

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

AQUARION CO

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-8060.

AQUARION COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE

06-0852232

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

835 Main Street, Bridgeport, Connecticut

06604

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (203) 335-2333

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
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Common Stock, no par value	New York Stock Exchange
Series A Junior	
Participating Preferred	New York Stock Exchange
Stock Purchase Rights	

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark whether the registrant (1) has filed

all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part IV of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by nonaffiliates of the registrant: \$240,254,030 (Computed by reference to the closing price of the Registrant's Common Stock on March 12, 1999, as reported on the New York Stock Exchange-Composite Tape.)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at March 12, 1999
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Common Stock, no par value	7,531,211

The following documents have been incorporated by reference:

1. Annual Report to Shareholders for the year ended December 31, 1998--PART I, Item 1; PART II, Item 5, Item 6, Item 7 and Item 8; PART IV.
2. Definitive Proxy Statement, dated March 15, 1999, for the Annual Meeting of Shareholders to be held on April 20, 1999--PART III.

PART I

ITEM I. BUSINESS

General

Aquarion Company (Aquarion or the Company) is a holding company whose subsidiaries are engaged both in the regulated utility business of public water supply and in various nonutility businesses.

Aquarion's utility subsidiaries, BHC Company (BHC) and Sea Cliff Water Company (SCWC) (collectively, the Utilities)

collect, treat and distribute water to residential, commercial and industrial customers, to other utilities for resale and for private and municipal fire protection. The Utilities provide water to customers in 30 communities with a population of more than 500,000 people in Connecticut and Long Island, New York. BHC is the largest investor-owned water company in Connecticut and with SCWC is among the 10 largest investor-owned water companies in the nation. The Utilities are regulated by several state agencies, including the Connecticut Department of Public Utility Control (DPUC) and the New York Public Service Commission (PSC).

The Company's non-utility subsidiaries include: Timco, Inc. (Timco), a timber processing company based in New Hampshire; Aquarion Management Services, Inc. (AMS), a utility management services business; and Main Street South Corporation (MSSC), a real estate subsidiary formed in 1969 to assist BHC in marketing surplus land.

The Company was incorporated in Delaware as The Hydraulic Company in 1969 to become the parent company to BHC, a Connecticut corporation founded in 1857. The corporate name was changed to Aquarion Company in 1991. The Company's executive offices are located at 835 Main Street, Bridgeport, Connecticut 06604-4995, and its telephone number is (203) 335-2333.

Recent Developments

Stock Split

On February 16, 1999, the Board of Directors approved a 3-for-2 stock split of the Company's common stock. The split was effected in the form of a 50 percent stock distribution on the Company's common stock, payable on March 22, 1999 to all shareholders of record as of March 1, 1999.

Financing Activities. On November 1, 1998, BHC redeemed

its Series R, 6.875 percent first mortgage bonds, which were issued in 1968. On January 4, 1999, the Company repaid Aquarion's 5.95 percent unsecured Senior Note, issued in 1994, in the amount of \$10,000,000.

Real Estate

In June 1998, the Aspetuck Land Trust, a non-profit land preservation organization, exercised a statutory right of first refusal allowing it to purchase, at the original

contract terms, substantially all of the Trout Brook Valley property owned by BHC for approximately \$12,400,000. Connecticut statutes afford the buyer fifteen months to close, or until September 8, 1999. As of December 31, 1998, the Company received \$1,400,000 on deposit from the Aspetuck Land Trust. Prior to this exercise, in February 1997, the Company had entered into a contract to sell the Trout Brook Valley property for approximately \$14,000,000 to a private developer. The sale has been approved by the DPUC. The Town of Weston, Connecticut has notified the Company of its intention to purchase, for approximately \$820,000, the approximately 45 acre portion of BHC s Trout Brook Valley property located in Weston pursuant to its statutory right of first refusal. Although both BHC and the Aspetuck Land Trust have no objection to this purchase, BHC has indicated that it will only

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sell the Weston portion at or after the closing of the sale of the remainder of its Trout Brook Valley property. BHC has recently filed a request with the DPUC for a declaratory ruling to the effect that the Town of Weston is not entitled to purchase only the Weston property.

The Company anticipates that the after-tax gain from the current sale will be approximately \$6,000,000, to be recognized over an applicable amortization period. In its decision approving the original sale, the DPUC granted the Company a 10-year amortization period, which provides ratepayers with 55 percent and shareholders with 45 percent of the after-tax gain on approximately 60 percent of BHC s portion of the property. Due to the change in purchaser and its intended use of the property as open space, the Company is considering filing an amended application with the DPUC seeking a shorter amortization period.

In December 1998, five parcels of land located in Shelton, Connecticut and totaling 401 acres, were sold to the City of Shelton for approximately \$6,800,000. The Company received \$2,268,000 in cash and a note receivable for the balance which will be paid in two equal installments of \$2,266,500 in December 1999 and July 2000. The after-tax net gain attributable to the sale amounted to \$3,510,000. The sale of an additional 30-acre parcel of land, originally scheduled to be included in the December 1998 sale, is expected to close in early 1999, after BHC receives the necessary permits from the Connecticut Department of Health Services.

In 1995, the Company entered into an agreement with a local developer to sell a 40-acre parcel of land located in New Canaan, Connecticut, for approximately \$1,950,000. The Company anticipates that the after-tax gain from this transaction will be approximately \$1,100,000. The sale has been approved by the DPUC. The buyer has been involved in litigation and appeals with several residents, environmental groups and the Connecticut Department of Environmental Protection over regulatory approvals. Although several appeals have been withdrawn, certain issues remain open. The Company anticipates closing this transaction sometime in 1999, however, the closing could be delayed due to opposition to granting the required permits and approvals. No assurances can be given at this time that such permits and approvals will be granted.

Rates. On March 17, 1999, BHC's Western division

received a final decision from the DPUC for a 3.97 percent water service rate increase designed to provide a \$607,000 increase in annual water service revenues.

Regulatory Matters. On October 1, 1996, the Ridgefield

Water Supply Company, which has subsequently been merged into BHC, entered into a Consent Agreement with the State of Connecticut, Department of Environmental Protection (DEP), relating to certain water supply sources located in the Town of Ridgefield. The Consent Agreement requires BHC to meet various milestones by particular dates in order to bring BHC's Ridgefield water system into compliance with DEP's diversion regulations. BHC's failure to timely comply with many of the requirements of the Consent Agreement now permits DEP to require BHC to pay certain fines. BHC's potential maximum exposure to such fines could be in excess of \$4,000,000. BHC has recently been informed that this matter has been referred by DEP to the Office of the Connecticut Attorney General for further action. BHC is unable to assess at this time what impact the DEP referral to the Attorney General will have on BHC's ability to re-negotiate the Consent Agreement or on its potential for such civil penalties.

Utility Construction Program

The Utilities expended \$21,200,000 \$27,633,000 and \$37,185,000 in 1998, 1997 and 1996 respectively, for plant additions and modifications of existing plant facilities, excluding an allowance for funds used during construction (AFUDC). Utility budgeted capital expenditures for 1999 are approximately \$27,000,000. Management cannot predict whether

future federal, state or local regulation will require additional material capital expenditures.

The Company's ability to finance its future construction programs depends in part on future rate relief, the level of Construction-Work-In-Progress (CWIP) rate surcharges and future debt and equity issuances. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity" and "Business--Public Water Supply--Rates and Regulation".

Industry Segment Information

The Company's operations are grouped into four industry segments: public water supply; timber processing; real estate; and utility management services. The consolidated operating revenues of the Company for the year ended December 31, 1998 were derived from the following sources: 78 percent from public water supply, 12 percent from timber processing, 9 percent from real estate, including both MSSC and surplus utility land sales, and 1 percent from utility management services. For additional information concerning each segment for each of the years ended December 31, 1998, 1997 and 1996, see "Note 11" of "Notes to Consolidated Financial Statements" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Public Water Supply

Service Area. The Utilities are engaged in the collection, treatment and distribution of water for public and private use to residential, commercial, and industrial users, and for municipal and private fire protection services in 30 communities in parts of Fairfield, Litchfield and New Haven counties in Connecticut and Nassau County in Long Island, New York. BHC also sells, as requested, water for redistribution to customers of the Second Taxing District Water Department of the City of Norwalk, Connecticut, and Connecticut-American Water Company through the Southwest Regional Pipeline in Fairfield County.

The communities served by the Utilities as of December 31, 1998 have a population of more than 500,000, and the total number of customer accounts as of that date was approximately 141,000. The Utilities' service areas, primarily residential in nature, have experienced an average growth in accounts of approximately 1 percent per year over the last 10 years. Industrial use has declined significantly in that time period

as the residential characteristics of the area have changed, indicating an increase in the percentage of apartment dwellings and condominium units. Management does not anticipate any significant growth in residential consumption in the foreseeable future and expects continued decline in industrial use and little or no commercial growth.

The operating revenues of the Utilities for the 12 months ended December 31, 1998 were derived from the following sources: 63 percent from residential customers, 16 percent from commercial customers, 3 percent from industrial customers, 13 percent from fire protection customers, and 5 percent from other sources.

Seasonality. The business of the Utilities is subject

to seasonal fluctuations and weather variations. The demand for water during the warmer months is generally greater than during the cooler months, primarily due to additional water requirements of industrial, commercial and residential cooling systems and various private and public outdoor uses such as lawn and golfcourse sprinkling. From year to year and season to season, demand will vary with rainfall and temperature levels.

Water Supply. Water is available from both surface and

subsurface sources. During 1998, approximately 87 percent of the water supplied by the Utilities was provided by impounding reservoirs, 12 percent by producing wells and 1 percent by purchased water. As of December 31, 1998, the Utilities' reservoirs, well fields and interconnections with other water utilities had an aggregate safe daily yield of 120 million gallons. Safe yield is an estimate of the supply capability during an extended drought. The average daily demand for water from the Utilities in 1998 was 67 million gallons per day (MGD). The reservoirs of the Utilities have an aggregate storage capacity of 30.4 billion gallons.

BHC has sufficient supply to meet current and projected demands for 98 percent of its customers. The remaining customers are in two recently acquired systems. BHC currently has plans in progress to resolve supply shortages in these systems within the next five years. During historical drought periods in the northeastern United States, BHC has been able to accommodate the needs of its own customers and to offer relief to supplement the supplies of neighboring communities by water sales to utilities with which it has pipeline

interconnections. Supply and distribution needs of the Utilities undergo constant review, and the Utilities continue to explore and develop additional ground water-supplies and study alternative surface water sources to meet anticipated future water requirements.

The Connecticut Water Diversion Policy Act, enacted in 1982, prohibits any future diversions of surface or ground water, greater than 50,000 gallons per day, without a permit from the state Department of Environmental Protection (DEP). Although this law "grandfathers" surface and ground-water supplies that existed when it was enacted, any subsequent water diversion that might be effected by BHC is subject to a lengthy permit application process and approval by the DEP. Diversion permits granted pursuant to this law are subject to renewal when their terms, which typically run from five to ten years, expire.

Rates and Regulation. The Company's utility subsidiaries

are subject to regulation by state regulatory commissions having jurisdiction over their respective service areas. BHC is subject to regulation by the DPUC, while SCWC is subject to regulation by the PSC. The authorities have jurisdiction with respect to rates, service, accounting procedures, issuance of securities, dispositions of utility property and other related matters. Rates charged by the Utilities are subject to approval by the DPUC or the PSC. The Utilities continually review the need for increases in water rates and historically have sought rate relief in a timely manner in light of increases in investment in utility plant, operating costs and related financing costs, as well as other factors.

The DPUC may allow a surcharge to be applied to rates in order to provide a current cash return to water utilities on the major portions of CWIP applicable to facilities, including filtration plants, required for compliance with the Safe Drinking Water Act (SDWA). See "Environmental Regulations." The surcharge is adjusted quarterly, subject to DPUC approval, to reflect increased CWIP expenditures for SDWA facilities. BHC has no current plans to apply for such a surcharge, which has been granted to BHC in the past.

Aquarion is neither an operating utility company nor a "public service company" within the meaning of any state and is not currently subject to general regulation by the DPUC or PSC. Regulatory approval is necessary, however, before Aquarion may acquire or exercise control over any public service company. Regulatory approval is also required before any other entity can acquire or exercise, or attempt to exercise, control over Aquarion.

Connecticut regulations govern the sale of water company land in Connecticut and treatment of land sale proceeds. See "Item 2. Properties."

The profitability of the operations of the water utility industry generally and of the Utilities (and hence the Company) is largely dependent on the timeliness and adequacy of the rates allowed by utility regulatory commissions. In addition, profitability is dependent on numerous factors over which the Utilities have little or no control, such as the quantity of rainfall and temperature in a given period of time, industrial demand, prevailing rates of interest for short and long-term borrowings, energy rates, and compliance with environmental and water quality regulations. In addition, inflation and other factors beyond the Company's or the Utilities' control impact the cost of construction, materials and employee costs.

Franchises and Competition. Consistent with most water

companies in Connecticut, BHC derives its rights and franchises to operate from special acts of the Connecticut General Assembly, which are subject to alteration, amendment or repeal by the General Assembly and which do not grant exclusive rights to BHC in its service areas.

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Subject to such power of alteration, amendment or repeal by the Connecticut General Assembly and subject to certain approvals, permits and consents of public authority and others prescribed by statute and by its charter, BHC has, with minor exceptions, valid franchises free from burdensome restrictions and unlimited as to time, and is authorized to sell potable water in the towns (or parts thereof) in which water is now being supplied by BHC.

In addition to the right to sell water as set forth above, the franchises of BHC include rights and powers to erect and maintain certain facilities on public highways and grounds, all subject to such consents and approvals of public authority and others as may be required by law. Under the Connecticut General Statutes, BHC may, upon payment of compensation, take and use such lands, springs, streams or ponds, or such rights or interests therein as the Connecticut Superior Court, upon application, may determine is necessary to enable BHC to supply potable water for public or domestic use in its franchise areas.

BHC faces competition, presently not material, from a few private water systems operated within, or adjacent to, its franchise areas and from municipal and public authority systems whose service areas, in some cases, overlap portions of BHC's franchise areas. At the present time, except as noted above, there are no publicly owned utilities, cooperatives or other private utility companies competing with BHC in the areas now served, although within certain areas there are wells owned by individuals or private industries. SCWC faces competition from municipal and public authority systems whose service areas, in some cases, overlap portions of SCWC's service area.

Environmental Regulations. The Utilities are subject to

regulation by the Connecticut Department of Public Health (DPH) and the County of Nassau Department of Health (CNDH) with respect to water quality matters, use of water from surface and subsurface sources, the location, construction and operation of water supply facilities and the sale of certain utility property. Plans for new water supply systems or expansion of existing water supply systems also must be submitted to the DPH or CNDH for approval. The Connecticut DEP is authorized to regulate the operations of BHC, while the New York Department of Environmental Conservation (DEC) Regulates the operations of SCWC, with respect to environmental pollution abatement, diversion of water from surface and subsurface sources, and the location, construction and alteration of dams and other water obstructions.

The Utilities are subject to regulation of discharges to the environment (air, water, land, underground storage tanks and hazardous materials) under the provisions of the Federal Clean Air Act, Clean Water Act and other legislation which provides for the establishment of various environmental regulations by the Environmental Protection Agency (EPA). A joint federal and state permit system has been established to ensure that the impact to the environment from operations is minimized.

The Utilities are subject to regulation of drinking water quality under the SDWA, which provides for the establishment of uniform minimum national quality standards by the EPA, as well as governmental authority to specify the type of treatment process to be used for public drinking water. EPA regulations issued pursuant to the SDWA set limits for, among other things, certain organic and inorganic chemical, physical, microbiological and radiological contaminants. The SDWA provides that the states have the primary enforcement responsibility for public drinking water systems, as long as

the states' regulations are no less stringent than those adopted pursuant to SDWA. For certain of these water quality standards the DPH has adopted regulations that in some instances impose standards more stringent than those imposed under the federal regulations.

EPA regulations pursuant to SDWA include the Surface Water Treatment Rule (SWTR), the Total Coliform Rule (TCR) and the Lead and Copper Rule (LCR) and other rules covering organic and inorganic chemicals. The water treatment requirements of SWTR mandated the construction of the filtration plant at BHC's Hemlocks Reservoir. On July 1, 1997, the Warner Treatment Plant at Hemlocks Reservoir was fully operational and placed into service. BHC has entered into a consent agreement with the DPH to filter the

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water produced from the Round Pond reservoir in Ridgefield, Connecticut or substitute alternative ground water supply by December 31, 1999. The Company is presently addressing these issues with the DPH. The TCR affects the Utilities by the imposition of requirements for additional biological sampling and monitoring. The stringent requirements of the TCR may also result in increased public notification relating to water quality. The LCR establishes corrosion control techniques and requires monitoring to determine compliance with prescribed lead and copper levels in drinking water. If such levels are exceeded, a multi-year program involving additional monitoring, public notification, state-supervised corrosion control and treatment and replacement of lead service lines could result. All of the Utilities' systems are in compliance with the LCR, and the Utilities continue to monitor these systems periodically. The DPH has determined that BHC is in compliance with Synthetic Organic Chemical and Inorganic Chemical requirements, thereby avoiding additional potentially significant treatment process construction costs. Further SDWA-related regulations for such water quality parameters as disinfection by-products, radon and enhanced surface water treatment will become effective between December 2001 and May 2005. It is impossible to determine at this time the ultimate impact these regulations will have on the Utilities.

In 1996, the SDWA was reauthorized by Congress and signed into law. Several of the schedules for implementation of various regulations have been changed. The new law eliminated the requirement to regulate 25 new contaminants every three years and replaced it with a requirement that the EPA consider five new contaminants for regulation every five years. The 1996 law also requires that the EPA, in proposing any new

drinking water regulations, show that such regulations will improve public health. In addition, such regulations must be subjected to a cost-benefit analysis.

Water quality tests are made continuously at all of the Utilities' water supply sources, and the Utilities believe they are in substantial compliance with regulations promulgated in connection with the organic chemical, inorganic chemical, physical, and bacteriological standards for drinking water. BHC has been voluntarily monitoring for giardia and cryptosporidium, radon and disinfection by-products, which are water quality concerns that will be addressed by future regulations.

The Utilities believe that they are in substantial compliance with the SDWA regulations promulgated by the EPA and DPH, as currently applied. Although the Utilities cannot predict either the substance of the regulations required by the 1996 SDWA amendments which have not yet been promulgated or their impact on the Utilities, the primary impact on the Utilities is expected to be in the area of increased monitoring and reporting, although it is possible that such regulations may require modifications to existing treatment facilities. Construction of new facilities may be required for certain groundwater sources. It is possible that costs of compliance by the Utilities could be substantial.

Aquifer protection legislation in Connecticut requires each water utility to conduct ongoing groundwater data collection and to map critical wellfield recharge areas. The DEP, in consultation with the DPH and DPUC, has discussed recommendations for land use restrictions adjacent to public water supply wellfields and possible acquisition of land to enhance protection. The discussions have not lead to additional regulations and, therefore, any impact cannot be determined at this time. However, if BHC were to adopt recommendations to purchase additional land around its wellfield, the cost could range from minimal to substantial.

Certain dams owned by the Utilities are subject to inspection under the National Dam Inspection Act, as well as the Connecticut Dam Registration Act, and dams owned in New York are subject to inspection by the New York State DEC. The Utilities own 29 dams, 16 of which are subject to federal inspection. Although certain modifications and further studies have been required, no material problems with respect to these dams have been reported to the Company.

The Utilities are required to obtain permits from the respective regulatory authority for the location, construction or alteration of any dam or reservoir, and to secure the

the diversion and use of water from any surface or ground source for public use. The Utilities have taken all compliance actions required to date.

Federal and State regulations and controls concerning environmental matters, water quality, pollution and the effluent from treatment facilities are still in the process of being developed and it is not possible to predict the scope or enforceability of regulations or standards which may be established in the future, or the cost and affect of existing and potential regulations and legislation upon any of the existing and proposed facilities and operations of the Utilities. Further, recent and possible future developments with respect to the identification and measurement of various elements in water supplies and concern with respect to the impact of one or more of such elements on public health may in the future require the Utilities to replace or modify all or portions of its various water supplies, to develop replacement supplies and/or to implement new treatment techniques. In addition, the Company anticipates that environmental concerns including threatened contamination of the Utilities' water sources will become an increasing problem in the future. Any of the aforesaid developments may significantly increase the Utilities' operating costs and capital requirements. Since the DPUC's and NYPSC's rate setting methodology permit a utility to recover through rates prudently incurred expenses and investments in plant, based upon past practice, the Company expects that such expenditures and costs should ultimately be recoverable through rates for water service, but there can be no assurance that this will be the case.

