

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following management's discussion and analysis of Global Water Resources, Inc.'s (the "Company", "GWRI", "we", or "us") financial condition and results of operations relates to the three and six months ended June 30, 2019 and should be read together with the condensed consolidated financial statements and accompanying notes included herein, as well as our audited annual financial statements and associated management's discussion, which are available within our Annual Report on Form 10-K for the year ended December 31, 2018 available on our Company's profile on the Securities and Exchange Commission ("SEC") website, www.sec.gov.

Cautionary Statement Regarding Forward-Looking Statements

Certain statements in this management's discussion and analysis are forward-looking in nature and may constitute "forward-looking information" within the meaning of applicable securities laws. Often, but not always, forward-looking statements can be identified by the words "believes", "anticipates", "plans", "expects", "intends", "projects", "estimates", "objective", "goal", "focus", "aim", "should", "could", "may", and similar expressions. These forward-looking statements include future estimates described in "Business Outlook", "Factors Affecting our Results of Operations", and "Liquidity and Capital Resources". These forward-looking statements reflect management's current expectations regarding GWRI's future growth, results of operations, performance, and business prospects and opportunities, and other future events and speak only as of the date of this management's discussion and analysis. Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. Investors are cautioned not to place undue reliance on forward-looking information. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC, as updated from time to time in our subsequent filings with the SEC. Although the forward-looking statements contained in this management's discussion and analysis are based upon what management believes to be reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward-looking statements, and the differences may be material. These forward-looking statements are made as of the date of this management's discussion and analysis and GWRI assumes no obligation to update or revise them to reflect new events or circumstances, except as required by applicable law.

Overview

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

Business Outlook

2018 and the first two quarters of 2019 continued the trend of positive growth in new connections. According to the 2010 U.S. Census Data, the Phoenix metropolitan statistical area ("MSA") is the 14th largest MSA in the U.S. and had a population of 4.2 million, an increase of 29% over the 3.3 million people reported in the 2000 Census. Metropolitan Phoenix continues to grow due to its low-cost housing, excellent weather, large and growing universities, a diverse employment base, and low taxes. The Employment and Population Statistics Department of the State of Arizona predicts that the Phoenix Metropolitan area will have a population of 4.9 million people by 2020 and 6.5 million by 2040. During the twelve months ended June 30, 2019, Arizona's employment rate improved by 2.8%, ranking the state in the top three nationally for job growth.

Also, according to the W.P. Carey School of Business Greater Phoenix Blue Chip Real Estate Consensus Panel, most sectors of real estate are expected to experience improved growth with industrial and retail sectors also expected to experience improved occupancy rates. For Maricopa County and Pinal County combined, the Homebuilders Association of Central Arizona reported that single family housing permits grew 13% to 22,437 units in 2018.

The forecasts by the Greater Phoenix Blue Chip Real Estate Consensus Panel for 2019 and 2020 remain positive at approximately 24,000 and 25,000 single family dwelling permits, respectively. From there, we believe growth in the region could steadily return towards its normal historical rate of greater than 30,000 single family dwelling permits.

We believe that our utilities and service areas are directly in the anticipated path of growth primarily in the metropolitan Phoenix area. Market data indicates that our service areas currently incorporate a large portion of the final platted lots, partially finished lots, and finished lots in metropolitan Phoenix. Management believes that we are well-positioned to benefit from the near-term growth in metropolitan Phoenix due to the availability of lots and existing infrastructure in place within our services areas.

Factors Affecting our Results of Operations

Our financial condition and results of operations are influenced by a variety of industry-wide factors, including but not limited to:

- population and community growth;
- economic and environmental utility regulation;
- economic environment;
- the need for infrastructure investment;
- production and treatment costs;
- weather and seasonality; and
- access to and quality of water supply.

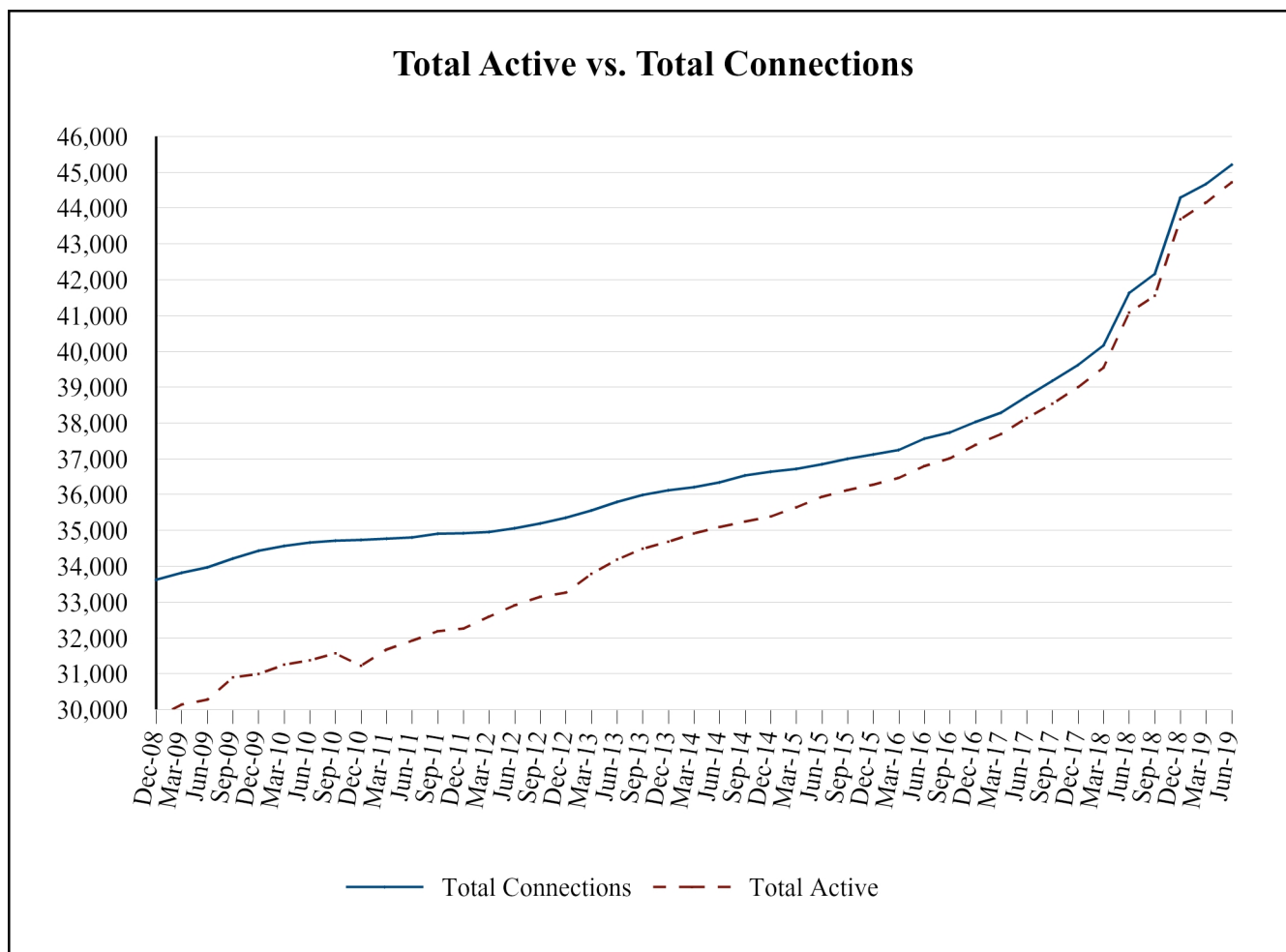
We are subject to economic regulation by the state regulator, the Arizona Corporation Commission (“ACC”). The U.S. federal and state governments also regulate environmental, health and safety, and water quality matters. We continue to execute on our strategy to optimize and focus the Company in order to provide greater value to our customers and shareholders by aiming to deliver predictable financial results, making prudent capital investments, and focusing our efforts on earning an appropriate rate of return on our investments.

Population and Community Growth

Population and community growth in the metropolitan Phoenix area served by our utilities have a direct impact on our earnings. An increase or decrease in our active service connections will affect our revenues and variable expenses in a corresponding manner. Our total service connections, including both active service connections and connections to vacant homes, increased 3,574 connections, or 8.6% (4.1% annualized growth), from a total of 41,631 as of June 30, 2018 to 45,205 as of June 30, 2019. This increase is due to positive growth in organic connections, as well as the addition of 1,780 connections from our acquisition of Red Rock Utilities (“Red Rock”).

As of June 30, 2019, active service connections increased 3,637, or 8.9% (4.7% annualized growth), to 44,715 compared to 41,078 active service connections as of June 30, 2018. As with the increase in total service connections, the increase is due to growth in new organic connections, as well as the acquisition of Red Rock. Approximately 92.8% of the 44,715 active service connections are serviced by our Global Water - Santa Cruz Water Company, LLC (“Santa Cruz”) and Global Water - Palo Verde Utilities Company, LLC (“Palo Verde”) utilities as of June 30, 2019.

The graph below presents the historical change in active and total connections for our ongoing operations, adjusting for the July 2015 condemnation of the assets and operations of Valencia Water Company, Inc. ("Valencia") and the May 2016 sale of Willow Valley Water Co., Inc. ("Willow Valley").



Economic and Environmental Utility Regulation

We are subject to extensive regulation of our rates by the ACC, which is charged with establishing rates based on the provision of reliable service at a reasonable cost while also providing an opportunity to earn a fair rate of return on rate base for investors of utilities. The ACC uses a historical test year to evaluate whether the plant in service is used and useful, to assess whether costs were prudently incurred, and to set “just and reasonable” rates. Rate base is typically the depreciated original cost of the plant in service (net of contributions in aid of construction (“CIAC”) and advances in aid of construction (“AIAC”) which are funds or property provided to a utility under the terms of a main extension agreement, the value of which may be refundable), that has been determined to have been “prudently invested” and “used and useful”, although the reconstruction cost of the utility plant may also be considered in determining the rate base. The ACC also decides on an applicable capital structure based on actual or hypothetical analyses. The ACC determines a “rate of return” on that rate base, which includes the approved capital structure and the actual cost of debt and a fair and reasonable cost of equity based on the ACC's judgment. The overall revenue requirement for rate making purposes is established by multiplying the rate of return by the rate base and adding “prudently” incurred operating expenses for the test year, depreciation, and any applicable pro forma adjustments.

