									2.3x
Water Utility Average						19.5%	3.5%	20.9x	19.7x	17.9x	16.9x	3.0x	9.0x	7.2x	7.1x	6.8x	10.6x	9.8x	9.0x	8.4x	1.8x

Source: Capital IQ,, Ladenburg, Thalmann & Co, Inc.; Pricing data and ratings as of 6/8/11

Balance Sheet and Cash Flow

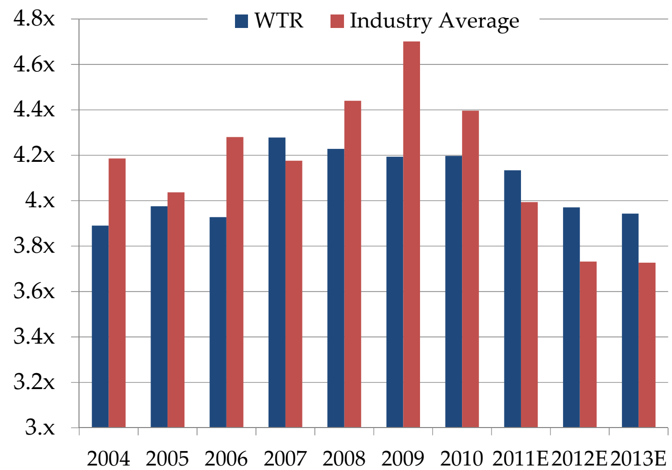
At ~4.75%, WTR had below industry average borrowing costs in 2010 **(Exhibit 11)**. The company's corporate credit is rated A+ by Standard & Poors (as of 6/8/11). Management targets a parent company capital structure that maintains this rating. Partly as a result of bonus depreciation we expect an 18% yoy increase in cash from operations. Largely as a result of its high net margin, the company generates a significantly greater amount of cash relative to assets vis-à-vis peers **(Exhibit 10)**.

Exhibit 8: WTR Capitalization



Source: Company filings, Ladenburg Thalmann & Co, Inc

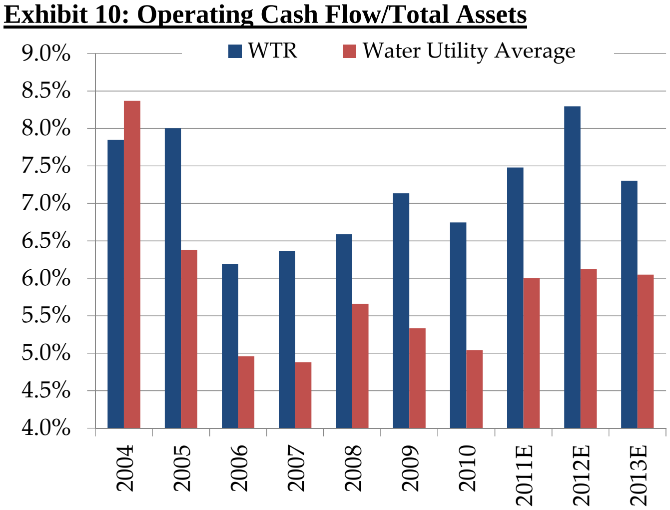
Exhibit 9: Debt/EBITDA



Source: Company filings, Ladenburg Thalmann & Co, Inc.
Note: Excludes unusual items, disc. ops.
Water Utility Peer Group includes: Artesian Resources (ARTNA-$18.64-NR), American States Water (AWR-$33.53-BUY), American Water Works (AWK-$28.75-NEUTRAL), Connecticut Water Service (CTWS-$24.33-NEUTRAL), California Water Service (CWT-$36.05-BUY), Middlesex Water (MSEX-$18.44-NR), SJW Corp. (SJW-$22.29-BUY), Aqua America (WTR-$21.30-BUY), York Water (YORW-$16.69-NR)

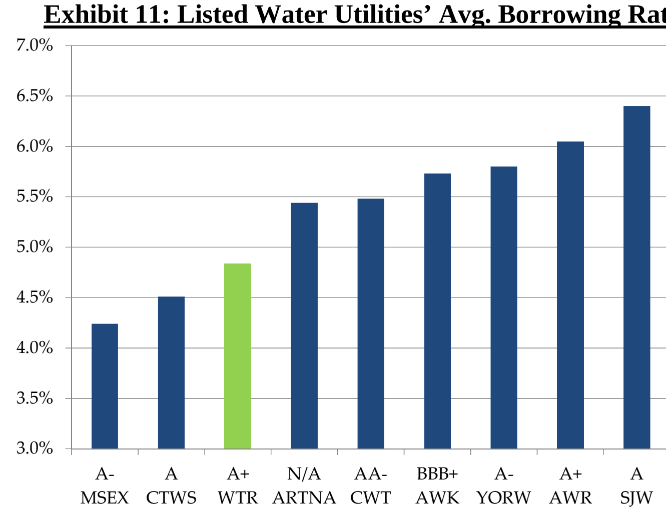
We foresee the company generating roughly $2.50/share in CFO/year by 2013, spending a similar amount on CapEx and paying up to $0.76/share in dividends by 2013, though we don't foresee another equity offering as necessary until 2014-15 at the earliest.

Exhibit 10: Operating Cash Flow/Total Assets



Source: Company filings, Ladenburg Thalmann & Co, Inc.
Water Utility Peer Group includes: Artesian Resources (ARTNA-$18.64-NR), American States Water (AWR-$33.53-BUY), American Water Works (AWK-$28.75-NEUTRAL), Connecticut Water Service (CTWS-$24.33-NEUTRAL), California Water Service (CWT-$36.05-BUY), Middlesex Water (MSEX-$18.44-NR), SJW Corp. (SJW-$22.29-BUY), Aqua America (WTR-$21.30-BUY), York Water (YORW-$16.69-NR)

Exhibit 11: Listed Water Utilities' Avg. Borrowing Rate

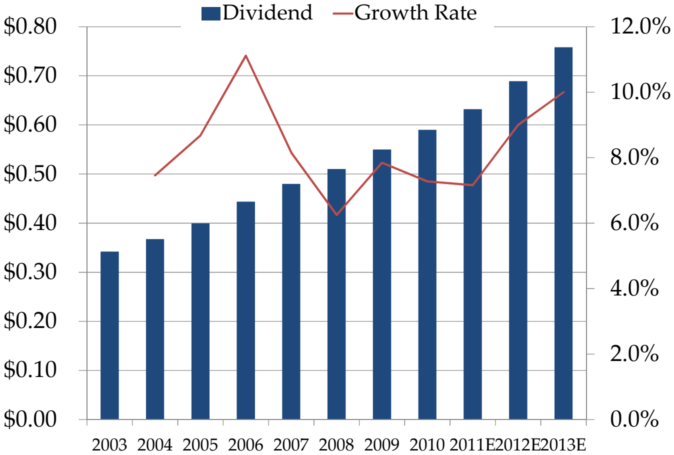


Source: Capital IQ, Bloomberg; Note: Fiscal Year 2010
Note: Stocks in chart are Not Rated by Ladenburg Thalmann & Co, Inc., except for American Water Works (AWK-$28.75-NEUTRAL), American States Water (AWR-$33.53-BUY), Connecticut Water Service (CTWS-$24.33-NEUTRAL), and California Water Service (CWT-$36.05-BUY), SJW Corp (SJW-$22.29-BUY), Aqua America (WTR-$21.30-BUY)

Dividend Policy

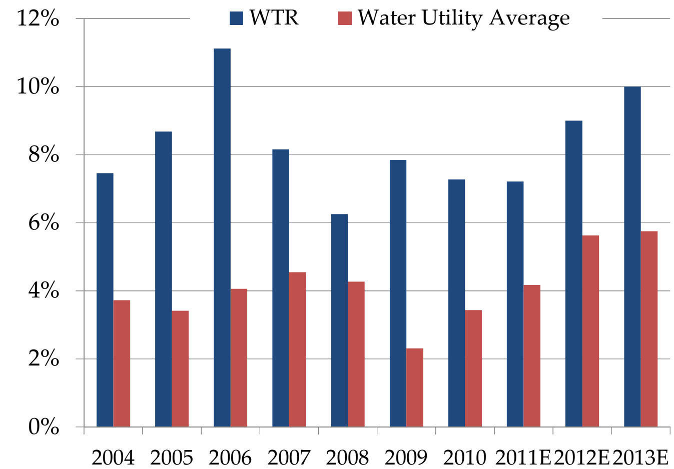
Long the quintessential dividend growth story, we foresee limited downside risk to a continuation of the company's 7.5% dividend CAGR, which compares to the peer average ~4.5%. In fact, we believe a modest acceleration is possible, partly as a result of bonus depreciation. Cash from Operations should hit 85% of CapEx+Dividend requirements, in our view, compared to the water utility average of roughly 75%. Aqua's payout ratio is slightly below the water utility average, largely by strategic design in light of abundant favorable investment opportunities.

Exhibit 12: Dividend Payment History



Source: Company filings, Ladenburg Thalmann & Co, Inc.

