

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2009

OR

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

Commission File number 1-6659

AQUA AMERICA, INC.

(a Pennsylvania corporation)
762 W. Lancaster Avenue
Bryn Mawr, Pennsylvania 19010-3489
(610) 527-8000

I.R.S. Employer Identification Number 23-1702594

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common stock, par value \$.50 per share	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12(b)-2 of the Exchange Act:

Large accelerated filer Accelerated filer Non-accelerated filer Small reporting company
(do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2009: \$2,415,320,748

For purposes of determining this amount only, registrant has defined affiliates as including (a) the executive officers named in Part I of this 10-K report, (b) all directors of registrant, and (c) each shareholder that has informed registrant by June 30, 2009, that it has sole or shared voting power of 5% or more of the outstanding common stock of registrant.

The number of shares outstanding of the registrant's common stock as of February 12, 2010: 136,679,644

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of registrant's 2009 Annual Report to Shareholders have been incorporated by reference into Parts I and II of this Form 10-K.

(2) Portions of the definitive Proxy Statement, relative to the May 13, 2010 annual meeting of shareholders of registrant, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, have been incorporated by reference into Part III of this Form 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K (“10-K”), or incorporated by reference into this 10-K, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are made based upon, among other things, our current assumptions, expectations, plans, and beliefs concerning future events and their potential effect on us. These forward-looking statements involve risks, uncertainties and other factors, many of which are outside our control, that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In some cases you can identify forward-looking statements where statements are preceded by, followed by or include the words “believes,” “expects,” “anticipates,” “plans,” “future,” “potential,” “probably,” “predictions,” “continue” or the negative of such terms or similar expressions. Forward-looking statements in this 10-K, or incorporated by reference into this 10-K, include, but are not limited to, statements regarding:

- projected capital expenditures and related funding requirements;
- the availability and cost of capital;
- developments, trends and consolidation in the water and wastewater utility industries;
- dividend payment projections;
- opportunities for future acquisitions, the success of pending acquisitions and the impact of future acquisitions;
- the capacity of our water supplies, water facilities and wastewater facilities;
- the impact of geographic diversity on our exposure to unusual weather;
- the impact of conservation awareness of customers and more efficient plumbing fixtures and appliances on water usage per customer;
- our capability to pursue timely rate increase requests;
- our authority to carry on our business without unduly burdensome restrictions;
- our ability to obtain fair market value for condemned assets;
- the impact of fines and penalties;
- the impact of changes in laws, governmental regulations and policies, including environmental, health and water quality and public utility regulations and policies;
- the impact of decisions of governmental and regulatory bodies, including decisions to raise or lower rates;
- the development of new services and technologies by us or our competitors;
- the availability of qualified personnel;
- the condition of our assets;
- the impact of legal proceedings;
- general economic conditions;
- acquisition-related costs and synergies; and
- the forward-looking statements contained under the heading “Forward-Looking Statements” in the section entitled “Management’s Discussion and Analysis” from the portion of our 2009 Annual Report to Shareholders incorporated by reference herein and made a part hereof.

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Because forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including but not limited to:

- changes in general economic, business, credit and financial market conditions;
- changes in government regulations and policies, including environmental and public utility regulations and policies;
- changes in environmental conditions, including those that result in water use restrictions;
- abnormal weather conditions;
- changes in, or unanticipated, capital requirements;
- changes in our credit rating or the market price of our common stock;
- our ability to integrate businesses, technologies or services which we may acquire;
- our ability to manage the expansion of our business;
- the extent to which we are able to develop and market new and improved services;
- the effect of the loss of major customers;
- our ability to retain the services of key personnel and to hire qualified personnel as we expand;
- labor disputes;
- increasing difficulties in obtaining insurance and increased cost of insurance;
- cost overruns relating to improvements or the expansion of our operations;
- increases in the costs of goods and services;
- civil disturbance or terroristic threats or acts; and
- changes in accounting pronouncements.

Given these risks and uncertainties, you should not place undue reliance on any forward-looking statements. You should read this 10-K and the documents that we incorporate by reference into this 10-K completely and with the understanding that our actual future results, performance and achievements may be materially different from what we expect. These forward-looking statements represent assumptions, expectations, plans, and beliefs only as of the date of this 10-K. Except for our ongoing obligations to disclose certain information under the federal securities laws, we are not obligated, and assume no obligation, to update these forward-looking statements, even though our situation may change in the future. For further information or other factors which could affect our financial results and such forward-looking statements, see "Risk Factors." We qualify all of our forward-looking statements by these cautionary statements.

PART I

Item 1. Business

The Company

Aqua America, Inc. (referred to as “Aqua America”, “we” or “us”) is the holding company for regulated utilities providing water or wastewater services to what we estimate to be approximately 3 million people in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, New York, Florida, Indiana, Virginia, Maine, Missouri, South Carolina, and Georgia. Our largest operating subsidiary, Aqua Pennsylvania, Inc., accounted for approximately 52% of our operating revenues for 2009 and as of December 31, 2009, provided water or wastewater services to approximately one-half of the total number of people we serve, and is located in the suburban areas in counties north and west of the City of Philadelphia and in 25 other counties in Pennsylvania. Our other subsidiaries provide similar services in 13 other states. In addition, we provide water and wastewater services through operating and maintenance contracts with municipal authorities and other parties close to our utility companies’ service territories as well as sludge hauling, septage and grease services, and backflow prevention services.

Aqua America, which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, Inc., formerly known as Philadelphia Suburban Water Company. In the early 1990s we embarked on a growth through acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of New York Water Service Corporation in 2007. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry and has extended our regulated operations from southeastern Pennsylvania to include operations in 13 other states.

The following table reports our operating revenues by principal state for the Regulated segment and Other for the year ended December 31, 2009:

	Operating Revenues (000’s)	Operating Revenues (%)
Pennsylvania	\$ 350,551	52.3%
Texas	55,245	8.2%
Ohio	41,998	6.3%
Illinois	41,935	6.3%
North Carolina	41,280	6.2%
Other states*	127,896	19.0%
Regulated segment total	658,905	98.3%
Other	11,634	1.7%
Consolidated	<u>\$ 670,539</u>	<u>100.0%</u>

* Includes our operating subsidiaries in the following states: New Jersey, New York, Indiana, Florida, Virginia, Maine, Missouri, South Carolina, and Georgia.

Information concerning revenues, net income, identifiable assets and related financial information of the Regulated segment and Other for 2009, 2008, and 2007 is set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Note 17 — Segment Information in the “Notes to Consolidated Financial Statements” from the portions of our 2009 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K. The information from these sections of our 2009 Annual Report to Shareholders is incorporated by reference herein.

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The following table summarizes our operating revenues, by utility customer class, for the Regulated segment and Other for the year ended December 31, 2009:

	Operating Revenues (000's)	Operating Revenues (%)
Residential water	\$ 392,054	58.5%
Commercial water	94,149	14.0%
Fire protection	29,693	4.4%
Industrial water	19,437	2.9%
Other water	40,681	6.1%
Water	576,014	85.9%
Wastewater	70,226	10.5%
Other utility	12,665	1.9%
Regulated segment total	658,905	98.3%
Other	11,634	1.7%
Consolidated	<u>\$ 670,539</u>	<u>100.0%</u>

Our utility customer base is diversified among residential water, commercial water, fire protection, industrial water, other water, wastewater customers and other utility customers (consisting of certain operating contracts that are closely associated with the utility operations). Residential customers make up the largest component of our utility customer base, with these customers representing approximately 69% of our water and wastewater revenues. Substantially all of our water customers are metered, which allows us to measure and bill for our customers' water consumption. Water consumption per customer is affected by local weather conditions during the year, especially during the late spring and summer in our northern U.S. service territories. In general, during these seasons, an extended period of dry weather increases consumption, while above average rainfall decreases consumption. Also, an increase in the average temperature generally causes an increase in water consumption. On occasion, abnormally dry weather in our service areas can result in governmental authorities declaring drought warnings and water use restrictions in the affected areas, which could reduce water consumption. See "Water Supplies, Water Facilities and Wastewater Facilities" for a discussion of water use restrictions that may impact water consumption during abnormally dry weather. The geographic diversity of our utility customer base reduces the effect of our exposure to extreme or unusual weather conditions in any one area of our service territory.

Our growth in revenues over the past five years is primarily a result of increases in water and wastewater rates and in our utility customer base. See "Economic Regulation" for a discussion of water and wastewater rates. The majority of the increase in utility customer base is due to customers added through acquisitions. In 2006, the utility customer growth rate was 7.2%, including 44,792 customers associated with the New York Water Service Corporation acquisition which was completed on January 1, 2007. In 2009, 2008, 2007, and 2005, the utility customer growth rate due to acquisitions and other growth ventures was 1.0%, 2.0%, 2.6%, and 3.5%, respectively. In 2008, our net customer count declined by 3,838 customers or 0.4% due to the sale or relinquishment of two utility systems in 2008, pursuant to our plan to evaluate and dispose of underperforming utility operations and one system that was turned over to the local city through condemnation. Overall, for the five-year period of 2005 through 2009, our utility customer base increased at an annual compound rate of 2.7%. If adjusted for the utility system dispositions during the past five years, the annual compound growth rate would have been 3.2%.

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Acquisitions and Water Sale Agreements

With approximately 52,000 community water systems in the U.S. (83% of which serve less than 3,300 customers), the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). The majority of these community water systems are government-owned, and the balance of the systems are privately-owned (or investor-owned). The nation's water systems range in size from large government-owned systems, such as the New York City water system that serves approximately 9 million people, to small systems, where a few customers share a common well. In the states where we operate, we believe there are approximately 23,000 community water systems of widely-varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the U.S Environmental Protection Agency's ("EPA") most recent survey of wastewater treatment facilities (which includes both government-owned and privately-owned facilities) in 2004, there are approximately 16,600 such facilities in the nation serving approximately 75% of the U.S. population. The remaining population represents individual homeowners with their own treatment facilities; for example, community on-lot disposal systems and septic tank systems. The vast majority of wastewater facilities are government-owned rather than privately-owned. The EPA survey also indicated that there are approximately 10,200 wastewater facilities in operation or planned in the 14 states where we operate. In 2006 and 2005, we acquired six businesses providing on-site septic tank pumping and other wastewater-related services. These businesses presently serve customers in eastern Pennsylvania, New Jersey, Delaware, New York and Maryland, and accounted for \$9,436,000, \$10,331,000, and \$10,209,000 of our operating revenues for the years ended December 31, 2009, 2008, and 2007.

Because of the fragmented nature of the water and wastewater utility industries, we believe that there are many potential water and wastewater system acquisition candidates throughout the U.S. We believe the factors driving consolidation of these systems are:

- the benefits of economies of scale;
- increasingly stringent environmental regulations;
- the need for substantial capital investment;
- limited access to cost-effective financing; and
- the need for technological and managerial expertise.

We are actively exploring opportunities to expand our utility operations through acquisitions or other growth ventures. During the five-year period ended December 31, 2009, we completed 111 acquisitions or other growth ventures.

We believe that acquisitions will continue to be an important source of customer growth for us. We intend to continue to pursue acquisitions of government-owned and privately-owned water and wastewater systems that provide services in areas near our existing service territories or in new service areas. We engage in continuing activities with respect to potential acquisitions, including calling on prospective sellers, performing analyses and investigations of acquisition candidates, making preliminary acquisition proposals and negotiating the terms of potential acquisitions.

Water Supplies, Water Facilities and Wastewater Facilities

Our water utility operations obtain their water supplies from surface water sources such as reservoirs, lakes, ponds, rivers and streams, in addition to obtaining water from wells and purchasing water from other water suppliers. Approximately 10% of our water sales are purchased from other suppliers. It is our policy to obtain and maintain the permits necessary to obtain the water we distribute. The water supplies for the service areas in the principal states in which we operate in are as follows:

- Pennsylvania — The principal supply of water is surface water from streams, rivers and reservoirs. Wells and interconnections with adjacent municipal authorities supplement these surface supplies. We operate 12 surface water treatment plants.
- Texas — Water supply in more than 300 water systems is obtained principally from wells, supplemented in some cases by purchased water from adjacent water systems.
- Ohio — Water supply is obtained for customers in Lake County from Lake Erie. Customers in Mahoning County obtain their water from man-made lakes. Water supply is obtained for customers in Stark, Williams, Richland and Summit counties from wells supplemented with purchased water from an adjacent municipal system in Stark and Summit counties.
- Illinois — Water supply is obtained for customers in the Kankakee system from the Kankakee River. Three small separate systems in Kankakee County are supplied from wells. Customers in Danville (Vermilion County) are supplied from Lake Vermilion. One small separate system in Vermilion County is supplied from wells. In Will, Boone, Lake, and Knox counties, customers are served from wells. Water supplied to two small systems is purchased from neighboring systems.
- North Carolina — Water supply in more than 700 systems is obtained principally from wells. Several systems purchase water from neighboring municipal systems.

We believe that the capacities of our sources of supply, and our water treatment, pumping and distribution facilities are generally sufficient to meet the present requirements of our customers under normal conditions. We plan system improvements and additions to capacity in response to changing regulatory standards, changing patterns of consumption and increased demand from customer growth. The various state public utility commissions have generally recognized the operating and capital costs associated with these improvements in setting water rates.

On occasion, drought warnings and water use restrictions are issued by governmental authorities for portions of our service territories in response to extended periods of dry weather conditions. The timing and duration of the warnings and restrictions can have an impact on our water revenues and net income. In general, water consumption in the summer months is affected by drought warnings and restrictions to a higher degree because discretionary and recreational use of water is at its highest during the summer months. At other times of the year, warnings and restrictions generally have less of an effect on water consumption.

Drought conditions in central Texas and parts of North Carolina and Florida eased in 2009, but water use restrictions remained in place for several of our water systems in these areas.

We believe that our wastewater treatment facilities are generally adequate to meet the present requirements of our customers under normal conditions. In addition, we own several sewer collection systems where the wastewater is treated at a municipally-owned facility. Changes in regulatory requirements can be reflected in revised permit limits and conditions when National Pollution Discharge Elimination System (“NPDES”) permits are renewed, typically on a five-year cycle, or when treatment capacity is expanded. Capital improvements are planned and budgeted to meet anticipated changes in regulations and needs for increased capacity related to projected growth, and to correct inflow and infiltration to collection systems. The various state public utility commissions have generally recognized the operating and capital costs associated with these improvements in setting wastewater rates for current customers and capacity charges for new customers.

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Economic Regulation

Most of our water and wastewater utility operations are subject to regulation by their respective state regulatory commissions, which have broad administrative power and authority to regulate rates and charges, determine franchise areas and conditions of service, approve acquisitions and authorize the issuance of securities. The regulatory commissions also establish uniform systems of accounts and approve the terms of contracts with affiliates and customers, business combinations with other utility systems, loans and other financings, and the franchise areas that we serve. A small number of our operations are subject to rate regulation by county or city governments. The profitability of our utility operations is influenced to a great extent by the timeliness and adequacy of rate allowances we are granted by the respective regulatory commissions or authorities in the various states in which we operate.

Accordingly, we maintain a rate case management capability the objective of which is to provide that the tariffs of our utility operations reflect, to the extent practicable, the timely recovery of increases in costs of operations, capital, taxes, energy, materials and compliance with environmental regulations. We file rate increase requests to recover and earn a return on the capital investments that we make in improving or replacing our facilities and to recover expenses. In the states in which we operate, we are primarily subject to economic regulation by the following state regulatory commissions:

State	Regulatory Commission
Pennsylvania	Pennsylvania Public Utility Commission
Ohio	The Public Utilities Commission of Ohio
North Carolina	North Carolina Utilities Commission
Illinois	Illinois Commerce Commission
Texas	Texas Commission on Environmental Quality
New Jersey	New Jersey Board of Public Utilities
New York	New York Public Service Commission
Florida	Florida Public Service Commission
Indiana	Indiana Utility Regulatory Commission
Virginia	Virginia State Corporation Commission
Maine	Maine Public Utilities Commission
Missouri	Missouri Public Service Commission
South Carolina	South Carolina Public Service Commission

Our water and wastewater operations are comprised of approximately 140 rate divisions, each of which requires a separate rate filing for the evaluation of the cost of service, including the recovery of investments, in connection with the establishment of tariff rates for that rate division. Eight of the states in which we operate permit some form of consolidated rates in varying degrees for the rate divisions in that state, and two states currently permit us to fully consolidate state-wide rate filings within either our water or wastewater operations. Due to the length of time since the last rate increase for some of our systems and the large amount of capital improvements relative to the number of customers in some smaller systems, the proposed rate increase in some of these systems may be substantial. Also, as a result of the condition of some of the systems acquired and capital investments required to maintain compliance, some divisions are experiencing longer periods of regulatory lag. We can provide no assurance that the rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which we initially sought the rate increases.

In some regulatory jurisdictions, we may seek authorization to bill our utility customers in accordance with a rate filing that is pending before the respective regulatory commission. Furthermore, some regulatory commissions authorize the use of expense deferrals and amortization in order to provide for an impact on our operating income by an amount that approximates the requested amount in a rate request. The additional revenue billed and collected prior to the final ruling is subject to refund based on the outcome of the ruling. The revenue recognized and the expenses deferred by us reflect an estimate as to the final outcome of the ruling. If the request is denied completely or in part, we could be required to refund some or all of the revenue billed to date, and write-off some or all of the deferred expenses.