To ensure an optimal combination of access to water and water conservation balanced with a fair rate of return for investors, our water utility operating revenue is based on two components: a fixed fee and a consumption or volumetric fee. For our water utilities, the fixed fee, or “basic service charge,” provides access to water for residential usage and has generally been set at a level to produce 50% of total revenue. The volumetric fee is based on the total volume of water supplied to a given customer after the minimum number of gallons, if any, covered by the basic service charge, multiplied by a price per gallon set by a tariff approved by the ACC. A discount to the volumetric rate applies for customers that use less than an amount specified by the ACC. For all investor-owned water utilities, the ACC requires the establishment of inverted tier conservation oriented rates, meaning that the price of water increases as consumption increases. For wastewater utilities, wastewater collection and treatment can be based on volumetric or fixed fees. Our wastewater utility services are billed based solely on a fixed fee, determined by the size of the water meter installed. Recycled water is sold on a volumetric basis with no fixed fee component.

We are required to file rate cases with the ACC to obtain approval for a change in rates. Rate cases and other rate-related proceedings can take a year or more to complete. As a result, there is frequently a delay, or regulatory lag, between the time of a capital investment or incurrence of an operating expense increase and when those costs are reflected in rates. In normal conditions, it would not be uncommon to see us file for a rate increase every three years based on year one being the test year, year two being the rate case filing year, and year three being the rate case award year. However, based on our settlement with the ACC in 2014 and extended new rate phase-in period, we have not initiated the next rate case on this timeline. On March 20, 2019, we filed a motion with the ACC to request an order for certain of our utilities to file a rate case. Thereafter, on April 26, 2019, the ACC issued Decision No. 77168, which requires all of our utilities to file a rate case no later than June 30, 2020, using the twelve months ending December 31, 2019 as the test year for the rate case. Refer to “—Rate Case Activity” for additional information.

Our water and wastewater operations are also subject to extensive United States federal, state, and local laws and regulations governing the protection of the environment, health and safety, the quality of the water we deliver to our customers, water allocation rights, and the manner in which we collect, treat, and discharge wastewater. We are also required to obtain various environmental permits from regulatory agencies for our operations. The ACC also sets conditions and standards for the water and wastewater services we deliver. We incur substantial costs associated with compliance with environmental, health and safety, and water quality regulation.

Environmental, health and safety, and water quality regulations are complex and change frequently, and they have tended to become more stringent over time. As newer or stricter standards are introduced, they could increase our operating expenses. We would generally expect to recover expenses associated with compliance for environmental and health and safety standards through rate increases, but this recovery may be affected by regulatory lag.

Economic Environment

The growth of our customer base depends almost entirely on the success of developers in developing residential and commercial properties within our service areas. Real estate development is a cyclical industry and development in our service areas is contingent upon construction or acquisition of major public improvements, such as arterial streets, drainage facilities, telephone and electrical facilities, recreational facilities, street lighting, and local in-tract improvements (e.g., site grading). Many of these improvements are built by municipalities with public financing, and municipal resources and access to capital may not be sufficient to support development in areas of rapid population growth.

Infrastructure Investment

Capital expenditures for infrastructure investment are a component of the rate base on which our regulated utility subsidiaries are allowed to earn an equity return. Capital expenditures for infrastructure provide a basis for earnings growth by expanding our “used and useful” rate base, which is a component of its permitted return on investment and revenue requirement. We are generally able to recover a rate of return on these capital expenditures (return on equity and debt), together with debt service and certain operating costs, through the rates we charge.

We have made significant capital investments in our territories within the last fifteen years, and because the infrastructure remains in the early stages of its useful life, we do not expect comparable capital investments to be required in the near term, either for growth or to maintain the existing infrastructure. Nevertheless, we have an established capital improvement plan to make targeted capital investments to repair and replace existing infrastructure as needed, address operating redundancy requirements, and improve our overall financial performance, by lowering expenses and increasing revenue. Additionally, to reduce our deferred tax liability of approximately \$19.4 million resulting from the gain on the condemnation of the operations and assets of Valencia, we have substantially completed the planned investments within our capital improvement plan that we determined will qualify under the Internal Revenue Code §1033 re-investment criteria pursuant to a favorable Private Letter Ruling with the Internal Revenue Service (the “IRS”). Refer to “—Corporate Transactions—Private Letter Ruling” for additional information.

Production and Treatment Costs

Our water and wastewater services require significant production resources and therefore result in significant production costs. Although we are permitted to recover these costs through the rates we charge, regulatory lag can decrease our margins and earnings if production costs or other operating expenses increase significantly before we are able to recover them through increased rates. Our most significant costs include labor, chemicals used to treat water and wastewater, and power used to operate pumps and other equipment. Power and chemical costs can be volatile. However, we employ a variety of technologies and methodologies to minimize costs and maximize operational efficiencies. Additionally, with our Total Water Management approach, whereby we maximize the direct beneficial reuse of recycled water, we can realize significant treatment costs and power savings because smaller volumes of water are required for potable use. Many utilities require that all water be treated to potable standards irrespective of use. Total Water Management focuses on the right water for the right use. Potable water is needed for consumption and recycled water is acceptable for non-potable uses such as irrigation. Non-potable water does not need to be treated for commonly occurring and regulated constituents such as arsenic, or for other current or future human consumption health-based contaminants.

Weather and Seasonality

Our ability to meet the existing and future water demands of our customers depends on an adequate supply of water. Drought, overuse of sources of water, the protection of threatened species or habitats, or other factors may limit the availability of ground and surface water. Also, customer usage of water and recycled water is affected by weather conditions, particularly during the summer. Our water systems generally experience higher demand in the summer due to the warmer temperatures and increased usage by customers for irrigation and other outdoor uses. However, summer weather that is cooler or wetter than average generally suppresses customer water demand and can have a downward effect on our operating revenue and operating income. Conversely, when weather conditions are extremely dry, our business may be affected by government-issued drought-related warnings and/or water usage restrictions that would artificially lower customer demand and reduce our operating revenue. The limited geographic diversity of our service areas makes the results of our operations more sensitive to the effect of local weather extremes. The second and third quarters of the year are generally those in which water services revenue and wastewater services revenues are highest. Accordingly, interim results should not be considered representative of the results of a full year.

Access to and Quality of Water Supply

In many areas of Arizona (including certain areas that we service), water supplies are limited and, in some cases, current usage rates exceed sustainable levels for certain water resources. We currently rely predominantly (and are likely to continue to rely) on the pumping of groundwater and the generation and delivery of recycled water for non-potable uses to meet future demands in our service areas. At present, groundwater (and recycled water derived from groundwater) is the primary water supply available to us. In addition, regulatory restrictions on the use of groundwater and the development of groundwater wells, lack of available water rights, drought, overuse of local or regional sources of water, protection of threatened species or habitats, or other factors, including climate change, may limit the availability of ground or surface water.

Rate Case Activity

On July 9, 2012, we filed rate applications with the ACC to adjust the revenue requirements for seven utilities. In August 2013, we entered into a settlement agreement with the ACC staff, the Residential Utility Consumers Office, the City of Maricopa, and other parties to the rate case. The settlement required approval by the ACC before it could take effect. In February 2014, the rate case proceedings were completed and the ACC issued Rate Decision No. 74364, approving the settlement agreement. The collective rate increase included a 9.5% return on common equity which contributed to a 15% increase over revenue in 2011.

For our utilities, adjusting for the condemnation of the operations and assets of Valencia and the sale of Willow Valley, the settlement provided for a collective aggregate revenue requirement increase of \$3.6 million based on 2011 test year service connections, phased-in over time, with the first increase in January 2015 as follows (in thousands, not updated for the Federal Tax Cuts and Jobs Act (the "TCJA"), refer to "—Recent Events—ACC Tax Docket" for further details):

	Incremental	Cumulative
2015	\$ 1,083	\$ 1,083
2016	887	1,970
2017	335	2,305
2018	335	2,640
2019	335	2,975
2020	335	3,310
2021	335	3,645

Whereas this phase-in of additional revenues was determined using a 2011 test year, to the extent that the number of active service connections increases from 2011 levels, the additional revenues may be greater than the amounts set forth above. On the other hand, if active connections decrease or we experience declining usage per customer, we may not realize all of the anticipated revenues.

On September 20, 2018, the ACC issued Rate Decision No. 76901, which set forth the reductions in revenue for our Santa Cruz, Palo Verde, Greater Tonopah and Northern Scottsdale utilities due to the TCJA. Rate Decision No. 76901 adopted the phase-in approach for the reductions to match the phase-in of our revenue requirement under Rate Decision No. 74364. Additionally, on April 26, 2019, the ACC issued Decision No. 77168, which requires all of our utilities to file a rate case no later than June 30, 2020, using the twelve months ending December 31, 2019 as the test year for the rate case. Refer to "— Recent Events — ACC Tax Docket" and "— Recent Events — ACC Rate Case" for additional information.

From 2003 to 2008, we entered into approximately 154 infrastructure coordination and financing agreements ("ICFAs") with developers and landowners covering approximately 275 square miles. Under these agreements, we have a contractual obligation to the developers and landowners to ensure that amongst other things, physical capacity exists through our regulated utilities for water and wastewater to the landowner/developer when needed. We receive fees from the landowner/developer for undertaking these obligations that typically are a negotiated amount per planned equivalent dwelling unit for the specified development or parcel of land. Payments are generally due to us from the landowner/developer based on progress of the development, with a portion due upon signing of the agreement, a portion due upon completion of certain milestones and the final payment due upon final plat approval or sale of the subdivision. The payments are non-refundable. Our investment can be considerable, as we may phase-in the construction of facilities in accordance with a regional master plan, as opposed to a single development.

Prior to January 1, 2010, we accounted for funds received under ICFAs as revenue once the obligations specified in the ICFA were met. As these arrangements are with developers and not with the end water or wastewater customer, the timing of revenue recognition coincided with the completion of our performance obligations under the agreement with the developer and with our ability to provide fitted capacity for water and wastewater service to the applicable development or parcel through our regulated subsidiaries.