Timber Processing

The Company is engaged in the timber processing business through Timco, which operates a sawmill complex in New Hampshire. The sawmill complex processes and markets kiln-dried, finished eastern white pine and other lumber. Timco also provides custom kiln drying services for pine mills in Maine and southern New Hampshire. Lumber produced by Timco is used in the remodeling and do-it-yourself markets and, to a lesser extent, in the construction of new homes. It is marketed in the Northeast and Mid-Atlantic regions through lumber wholesalers, distributors and, in some instances, directly to large volume retailers. Wholesalers and distributors, in turn, sell the lumber to the construction trade and to retail outlets. Timco obtains the timber used in

its products from independent loggers and from purchased timber rights.

Traditionally, the demand for Timco's lumber is lower in the winter months and inventories are built up in anticipation of the busier spring and summer season. The lumber products industry is very competitive, on the basis of quality and price. Timco faces competition on the basis of both quality and price from domestic and foreign forest product companies, many of which have greater resources than the Company.

Utility Management Services

The Company, through its AMS subsidiary, provides clients with a range of integrated utility management services, including contract management and operations, information services and collections and various engineering, operations and management consulting services. AMS clients are private and municipal water and wastewater utilities, including systems engaged in privatization initiatives. The utility management services business is highly competitive.

Real Estate

The Company treats real estate as a separate business segment in order to distinguish the earnings impact from sales of surplus utility land from the results of utility operations. For a discussion of the surplus off-watershed land which BHC intends to market as appropriate, see "Item 2. Properties."

Employees

As of December 31, 1998, the Company and its subsidiaries employed approximately 384 persons

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on a full-time basis, including 264 in the Public Water Supply business, 116 in the Timber Processing business and 4 in the Utility Management Services business. None of the Company's employees is covered by collective bargaining arrangements, and the Company believes its relations with its employees are satisfactory.

ITEM 2. PROPERTIES

The properties of the Utilities consist of land, easements, rights (including water rights), buildings,

reservoirs, standpipes, dams, wells, supply lines, treatment plants, pumping plants, transmission and distribution mains and conduits, mains and other facilities and equipment used for the collection, purification, storage and distribution of water. The Utilities own their principal properties in fee. The Utilities believe that their properties are in good operating condition. Water mains are located, for the most part, in public streets and, in a few instances, on land owned by the Utilities in fee and land occupied under easements, most of which are perpetual and valid and sufficient for the purpose for which they are held. Although it is impractical to investigate the validity of the title to some of the easements held by the Utilities for distribution mains or to clear title in the cases where such distribution easement titles have been found defective, any such irregularities or defects in title which may exist do not materially impair the use of such properties in the businesses of the Utilities.

BHC owns a 20,000-square-foot headquarters building, a 44,370-square-foot Operations Center in Bridgeport and a 28,000-square-foot office building in Monroe, Connecticut and leases an additional 22,000-square-feet of office, laboratory and garage space in Bridgeport for utility operations.

At December 31, 1998, BHC owned in the aggregate 17 active reservoirs, 63 producing wells and approximately 2,059 miles of water mains, of which approximately 158 miles have been laid in the past five years. The rights to locate and maintain water transmission and distribution mains are secured by charter, easement and permit and are generally perpetual. Water is delivered to the distribution system from three major reservoir systems, comprised of several smaller reservoirs and producing wells. BHC owns six filtration plants for treatment of its reservoir system. These plants have capacities ranging from .75 to 50 MGD, respectively.

SCWC owns four acres of land in Long Island, New York in four separate locations that are occupied by an office and pump station, two well sites and a tank site. SCWC also owns 54 miles of water mains.

Aquarion owns nonutility land totaling approximately 99 acres in Easton and Litchfield, Connecticut. BHC owns approximately 20,000 acres of real property, most of which consists of reservoirs and surrounding watershed, located in Fairfield, New Haven, and Litchfield counties in Connecticut and in Pound Ridge and Lewisboro New York.

The DPH regulates Company lands in Connecticut according to a three-tiered classification system. Class I lands cannot be sold, leased or transferred, except to other water

companies, the State of Connecticut, or municipalities for water supply or protection purposes. The DPH may authorize transfer or change in use of Class II lands only upon a finding that there will be no adverse impact upon the public water supply and that any use restrictions required as a condition of transfer are enforceable against subsequent owners and occupants of the lands. Class III lands, which are off-watershed, are not currently subject to regulation by the DPH.

Real property may not be sold or transferred by a water utility without the prior approval of the DPUC and compliance with other restrictions imposed by Connecticut law. State laws and regulations govern, among other things, to whom certain water company lands may be transferred, with preference given to other water companies, the municipality in which the property is located, the State of Connecticut and nonprofit land-holding organizations, in that order. Additionally, the disposition of the proceeds of any permissible sale is subject to state law.

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Since 1989, BHC has identified approximately 3,400 acres of land it believes are surplus to its water supply needs. Almost all of this acreage is off-watershed and has either been determined to be Class III land by the DPH or would qualify for such designation. Approximately 800 acres of this land have never been in the Company's rate base. Approximately 1,300 acres of the identified surplus land have been sold since 1989, of which 470 acres were never in rate base. Approximately 2,150 acres, including 330 which have never been in rate base, are still available for sale, although all of this acreage may not be marketable.

The Equitable Sharing Statute required the DPUC to use an accounting treatment to "equitably allocate" the economic benefits of the net proceeds from the sales of land, that has at any time been in the utility's rate base, between the Company's ratepayers and its shareholders. The Equitable Sharing Statute provides that the economic benefits from the sale of land that has at any time been in rate base shall be allocated "substantially in favor" of shareholders when 25 percent or more of the land sold is to be preserved in perpetuity for open space or recreational purposes and shall allocate up to 100 percent of the benefits to the shareholders if 100 percent of the land in the sale is to be used for open space or recreational purposes. Ratepayers do not share in gains from the sale of land that has never been in rate base.

ITEM 3. LEGAL PROCEEDINGS

The registrant has nothing to report for this item.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The registrant has nothing to report for this item.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED

STOCKHOLDER MATTERS

Page 19 of the Company's Annual Report to Shareholders for the year ended December 31, 1998 is incorporated by reference herein pursuant to Rule 12b-23 of the Securities and Exchange Act of 1934 (the Act) and to Instruction G(2) to Form 10-K.

Aquarion has declared and paid quarterly dividends on its common stock without interruption since its organization in 1969 and, prior thereto, BHC paid dividends annually on its common stock without interruption since 1890. Dividends, when declared, are normally paid on the 30th day of January, April, July and October.

The earnings of Aquarion are derived from its investments in its subsidiaries, particularly BHC. Aquarion's future ability to pay dividends to holders of its Common Stock is dependent upon the continued payment by BHC of dividends to Aquarion. BHC's ability to pay dividends will depend upon timely and adequate rate relief, compliance with restrictions under certain of the BHC debt instruments and other factors.

Dividends on Aquarion common stock can be paid only from its net profits and surplus. As of December 31, 1998, the applicable restrictions would have permitted payment of additional dividends on Aquarion's common stock of up to \$43,705,000.

While Aquarion's Board of Directors intends to continue the practice of declaring cash dividends on a quarterly basis, no assurance can be given as to future dividends or dividend rates since they will be determined in light of a number of factors, including earnings, cash flow, and Aquarion and BHC's financial requirements. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-

ITEM 6. SELECTED FINANCIAL DATA

See the front page ("1998 Financial Highlights") and Page 18 ("Supplemental Financial Information") of the Company's Annual Report to Shareholders for the year ended December 31, 1998, which is incorporated by reference herein pursuant to Rule 12b-23 of the Act and Instruction G(2) to Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

See the front page ("1998 Financial Highlights") and Pages 8 - 10 of the Company's Annual Report to Shareholders for the year ended December 31, 1998, which is incorporated by reference herein pursuant to Rule 12b-23 of the Act and Instruction G(2) to Form 10-K.

ITEM 7.A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT

MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP, dated January 27, 1999, appearing on Pages 11 - 18 , the front page ("1998 Financial Highlights") and Pages 18 - 19 ("Supplemental Financial Data") of the accompanying 1998 Annual Report to Shareholders of Aquarion Company are incorporated by reference herein pursuant to Rule 12b-23 of the Act and Instruction G(2) to Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON

ACCOUNTING AND FINANCIAL DISCLOSURE

The registrant has nothing to report for this item.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information as to directors required by Item 10 is set forth at Pages 1 - 7 of the Company's Definitive Proxy Statement, dated March 15, 1999 relating to the proposed Annual Meeting of Shareholders to be held on April 20, 1999, filed with the Commission pursuant to Regulation 14A under the Act, and is incorporated by reference herein pursuant to Rule 12b-23 of the Act and Instruction G(3) to Form 10-K.

Executive Officers

The executive officers of the registrant are listed below. These officers were elected to the offices indicated on April 29, 1998, except as otherwise noted, for a term expiring with the 1999 annual meeting of directors. Except as indicated, all have been with registrant and its predecessors in an executive capacity for more than five years. There are no family relationships among members of the executive officers. There were no arrangements or undertakings between any of the officers listed below and any other person pursuant to which he or she was selected as an officer.

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<TABLE>
<CAPTION>

Executive Officer	Age	Office, Business Experience During Past Five Years	Served as Officer Since
<S>	<C>	<C>	<C>
Richard K.Schmidt	54	President and Chief Executive Officer (since October 1995), formerly Senior Vice President (1993-1995) of the Company; President (1992-1995 and Chief Executive Officer (since 1992 of IEA); formerly President and Chief Operating Officer (1984-1992) of Mechanical Technology, Inc.	1993

Janet M. Hansen	56	Executive Vice President (since October 1995), Chief Financial Officer (since April 1992), Treasurer (since 1988) and Senior Vice President (1993-1995) of the Company and Vice President (since 1989), Chief Financial Officer (since April 1991) and Treasurer (since 1985) of BHC; Mrs. Hansen is Chairman of the Board and Chief Executive Officer (since April 1992) of Timco. Mrs. Hansen is also Director, Vice President, Chief Financial Officer and Treasurer of certain of the Company's other subsidiaries.	1983
James S. McInerney	61	Senior Vice President (since April 1992) of the Company; President (since April 1991), Chief Executive Officer (since April 1995 and Chief Operating Officer (January 1990 to April 1995) of BHC. Executive Vice President (1990 to April 1991) of BHC. Mr. McInerney is a Director, President or Vice President of certain of the Company's other subsidiaries.	1989
Larry L. Bingaman	49	Vice President, Corporation Relations and Secretary (since April 1993); Vice President, Marketing and Communications (1990-1993) of the Company. Mr. Bingaman is also Director, Vice President and Secretary of certain of the Company's other subsidiaries.	1990

</TABLE>

ITEM 11. EXECUTIVE COMPENSATION

Pages 1 - 8 of the Company's Definitive Proxy Statement, dated March 15, 1999, relating to the proposed Annual Meeting of Shareholders to be held on April 20, 1999, filed with the Commission pursuant to Regulation 14A under the Act are incorporated by reference herein pursuant to Rule 12b-23 of the Act and Instruction G(3) to Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND

MANAGEMENT

Pages 4 - 5 of the Company's Definitive Proxy Statement, dated March 15, 1999, relating to the proposed Annual Meeting of Shareholders to be held on April 20, 1999, filed with the Commission pursuant to Regulation 14 under the Act, are incorporated by reference herein pursuant to Rule 12b-23 of the Act and Instruction G(3) to Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The registrant has nothing to report for this item.

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PART IV.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS

ON FORM 8-K

a) The following documents are filed as part of this report:

<TABLE>
<CAPTION>

	Page in Annual Report* -----
<S>	<C>
(1) Consolidated Statements of Income for the three years ended December 31, 1998	11
Consolidated Balance Sheets at December 31, 1998 and 1997	11
Consolidated Statements of Cash Flows for the three years ended December 31, 1998	12
Consolidated Statements of Shareholders' Equity for the three years ended December 31, 1998	12
Notes to Consolidated Financial Statements	13 - 17

Selected Financial Data

Front Page

Supplemental Financial Information

18 - 19

</TABLE>

- * Incorporated by reference from the indicated pages of the 1998 Annual Report to Shareholders.

(b) Reports of Form 8-K.

The Company did not file a report on Form 8-K for the fourth quarter of the year ended December 31, 1998.

(c) Exhibits:

Each document referred to below is incorporated by reference to the files of the Commission, unless the reference is preceded by an asterisk (*). Each management contract, compensatory plan or arrangement required to be filed as an exhibit hereto is preceded by a double asterisk (**).

*3(a) Restated Certificate of Incorporation of Aquarion, as amended.

*3(b) By-laws of Aquarion, as amended.

4(a) Rights Agreement between Aquarion and the ChaseMellon Shareholder Services, LLC, setting forth description of Preferred Stock Purchase Rights distributed to holders of Aquarion Common Stock. (11)

10(a) First Mortgage Indenture of BHC dated June 1, 1924. (2)

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10(b) Seventeenth Supplemental Mortgage of BHC dated as September 1, 1960. (2)

- 10(c) Twentieth Supplemental Mortgage of BHC dated as of November 1, 1968. (1)
- 10(d) Loan and Trust Agreement of Timco as of November 1, 1984. (1)
- 10(e) Note Agreement of BHC dated January 24, 1991. (10)
- 10(f) Note Agreement of Aquarion dated as of May 19, 1992. (5)
- 10(g) Aquarion Long-Term Incentive Plan. (1)
- 10(h) Joint Venture Agreement between John J. Brennan, Jr., William A. Brennan and Main Street South Corporation dated February 23, 1979. (3)
- 10(i) Joint Venture Agreement amendment between John J. Brennan, Jr., William A. Brennan and Main Street South Corporation dated January 1, 1994. (10)
- **10(j) Employment Agreement between Aquarion and James S. McInerney, dated June 1, 1990. (4)
- **10(k) Employment Agreement between Aquarion and Janet M. Hansen dated November 1, 1992. (5)
- **10(l) Employment Agreement between Aquarion and Jack E. McGregor dated July 1, 1997.
- **10(m) Form of Stock Option Award Agreement for options granted pursuant to Long-Term Incentive Plan. (9)
- **10(n) Employment Agreement between Aquarion and Larry L. Bingaman dated June 11, 1990. (10)
- **10(o) Employment Agreement between Aquarion and Richard K. Schmidt dated July 1, 1997.
- 10(p) Loan Agreement of BHC dated as of June 1, 1990. (4)
- 10(q) Loan Agreement of BHC dated as of June 1, 1993. (6)
- 10(r) Loan Agreement of BHC dated September 1, 1993. (7)
- 10(s) Loan Agreement of BHC dated December 1, 1993. (8)
- 10(t) Note Agreement of Aquarion dated January 4, 1994. (8)
- **10(u) Aquarion Stock Incentive Plan. (8)

- 10(v) Loan Agreement of BHC dated April 1, 1995. (10)
- 10(w) Loan Agreement of BHC dated September 1, 1996 (12)
- *10(x) Twenty-fifth Supplemental Mortgage of BHC dated December 1, 1998
- *13(a) Annual Report to Shareholders for the year ended December 31, 1998.
- *21(a) Subsidiaries of Aquarion
- *23(a) Consent of Independent Accountants
- *27(a) Financial Data Schedule

-
- (1) Filed as part of Aquarion's Form 8 Amendment to its Form 10-Q for the quarter ended September 30, 1991, filed February 19, 1992.
 - (2) Filed as an Exhibit to BHC's Registrant Statement on Form S-1, File Number 2-23434, dated April 26, 1965.
 - (3) Filed as part of the Amendment No. 1 to the Company's Registration Statement as Form S-7, File No. 2-74305, dated November 5, 1981.
 - (4) Filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 1991.
 - (5) Filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 1992.
 - (6) Filed as part of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993.
 - (7) Filed as part of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
 - (8) Filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 1993.
 - (9) Filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 1994.
 - (10) Filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

(11) Filed as part of the Company's Registration Statement on Form 8-A, file #1-8060, dated June 26, 1996.

(12) Filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Aquarion Company

(Registrant)

By /S/JANET M. HANSEN March 23, 1999

Janet M. Hansen
Executive Vice President, Treasurer and
Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934 this report has been, signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By /S/GEORGE W. EDWARDS, JR . March 23, 1999

George W. Edwards, Jr.
Chairman of the Board of Directors
and Director

By /S/RICHARD K. SCHMIDT March 23, 1999

Richard K. Schmidt
President, Chief Executive Officer
and Director

By /S/JACK E. MCGREGOR March 23, 1999

Jack E. McGregor
Director

By /S/GEOFFREY ETHERINGTON March 23, 1999

Geoffrey Etherington
Director

By /S/JANET D. GREENWOOD March 23, 1999

Janet D. Greenwood
Director

By /S/EDGAR G. HOTARD March 23, 1999

Edgar G. Hotard
Director

By /S/G. JACKSON RATCLIFFE March 23, 1999

G. Jackson Ratcliffe
Director

By /S/JOHN A. URQUHART March 23, 1999

John A. Urquhart
Director

By March 23, 1999

Donald M. Halsted, Jr
Director

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EXHIBIT 21(a)

Subsidiaries of the Registrant

- BHC Company, incorporated in the State of Connecticut
- Sea Cliff Water Company, incorporated in the State of New York
- Main Street South Corporation, incorporated in the State of Connecticut
- Timco, Inc., incorporated in the State of Connecticut
- Hydrocorp, Inc., incorporated in the State of Delaware
- THC Acquisition Corp., incorporated in the State of

Delaware

- Aquarion Management Services, Inc., incorporated in the State of Delaware

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EXHIBIT 23(A)

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statement of Form S-3 (No. 33-52973) and in the Registration Statement on Form S-8 (No. 33-53473) and the related prospectus of Aquarion Company of our report dated January 27, 1999, appearing on Page 18 of the Annual Report to Shareholders, which is incorporated by reference in the Annual Report on Form 10-K.

PricewaterhouseCoopers LLP
New York, New York
March 23, 1999

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of Financial Condition and Results of Operations.

The terms "Aquarion Company," "Aquarion" and "the Company" are used in this section for convenience and reading ease. These terms do not in all cases describe exact intercompany relationships among Aquarion and its subsidiaries.

Effective at the close of business on December 31, 1996, Bridgeport Hydraulic Company, a wholly owned subsidiary of Aquarion Company, merged with its wholly owned subsidiaries Stamford Water Company (SWC), New Canaan Water Company (NCWC) and Ridgefield Water Supply Company (RWSC). Bridgeport Hydraulic Company is the surviving corporation and has changed its name to BHC Company (BHC). BHC consists of an Eastern division, formerly Bridgeport Hydraulic Company, and a Western division, formerly SWC, NCWC and RWSC.

On March 25, 1997, the Company executed the stock purchase agreement, effective December 31, 1996, completing the sale of Industrial and Environmental Analysts, Inc. (IEA), its environmental testing laboratory business for approximately \$10,000,000. IEA's results were recorded as a discontinued operation for the year ended December 31, 1996. The Company recorded an after-tax loss of \$4,255,000 or \$0.61 per share from the sale of the discontinued operation for the year ended December 31, 1996 (see Note 2 to the financial statements).

Capital Resources and Liquidity.

Capital expenditures. The Company invested \$21,200,000 in property, plant and equipment in 1998, compared with \$28,700,000 in 1997 and \$38,600,000 in 1996. Aquarion's utility subsidiaries, BHC and Sea Cliff Water Company (SCWC) (collectively, the Utilities) accounted for approximately 95 percent of plant additions during the three-year period. Management estimates that capital expenditures will total \$28,000,000 in 1999, of which approximately \$27,000,000 will be for water utility construction projects.