Six states in which we operate water utilities, and two states in which we operate wastewater utilities, permit us to add a surcharge to water or wastewater bills to offset the additional depreciation and capital costs associated with certain capital expenditures related to replacing and rehabilitating infrastructure systems. Prior to these surcharge mechanisms being approved, water and wastewater utilities absorbed all of the depreciation and capital costs of these projects between base rate increases without the benefit of additional revenues. The gap between the time that a capital project is completed and the recovery of its costs in rates is known as regulatory lag. The infrastructure rehabilitation surcharge mechanism is intended to substantially reduce regulatory lag, which often acted as a disincentive to water and wastewater utilities to rehabilitate their infrastructure. In addition, our subsidiaries in certain states use a surcharge or credit on their bills to reflect changes in certain costs, such as changes in state tax rates, other taxes and purchased water, until such time as the costs are incorporated into base rates.

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Currently, Pennsylvania, Illinois, Ohio, New York, Indiana and Missouri allow for the use of infrastructure rehabilitation surcharges. These mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped at a percentage of base rates, generally at 5% to 9% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. Infrastructure rehabilitation surcharges provided revenues of \$16,900,000 in 2009, \$11,771,000 in 2008, and \$11,507,000 in 2007.

In general, we believe that Aqua America, Inc. and its subsidiaries have valid authority, free from unduly burdensome restrictions, to enable us to carry on our business as presently conducted in the franchised or contracted areas we now serve. The rights to provide water or wastewater service to a particular franchised service territory are generally non-exclusive, although the applicable regulatory commissions usually allow only one regulated utility to provide service to a given area. In some instances, another water utility provides service to a separate area within the same political subdivision served by one of our subsidiaries. Therefore, as a regulated utility, there is little or no competition for the daily water and wastewater service we provide to our customers. Water and wastewater utilities may compete for new customers in new service territories. Competition for new territory generally comes from nearby utilities, either investor-owned or municipal-owned. There is also often competition for the acquisition of other utilities. Competition for the acquisition of other water or wastewater utilities may come from other investor-owned utilities, nearby municipally-owned utilities and sometimes from strategic or financial purchasers seeking to enter or expand in the water and wastewater industry. The addition of new service territory and the acquisition of other utilities by regulated utilities such as us are generally subject to review and approval by the applicable state regulatory commissions.

In the states where our subsidiaries operate, it is possible that portions of our subsidiaries' operations could be acquired by municipal governments by one or more of the following methods:

- eminent domain;
- the right of purchase given or reserved by a municipality or political subdivision when the original franchise was granted; and
- the right of purchase given or reserved under the law of the state in which the subsidiary was incorporated or from which it received its permit.

The price to be paid upon such an acquisition by the municipal government is usually determined in accordance with applicable law governing the taking of lands and other property under eminent domain. In other instances, the price may be negotiated, fixed by appraisers selected by the parties or computed in accordance with a formula prescribed in the law of the state or in the particular franchise or charter. We believe that our operating subsidiaries will be entitled to fair market value for any assets that are condemned, and we believe the fair market value will be in excess of the book value for such assets.

In a limited number of instances in our southern states where there are municipally-owned water or wastewater systems near our operating divisions, the municipally-owned system may either have water distribution or wastewater collection mains that are located adjacent to the our division's mains or may construct new mains that parallel our mains. In these circumstances, on occasion the municipally-owned system may attempt to take over the customers who are connected to our mains, resulting in our mains becoming surplus or underutilized without compensation.

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The City of Fort Wayne, Indiana (the "City") has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the operating subsidiaries that we acquired in connection with the AquaSource acquisition in 2003. We had challenged whether the City was following the correct legal procedures in connection with the City's condemnation, but the Indiana Supreme Court, in an opinion issued in June 2007, supported the City's position. In October 2007, the City's Board of Public Works approved proceeding with its process to condemn the northern portion of our utility system at a preliminary price based on the City's valuation. We filed an appeal with the Allen County Circuit Court challenging the Board of Public Works' valuation on several bases. In November 2007, the City Council authorized the taking of the northern portion of the Company's system and the payment of \$16,910,500 based on the City's valuation of this portion of the system. In January 2008, we reached a settlement agreement with the City to transition the northern portion of the system in February 2008 upon receipt of the City's initial valuation payment of \$16,910,500. The settlement agreement specifically states that the final valuation of the northern portion of the Company's system will be determined through a continuation of the legal proceedings that were filed challenging the City's valuation. On February 12, 2008, we turned over the northern portion of the system to the City upon receipt of the initial valuation payment. The Indiana Utility Regulatory Commission also reviewed and acknowledged the transfer of the Certificate of Territorial Authority for the northern portion of the system to the City. The proceeds received by the Company are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. On March 16, 2009, oral argument was held on certain procedural aspects with respect to the valuation evidence that may be presented and whether the Company is entitled to a jury trial. Depending upon the ultimate outcome of the legal proceeding in the Allen County Circuit Court the Company may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The northern portion of the utility system relinquished represents approximately 0.50% of Aqua America's total assets.

Despite the condemnation referred to above, our primary strategy continues to be to acquire additional water and wastewater systems, to maintain our existing systems where there is a business or a strategic benefit, and to actively oppose unilateral efforts by municipal governments to acquire any of our operations, particularly for less than the fair market value of our operations or where the municipal government seeks to acquire more than it is entitled to under the applicable law or agreement.

Environmental, Health and Safety Regulation

Provision of water and wastewater services is subject to regulation under the federal Safe Drinking Water Act, the Clean Water Act and related state laws, and under federal and state regulations issued under these laws. These laws and regulations establish criteria and standards for drinking water and for wastewater discharges. In addition, we are subject to federal and state laws and other regulations relating to solid waste disposal, dam safety and other aspects of our operations. Capital expenditures and operating costs required as a result of water quality standards and environmental requirements have been traditionally recognized by state public utility commissions as appropriate for inclusion in establishing rates.

From time to time, Aqua America has acquired, and may acquire, systems that have environmental compliance issues. In addition, environmental compliance and other issues arise in the course of normal operations or as a result of regulatory changes. Aqua America attempts to align capital budgeting and expenditures to address these issues in a timely manner. We believe that the capital expenditures required to address outstanding compliance issues have been budgeted in our capital program and represent less than 10% of our expected total capital expenditures over the next five years. We are parties to agreements with regulatory agencies in Pennsylvania, Texas, Florida, Indiana, and Virginia under which we have committed to make certain improvements for environmental compliance. These agreements are intended to provide the regulators with assurance that problems covered by these agreements will be addressed, and the agreements generally provide protection from fines, penalties and other actions while corrective measures are being implemented. We are actively working directly with state environmental officials to implement or amend these agreements as necessary.

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Safe Drinking Water Act — The Safe Drinking Water Act establishes criteria and procedures for the U.S. Environmental Protection Agency (the “EPA”) to develop national quality standards for drinking water. Regulations issued pursuant to the Safe Drinking Water Act and its amendments set standards on the amount of certain microbial and chemical contaminants and radionuclides allowable in drinking water. Current requirements under the Safe Drinking Water Act are not expected to have a material impact on our operations or financial condition as we have made and are making investments to meet existing water quality standards. We may, in the future, be required to change our method of treating drinking water at certain sources of supply if additional regulations become effective.

In order to remove or inactivate microbial organisms, rules were issued by the EPA to improve disinfection and filtration of potable water and reduce consumers’ exposure to disinfectants and by-products of the disinfection process. Our subsidiary in Maine is installing filtration for its one currently unfiltered surface water supply. The project is scheduled to be completed in 2010 at a cost of less than \$7,000,000. Approximately one system in Florida and approximately five systems in North Carolina have levels of disinfection by-products above the current maximum contaminant level requiring a compliance response which could result in a change to the type of treatment. Three of the systems in North Carolina purchase water from adjacent suppliers, and the resolution of the problem may depend upon the suppliers’ co-operation. Capital costs to address system improvements to reduce disinfection by-products are estimated to be approximately \$1,000,000 over the next three years, or less than 1% of our planned capital program over that time.

The EPA promulgated the Long Term 2 Enhanced Surface Water Treatment Rule and a Stage 2 Disinfection/Disinfection By-product Rule in January 2006. These rules are resulting in additional one-time special monitoring costs of approximately \$600,000 over a four-year period from 2007 to 2011. Monitoring for our larger systems began in 2006 and ended in 2008. Monitoring at some of the smaller systems is still underway. To date, none of the monitoring results has exceeded levels that would require modification of treatment. The required testing and any required corrective action is not expected to have a material impact on our results of operations or financial condition.

The federal Groundwater Rule became effective December 1, 2009. This rule requires additional testing of water from well sources, and under certain circumstances requires demonstration and maintenance of effective disinfection. States throughout the country are taking a variety of approaches to implementation of the Groundwater Rule. Pennsylvania has taken a position that all wells will be required to demonstrate and maintain effective disinfection. We estimate that the capital cost of compliance with this regulation in Pennsylvania will be about \$5,000,000 over five years. In North Carolina, the rule is being coupled with an existing requirement for visitation of well stations or installation of monitoring equipment. The cost of compliance with these requirements in North Carolina is estimated to cost about \$8,000,000 over the next five years. In aggregate, the costs of compliance with these requirements in our operating states is less than 1% of our planned capital program over the next five years.

A rule lowering the limit on arsenic was promulgated in 2001 by the EPA and became effective in January 2006, with a provision for further time extensions for small systems. One system in Texas was equipped with treatment in 2009. Construction is underway and expected to be completed in 2010 for treatment of one well in Pennsylvania acquired in 2008. The future cost of the capital improvements to fully achieve compliance with this regulation is approximately \$200,000 over the next year, or less than 1% of our planned capital program over that time.

The EPA’s issuance of a rule regulating radon in tap water has been postponed repeatedly since originally proposed in 1991. Limits for radon in tap water, if promulgated, could affect a small percentage of our wells, primarily in North Carolina, Pennsylvania and Virginia. Total cost of compliance has been estimated at approximately \$5,000,000 over a five year period, or less than 1% of our planned capital program over that time.

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The Safe Drinking Water Act provides for the regulation of radionuclides other than radon, such as radium and uranium. Revisions to the Radionuclides Rule that became effective in 2003 changed the monitoring protocols and added a maximum contaminant level for uranium. Under the revised rule, some of our groundwater facilities exceeded one or more of the radionuclide standards and required treatment. Treatment has been installed at all wells that remain in service and that had been identified as needing treatment in the initial round of testing. Ongoing testing continues on quarterly, annual, 3-year or 9-year cycles, and occasionally test results for an individual well trigger requirements for public notification and/or treatment. The future capital cost of compliance over the next five years is expected to be less than 1% of our planned capital budget over that time.

Clean Water Act — The Clean Water Act regulates discharges from drinking water and wastewater treatment facilities into lakes, rivers, streams, and groundwater. It is our policy to obtain and maintain all required permits and approvals for the discharges from our water and wastewater facilities, and to comply with all conditions of those permits and other regulatory requirements. A program is in place to monitor facilities for compliance with permitting, monitoring and reporting for wastewater discharges. From time to time, discharge violations may occur which may result in fines. We are also parties to compliance agreements with regulatory agencies in several states where we operate while improvements are being made to address wastewater discharge compliance issues. These fines and penalties, if any, are not expected to have a material impact on our results of operations or financial condition. The required costs to comply with the agreements previously cited are included in our capital program, are not expected to be significant, and are expected to be recoverable in rates.

Recent changes in wastewater regulations in the state of Missouri will require improvements at certain of the 52 small wastewater systems we operate in that state. We presently estimate the cost of these improvements to be approximately \$1,100,000 over the next five years.

Solid Waste Disposal — The handling and disposal of residuals and solid waste generated from water and wastewater treatment facilities is governed by federal and state laws and regulations. A program is in place to monitor our facilities for compliance with regulatory requirements, and we are not aware of any significant environmental remediation costs necessary from our handling and disposal of waste material from our water and wastewater operations. However, we do anticipate capital expenditures of less than \$4,000,000, that have been included within our five-year capital budget, related to the expansion and/or replacement of some of our current waste disposal facilities in Pennsylvania and Ohio, to support our large surface water treatment facilities in these states. Our capital budget also includes funds for capital projects intended to reduce waste volume and extend the life of our disposal facilities.

Dam Safety — Our subsidiaries own eighteen major dams that are subject to the requirements of the federal and state regulations related to dam safety. All major dams undergo an annual engineering inspection. We believe that all eighteen dams are structurally sound and well-maintained.

We performed studies of our dams that identified two dams in Pennsylvania and three dams in Ohio requiring capital improvements resulting from the adoption by the Department of Environmental Protection in Pennsylvania, and by the Department of Natural Resources in Ohio, of revised formulas for determining the magnitude of a probable maximum flood. Capital improvements remain to be performed on one dam in Pennsylvania totaling approximately \$15,000,000 planned during the three year period 2011 to 2013. Expenditures in the aggregate during the five year period 2010 to 2014 are expected to be approximately 1% of our planned capital program over the next five years. We continue to study alternatives for these remaining dams which may change the cost estimates of these capital improvements.

Safety Standards — Our facilities and operations may be subject to inspections by representatives of the Occupational Safety and Health Administration from time to time. We maintain safety policies and procedures to comply with the Occupational Safety and Health Administration's rules and regulations, but violations may occur from time to time, which may result in fines and penalties, which are not expected to be material. We endeavor to correct such violations promptly when they come to our attention.

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Security

In light of concerns regarding security in the wake of the September 11, 2001 terrorist attacks, we have increased security measures at our facilities. These increased security measures were not made in response to any specific threat. We are in contact with federal, state and local authorities and industry trade associations regarding information on possible threats and security measures for water utility operations. The cost of the increased security measures, including capital expenditures, is expected to be recoverable in water rates and is not expected to have a material impact on our results of operations or financial condition.

Employee Relations

As of December 31, 2009, we employed a total of 1,632 full-time employees. Our subsidiaries are parties to 13 labor agreements (or labor agreements under negotiation) with labor unions covering 524 employees. The labor agreements expire at various times between March 2010 and August 2013. One of our labor agreements expired December 2009 representing 287 employees, and the employees covered under this agreement continue to work under the expired agreement. Negotiations with the labor union representing these employees are ongoing and we expect to reach a new agreement.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. You may also obtain our SEC filings from the SEC's Web site at www.sec.gov.

Our Internet Web site address is www.aquaamerica.com. We make available free of charge through our Web site's "Investor Relations" page all of our filings with the SEC, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other information. These reports and information are available as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

In addition, you may request a copy of the foregoing filings, at no cost by writing or telephoning us at the following address or telephone number:

Investor Relations Department
Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489
Telephone: 610-527-8000

Our Board of Directors has various committees including an audit committee, an executive compensation committee and a corporate governance committee. Each of these committees has a formal charter. We also have Corporate Governance Guidelines and a Code of Ethical Business Conduct. Copies of these charters, guidelines, and codes can be obtained free of charge from our Web site, www.aquaamerica.com. In the event we change or waive any portion of the Code of Ethical Business Conduct that applies to any of our directors, executive officers, or senior financial officers, we will post that information on our Web site.

The references to our Web site and the SEC's Web site are intended to be inactive textual references only, and the contents of those Web sites are not incorporated by reference herein and should not be considered part of this or any other report that we file with or furnish to the SEC.

Item 1A. Risk Factors

In addition to the other information included or incorporated by reference in this 10-K, the following factors should be considered in evaluating our business and future prospects. Any of the following risks, either alone or taken together, could materially and adversely affect our business, financial position or results of operations. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from what we projected. There may be additional risks about which we do not presently know or that we currently believe are immaterial which could also impair our business, financial position and results of operations.

The rates we charge our customers are subject to regulation. If we are unable to obtain government approval of our requests for rate increases, or if approved rate increases are untimely or inadequate to recover and earn a return on our capital investments, to recover expenses, or to take into account changes in water usage, our profitability may suffer.

The rates we charge our customers are subject to approval by the public utility commissions or similar regulatory bodies in the states in which we operate. We file rate increase requests, from time to time, to recover our investments in utility plant and expenses. Our ability to maintain and meet our financial objectives is dependent upon the recovery of and return on our capital investments and expenses through the rates we charge our customers. Once a rate increase petition is filed with a public utility commission, the ensuing administrative and hearing process may be lengthy and costly, and the cost to the Company may not always be fully recoverable. The timing of our rate increase requests are therefore partially dependent upon the estimated cost of the administrative process in relation to the investments and expenses that we hope to recover through the rate increase to the extent approved. There may be long-term declines in water usage per customer as a result of an increase in conservation awareness and the structural impact of an increased use of more efficient plumbing fixtures and appliances. These long-term shifts are normally taken into account by the public utility commissions in setting rates, whereas significant short-term changes in water usage may not be fully reflected in the rates we charge. We can provide no assurances that any future rate increase request will be approved by the appropriate state public utility commission; and, if approved, we cannot guarantee that these rate increases will be granted in a timely or sufficient manner to cover the investments, expenses, and return for which we initially sought the rate increase.

In some regulatory jurisdictions, we may seek authorization to bill our utility customers in accordance with a rate filing that is pending before the respective regulatory commission. Furthermore, some regulatory commissions authorize the use of expense deferrals and amortization in order to provide for an impact on our operating income by an amount that approximates the requested amount in a rate request. The additional revenue billed and collected prior to the final ruling is subject to refund based on the outcome of the ruling. The revenue recognized and the expenses deferred by us reflect an estimate as to the final outcome of the ruling. If the request is denied completely or in part, we could be required to refund some or all of the revenue billed to date, and write-off some or all of the deferred expenses.

Our business requires significant capital expenditures that are dependent on our ability to secure appropriate funding. Disruptions in the capital and credit markets may limit our access to capital. If we are unable to obtain sufficient capital, or if the cost of borrowing increases, it may materially and adversely affect our financial condition and results of operations.