The 2010 Regulatory Rate Decision No. 71878 established new rates for the recovery of reasonable costs incurred by the utilities and a return on invested capital. In determining the new annual revenue requirement, the ACC imputed a reduction to rate base for all amounts related to ICFA funds collected by us that the ACC deemed to be CIAC for rate making purposes. As a result of the decision by the ACC, we changed our accounting policy for the accounting of ICFA funds. Effective January 1, 2010, we recorded ICFA funds received as CIAC. Thereafter, the ICFA-related CIAC was amortized as a reduction of depreciation expense over the estimated depreciable life of the utility plant at the related utilities.

With the issuance of Rate Decision No. 74364, in February 2014, the ACC again changed how ICFA funds would be characterized and accounted for going forward. Most notably, the ACC changed the rate treatment of ICFA funds, and ICFA funds already received would no longer be deemed CIAC for rate making purposes. In conjunction with Rate Decision No. 74364, we eliminated the CIAC liability and reversed the associated regulatory liability brought about by the 2010 ruling. ICFA funds already received or which had become due prior to the date of Rate Decision No. 74364 were accounted for in accordance with our ICFA revenue recognition policy that had been in place prior to the 2010 Regulatory Rate Decision, wherein the funds received are recognized as revenue once the obligations specified in the ICFA were met. Rate Decision No. 74364 prescribes that of the ICFA funds which come due and are paid subsequent to December 31, 2013, 70% of the ICFA funds will be recorded in the associated utility subsidiary as a hook-up fee ("HUF") liability, with the remaining 30% to be recorded as deferred revenue, until such time that the HUF tariff is fully funded, after which the remaining funds will be recorded as deferred revenue in accordance with our ICFA revenue recognition policy. A HUF tariff, specifying the dollar value of a HUF for each utility, was approved by the ACC as part of Rate Decision No. 74364. We are responsible for assuring the full HUF value is paid from ICFA proceeds, and recorded in its full amount by predetermined milestones in Rate Decision No. 74364, even if it results in recording more or less than 30% of the ICFA fee as deferred revenue.

We account for the portion of future payments received under these agreements allocated to HUF liability as CIAC. However, from the regulator's perspective, HUFs do not impact rate base until the related funds are expended. These funds are segregated in a separate bank account and used to construct plant assets. The HUF liability is to be relieved once the funds are used for the construction of plant. For facilities required under a hook-up fee or ICFA, we must first use the HUF funds received, after which we may use debt or equity financing for the remainder of construction. The deferred revenue portion of these fees is recognized as revenue once the obligations specified within the applicable ICFA are met, including construction of sufficient operating capacity to serve the customers for which revenue was deferred.

Pursuant to Rate Decision No. 74364, we have agreed not to enter into any new ICFAs, and instead will utilize HUF tariffs, which have become an acceptable industry practice in Arizona. As part of the settlement, a HUF tariff was established for each utility. Existing ICFAs will remain in place, with 70% of future ICFA payments to be recorded as HUFs until the HUF liability is fully

funded. The HUF liability is relieved as funds are expended to construct plant, at which time a corresponding amount is recorded to CIAC. The portion of ICFA proceeds not recorded as HUF will be recorded as revenue or deferred revenue, in accordance with our ICFA revenue recognition policy.

In addition to ICFAs, we have various line extension agreements with developers and builders, through which funds, water line extensions or wastewater line extensions are provided to us by the developers and are considered refundable advances for construction. These AIACs are subject to refund by us to the developers through annual payments that are computed as a percentage of the total annual gross revenue earned from customers connected to utility services constructed under the agreement over a specified period. Upon the expiration of the agreements' refunding period, the remaining balance of the AIAC becomes nonrefundable and at that time is considered CIAC. CIAC is amortized as a reduction of depreciation expense over the estimated remaining life of the related utility plant. For rate-making purposes, a utility plant funded by AIAC and CIAC is excluded from rate base. The taxability of AIAC and CIAC was changed with the enactment of the TCJA. Previously, the majority of AIAC and CIAC that we collected were not taxable. However, with the enactment of the TCJA, they will be taxable going forward. On November 27, 2018, the ACC ruled that a utility may require that the contributor pay a gross-up to the utility consisting of 55% of the income tax expense with the utility covering the remaining 45% of the income tax expense. For more details regarding the ruling, refer to "—Recent Events — ACC Tax Docket."

Corporate Transactions

Debt Refinancing

With the completion of our initial public offering in the United States, the Company had the right to redeem all of its outstanding tax-exempt bonds at a price of 103% of the principal amount, plus interest accrued at the redemption date. Following completion of the U.S. IPO, the Company entered into a note purchase agreement (the "Note Purchase Agreement") to issue two series of senior secured notes with total principal balance of \$115.0 million. On June 24, 2016, the Company closed the Note Purchase Agreement transaction, which proceeds were primarily used to pay down the outstanding \$106.7 million in tax-exempt bonds at 103%. For additional information, see "—Liquidity and Capital Resources—Senior Secured Notes."

Stipulated Condemnation of the Operations and Assets of Valencia

On July 14, 2015, we closed the stipulated condemnation to transfer the operations and assets of Valencia to the City of Buckeye. Terms of the condemnation were agreed upon through a settlement agreement and stipulated final judgment of condemnation wherein the City of Buckeye acquired all the operations and assets of Valencia and assumed operation of the utility upon close. The City of Buckeye paid the Company \$55.0 million at close, plus an additional \$0.1 million in working capital adjustments. The City of Buckeye is obligated to pay the Company a growth premium equal to \$3,000 for each new water meter installed within Valencia's prior service areas in the City of Buckeye, for a 20-year period ending December 31, 2034, subject to a maximum payout of \$45.0 million over the term of the agreement.

Private Letter Ruling

On June 2, 2016, we received a Private Letter Ruling from the IRS that, for purposes of deferring the approximately \$19.4 million gain realized from the condemnation of the operations and assets of Valencia, determined that the assets converted upon the condemnation of such assets could be replaced through certain reclamation facility improvements contemplated by the Company under Internal Revenue Code §1033 as property similar or related in service or use. In June 2016, the Company converted all operating subsidiaries from corporations to limited liability companies to take full advantage of the benefits of such ruling.

Pursuant to Internal Revenue Code §1033, we would have been able to defer the gain on condemnation through the end of 2017. On April 18, 2017, the Company filed a request for a one-year extension to defer the gain to the end of 2018, which the IRS approved on August 8, 2017. On August 28, 2018, the Company filed a request to further defer the gain to the end of 2019, which the IRS approved on October 12, 2018. Following the most recent Private Letter Ruling extension, the Company expects an increase in capital expenditures for 2019 compared to 2018 to fully defer the remaining tax liability of approximately \$1.8 million as of June 30, 2019.

Sale of Loop 303 Contracts

In September 2013, we entered into an agreement to sell certain wastewater facilities main extension agreements and offsite water management agreements for the contemplated Loop 303 service area, along with their related rights and obligations (which we refer to collectively as the "Loop 303 Contracts"), relating to the 7,000-acre territory within a portion of the western planning area of the City of Glendale, Arizona known as the "Loop 303 Corridor." Pursuant to the agreement, we sold the Loop 303 Contracts to EPCOR for total proceeds of approximately \$4.1 million (\$3.1 million of which has been received as of December 31, 2018), which will be paid to us over a multi-year period. As part of the consideration, we agreed to complete certain engineering work

required in the offsite water management agreements, which we completed in 2013, thereby satisfying our remaining obligations relating to the Loop 303 Contracts. In April 2015, we received proceeds of approximately \$0.3 million related to the sale of the Loop 303 Contracts. In March 2019, we received the remaining \$1.0 million and recorded it as other income.

Recent Events

Line of Credit

On April 20, 2018, we entered into an agreement with MidFirst Bank, a federally chartered savings association, for a two-year revolving line of credit up to \$8.0 million. The credit facility, which will be used for acquisitions and general corporate purposes, bears an interest rate of LIBOR plus 2.25%. In April 2019, we signed an amendment to the loan agreement which extends the maturity date from April 30, 2020 to April 30, 2022 and modifies the debt service coverage ratio to match the ratio required by the senior secured notes; all other terms remain unchanged. As of June 30, 2019, we had no outstanding borrowings under this credit line.

Acquisition of Turner Ranches Water and Sanitation Company

On May 30, 2018, we acquired Turner Ranches Water and Sanitation Company ("Turner"), a non-potable irrigation water utility located in Mesa, Arizona for a purchase price of \$2.8 million. At the time of acquisition, Turner had 963 residential irrigation connections and approximately seven square miles of service area. We believe this acquisition is consistent with the Company's declared strategy of making accretive acquisitions.

ACC Tax Docket

On December 20, 2017, the ACC opened a docket to address the utility ratemaking implications of the TCJA. The ACC considered the impact for regulated utilities, as it was expected that certain effects of the TCJA add to rate base and others reduce rate base. Numerous companies, including our regulated utilities, filed comments with the ACC in January 2018. The ACC subsequently approved an order in February 2018 requiring Arizona utilities to apply regulatory accounting treatment, which includes the use of regulatory assets and regulatory liabilities, to address all impacts from the enactment of the TCJA.

On September 20, 2018, the ACC issued Rate Decision No. 76901, which set forth the reductions in revenue for our Santa Cruz, Palo Verde, Greater Tonopah, and Northern Scottsdale utilities due to the TCJA. Rate Decision No. 76901 adopted a phase-in approach for the reductions to match the phase-in of our revenue requirement under the Rate Decision No. 74364 enacted in February 2014. In 2018, the aggregate annual reductions in revenue for our Santa Cruz, Palo Verde, Greater Tonopah, and Northern Scottsdale utilities was approximately \$782,000. In 2021, the final year of the phase-in, the aggregate annual reductions in revenue for our Santa Cruz, Palo Verde, Tonopah, and Northern Scottsdale utilities will be approximately \$1.1 million. The ACC also approved a carrying cost of 4.25% on regulatory liabilities resulting from the difference of the fully phased-in rates to be applied in 2021 versus the phased-in rates refunded in 2018.