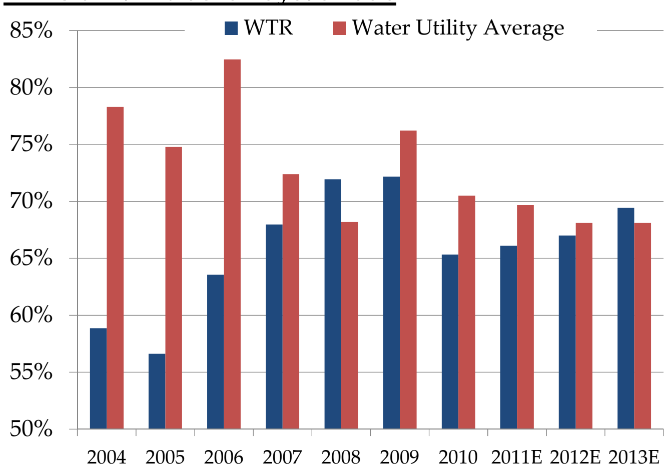
Exhibit 13: Dividend Growth Rate



Source: Company filings, Ladenburg Thalmann & Co, Inc.

Water Utility Peer Group includes: Artesian Resources (ARTNA-$18.64-NR), American States Water (AWR-$33.53-BUY), American Water Works (AWK-$28.75-NEUTRAL), Connecticut Water Service (CTWS-$24.33-NEUTRAL), California Water Service (CWT-$36.05-BUY), Middlesex Water (MSEX-$18.44-NR), SJW Corp. (SJW-$22.29-BUY), Aqua America (WTR-$21.30-BUY), York Water (YORW-$16.69-NR)

Exhibit 14: Dividend Payout Ratio

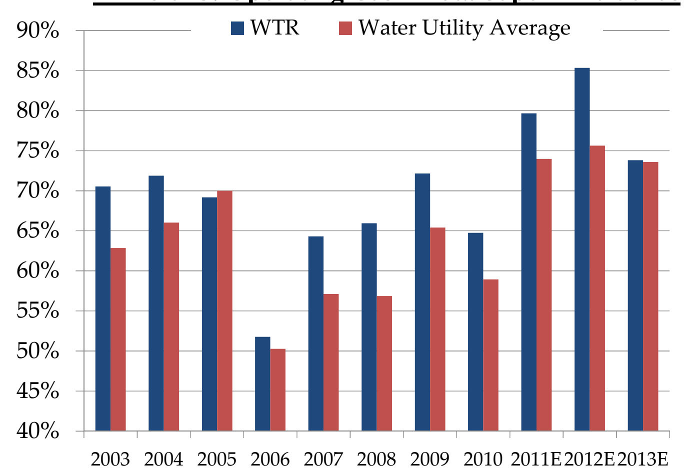


Source: Company filings, Ladenburg Thalmann & Co, Inc.

Note: Denominator excludes one-time items, disc. ops.

Water Utility Peer Group includes: Artesian Resources (ARTNA-$18.64-NR), American States Water (AWR-$33.53-BUY), American Water Works (AWK-$28.75-NEUTRAL), Connecticut Water Service (CTWS-$24.33-NEUTRAL), California Water Service (CWT-$36.05-BUY), Middlesex Water (MSEX-$18.44-NR), SJW Corp. (SJW-$22.29-BUY), Aqua America (WTR-$21.30-BUY), York Water (YORW-$16.69-NR)

Exhibit 15: Operating Cash Flow/Capex+Dividends



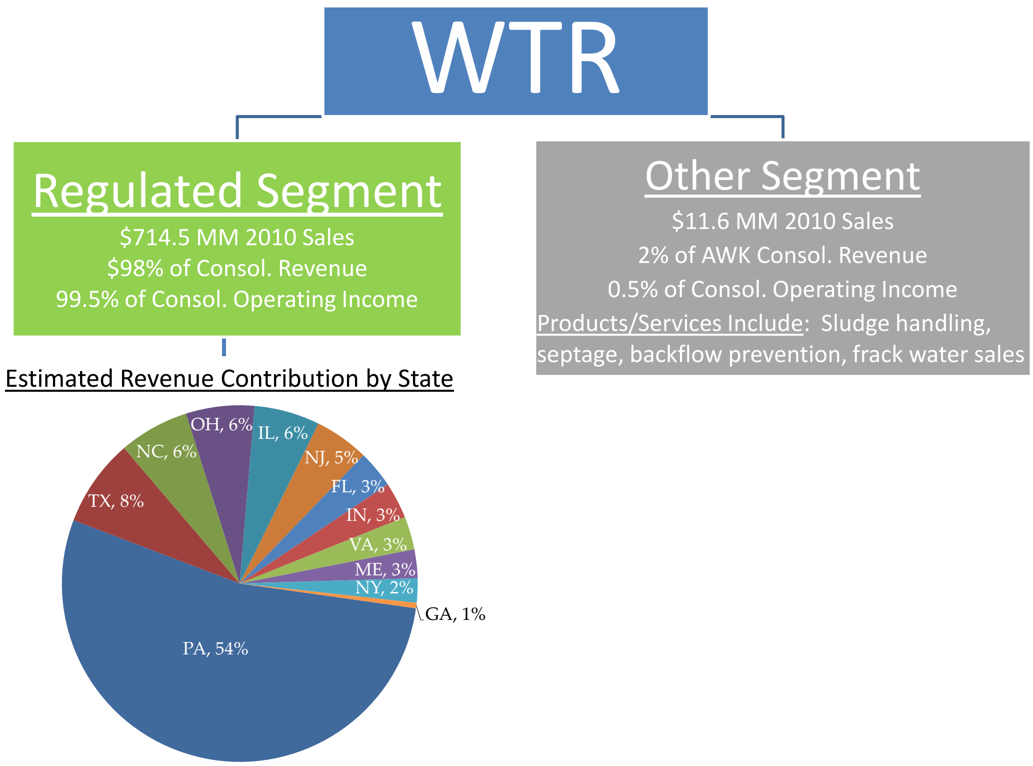
Source: Company filings, Ladenburg Thalmann & Co, Inc.

Note: Excludes disc ops, one-time items

Water Utility Peer Group includes: Artesian Resources (ARTNA-$18.64-NR), American States Water (AWR-$33.53-BUY), American Water Works (AWK-$28.75-NEUTRAL), Connecticut Water Service (CTWS-$24.33-NEUTRAL), California Water Service (CWT-$36.05-BUY), Middlesex Water (MSEX-$18.44-NR), SJW Corp. (SJW-$22.29-BUY), Aqua America (WTR-$21.30-BUY), York Water (YORW-$16.69-NR)

Company Overview

Aqua America is a regulated utility holding company headquartered in Bryn Mawr, PA, and is the nation's second largest and second most geographically diversified provider of water and wastewater services. Below is an overview of the company's corporate structure, including all major subsidiaries. In addition to Regulated Water operations, WTR participates in several non-regulated businesses, though non-regulated businesses are proportionally small piece of the company, vis-à-vis peers. The company is divided into two segments for operational and financial reporting purposes.



Source: Company filings, Ladenburg Thalmann & Co, Inc. (as of 6/8/11); Revenue estimates exclude Disc. Ops.

Company History

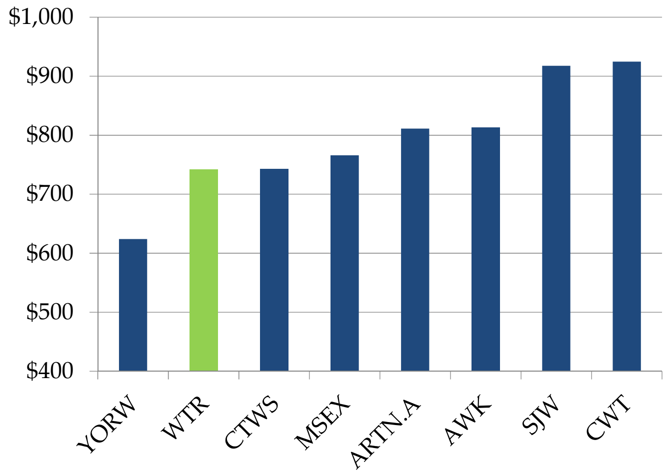
Aqua's earliest predecessor company was founded in 1886 by a group of college professors in Delaware County, PA. In 1925 the company changed its name to Philadelphia Suburban Water Co. and operated in 3 counties in Southeastern Pennsylvania. In 1971 it issued public shares on the NYSE under the ticker PSC. Beginning in 1999, the company began a multi-year expansion through acquisition of several multi-state water utilities. It subsequently changed its name to Aqua America in early 2004. In recent years the company has switched focus to "pruning" water systems in states that are generally unfavorable for water utilities as well as bolting on small systems that are mostly adjacent to the current footprint. In 2010 the company sold small systems in Missouri and South Carolina that combined included 4300 customers. Today the company has continuing operations in 11 states and serves approximately 3 million customers.