Our business is capital intensive. In addition to the capital required to fund our growth through acquisition strategy, on an annual basis, we spend significant sums for additions to or replacement of property, plant and equipment. We obtain funds for our capital expenditures from operations, contributions and advances by developers and others, equity issuances and debt issuances. Our ability to maintain and meet our financial objectives is dependent upon the availability of adequate capital. Recent economic conditions and disruptions caused substantial volatility in capital markets, and increased the cost and reduced the availability of credit from financing sources, which may continue or worsen in the future. If in the future, our credit facilities are not renewed or

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our short-term borrowings are called for repayment, we would have to seek alternative financing sources, although there can be no assurance that these alternative financing sources would be available on terms acceptable to us. In the event we are unable to obtain sufficient capital, we may need to reduce our capital expenditures and our ability to pursue acquisitions that we may rely on for future growth could be impaired. The reduction in capital expenditures may result in reduced potential earnings growth, affect our ability to meet environmental laws and regulations, and may limit our ability to improve or expand our utility systems to the level we believe appropriate. There is no guarantee that we will be able to obtain sufficient capital in the future on reasonable terms and conditions for expansion, construction and maintenance. In addition, delays in completing major capital projects could delay the recovery of the capital expenditures associated with such projects through rates. If the cost of borrowing increases, we might not be able to recover increases in our cost of capital through rates. The inability to recover higher borrowing costs through rates, or the regulatory lag associated with the time that it takes to begin recovery, may adversely affect our financial condition and results of operations.

Our inability to comply with debt covenants under our credit facilities could result in prepayment obligations.

We are obligated to comply with debt covenants under some of our loan and debt agreements. Failure to comply with covenants under our credit facilities could result in an event of default, which if not cured or waived, could result in us being required to repay or finance these borrowings before their due date, could limit future borrowings, result in cross default issues and increase borrowing costs.

General economic conditions may affect our financial condition and results of operations.

A general economic downturn such as the one the U.S. economy has experienced recently may lead to a number of impacts on our business that may affect our financial condition and results of operations. Such impacts may include: a reduction in discretionary and recreational water use by our residential water customers, particularly during the summer months when such discretionary usage is normally at its highest; a decline in usage by industrial and commercial customers as a result of decreased business activity; an increased incidence of customers' inability to pay or delays in paying their utility bills, or an increase in customer bankruptcies, which may lead to higher bad debt expense and reduced cash flow; a lower natural customer growth rate due to a decline in new housing starts; and a decline in the number of active customers due to housing vacancies or abandonments. General economic turmoil may also lead to an investment market downturn, such as the one the U.S. economy has recently experienced, which results in our pension plans' asset market values suffering a decline and significant volatility. As a result of a decline in our pension plans' asset market values, our required cash contributions to these plans and pension expense may increase in subsequent years.

Federal and state environmental laws and regulations impose substantial compliance requirements on our operations. Our operating costs could be significantly increased in order to comply with new or stricter regulatory standards imposed by federal and state environmental agencies.

Our water and wastewater services are governed by various federal and state environmental protection and health and safety laws and regulations, including the federal Safe Drinking Water Act, the Clean Water Act and similar state laws, and federal and state regulations issued under these laws by the U.S. Environmental Protection Agency and state environmental regulatory agencies. These laws and regulations establish, among other things, criteria and standards for drinking water and for discharges into the waters of the U.S. and states. Pursuant to these laws, we are required to obtain various environmental permits from environmental regulatory agencies for our operations. We cannot assure you that we will be at all times in total compliance with these laws, regulations and permits. If we violate or fail to comply with these laws, regulations or permits, we could be fined or otherwise sanctioned by regulators. Environmental laws and regulations are complex and change frequently. These laws, and the enforcement thereof, have tended to become more stringent over time. While we have budgeted for future capital and operating expenditures to comply with these laws and our permits, it is possible that new or stricter standards could be imposed that will require additional capital expenditures or raise our operating costs. Although these expenditures and costs may be recovered in the form of higher rates, there can be no assurance that the various state public utility commissions or similar regulatory bodies that govern our business would approve rate increases to enable us to recover such expenditures and costs. In summary, we cannot assure you that our costs of complying with, or discharging liability under, current and future environmental and health and safety laws will not adversely affect our business, results of operations or financial condition.

Our business is impacted by weather conditions and is subject to seasonal fluctuations, which could adversely affect demand for our water service and our revenues.

Demand for our water during the warmer months is generally greater than during cooler months due primarily to additional requirements for water in connection with irrigation systems, swimming pools, cooling systems and other outside water use. Throughout the year, and particularly during typically warmer months, demand will vary with temperature, rainfall levels and rainfall frequency. In the event that temperatures during the typically warmer months are cooler than normal, if there is more rainfall than normal, or rainfall is more frequent than normal, the demand for our water may decrease and adversely affect our revenues.

Drought conditions and government imposed water use restrictions may impact our ability to serve our current and future customers, and may impact our customers' use of our water, which may adversely affect our financial condition and results of operations.

We depend on an adequate water supply to meet the present and future demands of our customers. Drought conditions could interfere with our sources of water supply and could adversely affect our ability to supply water in sufficient quantities to our existing and future customers. An interruption in our water supply could have a material adverse effect on our financial condition and results of operations. Moreover, governmental restrictions on water usage during drought conditions may result in a decreased demand for our water, even if our water supplies are sufficient to serve our customers during these drought conditions, which may adversely affect our revenues and earnings.

An important element of our growth strategy is the acquisition of water and wastewater systems. Any future acquisitions we decide to undertake may involve risks.

An important element of our growth strategy is the acquisition and integration of water and wastewater systems in order to broaden our current, and move into new, service areas. We will not be able to acquire other businesses if we cannot identify suitable acquisition opportunities or reach mutually agreeable terms with acquisition candidates. It is our intent, when practical, to integrate any businesses we acquire with our existing operations. The negotiation of potential acquisitions as well as the integration of acquired businesses could require us to incur significant costs and cause diversion of our management's time and resources. Future acquisitions by us could result in:

- dilutive issuances of our equity securities;
- incurrence of debt and contingent liabilities;
- failure to have effective internal control over financial reporting;
- recording goodwill and other intangible assets for which we may never realize its full value and may result in an asset impairment that may negatively affect our results of operations;
- fluctuations in quarterly results;
- other acquisition-related expenses; and
- exposure to unknown or unexpected risks and liabilities.

Some or all of these items could have a material adverse effect on our business and our ability to finance our business and comply with regulatory requirements. The businesses we acquire in the future may not achieve sales and profitability that would justify our investment, and any difficulties we encounter in the integration process, including in the integration of processes necessary for internal control and financial reporting, could interfere with our operations, reduce our operating margins and adversely affect our internal controls. In addition, as consolidation becomes more prevalent in the water and wastewater industries and competition for acquisitions increases, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to grow through acquisitions.

Our water and wastewater systems may be subject to condemnations or other methods of taking by governmental entities.

In the states where our subsidiaries operate, it is possible that portions of our subsidiaries' operations could be acquired by municipal governments by one or more of the following methods:

- eminent domain;
- the right of purchase given or reserved by a municipality or political subdivision when the original franchise was granted; and
- the right of purchase given or reserved under the law of the state in which the subsidiary was incorporated or from which it received its permit given or reserved by a municipality or political subdivision when the original franchise was granted.

The price to be paid upon such an acquisition by the municipal government is usually determined in accordance with applicable law governing the taking of lands and other property under eminent domain. In other instances, the price may be negotiated, fixed by appraisers selected by the parties or computed in accordance with a formula prescribed in the law of the state or in the particular franchise or charter. We believe that our operating subsidiaries will be entitled to receive fair market value for any assets that are condemned. However, there is no assurance that the fair market value received for assets condemned will be in excess of book value.

In a limited number of instances in our southern states where there are municipally-owned water or wastewater systems near our operating divisions, the municipally-owned system may either have water distribution or wastewater collection mains that are located adjacent to the our division's mains or may construct new mains that parallel our mains. In these circumstances, on occasion the municipally-owned system may attempt to take over the customers who are connected to our mains, resulting in our mains becoming surplus or underutilized without compensation.

Contamination to our water supply may result in disruption in our services and litigation which could adversely affect our business, operating results and financial condition.

Our water supplies are subject to contamination, including contamination from naturally-occurring compounds, chemicals in groundwater systems, pollution resulting from man-made sources, such as man-made organic chemicals, and possible terrorist attacks. In the event that a water supply is contaminated, we may have to interrupt the use of that water supply until we are able to substitute, where feasible, the flow of water from an uncontaminated water source. In addition, we may incur significant costs in order to treat the contaminated source through expansion of our current treatment facilities, or development of new treatment methods. If we are unable to substitute water supply from an uncontaminated water source, or to adequately treat the contaminated water source in a cost-effective manner, there may be an adverse effect on our revenues, operating results and financial condition. The costs we incur to decontaminate a water source or an underground water system could be significant and could adversely affect our business, operating results and financial condition and may not be recoverable in rates. We could also be held liable for consequences arising out of human exposure to hazardous substances in our water supplies or other environmental damage. Our insurance policies may not be sufficient to cover the costs of these claims.

In addition to the potential pollution of our water supply as described above, in the wake of the September 11, 2001 terrorist attacks and the ensuing threats to the nation's health and security, we have taken steps to increase security measures at our facilities and heighten employee awareness of threats to our water supply. We have also tightened our security measures regarding the delivery and handling of certain chemicals used in our business. We have and will continue to bear increased costs for security precautions to protect our facilities, operations and supplies. These costs may be significant. Despite these increased security measures, we may not be in a position to control the outcome of terrorist events should they occur.

Wastewater operations may entail significant risks.

Wastewater collection and treatment and septage pumping and sludge hauling involve various unique risks. If collection or treatment systems fail or do not operate properly, or if there is a spill, untreated or partially treated wastewater could discharge onto property or into nearby streams and rivers, causing various damages and injuries, including environmental damage. Liabilities resulting from such damages and injuries could materially and adversely affect the Company's results of operations and financial condition.

Dams and reservoirs present unique risks.

Several of our water systems include impounding dams and reservoirs of various sizes. Although we believe our dams are structurally sound and well-maintained, the failure of a dam could result in significant downstream property damage or injuries for which we may be liable. We periodically inspect our dams and purchase liability insurance for such risks, but depending on the nature of the downstream damage and cause of the failure, our limits of coverage may not be sufficient. A dam failure could also result in damage to or disruption of our water treatment and pumping facilities that are often located downstream from our dams and reservoirs. Significant damage to these facilities could affect our ability to provide water to our customers and, consequently, our results of operations until the facilities and a sufficient raw water impoundment can be restored. The estimated costs to maintain our dams are included in our capital budget projections and, although such costs to date have been recoverable in rates, there can be no assurance that rate increases will be granted in a timely or sufficient manner to recover such costs in the future, if at all.

Work stoppages and other labor relations matters could adversely affect our operating results.

Approximately 30% of our workforce are unionized under 13 labor contracts (or contracts under negotiation) with labor unions, which expire over several years. We believe our labor relations are good, but in light of rising costs for healthcare and pensions, contract negotiations in the future may be difficult. We are subject to a risk of work stoppages and other labor relations matters as we negotiate with the unions to address these issues, which could affect our results of operations and financial condition. We cannot assure you that issues with our labor forces will be resolved favorably to us in the future or that we will not experience work stoppages.

Significant or prolonged disruptions in the supply of important goods or services from third parties could affect our business and results of operations.

We are dependent on a continuing flow of important goods and services from suppliers for our water and wastewater businesses. A disruption or prolonged delays in obtaining, important supplies or services, such as purchased water, chemicals, or electricity, could adversely affect our water or wastewater services and our ability to operate in compliance with all regulatory requirements, which could have a significant effect on our results of operations. In certain circumstances, we rely on third parties to provide certain important services (such as certain customer bill print and mail activities or utility service operations in some of our divisions) and a disruption in these services could materially and adversely affect our results of operations and financial condition.

We are increasingly dependent on the continuous and reliable operation of our information technology systems.

We rely on our information technology systems in connection with the operation of our business, especially with respect to customer service and billing, accounting and, in some cases, the monitoring and operation of our treatment, storage and pumping facilities. A loss of these systems or major problems with the operation of these systems could affect our operations and have a significant material adverse effect on our results of operations.

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We depend significantly on the services of the members of our management team, and the departure of any of those persons could cause our operating results to suffer.

Our success depends significantly on the continued individual and collective contributions of our management team. The loss of the services of any member of our management team or the inability to hire and retain experienced management personnel could harm our operating results.

Climate change laws and regulations may be adopted that could require compliance with greenhouse gas emissions standards and other climate change initiatives. Additional capital expenditures could be required and our operating costs could be increased in order to comply with new regulatory standards imposed by federal and state environmental agencies.

Climate change is receiving ever increasing attention worldwide. Many scientists, legislators, and others attribute global warming to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions. Possible new climate change laws and regulations, if enacted, may require us to monitor and/or change our utility operations. It is possible that new standards could be imposed that will require additional capital expenditures or raise our operating costs. Because it is uncertain what laws will be enacted, we cannot predict the potential impact of such laws on our future consolidated financial condition, results of operations, or cash flows. Although these expenditures and costs may be recovered in the form of higher rates, there can be no assurance that the various state public utility commissions or similar regulatory bodies that govern our business would approve rate increases to enable us to recover such expenditures and costs. We cannot assure you that our costs of complying with new standards or laws will not adversely affect our business, results of operations or financial condition.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our properties consist of transmission and distribution mains and conduits, water and wastewater treatment plants, pumping facilities, wells, tanks, meters, pipes, dams, reservoirs, buildings, vehicles, land, easements, rights and other facilities and equipment used for the operation of our systems, including the collection, treatment, storage and distribution of water and the collection and treatment of wastewater. Substantially all of our properties are owned by our subsidiaries, and a substantial portion of our property is subject to liens of mortgage or indentures. These liens secure bonds, notes and other evidences of long-term indebtedness of our subsidiaries. For certain properties that we acquired through the exercise of the power of eminent domain and certain other properties we purchased, we hold title for water supply purposes only. We own, operate and maintain over ten thousand miles of transmission and distribution mains, surface water treatment plants, and many well treatment stations and wastewater treatment plants. Some properties are leased under long-term leases.

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The following table indicates our net property, plant and equipment, in thousands of dollars, as of December 31, 2009 in the principal states where we operate:

	Net Property, Plant and Equipment	
Pennsylvania	\$ 1,858,466	57.6%
North Carolina	237,744	7.4%
Illinois	230,814	7.2%
Ohio	209,712	6.5%
Texas	196,531	6.1%
Other*	494,027	15.2%
	<u>\$ 3,227,294</u>	<u>100.0%</u>

* Includes our operating subsidiaries in the following states: New Jersey, New York, Indiana, Florida, Virginia, Maine, Missouri, South Carolina, and Georgia.

We believe that our properties are generally maintained in good condition and in accordance with current standards of good waterworks industry practice. We believe that our facilities are adequate and suitable for the conduct of our business and to meet customer requirements under normal circumstances.

Our corporate offices are leased from our subsidiary, Aqua Pennsylvania, Inc., and are located in Bryn Mawr, Pennsylvania.

Item 3. Legal Proceedings

There are various legal proceedings in which we are involved. Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings, other than as set forth below, to which we or any of our subsidiaries is a party or to which any of our properties is the subject that we believe are material or are expected to have a material adverse effect on our financial position, results of operations or cash flows.

In 2004, our subsidiaries in Texas filed an application with the Texas Commission on Environmental Quality (“TCEQ”) to increase rates over a multi-year period. On September 23, 2008, the TCEQ issued its final ruling with a unanimous decision approving this rate application. The final order had been appealed to the TCEQ by two parties, and the TCEQ has exercised its legal authority to take no action within the required period, therefore, affirming the TCEQ’s approval decision. Thereafter, the appealing parties filed suit against the TCEQ in the Travis County District Court in an effort to appeal the order. In accordance with authorization from the TCEQ in 2004, our subsidiaries commenced billing for the requested rates and deferred recognition of certain expenses for financial statement purposes. In the event the TCEQ’s final order is overturned on appeal, completely or in part, we could be required to refund some or all of the revenue billed to-date, and write-off some or all of the regulatory asset for the expense deferral. For more information, see the description under the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and refer to Note 16 — *Water and Wastewater Rates* in the “Notes to Consolidated Financial Statements” from the portions of our 2009 Annual Report to Shareholders filed as Exhibit 13.1 to this 10-K.

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The City of Fort Wayne, Indiana (“the City”) authorized the acquisition by eminent domain of the northern portion of the utility system of one of the Company’s operating subsidiaries in Indiana. We challenged whether the City was following the correct legal procedures in connection with the City’s condemnation, but the Indiana Supreme Court, in an opinion issued in June 2007, supported the City’s position. In October 2007, the City’s Board of Public Works approved proceeding with its process to condemn the northern portion of our utility system at a preliminary price based on the City’s valuation. In October 2007, we filed an appeal with the Allen County Circuit Court challenging the Board of Public Works’ valuation on several bases. In November 2007, the City Council authorized the taking of this portion of our system and the payment of \$16,910,500 based on the City’s valuation of the system. In January 2008, we reached a settlement agreement with the City to transition this portion of the system in February 2008 upon receipt of the City’s initial valuation payment of \$16,910,500. The settlement agreement specifically states that the final valuation of the system will be determined through a continuation of the legal proceedings that were filed challenging the City’s valuation. On February 12, 2008, we turned over the northern portion of the system to the City upon receipt of the initial valuation payment. The Indiana Utility Regulatory Commission also reviewed and acknowledged the transfer of the Certificate of Territorial Authority for the northern portion of the system to the City. The proceeds received by the Company are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. On March 16, 2009, oral argument was held before the Allen County Circuit Court on certain procedural aspects with respect to the valuation evidence that may be presented and whether we are entitled to a jury trial. Depending upon the ultimate outcome of the legal proceeding in the Allen County Circuit Court we may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The northern portion of the system relinquished represented approximately 0.50% of Aqua America’s total assets.