Rate Decision No. 76901, however, did not address the impacts of the TCJA on accumulated deferred income taxes ("ADIT"), including excess ADIT ("EADIT"). The ACC requested the Company to submit a proposal by December 19, 2018 regarding the impact of the TCJA on its ADIT as of January 1, 2018, and the related EADIT amortization methods for both the plant-related (the protected element of EADIT) and the non-plant related (the unprotected portion of EADIT) assets, as appropriate. On December 19, 2018, the Company submitted the required filing and proposed that as part of a required July 1, 2019 filing, it would propose revised tariffs that incorporate the appropriate rate impacts. The Company made its filing proposing revised tariffs on June 14, 2019. ACC Staff reviewed the filing and requested that the Company defer tariff revisions until such revisions can be considered in the next rate case. ACC Staff also requested that the Company defer consideration of the regulatory assets and regulatory liabilities associated with 2018 EADIT amortization. On July 18, 2019, the Company made a filing proposing these items be deferred to the next rate case. Refer to " — Recent Events — ACC Rate Case" for additional information regarding the Company's next rate case.

Previously, the ACC Chairman noted that there may be some unintended consequences related to the tax treatment of CIACs and AIACs, which are now taxable with the enactment of the TCJA. Following receipt of comments from various parties, including from us, and a recommendation from the ACC Staff, the ACC adopted an order in November 2018 relating to the funding for income taxes on CIACs and AIACs that provides for the following: 1) requires that under the hybrid sharing method, a contributor will pay a gross-up to the utility consisting of 55% of the income tax expense with the utility covering the remaining 45% of the income tax expense; 2) removes the full gross-up method option for Class A and B utilities and their affiliates (which includes all of our utilities); 3) ensures proper ratemaking treatment of a utility using the self-pay method; 4) clarifies that pass-through entities that are owned by a "C" corporation can recover tax expense according to methods allowed; and 5) requires Class A and B utilities to self-pay the taxes associated with hook-up fee contributions but permits using a portion of the hook-up fees to fund these taxes.

The ACC amended the November order by issuing Decision No. 77084 on February 20, 2019 and Decision No. 77104 on February 28, 2019, which imposed additional limits on grossing up CIAC, which we do not believe will be material to us.

ACC Rate Case

On March 20, 2019, we filed a motion with the ACC to request an order for certain of our utilities to file a rate case. Thereafter, on April 26, 2019, the ACC issued Decision No. 77168, which requires all of our utilities to file a rate case no later than June 30, 2020, using the twelve months ending December 31, 2019 as the test year for the rate case. The outcome of the new rate case cannot be predicted, but we anticipate that new rates would not take effect before the second half of 2021. We are in the initial stages of evaluating and preparing for the rate case, but we anticipate requesting a moderate increase in rates. There is no guarantee that the ACC will approve a rate increase or whether the ACC will take any other actions as a result of the rate case, including a decision to decrease future rates.

Common Stock Offering

On July 20, 2018, we completed a public offering of 1,720,000 shares of common stock at a public offering price of \$9.25 per share, for gross proceeds of \$15.9 million, which included 220,000 shares issued and sold pursuant to the underwriter's exercise in full of its option to purchase additional shares. We received net proceeds of approximately \$14.6 million after deducting underwriting discounts and commissions and offering expenses payable by us, which collectively totaled \$1.3 million.

Acquisition of Red Rock Utilities

On October 16, 2018, we completed the acquisition of Red Rock, an operator of a water and a wastewater utility with service areas in Pima and Pinal counties of Arizona, for a purchase price of \$5.9 million. The acquisition added over 1,650 connections and approximately 9 square miles of service area. We believe this acquisition is consistent with the Company's declared strategy of making accretive acquisitions.

Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing operating performance. In consideration of the Financial Accounting Standards Board's Accounting Standards Codification 280, *Segment Reporting*, we are not organized around specific products and services, geographic regions, or regulatory environments. We currently operate in one geographic region within the State of Arizona, wherein each operating utility operates within the same regulatory environment.

While we report revenue, disaggregated by service type, on the face of our statement of operations, we do not manage the business based on any performance measure at the individual revenue stream level. We do not have any customers that contribute more than 10% to our revenues or revenue streams. Additionally, the chief operating decision maker uses consolidated financial information to evaluate our performance, which is the same basis on which he communicates our results and performance to our board of directors. It is upon this consolidated basis from which he bases all significant decisions regarding the allocation of our resources on a consolidated level. Based on the information described above and in accordance with the applicable literature, management has concluded that we are currently organized and operated as one operating and reportable segment.

Comparison of Results of Operations for the Three Months Ended June 30, 2019 and 2018

The following table summarizes our results of operations for the three months ended June 30, 2019 and 2018 (in thousands, except per share amounts):

	For the Three Months Ended June 30,	
	2019	2018
Revenues	\$ 9,121	\$ 10,838
Operating expenses	6,876	6,734
Operating income	2,245	4,104
Total other expense	(1,111)	(1,082)
Income before income taxes	1,134	3,022
Income tax expense	(356)	(766)
Net income	\$ 778	\$ 2,256
Basic earnings per common share	\$ 0.04	\$ 0.11
Diluted earnings per common share	\$ 0.04	\$ 0.11

Revenues – The following table summarizes our revenues for the three months ended June 30, 2019 and 2018 (in thousands):

	For the Three Months Ended June 30,	
	2019	2018
Water services	\$ 4,243	\$ 3,916
Wastewater and recycled water services	4,862	4,518
Unregulated revenues	16	2,404
Total revenues	\$ 9,121	\$ 10,838

Total revenues decreased \$1.7 million, or 15.8%, for the three months ended June 30, 2019 compared to the three months ended June 30, 2018. This decrease was partially offset by the full year 2018 TCJA true-up of \$189,000; removing the 2018 TCJA true-up, revenue decreased 17.3%. The decrease in revenue was driven by the \$2.4 million of ICFA revenue recognized during the three months ended June 30, 2018, which resulted from additional capacity added to a wastewater plant. For the three months ended June 30, 2019, we did not recognize any ICFA revenue. Excluding the ICFA revenue recognized and removing the 2018 TCJA full year true-up, total revenues increased \$0.5 million, or 5.6%, for the three months ended June 30, 2019 compared to the three months ended June 30, 2018. This increase reflects the 8.9% increase in active service connections, inclusive of the 4.3% increase due to the Red Rock acquisition, combined with the increase in rates related to Rate Decision No. 74364 in February 2014, for the three months ended June 30, 2019 compared to the three months ended June 30, 2018. Partially offsetting this increase was a \$0.2 million decrease in revenue due to the approved rate reduction pursuant to Rate Decision No. 76901 in September 2018 by the ACC resulting from the TCJA. Refer to "—Recent Events — ACC Tax Docket."

Water Services – Water services revenue increased \$0.3 million, or 8.4%, for the three months ended June 30, 2019 compared to the three months ended June 30, 2018. The increase in water services revenues primarily related to the acquisitions of Turner and Red Rock along with growth in organic revenue. The increase was also driven by the full year TCJA true-up recorded during the three months ended June 30, 2018.

Water services revenue based on consumption decreased by \$0.2 million, or 9.4%, to \$2.0 million for the three months ended June 30, 2019 compared to \$2.2 million for the three months ended June 30, 2018. This decrease was primarily driven by decreases in irrigation and commercial consumption for the three months ended June 30, 2019 compared to the three months ended June 30, 2018.

Active water connections increased 8.6% to 23,208 as of June 30, 2019 from 21,380 as of June 30, 2018, due to organic growth in our service areas (941 connections, or 4.4%) as well as the acquisition of Red Rock (887 connections, or 4.1%).

Water consumption increased 6.1% to 833 million gallons for the three months ended June 30, 2019 from 785 million gallons for the three months ended June 30, 2018. The increase in consumption was primarily related to the acquisitions of Turner and Red Rock. The increase due to acquisitions was partially offset by decreases in golf course and commercial consumption.

Water services revenue associated with the basic service charge, excluding miscellaneous charges, increased \$0.2 million, or 7.6%, to \$2.2 million for the three months ended June 30, 2019 compared to \$2.0 million for the three months ended June 30, 2018. Of the \$0.2 million increase, \$0.1 million was due to the Turner and Red Rock acquisitions. The remaining increase related to increases in active service connections, combined with an increase in rates related to Rate Decision No. 74364.

Wastewater and Recycled Water Services – Wastewater and recycled water services revenue increased \$0.3 million, or 7.6%, for the three months ended June 30, 2019 compared to the three months ended June 30, 2018. The increase in wastewater and recycled water services revenue was comprised of a \$0.3 million increase in wastewater services revenue (inclusive of a \$0.2 million increase due to Red Rock). The increase in wastewater services revenue reflects the increase in active wastewater connections, which increased 9.2% to 21,507 (inclusive of 875 connections due to the Red Rock acquisition) as of June 30, 2019 from 19,698 as of June 30, 2018, as well as the increase in rates related to Rate Decision No. 74364.

Recycled water services revenue, which is based on the number of gallons delivered, increased \$14,000, or 4.8%, to \$0.3 million for the three months ended June 30, 2019. The increase in recycled water services revenue was primarily related to the increase in rates related to Rate Decision No. 74364.

Operating Expenses – The following table summarizes our operating expenses for the three months ended June 30, 2019 and 2018 (in thousands):

	For the Three Months Ended June 30,	
	2019	2018
Operations and maintenance	\$ 1,780	\$ 1,621
Operations and maintenance - related party	437	404
General and administrative	2,650	2,820
Depreciation	2,009	1,889
Total operating expenses	\$ 6,876	\$ 6,734

Operations and Maintenance – Operations and maintenance costs, consisting of personnel costs, production costs (primarily chemicals and purchased power), maintenance costs, and property tax, increased \$0.2 million, or 9.8%, for the three months ended June 30, 2019 compared to the three months ended June 30, 2018.

Total personnel expenses increased \$0.1 million, or 17.8%, to \$0.5 million for the three months ended June 30, 2019 compared to \$0.4 million for the three months ended June 30, 2018, primarily due to the Turner and Red Rock acquisitions.