Regulated Operations

Aqua's regulated subs had a combined $715 million in revenue in 2010 and provided over 99% of consolidated operating income. Aqua is heavily leveraged to the state of PA. We believe Aqua is likely to continue expanding its footprint, largely centered on bolt on acquisitions in existing states.

Partly as a result of a small number of distribution systems per customers served in its SE Pennsylvania territory, the company has among the lowest average water bills of its investor-owned peers. Purchased water accounts for just 9% of customer shipments, though the company believes this will trend lower with the addition of additional facilities in coming years. Aqua's customer per employee ratio is among the highest in the industry, underscoring efficiency of operations.

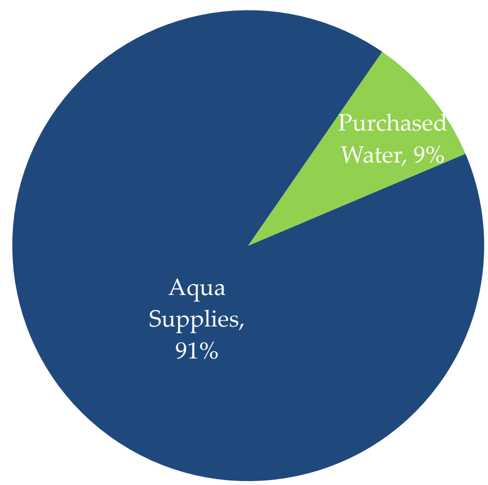
Exhibit 16: Average Annual Customer Bill (2010)



Source: Company filings, Ladenburg Thalmann & Co, Inc.

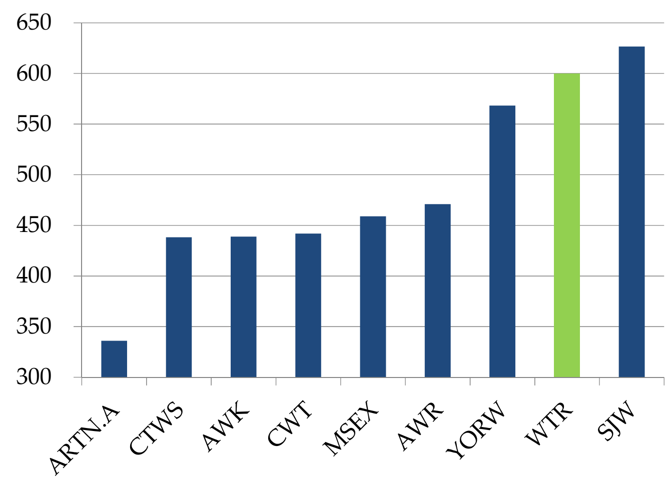
Note: Stocks in chart are Not Rated by Ladenburg Thalmann & Co, Inc., except for American Water Works (AWK-$28.75-NEUTRAL), American States Water (AWR-$33.53-BUY), Connecticut Water Service (CTWS-$24.33-NEUTRAL), and California Water Service (CWT-$36.05-BUY), SJW Corp (SJW-$22.29-BUY), Aqua America (WTR-$21.30-BUY)

Exhibit 17: 2010 Aqua America Consol. Water Supplies



Source: Company filings, Ladenburg Thalmann & Co, Inc.

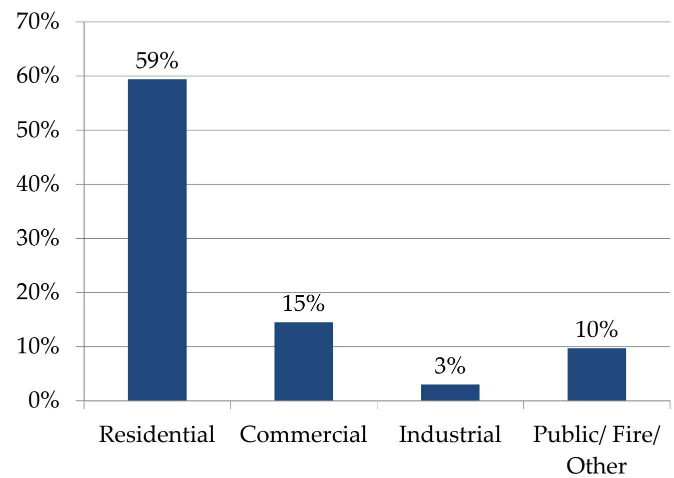
Exhibit 18:Customers Served Per Employee (2010)



Source: Capital IQ

Note: Stocks in chart are Not Rated by Ladenburg Thalmann & Co, Inc., except for American Water Works (AWK-$28.75-NEUTRAL), American States Water (AWR-$33.53-BUY), Connecticut Water Service (CTWS-$24.33-NEUTRAL), and California Water Service (CWT-$36.05-BUY), SJW Corp (SJW-$22.29-BUY), Aqua America (WTR-$21.30-BUY)

Exhibit 19: 2010 WTR Water Customers by Revenue



Source: Company filings, Ladenburg Thalmann & Co, Inc.

Exhibit 20: Regulated Subsidiary: Aqua Pennsylvania

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

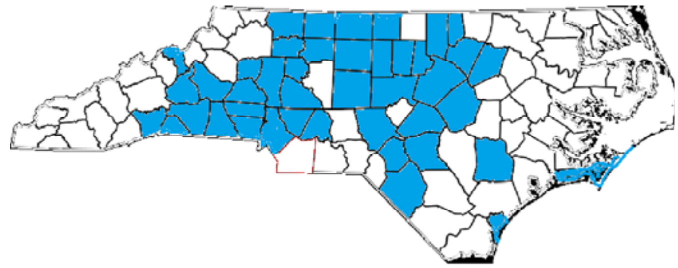
Estimated Regulated Service Area:

Source: Company filings, Ladenburg Thalmann & Co, Inc.
Note: Sub. does not necessarily serve municipalities in each county; Rate base and customers are LTS estimates as of 12/31/10

Exhibit 21: Regulated Subsidiary: Aqua North Carolina

Regulated Customers		Regulated Revenue ($MM)			Est. Rate Base ($MM)		
71,000		$45.6			$129.8		
Attractive ROEs/ Equity Ratios	Infrastructure Surcharge Mechanism.	Forward Test Year	Favorable Rate Case Timeline	Pass-thru adjust-ments	Rate Consol-lidation	Purchase Adjustments	Decoupling
+	-	-	+	+/-	+	+/-	-

Estimated Regulated Service Area:

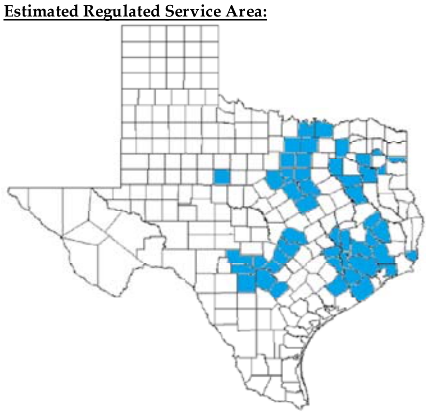


Source: Company filings, Ladenburg Thalmann & Co, Inc.
Note: Sub. does not necessarily serve all municipalities in each county; Rate base and customers are LTS estimates as of 12/31/10

Exhibit 22: Regulated Subsidiary: Aqua Texas

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-lidation	Purchase Adjustments	Decoupling
+	-	-	+	+	+	+	-

Estimated Regulated Service Area:



Source: Company filings, Ladenburg Thalmann & Co, Inc.
Note: Sub. does not necessarily serve municipalities in each county; Rate base and customers are LTS estimates as of 12/31/10

Exhibit 23: Regulated Subsidiary: Aqua Ohio

Regulated Customers		Regulated Revenue ($MM)			Est. Rate Base ($MM)		
86,000		$44.5			$150.0		
Attractive ROEs/ Equity Ratios	Infrastructure Surcharge Mechanism.	Forward Test Year	Favorable Rate Case Timeline	Pass-thru adjust-ments	Rate Consol-lidation	Purchase Adjustments	Decoupling
+	+	+	+	+	+	-	-

Estimated Regulated Service Area:

Source: Company filings, Ladenburg Thalmann & Co, Inc.
Note: Sub. does not necessarily serve all municipalities in each county; Rate base and customers are LTS estimates as of 12/31/10

Other Segment

The company's Other segment includes parent company expenses, and a few other minor water-related non-regulated businesses such as septic services and sludge handling.

Marcellus Opportunity

In recent years there has been a rapid increase in unconventional natural gas production from the Marcellus shale rock formation located under most of Pennsylvania, West Virginia, Eastern Ohio and Southern New York State. USGS estimates of the amount of economically recoverable gas in the formation exceed 400 trillion cubic feet. Over the projected 50-75 year life of the "play", up to 100,000 wells could be drilled, compared to the several hundred that have been drilled to date.

In order to access the gas held in the formation, energy companies must inject up to 6 million gallons of water into each well at high pressure, which fractures the rock and enables the gas to flow to the surface. This water returns to the surface contaminated with heavy metals, low-grade radioactive material, and other pollutants, which must be disposed of. Based on current drilling projections, we estimate that the market to treat and dispose of Marcellus shale wastewater could exceed $3 billion/year in 10 years.