A lawsuit was filed by a husband and wife who lived in a house abutting a percolation pond at a wastewater treatment plant owned by one of the Company’s subsidiaries, Aqua Utilities Florida, Inc., in Pasco County, Florida. The lawsuit was originally filed in August 2006 in the circuit court for the Sixth Judicial Circuit in and for Pasco County, Florida and has been amended several times by the plaintiffs. The lawsuit alleges our subsidiary was negligent in the design, operation and maintenance of the plant, resulting in bodily injury to the plaintiffs and various damages to their property. The plaintiffs filed an amended complaint in July 2008 to include additional counts alleging nuisance and strict liability. In the third quarter of 2008, approximately thirty-five additional plaintiffs, associated with approximately eight other homes in the area, filed another lawsuit with the same court making similar allegations against our subsidiary with respect to the operation of the facility. Both lawsuits have been submitted to our insurance carriers, who have reserved their rights with respect to various portions of the plaintiffs’ claims. Based on the ultimate outcome of the litigation, we may or may not have insurance coverage for parts or all of the claims. The Company continues to assess the matter and any potential losses. At this time, the Company believes that the estimated amount of any potential losses would not be material to the Company’s consolidated results of operations or consolidated financial condition.

Two homeowners’ associations comprised of approximately 180 homes located next to a wastewater plant owned by one of the Company’s subsidiaries in Indiana are claiming that the subsidiary’s prior management, before our acquisition of the subsidiary in 2003, allegedly entered into an agreement to cease the majority of operations at the wastewater plant and to remove most of the facilities located at the plant site by April 2009. The plant treats approximately 75% of wastewater flow from the subsidiary’s 12,000 customers in the area. The Company has filed a formal request for review of the purported agreement with the Indiana Utility Regulatory Commission. In September 2009, the homeowners’ associations filed suit in Allen County, Indiana Superior Court claiming breach of contract, breach of warranty, fraud, unjust enrichment, promissory estoppel and constructive fraud. If the purported agreement is ultimately determined to be valid, the subsidiary may be subject to liability to the homeowners for failure to remove the plant and/or, if the agreement is enforced, the subsidiary may be required to expand another existing plant or construct a new plant elsewhere and close and remove the existing plant. The scope of any such possible expansion or construction is difficult to determine at this time, but the construction costs for new wastewater treatment plants are estimated at anywhere from \$9 to \$12 per gallon of flow per day. The current plant is treating an average flow of approximately 2.3 million gallons per day. The book value of the current plant is \$5 million. The Company continues to assess the matter and any potential losses. The parties in this dispute are engaged in mediation in an attempt to resolve the dispute. Based on our current understanding of the controversy, this matter would not be covered by any of the Company’s insurance policies. At this time, the Company believes that the estimated amount of any potential losses would not be material to the Company’s consolidated results of operations or consolidated financial condition.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 2009.

PART II

Item 5. Market for the Registrant's Common Stock, Related Stockholder Matters and Purchases of Equity Securities

Our common stock is traded on the New York Stock Exchange under the ticker symbol WTR. As of February 12, 2010, there were approximately 27,919 holders of record of our common stock.

The following table shows the high and low intraday sales prices for our common stock as reported on the New York Stock Exchange composite transactions reporting system and the cash dividends paid per share for the periods indicated:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2009					
Dividend paid per common share	\$ 0.135	\$ 0.135	\$ 0.135	\$ 0.145	\$ 0.550
Dividend declared per common share	0.135	0.135	0.280	—	0.550
Price range of common stock					
- high	21.50	20.37	18.34	17.89	21.50
- low	16.59	16.12	16.50	15.39	15.39
2008					
Dividend paid per common share	\$ 0.125	\$ 0.125	\$ 0.125	\$ 0.135	\$ 0.510
Dividend declared per common share	0.125	0.125	0.260	—	0.510
Price range of common stock					
- high	22.00	19.78	19.14	22.00	22.00
- low	17.96	15.76	14.46	12.20	12.20

We have paid common dividends consecutively for 65 years. Effective August 4, 2009, our Board of Directors authorized an increase of 7.4% in the quarterly dividend rate over the amount Aqua America, Inc. paid in the previous quarter for the December 1, 2009 dividend. As a result of this authorization, beginning with the dividend payment in December 2009, the annualized dividend rate increased to \$0.58 per share. This is the 19th dividend increase in the past 18 years and the eleventh consecutive year that we have increased our dividend in excess of five percent. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1 and December 1, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, our common dividends paid have averaged 65.8% of net income.

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The following table summarizes the Company's purchases of its common stock for the quarter ending December 31, 2009:

Issuer Purchases of Equity Securities

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs (2)</u>
October 1-31, 2009	—	\$ —	—	548,278
November 1-30, 2009	—	\$ —	—	548,278
December 1-31, 2009	100	\$ 17.75	—	548,278
Total	<u>100</u>	<u>\$ 17.75</u>	<u>—</u>	<u>548,278</u>

- (1) These amounts consist of shares we purchased from our employees who elected to pay the exercise price of their stock options (and then hold shares of the stock) upon exercise by delivering to us (and, thus, selling) shares of Aqua America common stock in accordance with the terms of our equity compensation plans that were previously approved by our shareholders and disclosed in our proxy statements. This feature of our equity compensation plan is available to all employees who receive option grants under the plan. We purchased these shares at their fair market value, as determined by reference to the closing price of our common stock on the day prior to the option exercise.
- (2) On August 5, 1997, our Board of Directors authorized a common stock repurchase program that was publicly announced on August 7, 1997, for up to 1,007,351 shares. No repurchases have been made under this program since 2000. The program has no fixed expiration date. The number of shares authorized for purchase was adjusted as a result of the stock splits effected in the form of stock distributions since the authorization date.

Item 6. Selected Financial Data

The information appearing in the section captioned "Summary of Selected Financial Data" from the portions of our 2009 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information appearing in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" from the portions of our 2009 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed rate, long-term debt. Such exposure is typically related to financings between utility rate increases, since generally our rate increases include a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2009, the debt maturities by period, in thousands of dollars, and the weighted average interest rate for long-term debt are as follows:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value</u>
Long-term debt:								
Fixed rate	\$55,428	\$28,472	\$39,546	\$34,325	\$87,109	\$1,137,105	\$1,381,985	\$1,251,805
Variable rate	4,149	—	60,000	—	—	—	64,149	64,149
Total	<u>\$59,577</u>	<u>\$28,472</u>	<u>\$99,546</u>	<u>\$34,325</u>	<u>\$87,109</u>	<u>\$1,137,105</u>	<u>\$1,446,134</u>	<u>\$1,315,954</u>
Weighted average interest rate*	5.89%	6.17%	2.51%	5.43%	5.31%	5.43%	5.25%	

* Weighted average interest rates of 2010 and 2012 long-term debt maturities are as follows: fixed rate debt of 6.30% and 5.61% and variable rate debt of 0.47% and 0.47%.

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for the “available-for-sale” marketable equity securities. As of December 31, 2009, our carrying value of certain investments, in thousands of dollars, was \$2,288, which reflects the market value of such investments and is in excess of our original cost.

Item 8. Financial Statements and Supplementary Data

Information appearing under the captions “Consolidated Statements of Income and Comprehensive Income,” “Consolidated Balance Sheets,” “Consolidated Statements of Cash Flows,” “Consolidated Statements of Capitalization,” “Consolidated Statements of Equity” and “Notes to Consolidated Financial Statements” from the portions of our 2009 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein. Also, the information appearing in the sections captioned “Management’s Report on Internal Control Over Financial Reporting” and “Report of Independent Registered Public Accounting Firm” from the portions of our 2009 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures — Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

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(b) Management's Report on Internal Control Over Financial Reporting — The information appearing in the section captioned "Management's Report on Internal Control Over Financial Reporting" from the portions of our 2009 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

(c) Changes in Internal Control Over Financial Reporting — No change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

We make available free of charge within the "Investor Relations / Corporate Governance" section of our Internet Web site, at www.aquaamerica.com, our Corporate Governance Guidelines, the Charters of each Committee of our Board of Directors, and our Code of Ethical Business Conduct. Amendments to the Code, and any grant of a waiver from a provision of the Code requiring disclosure under applicable SEC rules will be disclosed on our Web site. The reference to our Web site is intended to be an inactive textual reference only, and the contents of such Web site are not incorporated by reference herein and should not be considered part of this or any other report that we file with or furnish to the SEC.

Directors of the Registrant, Audit Committee, Audit Committee Financial Expert and Filings under Section 16(a)

The information appearing in the sections captioned "Information Regarding Nominees and Directors," "Corporate Governance — Code of Ethics, — Board and Board Committees, and — Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance" of the definitive Proxy Statement relating to our May 13, 2010, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

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Our Executive Officers

The following table and the notes thereto set forth information with respect to our executive officers, including their names, ages, positions with Aqua America, Inc. and business experience during the last five years:

<u>Name</u>	<u>Age</u>	<u>Position with Aqua America, Inc. (1)</u>
Nicholas DeBenedictis	64	Chairman, President and Chief Executive Officer (May 1993 to present); President and Chief Executive Officer (July 1992 to May 1993); Chairman and Chief Executive Officer, Aqua Pennsylvania, Inc. (July 1992 to present); President, Philadelphia Suburban Water Company (February 1995 to January 1999) (2)
Roy H. Stahl	57	Chief Administrative Officer, General Counsel (February 2007 to present), and Secretary (June 2001 to present); Executive Vice President and General Counsel (May 2000 to February 2007); Senior Vice President and General Counsel (April 1991 to May 2000) (3)
David P. Smeltzer	51	Chief Financial Officer (February 2007 to present); Senior Vice President — Finance and Chief Financial Officer (December 1999 to February 2007); Vice President - Finance and Chief Financial Officer (May 1999 to December 1999); Vice President - Rates and Regulatory Relations, Philadelphia Suburban Water Company (March 1991 to May 1999) (4)
Christopher H. Franklin	45	Regional President — Midwest and Southern Operations and Senior Vice President, Corporate and Public Affairs (January 2010 to present); Regional President, Aqua America — Southern Operations and Senior Vice President, Public Affairs and Customer Operations (January 2007 to January 2010); Vice President, Public Affairs and Customer Operations (July 2002 to January 2007) (5)
Karl M. Kyriass	59	Regional President — Northeast Operations (January 2010 to present); Regional President, Aqua Mid-Atlantic Operations (February 2007 to January 2010); President — Aqua Pennsylvania (March 2003 to present) and President, Mid-Atlantic Operations (May 2005 to February 2007) (6)
Robert G. Liptak, Jr.	62	Regional President, Northern Operations (March 1999 to present); (7)
Robert A. Rubin	47	Vice President, Controller and Chief Accounting Officer (May 2005 to present); Controller and Chief Accounting Officer (March 2004 to May 2005); Controller (March 1999 to March 2004) (8)

- (1) In addition to the capacities indicated, the individuals named in the above table hold other offices or directorships with subsidiaries of the Company. Officers serve at the discretion of the Board of Directors.
- (2) Mr. DeBenedictis was Secretary of the Pennsylvania Department of Environmental Resources from 1983 to 1986. From December 1986 to April 1989, he was President of the Greater Philadelphia Chamber of Commerce. Mr. DeBenedictis was Senior Vice President for Corporate and Public Affairs of Philadelphia Electric Company from April 1989 to June 1992.
- (3) From January 1984 to August 1985, Mr. Stahl was Corporate Counsel, from August 1985 to May 1988 he was Vice President — Administration and Corporate Counsel of Aqua America, Inc., and from May 1988 to April 1991 he was Vice President and General Counsel of Aqua America, Inc.
- (4) Mr. Smeltzer was Vice President — Controller of Philadelphia Suburban Water Company from March, 1986 to March 1991.

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- (5) Mr. Franklin was Director of Public Affairs from January 1993 to February 1997.
- (6) Mr. Kyriss was Vice President — Northeast Region of American Water Works Services Company from 1997 to 2003.
- (7) Mr. Liptak was President of Consumers Pennsylvania Water Company from 1980 to March 1999.
- (8) Mr. Rubin was Accounting Manager with Aqua America, Inc. from June 1989 to June 1994. He then served from June 1994 to March 1999 as Assistant Controller of Philadelphia Suburban Water Company.

Item 11. Executive Compensation

The information appearing in the sections captioned “Executive Compensation” and “Director Compensation” of the definitive Proxy Statement relating to our May 13, 2010, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Ownership of Common Stock — The information appearing in the section captioned “Ownership of Common Stock” of the Proxy Statement relating to our May 13, 2010, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

Securities Authorized for Issuance under Equity Compensation Plans — The following table provides information for our equity compensation plans as of December 31, 2009:

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders	3,895,329	\$ 19.17	4,975,500
Equity compensation plans not approved by security holders	0	0	0
Total	3,895,329	\$ 19.17	4,975,500

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information appearing in the sections captioned “Corporate Governance — Director Independence” and “ — Policies and Procedures For Approval of Related Person Transactions” of the definitive Proxy Statement relating to our May 13, 2010, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

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Item 14. Principal Accountant Fees and Services

The information appearing in the section captioned “Proposal No. 2 — Services and Fees” of the definitive Proxy Statement relating to our May 13, 2010, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

PART IV

Item 15. Exhibits and Financial Statement Schedules

Financial Statements. The following is a list of our consolidated financial statements and supplementary data incorporated by reference in Item 8 hereof:

Management’s Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets — December 31, 2009 and 2008

Consolidated Statements of Income and Comprehensive Income — 2009, 2008, and 2007

Consolidated Statements of Cash Flows — 2009, 2008, and 2007

Consolidated Statements of Capitalization — December 31, 2009 and 2008

Consolidated Statements of Equity — December 31, 2009, 2008, and 2007

Notes to Consolidated Financial Statements

Financial Statement Schedules. All schedules to our consolidated financial statements are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes thereto.

Exhibits, Including Those Incorporated by Reference. A list of exhibits filed as part of this Form 10-K is set forth in the Exhibit Index hereto which is incorporated by reference herein. Where so indicated by footnote, exhibits which were previously filed are incorporated by reference. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated in parentheses.

SIGNATURES

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

AQUA AMERICA, INC.

By: Nicholas DeBenedictis
Nicholas DeBenedictis
Chairman, President and Chief Executive Officer

Date: February 26, 2010

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Roy H. Stahl, Chief Administrative Officer, General Counsel, and Secretary, and David P. Smeltzer, Chief Financial Officer, as true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities to sign this Report filed herewith and any or all amendments to said Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission granting unto said attorneys-in-fact and agents the full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the foregoing, as to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his or her substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Nicholas DeBenedictis
Nicholas DeBenedictis
Chairman, President, Chief Executive Officer and Director
(Principal Executive Officer)

Robert A. Rubin
Robert A. Rubin
Vice President, Controller and Chief Accounting Officer
(Principal Accounting Officer)

Richard H. Glanton
Richard H. Glanton
Director

William P. Hankowsky
William P. Hankowsky
Director

Ellen T. Ruff
Ellen T. Ruff
Director

Andrew J. Sordoni III
Andrew J. Sordoni III
Director

David P. Smeltzer
David P. Smeltzer
Chief Financial Officer
(Principal Financial Officer)

Mary C. Carroll
Mary C. Carroll
Director

Lon R. Greenberg
Lon R. Greenberg
Director

Mario Mele
Mario Mele
Director

Richard L. Smoot
Richard L. Smoot
Director

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
3.1	Restated Articles of Incorporation (as of December 9, 2004) (20) (Exhibit 3.1)
3.2	By-Laws, as amended (31) (Exhibit 3.2)
3.3	Amendments to Sections 7.09 and 7.11 of the Bylaws (33) (Exhibit 3.3)
4.1	Indenture of Mortgage dated as of January 1, 1941 between Philadelphia Suburban Water Company and The Pennsylvania Company for Insurance on Lives and Granting Annuities(now First Pennsylvania Bank, N.A.), as Trustee, with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 (2) (Exhibits 4.1 through 4.16)
4.2	Agreement to furnish copies of other long-term debt instruments (1) (Exhibit 4.7)
4.3	Twenty-fourth Supplemental Indenture dated as of June 1, 1988 (3) (Exhibit 4.5)
4.4	Twenty-fifth Supplemental Indenture dated as of January 1, 1990 (4) (Exhibit 4.6)
4.5	Twenty-sixth Supplemental Indenture dated as of November 1, 1991 (5) (Exhibit 4.12)
4.6	Twenty-eighth Supplemental Indenture dated as of April 1, 1993 (6) (Exhibit 4.15)
4.7	Twenty-ninth Supplemental Indenture dated as of March 30, 1995 (7) (Exhibit 4.17)
4.8	Thirtieth Supplemental Indenture dated as of August 15, 1995 (8) (Exhibit 4.18)
4.9	Thirty-first Supplemental Indenture dated as of July 1, 1997 (10) (Exhibit 4.22)
4.10	Thirty-second Supplement Indenture, dated as of October 1, 1999 (12) (Exhibit 4.26)
4.11	Thirty-third Supplemental Indenture, dated as of November 15, 1999. (13) (Exhibit 4.27)
4.12	Revolving Credit Agreement between Philadelphia Suburban Water Company and PNC Bank National Association, First Union National Bank, N.A., Mellon Bank, N.A. dated as of December 22, 1999 (13) (Exhibit 4.27)
4.13	First Amendment to Revolving Credit Agreement dated as of November 28, 2000, between Philadelphia Suburban Water Company and PNC Bank, National Association, First Union National Bank, N.A., Mellon Bank, N.A. dated as of December 22, 1999 (14) (Exhibit 4.19)
4.14	Second Amendment to Revolving Credit Agreement dated as of December 18, 2001, between Philadelphia Suburban Water Company (and its successor Pennsylvania Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, First Union National Bank, N.A., Fleet National Bank dated as of December 22, 1999 (15) (Exhibit 4.20)
4.15	Thirty-fourth Supplemental Indenture, dated as of October 15, 2001. (15) (Exhibit 4.21)
4.16	Thirty-fifth Supplemental Indenture, dated as of January 1, 2002. (15) (Exhibit 4.22)
4.17	Thirty-sixth Supplemental Indenture, dated as of June 1, 2002. (17) (Exhibit 4.23)
4.18	Thirty-seventh Supplemental Indenture, dated as of December 15, 2002. (18) (Exhibit 4.23)
4.19	Credit Agreement dated as of October 25, 2002, between Philadelphia Suburban Corporation and PNC Bank, National Association. (18) (Exhibit 4.24)