Repairs and maintenance expenses increased \$21,000, or 63.6%, to \$54,000 for the three months ended June 30, 2019 compared to \$33,000 for the three months ended June 30, 2018, primarily driven by lower expenses in 2018 due to new construction of additional capacity to a wastewater plant completed in 2018, combined with the Turner and Red Rock acquisitions.

Property tax expense increased \$23,000, or 4.4%, remaining consistent at \$0.5 million for the three months ended June 30, 2019 and June 30, 2018. Property taxes are calculated using a centrally valued property calculation, which derives property values based upon three-year historical revenues. As revenues increase, we expect that property taxes will increase. The increase is also partially due to the Turner and Red Rock acquisitions.

Contract services increased \$24,000 to \$0.1 million for the three months ended June 30, 2019 compared to less than \$0.1 million for the three months ended June 30, 2018, primarily due to increases in landscaping and testing services, as well as due to the Red Rock acquisition.

Contract services - related parties expenses increased \$33,000, or 8.2%, for the three months ended June 30, 2019 compared to the three months ended June 30, 2018. The increase is due to the monthly rate per account owed to Fathom, which increased to \$6.43 on January 1, 2019 from \$6.24. The increase was also partially driven by the acquisition of Red Rock.

General and Administrative – General and administrative costs include the day-to-day expenses of office operation, personnel costs, legal and other professional fees, insurance, rent, and regulatory fees. These costs decreased \$0.2 million, or 6.0%, during the three months ended June 30, 2019 compared to the three months ended June 30, 2018.

Deferred compensation expense decreased \$0.2 million to \$0.3 million for the three months ended June 30, 2019, compared to \$0.5 million for the three months ended June 30, 2018. The decrease was primarily related to the 2015 management SARs being fully expensed at December 31, 2018 and the 2015 executive SARs being fully expensed at March 31, 2019.

Professional fees decreased \$0.1 million to \$0.4 million for the three months ended June 30, 2019, compared to \$0.5 million for the three months ended June 30, 2018. The decrease was primarily related to expenses associated with strategic initiatives and TCJA analysis performed during the three months ended June 30, 2018.

Personnel and related expenses increased \$0.1 million to \$0.9 million for the three months ended June 30, 2019, compared to \$0.8 million for the three months ended June 30, 2018. The increase was primarily related to increases in salaries and bonus, coupled with increases in 401(k) and worker's compensation insurance expense, slightly offset by lower medical insurance expense for the three months ended June 30, 2019, compared to the three months ended June 30, 2018.

Depreciation - Depreciation expense increased \$0.1 million to \$2.0 million for the three months ended June 30, 2019, compared to \$1.9 million for the three months ended June 30, 2018. The increase was primarily driven by the acquisition of Red Rock and Turner.

Income Tax Expense – Income tax expense decreased \$0.4 million to \$0.4 million for the three months ended June 30, 2019 compared to \$0.8 million for the three months ended June 30, 2018. The decrease was driven by a decrease in pretax income.

Net Income – Net income totaled \$0.8 million for the three months ended June 30, 2019 compared to net income of \$2.3 million for the three months ended June 30, 2018. The \$1.5 million decrease was primarily attributed to the \$1.9 million decrease in operating income, which was driven by the \$2.4 million decrease in operating revenues due to ICFA revenue recognized during the three months ended June 30, 2018, partially offset by decreases in general and administrative expenses.

Comparison of Results of Operations for the Six Months Ended June 30, 2019 and 2018

The following table summarizes our results of operations for the six months ended June 30, 2019 and 2018 (in thousands, except per share amounts):

	For the Six Months Ended June 30,	
	2019	2018
Revenues	\$ 16,844	\$ 18,263
Operating expenses	13,400	12,795
Operating income	3,444	5,468
Total other expense	(1,319)	(1,985)
Income before income taxes	2,125	3,483
Income tax expense	(698)	(907)
Net income	\$ 1,427	\$ 2,576
Basic earnings per common share	\$ 0.07	\$ 0.13
Diluted earnings per common share	\$ 0.07	\$ 0.13

Revenues – The following table summarizes our revenues for the six months ended June 30, 2019 and 2018 (in thousands):

	For the Six Months Ended June 30,	
	2019	2018
Water services	\$ 7,381	\$ 7,031
Wastewater and recycled water services	9,431	8,815
Unregulated revenues	32	2,417
Total revenues	\$ 16,844	\$ 18,263

Total revenues decreased \$1.4 million, or 7.8%, for the six months ended June 30, 2019 compared to the six months ended June 30, 2018. The decrease was driven by the \$2.4 million of ICFA revenue recognized during the six months ended June 30, 2018 which resulted from additional capacity added to a wastewater plant. For the six months ended June 30, 2019, we did not recognize any ICFA revenue. Excluding the ICFA revenue recognized, total revenues increased \$1.0 million, or 6.1%, for the six months ended June 30, 2019 compared to the six months ended June 30, 2018. The increase in revenue reflects the 8.9% increase in active service connections, inclusive of the 4.3% increase due to the Red Rock acquisition, combined with the increase in rates related to Rate Decision No. 74364 in February 2014, for the six months ended June 30, 2019 compared to the six months ended June 30, 2018.

Water Services – Water services revenue increased by \$0.3 million, or 5.0%, for the six months ended June 30, 2019 compared to the six months ended June 30, 2018. The increase in water services revenues primarily related to the Turner and Red Rock acquisitions, partially offset by decreased consumption.

Water services revenue based on consumption decreased by \$0.3 million, or 10.3%, to \$2.9 million for the six months ended June 30, 2019 compared to \$3.2 million for the six months ended June 30, 2018. This decrease was primarily driven by decreases in irrigation and residential consumption for the six months ended June 30, 2019 compared to the six months ended June 30, 2018.

Active water connections increased 8.6% to 23,208 as of June 30, 2019 from 21,380 as of June 30, 2018, due to organic growth in our service areas (941 connections, or 4.4%) as well as the acquisition of Red Rock (887 connections, or 4.1%).

Water consumption increased 4.3% to 1,247 million gallons for the six months ended June 30, 2019 from 1,196 million gallons for the six months ended June 30, 2018. The increase in consumption was primarily related to the acquisitions of Turner and Red Rock. The increase due to acquisitions was partially offset by decreases in golf course, residential, and construction consumption.

Water services revenue associated with the basic service charge, excluding miscellaneous charges, increased \$0.3 million, or 8.2%, to \$4.3 million for the six months ended June 30, 2019 compared to \$4.0 million for the six months ended June 30, 2018. The increase was due to the Turner and Red Rock acquisitions, which, together, accounted for \$0.2 million of the increase.

Wastewater and Recycled Water Services – Wastewater and recycled water services revenue increased \$0.6 million, or 7.0%, for the six months ended June 30, 2019 compared to the six months ended June 30, 2018. The increase in wastewater and recycled water services revenue was comprised of a \$0.7 million increase in wastewater services revenue (inclusive of a \$0.4 million increase due to Red Rock) partially offset by a \$0.1 million decrease in recycled water services revenue. The increase in wastewater services revenue reflects the increase in active wastewater connections, which increased 9.2% to 21,507 (inclusive of 875 connections due to the Red Rock acquisition) as of June 30, 2019 from 19,698 as of June 30, 2018, as well as the increase in rates related to Rate Decision No. 74364.

Recycled water services revenue, which is based on the number of gallons delivered, decreased \$0.1 million, or 11.8%, to \$0.4 million for the six months ended June 30, 2019. The decrease in recycled water services revenue was primarily related to the decrease in volume of recycled water delivered, which decreased 70 million gallons to 269 million gallons for the six months ended June 30, 2019 compared to 339 million gallons for the six months ended June 30, 2018.

Operating Expenses – The following table summarizes our operating expenses for the six months ended June 30, 2019 and 2018 (in thousands):

	For the Six Months Ended June 30,	
	2019	2018
Operations and maintenance	\$ 3,503	\$ 3,130
Operations and maintenance - related party	852	760
General and administrative	5,025	5,217
Depreciation	4,020	3,688
Total operating expenses	\$ 13,400	\$ 12,795

Operations and Maintenance – Operations and maintenance costs, consisting of personnel costs, production costs (primarily chemicals and purchased power), maintenance costs, and property tax, increased \$0.4 million, or 11.9%, for the six months ended June 30, 2019 compared to the six months ended June 30, 2018.

Total personnel expenses increased \$0.1 million, or 15.6%, to \$1.0 million for the six months ended June 30, 2019 compared to \$0.8 million for the six months ended June 30, 2018, primarily due to the Turner and Red Rock acquisitions.

Repairs and maintenance expenses increased \$65,000 to \$139,000 for the six months ended June 30, 2019 compared to \$74,000 for the six months ended June 30, 2018, primarily driven by lower expenses in 2018 due to new construction of additional capacity to a wastewater plant completed in 2018, combined with the Turner and Red Rock acquisitions.

Property tax expense increased \$0.1 million, or 5.9%, to \$1.1 million for the six months ended June 30, 2019 compared to \$1.0 million for the six months ended June 30, 2018. Property taxes are calculated using a centrally valued property calculation, which derives property values based upon three-year historical revenues. As revenues increase, we expect that property taxes will increase. The increase is also partially due to the Turner and Red Rock acquisitions.

Contract services increased \$61,000, or 81.3%, to \$136,000 for the six months ended June 30, 2019 compared to \$75,000 for the six months ended June 30, 2018, primarily due to the Red Rock acquisition coupled with increases in landscaping services.

Contract services - related parties expenses increased \$0.1 million, or 12.1%, to \$0.9 million for the three months ended June 30, 2019 compared to \$0.8 million for the three months ended June 30, 2018. The increase is due to the monthly rate per account due to Fathom, which increased to \$6.43 on January 1, 2019 from \$6.24. The increase was also partially driven by the acquisition of Red Rock.

General and Administrative – General and administrative costs include the day-to-day expenses of office operation, personnel costs, legal and other professional fees, insurance, rent, and regulatory fees. These costs decreased \$0.2 million, or 3.7%, during the six months ended June 30, 2019 compared to the six months ended June 30, 2018.