Given its leading role in Pennsylvania water-related issues, it follows that Aqua would be involved in Marcellus water issues. At present, the company is exploring ways in which it can leverage its water services expertise to best participate in this new market. To date, the company has chosen to enter the market not on the water treatment but on the water supply side, setting up fully-automated roadside water stations, where it sells large quantities of fresh water to drilling companies for use in fracking. These stations are located outside of small Appalachian towns, and their introduction has significantly cut down on the amount of heavy truck traffic passing through residential neighborhoods, helping to alleviate a major issue in the region, that is likely to become more salient over time.

On the wastewater treatment side, the company is still in the evaluation stage, as the process of treating frack water is quite different than treating traditional wastewater. Nonetheless, the Marcellus water opportunity warrants a close watch in the days ahead.

Key Management

Nicholas DeBenedictis, 65, Chairman, President, and Chief Executive Officer: Mr. DeBenedictis has been the CEO of the company since 1992, and has been a main driver of its ambitious growth through acquisition strategy over the last 20 years. In addition to his role at Aqua, he serves as the Chairman of the Philadelphia Convention & Visitors Bureau, is a Director of Harleysville Mutual Insurance Company and an Affilliated Director of Exelon Corporation, and is on the Board of the Greater Philadelphia Chamber of Commerce, Hahnemann/MCP hospital and is a Trustee of Drexel University.

David Smeltzer, 52, Chief Financial Officer & SVP: Mr. Smeltzer has been the CFO of Aqua America and its predecessor company since 1999. Prior to this he was the VP- Rates and Regulatory Relations of Philadelphia Suburban Water Company from 1991-1999. Prior to this he was an Audit manager with KPMG, LLP.

Recent and Upcoming Regulatory Proceedings

WTR regularly files infrastructure surcharges (commonly referred to as a DSIC in most states) in states where it has the authority to do so – IL, IN, OH, NY and most importantly, PA. Over the last two years DSIC mechanisms have provided roughly $15.5 million in annual revenue on average. Our estimates include an increase in this run rate in 2011-13. Aqua has significant rate cases pending in OH, NC, IL, and TX as of this writing. Later this year, we anticipate significant filings in PA and NJ and in another region of TX.

It is widely expected that NJ will authorize a similar infrastructure surcharge mechanism by the beginning of 2012. We expect this will have a modest impact on the Aqua as NJ currently represents just 5% of total revenue. Nonetheless we expect the company to increase investment in the state, assuming NJ does not lower allowed ROEs in conjunction with the DSIC. We expect NJ DSIC revenue could add $1-$2 million in revenue between rate cases.

Pennsylvania Regulation

Pennsylvania has long featured one of the most progressive water utility regulatory environments of any state in the country. Aqua has been both a beneficiary of this fact and reason for it. The favorable PA regulatory environment is undoubtedly due in part to the company's forceful advocacy of constructive policies that encourage infrastructure investment, and quality drinking water service.

Looking ahead, our expectations for status quo at the PA PUC underlie our favorable outlook for Aqua America. Recently elected Republican PA governor Tom Corbett will likely have the opportunity to replace four of PA's five Commissioners. We believe Governor Corbett's strident efforts to ward off taxes on PA's shale drillers in the name of maximizing job creation provides a clear read-through for the direction he will attempt to move the Commission in coming years. Though our Aqua earnings estimates don't incorporate any new, more favorable regulatory mechanisms in PA, we also see very limited downside risk to PA's progressive environment over the near to medium term.

Exhibit 24: Rate Base Growth (%, YoY)

Name	Party	Began Serving	Term Ends
Robert Powelson (Chairman)	R	Jul-08	Apr-14
Wayne Gardner	D	Jul-08	Apr-13
John Coleman	R	Jun-10	Apr-12
Tyrone Christy	D	Jun-07	Apr-11
James Cawley	D	Jun-05	Apr-15

Source: RRA, Ladenburg Thalmann & Co, Inc.

Beyond the ROE: An Intro to Water Regulation

Water utilities are economically regulated by state-level PUCs. PUCs are typically headed by 3-5 Commissioners, who serve terms anywhere from two years to a decade or more in certain cases. PUCs vary widely from state to state with respect to their individually-crafted policies and the favorableness of these policies vis-a-vis regulated utility investors. Commissions are, however, required to abide by several U.S. Supreme Court Case Precedents to ensure investors receive a "fair' return on "used and useful" capital investments. In most states, a utility incurs capital expenses and then on a roughly biannual basis files a formal General Rate Case (GRC), requesting Commission approval to recover these investments through rates. GRCs are similar in many respects to civil trials by judge, featuring witnesses, depositions, motions, deliberations, settlements, etc. Typically a utility incurs significant legal and administrative expenses during the proceedings, which can last anywhere from two months to two years, but average ~10 months.

Despite regular Commissioner turnover, some states have become known for exceptionally constructive or restrictive regulatory approaches. Below we examine the role of commissions in setting allowed ROEs and highlight the common regulatory mechanisms employed by some states that increase the likelihood of utilities earning their allowed return:

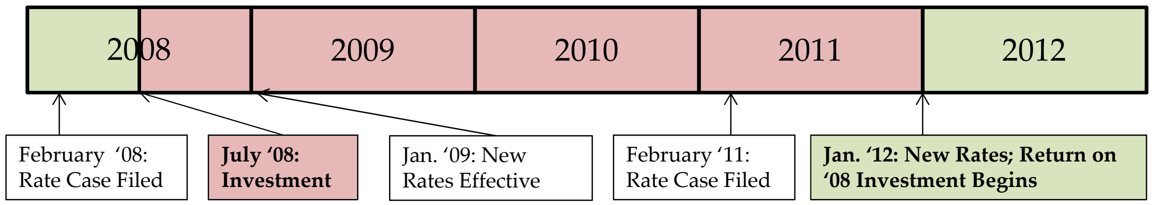
- **ROEs and Equity Ratios.** In deciding on a utility rate request, PUCs first determine the dollar value of utility-funded capital investments considered "used and useful", then determine an appropriate rate of return on those investments based upon various weighted average cost of capital methodologies. In determining a cost of capital, the PUC determines an allowed equity/debt ratio and a corresponding return on each. The outcome of this analysis is a nominal operating income figure, which the commission then "trues-up", through a hypothetical P&L (including allowed operating expenses), to determine the level of increased revenue needed to achieve the allowed return.

Despite this seemingly formulaic process, there are significant regulatory features that determine whether a utility can ever truly earn its allowed ROE. We profile some of these key features here:

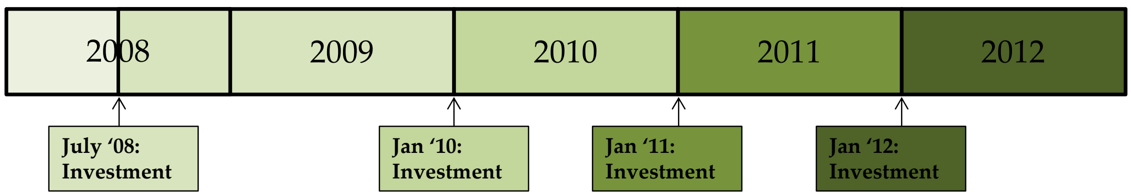
- **Infrastructure Surcharge (DSIC).** Though given different acronyms by different states, the DSIC mechanism allows a utility to bill customers a surcharge for infrastructure put in place between rate cases, up to a certain ceiling amount that varies by state. Given the capital intensity of the water sector, the DSIC is the single most important regulatory mechanism used to remove the "regulatory lag" that results from the traditional timing difference between when depreciation must be recognized on new investments and when they can begin earning a return. It is widely anticipated that New Jersey, a key state for American Water Works (AWK-NEUTRAL) and Middlesex Water (MSEX-NR), will begin offering a DSIC later this year. In the meantime, CA, CT, DE, IL, IN, MO, NH, NY, OH and most prominently PA are the only states offering a DSIC.

Importance of the Infrastructure Surcharge (DSIC) Mechanism for Encouraging Water Utility Capital Investment

The chart below illustrates the importance of timely rate recovery. In this example, a historical test year excludes from consideration for ratemaking purposes a major July '09 capital investment, which takes place after the rate case is filed. Given the lack of a real-time Infrastructure Surcharge (DSIC) mechanism, a three year rate cycle, and 10-month rate case proceeding, this hypothetical investment sees NO return for 3.5 years.



In contrast, in a state with a DSIC mechanism, usually adjusted quarterly, recovery on capital investments through rates begins immediately, significantly reducing regulatory lag associated with such expenditures.