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
4.20	Third Amendment to Revolving Credit Agreement dated as of December 16, 2002, between Philadelphia Suburban Water Company (and its successor Pennsylvania Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Fleet National Bank dated as of December 22, 1999. (18) (Exhibit 4.25)
4.21	Fourth Amendment to Revolving Credit Agreement dated as of December 24, 2002, between Philadelphia Suburban Water Company (and its successor Pennsylvania Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Fleet National Bank, National City Bank dated as of December 22, 1999. (18) (Exhibit 4.26)
4.22	Note Purchase Agreement among the note purchasers and Philadelphia Suburban Corporation, dated July 31, 2003 (19) (Exhibit 4.27)
4.23	Credit Agreement dated as of July 31, 2003, between Philadelphia Suburban Corporation and PNC Bank, National Association (19) (Exhibit 4.28)
4.24	Fifth Amendment to Revolving Credit Agreement dated as of December 14, 2003, between Philadelphia Suburban Water Company (and its successor Pennsylvania Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Fleet National Bank, National City Bank dated as of December 22, 1999. (22) (Exhibit 4.25)
4.25	Credit Agreement dated as of May 28, 2004, between Aqua America, Inc. and PNC Bank, National Association (21) (Exhibit 4.26)
4.26	Sixth Amendment to Revolving Credit Agreement dated as of December 12, 2004 between Aqua Pennsylvania, Inc. (formerly known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Fleet National Bank, National City Bank dated as of December 22, 1999. (25) (Exhibit 4.27)
4.27	Thirty-eighth Supplemental Indenture, dated as of November 15, 2004. (25) (Exhibit 4.28)
4.28	Thirty-ninth Supplemental Indenture, dated as of May 1, 2005. (24) (Exhibit 4.29)
4.29	Seventh Amendment to Revolving Credit Agreement dated as of December 6, 2005 between Aqua Pennsylvania, Inc. (formerly known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Bank of America, N.A. (formerly Fleet National Bank), National City Bank dated as of December 22, 1999. (16) (Exhibit 4.30)
4.30	Fortieth Supplemental Indenture, dated as of December 15, 2005. (16) (Exhibit 4.31)
4.31	Eighth Amendment to Revolving Credit Agreement dated as of December 1, 2006 between Aqua Pennsylvania, Inc. (formerly known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Bank of America, N.A. (formerly Fleet National Bank), National City Bank dated as of December 22, 1999. (26) (Exhibit 4.32)
4.32	Ninth Amendment to Revolving Credit Agreement dated as of February 28, 2007 between Aqua Pennsylvania, Inc. (formerly known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Bank of America, N.A. (formerly Fleet National Bank), National City Bank dated as of December 22, 1999. (31) (Exhibit 4.33)
4.33	Tenth Amendment to Revolving Credit Agreement dated as of December 6, 2007 between Aqua Pennsylvania, Inc. (formerly known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Bank of America, N.A. (formerly Fleet National Bank), National City Bank dated as of December 22, 1999. (31) (Exhibit 4.34)
4.34	Forty-first Supplemental Indenture, dated as of January 1, 2007. (30) (Exhibit 4.1)

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
4.35	Forty-second Supplemental Indenture, dated as of December 1, 2007. (31) (Exhibit 4.36)
4.36	Eleventh Amendment to Revolving Credit Agreement dated as of December 4, 2008 between Aqua Pennsylvania, Inc. (formerly known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company) and PNC Bank, National Association, and TD Bank, N.A., dated as of December 22, 1999. (33) (Exhibit 4.36)
4.37	Forty-third Supplemental Indenture, dated as of December 1, 2008. (33) (Exhibit 4.37)
4.38	Forty-fourth Supplemental Indenture, dated as of July 1, 2009. (34) (Exhibit 4.38)
4.39	Forty-fifth Supplemental Indenture, dated as of October 15, 2009
4.40	Twelfth Amendment to Revolving Credit Agreement dated as of December 2, 2009 between Aqua Pennsylvania, Inc. (formerly known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company) and PNC Bank, National Association, and TD Bank, N.A., dated as of December 22, 2009.
10.1	1994 Equity Compensation Plan, as amended by Amendment effective August 5, 2003* (22) (Exhibit 10.5)
10.2	Placement Agency Agreement between Philadelphia Suburban Water Company and PaineWebber Incorporated dated as of March 30, 1995 (7) (Exhibit 10.12)
10.3	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and Legg Mason Wood Walker, Incorporated dated August 24, 1995 (8) (Exhibit 10.13)
10.4	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of August 15, 1995 (8) (Exhibit 10.14)
10.5	Philadelphia Suburban Corporation Amended and Restated Executive Deferral Plan* (22) (Exhibit 10.9)
10.6	Philadelphia Suburban Corporation Deferred Compensation Plan Master Trust Agreement with PNC Bank, National Association, dated as of December 31, 1996* (9) (Exhibit 10.24)
10.7	Placement Agency Agreement between Philadelphia Suburban Water Company and A.G. Edwards and Sons, Inc., Janney Montgomery Scott Inc., HSBC Securities, Inc., and PaineWebber Incorporated (10) (Exhibit 10.26)
10.8	The Director Deferral Plan* (22) (Exhibit 10.13)
10.9	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and Commerce Capital Markets dated September 29, 1999 (12) (Exhibit 10.37)
10.10	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of October 1, 1999 (12) (Exhibit 10.38)
10.11	Placement Agency Agreement between Philadelphia Suburban Water Company and Merrill Lynch & Co., PaineWebber Incorporated, A.G. Edwards & Sons, Inc., First Union Securities, Inc., PNC Capital Markets, Inc. and Janney Montgomery Scott, Inc., dated as of November 15, 1999 (13) (Exhibit 10.41)

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
10.12	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and The GMS Group, L.L.C., dated October 23, 2001 (15) (Exhibit 10.35)
10.13	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of October 15, 2001 (15) (Exhibit 10.36)
10.14	Bond Purchase Agreement among the Bucks County Industrial Development Authority, Pennsylvania Suburban Water Company and Janney Montgomery Scott LLC, dated May 21, 2002 (17) (Exhibit 10.42)
10.15	Construction and Financing Agreement between the Bucks County Industrial Development Authority and Pennsylvania Suburban Water Company dated as of June 1, 2002 (17) (Exhibit 10.43)
10.16	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Pennsylvania Suburban Water Company, and The GMS Group, L.L.C., dated December 19, 2002 (18) (Exhibit 10.44)
10.17	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Pennsylvania Suburban Water Company dated as of December 15, 2002 (18) (Exhibit 10.45)
10.18	Aqua America, Inc. 2004 Equity Compensation Plan as amended by Amendment effective February 22, 2007* (26) (Exhibit 10.29)
10.19	2009 Annual Cash Incentive Compensation Plan* (33) (Exhibit 10.24)
10.20	Bond Purchase Agreement among the Northumberland County Industrial Development Authority, Aqua Pennsylvania, Inc., and Sovereign Securities Corporation, LLC, dated November 16, 2004. (25) (Exhibit 10.31)
10.21	Aqua America, Inc. 2004 Equity Compensation Plan* (23)
10.22	2005 Executive Deferral Plan* (25) (Exhibit 10.33)
10.23	Bond Purchase Agreement among the Montgomery County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 12, 2007. (31) (Exhibit 10.34)
10.24	2010 Annual Cash Incentive Compensation Plan*
10.25	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated May 10, 2005. (24) (Exhibit 10.36)
10.26	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 21, 2005. (16) (Exhibit 10.37)
10.27	Aqua America, Inc. Dividend Reinvestment and Direct Stock Purchase Plan* (29)
10.28	Aqua America, Inc. Amended and Restated Employee Stock Purchase Plan* (16) (Exhibit 10.39)
10.29	Form of Stock Option and Dividend Equivalent Grant Agreement*
10.30	Acceleration of Payout of 2004 and 2005 Dividend Equivalent Awards; Grants of 2006 Dividend Equivalent Awards; Performance Criteria for Acceleration of Payout of Dividend Equivalent Awards* (28) (Exhibit 10.2)
10.31	Vesting of Restricted Stock Granted in 2005; Grants of Restricted Stock* (28) (Exhibit 10.3)
10.32	Non-Employee Directors' Compensation for 2010*
10.33	Non-Employee Directors' Compensation for 2009* (33) (Exhibit 10.32)



EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
10.34	Bond Purchase Agreement among the Chester County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 21, 2006. (30) (Exhibit 10.2)
10.35	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 4, 2008. (33) (Exhibit 10.35)
10.36	Aqua America, Inc. 2004 Equity Compensation Plan (amended and restated as of January 1, 2009)* (33) (Exhibit 10.36)
10.37	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Nicholas DeBenedictis* (33) (Exhibit 10.37)
10.38	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Roy H. Stahl* (33) (Exhibit 10.38)
10.39	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and David P. Smeltzer* (33) (Exhibit 10.39)
10.40	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Karl M. Kyriss* (33) (Exhibit 10.40)
10.41	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Christopher H. Franklin* (33) (Exhibit 10.41)
10.42	Change in Control and Severance Agreement between Aqua America, Inc. and Nicholas DeBenedictis* (33) (Exhibit 10.42)
10.43	Change in Control Agreement between Aqua America, Inc. and Roy H. Stahl* (33) (Exhibit 10.43)
10.44	Change in Control Agreement between Aqua America, Inc. and David P. Smeltzer* (33) (Exhibit 10.44)
10.45	Change in Control Agreement between Aqua America, Inc. and Karl M. Kyriss* (33) (Exhibit 10.45)
10.46	Change in Control Agreement between Aqua America, Inc. and Christopher H. Franklin* (33) (Exhibit 10.46)
10.47	Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (as amended and restated effective January 1, 2008)* (33) (Exhibit 10.47)
10.48	Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis (as amended and restated effective January 1, 2008)* (33) (Exhibit 10.48)
10.49	Forms of Restricted Stock Grant Agreement*
10.50	Amendment 2008-1 to the Aqua America, Inc. Deferred Compensation Plan Master Trust Agreement dated as of December 15, 2008* (33) (Exhibit 10.50)
10.51	Aqua America, Inc. 2009 Executive Deferral Plan, As Amended and Restated Effective January 1, 2009* (32) (Exhibit 4.1)
10.52	Aqua America, Inc. 2009 Omnibus Equity Compensation Plan* (35) (Exhibit 99.1)
10.53	Employment agreement dated January 31, 2010, between Aqua America, Inc. and Nicholas DeBenedictis * (36) (Exhibit 10.1)

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
10.54	First amendment to Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (as amended and restated effective January 1, 2008)*
10.55	Second amendment to Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (as amended and restated effective January 1, 2008)* (36) (Exhibit 10.3)
10.56	First amendment to Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis (as amended and restated effective January 1, 2008)*
10.57	Second amendment to Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis (as amended and restated effective January 1, 2008)* (36) (Exhibit 10.4)
10.58	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jeffries and Company, Inc., and Janney Montgomery Scott LLC, dated June 30, 2009. (34) (Exhibit 10.52)
10.59	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jeffries and Company, Inc., Janney Montgomery Scott LLC, and PNC Capital Markets LLC, dated October 20, 2009.
10.60	Restricted Stock Grant Agreement made by Aqua America, Inc. to Nicholas DeBenedictis dated January 31, 2010* (36) (Exhibit 10.2)
13.1	Selected portions of Annual Report to Shareholders for the year ended December 31, 2009 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 2009.
21.1	Subsidiaries of Aqua America, Inc.
23.1	Consent of Independent Registered Public Accounting Firm — PricewaterhouseCoopers LLP
24.1	Power of Attorney (included on signature page)
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350

Notes -
Documents Incorporated by Reference

- (1) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1992.
- (2) Indenture of Mortgage dated as of January 1, 1941 with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 were filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1983.
- (3) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1988.
- (4) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1989.
- (5) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1991.
- (6) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1993.
- (7) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.
- (8) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.
- (9) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1996.
- (10) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.
- (11) Filed as an Exhibit to Form 8-K filed August 7, 1997.
- (12) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.
- (13) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1999.
- (14) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2000.
- (15) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2001.
- (16) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2005.
- (17) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- (18) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2002.
- (19) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 2003
- (20) Filed as an Exhibit to Form 8-K filed December 9, 2004.
- (21) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
- (22) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2003.
- (23) Filed as Appendix C to definitive Proxy Statement dated April 2, 2004.
- (24) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
- (25) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2004.
- (26) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2006.
- (27) Filed as an Exhibit to Form 8-K filed March 7, 2005.
- (28) Filed as an Exhibit to Form 8-K filed March 13, 2006.
- (29) Filed as a Registration Statement on Form S-3 on August 8, 2008.
- (30) Filed an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.
- (31) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2007.
- (32) Filed as a Registration Statement on Form S-8 on December 10, 2008.
- (33) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2008.
- (34) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.
- (35) Filed as a Registration Statement on Form S-8 on June 11, 2009.
- (36) Filed as an Exhibit to Form 8-K filed on February 4, 2010.

* Indicates management contract or compensatory plan or arrangement.

Prepared by and Return to:
Mary T. Tomich, Esq.
Dilworth Paxson LLP
1500 Market Street
Suite 3500E
Philadelphia, PA 19102
215-575-7000

FORTY-FIFTH SUPPLEMENTAL

INDENTURE

DATED AS OF OCTOBER 15, 2009

TO

INDENTURE OF MORTGAGE

DATED AS OF JANUARY 1, 1941

AQUA PENNSYLVANIA, INC.

TO

THE BANK OF NEW YORK MELLON TRUST COMPANY, N. A.

THIS FORTY-FIFTH SUPPLEMENTAL INDENTURE dated as of October 15, 2009, by and between AQUA PENNSYLVANIA, INC. (f/k/a Pennsylvania Suburban Water Company), a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania (the “Company”) as successor by merger to the Philadelphia Suburban Water Company (the “Original Company”), party of the first part, and THE BANK OF NEW YORK MELLON TRUST COMPANY, N. A., a national banking association (the “Trustee”), party of the second part.