<TABLE>

Capital Expenditures

<CAPTION>

(In thousands)

<S>	<C>	<C>
	1994	\$19,900
	1995	\$41,600
	1996	\$38,600
	1997	\$28,700
	1998	\$21,200
	1999 Projected	\$28,000

</TABLE>

Federal Safe Drinking Water Act (SDWA) regulations require water filtration or alternate water treatment measures for BHC's major unfiltered water supplies. In accordance with SDWA regulations, on July 1, 1997, the Warner Water Treatment Plant at Hemlocks Reservoir was fully operational and put into service at a total project cost of approximately \$46,300,000.

Financing activities. The Company's capital expenditures have historically been financed from several sources including

internally generated funds, rate relief, proceeds from debt financings, issuances of common stock, and short-term borrowings under the Company's revolving credit agreements.

<TABLE>
<CAPTION>

Cash Flow from Operations Per Share

<S>	<C>	<C>
	1994	\$5.16
	1995	\$3.29
	1996	\$3.39
	1997	\$5.43
	1998	\$4.99

</TABLE>

The percentage of capital expenditures financed by net cash from operating activities was 100 percent, 100 percent and 62 percent for the years ended December 31, 1998, 1997 and 1996, respectively. (See "Consolidated Financial Statements-Consolidated Statements of Cash Flows.")

In 1996, the remainder was provided by external financing sources.

The Company obtained funds of \$3,934,000 from the issuance of 119,865 shares of common stock under its Dividend Reinvestment and Common Stock Purchase Plan (the Plan) in 1998, versus \$3,504,000 (135,829 shares) and \$3,449,000 (143,781 shares) in 1997 and 1996, respectively. The Company also obtained funds of \$1,373,000 for 56,612 stock options exercised in 1998 and \$2,398,000 for 114,537 stock options exercises in 1997. There were no stock option exercises in 1996. The Utilities received \$3,011,000 from advances and contributions in aid of construction from developers and customers in 1998 compared to \$3,217,000 in 1997 and \$2,626,000 in 1996.

On November 1, 1998, BHC redeemed, at maturity, its Series R, 6.875 percent first mortgage bonds, which were issued in 1968.

Aquarion has revolving credit agreements that provide \$40,000,000 of short-term credit availability (see Note 9 to the financial statements). The Company borrows on a short-term basis and periodically refinances through long-term debt or equity issuances.

The Company has a target dividend payout ratio, Over the long term, of 75 percent of net income. The dividend payout as a percentage of net income was 62 percent and 78 percent in 1998 and 1997, respectively, and 33 percent and 30 percent as a percentage of net cash provided by operating activities in 1998 and 1997, respectively.

<TABLE>
<CAPTION>

Dividend Payout Ratio

<S>	<C>	<C>
	1994	87%
	1995	85%
	1996	125%
	1997	78%
	1998	62%

Future financing requirements. In addition to the Company's general financial policies regarding capitalization, market conditions and other economic factors, the Company's ability to finance future capital expenditures depends on rate relief. Rate relief has an impact on cash flow since sufficient operating cash flows are necessary to maintain debt coverage ratios to allow for the issuance of additional debt securities and to provide a reasonable return in the form of dividends to Aquarion's shareholders.

The Company's ability to obtain funding from external sources will be affected by the terms of certain of its existing obligations. Additional long-term debt may be issued by BHC under the terms of its Senior Notes (BHC Senior Notes) as long as it meets a 66 2/3 percent long-term debt to total capitalization test.

The Company's need for future external financing may also be affected by future net proceeds from its land-disposition program. BHC identified approximately 2,700 acres of off-watershed land, 2,150 of which are remaining at December 31, 1998, as surplus to utility operations. Most of this land was previously in BHC's rate base. Under Connecticut law, net proceeds from the sale of land which have been in a utility's rate base must be reinvested in utility plant, and profits from such transactions are allocated by the Connecticut Department of Public Utility Control (DPUC) between the utility's customers and shareholders pursuant to legislative and regulatory criteria (see Note 4 to the financial statements).

Other

Year 2000. The Company is currently evaluating its exposure to the Year 2000 problem and taking steps to be Year 2000 compliant. In general terms, the problem arises from the fact that many existing computer systems and other equipment containing date-sensitive embedded technology (including non-information technology equipment and systems) use only two digits to identify a year in the date field, with the assumption that the first two digits of the year are always "19". As a result, such systems may misinterpret dates after December 31, 1999, which may result in miscalculations, other malfunctions or the total failure of such systems. Additional problems arise from the fact that the Year 2000 is a special case leap year. Because the Company is dependent upon the proper functioning of computer systems and other equipment containing date-sensitive technology, a failure of such systems and equipment to be Year 2000 compliant could have a material adverse effect on the Company. If not remedied, potential risks include business interruption or shutdown, financial loss, regulatory actions and legal liability.

The Company has established a Year 2000 task force comprised of senior management and operating personnel to coordinate its Year 2000 efforts. This task force is currently evaluating the Company's exposure to the Year 2000 problem and is preparing a plan for managing the risks and costs associated therewith. The Company has hired an outside consultant to assist it in preparing and implementing its Year 2000 compliance and contingency plans. In addition, the DPUC has informed the Company that it will review the Company's Year 2000 preparations.

The Company's general process of addressing the Year 2000 problem consists of the following steps: (a) inventorying systems, equipment and other items (including relationships with third parties) that potentially present a Year 2000 problem, (b) determining the significance of such items to the Company and assessing the Year 2000 compliance of the material items through internal testing and outside certification, (c) repairing, replacing or preparing for the failure of material items that are determined to be non-compliant, (d) testing repaired or replaced

items, and (e) designing and implementing contingency plans.

The Company, in the ordinary course of business, is in the process of replacing its corporate information system and several other systems that are not Year 2000 compliant. These systems had been scheduled for replacement for reasons unrelated to the Year 2000 problem. The integration of the new systems is expected to be completed during the first quarter of 1999. The Company intends to perform independent Year 2000 testing of these systems, which is expected to be completed during the first quarter of 1999.

The Company has completed its preliminary inventory of other systems, equipment and items that potentially present a Year 2000 problem. The Year 2000 consultant is reviewing this inventory and anticipates that such review will be completed by the end of February 1999. The Company intends to begin internal testing, and seeking outside certification, of critical inventoried items by the end of the first quarter of 1999, and expects to complete such assessment by the end of the second quarter of 1999. While the Company will not know the nature and extent of required repairs and replacements of non-compliant systems and equipment until such assessment is completed, it currently anticipates completing and testing such repairs and replacements by the end of September 1999.

In addition to its own systems and equipment, the Company depends upon the proper functioning of computer systems and other date-sensitive equipment of outside third parties. These parties include banks, telecommunications service providers and electric and other utilities. The Company has compiled a preliminary list of such parties and has contacted these parties to determine the extent to which they are vulnerable to the Year 2000 problem. The Company does not currently have sufficient information about the Year 2000 exposure or remediation plans of such parties to predict the risk they pose to the Company. If the third parties with which the Company interacts have Year 2000 problems that are not remedied, resulting problems for the Company could include the loss of telecommunications and electrical service.

Due to the uncertainties presented by such third party Year 2000 problems, and the possibility that, despite its efforts, the Company may be unsuccessful in preparing its internal systems and equipment for the Year 2000, the Company is developing contingency plans for dealing with its most reasonably likely worst-case scenario. Such plans will likely include manual backup for automated systems, the use of electrical generators capable of sustaining operations through a power failure, and enhanced transition-period staffing to compensate for automation and communication failures. The Company's assessment of its most reasonably likely worst-case scenario and the exact nature and scope of its contingency plans will be affected by the Company's continued Year 2000 assessment. The Company expects to complete such assessment and contingency planning during the third quarter of 1999, and to have all contingency systems in place and fully tested by the fourth quarter of 1999.

The Company estimates that, as of December 31, 1998, its costs of addressing the Year 2000 problem have been less than \$200,000. While the Company is currently unable to estimate future costs of addressing the Year 2000 problem, it does not believe that such costs will be material to the Company's financial condition or results of operations. The Company has funded, and expects to continue to fund, the costs of its Year 2000 remediation efforts from operating cash flow. This description of matters relating to the Year 2000 problem contains a number of forward-looking statements. See "Forward-Looking Statements". The Company's assessment of the costs of its Year 2000 program and the timetable for completing its Year 2000 preparations are based on current estimates, which reflect numerous assumptions about future events, including the continued availability of certain resources, the timing and effectiveness of third-party remediation plans and other factors. The Company can give no assurance that these estimates will be achieved, and actual results could differ materially from those currently anticipated. In addition, there can be no assurance that the Company's Year 2000 program will be effective or that its contingency plans will be sufficient. Specific factors that might cause material differences include, but are not limited to,

the availability and cost of personnel trained in this area, the ability to locate and correct relevant computer software codes and embedded technology, the results of internal and external testing and the timeliness and effectiveness of remediation efforts of third parties.

Inflation. Inflation, as measured by the Consumer Price Index, increased 1.6 percent, 1.7 percent and 3.3 percent in 1998, 1997 and 1996, respectively, and primarily affects the Utilities. The regulatory authorities allow the recovery of depreciation through revenues solely on the basis of the historical cost of plant. The replacement cost of utility plant will be significantly higher than the historical cost. While the regulatory authorities give no recognition in the ratemaking process to the current cost of replacing utility plant, the Company believes that, based on past practice, the Utilities will continue to be allowed to earn a return on the increased cost of their net investment when prudent replacement of facilities actually occurs.

Results of operations

1998 compared with 1997

Overview. The Company's consolidated net income for 1998 was \$19,959,000 compared with net income of \$15,011,000 in 1997. Basic earnings per share was \$2.69 in 1998 based on a weighted average of 7,423,460 common shares outstanding, compared with \$2.10 in 1997 based on a weighted average of 7,139,894 common shares outstanding. Diluted earnings per share for 1998 was \$2.62 based on a weighted average of 7,611,723 common shares outstanding compared to diluted earnings per share of \$2.08 in 1997 based on a weighted average of 7,215,626 common shares outstanding. Operating results in 1998 reflect increased real estate sales, primarily the sale of land to the City of Shelton, Connecticut, which contributed \$3,510,000 to net income.

<TABLE>
<CAPTION>

Book Value Per Share

<S>	<C>	<C>
	1994	\$17.43
	1995	\$17.72
	1996	\$17.52
	1997	\$18.26
	1998	\$19.56

</TABLE>

Operating revenues. Consolidated operating revenues were \$115,669,000 in 1998, an increase of \$8,567,000 from 1997. The increase in real estate sales of \$6,747,000 was primarily attributable to the sale of land to the City of Shelton. Revenues from the Utilities increased \$3,333,000 due to rate relief granted to BHC's Eastern Division effective August 1, 1997, partially offset by the reduction in rates associated with the repeal of the Connecticut gross earnings tax. Revenue from timber processing decreased by \$1,587,000 in 1998, the result of reduced lumber prices due to market conditions and reduced sales volume.

Operating expenses. Operating expenses for 1998 were \$31,919,000, an increase of \$1,116,000 from 1997. Operating expenses from real estate sales increased by \$2,138,000 due to the increased activity in the land sales program. Operating expenses from the Utilities increased \$850,000 due to higher operating expenses associated with the Warner Water Treatment Plant, which was placed into service on July 1, 1997. Timber processing experienced reduced operating expenses of \$1,938,000 compared to 1997.

General and administrative expenses. General and administrative expenses totaled \$16,236,000 in 1998 compared to \$15,620,000 in 1997, an increase of \$616,000. Contributing to this increase was a non-recurring charge incurred to release the Company from a guarantee regarding a commercial lease on a former rental property and a reserve related to the joint venture property located in Shelton, Connecticut (see Note 4 to the financial

statements). Offsetting these provisions were reduced insurance costs, lower healthcare costs and a higher pension credit.

Depreciation expense. Depreciation expense increased by \$1,146,000 to \$13,770,000 in 1998, principally due to the Warner Water Treatment Plant, which was placed into service on July 1, 1997, and general utility plant additions.

<TABLE>

<CAPTION>

Depreciation Expense

(In thousands)

<S>	<C>	<C>
	1994	\$9,852
	1995	\$10,123
	1996	\$11,077
	1997	\$12,624
	1998	\$13,770

</TABLE>

Interest expense. Interest expense for 1998 was \$10,507,000, a decrease of \$680,000 from 1997, due to reduced long-term and short-term debt.

Taxes other than income taxes. Taxes other than income taxes for 1998 decreased \$1,317,000 from 1997 due primarily to the repeal of the Connecticut Gross Earnings Tax for services rendered after July 1, 1997, partly offset by higher property taxes.

<TABLE>

<CAPTION>

Earnings Before Interest, Taxes,
Depreciation and Amortization

<S>	<C>	<C>
	1994	\$42,661
	1995	\$43,754
	1996	\$45,109
	1997	\$51,549
	1998	\$58,424

</TABLE>

Allowance for funds used during construction. Allowance for funds used during construction decreased by \$559,000 to \$200,000 in 1998 compared to 1997. The reduction was the result of the Warner Water Treatment Plant being placed into service on July 1, 1997.

Income taxes. Income taxes for 1998 increased \$2,179,000 compared to 1997, the result of higher taxable income.

Significant Changes in Balance Sheet Accounts.

The decrease in notes payable to banks of \$9,000,000 reflects a reduction in short term debt, the result of increased cash flow from operating activities net of capital additions and proceeds received from land sales.

1997 compared with 1996

Overview. The Company's consolidated net income for 1997 was \$15,011,000 compared with consolidated net income of \$9,005,000 in 1996. Basic earnings per share was \$2.10 in 1997 based on a weighted average of 7,139,894 common shares outstanding, compared with \$1.30 in 1996 based on a weighted average of 6,931,388 common shares outstanding. Diluted earnings per share for 1997 was \$2.08 based on a weighted average of 7,215,626 common shares

outstanding compared to diluted earnings per share of \$1.29 in 1996 based on a weighted average of 6,974,563 common shares outstanding. For the year ended December 31, 1996, the Company recorded an after-tax loss of \$4,255,000 from the sale of IEA (see Note 2 to the financial statements).

For the year ended December 31, 1997, net income from continuing operations was \$15,011,000, or \$2.10 per share, versus \$13,840,000, or \$2.00 per share in 1996. Operating results in 1997 reflect the increase in water service rates to cover the operating costs of the Warner Water Treatment Plant for six months and drier weather, which increased earnings from the Company's water utility segment.

Operating revenues. Consolidated operating revenues of \$107,102,000 in 1997 were \$12,298,000 higher than 1996. Revenues from the Utilities increased \$5,609,000, due to the increase in water service rates, drier weather and the May 1996 acquisition of SCWC. Timber processing experienced an increase in revenues during 1997 of \$4,898,000, primarily due to increased sales to a leading retailer in the home improvement industry. Aquarion also had increased property sales revenues of \$1,325,000 in 1997.

Operating expenses. Operating expenses for 1997 were \$30,803,000, an increase of \$6,786,000 over 1996. Timber processing experienced increased operating expenses of \$4,376,000 compared with 1996, primarily due to higher costs associated with the increased sales volume. Operating expenses from property sales increased by \$1,255,000 due to the increased activity in the land sales program.

General and administrative expenses. General and administrative expenses totaled \$15,620,000, a \$576,000 decrease from 1996. This decrease was primarily attributable to a higher pension credit, as well as lower health care costs at the Utilities, partially offset by a non-recurring increase in bad debt expense in 1997.

Depreciation expense. Depreciation expense increased \$1,547,000 in 1997, which was largely the result of the Warner Water Treatment Plant being placed into service on July 1, 1997, and a higher composite annual depreciation rate for BHC's Eastern Division effective August 1, 1996.

Interest expense. Interest expense for 1997 was \$1,876,000 higher than 1996 due to the interest expense associated with the October 1996 debt issuance by BHC of \$30,000,000 and the interest rate conversion on the 1995 \$30,000,000 unsecured note of BHC from a variable rate to a fixed rate of 6.15 percent.

Taxes other than income taxes. Taxes other than income taxes for 1997 were \$1,502,000 lower than 1996, due primarily to the repeal of the Connecticut gross earnings tax for services rendered after July 1, 1997.

Allowance for funds used during construction. Allowance for funds used during construction decreased by \$364,000 to \$759,000 in 1997 compared to 1996. The reduction was the result of the Warner Water Treatment Plant being placed into service on July 1, 1997.

Income taxes. Income taxes for 1997 increased \$2,632,000 as a result of higher taxable income.

Seasonality

The Company's operating results are subject to weather variations and seasonal fluctuations, due to an increased demand for water in the warmer months. (See Supplemental Financial Information to Consolidated Financial Statements for selected quarterly data for 1998 and 1997.)

Forward-Looking Statements.

In addition to the historical information contained herein, this report contains a number of "forward-looking statements," within the meaning of the Securities and Exchange Act of 1934. Words such as "estimates", "expects", "anticipates", "intends", plans and similar expressions identify forward-looking statements. Such statements address future events and conditions concerning the adequacy of water supply and utility plant,

capital expenditures, earnings on assets, liquidity and capital resources, rates and accounting matters. Actual results in each could differ materially from those included in such forward-looking statements.

<TABLE>
<CAPTION>

Aquarion Company and Subsidiaries
Consolidated Statements of Income

In thousands, except share data Year ended December 31	1998	1997	1996
<S>	<C>	<C>	<C>
Operating revenues	\$115,669	\$107,102	\$94,804
Costs and expenses:			
Operating	31,919	30,803	24,017
General and administrative	16,236	15,620	16,196
Depreciation	13,770	12,624	11,077
Interest expense	10,507	11,187	9,311
Taxes other than income	9,383	10,700	12,202
Total costs and expenses	81,815	80,934	72,803
	33,854	26,168	22,001
Allowance for funds used during onstruction	200	759	1,123
Income before income taxes	34,054	26,927	23,124
Income taxes	14,095	11,916	9,284
Net income from continuing operations	19,959	15,011	13,840
Discontinued operations:			
Loss from discontinued operations, less applicable income tax benefit of \$66	-	-	(580)
Loss on disposal of discontinued operations, less applicable income tax benefit of \$5,695	-	-	(4,255)
Net income	\$ 19,959	\$ 15,011	\$ 9,005
Basic earnings (loss) per share:			
From continuing operations	\$ 2.69	\$ 2.10	\$ 2.00
From discontinued operations	-	-	(0.09)
From disposal of discontinued operations	-	-	(0.61)
Basic earnings per share	\$ 2.69	\$ 2.10	\$ 1.30
Weighted average common shares outstanding	7,423,460	7,139,894	6,931,388
Diluted earnings (loss) per share:			
From continuing operations	\$ 2.62	\$ 2.08	\$ 1.98
From discontinued operations	-	-	(0.08)
From disposal of discontinued operations	-	-	(0.61)
Diluted earnings per share (Note 7)	\$ 2.62	\$ 2.08	\$ 1.29
Weighted average common shares outstanding	7,611,723	7,215,626	6,974,562

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

<TABLE>
<CAPTION>

Aquarion Company and Subsidiaries
Consolidated Balance Sheets

Assets	1998	1997
In thousands December 31,		
<S>	<C>	<C>
Property, plant and equipment	\$493,279	\$481,833
Less: accumulated depreciation	146,034	142,125
Net property, plant and equipment (Note 14)	347,245	339,708
Current assets:		
Cash and cash equivalents	654	851
Accounts receivable	11,325	10,789
Less: allowance for doubtful accounts	1,976	1,782
Accrued revenues	9,349	9,007
Inventories (Note 15)	9,406	10,411
Prepaid expenses	4,526	3,740
Other current assets	12,924	10,980
Total current assets	4,626	6,443
Prepaid taxes	41,485	41,432
Recoverable income taxes	11,834	12,354
Other assets	39,022	41,741
	17,894	19,774
	\$457,480	\$455,009