Professional fees decreased \$0.3 million to \$0.8 million for the six months ended June 30, 2019, compared to \$1.1 million for the six months ended June 30, 2018. The decrease was primarily related to expenses associated with strategic initiatives and TCJA analysis performed during the six months ended June 30, 2018.

Personnel and related expenses increased \$70,000, or 3.9%, remaining consistent at \$1.8 million for the six months ended June 30, 2019 and 2018. The increase was primarily related to increases in salaries and bonus, coupled with increases in 401(k) and worker's compensation insurance expense, slightly offset by lower medical insurance expense for the six months ended June 30, 2019, compared to the six months ended June 30, 2018.

Depreciation - Depreciation expense increased \$0.3 million, or 9.0%, to \$4.0 million for the six months ended June 30, 2019, compared to \$3.7 million for the six months ended June 30, 2018. The increase was primarily driven by the acquisition of Red Rock and Turner.

Other Expense – Other expense totaled \$1.3 million for the six months ended June 30, 2019 compared to other expense of \$2.0 million for the six months ended June 30, 2018. The decrease of \$0.7 million in other expense was primarily attributed to the receipt of the remaining \$1.0 million of proceeds in March 2019 relating to the Loop 303 Contracts, partially offset by a decrease in the Valencia earnout of \$0.3 million. The Valencia earnout consists of \$3,000 for each new water meter installed within Valencia Water Company's prior service areas. This decrease was driven by slowed growth in our former service territory.

Other – related party income increased by \$58,000, remaining consistent at \$0.1 million for the six months ended June 30, 2019 and 2018. Other – related party income includes royalty income based upon a percentage of certain FATHOM™ recurring revenue combined with the equity method gains and losses associated with our equity method investment in FATHOM™. The increase in other – related party income was primarily driven by the equity method loss recorded on our investment in FATHOM™ of \$0.1 million for the six months ended June 30, 2019 compared to a loss of \$0.2 million for the six months ended June 30, 2018. Refer to Note 6 — “Equity Method Investment” of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q for additional information. The decrease in Other – related party expense was slightly offset by a \$22,000 decrease in royalty income for the six months ended June 30, 2019 compared to the six months ended June 30, 2018.

Income Tax Expense – Income tax expense decreased \$0.2 million to \$0.7 million for the six months ended June 30, 2019 compared to \$0.9 million for the six months ended June 30, 2018. The decrease was driven by a decrease in pretax income.

Net Income – Net income totaled \$1.4 million for the six months ended June 30, 2019 compared to net income of \$2.6 million for the six months ended June 30, 2018. The \$1.1 million decrease was primarily attributed to the \$2.0 million decrease in operating income, partially offset by the \$0.7 million decrease in total other expense for the six months ended June 30, 2019 compared to the six months ended June 30, 2018.

Outstanding Share Data

As of August 5, 2019, there were 21,536,834 shares of our common stock outstanding and options to acquire an additional 390,796 shares of our common stock outstanding.

Liquidity and Capital Resources

Our capital resources are provided by internally generated cash flows from operations as well as debt and equity financing. Additionally, our regulated utility subsidiaries receive advances and contributions from customers, home builders, and real estate developers to partially fund construction necessary to extend service to new areas. We use our capital resources to:

- fund operating costs;

- fund capital requirements, including construction expenditures;
- pay dividends;
- fund acquisitions;
- make debt and interest payments; and
- invest in new and existing ventures.

Our utility subsidiaries operate in rate-regulated environments in which the amount of new investment recovery may be limited. Such recovery will take place over an extended period of time because recovery through rate increases is subject to regulatory lag.

As of June 30, 2019, we have no notable near-term cash expenditures or debt obligations. While specific facts and circumstances could change, we believe that we have sufficient cash on hand, the ability to draw on the \$8.0 million revolver, and will be able to generate sufficient cash flows to meet our operating cash flow requirements and capital expenditure plan as well as remain in compliance with our debt covenants for at least the next twelve months.

In March 2014, we initiated a dividend program to declare and pay a monthly dividend. On November 8, 2018, we announced a monthly dividend increase from \$0.023625 per share (\$0.2835 per share annually) to \$0.023861 per share (\$0.286332 per share annually). Although we expect monthly dividends will be declared and paid for the foreseeable future, the declaration of any dividends is at the discretion of our board of directors and is subject to legal requirements and debt service ratio covenant requirements (refer to “—Senior Secured Notes” and “—Revolving Credit Line”).

Cash from Operating Activities

Cash flows provided by operating activities are used for operating needs and to meet capital expenditure requirements. Our future cash flows from operating activities will be affected by economic utility regulation, infrastructure investment, growth in service connections, customer usage of water, compliance with environmental health and safety standards, production costs, weather, and seasonality.

For the six months ended June 30, 2019, our net cash provided by operating activities totaled \$5.7 million compared to \$5.3 million for the six months ended June 30, 2018. The \$0.4 million increase in cash from operating activities was primarily driven by the decrease in payments related to other non-current liabilities of \$2.1 million and accounts payable of \$0.4 million, partially offset by the decrease in net income of \$1.1 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018.

Cash from Investing Activities

Our net cash used in investing activities totaled \$4.9 million for the six months ended June 30, 2019 compared to \$5.1 million for the six months ended June 30, 2018. The \$0.2 million decrease in cash used in investing activities was primarily driven by a decrease in cash paid for acquisitions of \$2.6 million, partially offset by an increase in capital expenditures of \$2.4 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018.

We continue to invest capital prudently in our existing, core service areas where we are able to deploy our Total Water Management model as service connections grow. This includes any required maintenance capital expenditures and the construction of new water and wastewater treatment and delivery facilities. Following the most recent Private Letter Ruling extension, we expect an increase in capital expenditures for 2019 compared to 2018 to fully defer the remaining tax liability of approximately \$1.8 million as of June 30, 2019 (refer to “—Corporate Transactions—Private Letter Ruling”). Our projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

Cash from Financing Activities

Our net cash used in financing activities totaled \$2.3 million for the six months ended June 30, 2019, a \$0.6 million increase as compared to the \$1.7 million in cash used in financing activities for the six months ended June 30, 2018. This increase was primarily driven by a decrease of \$0.3 million in proceeds from stock option exercises received for the six months ended June 30, 2019, compared to the six months ended June 30, 2018, coupled with an increase in dividends paid of \$0.3 million.

Senior Secured Notes

On June 24, 2016, we issued two series of senior secured notes with a total principal balance of \$115.0 million at a blended interest rate of 4.55%. Series A carries a principal balance of \$28.8 million and bears an interest rate of 4.38% over a twelve-year term,

with the principal payment due on June 15, 2028. Series B carries a principal balance of \$86.3 million and bears an interest rate of 4.58% over a 20-year term. Series B is interest only for the first five years, with \$1.9 million principal payments paid semiannually thereafter. The proceeds of the senior secured notes were primarily used to refinance our long-term tax exempt bonds, pursuant to an early redemption option at 103%, plus accrued interest, as a result of the initial public offering of our common stock in May 2016.

The senior secured notes require the Company to maintain a debt service coverage ratio of consolidated EBITDA to consolidated debt service of at least 1.10 to 1.00. Consolidated EBITDA is calculated as net income plus depreciation, taxes, interest and other non-cash charges net of non-cash income. Consolidated debt service is calculated as interest expense, principal payments, and dividend or stock repurchases. The senior secured notes also contain a provision limiting the payment of dividends if the Company falls below a debt service ratio of 1.25. However, for the quarter ending June 30, 2021 through the quarter ending March 31, 2024, the ratio drops to 1.20. As of June 30, 2019, the Company was in compliance with its financial debt covenants.

Debt issuance costs as of both June 30, 2019 and December 31, 2018 were \$0.6 million.

Revolving Credit Line

On April 20, 2018, the Company entered into a loan agreement ("Loan Agreement") with MidFirst Bank, a federally chartered savings association, on the terms and subject to conditions set forth in the Loan Agreement, for a revolving credit facility in the maximum principal amount of \$8.0 million. The Company intends to use the borrowings for future acquisitions and general corporate purposes.

Borrowings under the Loan Agreement will bear interest at a rate equal to the London Interbank Offered Rate ("LIBOR") plus 2.25%. The original scheduled maturity date of April 30, 2020, subject to certain prepayment requirements upon a change of control, was extended in April 2019 to April 30, 2022.

The Loan Agreement contains a debt service coverage ratio financial maintenance covenant and contains certain restrictive covenants that limit, among other things, the Company's ability to: create liens and other encumbrances; incur additional indebtedness; merge, liquidate or consolidate with another entity; dispose of or transfer assets; make distributions or other restricted payments (including dividends); engage in certain affiliate transactions; and change the nature of the business. The foregoing covenants are subject to various qualifications and limitations as set forth in the Loan Agreement. Pursuant to the Loan Agreement, the revolving credit facility will be subject to certain customary events of default after which the revolving credit facility may be declared due and payable if not cured within the grace period or, in certain circumstances, may be declared due and payable immediately. Refer to Note 12 — "Debt" of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q for additional information. As of June 30, 2019, the Company was in compliance with its financial debt covenants.

As of June 30, 2019, the Company had no outstanding borrowings under this credit line. The Company incurred \$40,000 debt issuance costs as of June 30, 2019 and \$0.1 million as of December 31, 2018.

Insurance Coverage

We carry various property, casualty, and financial insurance policies with limits, deductibles, and exclusions consistent with industry standards. However, insurance coverage may not be adequate or available to cover unanticipated losses or claims. We are self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on our short-term and long-term financial condition and the results of operations and cash flows.

Critical Accounting Policies, Judgments, and Estimates

The application of critical accounting policies is particularly important to our financial condition and results of operations and provides a framework for management to make significant estimates, assumptions, and other judgments. Additionally, our financial condition, results of operations, and cash flow are impacted by the methods, assumptions, and estimates used in the application of critical accounting policies. Although our management believes that these estimates, assumptions, and other judgments are appropriate, they relate to matters that are inherently uncertain and that may change in subsequent periods. Accordingly, changes in the estimates, assumptions, and other judgments applied to these accounting policies could have a significant impact on our financial condition and results of operations as reflected in our financial statements.