WHEREAS, the Original Company heretofore duly executed and delivered to The Pennsylvania Company for Insurances on Lives and Granting Annuities, as trustee, an Indenture of Mortgage dated as of January 1, 1941 (the “Original Indenture”), which by reference is hereby made a part hereof, and in and by the Original Indenture the Original Company conveyed and mortgaged to such trustee certain property therein described, to secure the payment of its bonds to be generally known as its “First Mortgage Bonds” and to be issued under the Original Indenture in one or more series as therein provided; and

WHEREAS, through a series of mergers, changes of names and successions, The Bank of New York Mellon Trust Company, N. A. became the successor trustee; such mergers, changes of name and successions not involving any change in the title, powers, rights or duties of the trustee, as trustee under the Original Indenture as supplemented at the respective dates thereof; and

WHEREAS, the Original Company duly executed and delivered to the Trustee thirty-four supplemental indentures supplemental to the Original Indenture, and the Company duly executed and delivered to the Trustee eight supplemental indentures to the Original Indenture so as to subject certain additional property to the lien of the Original Indenture and to provide for the creation of additional series of bonds; and

WHEREAS, pursuant to an Agreement and Plan of Merger and Reorganization dated December 20, 2001, and effective on January 1, 2002, the Original Company agreed to merge, in conjunction with its affiliated corporations, Consumers Pennsylvania Water Company – Shenango Valley Division, Consumers Pennsylvania Water Company – Roaring Creek Division, Consumers Pennsylvania Water Company – Susquehanna Division, Waymart Water Company, Fawn Lake Forrest Water Company, Western Utilities, Inc., and Northeastern Utilities, Inc. (such affiliates referred to hereinafter as the “Merging Entities”) with and into the Company; and

WHEREAS, pursuant to the Thirty-Fifth Supplemental Indenture dated as of January 1, 2002 (the “Thirty-Fifth Supplemental Indenture”), the Company agreed to assume the obligations of the Original Company under the Original Indenture and all supplements thereto; and

WHEREAS, the Company and its predecessor have issued under the Original Indenture, as supplemented at the respective dates of issue, fifty-four series of First Mortgage Bonds designated, respectively, as set forth in the following table, the Original or Supplemental Indenture creating each series and the principal amount of bonds thereof issued being indicated opposite the designation of such series:

<u>Designation</u>	<u>Indenture</u>	<u>Amount</u>
3 1/4% Series due 1971	Original	\$ 16,375,000
9 5/8% Series due 1975	Thirteenth Supplemental	10,000,000
9.15% Series due 1977	Fourteenth Supplemental	10,000,000
3% Series due 1978	First Supplemental	2,000,000
3 3/8% Series due 1982	Second Supplemental	4,000,000
3.90% Series due 1983	Third Supplemental	5,000,000
3 1/2% Series due 1986	Fourth Supplemental	6,000,000
4 1/2% Series due 1987	Fifth Supplemental	4,000,000
4 1/8% Series due 1988	Sixth Supplemental	4,000,000
5% Series due 1989	Seventh Supplemental	4,000,000
4 5/8% Series due 1991	Eighth Supplemental	3,000,000
4.70% Series due 1992	Ninth Supplemental	3,000,000
6 7/8% Series due 1993	Twelfth Supplemental	4,500,000
4.55% Series due 1994	Tenth Supplemental	4,000,000
10 1/8% Series due 1995	Sixteenth Supplemental	10,000,000
5 1/2% Series due 1996	Eleventh Supplemental	4,000,000
7 7/8% Series due 1997	Fifteenth Supplemental	5,000,000
8.44% Series due 1997	Twenty-Third Supplemental	12,000,000
9.20% Series due 2001	Seventeenth Supplemental	7,000,000
8.40% Series due 2002	Eighteenth Supplemental	10,000,000
5.95% Series due 2002	Twenty-Seventh Supplemental	4,000,000
12.45% Series due 2003	Twentieth Supplemental	10,000,000
13% Series due 2005	Twenty-First Supplemental	8,000,000
10.65% Series due 2006	Twenty-Second Supplemental	10,000,000
9.89% Series due 2008	Twenty-Fourth Supplemental	5,000,000
7.15% Series due 2008	Twenty-Eighth Supplemental	22,000,000
9.12% Series due 2010	Twenty-Fifth Supplemental	20,000,000
8 7/8% Series due 2010	Nineteenth Supplemental	8,000,000
6.50% Series due 2010	Twenty-Seventh Supplemental	3,200,000
9.17% Series due 2011	Twenty-Sixth Supplemental	5,000,000
9.93% Series due 2013	Twenty-Fourth Supplemental	5,000,000
9.97% Series due 2018	Twenty-Fourth Supplemental	5,000,000
9.17% Series due 2021	Twenty-Sixth Supplemental	8,000,000
9.29% Series due 2026	Twenty-Sixth Supplemental	12,000,000
1995 Medium Term Note Series	Twenty-Ninth Supplemental	77,000,000
6.35% Series due 2025	Thirtieth Supplemental	22,000,000
1997 Medium Term Note Series	Thirty-First Supplemental	65,000,000
6.75% Subseries A due 2007	10,000,000	
6.30% Subseries B due 2002	10,000,000	
6.14% Subseries C due 2008	10,000,000	
5.80% Subseries D due 2003	10,000,000	
5.85% Subseries E due 2004	10,000,000	
6.00% Subseries F due 2004	15,000,000	
6.00% Series due 2029	Thirty-Second Supplemental	25,000,000

Designation	Indenture	Amount
1999 Medium Term Note Series	Thirty-Third Supplemental	222,334,480
7.40% Subseries A due 2005	15,000,000	
7.40% Subseries B due 2005	11,000,000	
6.21% Subseries C due 2011	15,000,000	
9.53% Subseries D due 2019	4,000,000	
6.375% Subseries E due 2023	14,000,000	
8.26% Subseries F due 2022	1,500,000	
9.50% Subseries G due 2006	1,440,000	
9.22% Subseries H due 2019	2,534,480	
8.32% Subseries I due 2022	3,500,000	
8.14% Subseries J due 2025	4,000,000	
6.00% Subseries K due 2030	18,360,000	
5.93% Subseries L due 2012	25,000,000	
2.65% Subseries M due 2006	5,000,000	
3.461% Subseries N due 2007	12,000,000	
5.08% Subseries O due 2015	20,000,000	
5.17% Subseries P due 2017	7,000,000	
5.751% Subseries Q due 2019	15,000,000	
5.751% Subseries R due 2019	5,000,000	
6.06% Subseries S due 2027	15,000,000	
6.06% Subseries T due 2027	5,000,000	
5.98% Subseries U due 2028	3,000,000	
5.35% Series due 2031	Thirty-Fourth Supplemental	30,000,000
5.55% Series due 2032	Thirty-Sixth Supplemental	25,000,000
3.75% Series due 2010	Thirty-Seventh Supplemental	3,200,000
5.15% Series due 2032	Thirty-Seventh Supplemental	25,000,000
5.05% Series due 2039	Thirty-Eighth Supplemental	14,000,000
5.00% Series due 2036	Thirty-Ninth Supplemental	21,770,000
5.00% Series due 2037	Thirty-Ninth Supplemental	24,165,000
5.00% Series due 2038	Thirty-Ninth Supplemental	25,375,000
5.00% Series due 2035	Fortieth Supplemental	24,675,000
5.00% Series due 2040	Forty-first Supplemental	23,915,000
5.00% Series due 2041	Forty-first Supplemental	23,915,000
5.25% Series due 2042	Forty-second Supplemental	24,830,000
5.25% Series due 2043	Forty-second Supplemental	24,830,000
6.25% Series due 2017	Forty-third Supplemental	9,000,000
6.75% Series due 2018	Forty-third Supplemental	13,000,000
5.00% Series due 2039	Forty-fourth Supplemental	58,000,000

WHEREAS, the bonds of each of said series that are presently outstanding are listed on Exhibit A attached hereto and made a part hereof; and

WHEREAS, in order to secure the lien of the Original Indenture on the properties of the Original Company and the Company, the Original Indenture and the first forty-four supplemental indentures supplemental to the Original Indenture were duly recorded in the Commonwealth of Pennsylvania on the dates and in the office for the Recording of Deeds for the counties and in the Mortgage Books at the pages indicated in Exhibit B hereto; and

WHEREAS, the lien of the Original Indenture, as supplemented, has been perfected as a security interest under the Pennsylvania Uniform Commercial Code by filing a financing statement in the office of the Secretary of the Commonwealth; and

WHEREAS, the Company proposes to create under the Original Indenture, as supplemented by this Forty-fifth Supplemental Indenture, two series of bonds to be designated “First Mortgage Bonds, 5.00% Series due 2040” (herein referred to as the “5.00% Series due 2040”) to be limited in aggregate principal amount to \$62,165,000 to bear interest at the rate of 5.00% per annum, and to mature on November 15, 2040, and “First Mortgage Bonds, 4.75% Series due 2040” (herein referred to as the “4.75% Series due 2040”) and, together with the 5.00% Series due 2040, the “Bonds”) to be limited in aggregate principal amount to \$12,520,000 to bear interest at the rate of 4.75% per annum, and to mature on November 15, 2040, each such series to be issued only as registered bonds without coupons and to be dated the date of delivery thereof; and

WHEREAS, in order to finance the costs of numerous acquisitions, constructions, modifications, expansions, installations and replacements of the Company’s water distribution, treatment and related operating systems located in the Counties of Montgomery, Bucks, Chester, Delaware and Mercer in Pennsylvania and that are part of the Company’s system for the distribution of water to its customers and related financing costs, which are to be financed under a Financing Agreement dated as of October 15, 2009 (the “Financing Agreement”) between the Company and the Pennsylvania Economic Development Financing Authority, a Pennsylvania body politic and corporate (the “Authority”), and which are described in Exhibit A thereto (which facilities, less any deletions therefrom and together with any additions, improvements and modifications thereto and substitutions therefore made in accordance with the provisions of the Financing Agreement are referred to as the “Facilities”), the Company has requested the Authority to issue a new series of bonds to be known as the Authority’s Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series B of 2009 the aggregate principal amount of \$74,685,000 (the “Authority Bonds”), consisting of two term bonds as follows: \$62,165,000 principal amount maturing November 15, 2040 and bearing interest at the rate of 5.00% per annum (the “5.00% Authority Bonds”) and \$12,520,000 principal amount maturing November 15, 2040 and bearing interest at the rate of 4.75% per annum (the “4.75% Authority Bonds”); and

WHEREAS, the Company proposes to issue the Bonds under the provisions of Article IV of the Original Indenture, and will comply with the provisions thereof as well as with other provisions of the Original Indenture and indentures supplemental thereto in connection with the issuance of additional bonds so that it will be entitled to procure the authentication and delivery of the Bonds; and

WHEREAS, the Authority Bonds are to be issued under a Trust Indenture, dated as of October 15, 2009 (the “Authority Indenture”), between the Authority and U.S. Bank National Association, as trustee (the “Authority Trustee”); and

WHEREAS, the proceeds of the Authority Bonds are to be loaned to the Company pursuant to the terms of the Financing Agreement and the Bonds are to be issued by the Company to secure the obligation of the Company to pay to or for the account of the Authority an amount equal to the principal of, redemption premium, if any, and interest on the Authority Bonds pursuant to the Financing Agreement; and

WHEREAS, the right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments are to be assigned by the Authority to the Authority Trustee, and the Bonds are to be delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee of the Authority, as security for the payment of the principal of, redemption premium, if any, and interest on, the Authority Bonds; and

WHEREAS, Article XVIII of the Original Indenture provides that the Company, when authorized by resolution of its Board of Directors, may with the Trustee enter into an indenture supplemental to the Original Indenture, which thereafter shall form a part of the Original Indenture, for the purposes, inter alia, of subjecting to the lien of the Original Indenture additional property, of defining the covenants and provisions applicable to any bonds of any series other than the 3 1/4% Series due 1971, of adding to the covenants and agreements of the Company contained in the Original Indenture other covenants and agreements thereafter to be observed by the Company, of surrendering any right or power in the Original Indenture reserved to or conferred upon the Company, and of making such provisions in regard to matters or questions arising under the Original Indenture as may be necessary or desirable and not inconsistent therewith; and

WHEREAS, the Company, by proper corporate action, has duly authorized the creation of the 5.00% Series due 2040 and the 4.75% Series due 2040 (to be issued in accordance with the terms and provisions of the Original Indenture and indentures supplemental thereto, including this Forty-fifth Supplemental Indenture, and to be secured by said Original Indenture and indentures supplemental thereto, including this Forty-fifth Supplemental Indenture) and has further duly authorized the execution, delivery and recording of this Forty-fifth Supplemental Indenture setting forth the terms and provisions of the 5.00 % Series due 2040 and the 4.75% Series due 2040 insofar as said terms and provisions are not set forth in said Original Indenture; and

WHEREAS, the Bonds and the Trustee's certificate upon said Bonds are to be substantially in the following form, the proper amount, names of registered owners and numbers to be inserted therein, and such appropriate insertions, omissions and changes to be made therein as may be required or permitted by this Indenture to conform to any pertinent law or usage:

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 5.00% Series due 2040

Aqua Pennsylvania, Inc. (f/k/a known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the "Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to Pennsylvania Economic Development Financing Authority or its registered assigns, on the 15th day of November, 2040, at the designated office of The Bank of New York Mellon Trust Company, N. A. (hereinafter called the "Trustee") in Philadelphia, Pennsylvania, the sum of Sixty-two Million One Hundred Sixty-Five Thousand Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by draft or check of the Trustee mailed to such registered owner from the interest payment date next preceding the date of the authentication of this Bond (or if this Bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this Bond is authenticated on or prior to May 15, 2010 from the date hereof) until the principal hereof shall become due and payable, at the rate of 5.00% per annum, payable semiannually in like coin or currency on the fifteenth day of May and the fifteenth day of November in each year, commencing May 15, 2010 and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of 5.00% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Forty-fifth Supplemental Indenture referred to herein) be calculated on the basis of a 360-day year of twelve 30-day months and be paid to the person in whose name this Bond (or a Bond or Bonds in exchange for which this Bond was issued) is registered at the close of business on the first day of the calendar month in which the interest payment date occurs whether or not such day is a business day (a "Record Date") and principal, premium, if any, and interest on this Bond shall be paid in accordance with written payment instructions of the registered owner delivered to the Trustee on or before such record date.

This Bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by an Indenture of Mortgage (herein called the "Indenture") dated as of January 1, 1941, executed by the Philadelphia Suburban Water Company (now Aqua Pennsylvania, Inc., f/k/a Pennsylvania Suburban Water Company, as successor by merger) to The Pennsylvania Company for Insurances on Lives and Granting Annuities (succeeded as trustee by The Bank of New York Mellon Trust Company, N.A.), as Trustee (the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this Bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and premium, if any, and interest on this Bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This Bond is one of the Bonds described in an indenture supplemental to said Indenture known as the "Forty-fifth Supplemental Indenture" dated as of October 15, 2009, and designated therein as "First Mortgage Bonds, 5.00% Series due 2040" (the "Bonds").

Concurrently herewith the Company is issuing its "First Mortgage Bonds, 4.75% Series due 2040" in the aggregate principal amount of \$12,520,000 (the "4.75% Series due 2040").

To the extent permitted by and as provided in the Indenture, modifications or alterations of the Indenture, or of any indenture supplemental thereto, and of the rights and obligations of the Company and of the holders and registered owners of bonds issued and to be issued thereunder may be made with the consent of the Company by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds then outstanding under the Indenture and entitled to vote, at a meeting of the bondholders called and held as provided in the Indenture, and, in case one or more but less than all of the series of bonds then outstanding under the Indenture are so affected, by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds of any series then outstanding under the Indenture and entitled to vote on and affected by such modification or alteration, or by the written consent of the holders and registered owners of such percentages of bonds; provided, however, that no such modification or alteration shall be made which shall reduce the percentage of bonds the consent of the holders or registered owners of which is required for any such modification or alteration or which shall affect the terms of payment of the principal of or interest on the bonds, or permit the creation by the Company of any lien prior to or on a parity with the lien of the Indenture with respect to any property subject to the lien of the Indenture as a first mortgage lien thereon, or which shall affect the rights of the holders or registered owners of less than all of the bonds of any series affected thereby.

The Bonds and the 4.75% Series due 2040 have been issued by the Company to secure the obligation of the Company to pay to or for the account of the Authority (defined below) an amount equal to the principal, premium, if any, of, and interest on, the Authority Bonds (defined below) pursuant to the Financing Agreement (the "Financing Agreement") dated as of October 15, 2009 between the Pennsylvania Economic Development Financing Authority, a Pennsylvania body politic and corporate (the "Authority"), and the Company, which Authority Bonds are being issued to finance the costs of numerous constructions, modifications, expansions, installations and replacements of the Company's water distribution, treatment and related operating systems located in the Counties of Montgomery, Bucks, Chester, Delaware and Mercer in Pennsylvania and that are part of the Company's system for the distribution of water to its customers and related financing costs which are to be financed under the Financing Agreement and which are described in Exhibit A thereto (which facilities, less any deletions therefrom and together with any additions, improvements and modifications thereto and substitutions therefor made in accordance with the provisions of the Financing Agreement are referred to as the "Facilities"). The Facilities are to be financed through the sale of the Authority's Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series B of 2009, in the aggregate principal amount of \$74,685,000, consisting of \$62,165,000 principal amount maturing November 15, 2040 and bearing interest at the rate of 5.00% per annum (the "5.00% Authority Bonds") and \$12,520,000 principal amount maturing November 15, 2040 and bearing interest at the rate of 4.75% per annum (the "4.75% Authority Bonds" and, together with the 5.00% Authority Bonds, the "Authority Bonds").

The Authority Bonds are to be issued under a Trust Indenture, dated as of October 15, 2009 (the "Authority Indenture") between the Authority and U.S. Bank National Association, as trustee (the "Authority Trustee"). The right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments have been assigned by the Authority to the Authority Trustee, and the Bonds have been delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee, as security for the payment of the principal of, and premium, if any, and interest on, the Authority Bonds. The Authority Trustee may not sell, assign or otherwise transfer the Bonds except for a transfer of the entire outstanding principal amount thereof to its successor as trustee under the Authority Indenture, which successor and each subsequent successor shall hold such Authority Bonds subject to the same restriction on transfer.

In the event any 5.00% Authority Bonds shall be purchased by the Company and cancelled pursuant to the Authority Indenture, Bonds corresponding in principal amount to the 5.00% Authority Bonds so purchased and cancelled shall be deemed to be paid in full, and in the event and to the extent the principal of, and premium, if any, or interest on, any 5.00% Authority Bonds is paid out of funds held by the Authority Trustee other than payments on Bonds, the corresponding payment of the principal of and premium, if any, or interest on, an aggregate principal amount of Bonds shall be deemed to have been satisfied.

In the event this Bond shall be deemed to have been paid in full, this Bond shall be surrendered to the Trustee for cancellation. In the event this Bond shall be deemed to have been paid in part, this Bond shall be presented to the Trustee for notation hereon of the payment of the portion of the principal hereof so deemed to have been paid.

The Bonds are redeemable only as follows:

(a) The Bonds are subject to redemption prior to maturity, at the option of the Company, on or after November 15, 2019 in whole or in part, at a redemption price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption.

(b) The Bonds are also subject to redemption at the direction of the Company, in whole, at any time prior to maturity, at a redemption price of 100% of the principal amount of the bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at any time the 5.00% Authority Bonds are subject to extraordinary optional redemption pursuant to Section 7.01(a)(ii) of the Authority Indenture.

(c) The Bonds are also subject to special mandatory redemption at the direction of the Company, in part, prior to maturity, at a redemption price of 100% of the principal amount of the bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at such time and in such amount as the 5.00% Authority Bonds are subject to special mandatory redemption pursuant to Section 7.01(a)(iii) of the Authority Indenture.