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

<TABLE>
<CAPTION>

Aquarion Company and Subsidiaries
Consolidated Balance Sheets

Liabilities and Shareholders' Equity	1998	1997
In thousands, except share data December 31,		
<S>	<C>	<C>
Shareholders' equity:		
Preferred stock, no par value, authorized 2,500,000 shares not to exceed aggregate value of \$25,000,000--none issued	\$ -	\$ -
Common stock, stated value: \$1 Authorized--16,000,000 shares Issued 7,507,198 shares in 1998 and 7,330,721 shares in 1997	7,507	7,331
Capital in excess of stated value	112,135	107,004
Retained earnings	27,297	19,624
Less: minimum pension liability adjustment	99	97
Total shareholders' equity	146,840	133,862
Long-term debt	141,380	151,380
Current liabilities:		
Short-term borrowings, unsecured	-	9,000
Current maturities of long-term debt	10,000	5,000
Accounts payable and accrued liabilities	14,868	15,592
Dividends payable	3,115	3,005
Accrued interest	2,834	3,011
Taxes other than income taxes	887	755
Income taxes	3,782	2,018
Total current liabilities	35,486	38,381
Advances for construction	19,638	24,263
Contributions in aid of construction	38,097	30,951
Deferred land sale gains	1,658	384
Accrued postretirement benefit cost	5,165	4,664
Recoverable income taxes	5,930	6,052
Deferred income taxes	63,286	65,072

----- -----
\$457,480 \$455,009

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

11

<TABLE>
<CAPTION>

Aquarion Company and Subsidiaries
Consolidated Statements of Cash Flows

In thousands Year ended December 31	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	\$19,959	\$15,011	\$ 9,005
Adjustments reconciling net income to net cash provided by operating activities			
Depreciation and amortization	14,532	13,435	13,797
Proceeds from sale of surplus land, net of gains	5,490	1,796	778
Loss on disposal of discontinued operation	-	-	4,255
Provision for losses on accounts receivable	397	894	(29)
Deferred tax provision	1,331	1,214	45
Allowance for funds used during construction	(200)	(759)	(1,123)
Change in assets and liabilities (Note 16)	(4,453)	7,166	(3,239)
	-----	-----	-----
Net cash provided by operating activities	37,056	38,757	23,489
	-----	-----	-----
Cash flows from investing activities:			
Capital additions, excluding an allowance for funds used during construction	(21,245)	(28,729)	(38,600)
Acquisition of business, less cash acquired	-	-	(2,598)
Advances and contributions in aid of construction	3,011	3,217	2,626
Refunds on advances for construction	(490)	(374)	(933)
Other investing activities, net	2,340	(153)	(1,202)
	-----	-----	-----
Net cash used in investing activities	(16,384)	(26,039)	(40,707)
	=====	=====	=====
Cash flows from financing activities:			
Proceeds from the issuance of long-term debt	-	7,893	31,518
Proceeds from the issuance of common stock, net	5,307	5,895	3,290
Net (repayments) borrowings of short-term debt	(9,000)	700	(5,000)
Common dividends paid	(12,176)	(11,549)	(11,198)
Principal and premium payments on long-term debt	(5,000)	(15,000)	(52)
Debt issuance costs	-	(276)	(1,220)
Payments for redemption of preferred stock	-	-	(285)
	-----	-----	-----
Net cash (used in) provided by financing activities	(20,869)	(12,337)	17,053
	-----	-----	-----
Net (decrease) increase in cash and cash equivalents	(197)	381	(165)
Cash and cash equivalents, beginning of year	851	470	635
Cash and cash equivalents, end of year	\$ 654	\$ 851	\$ 470
	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

<TABLE>
<CAPTION>

Aquarion Company and Subsidiaries
Consolidated Statements of Shareholders' Equity

In thousands, except share data

<S>	Common Stock Number of Shares <C>	Stated value <C>	Capital in excess of stated value <C>	Retained Earnings <C>	Minimum pension liability adjustment <C>	Treasury Stock Number of shares <C>	Treasury Stock Amount <C>	Total share- holders' equity <C>
Balance, December 31, 1995	6,936,574	\$6,937	\$ 98,213	\$18,583	\$ -	81,291	\$(2,231)	\$121,502
Year ended December 31, 1996								
Net income	-	-	-	9,005	-	-	-	9,005
Dividends on common stock	-	-	-	(11,264)	-	-	-	(11,264)
Dividend reinvestment plan	143,781	143	3,147	-	-	-	-	3,290
Minimum pension liability adjustment (Note 12)	-	-	-	-	(104)	-	-	(104)
Treasury stock transactions	-	-	-	-	-	(19,793)	522	522
Balance, December 31, 1996	7,080,355	7,080	101,360	16,324	(104)	61,498	(1,709)	122,951
Year ended December 31, 1997								
Net income	-	-	-	15,011	-	-	-	15,011
Dividends on common stock	-	-	-	(11,711)	-	-	-	(11,711)
Dividend reinvestment plan	135,829	136	3,361	-	-	-	-	3,497
Minimum pension liability adjustment (Note 12)	-	-	-	-	7	-	-	-
Stock options exercised	114,537	115	2,283	-	-	(61,280)	1,703	4,101
Treasury stock transactions (1)	-	-	-	-	-	(218)	6	6
Balance, December 31, 1997	7,330,721	7,331	107,004	19,624	(97)	-	-	133,862
Year ended December 31, 1998								
Net income	-	-	-	19,959	-	-	-	19,959
Dividends on common stock	-	-	-	(12,286)	-	-	-	(12,286)
Dividend reinvestment plan	119,865	120	3,814	-	-	-	-	3,934
Minimum pension liability adjustment (Note 12)	-	-	-	-	(2)	-	-	(2)
Stock options exercised	56,612	56	1,317	-	-	-	-	1,373
Balance, December 31, 1998	7,507,198	\$7,507	\$112,135	\$27,297	\$(99)	\$ -	\$ -	\$146,840

(1) Includes exercise of stock options

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Aquarion Company (Aquarion or the Company) is a holding company whose subsidiaries are engaged both in the regulated utility business of public water supply as well as in various nonutility businesses. Aquarion's utility subsidiaries, BHC Company (BHC) and Sea Cliff Water Company (SCWC) (collectively, the Utilities) collect, treat and distribute water to residential, commercial and industrial customers, to other utilities for resale, and for private and municipal fire protection. The Utilities provide water to customers in 33 communities in Connecticut and Long Island, New York, including communities served by other Connecticut utilities to which water is available on a wholesale basis for backup supply and peak demand purposes through BHC's Southwest Regional Pipeline. BHC is the largest investor-owned water company in Connecticut and with SCWC, is among the 10 largest investor-owned water companies in the nation. The Utilities are regulated by several Connecticut and New York agencies, including the Connecticut Department of Public Utility Control (DPUC) and the New York

Public Service Commission (PSC). The Company conducts a timber processing business, Timco, Inc. (Timco), owns a real estate subsidiary, Main Street South Corporation (MSSC) and provides utility management services through Aquarion Management Services, Inc. (AMS).

The Company's accounting policies conform to generally accepted accounting principles and, as applied in the case of rate-regulated public utilities, include SFAS 71 Accounting for the Effects of Certain Types of Regulation and comply with the Uniform System of Accounts and ratemaking practices prescribed by the regulatory authorities. A description of Aquarion's principal accounting policies follows.

Principles of consolidation. The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Property, plant and equipment. Property, plant and equipment is stated at cost. The costs of additions to and replacements of retired units of property are capitalized. Costs include charges for direct material, labor and services, and indirect charges related to construction, such as engineering, supervision, payroll taxes and employee benefits. BHC also capitalizes an allowance for funds used during construction (AFUDC) equivalent to the cost of funds devoted to plant under construction. Modifications and improvements to units of property are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

At the time depreciable utility property is retired or disposed of, the book cost together with the related costs of removal, less salvage, is charged to the reserve for depreciation in accordance with the Uniform System of Accounts prescribed by the regulatory authorities. Upon disposal or retirement of depreciable nonutility property, the appropriate plant accounts and accumulated depreciation are reduced by the related costs, with any resulting gain or loss recognized in the consolidated statements of income.

For financial reporting purposes, depreciation is provided for by use of the straight-line method over the estimated service lives of the respective assets. The equivalent composite depreciation rate was 3.0 percent for 1998 and 1997. For income tax purposes, the Company uses various accelerated tax lives and rates as allowed under the Internal Revenue Code.

Cash equivalents. The Company considers all highly liquid investments that have a maturity of three months or less when purchased to be cash equivalents.

Earnings per share. Earnings per share is based on the annual weighted average number of shares outstanding and common share equivalents. Common share equivalents consist of outstanding employee stock options and directors fees paid in common stock units. Each common stock unit is convertible into one share of common stock at the holder's discretion. In February 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 128, "Earnings Per Share" (SFAS 128), which establishes new standards for computing and presenting basic and diluted earnings per share. The Company has adopted SFAS 128 effective for financial statements issued for periods ending after December 15, 1997 (see Note 7 to the financial statements).

Allowance for funds used during construction. AFUDC is a non-cash credit to income with a corresponding charge to utility plant, which represents the cost of borrowed funds and a return on equity funds utilized to fund plant under construction. BHC records AFUDC to the extent permitted by regulatory authorities. Construction-work-in-progress surcharge. The DPUC regulations allow water utilities to implement a CWIP rate surcharge to customer water bills in order to recover 90 percent of the carrying costs of capital used in SDWA-mandated projects, until such time as these projects are completed. The CWIP rate surcharge is in lieu of AFUDC and is included in water service revenues.

Revenue recognition. The Utilities recognize revenue as customers are billed periodically for water consumed. The Utilities also accrue revenue for the estimated amount of water consumed but not billed at the end of each period. Timber processing revenues are recognized as the related timber products are shipped. Revenues from sales of real estate are recognized when the transaction is consummated and title has passed.

Inventories. Inventories are recorded at the lower of cost or market value, with cost being determined on the basis of the first-in, first-out" (FIFO) method. Materials and supplies are valued at average cost.

Other assets. Other assets consist primarily of deferred financing charges, rate case and other expenses to be amortized over periods allowed by the regulatory authority. Deferred rate case expenses are amortized over periods allowed by the regulatory authority, generally one to three years. Deferred financing charges are amortized over the lives of the related debt issues, primarily 30 to 40 years.

Fair value of financial instruments. The carrying amount of cash and cash equivalents, trade accounts receivable, trade accounts payable and short-term borrowings approximate their fair values due to their short-term nature. The fair value of long-term debt, which is based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities, was as follows at December 31:

<TABLE>
<CAPION>

(In thousands)	1998	1997
<S>	<C>	<C>
Fair Value	\$141,311	\$138,970
Carrying Value	141,380	151,380

</TABLE>

Advances for construction/contributions in aid of construction. The Utilities receive cash advances from developers and customers to finance construction of new water main extensions. These advances are partially refunded over a 10-year period as water revenues are earned from those new customers. Any remaining unrefunded balances are reclassified to contributions in aid of construction in the consolidated balance sheets and are no longer refundable.

Income taxes. The Company and its eligible subsidiaries file a consolidated federal income tax return. Federal income taxes are deferred under the liability method in accordance with SFAS No. 109, "Accounting for Income Taxes." Under the liability method, deferred income taxes are provided for all temporary differences between financial statement and tax bases of assets and liabilities at current tax rates. Additional deferred income taxes and offsetting regulatory assets or liabilities are recorded to recognize that income taxes will be recoverable or refundable through future revenues.

Investment tax credits arising from property additions are deferred and amortized over the estimated service lives of the related properties (see Note 6 to the financial statements).

Accounting for long-lived assets. SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," (SFAS 121) requires that certain assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS 121 amends SFAS 71 to require that regulatory assets be charged to earnings if such assets are no longer considered probable of recovery. At December 31, 1998, the Company considers these assets probable of recovery. Segment related information. In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131), which establishes standards for the method of reporting information about operating segments in annual financial statements and in interim reports issued to

shareholders (see Note 11 to the financial statements). This statement is effective for financial statement periods beginning after December 15, 1997. Adoption of this statement did not have a significant impact on the Company's disclosures of segment related information.

Accounting for derivative instruments. In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) which establishes a new model for accounting for derivatives and hedging activities and supersedes and amends a number of existing standards. SFAS 133 is effective for fiscal years beginning after June 15, 1999. Upon initial application, all derivatives are required to be recognized in the statement of financial position as either assets or liabilities and measured at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction, and, if it is, the type of hedge transaction. In addition, all hedging relationships must be reassessed and documented pursuant to the provisions of SFAS 133. The Company does not expect adoption of this statement to have a significant impact on its financial position or results of operations.

Estimates. The accompanying consolidated financial statements reflect judgements and estimates made in preparation of these statements and in the application of the above accounting policies. Actual results may differ from these estimates.

Note 2 - Sale and Discontinued Operations

On March 25, 1997, the Company executed the stock purchase agreement, effective December 31, 1996, completing the stock sale of Industrial and Environmental Analysts, Inc. (IEA), its environmental testing laboratory business for approximately \$10,000,000. Accordingly, IEA's results were recorded as a discontinued operation for the year ended December 31, 1996. The Company recorded an after tax loss of \$4,255,000, or \$0.61 per share, from the sale of the discontinued operation in 1996.

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Note 3 - Regulatory Matters

Rates. On March 16, 1998, BHC's Western division filed an application with the DPUC for a 4.1 percent water service rate increase designed to provide a \$620,000 increase in annual water service revenues. It is anticipated that the new rates, if approved, will become effective in the first quarter of 1999.

On July 31, 1997, BHC's Eastern division received a decision from the DPUC approving a 12.7 percent water service rate increase, which became effective on August 1, 1997, designed to provide an \$8,300,000 increase in annual water service revenues. This increase replaced the CWIP rate surcharge, which was 9.5 percent prior to July 1, 1997, resulting in a 3.2 percent marginal increase.

BHC's Eastern and Western Divisions' rates reflect the repeal of the Connecticut gross earnings tax for services rendered after July 1, 1997, which resulted in a 5.0 percent reduction in both rates and expenses.

On July 31, 1996, BHC's Eastern division received approval from the DPUC for a 6.5 percent water service rate increase designed to provide a \$4,000,000 increase in annual water service revenues.

On October 1, 1996, the Ridgefield Water Supply Company, which has subsequently been merged into BHC, entered into a Consent Agreement with the State of Connecticut, Department of Environmental Protection (DEP), relating to certain water supply

sources located in the Town of Ridgefield. The Consent Agreement requires BHC to meet various milestones by particular dates in order to bring BHC's Ridgefield water system into compliance with DEP's diversion regulations. BHC's failure to timely comply with many of the requirements of the Consent Order now permits DEP to require BHC to pay certain fines. BHC's potential maximum exposure to such fines could be in excess of \$4,000,000. BHC has recently been informed that this matter has been referred by DEP to the Office of the Connecticut Attorney General for further action. BHC is unable to assess at this time what impact the DEP referral to the Attorney General will have on BHC's ability to re-negotiate the Consent Agreement or on its potential liability for such civil penalties.

Note 4 - Sale of surplus land

Proceeds from the sale of land are recorded as revenue at the time of closing, and portions of pre-tax gains required to be deferred by the DPUC are amortized as a reduction in BHC's operating expenses over various time periods as stipulated by the DPUC.

The Company sold 436 acres of surplus land in 1998. On December 18, 1998, five parcels of land, located in Shelton, Connecticut and totaling 401 acres, were sold to the City of Shelton for approximately \$6,800,000. The Company received \$2,268,000 in cash and a note receivable for the balance, which will be paid in two equal installments of \$2,266,500 in December 1999 and July 2000. After-tax net gain attributable to the sale amounted to \$3,510,000. A 30-acre parcel of land, originally scheduled to be included in this sale, is expected to close in early 1999, after BHC receives the necessary permits from the Connecticut Department of Health Services.

In addition, the Company sold approximately 35 acres of surplus land with proceeds totaling \$3,067,000. Total gains, including recognition of deferred gains from prior land sales of \$130,000, approximated \$826,000.

In June 1998, the Aspetuck Land Trust, a non-profit land preservation organization, exercised a statutory right of first refusal allowing it to purchase, at the original contract terms, substantially all of the Trout Brook Valley property for approximately \$12,400,000. Connecticut statutes afford the buyer fifteen months to close, or until September 8, 1999. As of December 31, 1998, the Company received \$1,400,000 on deposit from the Aspetuck Land Trust. Prior to this exercise, in February 1997, the Company had entered into a contract to sell the Trout Brook Valley property for approximately \$14,000,000 to a private developer. The sale has been approved by the DPUC. The Town of Weston, Connecticut has notified the Company of its intention to purchase, for approximately \$820,000, the approximately 45 acre portion of BHC's Trout Brook Valley property located in Weston pursuant to its statutory right of first refusal. Although both BHC and the Aspetuck Land Trust have no objection to this purchase, BHC has indicated that it will only sell the Weston portion at or after the closing of the sale of the remainder of its Trout Brook Valley property. BHC has recently filed a request with the DPUC for a declaratory ruling to the effect that the Town of Weston is not entitled to purchase only the Weston property. The Company anticipates that the after-tax gain from the current sale will be approximately \$6,000,000, to be recognized over an applicable amortization period. In its decision approving the original sale, the DPUC granted the Company a 10-year amortization period, which provides ratepayers with 55 percent and shareholders with 45 percent of the after-tax gain on approximately 60 percent of BHC's portion of the property. Due to the change in purchaser and its intended use of the property as open space, the Company is considering filing an amended application with the DPUC seeking a shorter amortization period.

In 1995, the Company entered into an agreement with a local developer to sell a 40-acre parcel of land located in New Canaan, Connecticut, for approximately \$1,950,000. The Company anticipates that the after-tax gain from this transaction will be approximately \$1,100,000. The sale has been approved by the DPUC. The buyer has been involved in litigation and appeals with several residents, environmental groups and the Connecticut

Department of Environmental Protection over regulatory approvals. Although several appeals have been withdrawn, certain issues remain open. The Company anticipates closing this transaction sometime in 1999, however, the closing could be delayed due to the opposition to granting the required permits and approvals. No assurances can be given at this time that such permits and approvals will be granted.

MSSC owns a two-third's share, through a joint venture, of approximately 7.7 acres of real property in Shelton, Connecticut. In December 1997, the joint venture was formally notified of an eminent domain action undertaken on behalf of the City of Shelton, with an accompanying notice of value of approximately \$95,000. Although the Company does not concur with this value and has initiated an appeal process to obtain a higher value for this property, the Company reserved for the difference between the carrying value of the investment and its estimated net realizable value.

In 1997, the Company sold approximately 134 acres of surplus land with proceeds totaling \$3,224,000. Total gains, including recognition of deferred gains from prior land sales of \$133,000, approximated \$743,000.

In 1996, the Company sold approximately 32 acres of surplus land with proceeds totaling \$929,500. Total gains, including recognition of deferred gains from prior land sales of \$134,000, approximated \$434,000. In addition, the Company recognized a gain of \$320,000 from the condemnation, by the City of Stamford, of the former headquarters of SWC.

Note 5 - Acquisitions

On May 30, 1996, the Company acquired Sea Cliff Water Company, a subsidiary of Emcor Group, Inc., for approximately \$2,600,000 in cash. SCWC, which has approximately 4,300 customers, serves a portion of Nassau County in Long Island, New York, and has approximate annual revenues of \$2,000,000.