There have been no significant changes to our critical accounting policies from those disclosed under "Managements' Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies, Judgments, and Estimates" in our

most recent Annual Report on Form 10-K filed with the SEC on March 7, 2019 other than as disclosed below.

On January 1, 2019, the Company adopted Accounting Standards Codification 606, *Revenue from Contracts with Customers*, using the modified retrospective approach. The Company identified its sources of revenue streams that fall within the scope of this guidance and applied the five-step model to all qualifying revenue streams to determine when to recognize revenue. Refer to Note 3 — "Revenue Recognition" of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q for additional information.

Off Balance Sheet Arrangements

As of June 30, 2019 and December 31, 2018, we did not have any off-balance sheet arrangements.

Contractual Obligations

The following table summarizes our contractual cash obligations as of June 30, 2019 (in thousands):

	Payments Due By Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Long term debt obligations	\$ 115,028	\$ 3	\$ 1,927	\$ 7,668	\$ 105,430
Interest on long-term debt ⁽²⁾	59,400	5,212	10,376	9,805	34,007
Capital lease obligations	260	36	155	69	—
Interest on capital lease	31	15	15	1	—
Operating lease obligations	623	164	428	31	—
FATHOM™ purchase obligations ⁽³⁾	350	350	—	—	—
Total ⁽¹⁾	\$ 175,692	\$ 5,780	\$ 12,901	\$ 17,574	\$ 139,437

- (1) In addition to these obligations, the Company pays annual refunds on AIAC over a specific period of time based on operating revenues generated from developer-installed infrastructure. The refund amounts are considered an investment in infrastructure and eligible for inclusion in future rate base. These refund amounts are not included in the above table because the refund amounts and timing are dependent upon several variables, including new customer connections, customer consumption levels, and future rate increases, which cannot be accurately estimated. Portions of these refund amounts are payable annually over the next two decades, and amounts not paid by the contract expiration dates become nonrefundable and are transferred to CIAC.
- (2) Interest on the long-term debt is based on the fixed rates of the Company's senior secured notes.
- (3) The Company entered into an agreement with FATHOM™ to replace a majority of its meter infrastructure in 2016. This project was substantially completed in 2017. The final amount to be paid is pending completion pursuant to the terms of the agreement. Refer to Note 9 — "Transactions with Related Parties" of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q for additional information.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk associated with changes in commodity prices, equity prices, and interest rates. The Company uses fixed-rate long-term debt to reduce the risk from interest rate fluctuations. Although the Company's currently outstanding long-term debt is based on fixed rates, changes in interest rates could impact the fair market value of such long-term debt. As of June 30, 2019, the fair market value of the Company's long-term debt was \$115.3 million. For additional information about the Company's long-term debt, refer to Note 12 — "Debt" of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q for additional information.

Other than interest-related risks, the Company believes the risks associated with price increases for chemicals, electricity, and other commodities are mitigated by the Company's ability over the long-term to recover its costs through rate increases to its customers, though such recovery is subject to regulatory lag.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, reviewed and evaluated our disclosure controls and procedures (as such term is defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Change in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined under Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the fiscal quarter ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of business, we may, from time to time, be subject to various pending and threatened lawsuits in which claims for monetary damages are asserted. To our knowledge, we are not involved in any legal proceeding which is expected to have a material effect on us.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in “Risk Factors” included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018. There have been no material changes in our risk factors from those discussed in “Risk Factors” included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

a) Sales of Unregistered Securities

No unregistered securities were sold during the three months ended June 30, 2019.

b) Use of Proceeds

None.

c) Issuer Purchases of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

Global Water Resources, Inc. 2020 Omnibus Incentive Plan

On August 6, 2019, the Company’s Board of Directors (the “Board”) adopted, subject to approval by the Company’s shareholders, the Global Water Resources, Inc. 2020 Omnibus Incentive Plan (the “2020 Omnibus Plan”). The 2020 Omnibus Plan is designed to replace the Company’s existing equity plans, including the 2018 Stock Option Plan, the Deferred Phantom Unit Plan and the Phantom Stock Unit Plan. No further awards will be made under the Company’s existing plans following the date that the 2020 Omnibus Plan is approved by the shareholders. The existing plans will remain in effect until all awards granted under such plans have been exercised, forfeited or cancelled or have otherwise expired or terminated.

The material terms of the 2020 Omnibus Plan are as follows:

General

The 2020 Omnibus Plan is intended to promote the interests and long-term success of the Company and its shareholders by providing eligible participants the opportunity to earn equity awards aligned with the continued growth and success of the Company.

The 2020 Omnibus Plan provides that grants may be in any of the following forms:

- Non-Qualified Stock Options
- Incentive Stock Options
- Stock Appreciation Rights
- Restricted Stock
- Restricted Stock Units
- Stock Awards
- Performance Shares
- Performance Units
- Non-Employee Director Retainer Awards

Subject to adjustment in certain circumstances, the total number of shares of common stock that will be reserved under the 2020 Omnibus Plan is 1,170,000 (which will include any shares of common stock that were authorized but unissued under the Global Water Resources, Inc. 2018 Stock Option Plan).

Solely for the purposes of calculating the number of shares of stock available for grant under the 2020 Omnibus Plan, the following share counting rules apply:

- Each share of stock subject to options or stock appreciation rights will be counted against the shares of stock available for issuance as one share.
- Each share of stock subject to an award other than options or stock appreciation rights will be counted against the shares of stock available for issuance as two shares.
- If an award granted under the 2020 Omnibus Plan terminates, expires or lapses for any reason, the number of shares of stock subject to such award shall again become available for grant under the 2020 Omnibus Plan.
- If an award is settled in cash, the shares of stock used to measure the value of the award, if any, will not reduce the number of shares of stock available for grant under the 2020 Omnibus Plan.
- The exercise of stock-settled stock appreciation rights or broker-assisted “cashless” exercise of options shall reduce the number of shares of stock available for grant by the entire number of shares subject to the stock appreciation right or option.
- Dividend equivalents paid in shares of stock will reduce the number of shares of stock available for grant by the number of shares of stock used to satisfy such dividend equivalent.
- Shares of stock tendered or withheld to pay the exercise price of an option or to satisfy a tax withholding obligation arising in connection with an award will not again become shares of stock available for grant under the 2020 Omnibus Plan.
- Shares of stock purchased on the open market with cash proceeds generated by the exercise of an option will not increase or replenish the number of shares of stock available for grant under the 2020 Omnibus Plan.

The Company may issue shares of common stock under the 2020 Omnibus Plan from authorized but unissued shares of stock or shares purchased on the open market or treasury stock not reserved for any other purpose.

The maximum aggregate number of shares of stock that may be granted pursuant to all grants under the 2020 Omnibus Plan during any calendar year is 500,000 (or the equivalent cash value) with respect to any one employee and 100,000 (or the equivalent cash value) with respect to any one non-employee director.

Administration

The 2020 Omnibus Plan will be administered and interpreted by the Compensation Committee of the Board (the “Committee”). The Committee has the authority to:

- Interpret the 2020 Omnibus Plan and make all determinations necessary or advisable for the administration of the same;

- Prescribe, amend and rescind rules and regulations relating to the 2020 Omnibus Plan;
- Provide for conditions and assurances deemed necessary or advisable to protect the interests of the Company;
- Determine the participants who are entitled to receive awards under the 2020 Omnibus Plan;
- Determine the types of awards, the times when awards will be granted and the schedule for lapse of restrictions or limitations and accelerations or waivers thereof;
- Determine the number of awards;
- Determine the purchase price or exercise price, if any, and the period during which awards shall be exercisable; and
- Establish the restrictions applicable to awards and the form of each award agreement.

Eligibility

All employees, directors and consultants of the Company are eligible to participate in the 2020 Omnibus Plan. Subject to the provisions of the 2020 Omnibus Plan, the Committee may select among all eligible participants those to whom awards shall be granted.

Types of Awards

Stock Options

The Committee may grant options intended to qualify as “incentive stock options” (“ISOs”) within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”) or “non-qualified stock options” (“NQSOs”) that are not intended to so qualify, or any combination of the same. Any participant may receive a grant of NQSOs. Only employees may receive a grant of ISOs.

The Committee will determine the exercise price per share for options on the grant date or on a date in the future when the Committee determines the options will be effective. No option will be granted at an exercise price that is less than the fair market value of one share of stock on the grant date. Special rules apply in the event ISOs are granted to an employee who holds more than ten percent of the total combined voting power of all classes of outstanding stock.

The Committee will determine the term of each option, which will not exceed ten years from the date of grant. However, if an ISO is granted to an employee who holds more than ten percent of the combined voting power of all classes of outstanding stock, the term of the ISO may not exceed five years from the date of grant.

Stock Appreciation Rights

The Committee may grant stock appreciation rights in its discretion. Such stock appreciation rights entitle a participant to receive in cash or in shares of stock an amount equal to the excess of the fair market value of a specified number of shares of stock on the date of exercise over an exercise price established by the Committee.

Stock appreciation rights may be granted in tandem with all or a portion of a related option (a “Tandem SAR”) or separately (a “Freestanding SAR”).

A Tandem SAR will be exercisable to the extent that the related option is exercisable and the exercise price of such a Tandem SAR will be the exercise price of the related option. At no time will a Tandem SAR be issued if the exercise price of its related option is less than 100 percent of the fair market value of the stock on the grant date.

A Freestanding SAR will be exercisable in accordance with such terms and conditions as may be determined by the Committee. The exercise price of a Freestanding SAR will not be less than 100 percent of the fair market value of the stock on the grant date. All Freestanding SARs will expire no later than ten years from the grant date.

Restricted Stock Units

The Committee may grant restricted stock units in its discretion. Such restricted stock units entitle a participant to receive a specified number of shares of stock, or its cash equivalent, subject to such restrictions as the Committee may impose. In addition, the Committee may grant the participant dividend equivalents or other distribution rights.

During the period of restriction, participants holding restricted stock units will have no voting rights with respect to the shares subject to such restricted stock units.

Unless otherwise provided pursuant to an award agreement or employment agreement, upon termination of employment, restricted stock units that are at such time subject to restrictions shall be forfeited.

Restricted Stock

The Committee may grant restricted stock in its discretion. Such restricted stock entitles a participant to receive a specified number of shares of stock subject to such restrictions as the Committee may impose.