Source: NAWC

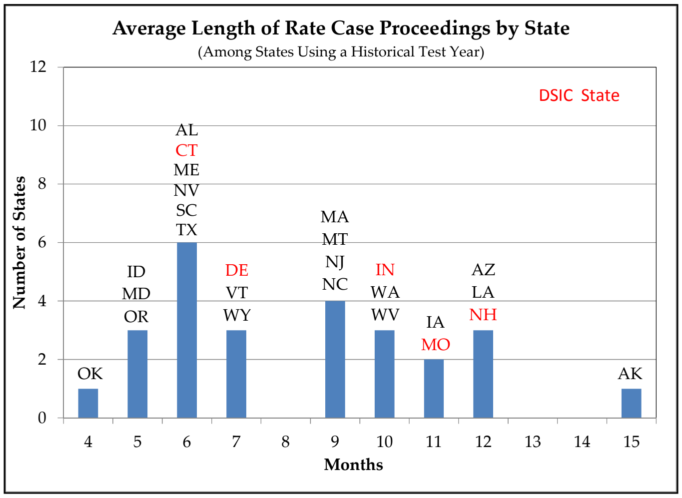
- **Forward-Looking Test Year.** In determining a utility's expenses for the purposes of calculating a revenue amount that will enable it to earn an allowed ROE, regulators must choose a "test-year" level of expenses, including those for depreciation of capital investments. If the PUC uses a historical year to determine revenue requirements, it is unlikely a utility can ever actually earn the "headline" allowed ROE, as cost inflation combined with depreciation of new investments reduces the actual operating income to a level below that which was granted. AR, CA, CO, FL, HI, IL, KS, KY, MS, NE, NM, NY, OH, PA, TN, UT, VA, WI use forward looking, projected test years.

Beyond the ROE: Importance of DSIC, Forward Looking Test Year and Defined Rate Case Timelines

Though some states routinely grant relatively high "headline" ROEs, their use of historic test-years and/or limited cost recovery mechanisms (most importantly, DSIC), makes these states' regulatory environments merely average or even below average. Meanwhile, states such as Indiana, Virginia and Wisconsin are routinely listed among the best places to do business, despite low granted ROEs, as they employ mechanisms that greatly enhance actual earnings, underscoring the importance of these "other" mechanisms in evaluating a state's true business climate.

States with DSIC: CA, CT, DE, IL, IN, MO, NH, NY ,OH, PA

States with Forward Looking Test Year: AR, CA, CO, FL, HI, IL, KS, KY, MS, NE, NM, NY, OH, PA, TN, UT, VA, WI



RRA State Commission Rankings

State	Ranking	Recent ROE
LA	Average/2	10.9%
ND	Average/1	10.75%
SC	Average/2	10.7%
NV	Average/2	10.6%
OK	Average/3	10.5%
MI	Average/1	10.52%
TX	Below Average/1	10.41%
MN	Average/2	10.38%
IN	Above Average/3	9.9%
VA	Above Average/3	10.1%
WI	Above Average/2	10.3%

Source: NAWC, RRA, Ratings as of 5/25/11

- **Pass Through Mechanisms.** Utilities have little control over certain costs, including pension, treatment chemicals, gasoline (for vehicle fleets), as well as many others. Many commissions have recognized that utilities should not be penalized by these types of cost increases and have allowed for collection of commensurate surcharges when these expenses exceed certain levels.

- **Defined Rate Case Timelines.** Similar to forward test years, if a utility's rate case drags on for more than one year, as can frequently be the case in some states, it can deteriorate the earnings profile of the utility due to cost inflation. Some states set a statutory limit to the length of time Commissions must decide on a GRC, and still others will enable utilities to implement temporary rate increases while the GRC progresses, making this an important regulatory characteristic.

- **Single-Tariff Pricing and Purchase/Goodwill Adjustments.** As previously discussed, growth through consolidation of the many small, inefficient independent water systems in the U.S. forms a key longer-term aspect of our positive outlook for the Regulated Water Utilities. Two regulatory mechanisms, if embraced to a greater degree nationwide, would significantly speed industry consolidation, in our opinion. "Single-tariff pricing" allows a utility to allocate the often-times enormous costs associated with rehabilitating a small, newly acquired water system to all customers within its statewide service area, not just those in the newly acquired area itself. This feature allows the utility to make the necessary capital investments to improve system quality, without overburdening the small number of residents that would otherwise be made to pay for these improvements, and in the process encourages larger systems to acquire smaller ones.

Similarly, many small systems have been underinvested for years, and as a result, the book value of their assets is very low, though their operating income may be high. Currently, most states do not allow a utility to incorporate goodwill in a rate base, making the economics of such deals highly unfavorable for the acquirer. PUCs that wish to see increased infrastructure investment in small, independent systems are increasingly recognizing this problem, and allowing goodwill to be amortized through rates. If embraced to a greater degree, goodwill and other "purchase adjustment mechanisms" would significantly increase our outlook for industry growth.

- **Elected vs. Appointed Commissioners.** Quite simply, Commissioners that must face the electorate every few years are naturally inclined to be populist and pro-ratepayer, to the detriment of investor rights, as opposed to those who are appointed by governors, who more traditionally take a balanced approach.

Risks

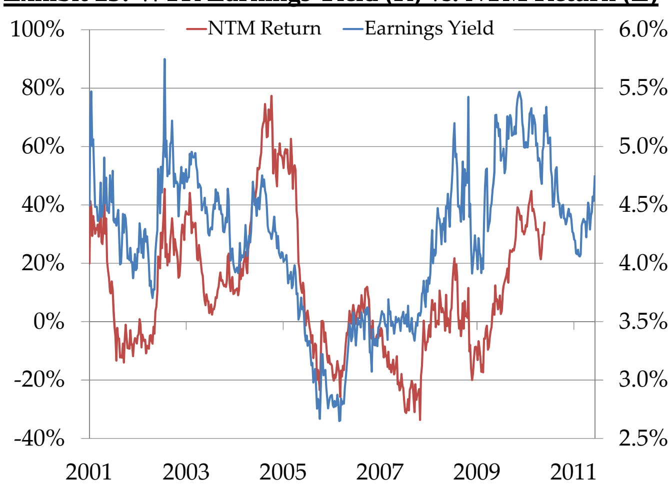
The primary risks of an investment in WTR shares include (but are not limited to): execution risk, pending regulatory issues, operating costs and capital investments, legislation/regulation changes, natural disasters, access to capital markets, litigation, pension requirements, changes in regional economy, increased employee related costs. See Appendix A for additional risk factors.

Valuation

We believe WTR has historically traded as a function of forward earnings and indicated dividend yield. Our target price of $25 is based on the company trading at a multiple of 23.8x (earnings yield of 4.2%) our 2012 $1.06 EPS estimate, implying a 12-month total return of 20% (Note: Our 2012 estimate is $0.02 below the Street consensus) The company currently trades at a 11.5% premium to peers on consensus 2012 earnings estimates, 200 bps below its historical average, and down from a 25% premium earlier this year **(Exhibit 28)**. Over the last 10 years the stock's forward earnings premium to peers has ranged between -3% and 45%

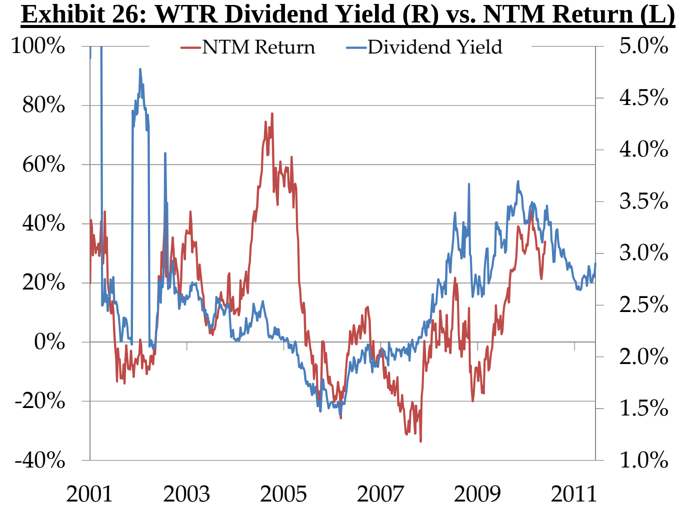
The following charts track the relationship between the stock's historical 12 month nominal return, and indicated earnings (1/PE) and dividend yields. In recent months WTR's NTM forward earnings yield has steadily increased from ~4.05% to the current 4.75%, as the PE ratio has fallen from its earlier 2011 peak of 24.5x NTM earnings to the current 21.1x. We believe WTR shares' 12-month returns strongly correlate with the indicated earnings yield on the purchase date. WTR shares traded at a sub-22x PE on 29% of the days over the last 10 year period and when purchased at these levels yielded an average 12-month total return of 25%, with a standard deviation of 15%. Moreover, WTR has yielded a positive 12 month return 93% percent of the days on which the stock was purchased below a 22x forward PE over the last 10 years.