(d) The Bonds are also subject to mandatory redemption by the Company in whole if the Trustee shall receive a written demand from the Authority Trustee for redemption of all such Bonds held by the Authority Trustee stating that an "Event of Default" as defined in Section 9.01(a) of the Authority Indenture has occurred and is continuing and that payment of the principal of the Authority Bonds has been accelerated pursuant to Section 9.01(b) of the Authority Indenture, provided that at the time of notice of such redemption as provided in Section 2 of Article V of the Original Indenture (i) said written demand shall not have been withdrawn by the Authority Trustee, and (ii) no event of default under Section 1 of Article XI of the Original Indenture shall have occurred and be continuing.

If this Bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the date fixed for redemption.

The principal hereof may be declared or may become due prior to its maturity date on the conditions, in the manner and with the effect set forth in the Indenture upon the happening of an event of default, as in the Indenture provided; subject, however, to the right, under certain circumstances, of the registered owners of a majority in principal amount of Bonds outstanding to annul such declaration.

This Bond is transferable by the registered owner hereof in person or by attorney duly authorized in writing, on books of the Company to be kept for that purpose at the designated office of the Trustee in Philadelphia, Pennsylvania upon surrender hereof for cancellation at such office and upon presentation of a written instrument of transfer duly executed, and thereupon the Company shall issue in the name of the transferee or transferees, and the Trustee shall authenticate and deliver, a new Bond or Bonds in authorized denominations, of equal aggregate unpaid principal amount. Any such transfer or exchange shall be subject to the terms and conditions and to the payment of the charges specified in the Indenture.

The Company and the Trustee may deem and treat the registered owner of this Bond as the absolute owner hereof for the purpose of receiving payment of or on account of the principal hereof and the interest hereon, and for all other purposes, and shall not be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or interest on this Bond or for any claim based hereon or otherwise in respect hereof or of the Indenture or of any indenture supplemental thereto against any incorporator or any past, present or future stockholder, officer or director of the Company or of any predecessor or successor corporation, as such, either directly or through the Company or through any such predecessor or successor corporation or through any receiver or trustee in bankruptcy, by virtue of any constitutional provision, statute or rule of law or equity, or by the enforcement of any assessment or penalty or otherwise; all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released by every holder or registered owner hereof, as more fully provided in the Indenture.

This Bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until The Bank of New York Mellon Trust Company, N. A., as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

IN WITNESS WHEREOF, Aqua Pennsylvania, Inc. has caused this Bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this Bond to be dated _____, 2009.

Attest:

AQUA PENNSYLVANIA, INC.

(Assistant) Secretary

By: _____
Vice President

(Form of Trustee's Certificate)

This Bond is one of the Bonds, of the series designated therein, referred to in the within-mentioned Forty-fifth Supplemental Indenture.

THE BANK OF NEW YORK
MELLON TRUST COMPANY, N. A.,
as Trustee

By: _____
Authorized Signer

No. R-1

\$12,520,000

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 4.75% Series due 2040

Aqua Pennsylvania, Inc. (f/k/a known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the "Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to Pennsylvania Economic Development Financing Authority or its registered assigns, on the 15th day of November, 2040, at the designated office of The Bank of New York Mellon Trust Company, N. A. (hereinafter called the "Trustee") in Philadelphia, Pennsylvania, the sum of Twelve Million Five Hundred Twenty Thousand Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by draft or check of the Trustee mailed to such registered owner from the interest payment date next preceding the date of the authentication of this Bond (or if this Bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this Bond is authenticated on or prior to May 15, 2010 from the date hereof) until the principal hereof shall become due and payable, at the rate of 4.75% per annum, payable semiannually in like coin or currency on the fifteenth day of May and the fifteenth day of November in each year, commencing May 15, 2010 and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of 4.75% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Forty-fifth Supplemental Indenture referred to herein) be calculated on the basis of a 360-day year of twelve 30-day months and be paid to the person in whose name this Bond (or a Bond or Bonds in exchange for which this Bond was issued) is registered at the close of business on the first day of the calendar month in which the interest payment date occurs whether or not such day is a business day (a "Record Date") and principal, premium, if any, and interest on this Bond shall be paid in accordance with written payment instructions of the registered owner delivered to the Trustee on or before such record date.

This Bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by an Indenture of Mortgage (herein called the "Indenture") dated as of January 1, 1941, executed by the Philadelphia Suburban Water Company (now Aqua Pennsylvania, Inc., f/k/a Pennsylvania Suburban Water Company, as successor by merger) to The Pennsylvania Company for Insurances on Lives and Granting Annuities (succeeded as trustee by The Bank of New York Mellon Trust Company, N.A.), as Trustee (the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this Bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and premium, if any, and interest on this Bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This Bond is one of the Bonds described in an indenture supplemental to said Indenture known as the "Forty-fifth Supplemental Indenture" dated as of October 15, 2009, and designated therein as "First Mortgage Bonds, 4.75% Series due 2040" (the "Bonds").

Concurrently herewith the Company is issuing its "First Mortgage Bonds, 5.00% Series due 2040" in the aggregate principal amount of \$62,165,000 (the "5.00% Series due 2040").

To the extent permitted by and as provided in the Indenture, modifications or alterations of the Indenture, or of any indenture supplemental thereto, and of the rights and obligations of the Company and of the holders and registered owners of bonds issued and to be issued thereunder may be made with the consent of the Company by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds then outstanding under the Indenture and entitled to vote, at a meeting of the bondholders called and held as provided in the Indenture, and, in case one or more but less than all of the series of bonds then outstanding under the Indenture are so affected, by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds of any series then outstanding under the Indenture and entitled to vote on and affected by such modification or alteration, or by the written consent of the holders and registered owners of such percentages of bonds; provided, however, that no such modification or alteration shall be made which shall reduce the percentage of bonds the consent of the holders or registered owners of which is required for any such modification or alteration or which shall affect the terms of payment of the principal of or interest on the bonds, or permit the creation by the Company of any lien prior to or on a parity with the lien of the Indenture with respect to any property subject to the lien of the Indenture as a first mortgage lien thereon, or which shall affect the rights of the holders or registered owners of less than all of the bonds of any series affected thereby.

The Bonds have been issued by the Company to secure the obligation of the Company to pay to or for the account of the Authority (defined below) an amount equal to the principal, premium, if any, of, and interest on, the Authority Bonds (defined below) pursuant to the Financing Agreement (the "Financing Agreement") dated as of October 15, 2009 between the Pennsylvania Economic Development Financing Authority, a Pennsylvania body politic and corporate (the "Authority"), and the Company, which Authority Bonds are being issued to finance the costs of numerous constructions, modifications, expansions, installations and replacements of the Company's water distribution, treatment and related operating systems located in the Counties of Montgomery, Bucks, Chester, Delaware and Mercer in Pennsylvania and that are part of the Company's system for the distribution of water to its customers and related financing costs which are to be financed under the Financing Agreement and which are described in Exhibit A thereto (which facilities, less any deletions therefrom and together with any additions, improvements and modifications thereto and substitutions therefor made in accordance with the provisions of the Financing Agreement are referred to as the "Facilities"). The Facilities are to be financed through the sale of the Authority's Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series B of 2009, in the aggregate principal amount of \$74,685,000, consisting of \$62,165,000 principal amount maturing November 15, 2040 and bearing interest at the rate of 5.00% per annum (the "5.00% Authority Bonds") and \$12,520,000 principal amount maturing November 15, 2040 and bearing interest at the rate of 4.75% per annum (the "4.75% Authority Bonds" and, together with the 5.00% Authority Bonds, the "Authority Bonds").

The Authority Bonds are to be issued under a Trust Indenture, dated as of October 15, 2009 (the "Authority Indenture") between the Authority and U.S. Bank National Association, as trustee (the "Authority Trustee"). The right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments have been assigned by the Authority to the Authority Trustee, and the Bonds have been delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee, as security for the payment of the principal of, and premium, if any, and interest on, the Authority Bonds. The Authority Trustee may not sell, assign or otherwise transfer the Bonds except for a transfer of the entire outstanding principal amount thereof to its successor as trustee under the Authority Indenture, which successor and each subsequent successor shall hold such Authority Bonds subject to the same restriction on transfer.

In the event any 4.75% Authority Bonds shall be purchased by the Company and cancelled pursuant to the Authority Indenture, Bonds corresponding in principal amount to the 4.75% Authority Bonds so purchased and cancelled shall be deemed to be paid in full, and in the event and to the extent the principal of, and premium, if any, or interest on, any 4.75% Authority Bonds is paid out of funds held by the Authority Trustee other than payments on Bonds, the corresponding payment of the principal of and premium, if any, or interest on, an aggregate principal amount of Bonds shall be deemed to have been satisfied.

In the event this Bond shall be deemed to have been paid in full, this Bond shall be surrendered to the Trustee for cancellation. In the event this Bond shall be deemed to have been paid in part, this Bond shall be presented to the Trustee for notation hereon of the payment of the portion of the principal hereof so deemed to have been paid.

The Bonds are redeemable only as follows:

(e) The Bonds are subject to redemption prior to maturity, at the option of the Company, on or after November 15, 2019 in whole or in part, at a redemption price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption.

(f) The Bonds are also subject to redemption at the direction of the Company, in whole, at any time prior to maturity, at a redemption price of 100% of the principal amount of the bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at any time the 4.75% Authority Bonds are subject to extraordinary optional redemption pursuant to Section 7.01(a)(ii) of the Authority Indenture.

(g) The Bonds are also subject to special mandatory redemption at the direction of the Company, in part, prior to maturity, at a redemption price of 100% of the principal amount of the bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at such time and in such amount as the 4.75% Authority Bonds are subject to special mandatory redemption pursuant to Section 7.01(a)(iii) of the Authority Indenture.

(h) The Bonds are also subject to mandatory redemption by the Company in whole if the Trustee shall receive a written demand from the Authority Trustee for redemption of all such Bonds held by the Authority Trustee stating that an "Event of Default" as defined in Section 9.01(a) of the Authority Indenture has occurred and is continuing and that payment of the principal of the Authority Bonds has been accelerated pursuant to Section 9.01(b) of the Authority Indenture, provided that at the time of notice of such redemption as provided in Section 2 of Article V of the Original Indenture (i) said written demand shall not have been withdrawn by the Authority Trustee, and (ii) no event of default under Section 1 of Article XI of the Original Indenture shall have occurred and be continuing.

If this Bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the date fixed for redemption.

The principal hereof may be declared or may become due prior to its maturity date on the conditions, in the manner and with the effect set forth in the Indenture upon the happening of an event of default, as in the Indenture provided; subject, however, to the right, under certain circumstances, of the registered owners of a majority in principal amount of Bonds outstanding to annul such declaration.

This Bond is transferable by the registered owner hereof in person or by attorney duly authorized in writing, on books of the Company to be kept for that purpose at the designated office of the Trustee in Philadelphia, Pennsylvania upon surrender hereof for cancellation at such office and upon presentation of a written instrument of transfer duly executed, and thereupon the Company shall issue in the name of the transferee or transferees, and the Trustee shall authenticate and deliver, a new Bond or Bonds in authorized denominations, of equal aggregate unpaid principal amount. Any such transfer or exchange shall be subject to the terms and conditions and to the payment of the charges specified in the Indenture.

The Company and the Trustee may deem and treat the registered owner of this Bond as the absolute owner hereof for the purpose of receiving payment of or on account of the principal hereof and the interest hereon, and for all other purposes, and shall not be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or interest on this Bond or for any claim based hereon or otherwise in respect hereof or of the Indenture or of any indenture supplemental thereto against any incorporator or any past, present or future stockholder, officer or director of the Company or of any predecessor or successor corporation, as such, either directly or through the Company or through any such predecessor or successor corporation or through any receiver or trustee in bankruptcy, by virtue of any constitutional provision, statute or rule of law or equity, or by the enforcement of any assessment or penalty or otherwise; all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released by every holder or registered owner hereof, as more fully provided in the Indenture.

This Bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until The Bank of New York Mellon Trust Company, N. A., as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

IN WITNESS WHEREOF, Aqua Pennsylvania, Inc. has caused this Bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this Bond to be dated _____, 2009.

Attest:

AQUA PENNSYLVANIA, INC.

(Assistant) Secretary

By: _____
Vice President

(Form of Trustee's Certificate)

This Bond is one of the Bonds, of the series designated therein, referred to in the within-mentioned Forty-fifth Supplemental Indenture.

THE BANK OF NEW YORK
MELLON TRUST COMPANY, N. A.,
as Trustee

By: _____
Authorized Signer

and;

WHEREAS, all acts and things necessary to make the Bonds, when executed by the Company and authenticated and delivered by the Trustee as in this Forty-fifth Supplemental Indenture provided and issued by the Company, valid, binding and legal obligations of the Company, and this Forty-fifth Supplemental Indenture a valid and enforceable supplement to said Original Indenture, have been done, performed and fulfilled, and the execution of this Forty-fifth Supplemental Indenture has been in all respects duly authorized; and

NOW, THEREFORE, THIS FORTY-FIFTH SUPPLEMENTAL INDENTURE WITNESSETH: That, in order to secure the payment of the principal and interest of all bonds issued under the Original Indenture and all indentures supplemental thereto, according to their tenor and effect, and according to the terms of the Original Indenture and of any indenture supplemental thereto, and to secure the performance of the covenants and obligations in said bonds and in the Original Indenture and any indenture supplemental thereto respectively contained, and to provide for the proper issuing, conveying and confirming unto the Trustee, its successors in said trust and its and their assigns forever, upon the trusts and for the purposes expressed in the Original Indenture and in any indenture supplemental thereto, all and singular the estates, property and franchises of the Company thereby mortgaged or intended so to be, the Company, for and in consideration of the premises and of the sum of One Dollar (\$1.00) in hand paid by the Trustee to the Company upon the execution and delivery of this Forty-fifth Supplemental Indenture, receipt whereof is hereby acknowledged, and of other good and valuable consideration, and intending to be legally bound, has granted, bargained, sold, aliened, enfeoffed, released and confirmed and by these presents does grant, bargain, sell, alien, enfeoff, release and confirm unto The Bank of New York Mellon Trust Company, N. A., as Trustee, and to its successors in said trust and its and their assigns forever:

All and singular the premises, property, assets, rights and franchises of the Company, whether now or hereafter owned, constructed or acquired, of whatever character and wherever situated (except as herein expressly excepted), including among other things the following, but reference to or enumeration of any particular kinds, classes, or items of property shall not be deemed to exclude from the operation and effect of the Original Indenture or any indenture supplemental thereto any kind, class or item not so referred to or enumerated:

I.

REAL ESTATE AND WATER RIGHTS.

The real estate, if any, described in the deeds from the grantors named in Exhibit C hereto, dated and recorded as therein set forth, and any other real estate and water rights acquired since the date of the Forty-fourth Supplemental Indenture.

II.

BUILDINGS AND EQUIPMENT.

All mains, pipes, pipe lines, service pipes, buildings, improvements, standpipes, reservoirs, wells, flumes, sluices, canals, basins, cribs, machinery, conduits, hydrants, water works, plants and systems, tanks, shops, structures, purification systems, pumping stations, fixtures, engines, boilers, pumps, meters and equipment which are now owned or may hereafter be acquired by the Company (except as herein expressly excepted), including all improvements, additions and extensions appurtenant to any real or fixed property now or hereafter subject to the lien of the Original Indenture or any indenture supplemental thereto which are used or useful in connection with the business of the Company as a water company or as a water utility, whether any of the foregoing property is now owned or may hereafter be acquired by the Company.

It is hereby declared by the Company that all property of the kinds described in the next preceding paragraph, whether now owned or hereafter acquired, has been or is or will be owned or acquired with the intention of using the same in carrying on the business or branches of the business of the Company, and it is hereby declared that it is the intention of the Company that all thereof (except property hereinafter specifically excepted) shall be subject to the lien of the Original Indenture.

It is agreed by the Company that so far as may be permitted by law, tangible personal property now owned or hereafter acquired by the Company, except such as is hereafter expressly excepted from the lien hereof, shall be deemed to be and construed as fixtures and appurtenances to the real property of the Company.

III.

FRANCHISES AND RIGHTS OF WAY.

All the corporate and other franchises of the Company, all water and flowage rights, riparian rights, easements and rights of way, and all permits, licenses, rights, grants, privileges and immunities, and all renewals, extensions, additions or modifications of any of the foregoing, whether the same or any thereof, or any renewals, extensions, additions or modifications thereof, are now owned or may hereafter be acquired, owned, held, or enjoyed by the Company.

IV.

AFTER ACQUIRED PROPERTY.

All real and fixed property and all other property of the character hereinabove described which the Company may hereafter acquire.

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in any way appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders, tolls, rents, revenues, issues, income, product and profits thereof, and all the estate, right, title, interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid premises, property, rights and franchises and every part and parcel thereof.

EXCEPTING AND RESERVING, HOWEVER, certain premises, not used or useful in the supplying of water by the Company, expressly excepted and reserved from the lien of the Original Indenture and not subject to the terms thereof.