During the period of restriction, unless otherwise provided for in an award agreement, participants holding restricted stock will have voting rights with respect to the shares subject to such restrictions.

Unless otherwise provided pursuant to an award agreement or employment agreement, upon termination of employment, restricted stock that is at such time subject to restrictions shall be forfeited.

Stock Awards

The Committee may grant stock awards in its discretion. Such stock awards entitle a participant to receive (or purchase at a price determined by the Committee) shares of stock free of any vesting restrictions.

Performance Shares

The Committee may grant performance shares in its discretion. Such performance shares may be subject to certain conditions or restrictions as determined by the Committee and as set out in any applicable award agreement. In addition, the Committee may also grant certain dividend equivalents.

Performance Share Units

The Committee may grant performance share units in its discretion. Such performance share units may be subject to certain conditions or restrictions as determined by the Committee and as set out in any applicable award agreement. In addition, the Committee may also grant certain dividend equivalents.

Non-Employee Director Retainer Awards

The Board may grant non-employee director retainer awards in its discretion. Such retainer awards may be payable in cash or awards and will be subject to such terms and conditions as set out in any applicable award agreement.

Change of Control

If a change of control occurs, the Committee shall have the authority and discretion, but not the obligation, to provide, in an award agreement or employment agreement or otherwise, that all or part of any outstanding awards shall become fully exercisable and all or part of the restrictions on such outstanding awards shall lapse. Any such action will be, where required, done in compliance with Section 409A of the Code.

Clawback

In an award agreement or employment agreement, the Committee may include provisions calling for the recapture or clawback of all or any portion of an award to the extent necessary to comply with Company policy or applicable law.

Amendment and Termination

The Board may terminate, amend or modify the 2020 Omnibus Plan at any time, subject to shareholder approval if such approval is required to comply with the Code, applicable law, or applicable stock exchange requirements.

If the 2020 Omnibus Plan is approved by shareholders, it will terminate ten (10) years from its effective date, unless terminated earlier by the Board or unless extended by the Board with the approval of shareholders.

New Employment Agreements

On August 6, 2019, the Company entered into new employment agreements (the “Agreements”) with each of Ron L. Fleming, the Company’s President and Chief Executive Officer, and Michael J. Liebman, the Company’s Senior Vice President, Secretary and Chief Financial Officer. The Agreements replace the Company’s existing employment agreements with each of Mr. Fleming and Mr. Liebman, effective August 7, 2019. Unless terminated earlier in accordance with its terms, each of the Agreements continues until August 31, 2023 and will automatically renew for one or more additional 12-month periods unless either the Company or the executive provides notice prior to the end of the then-current term.

The Agreements provide that, during each calendar year during the term of the Agreements, Mr. Fleming will receive an annual base salary of \$350,000, and Mr. Liebman will receive an annual base salary of \$280,000. The Board (or the Committee) may review the base salaries on an annual basis to determine whether any increases are appropriate.

In addition, Mr. Fleming and Mr. Liebman may be entitled to annual incentive compensation as determined (a) in the discretion of the Board (or its compensation committee) or (b) pursuant to any incentive compensation program adopted by the Company from time to time. For each calendar year, Mr. Fleming and Mr. Liebman will be eligible to receive up to 50% and 40%, respectively, of his base salary as incentive compensation in the form of a cash bonus. With respect to the performance period ending December 31, 2019, Mr. Fleming and Mr. Liebman will be eligible to receive up to 50% and 40%, respectively, of his base salary as incentive compensation in the form of phantom stock units as determined in accordance with the Global Water Resources, Inc. Phantom Stock Unit Plan (the “PSU Plan”). For performance periods beginning on and after January 1, 2020, subject to the Company’s shareholders approving the 2020 Omnibus Plan, in lieu of phantom stock units pursuant to the PSU Plan, Mr. Fleming and Mr. Liebman will be eligible to receive up to 50% and 40%, respectively, of his base salary in the form of restricted stock units or such other equity awards as may be issued pursuant to the 2020 Omnibus Plan. The actual number of restricted stock units or other equity will be based on the Executive satisfying the performance goals established by the Board (or its compensation committee) and calculated in accordance with the bonus payments for all employees.

Subject to the Company’s shareholders approving the 2020 Omnibus Plan, Mr. Fleming and Mr. Liebman are entitled to 81,120 and 66,370 shares of restricted stock (the “Restricted Shares”), respectively. If the 2020 Omnibus Plan is approved by the shareholders, the Restricted Shares shall have a grant date as of the date on which the 2020 Omnibus Plan is approved by the Company’s shareholders or such other later date as determined by the Committee (the “Initial Grant Date”). Such Restricted Shares shall vest in three substantially equal installments: one-third (1/3) of the Restricted Shares shall vest on the Initial Grant Date; one-third (1/3) of the Restricted Shares shall vest on the first anniversary of the Initial Grant Date; and one-third (1/3) of the Restricted Shares shall vest on the second anniversary of the Initial Grant Date. Notwithstanding the foregoing, no Restricted Shares shall be granted to the executives if (1) the Company’s shareholders fail to approve the 2020 Omnibus Plan or (2) the respective executive terminates employment with the Company for any reason prior to the Initial Grant Date. The grant of Restricted Shares shall be subject to the terms of the 2020 Omnibus Plan and the award agreement granting the Restricted Shares.

The Company will provide to Mr. Fleming and Mr. Liebman such fringe and other benefits as are regularly provided by the Company to members of its senior management team.

If either Mr. Fleming’s or Mr. Liebman’s employment is:

- voluntarily terminated by the executive without Good Reason (as defined in the Agreements) or if the Company terminates the executive’s employment for Cause (as defined in the Agreements), then (i) the Company will be obligated to pay the executive’s then current base salary through the date of termination and any incentive compensation earned in previous years but not yet paid; and (ii) no incentive compensation shall be payable for the year in which the termination occurs. In addition, any unvested phantom stock units, stock appreciation rights, shares of restricted stock, or other equity-based awards shall be forfeited.
- voluntarily terminated by the executive with Good Reason, or if the Company terminates the executive’s employment without Cause (including by providing notice of non-renewal), then (i) the Company will be

obligated to pay the executive's then current base salary through the date of termination and any incentive compensation earned in previous years but not yet paid; (ii) no incentive compensation shall be payable for the year in which the termination occurs (except if the termination occurs during the last six months of the Company's fiscal year, the executive may be entitled to certain pro rata payments); (iii) if the executive timely and properly elects continuation coverage under COBRA, the Company shall reimburse the executive for the COBRA premiums as specified in the Agreements; (iv) any equity or stock price-based awards (including phantom stock units, shares of restricted stock, restricted stock units, and stock appreciation rights) previously granted will become fully vested and exercisable and all restrictions on restricted awards will lapse; and (v) the Company will pay the executive an amount equal to the sum of (A) three (3) times the executive's current base salary as of the date of termination, and (B) six (6) times the maximum cash bonus that the executive could have earned in the year of the date of termination.

If either Mr. Fleming or Mr. Liebman terminates his employment with the Company with Good Reason, or if the Company terminates the executive's employment without Cause within 24 months following a Change of Control (as defined in the Agreements) of the Company, the executive will be entitled to a lump-sum cash payment equal to the sum of (i) three (3) times the executive's current base salary as of the date of the Change of Control, and (ii) six (6) times the sum of the maximum cash bonus that the executive could have earned in the year of the Change of Control. In addition, any equity or stock price-based awards (including phantom stock units, shares of restricted stock, restricted stock units, and stock appreciation rights) previously granted to Mr. Fleming or Mr. Liebman will become fully vested and exercisable and all restrictions on restricted awards will lapse upon any Change of Control, regardless of whether the executive remains employed by the Company or its successor following the Change of Control. The Agreements also contain a "best-net" provision, which provides that if Internal Revenue Code Section 280G applies to the payments and such payments trigger an excise tax, then the payments may be reduced to an amount that will not trigger the excise tax, if such reduction would result in a greater amount paid to the executive.

The payments due on termination of employment and termination following a Change of Control are subject to the requirement that Mr. Fleming or Mr. Liebman, as the case may be, execute a release agreement in a form requested by the Company.

Under the Agreements, Mr. Fleming and Mr. Liebman have also agreed to post-employment undertakings regarding non-solicitation and non-competition for a period of one year thereafter.

The foregoing description of the 2020 Omnibus Plan and the Agreements is only a summary and is qualified in its entirety by reference to the full text of the 2020 Omnibus Plan and the Agreements, which are filed as Exhibits 10.1, 10.2 and 10.3 to this Form 10-Q and are incorporated by reference herein.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit	Method of Filing
2.1.1	<u>Arrangement Agreement</u>	Incorporated by reference to Exhibit 2.1 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed January 19, 2016.
2.1.2	<u>Plan of Arrangement</u>	Incorporated by reference to Exhibit 2.1.2 of Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-209025) filed April 13, 2016.
3.1	<u>Second Amended and Restated Certificate of Incorporation of Global Water Resources, Inc.</u>	Incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed May 4, 2016.
3.2	<u>Amended and Restated Bylaws of Global Water Resources, Inc.</u>	Incorporated by reference to Exhibit 3.2 of the Company's Form 8-K filed May 4, 2016.
10.1	<u>Employment Agreement with Ron L. Fleming, dated August 6, 2019*</u>	Filed herewith.
10.2	<u>Employment Agreement with Michael J. Liebman, dated August 6, 2019*</u>	Filed herewith.
10.3	<u>Global Water Resources, Inc. 2020 Omnibus Incentive Plan*</u>	Filed herewith.
31.1	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer</u>	Filed herewith.
31.2	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer</u>	Filed herewith.
32.1	<u>Section 1350 Certification of Chief Executive Officer and Chief Financial Officer</u>	Furnished herewith.
101.INS	XBRL Instance Document	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith.
101. PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.

* Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements 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.

Global Water Resources, Inc.

Date: August 7, 2019

By: /s/ Michael J. Liebman

Michael J. Liebman

**Chief Financial Officer and Corporate Secretary
(Duly Authorized Officer and Principal Financial and
Accounting Officer)**