Note 6 - Income taxes

Income tax expense for the three years ended December 31, consisted of the following:

<TABLE>
<CAPTION>

In thousands	1998	1997	1996
<S>	<C>	<C>	<C>
Current:			
Federal	\$10,012	\$ 8,477	\$ 1,199
State	2,839	2,692	2,234
Total current	12,851	11,169	3,433
Deferred:			
Federal	1,099	991	277
State	145	(244)	(187)
Total deferred	1,244	747	90
Total income tax expense	\$14,095	\$11,916	\$3,523

</TABLE>

A reconciliation of income tax expense at the statutory federal income tax rate to the actual income tax expense for the three years ended December 31, is as follows:

<TABLE>
<CAPTION>

In thousands	1998	1997	1996
<S>	<C>	<C>	<C>
Tax at statutory rate	\$11,919	\$9,424	\$4,384
Increase (reductions) in taxes resulting from:			
State taxes, net of federal income taxes	1,940	1,592	1,331

Excess depreciation and basis amortization	858	840	700
Investment tax credit	(152)	(152)	(152)
Excess tax basis on disposition	-	-	(2,213)
Charitable contribution	(910)	-	-
Other items, net	440	212	(527)
	-----	-----	-----
Actual income tax expense	\$14,095	\$11,916	\$3,523
	-----	-----	-----

</TABLE>

Deferred tax liabilities (assets) at December 31, were comprised of the following:

<TABLE>

<CAPTION>

In thousands	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Utility temporary difference	\$37,827	\$40,507	\$43,679
Depreciation	22,766	22,573	20,168
Investment tax credits	1,391	1,409	1,225
Other	1,302	583	1,506
	-----	-----	-----
Gross deferred tax liabilities	63,286	65,072	66,578
	-----	-----	-----
Contributions in aid of construction	(7,244)	(7,315)	(7,934)
Other	(4,590)	(5,039)	(4,237)
	-----	-----	-----
Gross deferred tax assets	(11,834)	(12,354)	(12,171)
	-----	-----	-----
	\$51,452	\$52,718	\$54,407
	=====	=====	=====

</TABLE>

14

Note 7 - Earnings per share

In accordance with SFAS 128, the following table presents the calculation of the basic and diluted earnings per share for income from continuing operations:

<TABLE>

<CAPTION>

In thousands, except share data	Income (Numerator)	Shares (Denominator)	Per-Share Amount
<S>	<C>	<C>	<C>
For the year ended December 31, 1998			
Basic earnings per share			
Net income from continuing operations	\$19,959	7,423	\$2.69

Effect of dilutive common stock equivalents	-	189	

Diluted earnings per share			
Net income from continuing operations giving effect to dilutive common stock equivalents	\$19,959	7,612	\$2.62

For the year ended December 31, 1997			
Basic earnings per share			
Net income from continuing operations	\$15,011	7,140	\$2.10
Effect of dilutive common stock equivalents	-	76	

Diluted earnings per share			
Net income from continuing operations giving effect to dilutive common stock equivalents	\$15,011	7,216	\$2.08

For the year ended December 31, 1996			
Basic earnings per share			
Net income from continuing operations	\$13,840	6,931	\$2.00
Effect of dilutive common stock equivalents	-	43	

Diluted earnings per share			
Net income from continuing operations giving effect to dilutive common			

</TABLE>

Options to purchase 159,200 shares of Common Stock at \$37.75 per share were outstanding at December 31, 1998 but were not included in the computation of diluted earnings per share because the options exercise price was greater than the average market price of the Common Shares. These options expire on December 14, 2008.

Note 8 - Long-term debt

<TABLE>
<CAPTION>

Long-term debt at December 31, consisted of the following:

In thousands <S>	1998 <C>	1997 <C>
First mortgage bonds		
Series R, 6.875%, due November 1, 1998	\$ -	\$ 5,000
Notes payable - unsecured		
5.95% senior note due January 4, 1999	10,000	10,000
9.55% senior notes due February 1, 2021	20,000	20,000
7.25% note due June 1, 2020 (a)	7,000	7,000
5.5% note due June 1, 2028 (b)	12,000	12,000
5.6% note due June 1, 2028 (b)	10,000	10,000
5.3% note due September 1, 2028	8,980	8,980
5.8% note due March 1, 2029 (b)	7,700	7,700
6.05% note due March 1, 2029 (b)	10,000	10,000
6.15% note due April 1, 2035 (c)	30,000	30,000
6.00% note due September 1, 2036	30,000	30,000
4.00% note due November 1, 2004 (d)	5,700	5,700
	-----	-----
	\$151,380	\$156,380
Less: Amounts due within one year	10,000	5,000
	-----	-----
	\$141,380	\$151,380
	=====	=====

</TABLE>

(a) BHC has the option to redeem this note at a redemption price ranging from 102 percent on June 1, 2000, to 100 percent on June 1, 2002 and thereafter.

(b) These BHC financings are insured as to the payment of principal and interest by Municipal Bond Investors Assurance Corporation.

(c) On February 3, 1997, BHC converted the interest rate on its \$30,000,000 unsecured note from a weekly rate to a fixed rate of 6.15 percent.

(d) This Timco financing bears interest at a rate adjusted each November 1 until such time as Timco elects to convert to a fixed rate. On November 1, 1998, the interest rate changed to 4.0 percent from 4.25 percent. Bondholders may elect to have their bonds redeemed at a price equal to 100 percent of the principal amount on each November 1, until conversion of the interest rate on the bonds to a fixed rate.

The Aquarion and subsidiaries note agreements contain certain covenants typical of such agreements, the most restrictive of which are under the 9.55 percent unsecured BHC Senior Notes and the 5.95 percent unsecured Aquarion Senior Note and require the maintenance of total funded debt to total capital, as defined, of no more than 66 2/3 percent. Additionally, payment of dividends on Aquarion's common stock is restricted under the Aquarion note. At December 31, 1998, approximately \$43,705,000 was available to pay dividends as defined under the Aquarion Note. The aggregate maturities and sinking fund requirements on long-term debt for each of the five years succeeding December 31, 1998 are as follows: 1999-\$10,000,000; 2000, 2001, 2002 and 2003-zero.

Note 9 - Short-term borrowings

Short-term borrowings result from Aquarion's relationships with three banks, which provide, on an uncommitted basis, credit

availability aggregating \$40,000,000 at December 31, 1998.
Short-term borrowings for the years ended December 31, were as follows:

<TABLE>
<CAPTION

In thousands	1998	1997	1996
<S>	<C>	<C>	<C>
Borrowings outstanding at December 31	\$ -	\$9,000	\$8,300
Weighted average interest rate at December 31	-	5.69%	6.06%
Maximum outstanding during the year	\$10,000	\$14,300	\$29,200
Average outstanding during the year	\$5,125	\$7,550	\$16,292
Weighted average interest rate during the year	5.59%	5.59%	5.51%

</TABLE>

Note 10 - Redeemable preferred stock and rights

The Company has reserved 100,000 shares of Preferred Stock for issuance under its Preferred Stock Purchase Rights Plan. Each share of common stock is entitled to one right to buy, under certain circumstances, 1/100th of a share of Series B Junior Participating Preferred Stock, no par value (Series B Preferred Stock), at \$120.00 per 1/100th of a share.

Each share of Series B Preferred Stock, if issued, would have dividend, voting and liquidation rights, which are at least 100 times the equivalent rights of one share of the Common Stock. The rights would become exercisable only if a person or group acquires 15 percent or more of the outstanding Aquarion Common Stock, or if a person or group announces or commences a tender or exchange offer for 15 percent or more of the Common Stock. In the event that any person or group of affiliated or associated persons becomes the holder of a 15 percent or more position, each holder of a right, other than rights beneficially owned by the 15 percent holder, will thereafter have the right to receive upon exercise of a right at the then current exercise price of the right, that number of shares of Common Stock having a market value of two times the exercise price of the right. If, after a person or group has acquired 15 percent or more of the outstanding Common Stock, the Company were to be acquired in a merger or other business combination transaction, each right would entitle its holder (other than a 15 percent or greater shareholder) to receive, upon payment of the exercise price, that number of shares of the acquiring company having a market value equal to twice the exercise price.

The Company may redeem the rights at \$.01 per right at any time before a 15 percent position has been acquired. Until such time as these rights become exercisable, they will have no dilutive effect on the Company's earnings per share.

Note 11 - Industry segment information

In accordance with SFAS 131, the Company's four industry segments are:

Public water supply--collection, purification and distribution of water for domestic commercial and industrial use, and for private and municipal fire protection service;

Timber processing--processing, marketing and distribution of lumber products;

Real Estate ownership, rental and sale of real property; and,

Utility management services--nonregulated water-related services.

The Company's industry segment information is as follows:

<TABLE>
<CAPTION>

In thousands	1998	1997	1996
-----	-----	-----	-----

<S>	<C>	<C>	<C>
Operating income (loss):			
Public water supply	\$37,572	\$35,007	\$29,485
Timber processing	1,430	1,200	968
Real estate	5,065	727	1,420
Utility management services	(190)	(133)	(219)
	-----	-----	-----
Industry segment operating income	43,877	36,801	31,654
Interest expense	(10,507)	(11,187)	(9,311)
Allowance for funds used during construction	200	759	1,123
Other income (expenses), net	484	554	(342)
	-----	-----	-----
Income before income taxes	\$34,054	\$26,927	\$23,124
	=====	=====	=====

</TABLE>

The Company's operations take place in North America and no single customer accounts for 10 percent or more of total operating revenues.

15

<TABLE>
<CAPTION>

In thousands	1998	1997	1996
-----	-----	-----	-----
<S>	<C>	<C>	<C>
Segment assets:			
Public water supply	\$435,746	\$430,425	\$415,045
Timber processing	10,549	9,066	6,773
Real estate	4,583	4,162	4,451
Utility management services	338	1,002	813
	-----	-----	-----
Subtotal	451,216	444,655	427,082
Reconciling items	6,264	10,354	22,010
	-----	-----	-----
Total consolidated items	\$457,480	\$455,009	\$449,092
	-----	-----	-----
Capital Expenditures:			
Public water supply	20,195	\$27,633	\$37,185
Timber processing	1,047	1,075	666
Utility management services	3	21	749
	-----	-----	-----
Total capital expenditures	\$21,245	\$28,729	\$38,600
	-----	-----	-----
Depreciation expense:			
Public water supply	\$13,272	\$12,171	\$10,668
Timber processing	481	434	389
Real estate	11	11	11
Utility management services	6	8	9
	-----	-----	-----
Total depreciation expense	\$13,770	\$12,624	\$11,077
	=====	=====	=====

</TABLE>

Reconciling items include assets of the parent company, which are not allocated to a specific industry segment.

Note 12 - Employee benefit plans

Retirement plans. The Company and certain of its subsidiaries have a noncontributory defined retirement pension plan covering qualified employees. In general, Aquarion's policy is to fund pension costs accrued. Plan assets are primarily invested in U.S. and foreign equities and debt securities issued by the U.S. government and corporations. The Company also has a supplemental executive retirement plan and a directors' retirement plan, both of which are unfunded defined benefit plans. In addition, certain subsidiaries have established defined contribution salary deferral plans under Section 401(k) of the Internal Revenue Code.

Postretirement health care benefits. Aquarion and the Utilities provide health benefits for substantially all retired employees and life insurance for a small group of retired individuals.

Postretirement health benefits are not provided to employees

hired after July 1, 1996. Only those employees hired prior to July 1, 1996 who remain until retirement age are eligible. Both active and retired employees contribute a portion of the cost of medical benefits. The Company is funding its postretirement health care benefits through contributions to a Voluntary Employee Beneficiary Association Trust (VEBA). The Company's tax deductible contribution to the VEBA was \$352,000 and \$300,000 for 1998 and 1997, respectively. Plan assets are primarily invested in U.S. Government and Agency obligations.

Pension and postretirement benefits funded status and costs.

The following table sets forth the funded status of the Company's retirement plans and postretirement health care benefits at December 31, the latest valuation date:

<TABLE>

<CAPTION>

In thousands	Retirement Plans		Postretirement Health Care Benefits	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Changes in benefit obligation				
Benefit obligation at beginning of year	\$29,671	\$26,182	\$10,666	\$13,834
Service cost	958	878	278	315
Interest cost	2,136	1,938	749	701
Amendments	956	442	(534)	-
Actuarial loss (gain)	1,792	1,789	1,362	(3,513)
Benefits paid	(1,757)	(1,558)	(590)	(671)
Benefit obligation at end of year	33,756	29,671	11,931	10,666
Change in plan assets				
Fair value of plan assets at beginning of year	46,465	41,407	1,446	1,258
Actual return on plan assets	6,024	6,479	32	34
Employer contributions	125	137	244	154
Benefits paid	(1,757)	(1,558)	-	-
Fair value of plan assets at end of year	50,857	46,465	1,722	1,446
Funded status	17,101	16,794	(10,209)	(9,220)
Unrecognized actuarial (gain) loss	(8,618)	(8,666)	(1,981)	(3,505)
Unrecognized net (asset)/obligation	(1,214)	(1,672)	7,025	7,853
Unrecognized prior service cost	2,173	1,492	-	208
Accumulated other comprehensive income (expense)	(163)	(160)	-	-
Net amount recognized	\$ 9,279	\$ 7,788	\$ (5,165)	\$ (4,664)
Amounts recognized in the statement of financial position consists of:				
Prepaid benefit cost	\$ 9,441	\$ 7,948	\$ -	\$ -
(Accrued) benefit liability	(897)	(979)	(5,165)	(4,664)
Intangible asset	735	819	-	-
Net amount recognized	\$ 9,279	\$ 7,788	\$ (5,165)	\$ (4,664)

</TABLE>

The projected benefit obligation and accumulated benefit obligation for the Company's unfunded retirement plans were \$3,886,000 and \$3,143,000, respectively, as of December 31, 1998 and \$3,218,000 and \$2,729,000, respectively, as of December 31, 1997.

The provisions of SFAS No. 132, "Employers Disclosure about Pensions and Other Postretirement Benefits," require recognition in the balance sheet of an additional minimum liability comprised of an intangible asset and other comprehensive income for pension

plans with accumulated benefit obligations in excess of plan assets. At December 31, 1998 and 1997, the liability exceeded the unrecognized prior service cost, resulting in a minimum liability adjustment, net of taxes of \$99,000 and \$97,000, respectively, recorded as a reduction of the Company's equity.

The components of net periodic benefit costs for all retirement plans for the years ended December 31, in addition to the plan's weighted average assumptions as of December 31, were as follows:

<TABLE>
<CAPTION>

In thousands	Retirement Plans		
	1998	1997	1996
<S>	<C>	<C>	<C>
Components of net periodic benefit costs			
Service cost	\$ 958	\$ 879	\$ 839
Interest cost	2,136	1,938	1,832
Expected return on plan assets	(4,021)	(3,620)	(3,219)
Amortization of unrecognized asset at transition date	(458)	(458)	(458)
Amortization unrecognized of prior service cost	274	169	164
Amortization of prior experience (gains)	(258)	(207)	(51)
Net periodic benefit credit	\$ (1,369)	\$ (1,299)	\$ (893)
Weighted-average assumptions			
Discount rate	6.75%	7.00%	7.50%
Expected return on plan assets	8.80%	8.90%	8.60%
Rate of compensation increase	5.00%	5.00%	5.00%

</TABLE>

The components of net periodic benefit costs for the postretirement health care benefits for the years ended December 31, and the plan's weighted average assumptions as of December 31, were as follows:

<TABLE>
<CAPTION>

In thousands	Postretirement Health Care Benefits		
	1998	1997	1996
<S>	<C>	<C>	<C>
Components of net periodic benefit costs			
Service cost	\$ 278	\$ 315	\$ 493
Interest cost	749	701	954
Expected return on plan assets	(68)	(60)	(45)
Amortization of unrecognized obligation at transition date	502	524	524
Amortization of prior service cost	-	18	18
Amortization of prior experience (gain)/loss	(134)	(218)	6
Net periodic benefit cost	\$ 1,327	\$ 1,280	\$ 1,950
Weighted-average assumptions			
Discount rate	6.75%	7.00%	7.50%
Expected return on plan assets (net of taxes)	5.00%	5.00%	5.00%

</TABLE>

Expense recognized for the years ended December 31, 1998, 1997, and 1996 amounted to \$1,327,000, \$1,280,000 and \$1,848,000, respectively. The difference between the net periodic postretirement cost and expense recognized has been recorded as a regulatory asset. Approval for recovery of these costs was received from the DPUC in BHC's Eastern Division's rate decision effective August 1, 1993, and BHC's Western Division's rate decision effective April 25, 1996.

For measurement purposes, a 7.8 percent annual increase in the per capita cost of covered health care benefits is assumed

for 1998 (8.4 percent and 9.0 percent for 1997 and 1996, respectively). This rate was assumed to decrease gradually to 6.0 percent for 2001 and remain at that level thereafter. A one-percentage-point change to the assumed health care cost trend rates for 1998 would have the following effects:

<TABLE> <CAPTION>	One-Percentage Point Increase -----	One-Percentage Point Decrease -----
<S>	<C>	<C>
In thousands		
Effect on total of service and interest cost Components	\$ 198	\$ (153)
Effect on postretirement benefit obligation	\$1,636	\$ (1,378)

</TABLE>

Postemployment benefits. In accordance with SFAS No. 112 "Employers' Accounting For Postemployment Benefits," the Company accrues the cost of providing benefits to former or inactive employees after employment but before retirement. These benefits are recognized over the employees' years of service or at the date of the event giving rise to such benefits.

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Note 13 - Incentive Stock Plans; Dividend Reinvestment and Common Stock Purchase Plan

In 1985, shareholders adopted a long-term incentive plan (Stock Plan) that provided for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock and performance units to key executives. As amended by shareholders in 1990, an aggregate of 525,000 shares of the Company's Common Stock could be awarded under the Stock Plan, which expired in January 1995.

In 1994, shareholders adopted the Aquarion Company Stock Incentive Plan (Incentive Plan) that provides for the granting of nonqualified stock options, stock appreciation rights, restricted stock, unrestricted stock and performance units (collectively, Awards), but no more than an aggregate of 525,000 shares of stock could be awarded under the Incentive Plan or purchased upon the exercise of stock options. In 1997, shareholders approved an amendment to the Incentive Plan to increase the number of shares by 300,000 to bring the total number of shares authorized for use under the plan to 825,000 shares. No awards will be granted under this plan after April 25, 1999.

Stock options available under the Stock Plan and Incentive Plan are exercisable at a price equal to the market value, unless otherwise indicated, at the date of the grant and remain exercisable for 10 years, conditioned on continued employment, from the date of the grant. As of December 31, 1998, 571,196 shares were exercisable under the Stock Plan. The following options have been awarded to key executives:

<TABLE> <CAPTION>	Number of Shares -----	Option Price per Share -----
<S>	<C>	<C>
In thousands		
Outstanding at December 31, 1994	514,150	\$20.63-\$28.28
Granted in 1995 (a)	178,100	\$23.25-\$23.50
Expired in 1995	(2,200)	\$21.75-\$27.13
Outstanding at December 31, 1995	690,050	\$20.63-\$28.28
Granted in 1996 (a)	167,900	\$25.25
Expired in 1996	(17,701)	\$21.75-\$27.13
Exercised in 1996	(19,528)	\$20.63-\$24.63
Outstanding at December 31, 1996	820,721	\$20.63-\$28.28
Granted in 1997 (a)	136,800	\$30.88
Expired in 1997	(14,300)	\$23.50-\$27.13
Exercised in 1997	(175,817)	\$20.63-\$28.28

Outstanding at December 31, 1997	767,404	\$20.63-\$28.28
Granted in 1998 (a)	156,200	\$37.75
Expired in 1998	(2,900)	\$23.50-\$30.88
Exercised in 1998	(56,612)	\$20.63-\$28.28
Outstanding at December 31, 1998	864,092	\$20.63-\$37.75

</TABLE>

(a) These options were granted on October 13, 1995, December 5, 1995, December 4, 1996, December 2, 1997 and December 14, 1998. One-third of the options granted become exercisable on each of the first three anniversaries of the grant date, except for options granted to certain individuals employed by IEA that became exercisable immediately upon the sale of that business.

In accordance with SFAS No. 123 "Accounting for Stock-Based Compensation," (SFAS 123) the Company adopted the disclosure method of accounting for stock-based compensation. The Company continues to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock issued to Employees," in accounting for its stock-based compensation plans and accordingly, no compensation expense has been recognized. If the Company had recorded compensation cost based upon the fair value at the grant date for Awards under these plans consistent with SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

<TABLE>

<CAPTION>

In thousands, except share data	1998	1997
<S>	<C>	<C>
Net Income		
As reported	\$19,959	\$15,011
Pro forma	\$19,494	14,776
Earnings per share		
As reported	\$2.69	\$2.10
Pro forma	\$2.63	\$2.07

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1998, 1997 and 1996: dividend yield of 4.4 percent; expected volatility of 24 percent; risk-free interest rate of 4.46 percent; and an expected life of six years.

The Company maintains a Dividend Reinvestment and Common Stock Purchase Plan (Reinvestment Plan) which provides holders of its common stock with a method of purchasing additional shares without payment of brokerage or service charges. In April 1994, the Company amended its Reinvestment Plan to allow shareholders to make optional cash payments at a 5 percent discount from the market price and to include an additional 750,000 shares in the plan. The total number of shares reserved for purchase under the Reinvestment Plan was 1,650,000, of which 1,428,283 shares were issued at December 31, 1998.