Exhibit 25: WTR Earnings Yield (R) vs. NTM Return (L)



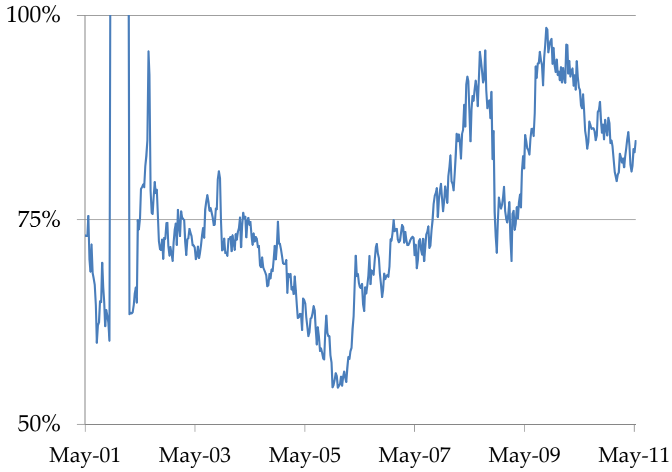
Source: Capital IQ
Note: Past Performance is Not Indicative of Future Results

Exhibit 26: WTR Dividend Yield (R) vs. NTM Return (L)



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

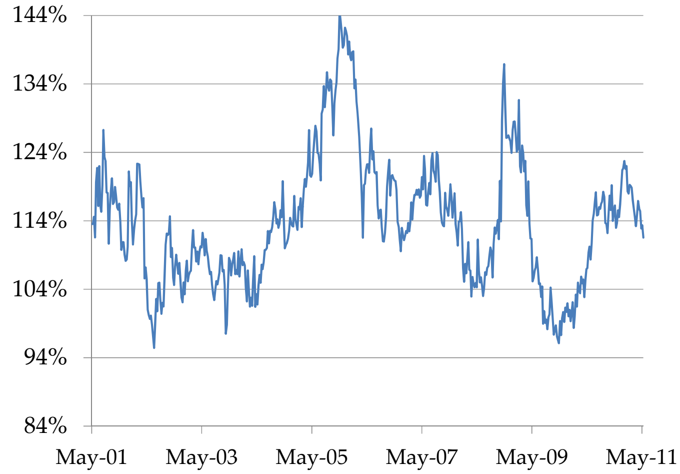
Exhibit 27: Dividend Yld as a % of Water Utility Average



Source: Capital IQ

Water Utility Peer Group includes: Artesian Resources (ARTNA-$18.64-NR), American States Water (AWR-$33.53-BUY), American Water Works (AWK-$28.75-NEUTRAL), Connecticut Water Service (CTWS-$24.33-NEUTRAL), California Water Service (CWT-$36.05-BUY), Middlesex Water (MSEX-$18.44-NR), SJW Corp. (SJW-$22.29-BUY), Aqua America (WTR-$21.30-BUY), York Water (YORW-$16.69-NR) Note: Past Performance is Not Indicative of Future Results

Exhibit 28: PE NTM as a % of Water Utility Average



Source: Capital IQ

Water Utility Peer Group includes: Artesian Resources (ARTNA-$18.64-NR), American States Water (AWR-$33.53-BUY), American Water Works (AWK-$28.75-NEUTRAL), Connecticut Water Service (CTWS-$24.33-NEUTRAL), California Water Service (CWT-$36.05-BUY), Middlesex Water (MSEX-$18.44-NR), SJW Corp. (SJW-$22.29-BUY), Aqua America (WTR-$21.30-BUY), York Water (YORW-$16.69-NR); Note: Past Performance is Not Indicative of Future Results

The following table provides a relative valuation overview based on the comparable group of regulated water utilities. The multiples are based on consensus earnings estimates for all companies, while the WTR implied values are based on the product of our forward looking estimates and median group valuation multiples where applicable. Our $25 price target represents a 38% premium to this current implied valuation (water utilities currently trade at a 16% discount to their long-term average fwd. PE, on which our target is based). Note Pennsylvania pure-play peer York Water (YORW-$16.69-NR) commands a premium to Aqua underscored by a similarly favorable low-risk growth outlook.

Exhibit 29: Implied Valuation Based on Comparable Water Utility Peer Group

	ARTN.A	AWK	AWR	CTWS	CWT	MSEX	SJW	WTR	YORW	Median	WTR Implied
2012E P/E	16.8	15.6	15.3	17.5	16.0	16.9	19.3	19.9	20.8	17.3	$18.33
2010A P/E	18.6	19.9	17.2	20.9	20.1	19.5	27.2	23.6	23.5	20.0	$18.04
2012E EV/EBITDA	10.5	8.8	7.1	11.1	7.6	10.3	10.1	10.0	11.0	10.2	$20.28
2010A EV/EBITDA	10.5	10.1	8.1	12.6	9.5	12.3	10.3	11.7	12.2	10.4	$17.72
Dividend Yield	4.07%	3.06%	3.34%	3.86%	3.40%	4.00%	3.08%	2.90%	3.15%	3.37%	$18.76
Price/Book	1.5	2.0	1.7	1.9	1.7	1.6	1.6	2.6	2.3	1.7	$15.17
											$18.05

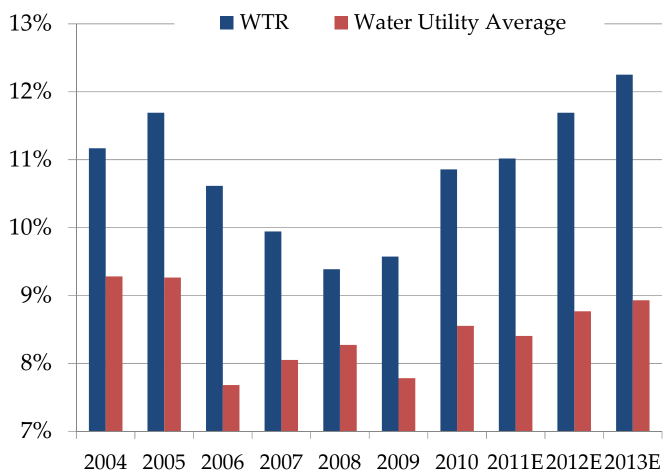
Source: Company filings, Capital IQ, Ladenburg Thalmann & Co, Inc.
Note: Trading multiples as of 6/8/11, based on consensus estimates

Note: Stocks in chart are Not Rated by Ladenburg Thalmann & Co, Inc., except for American Water Works (AWK-$28.75-NEUTRAL), American States Water (AWR-$33.53-BUY), Connecticut Water Service (CTWS-$24.33-NEUTRAL), and California Water Service (CWT-$36.05-BUY), SJW Corp (SJW-$22.29-BUY), Aqua America (WTR-$21.30-BUY)

Key Operational Metrics

By nearly every objective financial and operational metric, WTR is among the top performers in the peer group. Most importantly for the company's organic EPS growth rate, the company's industry leading consolidated ROE and average payout ratio drive a far higher sustainable growth rate than peers, providing a larger source of internal funds to fuel rate base growth.

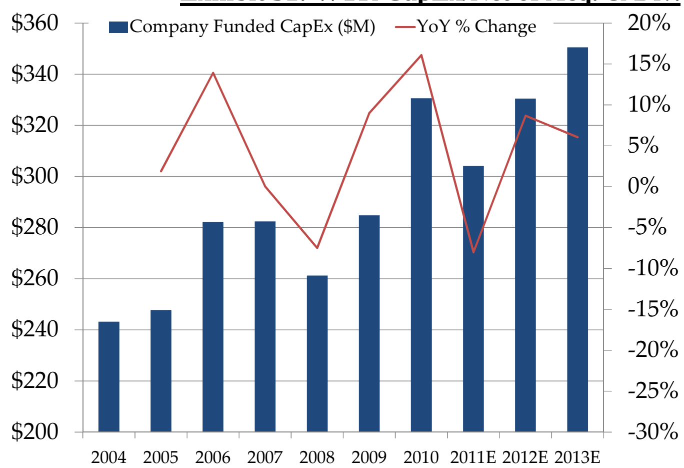
Exhibit 30: Consolidated Earned Return on Equity (ROE)



Source: Company filings; Ladenburg Thalmann & Co, Inc

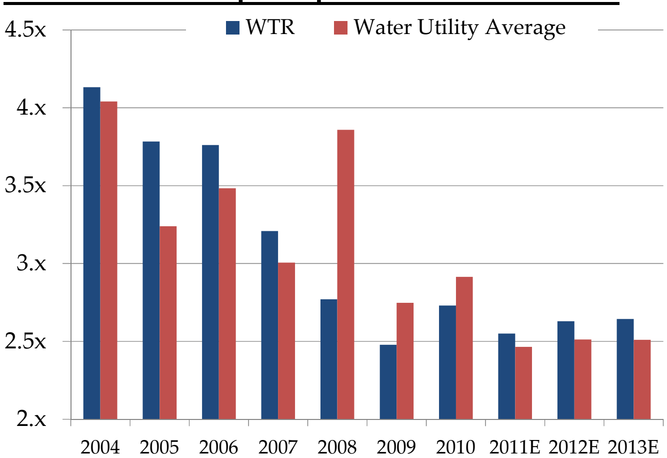
Water Utility Peer Group includes: Artesian Resources (ARTNA-$18.64-NR), American States Water (AWR-$33.53-BUY), American Water Works (AWK-$28.75-NEUTRAL), Connecticut Water Service (CTWS-$24.33-NEUTRAL), California Water Service (CWT-$36.05-BUY), Middlesex Water (MSEX-$18.44-NR), SJW Corp. (SJW-$22.29-BUY), Aqua America (WTR-$21.30-BUY), York Water (YORW-$16.69-NR)

Exhibit 31: WTR CapEx/Net of Acq. & Div.