Note 14 - Property, plant and equipment

Net property, plant and equipment at December 31, consisted of the following components:

</TABLE>

<TABLE>

<CAPTION>

In thousands	1998	1997
<S>	<C>	<C>
Source of supply	\$33,331	\$33,995
Pumping	21,992	20,477
Water treatment	102,922	102,060
Transmission and distribution	278,097	266,368
General	34,432	36,419
Construction work in progress	6,245	7,068
Utility plant held for future use	466	466
Nonutility property	15,794	14,980
	-----	-----
	493,279	481,833

Less: accumulated depreciation	146,034	142,125
	-----	-----
	\$347,245	\$339,708
	=====	=====

</TABLE>

Note 15 - Inventories

Inventories at December 31, comprised the following:

<TABLE>		
<CAPTION>		
In thousands	1998	1997
<S>	<C>	<C>
Lumber and logs	\$3,534	\$2,561
Materials and supplies	992	1,179
	-----	-----
	\$4,526	\$3,740
	=====	=====

Note 16 - Statement of cash flows

Changes in assets and liabilities and supplemental cash flow information for the years ended December 31, are set forth below:

</TABLE>			
<TABLE>			
<CAPTION>			
In thousands	1998	1997	1996
<S>	<C>	<C>	<C>
Decrease (increase) in accounts receivable	\$266	\$ (876)	\$5,364
Decrease (increase) in other current assets	1,817	11,658	(11,592)
(Increase) decrease in inventory	(786)	(857)	579
Increase in prepayments	(1,944)	(2,248)	(1,082)
(Decrease) increase in accounts payable and accrued liabilities	(724)	(62)	2,094
Increase (decrease) in interest and taxes payable	1,719	(182)	398
Net changes in other noncurrent balance sheet items	(4,801)	(267)	1,000
	-----	-----	-----
	\$ (4,453)	\$7,166	\$ (3,239)
	=====	=====	=====

Supplemental cash flow information:

Cash paid for:			
Interest	\$10,434	\$10,374	\$ 9,336
Income taxes	\$10,225	\$ 8,221	\$10,602

</TABLE>

Supplemental disclosure of non-cash investing and financing activities

The sale of the discontinued operation (IEA) has been recorded as a non-cash investing transaction for the year ended December 31, 1996.

Note 17 - Commitments and contingencies

The Company from time to time is involved in legal actions arising in the ordinary course of its business. In the opinion of management, none of these matters will have a material adverse impact on the Company.

Note 18 - Subsequent event

On February 16, 1999, the Board of Directors approved a 3-for-2 split of the Company's issued common stock. The stock split was effected in the form of a 50 percent stock distribution on the Company's common stock, payable on March 22, 1999 to all shareholders of record on March 1, 1999. No financial information contained in the report has been adjusted to reflect the impact of the common stock split.

The following represents the pro forma effect of the stock

split as of December 31, 1998:

<TABLE>
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Basic earnings per share	\$1.79	\$1.40	\$0.87
Weighted average common shares outstanding	11,135,190	10,709,841	10,397,083
Diluted earnings per share	\$1.75	\$1.39	\$0.86
Weighted average common shares outstanding	11,417,585	10,823,439	10,461,845

</TABLE>

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Aquarion Company

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of

shareholders' equity present fairly, in all material respects, the financial position of Aquarion Company and its subsidiaries at

December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended

December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of

the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We

conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and

perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit

includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the

accounting principles used and significant estimates made by management, and evaluating the overall financial statement

presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

New York, NY

January 27, 1999, except as to Note 18, which is as of

February 16, 1999

MANAGEMENT'S STATEMENT ON RESPONSIBILITY

Management's Statement on Responsibility for Financial Information

The management of the Company is responsible for the fairness, integrity and objectivity of the Company's consolidated financial statements, including all related information presented in the annual report. These statements have been prepared in accordance with generally accepted accounting principles and include amounts based on management's best estimates and judgments.

Management maintains and relies on a system of internal controls, which provides reasonable assurance that assets are safeguarded and financial records are adequate and can be relied upon to produce accurate financial statements. The system includes the hiring and training of qualified personnel, written accounting and control policies and procedures, clearly drawn lines of

accountability and delegation of authority. In addition, the Company has an internal audit function which evaluates existing controls and recommends changes and improvements deemed necessary.

The Board of Directors' Audit Committee, which is comprised of four nonmanagement directors, meets periodically with the Company's senior officers, independent accountants and the Company's management. The Audit Committee reviews internal audits, financial reporting and internal control matters, as well as the nature and extent of the audit effort.

Management believes that the Company's policies and procedures, as well as its internal control system, independent accountants and the Audit Committee, provide you, the shareholder, with reasonable assurance as to the integrity of the Company's consolidated financial statements.

Richard K. Schmidt
President & Chief Executive Officer

Janet M. Hansen
Executive Vice President,
Chief Financial Officer
& Treasurer

January 27, 1999

SUPPLEMENTAL FINANCIAL INFORMATION

<TABLE>

<CAPTION>

	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Book value per share	\$19.56	\$18.26	\$17.52	\$17.72	\$17.43
Payout ratio (per share)	61.5%	77.6%	124.6%	85.3%	86.6%
Price/earnings ratio (1)	15.2	16.5	21.4	13.4	12.6
Capitalization:					
Long-term debt	49.0%	53.1%	54.7%	52.0%	49.1%
Preferred stock of subsidiaries	-	-	-	.1	0.2
Common equity	51.0	46.9	45.3	47.9	50.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%

</TABLE>

(1) Computed at December 31

Quarterly Financial Data
(Unaudited)

<TABLE>

<CAPTION>

In thousands, except share data	Operating revenues	Income before income taxes	Net income	Per Share (1)
<S>	<C>	<C>	<C>	<C>
1998				
First quarter	\$ 25,383	\$ 5,363	\$ 3,035	\$0.41
Second quarter	26,827	7,309	4,008	0.54
Third quarter	29,968	11,016	6,125	0.82
Fourth quarter	33,491	10,366	6,791	0.92
Total	\$115,669	\$34,054	\$19,959	
1997				
First quarter	\$ 23,389	\$ 4,287	\$ 2,388	\$0.34
Second quarter	26,522	6,345	3,536	0.50
Third quarter	29,226	10,230	5,732	0.80
Fourth quarter	27,965	6,065	3,355	0.46

Total	\$107,102	\$26,927	\$15,011
	=====	=====	=====

</TABLE>

- (1) Quarterly earnings per share are based on weighted average shares outstanding during each quarter.

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Market and dividend information

The following table sets forth the high and low closing sale prices of the Company common stock as traded on the New York Stock Exchange (NYSE) and as reported on the NYSE composite tape, along with dividends paid per share on a quarterly basis. At December 31, 1998, there were 8,138 shareholders of record compared to 8,017 shareholders of record at December 31, 1997.

<TABLE>
<CAPTION>

Period	Closing sales price		Dividends paid
	High	Low	
<S>	<C>	<C>	<C>
1998			
First quarter	36 1/2	31 1/2	\$.41
Second quarter	34 11/16	31 5/8	.41
Third quarter	35 7/8	33 1/8	.415
Fourth quarter	41	32 7/16	.415
1997			
First quarter	28 1/2	\$27	\$.405
Second quarter	27 3/4	24 3/4	.405
Third quarter	28 1/8	25 1/8	.41
Fourth quarter	36 1/2	27	.41

</TABLE>
<TABLE>
<CAPTION>

Water supplied from Utility Operations

<S>	1998	1997	1996	1995	1994
	<C>	<C>	<C>	<C>	<C>
Consumption: (Millions of Gallons)					
Residential	11,781	11,641	11,036	12,129	10,586
Commercial	4,720	4,674	4,275	4,606	4,815
Industrial	1,743	1,747	1,988	2,236	2,388
Other	2,219	1,960	1,949	2,467	2,255
Total	20,463	20,022	19,248	21,438	20,044

</TABLE>

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Exhibit A

BHC COMPANY

TO

STATE STREET BANK AND TRUST COMPANY, SUCCESSOR TRUSTEE

TWENTY-FIFTH SUPPLEMENTAL MORTGAGE

Dated as of December 1, 1998

Securing First Mortgage Bonds, Amending
First Mortgage 6 7/8 % Bonds Series R due November 1, 1998
and Providing for Releases of Property

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THIS INDENTURE dated as of the 1st day of December, 1998,
between BHC Company (formerly called BRIDGEPORT HYDRAULIC
COMPANY), a consolidated corporation chartered by the General
Assembly of the State of Connecticut by Special Act approved
May 5, 1927, and having its principal place of business in
Bridgeport, Fairfield County, Connecticut (hereinafter called
the "Company"), party of the first part (being the successor
corporation to THE BRIDGEPORT HYDRAULIC COMPANY), and STATE
STREET BANK AND TRUST COMPANY, a corporation organized and
existing under the laws of the Commonwealth of Massachusetts
and having its principal office and place of business in said
Boston, Massachusetts (hereinafter called the "Trustee"),
party of the second part (being the successor corporation to
Citytrust, The Bridgeport Trust Company, The Bridgeport-City
Trust Company, City Trust Company and City National Bank of
Connecticut);

W I T N E S S E T H:

WHEREAS, said The Bridgeport Hydraulic Company
(predecessor to the Company) duly executed a certain First
Mortgage to said The Bridgeport Trust Company (predecessor to
the Trustee), as of the first day of June, 1924, and recorded
among other towns in Volume 525, pages 1 to 86, both
inclusive, of the Land Records of said Bridgeport (hereinafter
sometimes called the "Original Mortgage", and as heretofore

supplemented, modified and confirmed by all indentures supplemented thereto, hereinafter sometimes called the "First Mortgage"); and

WHEREAS, twenty-four indentures (hereinafter collectively sometimes called the "preceding Supplemental Indentures")

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supplemental to or in modification of the Original Mortgage have been duly executed, delivered and recorded; and

WHEREAS, in Section 2 of Article Twelfth of the Original Mortgage it is provided, among other things, that the holders of seventy-five percent (75%) in aggregate principal amount of bonds outstanding under the Indenture may assent to and authorize any modification of any of the provisions of the First Mortgage proposed by the Company; and

WHEREAS, the execution and delivery of this Supplemental Indenture has been in all respects duly and validly authorized;

NOW, THEREFORE, THIS SUPPLEMENTAL MORTGAGE WITNESSETH that, pursuant to and in execution of the powers, authorities and obligations conferred, imposed and reserved in the First Mortgage, and of every other power, authority and obligation

thereto appertaining or enabling, the Company, for and in consideration of the premises and of the sum of One Dollar (\$1.00) to it in hand paid by the Trustee, the receipt whereof is hereby acknowledged, and of other valuable consideration, in order further to secure payment of the principal and interest of all bonds now and at any time issued and outstanding under the First Mortgage and hereunder according to their tenor, purport and effect, and the faithful, due and punctual performance and observance of all the covenants and conditions therein and herein contained, does hereby confirm the grant, bargain, sale, assignment, mortgage, pledge, transfer, setting over, alienation, enfeoffment, release, conveyance and confirmation of the property set forth and

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described or intended so to be in the Original Mortgage and in the preceding Supplemental Indentures, as modified, and has granted, bargained, sold, assigned, mortgaged, pledged, transferred, set over, aliened, enfeoffed, released, conveyed and confirmed, and by these presents does grant, bargain, sell, assign, mortgage, pledge, transfer, set over, alien, enfeoff, release, convey and confirm unto The State Street Bank and Trust Company, as Trustee, and its successor or successors in the trusts created by the First Mortgage and hereby created and confirmed, and its and their assigns, all and singular its property, rights, privileges and franchises, located in the towns of Beacon Falls, Bethel, Bridgeport,

Canaan, Cornwall, Danbury, Darien, Easton, Fairfield, Goshen, Kent, Litchfield, Monroe, New Canaan, New Fairfield, Newtown, Norfolk, North Canaan, Norwalk, Oxford, Redding, Ridgefield, Salisbury, Seymour, Shelton, Sherman, Southbury, Stamford, Stratford, Torrington, Trumbull, Weston, Westport, Wilton and Woodbridge, in the State of Connecticut; hereby making reference (but without limiting the generality of the foregoing) for a more particular description of said property and rights, to the Original Mortgage and the preceding Supplemental Indentures (except such properties or interests therein as are specifically excepted therein or herein) and similarly including all other property, real, personal and mixed, located in any of said towns or elsewhere in said Fairfield County, said Litchfield County or said New Haven County and all rights, privileges and franchises, however acquired, and whether now owned or hereafter acquired by the Company (subject, in respect of property of any subsequent successor to the Company, to the provisions of Section 3 of

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Article Sixth of the First Mortgage, and except such properties or interests therein as are specifically excepted).

THERE IS EXCEPTED FROM THE LIEN AND OPERATION OF THIS SUPPLEMENTAL MORTGAGE ALL THE PROPERTY DESCRIBED IN THE INSTRUMENTS LISTED IN THE SCHEDULES IN THE ORIGINAL MORTGAGE

ON THE PRINTED PAGES 37 TO 39, INCLUSIVE, COMMENCING WITH THE PROPERTY LISTED UNDER THE HEADING "EASTON" AND EXTENDING TO THE END OF THE PROPERTY LISTED UNDER THE HEADING "TOWN OF FAIRFIELD" AND THERE IS ALSO EXCEPTED FROM THE LIEN AND OPERATION OF THIS SUPPLEMENTAL MORTGAGE ALL PROPERTY OR INTERESTS THEREIN SOLD OR OTHERWISE DISPOSED OF BY THE BRIDGEPORT HYDRAULIC COMPANY OR BY BRIDGEPORT HYDRAULIC COMPANY IN ACCORDANCE WITH THE TERMS AND PROVISIONS OF THE FIRST MORTGAGE, OR SOLD OR DISPOSED OF BY ANY COMPANIES MERGED WITH OR CONSOLIDATED INTO BHC COMPANY PRIOR TO THEIR MERGER OR CONSOLIDATION INTO THE COMPANY.

The Company s property above described is subject also to a grant by the Company to The Connecticut Light and Power Company for the construction, operation and maintenance of towers, poles and lines for the transmission of electricity, the same being recorded in the land records of Bridgeport, Volume 520, pages 487-496, Fairfield, Volume 114, pages 614-618, and Easton, Volume 14, pages 233-239, and to a grant by the Company to Northeastern Gas Transmission Company for the construction, operation and maintenance of a pipeline for the transmission of natural gas, the same being recorded in the land records of Fairfield, Volume 270, pages 372-375, and Shelton, Volume 125, pages 493-495.

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Also similarly including in the mortgage, conveyance and

assignment of these presents all the right, title and interest of the Company in the water transmission and distribution and other mains and pipes and other equipment laid in the towns of Beacon Falls, Bethel, Bridgeport, Canaan, Cornwall, Danbury, Darien, Easton, Fairfield, Goshen, Kent, Litchfield, Monroe, New Canaan, New Fairfield, Newtown, Norfolk, North Canaan, Norwalk, Oxford, Redding, Ridgefield, Salisbury, Seymour, Shelton, Sherman, Southbury, Stamford, Stratford, Torrington, Trumbull, Weston, Westport, Wilton and Woodbridge, in the State of Connecticut, including all such mains and pipes shown on a certain map marked "Exhibit A, Revised to April, 1980, mentioned in Twenty-Third Supplemental Mortgage," which map is on file in the offices at Bridgeport of the Company and of the Trustee and open to inspection and examination by any party concerned with these presents, together with all its right, title and interest in and to the service pipes, hydrants, meters, valves and other appliances and apparatus physically connected with said mains or pipes or now in use in connection therewith, whether in the highways of the above-named towns or on private property.

Also all machinery, engines, boilers, implements, motor vehicles, tools, equipment, furniture, office fixtures and machines, and other personal property situated and used in and about the plant of the Company in the various towns above-

named in which its real estate and other property hereby mortgaged are situated, including any and all after-acquired property forming a part of the establishment of the Company and connected with or situated and used therein, and also any and all after-acquired, substituted machinery or personal

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property of like nature to the property included in the First Mortgage and herein.

Also all the other property, real, personal or mixed, and all rights and franchises, now owned or which may hereafter be acquired by the Company.

Provided, however, that there are excepted from the property and property rights by the First Mortgage and by this Supplemental Mortgage granted, bargained, sold, assigned, mortgaged, pledged, transferred, set over, aliened, enfeoffed, released, conveyed and confirmed:

(i) all properties or interests therein heretofore released by the Trustee or sold or disposed of in whole or in part as permitted by the provisions of the First Mortgage;

(ii) the last day of the term of each leasehold estate (oral or written or any agreement therefor)

enjoyed by the Company at the time of the execution of the Original Mortgage, of the preceding Supplemental Indentures or of this Supplemental Mortgage, or hereafter, and whether falling within a general or particular description of property therein or herein;

(iii) all of the following properties and rights, whether owned at the time of the execution of the Original Mortgage, of the preceding Supplemental Indentures or of this Supplemental Mortgage or hereafter acquired by the Company, unless specifically required to

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be delivered or paid to and held by the Trustee pursuant to some provision of the Original Mortgage, of this Supplemental Mortgage or of some other indenture supplemental to the Original Mortgage:

(a) all shares of stock, bonds, notes, evidences of indebtedness and other securities,

(b) cash on hand and in banks,

(c) all claims, bills, notes and accounts receivable, contracts, choses in action and judgments (other than choses in action and judgments for the

recovery of real property or establishing a lien, charge or right therein),

(d) any stock of goods, wares and merchandise, equipment and supplies acquired for the purpose of consumption (otherwise than by ordinary wear and tear) in the operation, construction, maintenance or repair of any of the properties of the Company, other than goods, wares and merchandise, equipment and supplies acquired for the purpose of consumption in connection with the construction of the Facility,

(e) ice, gravel, rock, sand, hay, grain, crops, fruits and other products, other than such as are acquired for the purpose of incorporation in the Facility;

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provided, however, that if and so long as the Trustee after an event of default shall have entered upon and remain in possession of the mortgaged property, or if a receiver, trustee or other official shall be designated by a court having jurisdiction to have, and so long as any such official shall have, possession, custody or control of the mortgaged property, then the property and rights expressly excepted by this subclause (iii) from the lien and operation of the First Mortgage and this Supplemental Mortgage shall (to the extent

permitted by law) cease to be so excepted, and the Trustee or such officials, as the case may be, may (to the extent permitted by law) take possession of any and all of the property described in this subclause (iii) then on hand, subject to any lien thereon then existing, and possess, use and administer the same to the same extent as if such property were part of the property hereby mortgaged, unless and until possession of the property hereby mortgaged shall be restored, subject to any liens then existing thereon, to the Company, its successors or assigns; and upon the taking of such possession, until such possession shall be restored as aforesaid, the First Mortgage and this Supplemental Mortgage shall (to the extent permitted by law) become and be a lien upon all of the property and rights specified in this subclause (iii) as to which the Trustee or such official shall take possession.

It is the intention and it is hereby agreed that all property of the kind hereinbefore described and acquired by the Company after the date hereof (but not including any property of the character above excepted and excluded) shall, except as otherwise provided herein, be as fully embraced

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within the provisions of the First Mortgage and of this Supplemental Mortgage, and subject to the lien thereby and

hereby created, as if all of said property had been in existence and owned by said The Bridgeport Hydraulic Company at the time of the execution of, and had been specifically described in and conveyed by, the Original Mortgage, and as if all of said property were now in existence and owned by the Company and were specifically described herein and conveyed hereby.

TO HAVE AND TO HOLD all and singular the property, rights, privileges and franchises hereby granted or mentioned or intended so to be, together with all and singular the reversions, remainders, rents, revenues, incomes, issues and profits, privileges and appurtenances, now or hereafter belonging or in anywise appertaining thereto, unto the Trustee and its successors in the trust created by the First Mortgage and hereby, and its and their assigns, forever.

BUT IN TRUST, NEVERTHELESS, for the equal and proportionate benefit and security of all present and future holders of the bonds and coupons issued and to be issued under and secured by the First Mortgage, this Supplemental Mortgage and by all indentures supplemental thereto or hereto (except the holders of the bonds designated Series A through Series Q and Series S, T and U) and to secure the payment of such bonds (except bonds of Series A through Series Q and Series S, T and U) and the interest thereon when payable in accordance with

the provisions thereof or hereof, and to secure the performance of and compliance with the covenants and conditions of the First Mortgage, of this Supplemental

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Mortgage and of all indentures supplemental thereto and hereto, without preference, priority or distinction, except as provided in Section 1 of Article Eighth of the Original Mortgage, as to lien or otherwise of any one bond over any other bond by reason of priority in the issue or negotiation thereof, and under and subject in all respects to the terms, conditions, provisions, covenants, reservations, rights, powers, privileges, immunities, duties and obligations in favor of or resting upon the Trustee, as well as those in favor of or resting upon the Company, set forth in the First Mortgage and herein, with the same force and effect for all intents and purposes as if all of said property, rights, privileges and franchises had been in existence and owned by said The Bridgeport Hydraulic Company at the time of the execution of, and had been specifically included in, the Original Mortgage and specifically mortgaged, conveyed, assigned and transferred therein and thereby, and as if all of the bonds had been issued, sold and delivered for value simultaneously with the execution and delivery of the Original Mortgage.

In addition to and in confirmation of the covenants, agreements, conditions and provisions of the First Mortgage, insofar as the same are applicable, it is hereby further covenanted, declared and agreed, upon the trusts and for the purposes aforesaid, as set forth in the following further conditions, covenants, agreements and provisions, to wit:

ARTICLE FIRST

Amendment of Series R Bonds

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Section 1. Maturity Date. The series of bonds entitled "First Mortgage Bonds, Series R" (herein sometimes referred to as "Series R bonds" or "bonds of Series R"), limited in aggregate principal amount to Five Million Dollars (\$5,000,000) shall be issuable only in the form of registered bonds without coupons of the denomination of \$1,000 and multiples thereof.

All Series R bonds as amended shall mature November 1, 2028 and shall bear interest at the rate of six and seven eighths per cent (6 7/8%) per annum from their respective dates, such interest to be payable semi-annually on May 1 and November 1 in each year. Both the principal of and interest on bonds of Series R shall be payable either (i) at the main office of The State Street Bank and Trust Company, or at the main office of its successor in the trusts created by First

Mortgage; or (ii) directly to the holder or holders of the Series R Bonds.

The texts of the bonds of Series R and the Trustee's certificate with respect to the Series R bonds shall be respectively substantially of the tenor and purport set forth in the Twentieth Supplemental Indenture, except as necessarily modified by this Twenty-Fourth Supplemental Indenture.

Section 2. Redemption of Series B Bonds. The Improvement Fund for the Series R Bonds is hereby eliminated. At the option of the Company and upon notice given as provided in Section 1 of Article Fourth of the Original Mortgage, the bonds of Series R shall be redeemable in whole or, from time to time, in part, at any time at the principal amount thereof and interest accrued to the date fixed for redemption, without premium.

Except to the extent that other provision is made in this Article, any redemption or purchase of bonds of Series R shall be made in the manner, subject to the requirements, and with the effects specified in Article Fourth of the Original Mortgage.

ARTICLE SECOND

Release of Property

Section 1. Out-of-State Property. Effective upon execution of this Twenty-Fifth Supplemental Indenture and notwithstanding any contrary provision of the Original Mortgage or of the First Mortgage, all property of the Company located outside the State of Connecticut is hereby released and discharged from the lien of the First Mortgage; and the Trustee shall, upon request of the Company and without the necessity of complying with any provisions of the First Mortgage or any other requirement, from time to time execute such instruments of disclaimer, release, quitclaim, waiver, consent or confirmation as may be appropriate to evidence the release of all or any portion of said out-of-state property from the lien of the First Mortgage.

Section 2. Releases. Effective upon execution of this Twenty-Fifth Supplemental Indenture and notwithstanding any contrary provision of the Original Mortgage or of the First Mortgage, the Company, with the written consent of the holders of at least 80% of the bonds outstanding under the First

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Mortgage, may, at any time and from time to time, obtain the release from the lien of the First Mortgage of any part of mortgaged property without the necessity of complying with any

provisions of the First Mortgage or of any other requirement other than this Section 2 of Article Second of this Twenty-Fifth Supplemental Indenture. Upon receipt by the Trustee of (i) a written request of the Company specifying the property to be so released; and (ii) a consent to such release executed by the holder or holders of at least 80% of the bonds then outstanding under the First Mortgage, the Trustee shall execute said instruments of disclaimer, release, quitclaim, waiver, consent or confirmation as may be appropriate to evidence the release of such property from the lien of the First Mortgage.

ARTICLE THIRD

Particular Covenants of the Company

Section 1. The Company covenants and agrees that, subject to the encumbrances, reservations, easements, estates for life and limitations expressly set forth in the granting clauses of the Original Mortgage and the preceding Supplemental Indentures, as modified, and of this Supplemental Mortgage or indicated in the column headed "Remarks" in the schedules of the real estate or parcels of real estate set forth in said granting clauses, the Company has good title to and is possessed of the lands and other property described in such granting clauses and in and to the lands and other

property mortgaged by this Supplemental Mortgage and thereby and hereby granted, and the Company will warrant and defend, except as above stated, the aforesaid title to said lands and

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other property as well as to any lands and other property hereafter made subject to the lien of the First Mortgage or hereof, or of any indenture supplemental thereto or hereto, to the Trustee, its successors in the trust and its and their assigns, for the benefit of the holders of bonds issued and to be issued under the First Mortgage or any indenture supplemental thereto, against claims and demands of all persons whomsoever; subject, however, insofar as affected thereby in the case of any such lands and other property hereafter subjected to the lien of the First Mortgage or of any indenture supplemental thereto, to the liens and encumbrances thereon, if any, at the time they shall become subject thereto.

Section 2. Except as so amended by Articles First and Second hereof, the Company hereby expressly ratifies, adopts, renews, confirms and continues in full force and effect, without limitation, each and every covenant, agreement, condition and provision contained in the First Mortgage.

ARTICLE FOURTH

Miscellaneous Provisions

The Trustee shall be entitled to, may exercise and shall be protected by, where and to the full extent that the same are applicable, all the rights, powers, privileges, immunities and exemptions provided in the First Mortgage, as if the provisions concerning the same were incorporated herein at length. The Trustee under the First Mortgage shall ex officio be Trustee hereunder. The remedies and provisions of the First Mortgage applicable in case of any default by the

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Company thereunder are hereby adopted and made applicable in case of any default with respect to the properties included herein, and, without limitation of the generality of the foregoing, there are hereby conferred upon the Trustee the same powers of sale and other powers over the properties described herein as are expressed to be conferred by the First Mortgage.

The recitals in this Supplemental Mortgage shall be taken as recitals by the Company alone, and shall not be considered as made by or as imposing any obligation or liability upon the Trustee, nor shall the Trustee be held responsible for the legality or validity of this Supplemental Mortgage, and the Trustee makes no covenants or representations, and shall not be responsible, as to or for the effect, authorization,

execution, delivery or recording of this Supplemental Mortgage, except as expressly set forth in the First Mortgage. The Trustee shall not be taken impliedly to waive by this Supplemental Mortgage any right it would otherwise have. As provided in the First Mortgage, this Supplemental Mortgage shall hereafter form a part of the First Mortgage.

This Supplemental Mortgage shall become void when the First Mortgage shall be void.

Except as amended by Articles First and Second hereof, this Supplemental Mortgage is expressly made subject to all the conditions, covenants and provisions of the First Mortgage.

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The cover of this Supplemental Mortgage and all article headings, and the table of contents and marginal notes, if any, are inserted for convenience of reference only, and are not to be taken to be any part of this Supplemental Mortgage or to control or affect the meaning, construction or effect of the same.

This Supplemental Mortgage may be executed in any number of counterparts, each of which shall be and shall be taken to be an original and all collectively but one instrument.

IN WITNESS WHEREOF the Company has caused these presents to be executed by its President or a Vice-President and its corporate seal to be hereunto affixed, duly attested by its Secretary or an Assistant Secretary, and the Trustee has caused these presents to be executed by its President or by one of its Vice Presidents, and its corporate seal to be hereunto affixed, duly attested by its Secretary, an Assistant Secretary or a Trust Officer, as of the day and year first above written.

Signed, Sealed and delivered
in the presence of:

BHC COMPANY

By _____

Name:
Title:

(Corporate Seal)
Attest:

_____ Secretary

STATE STREET BANK AND
TRUST COMPANY

By _____

Name:

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Title:

(Corporate Seal)
Attest:

_____ Trust Officer

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STATE OF CONNECTICUT)
) ss: BRIDGEPORT
COUNTY OF FAIRFIELD)

On this the _____ day of December, 1998, before me,
_____, the undersigned officer, personally
appeared _____, Vice President, and
_____, Secretary, who acknowledged
themselves to be Vice President and Secretary of BHC Company,
a corporation, and that they, as such Vice President and
Secretary, being authorized so to do, executed the foregoing
instrument for the purposes therein contained by signing the
name of the corporation by themselves as Vice President and
Secretary.

IN WITNESS WHEREOF, I have hereunto set my hand and
official seal.

Notary Public
(Notarial Seal)
My Commission
Expires: _____

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STATE OF CONNECTICUT)
) ss: HARTFORD
COUNTY OF HARTFORD)

On this the _____ day of December, 1998, before me,
_____, the undersigned officer, personally

appeared _____, Vice President, and
_____, Trust Officer, who acknowledged
themselves to be Vice President and Trust Officer of State
Street Bank and Trust Company, a corporation, and that they,
as such Vice President and Trust Officer, being authorized so
to do, executed the foregoing instrument for the purposes
therein contained by signing the name of the corporation by
themselves as Vice President and Trust Officer.

IN WITNESS WHEREOF, I have hereunto set my hand and
official seal.

Notary Public
(Notarial Seal)

My Commission
Expires: _____

BONDHOLDER CONSENT

The undersigned, AQUARION COMPANY, a Delaware
corporation, as owner of all of the outstanding bonds of BHC
Company issued under and pursuant to the First Mortgage
executed by the Bridgeport Hydraulic Company (predecessor to
BHC Company) and The Bridgeport Trust Company (predecessor to
The State Street Bank and Trust Company as Trustee) dated as
of June 4, 1924, as supplemented by 24 indentures supplemental

to or in modification of the original mortgage, hereby consents to the execution by BHC Company and The State Street Bank and Trust Company, as successor Trustee, of a Twenty-Fifth Supplemental Indenture dated as of November 1, 1998 in substantially the form attached hereto as Exhibit A. As the sole holder of bonds issued under said First Mortgage, as supplemented, the undersigned hereby consents to the amendment of the terms of the Series R bonds and the implementation of the release provisions, all as reflected in said Twenty-Fifth Supplemental Indenture.

IN WITNESS WHEREOF, the undersigned has caused this Consent to be executed by its President or Vice President and its corporate seal to be hereunto affixed and duly attested by its Secretary or an Assistant Secretary, as of this ___ day of November, 1998.

AQUARION COMPANY

By _____

Name:
Title:

(Corporate Seal)

ATTEST _____
Secretary

HART01-229649-1

10309-11230

March 18, 1999 3:24 pm

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This schedule contains summary information extracted from the December 31, 1998 Aquarion Company form 10-k and is qualified in its entirety by reference to such financial statements.

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RESTATED CERTIFICATE OF INCORPORATION

of

AQUARION COMPANY

Pursuant to Section 245 of the
General Corporation Law of the State of Delaware

AQUARION COMPANY, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, hereby certifies as follows:

1. The present name of the corporation is AQUARION COMPANY (the "Corporation"). The Corporation was originally incorporated under the name THE HYDRAULIC COMPANY, and the date of filing of the original Certificate of Incorporation of the Corporation with the Secretary of State of the State of Delaware was October 17, 1968.

2. The provisions of the Certificate of Incorporation of the Corporation are hereby restated and integrated into the single instrument that is hereinafter set forth, and that is entitled "Restated Certificate of Incorporation of Aquarion Company."

3. The restatement of the Certificate of Incorporation herein certified has been duly adopted and approved by the Board of Directors without a vote of the stockholders in accordance with the provisions of Section 245 of the Delaware General Corporation Law.

4. The Restated Certificate of Incorporation of Aquarion Company only restates and integrates and does not further amend the provisions of the Corporation's Certificate of Incorporation as heretofore amended or supplemented, and there is no discrepancy between those provisions and the provisions of the Restated Certificate of Incorporation of Aquarion Company.

RESTATED CERTIFICATE OF INCORPORATION

of

Article 1. The name of the Corporation is AQUARION COMPANY.

Article 2. The address of the Corporation's

registered office in the State of Delaware is 229 South State Street, City of Dover, County of Kent. The name of the Corporation's registered agent at such address is The Prentice-Hall Corporation System, Inc.

Article 3. The nature of the business and the

purposes to be conducted and promoted by the Corporation are to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

Article 4. The amount of the total authorized capital

stock of Corporation shall be 2,500,000 shares of preferred stock, no par value, provided that the Corporation shall not issue shares of such Preferred Stock if such issue would increase the aggregate stated value of the Corporation's issued and outstanding Preferred Stock to an amount in excess of 25,000,000 and 16,000,000 shares of Common Stock, no par value. Holders of Common Stock shall have no pre-emptive rights to subscribe to any future issues of shares of Common Stock. The Board of Directors shall be empowered to issue and dispose of both the Preferred Stock and the Common Stock from time to time with such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations and restrictions thereof as the Board may provide for in the resolution or resolutions providing for the issue of such stock adopted by the Board of Directors.

Series B Junior Participating Preferred Stock:

Section a. Designation and Amount. The shares of such

series shall be designated as "Series B Junior Participating Preferred Stock" (the "Series B Preferred Stock") and the number of shares constituting the Series B Preferred Stock shall be 100,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided,

that no decrease shall reduce the number of shares of Series B Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for

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issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Company convertible into Series B Preferred Stock. Shares of Series B Preferred Stock shall have a stated capital of \$10.00 per share, which for purposes of Article 4 of the Certificate of Incorporation shall constitute the "stated value" of such shares.

Section b. Dividends and Distributions.

(1) Subject to the rights of the holders of any shares of any series of Preferred Stock of the Company (the "Preferred Stock") (or any similar stock) ranking prior and superior to the Series B Preferred Stock with respect to dividends, the holders of shares of Series B Preferred Stock, in preference to the holders of Common Stock, no par value (\$1 per share stated value) of the Company (the "Common Stock") and of any other stock of the Company ranking junior to the Series B Preferred Stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the last day of January, April, July, and October in each year (each such date being referred to herein as a "Dividend Payment Date"), commencing on the first Dividend Payment Date after the first issuance of a share or fraction of a share of Series B Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$1 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock, declared on the Common Stock since the immediately preceding Dividend Payment Date or, with respect to the first Dividend Payment Date, since the first issuance of any share or fraction of a share of Series B Preferred Stock. In the event the Company shall at any time after June 25, 1996 declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such

case the amount to which holders of shares of Series B Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(2) The Company shall declare a dividend or distribution on the Series B Preferred Stock as provided in paragraph (A) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the

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event no dividend or distribution shall have been declared on the Common Stock during the period between any Dividend Payment Date and the next subsequent Dividend Payment Date, a dividend of \$1 per share on the Series B Preferred Stock shall nevertheless be payable, when, as and if declared, on such subsequent Dividend Payment Date.

(3) Dividends shall begin to accrue and be cumulative, whether or not earned or declared, on outstanding shares of Series B Preferred Stock from the Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series B Preferred Stock entitled to receive a quarterly dividend and before such Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series B Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series B Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

Section c. Voting Rights. The holders of shares of

Series B Preferred Stock shall have the following voting rights:

(1) Subject to the provision for adjustment hereinafter set forth and except as otherwise provided in the Certificate of Incorporation or required by law, each share of Series B Preferred Stock shall entitle the holder thereof to 100 votes on all matters upon which the holders of the Common Stock of the Company are entitled to vote. In the event the Company shall at any time after June 25, 1996 declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series B Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

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(2) Except as otherwise provided herein, in the Certificate of Incorporation or in any other Certificate of Designations creating a series of Preferred Stock or any similar stock, and except as otherwise required by law, the holders of shares of Series B Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Company having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Company.

(3) Except as set forth herein, or as otherwise provided by law, holders of Series B Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section d. Certain Restrictions.

(1) Whenever quarterly dividends or other dividends or distributions payable on the Series B Preferred Stock as

provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not earned or declared, on shares of Series B Preferred Stock outstanding shall have been paid in full, the Company shall not:

(a) declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (as to dividends) to the Series B Preferred Stock;

(b) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (as to dividends) with the Series B Preferred Stock, except dividends paid ratably on the Series B Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(c) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series B Preferred Stock, provided that the Company may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Company ranking junior (as to dividends and upon dissolution, liquidation or winding up) to the Series B Preferred Stock or rights, warrants or options to acquire such junior stock;

(d) redeem or purchase or otherwise acquire for consideration any shares of Series B Preferred Stock, or any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series B Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such

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shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(2) The Company shall not permit any subsidiary of the Company to purchase or otherwise acquire for consideration any shares of stock of the Company unless the Company could,

under paragraph (A) of this Section d, purchase or otherwise acquire such shares at such time and in such manner.

Section e. Reacquired Shares. Any shares of Series B

Preferred Stock purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their retirement become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to any conditions and restrictions on issuance set forth herein.

Section f. Liquidation, Dissolution or Winding Up. Upon any liquidation, dissolution or winding up of the Company, no distribution shall be made (A) to the holders of the Common Stock or of shares of any other stock of the Company ranking junior, upon liquidation, dissolution or winding up, to the Series B Preferred Stock unless, prior thereto, the holders of shares of Series B Preferred Stock shall have received \$100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not earned or declared, to the date of such payment, provided that the holders of shares of Series B Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of shares of Common Stock, or (B) to the holders of shares of stock ranking on a parity upon liquidation, dissolution or winding up with the Series B Preferred Stock, except distributions made ratably on the Series B Preferred Stock and all such parity stock in pro-portion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event, however, that there are not sufficient assets available to permit payment in full of the Series B liquidation preference and the liquidation preferences of all other classes and series of stock of the Company, if any, that rank on a parity with the Series B Preferred Stock in respect thereof, then the assets available for such distribution shall be distributed ratably to the holders of the Series B Preferred Stock and the holders of such parity shares in the proportion to their respective liquidation preferences. In the event the Company shall at any time after June 25, 1996 declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination

or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series B Preferred Stock were entitled immediately prior to such event under the proviso in clause (A) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section g. Consolidation, Merger, etc. In case the

Company shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are converted into, exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series B Preferred Stock shall at the same time be similarly converted into, exchanged for or changed into an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is converted, exchanged or converted. In the event the Company shall at any time after June 25, 1996 declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the conversion, exchange or change of shares of Series B Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section h. No Redemption. The shares of Series B

Preferred Stock shall not be redeemable from any holder.

Section i. Rank. The Series B Preferred Stock shall

rank, with respect to the payment of dividends and the distribution of assets upon liquidation dissolution or winding

up of the Company, junior to all other series of Preferred Stock and senior to the Common Stock.

Section j. Amendment. If any proposed amendment to the

Certificate of Incorporation (including this Certificate of Designations) would alter, change or repeal any of the

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preferences, powers or special rights given to the Series B Preferred Stock so as to affect the Series B Preferred Stock adversely, then the holders of the Series B Preferred Stock shall be entitled to vote separately as a class upon such amendment, and the affirmative vote of two-thirds of the outstanding shares of the Series B Preferred Stock, voting separately as a class, shall be necessary for the adoption thereof, in addition to such other vote as may be required by the General Corporation Law of the State of Delaware.

Section k. Fractional Shares. Series B Preferred Stock

may be issued in fractions of a share that shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series B Preferred Stock.

Article 5. The vote of the stockholders of the

Corporation required to approve any Business Combination shall be as set forth in this Article 5. The term "Business Combination" shall have the meaning ascribed to it in Paragraph 1.(B) of this Article. Each other capitalized term shall have the meaning ascribed to it in Paragraph 3 of this Article.