Source: Company filings, Ladenburg Thalmann & Co, Inc.

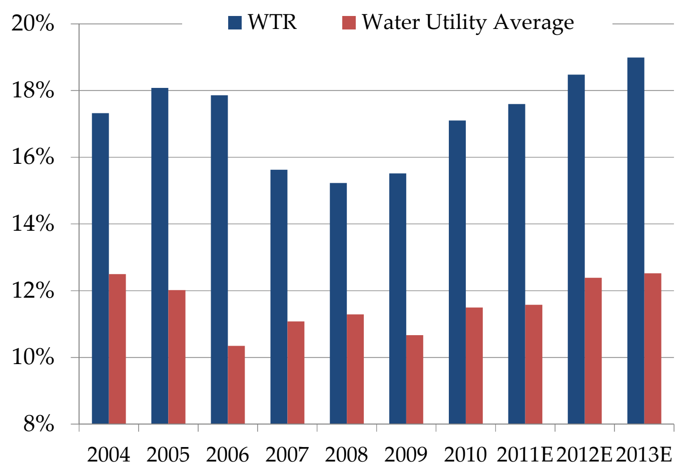
Exhibit 32: Total Capex/Depreciation & Amortization



Source: Company filings; Ladenburg Thalmann & Co, Inc

Water Utility Peer Group includes: Artesian Resources (ARTNA-$18.64-NR), American States Water (AWR-$33.53-BUY), American Water Works (AWK-$28.75-NEUTRAL), Connecticut Water Service (CTWS-$24.33-NEUTRAL), California Water Service (CWT-$36.05-BUY), Middlesex Water (MSEX-$18.44-NR), SJW Corp. (SJW-$22.29-BUY), Aqua America (WTR-$21.30-BUY), York Water (YORW-$16.69-NR)

Exhibit 33: WTR Consolidated Net Margin



Source: Capital IQ, Bloomberg

Water Utility Peer Group includes: Artesian Resources (ARTNA-$18.64-NR), American States Water (AWR-$33.53-BUY), American Water Works (AWK-$28.75-NEUTRAL), Connecticut Water Service (CTWS-$24.33-NEUTRAL), California Water Service (CWT-$36.05-BUY), Middlesex Water (MSEX-$18.44-NR), SJW Corp. (SJW-$22.29-BUY), Aqua America (WTR-$21.30-BUY), York Water (YORW-$16.69-NR)

Sustainability Report Card

Aqua America regularly seeks to incorporate environmentally sustainable practices in nearly all of its operations. To date, the most important of these efforts have centered on energy conservation and renewable energy generation. The company has conducted an audit of the greenhouse gases produced by its energy sources powering its major Pennsylvania facilities, which should provide a foundation for it to improve efficiency and reduce the carbon intensity of the business over time. The company's Bryn Mawr, PA headquarters is powered by 100% wind energy.

Aqua has taken advantage of state and federal subsidies to construct solar farms that currently power ~30% of the net energy needs of one major water treatment facility, with 3 other treatment facility solar installations in various stages of planning or construction. These projects will not only provide environmental benefits but also slow customer cost inflation and increase shareholder returns by converting volatile operational cost inputs (purchased electricity) to capital investments on which a regulated return is allowed, and increase the visibility of the cost structure (depreciation expense).

Aqua's first PV solar installation, at Ingraham's Mill water treatment plant in Chester County, PA, is a 1 MW PV solar plant that was constructed in late 2009. The plant powers the 6 mgd treatment facility that provides water to 25,000 local residents. Aqua estimates that the plant's solar farm, which was built on 4.5 unused acres on-location, reduces the company's energy consumption by an amount equivalent to 3,000 barrels of oil per year.

Exhibit 34: Aqua PA's Ingraham's Mill Water Treatment Plant Solar Farm

Source: Company presentations

Of the company's three other PV solar projects, two are planned for the company's New Jersey territory while one, the largest to date at 1.8MW, is currently under construction at the Pickering Water Treatment Plant in Chester County, PA. Combined these facilities are expected to reduce electricity costs by $300,000.

With respect to water quality and conservation, though the company has not implemented Decoupling, a regulatory mechanism designed to remove the disincentive for water utilities to promote water conservation, it has made important investments in areas such as leak detection and has partnered with the EPA's WaterSense conservation awareness program, and the Partnership for Safe Water, an industry association that promotes drinking water standard accountability.

Aqua America Inc. (WTR - NYSE)
Consolidated Income Statement (12/31 Year-end)
($MM, except per share data)

	2003	2004	2005	2006	2007	2008	2009	2010	1Q11	2Q11E	3Q11E	4Q11E	2011E	2012E	2013E
Regulated Revenue	$365.2	$440.0	$493.5	$526.3	$589.7	$615.2	$658.9	$714.5	$168.4	$182.3	$209.3	$184.5	$744.5	$793.0	$846.4
Other and Eliminations	$2.0	$2.1	$3.3	$7.2	$12.8	$11.8	$11.6	$11.6	$3.0	$2.9	$2.8	$3.4	$12.0	$12.0	$12.0
Operating Revenues	$367.2	$442.0	$496.8	$533.5	$602.5	$627.0	$670.5	$726.1	$171.3	$185.2	$212.1	$187.9	$756.5	$805.0	$858.4
O&M Expense - Regulated	$140.6	$181.7	$202.7	$216.9	$244.9	$255.9	$261.6	$269.7	$68.7	$68.9	$69.4	$66.4	$273.3	$287.0	$301.3
O&M Expense - Other		($1.0)	$0.4	$2.6	$9.3	$10.3	$9.5	$10.3	$1.1	$2.8	$2.9	$3.0	$9.8	$9.8	$9.8
O&M Expense - Consolidated	$140.6	$180.7	$203.1	$219.6	$254.2	$266.2	$271.1	$280.0	$69.8	$71.6	$72.3	$69.4	$283.1	$296.8	$311.1
Property & Other Taxes	$21.6	$27.6	$31.7	$33.3	$45.4	$44.7	$48.1	$53.0	$13.8	$13.5	$14.8	$13.5	$55.7	$58.8	$62.7
EBITDA	$205.0	$233.8	$262.0	$280.6	$302.9	$316.0	$351.4	$393.1	$87.8	$100.0	$125.0	$104.9	$417.7	$449.5	$484.7
Operating D&A	$51.5	$58.9	$65.5	$75.0	$88.0	$94.3	$114.9	$121.1	$29.2	$29.9	$30.8	$31.6	$121.6	$127.5	$134.3
Operating Income	$153.6	$174.9	$196.5	$205.5	$214.9	$221.7	$236.5	$272.1	$58.5	$70.1	$94.2	$73.3	$296.2	$322.0	$350.3
Interest Expense	($44.7)	($48.7)	($52.1)	($58.4)	($66.9)	($68.6)	($68.6)	($75.7)	($19.9)	($20.5)	($20.9)	($21.3)	($82.6)	($84.9)	($88.9)
AFUDC Income	$2.1	$2.3	$2.4	$3.9	$3.0	$3.7	$2.9	$5.1	$2.0	$1.0	$1.0	$1.0	$5.0	$6.5	$6.5
Other Income (Expense), Net	$5.7	$1.3	$1.2	$1.2	$3.5	$1.6	$0.5	$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	$204.1	$40.7	$51.1	$74.8	$53.5	$220.1	$246.0	$270.8
Effective Tax Rate	*39%*	*40%*	*38%*	*40%*	*39%*	*40%*	*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	$80.1	$16.1	$20.2	$29.6	$21.1	$87.0	$97.2	$107.0
NI Applicable to Common	$70.8	$78.5	$91.2	$92.0	$94.4	$95.5	$103.8	$124.0	$24.6	$30.9	$45.3	$32.4	$133.1	$148.8	$163.8
Other Comprehensive Income, Ne	($0.1)	$1.9	$1.3	($3.3)	$0.2	$0.0	($0.3)	($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	$124.2	$24.6	$30.9	$45.3	$32.4	$133.1	$148.8	$163.8
FD Operating EPS	**$0.59**	**$0.62**	**$0.71**	**$0.70**	**$0.71**	**$0.71**	**$0.76**	**$0.90**	**$0.18**	**$0.22**	**$0.33**	**$0.23**	**$0.96**	**$1.06**	**$1.16**
Avg. Shares Outstanding - Basic	117.7	124.3	127.4	130.7	132.8	134.3	135.8	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	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	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		
GAAP Net Income	70.8	80.0	91.2	92.0	95.0	97.9	104.4	124.0	30.4	33.9	48.3	35.4	147.9	148.8	163.8
After-Tax Non-Recurring Items PS	$0.00	$0.01	$0.00	$0.00	$0.00	$0.02	$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
GAAP EPS	**$0.59**	**$0.64**	**$0.71**	**$0.70**	**$0.71**	**$0.73**	**$0.77**	**$0.90**	**$0.22**	**$0.24**	**$0.35**	**$0.25**	**$1.07**	**$1.06**	**$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
Acrrued 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 Liabilties	$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
Conributions 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	2010	1Q11	2Q11E	3Q11E	4Q11E	2011E	2012E	2013E
Net Income	$70.8	$80.0	$91.2	$92.0	$95.0	$97.9	$104.4	$124.0	$24.6	$30.9	$45.3	$32.4	$133.1	$148.8	$163.8
Depreciation & Amortization	51.5	58.9	65.0	75.0	88.0	94.3	114.9	121.1	29.2	29.9	30.8	31.6	121.6	127.5	134.3
Deferred Taxes	26.7	40.6	26.0	10.8	22.0	45.8	47.2	74.2	20.7	20.2	29.6	21.1	91.6	97.2	53.5
Provision for Doubtful Accounts	0.0	0.0	0.0	0.0	0.0	6.8	5.9	4.8	1.0				1.0		
Share based compensation	0.0	0.0	0.5	3.6	4.3	3.9	3.6	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		
Other	(5.7)	(3.6)	(1.2)	(1.2)	(4.6)	(5.7)	(1.5)	(2.6)	(6.5)				(6.5)		
Receivables, inventory, prepayments	(0.3)	(2.8)	7.6	(8.8)	(7.2)	(10.1)	(1.7)	(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)	(17.3)	(4.7)				(4.7)		
Income tax receivable	0.0	0.0	0.0	0.0	0.0	(0.2)	0.0	(33.6)	0.0				0.0		
Other	(7.4)	(0.3)	(2.3)	4.9	4.0	(4.9)	(5.8)	(2.5)	(2.6)				(2.6)		
Change in Working Capital	0.1	(2.2)	18.2	(9.5)	(10.6)	(21.4)	(16.0)	(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	263.8	68.3	71.0	95.6	80.2	315.0	373.5	351.6
Operating Cash Flow per Share	$1.20	$1.38	$1.55	$1.30	$1.45	$1.64	$1.90	$1.92	$0.49	$0.51	$0.69	$0.58	$2.27	$2.66	$2.48
															(2.47)
Capex	(163.3)	(195.7)	(237.5)	(271.7)	(238.1)	(267.4)	(283.6)	(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)	(4.0)	3.2	(1.0)	(1.0)	(1.0)	0.2	(0.5)	(0.5)
Restricted Cash & Other, Net	15.0	10.7	(51.3)	56.9	(61.7)	22.5	(35.9)	(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)	(384.2)	(51.3)	(69.0)	(89.0)	(89.0)	(298.3)	(330.5)	(350.5)
Construction Advances (Contributions), Net	3.9	9.3	9.9	6.9	4.0	0.4	2.1	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	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	(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	11.8	2.5	2.5	2.5	2.5	9.9	10.0	10.1
Options Excercised	0.0	0.0	11.8	8.0	7.3	2.3	1.7	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)	(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	0.4	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		
Cash Flow From Financing	194.2	60.8	97.1	86.8	120.4	17.7	69.0	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	(15.9)	(4.5)	2.9	2.5	0.5	1.4	(3.7)	(1.2)
Cash at Beginning of Period	4.9	12.3	14.2	11.9	44.0	14.5	14.9	21.9	5.9	1.5	4.4	6.8	5.9	7.3	3.6
Cash at End of Period	12.3	14.2	11.9	44.0	14.5	14.9	21.9	5.9	1.5	4.4	6.8	7.3	7.3	3.6	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 our personal views about the subject security and issuer. Furthermore, no part of our 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.

Finanial 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 5/31/11)

Buy	73%	(40% are banking clients)
Neutral	27%	(15% are banking clients)
Sell	0%	(0% are banking clients)

OTHER COMPANIES MENTIONED/COMPANY SPECIFIC DISCLOSURES:

Artesian Resources (ARTNA-$18.64-NR), American States Water (AWR-$33.53-BUY), American Water Works (AWK-$28.75-NEUTRAL), Connecticut Water Service (CTWS-$24.33-NEUTRAL), California Water Service (CWT-$36.05-BUY), Middlesex Water (MSEX-$18.44-NR), SJW Corp. (SJW-$22.29-BUY), York Water (YORW-$16.69-NR), Exelon Corp. (EXC-$41.67-NR), Harleysville Group (HGIC-$31.13-NR)

Ladenburg Thalmann & Co. Inc. makes a market in Connecticut Water Service, Inc. (CTWS).
Ladenburg Thalmann & Co. Inc. has neither had an investment banking relationship nor received compensation for investment banking services from subject company in the last 12 months.
Neither the analyst, nor members of the Analyst's household own any securities issued by subject company.

Ladenburg Thalmann & Co. Inc. does not make a market in SJW Corp. (SJW).
Ladenburg Thalmann & Co. Inc. has neither had an investment banking relationship nor received compensation for investment banking services from subject company in the last 12 months.
Neither the analyst, nor members of the Analyst's household own any securities issued by subject company.

Ladenburg Thalmann & Co. Inc. does not make a market in California Water Service Group (CWT).
Ladenburg Thalmann & Co. Inc. has neither had an investment banking relationship nor received compensation for investment banking services from Subject company in the last 12 months.
Neither the analyst, nor members of the Analyst's household own any securities issued by subject company.

Ladenburg Thalmann & Co. Inc. does not make a market in American States Water (AWR).
Ladenburg Thalmann & Co. Inc. has neither had an investment banking relationship nor received compensation for investment banking services from Subject company in the last 12 months.
Neither the analyst, nor members of the Analyst's household own any securities issued by subject company.

COMPANY SPECIFIC DISCLOSURES:

Ladenburg Thalmann & Co. Inc. does not make a market in subject company. Ladenburg Thalmann & Co. Inc. has not had an investment banking relationship with subject company in the past 12 months nor received compensation related to investment banking services from the subject company in the past 12 months. Neither the Analyst, nor members of the Analyst's household own any securities issued by the subject Company, or other companies mentioned in this report.

GENERAL DISCLAIMERS

Information and opinions presented in this report have been obtained or derived from sources believed by Ladenburg Thalmann & Co. Inc. believe to be reliable. The opinions, estimates and projections contained in this report are those of Ladenburg Thalmann as of the date of this report and are subject to change without notice.

The historical performance results represented in this report do not reflect the deduction of transaction and other charges, the incurrence of which would decrease the historical performance results listed. This information is provided for comparison purposes only. The S&P 500 is a market capitalization-weighted index of 500 widely based stocks often used as a proxy for the U.S stock market. The historical performance results of the S&P 500 (and those of all other indices) do not reflect the deduction of transaction and other charges, the incurrence of which would decrease the historical performance results listed. This information is provided for comparison purposes only. Any indices and other financial benchmarks are shown for illustrative purposes only. Comparisons to indexes have limitations and material characteristics that may differ from other indices. Indices also may contain securities or types of securities that are not comparable. Because of these differences, indices should not be relied upon as an accurate measure of comparison. Investors cannot invest directly in an index.
Ladenburg Thalmann & Co. Inc. accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to Ladenburg Thalmann & Co. Inc. This report is not to be relied upon in substitution for the exercise of independent judgment. Ladenburg Thalmann & Co. Inc. may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and Ladenburg Thalmann & Co. Inc. is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report.

Some companies that Ladenburg Thalmann & Co. Inc. follows are emerging growth companies whose securities typically involve a higher degree of risk and more volatility than the securities of more established companies. The securities discussed in Ladenburg Thalmann & Co. Inc. research reports may not be suitable for some investors. Investors must make their own determination as to the appropriateness of an investment in any securities referred to herein, based on their specific investment objectives, financial status and risk tolerance.
Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. The price, value of and income from any of the securities mentioned in this report can fall as well as rise. The value of securities is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk. Securities recommended, offered or sold by Ladenburg Thalmann & Co. Inc. (1) are not insured by the Federal Deposit Insurance Company; (2) are not deposits or other obligations of any insured depository institution; and (2) are subject to investment risks, including the possible loss of some or all of principal invested. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; you may be required to pay more money to support these losses.
The information and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy any securities mentioned herein. This publication is confidential for the information of the addressee only and may not be reproduced in whole or in part, copies circulated, or disclosed to another party, without the prior written consent of Ladenburg Thalmann & Co. Inc.

Links to third party websites are provided for convenience only, Ladenburg Thalmann & Co. Inc. does not support the content of third party link, nor does it endorse such content. Ladenburg Thalmann & Co. Inc. is not responsible for content of third party websites.

Member: NYSE, NYSE Amex, FINRA, all other principal exchanges and SIPC.

Additional Information Available Upon Request