1. (A) In addition to any affirmative vote required by law or this Restated Certificate of Incorporation and except as otherwise expressly provided in Paragraph 2 of this Article 5:

(1) any merger or consolidation of the Corporation or any Subsidiary with (i) any Interested Stockholder or (ii) any other Person (whether or not itself an Interested Stockholder) which is, or after such merger or consolidation would be, an Affiliate of an Interested Stockholder; or

(2) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with any Interested Stockholder or any Affiliate of any Interested Stockholder of assets of the Corporation or any Subsidiary having an aggregate Fair Market Value of \$5,000,000 or more; or

(3) the issuance or transfer by the Corporation or any Subsidiary (in one transaction or a series of transactions) of any securities of the Corporation or any Subsidiary to any Interested Stockholder or any Affiliate of any Interested Stockholder in exchange for cash, securities or other property (or a combination thereof) having an aggregate Fair Market Value of \$5,000,000 or more, other than the issuance of securities upon the conversion of convertible securities of the Corporation or any Subsidiary which were not acquired by such Interested Stockholder (or such Affiliate) from the Corporation or a Subsidiary; or

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(4) the adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of an Interested Stockholder or any Affiliate of any Interested Stockholder; or

(5) any transaction involving the Corporation or any Subsidiary (whether or not with or into or otherwise involving an Interested Stockholder), and including, without limitation, any reclassification of securities (including any reverse stock split), or recapitalization or reorganization of the Corporation, or any merger or consolidation of the Corporation with any of its Subsidiaries or any self tender offer for or repurchase of securities of the Corporation by the Corporation or any Subsidiary or any other transaction (whether or not with or into or otherwise involving an Interested Stockholder), which in any such case has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity securities or securities convertible into equity securities of the Corporation or any Subsidiary which is directly or indirectly beneficially owned by any Interested Stockholder or any Affiliate of any Interested Stockholder;

shall require the affirmative vote of the holders of at least 80 percent of the combined voting power of the then outstanding shares of the Voting Stock, in each case voting together as a single class (it being understood that for purposes of this Article 5, each share of the Voting Stock

shall have the number of votes granted to it pursuant to Article 4 of this Restated Certificate of Incorporation or any designation of the rights, powers and preferences of any class or series of Preferred Stock made pursuant to said Article 4 (a "Preferred Stock Designation")), which vote shall include the affirmative vote of at least two-thirds (2/3) of the combined voting power of the outstanding shares of Voting Stock held by stockholders other than the Interested Stockholder. Such affirmative vote shall be required notwithstanding any provision of law or any other provision of this Restated Certificate of Incorporation or any agreement with any national securities exchange or otherwise which might permit a lesser vote or no vote and in addition to any affirmative vote required of the holders of any class or series of Voting Stock pursuant to law, this Restated Certificate of Incorporation or any Preferred Stock Designation.

(B) The term "Business Combination" as used in this Article 5 shall mean any transaction that is referred to in any one or more clauses (1) through (5) of Paragraph 1.(A) of this Article.

2. The provisions of Paragraph 1.(A) of this Article 5 shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote as is required by law, any other provision of this Restated Certificate of Incorporation, any Preferred Stock Designation or any agreement with any national

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securities exchange, if, in the case of a Business Combination that does not involve any cash or other consideration being received by the stockholders of the Corporation, solely in their respective capacities as stockholders of the Corporation, the condition specified in the following paragraph (A) is met, or, in the case of any other Business Combination, the conditions specified in the following paragraph (A) or the conditions specified in the following paragraph (B) are met:

(A) such Business Combination shall have been approved by a majority of the Disinterested Directors, or

(B) each of the five conditions specified in the following clauses (1) through (5) shall have been met:

(1) the aggregate amount of the cash and the

Fair Market Value as of the Consummation Date of any consideration other than cash to be received per share by holders of Common Stock in such Business Combination shall be at least equal to the highest of the following (it being intended that the requirements of this clause (B) (1) shall be required to be met with respect to all shares of Common Stock outstanding whether or not the Interested Stockholder has acquired any shares of the Common Stock):

(i) if applicable, the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers fees) paid in order to acquire any shares of Common Stock beneficially owned by the Interested Stockholder which were acquired beneficially by such Interested Stockholder (x) within the two-year period immediately prior to the Announcement Date or (y) in the transaction in which it became an Interested Stockholder, whichever is higher; or

(ii) the Fair Market Value per share of Common Stock on the Announcement Date or on the Determination Date, whichever is higher; or

(iii) an amount which bears the same or greater percentage relationship to the Fair Market Value of the Common Stock on the Announcement Date as the highest per share price determined in (B) (1) (i) above bears to the Fair Market Value of the Common Stock on the date of the commencement of the acquisition of the Common Stock by such Interested Stockholder; and

(2) the aggregate amount of the cash and the Fair Market Value as of the Consummation Date of any consideration other than cash to be received per share by holders of shares of any class or series of Voting Stock (other than Common Stock) shall be at least equal to the highest of the following (it being intended that the requirements of this clause (B) (2) shall be required to be met with respect to every class and series of such outstanding Voting Stock, whether or not the Interested Stockholder has

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previously acquired any shares of a particular class or series of Voting Stock):

(i) if applicable, the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers fees) paid in order to acquire any shares

of such class or series of Voting Stock beneficially owned by the Interested Stockholder which were acquired beneficially by such Interested Stockholder (x) within the two-year period immediately prior to the Announcement Date or (y) in the transaction in which it became an Interested Stockholder, whichever is higher;

(ii) if applicable, the highest preferential amount per share to which the holders of shares of such class or series of Voting Stock are entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation;

(iii) the Fair Market Value per share of such class or series of Voting Stock on the Announcement Date or the Determination Date, whichever is higher; or

(iv) an amount which bears the same or greater percentage to the Fair Market Value of such class of Voting Stock on the Announcement Date as the highest per share price in (B)(2)(i) above bears to the Fair Market Value of such Voting Stock on the date of the commencement of the acquisition of such Voting Stock by such Interested Stockholder; and

(3) the consideration to be received by holders of a particular class or series of outstanding Voting Stock (including Common Stock) shall be in cash or in the same form as was previously paid in order to acquire beneficially shares of such class or series of Voting Stock that are beneficially owned by the Interested Stockholder and, if the Interested Stockholder beneficially owns shares of any class or series of Voting Stock that were acquired with varying forms of consideration, the form of consideration to be received by each holder of such class or series of Voting Stock shall be, at the option of such holder, either cash or the form used by the Interested Stockholder to acquire beneficially the largest number of shares of such class or series of Voting Stock beneficially acquired by it prior to the Announcement Date; and

(4) after such Interested Stockholder has become an Interested Stockholder and prior to the consummation of such Business Combination:

(i) such Interested Stockholder shall not have become the beneficial owner of any additional shares of Voting Stock of the Corporation, except as part of the transaction in which it became an Interested Stockholder or upon conversion of convertible securities acquired by it prior

to becoming an Interested Stockholder or as a result of a pro rata stock dividend or stock split; and

(ii) such Interested Stockholder shall not have received the benefit, directly or indirectly (except proportionately as a stockholder), of any loans, advances, guarantees, pledges or other financial assistance or tax credits or other tax advantages provided by the Corporation or any Subsidiary, whether in anticipation of or in connection with such Business Combination or otherwise; and

(iii) such Interested Stockholder shall not have caused any material change in the Corporation's business or capital structure, including, without limitation, the issuance of shares of capital stock of the Corporation to any third party; and

(iv) there shall have been (x) no failure to declare and pay at the regular date therefor the full amount of dividends (whether or not cumulative) on any outstanding Preferred Stock, except as approved by a majority of the Disinterested Directors, (y) no reduction in the annual rate of dividends paid on Common Stock (except as necessary to reflect any subdivision of the Common Stock), except as approved by a majority of the Disinterested Directors, and (z) an increase in such annual rate of dividends (as necessary to prevent any such reduction) in the event of any reclassification (including any reverse stock split), recapitalization, reorganization, self tender offer or any similar transaction which has the effect of reducing the number of outstanding shares of the Common Stock, unless the failure so to increase such annual rate was approved by a majority of the Disinterested Directors; and

(5) a proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules and regulations), whether or not the Corporation is then subject to such requirements, shall be mailed by and at the expense of the Interested Stockholder at least thirty (30) days prior to the consummation of such Business Combination to the public stockholders of the Corporation (whether or not such proxy or information statement is required to be mailed pursuant to

such Act or subsequent provisions), and shall contain at the front thereof in a prominent place (i) any recommendations as to the advisability (or inadvisability) of the Business Combination which the Disinterested Directors, if any, may choose to state, and (ii) the opinion of a reputable national investment banking firm as to the fairness (or not) of such Business Combination from the point of view of the remaining public stockholders of the Corporation (such investment banking firm to be engaged solely on behalf of the remaining public stockholders, to be paid a reasonable fee for their services by the Corporation upon receipt of such opinion, to be unaffiliated with such Interested Stockholder, and, if

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there are at the time any Disinterested Directors, to be selected by a majority of the Disinterested Directors).

3. For purposes of this Article 5:

(A) A "person" shall include, without limitation, any individual, firm, corporation, group (as such term is used in Regulation 13D-G of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on March, 1985) or other entity.

(B) "Interested Stockholder" shall mean any person (other than the Corporation or any Subsidiary or any employee benefit plan of the Corporation or any Subsidiary) who or which:

(1) is the beneficial owner, directly or indirectly, of more than 10 percent of the combined voting power of the then outstanding shares of Voting Stock; or

(2) is an Affiliate of the Corporation and at any time within the two-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of 10 percent or more of the combined voting power of the then outstanding shares of Voting Stock; or

(3) is an assignee of or has otherwise succeeded to the beneficial ownership of any shares of Voting Stock that were at any time within the two-year period immediately prior to the date in question beneficially owned by an Interested Stockholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

(C) A person shall be a "beneficial owner" of any Voting Stock:

(1) which such person or any of its Affiliates or Associates beneficially owns, directly or indirectly; or

(2) which such person or any of its Affiliates or Associates has (a) the right to acquire (whether or not such right is exercisable immediately) pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (b) the right to vote or direct the vote pursuant to any agreement, arrangement or understanding; or

(3) which are beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

(D) For the purposes of determining whether a person is an Interested Stockholder pursuant to Paragraph

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3.(B) of this Article 5, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned by such Interested Stockholder through application of Paragraph 3.(C) of this Article but shall not include any other shares of Voting Stock that may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(E) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on March, 1985.

(F) "Subsidiary" shall mean any corporation more than 50 percent of whose outstanding equity securities having ordinary voting power in the election of directors is owned, directly or indirectly, by the Corporation or by a Subsidiary or by the Corporation and one or more Subsidiaries; provided, however, that for the purposes of the definition of Interested Stockholder set forth in Paragraph 3.(B) of this Article 5, the term "Subsidiary" shall mean only a corporation of which a majority of each class of Voting Stock is owned, directly or indirectly, by the Corporation.

(G) "Disinterested Director" shall mean any member of the Board of Directors of the Corporation who is unaffiliated with, and not a nominee of, the Interested Stockholder and was a member of the Board prior to the time that the Interested Stockholder became an Interested Stockholder, and any successor of a Disinterested Director who is unaffiliated with, and not a nominee of, the Interested Stockholder and who is recommended to succeed a Disinterested Director by a majority of Disinterested Directors then on the Board of Directors.

(H) "Fair Market Value" shall mean: (1) in the case of stock, the highest closing sale price during the 30-day period commencing on the 40th day preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not quoted on the New York Stock Exchange-Composite Tape, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing sales price or bid quotation with respect to a share of such stock during the 30-day period commencing on the 40th day preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Disinterested Directors in good faith; and (2) in the case of stock of any class or series which is not traded on any United States registered securities exchange nor in the over-the-counter market or in the case of property other than cash or stock, the fair market value of such property on the

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date in question as determined by a majority of the Disinterested Directors in good faith.

(I) In the event of any Business Combination in which the Corporation survives, the phrase "any consideration other than cash to be received" as used in Paragraphs 2.(B)(1) and (2) of this Article 5 shall include the shares of Common Stock and/or the shares of any other class of outstanding Voting Stock retained by the holders of such shares.

(J) "Announcement Date" shall mean the date of first public announcement of the proposed Business

Combination.

(K) "Determination Date" shall mean the date on which the Interested Stockholder became an Interested Stockholder.

(L) "Consummation Date" shall mean the date of the consummation of the Business Combination.

(M) The term "Voting Stock" shall mean all outstanding shares of capital stock of all classes and series of the Corporation entitled to vote generally in the election of directors of the Corporation, in each case voting together as a single class. The term "Voting Stock" as defined in this Paragraph 3 shall apply to the term "Voting Stock" as used in Article 6 of this Restated Certificate of Incorporation.

4. A majority of the Disinterested Directors shall have the power and duty to determine, on the basis of information known to them after reasonable inquiry, all facts necessary to determine compliance with this Article 5 including, without limitation:

(A) whether a person is an Interested Stockholder;

(B) the number of shares of Voting Stock beneficially owned by any person;

(C) whether a person is an Affiliate or Associate of another person;

(D) whether the requirements of Paragraph 2.(B) of this Article 5 have been met with respect to any Business Combination;

(E) whether the assets which are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the Corporation or any Subsidiary in any Business Combination has, an aggregate Fair Market Value of \$5,000,000 or more; and

(F) such other matters with respect to which a determination is required under this Article.

Disinterested Directors on such matters shall be conclusive and binding for all purposes of this Article 5.

5. Nothing contained in this Article 5 shall be construed to relieve any Interested Stockholder from any fiduciary obligation imposed by law.

6. Notwithstanding anything contained in this Restated Certificate of Incorporation to the contrary, the affirmative vote of the holders of at least 80 percent of the combined voting power of the Voting Stock, voting together as a single class, shall be required to alter, amend, or repeal this Article 5 or to adopt any provision inconsistent therewith provided, however, that if there is an Interested Stockholder on the record date for the meeting at which such action is submitted to the stockholders for their consideration, such 80 percent vote must include the affirmative vote of at least two-thirds (2/3) of the combined voting power of the outstanding shares of Voting Stock held by stockholders other than the Interested Stockholder.

Article 6. The following provisions are adopted for the management of the business and for the conduct of the affairs of the Corporation and for creating, defining, limiting and regulating the powers of the Corporation, the directors and the stockholders:

(a) Both stockholders and directors of the Corporation shall have power to hold their meetings within or without the State of Delaware; and the books and records of the Corporation may be kept within or without the State of Delaware at such place or places as may, from time to time, be designated by the Board of Directors.

(b) (i) Except as otherwise fixed pursuant to Article 4 of the Restated Certificate of Incorporation relating to the rights of the holders of any class or series of Preferred Stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the Board of Directors shall consist of not less than nine or more than fifteen persons, the exact number to be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exists any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption). The directors (other than those who may be elected by the holders of any class or series of Preferred Stock having a preference over Common Stock as to dividends or upon liquidation) shall be classified, with respect to the time for

which they severally hold office, into three classes, as nearly equal in number as possible, as shall be provided in the manner specified in the By-Laws, one class to hold office initially for a term expiring at the annual meeting of stockholders to be held in 1986, another class to hold office

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initially for a term expiring at the annual meeting of stockholders to be held in 1987, and another class to hold office initially for a term expiring at the annual meeting of stockholders to be held in 1988, with the members of each class to hold office until their successors are elected and qualified. At each annual meeting of the stockholders of the Corporation, the successors to the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. The election of directors need not be by ballot.

(ii) Advance notice of nominations for the election of directors, other than by the Board of Directors or a committee thereof, shall be given in the manner provided in the By-Laws.

(iii) Except as otherwise fixed pursuant to the provisions of Article 4 hereof relating to the rights of the holders of any class or series of Preferred Stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled only by a majority vote of the directors then in office, though less than a quorum of the Board of Directors. If any applicable provision of the Delaware General Corporation Law expressly confers power on stockholders to fill such a directorship at a special meeting of stockholders, such a directorship may be filled at such a meeting only by the affirmative vote of at least 80 percent of the combined voting powers of the outstanding shares of Voting Stock. Any director elected in accordance with the two preceding sentences shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified. No decrease in the number of authorized directors constituting the entire Board of Directors shall shorten the term of any incumbent

director.

(iv) Subject to the rights of the holders of any class or series of Preferred Stock having preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, any director, or the entire Board of Directors, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least 80 percent of the combined voting power of all of the then-outstanding shares of the Voting Stock, voting together as a single class (it being understood that for all purposes of this Article 6, each share of the Voting Stock shall have the number of votes granted to it pursuant to Article 4 of this Restated Certificate of Incorporation or any Preferred Stock Designation).

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(c) The original By-Laws of the Corporation shall be adopted by the Board of Directors. The Board of Directors shall have the power to make, alter, amend and repeal the By-Laws of the Corporation, subject to the power of the holders of the Voting Stock to alter, amend or repeal the By-Laws; provided, however, that, notwithstanding any other provisions of this Restated Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the Voting Stock required by law, this Restated Certificate of Incorporation or any Preferred Stock Designation, the affirmative vote of the holders of at least 80 percent of the combined voting power of all the then-outstanding shares of the Voting Stock, voting together as a single class, shall be required to (i) alter, amend or repeal any provision of the By-Laws which is to the same effect as paragraphs (b), (c), (i) and (j) of Article 6 of this Restated Certificate of Incorporation, or Article 5 of this Restated Certificate of Incorporation.

(d) The business of the Corporation shall be managed by its Board of Directors, and the Board of Directors may exercise all of the powers of the Corporation without any action or consent by the stockholders, except as may otherwise be provided by the statutes of the State of Delaware, by this Restated Certificate of Incorporation, or by the By-Laws.

(e) The Board of Directors shall have the power, in its discretion, from, time to time to fix and vary the amounts to be maintained as surplus and as working capital and to create

and set apart reserves for any proper purposes and to abolish any such reserves; and to fix and determine, subject to limitations imposed by law, what portion of the consideration received upon any issue of stock shall constitute capital and what portion, if any, paid-in or capital surplus; and to cause dividends to be paid from paid-in or capital surplus or from any surplus due to appreciation in value of any property of the Corporation; to determine whether and when dividends shall be declared and paid and in what manner and form; and to determine the use and disposition of any surplus or net profits of the Corporation.

(f) The Board of Directors shall have the power to subject the whole or any part of the real and personal properties of the Corporation, including after-acquired property, to liens, mortgages and encumbrances, without limit as to amount.

(g) Any director of the Corporation may vote upon any contract or other transaction between the Corporation and any subsidiary or affiliated corporation without regard to the fact that he is also a director or officer of such subsidiary or affiliated corporation.

(h) The directors may, acting in good faith and in their discretion, submit any contract, act or proposal for authorization, approval or ratification at any meeting of

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stockholders, and any such contract, act or proposal authorized, approved or ratified by a vote of the holders of a majority of the shares of capital stock of the Corporation represented in person or by proxy at such meeting and entitled to vote shall be as valid and as binding upon the Corporation and upon all stockholders as though it had been authorized, approved, or ratified, as the case may be, by every stockholder of the Corporation.

(i) Any action required or permitted to be taken by the stockholders of the Corporation must be effected at an annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders. Except as otherwise required by law and subject to the rights of the holders of any class or any series of Preferred Stock having a preference over the Common Stock as to dividends or upon liquidation, special meetings of stockholders of the Corporation may be called only by the Board of Directors pursuant to a resolution adopted by a

majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption).

(j) Notwithstanding any other provision of this Restated Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the Voting Stock required by law, this Restated Certificate of Incorporation or any Preferred Stock Designation, the affirmative vote of the holders of at least 80 percent of the combined voting power of all of the then-outstanding shares of the Voting Stock, voting together as a single class, shall be required to alter, amend or repeal this Article 6, or any provision hereof.

Article 7. No director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director; provided, however, that this Article shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under section 174 of the Delaware General Corporation law, or (iv) for any transaction from which the director derived an improper personal benefit. This Article shall not eliminate or limit the liability of a director for any act or omission occurring prior to the date on which this Article becomes effective. Any repeal or modification of this Article 7 shall not adversely affect any right or protection of a director of the Corporation existing hereunder with respect to any act or omission occurring prior to the time of such repeal or modification.

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IN WITNESS WHEREOF, the undersigned do execute this Restated Certificate of Incorporation and affirm and acknowledge, under penalties of perjury, that this Restated Certificate of Incorporation is their act and deed and that the facts stated herein are true, this ____ day of _____, 1998.

Name: Richard K. Schmidt
Title: President

Attest:

Name: Larry L. Bingaman
Title: Secretary

END