AND ALSO SAVING AND EXCEPTING from the property hereby mortgaged and pledged, all of the following property (whether now owned by the Company or hereafter acquired by it): All bills, notes and accounts receivable, cash on hand and in banks, contracts, choses in action and leases to others (as distinct from the property leased and without limiting any rights of the Trustee with respect thereto under any of the provisions of the Original Indenture or of any indenture supplemental thereto), all bonds, obligations, evidences of indebtedness, shares of stock and other securities, and certificates or evidences of interest therein, all automobiles, motor trucks, and other like automobile equipment and all furniture, and all equipment, materials, goods, merchandise and supplies acquired for the purpose of sale in the ordinary course of business or for consumption in the operation of any properties of the Company other than any of the foregoing which may be specifically transferred or assigned to or pledged or deposited with the Trustee hereunder or required by the provisions of the Original Indenture or any indenture supplemental thereto so to be; provided, however, that if, upon the happening of a completed default, as specified in Section 1 of Article XI of the Original Indenture, the Trustee or any receiver appointed hereunder shall enter upon and take possession of the mortgaged property, the Trustee or any such receiver may, to the extent permitted by law, at the same time likewise take possession of any and all of the property described in this paragraph then on hand and any and all other property of the Company then on hand, not described or referred to in the foregoing granting clauses, which is used or useful in connection with the business of the Company as a water company or as a water utility, and use and administer the same to the same extent as if such property were part of the mortgaged property, unless and until such completed default shall be remedied or waived and possession of the mortgaged property restored to the Company, its successors or assigns.

SUBJECT, HOWEVER, to the exceptions, reservations and matters hereinabove and in the Original Indenture recited, to releases executed since the date of the Original Indenture in accordance with the provisions thereof, to existing leases, to easements and rights of way for pole lines and electric transmission lines and other similar encumbrances and restrictions which the Company hereby certifies, in its judgment, do not impair the use of said property by the Company in its business, to liens existing on or claims against, and rights in and relating to, real estate acquired for right-of-way purposes, to taxes and assessments not delinquent, to alleys, streets and highways that may run across or encroach upon said lands, to liens, if any, incidental to construction, and to Permitted Liens, as defined in the Original Indenture; and, with respect to any property which the Company may hereafter acquire, to all terms, conditions, agreements, covenants, exceptions and reservations expressed or provided in such deeds and other instruments, respectively, under and by virtue of which the Company shall hereafter acquire the same and to any and all liens existing thereon at the time of such acquisition.

TO HAVE AND TO HOLD, all and singular the property, rights, privileges and franchises hereby conveyed, transferred or pledged or intended so to be unto the Trustee and its successors in the trust heretofore and hereby created, and its and their assigns forever.

IN TRUST NEVERTHELESS, for the equal pro rata benefit and security of each and every entity who may be or become the holders of bonds and coupons secured by the Original Indenture or by any indenture supplemental thereto, or both, without preference, priority or distinction as to lien or otherwise of any bond or coupon over or from any other bond or coupon, so that each and every of said bonds and coupons issued or to be issued, of whatsoever series, shall have the same right, lien and privilege under the Original Indenture and all indentures supplemental thereto and shall be equally secured hereby and thereby, with the same effect as if said bonds and coupons had all been made, issued and negotiated simultaneously on the date thereof; subject, however, to the provisions with reference to extended, transferred or pledged coupons and claims for interest contained in the Original Indenture and subject to any sinking or improvement fund or maintenance deposit provisions, or both, for the benefit of any particular series of bonds.

IT IS HEREBY COVENANTED, DECLARED AND AGREED, by and between the parties hereto, that all such bonds and coupons are to be authenticated, delivered and issued, and that all property subject or to become subject hereto is to be held subject to the further covenants, conditions, uses and trusts hereinafter set forth, and the Company, for itself and its successors and assigns, does hereby covenant and agree to and with the Trustee and its successor or successors in said trust, for the benefit of those who shall hold said bonds and coupons, or any of them, issued under this Indenture or any indenture supplemental hereto, or both, as follows:

ARTICLE I.
Form, Authentication and Delivery of the Bonds; Redemption Provisions

SECTION 1. There shall be a fifty-sixth series of bonds, limited in aggregate principal amount to \$62,165,000 designated as "Aqua Pennsylvania, Inc., First Mortgage Bonds, 5.00% Series due 2040" and a fifty-seventh series of bonds, limited in aggregate principal amount to \$12,520,000 designated as "Aqua Pennsylvania, Inc., First Mortgage Bonds, 4.75% Series due 2040.

Interest on the Bonds shall be payable semiannually on May 15 and November 15 of each year (each an "interest payment date"), commencing May 15, 2010. Each Bond shall be dated the date of its authentication and shall bear interest from the interest payment date next preceding the date of the authentication of such Bond (or if such Bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if such Bond is authenticated on or prior to the record date for the first interest payment date for the Bonds, in which case it shall bear interest from the date of original issuance of the Bonds); provided, however, that, if at the time of authentication of any Bond, interest on the predecessor Bond of such Bond is in default, such Bond shall bear interest from the date to which interest has been paid, or, if no interest has been paid, from the date of original issuance thereof. The 5.00% Series due 2040 shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on November 15, 2040 and shall bear interest at the rate of 5.00%. The 4.75% Series due 2040 shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on November 15, 2040 and shall bear interest at the rate of 4.75%. In any case where the date of payment of the principal or interest on the Bonds, or the date fixed for redemption of any Bond, is not a Business Day, then payment of the principal or Redemption Price of and interest on such Bond need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the due date of such payment or the date fixed for redemption, and no interest shall accrue for the period after such date.

The Bonds of each series shall be issuable only as registered bonds without coupons, shall be in the form hereinabove recited, in the denomination of Five Thousand Dollars (\$5,000) or any integral multiple thereof, shall be lettered "R-1" and shall bear such numbers as the Company may reasonably require.

The principal of, and interest on the Bonds shall be payable at the designated office of the trustee in Philadelphia, Pennsylvania, and shall be payable, along with interest on the Bonds, in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts; each installment of interest shall be paid by check to the order of the person entitled thereto, mailed to such person's address as the same appears on the books maintained for such purpose by or on behalf of the Company, or by bank wire transfer of immediately available funds pursuant to instructions and conditions incorporated in an agreement between such person and the Trustee or the Company.

The person in whose name any Bond is registered at the close of business on any Record Date (as hereinafter defined) with respect to any interest payment date shall be entitled to receive the interest payable on such interest payment date notwithstanding the cancellation of such Bond upon any transfer or exchange subsequent to the Record Date and prior to such interest payment date; provided, however, that if and to the extent the Company shall default in the payment of the interest due on such interest payment date, such defaulted interest shall be paid to the persons in whose names outstanding Bonds are registered at the close of business on a subsequent Record Date established by notice given by mail by or on behalf of the Company to the holders of Bonds not less than fifteen days preceding such subsequent Record Date, such Record Date to be not less than ten days preceding the date of payment of such defaulted interest. The term "Record Date" with respect to any regular interest payment date shall mean the first day of the calendar month in which such interest payment date occurs.

The Bonds are being issued by the Company to secure the obligation of the Company to pay to or for the account of the Authority an amount equal to the principal of, at maturity or earlier redemption, and interest on, the Authority Bonds pursuant to the Financing Agreement. The Authority Bonds are being sold to finance the Facilities.

The Authority Bonds are to be issued under the Authority Indenture and the right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments have been assigned by the Authority to the Authority Trustee, and the Bonds are to be delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee, as security for the payment of the principal of, at maturity or earlier redemption, and premium, if any, and interest on, the Authority Bonds. The Authority Trustee may not sell, assign or otherwise transfer the Bonds except for a transfer of the entire outstanding principal amount thereof to its successor as Trustee under the Authority Indenture, which successor and each subsequent successor shall hold the Bonds subject to the same restriction on transfer.

The text of the Bonds and of the certificate of the Trustee upon such Bonds shall be, respectively, substantially of the tenor and effect hereinbefore recited.

Exchange of any Bonds shall be effected in accordance with the applicable provisions of Sections 7, 8 and 9 of Article II of the Original Indenture.

SECTION 2. The Bonds are redeemable only as follows:

(a) The Bonds are subject to redemption prior to maturity on or after November 15, 2019 by the Company, to the extent that the Authority Bonds are called for redemption under Section 7.01(a)(i) of the Authority Indenture, and then out of moneys deposited with or held by the Trustee for such purpose, as a whole or in part, at any time in the manner described below, at the redemption price of one hundred percent (100%) of the principal amount to be redeemed, plus interest accrued thereon to the date fixed for redemption;

(b) The 5.00% Series due 2040 are subject to redemption at the direction of the Company, in whole, at any time prior to maturity, at a redemption price of 100% of the principal amount to be redeemed, plus interest accrued thereon to the date fixed for redemption, at any time the 5.00% Authority Bonds are subject to extraordinary optional redemption pursuant to Section 7.01(a)(ii) of the Authority Indenture;

(c) The 4.75% Series due 2040 are subject to redemption at the direction of the Company, in whole, at any time prior to maturity, at a redemption price of 100% of the principal amount to be redeemed, plus interest accrued thereon to the date fixed for redemption, at any time the 4.75% Authority Bonds are subject to extraordinary optional redemption pursuant to Section 7.01(a)(ii) of the Authority Indenture;

(d) The 5.00% Series due 2040 are also subject to special mandatory redemption at the direction of the Company, in part, prior to maturity, at a redemption price of 100% of the principal amount of the bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at such time and in such amount as the 5.00% Authority Bonds are subject to special mandatory redemption pursuant to Section 7.01(a)(iii) of the Authority Indenture.

(e) The 4.75% Series due 2040 are also subject to special mandatory redemption at the direction of the Company, in part, prior to maturity, at a redemption price of 100% of the principal amount of the bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at such time and in such amount as the 4.75% Authority Bonds are subject to special mandatory redemption pursuant to Section 7.01(a)(iii) of the Authority Indenture.

(f) The Bonds are also subject to mandatory redemption by the Company in whole if the Trustee shall receive a written demand from the Authority Trustee for redemption of all such Bonds held by the Authority Trustee stating that an "Event of Default" as defined in Section 9.01(a) of the Authority Indenture has occurred and is continuing and that payment of the principal of the Authority Bonds has been accelerated pursuant to Section 9.01(b) of the Authority Indenture, provided that at the time of notice of such redemption as provided in Section 2 of Article V of the Original Indenture (i) said written demand shall not have been withdrawn by the Authority Trustee, and (ii) no event of default under Section 1 of Article XI of the Original Indenture shall have occurred and be continuing.

SECTION 3. Any redemption of the Bonds shall be effected in accordance with the provisions of Article V of the Original Indenture.

SECTION 4. In the event any Authority Bonds shall be purchased by the Company, surrendered by the Company to the Authority Trustee for cancellation and cancelled by the Authority Trustee, Bonds corresponding in principal amount to the Authority Bonds so purchased, surrendered and cancelled shall be deemed to have been paid in full.

SECTION 5. In the event and to the extent the principal of and premium, if any, or interest on, any Authority Bonds is paid out of funds held by the Authority Trustee other than payments of Bonds, the corresponding payment of the principal of, and premium, if any, or interest on, an aggregate principal amount of Bonds equal to the aggregate principal amount of such Authority Bonds shall be deemed to have been satisfied.

SECTION 6. All Bonds deemed to have been paid in full as provided in Section 4 and 5 of this Article I of this Forty-fifth Supplemental Indenture shall be surrendered to the Trustee for cancellation, and the Trustee shall forthwith cancel the same and, in accordance with applicable laws and regulations and the Trustee's policies and procedures, and on the written request of the Company, deliver the same to the Company. In case part of an outstanding Bond shall be deemed to have been partially paid as provided in said Section 4 or Section 5, upon presentation of such Bond at the designated office of the Trustee, the Trustee shall make a notation thereon of the payment of the portion of the principal amount of such Bond so deemed to have been paid unless the registered owner shall elect to surrender such Bond to the Trustee, in which case the Company shall execute and the Trustee shall authenticate and deliver, without charge to the registered owner, Bonds in such authorized denominations as shall be specified by the registered owner for the unpaid balance of the principal amount of such outstanding Bond.

SECTION 7. The 5.00% Series due 2040 in the aggregate principal amount of \$62,165,000 and the 4.75% Series due 2040 in the aggregate principal amount of \$12,520,000 may be issued under the provisions of Article IV of the Original Indenture and may forthwith be executed by the Company and delivered to the Trustee and shall be authenticated by the Trustee and delivered to or upon the order of the Company, upon receipt by the Trustee of the resolutions, certificates, opinions or other instruments or all of the foregoing required to be delivered upon the issue of bonds pursuant to the provisions of the Original Indenture.

ARTICLE II.
Maintenance or Improvement Deposit.

SECTION 1. The Company covenants that it will deposit with the Trustee on or before the March 1 next occurring after the bonds of the bonds of the 9.93% Series due 2013 cease to be outstanding, or on or before the next March 1 next occurring after the bonds of the 9.97% Series due 2018 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.12% Series due 2010 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.29% Series due 2026 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.17% Series due 2021 cease to be outstanding, or on or before the next March 1 next occurring after the bonds of the 9.17% Series due 2011 cease to be outstanding, or on or before the March 1 next occurring after the bonds of any of the Subseries of the 1995 Medium Term Note Series issued under the Twenty-Ninth Supplemental Indenture (consisting of the 7.72% Subseries A due 2025 and the 6.89% Subseries C due 2015) shall cease to be outstanding, or on or before March 1 next occurring after the bonds of 6.00% Series due 2029 cease to be outstanding, or on or before March 1 next occurring after the bonds of any of the Subseries of the 1999 Medium Term Note Series issued under the Thirty-Third Supplemental Indenture (consisting of the 6.21% Series due 2011, the 9.53% Subseries D due 2019, the 8.26% Subseries F due 2022, the 8.32% Subseries I due 2022, the 8.14% Subseries J due 2025, the 6.00% Subseries K due 2030, the 5.93% Subseries L due 2012, the 5.08% Subseries O due 2015, the 5.17% Subseries P due 2017, the 5.751% Subseries Q due 2019, the 5.751% Subseries R due 2019, the 6.06% Subseries S due 2027, the 6.06% Subseries T due 2027 and the 5.98% Subseries U due 2028) cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.35% Series due 2031 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.55% Series due 2032 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 3.75% Series due 2010 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.15% Series due 2032 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.05% Series due 2039 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2036 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2037 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2038 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2035 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2040 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2041 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.25% Series due 2042 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.25% Series due 2043 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 6.25% Series due 2017 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 6.75% Series due 2018 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2039 cease to be outstanding, whichever is latest, an amount in cash (the "Maintenance or Improvement Deposit") equal to 9% of the Gross Operating Revenues of the Company during the preceding calendar year less, to the extent that the Company desires to take such credits, the following:

(a) the amount actually expended for maintenance during such calendar year; and

(b) the Cost or Fair Value, whichever is less, of Permanent Additions acquired during such calendar year which at the time of taking such credit constitute Available Permanent Additions; and

(c) the unapplied balance, or any part thereof, of the Cost or Fair Value, whichever is less, of Available Permanent Additions acquired by the Company during the five calendar years preceding such calendar year and specified in the Officers' Certificates delivered to the Trustee pursuant to Section 2 of this Article, but only to the extent that the Permanent Additions with respect to which such Cost or Fair Value was determined shall at the time of taking such credit constitute Available Permanent Additions.

SECTION 2. The Company covenants that it will on or before March 1 in each year, beginning with the first deposit made with the Trustee under the provisions of Section 1 of this Article, as long as any of the Bonds are outstanding, deliver to the Trustee the following:

(a) An Officers' Certificate, which shall state:

(i) The amount of the Gross Operating Revenues for the preceding calendar year;

(ii) 9% of such Gross Operating Revenues;

(iii) The amount actually expended by the Company for maintenance during such calendar year;

(iv) The amount set forth in subparagraph (xii) of each Officers' Certificate delivered to the Trustee pursuant to the provisions of this Section during the preceding five calendar years (specifying each such Officers' Certificate), after deducting from each such amount the aggregate of (a) the Cost or Fair Value, whichever is less, of all Permanent Additions represented by such amount which have ceased to be Available Permanent Additions; and (b) any part of such amount for which the Company has previously taken credit against any Maintenance or Improvement Deposit (specifying the Officers' Certificate in which such credit was taken); and (c) any part of such amount for which the Company then desires to take credit against the Maintenance or Improvement Deposit;

(v) An amount which shall be the aggregate of all amounts set forth pursuant to the provisions of clause (c) of the foregoing subparagraph (iv);

(vi) The Cost or Fair Value, whichever is less, of Available Permanent Additions acquired by the Company during the preceding calendar year;

(vii) That part of the amount set forth in subparagraph (vi) which the Company desires to use as a credit against the Maintenance or Improvement Deposit;

(viii) The amount of cash payable to the Trustee under the provisions of Section 1 of this Article, which shall be the amount by which the amount set forth in subparagraph (ii) hereof exceeds the sum of the amounts set forth in subparagraphs (iii), (v) and (vii) hereof;

(ix) The sum of all amounts charged on the books of the Company against any reserve for retirement or depreciation during the preceding calendar year representing the aggregate of the Cost when acquired of any part of the Company's plants and property of the character described in the granting clauses hereof which has been permanently retired or abandoned;

(x) The aggregate of the amounts set forth in subparagraphs (v) and (vii) hereof;

(xi) The amount by which the amount set forth in subparagraph (x) exceeds the amount set forth in subparagraph (ix), being the amount required to be deducted from the Cost or Fair Value of Available Permanent Additions in order to determine a Net Amount of Available Permanent Additions pursuant to the provisions of Section 9 of Article I of the Original Indenture;

(xii) The amount set forth in subparagraph (vi) after deducting the amount, if any, set forth in subparagraph (vii); and

(xiii) That all conditions precedent to the taking of the credit or credits so requested by the Company have been complied with.

(b) In the event that the Officers' Certificate delivered to the Trustee pursuant to the provisions of paragraph (a) of this Section shall state, pursuant to the requirements of subparagraph (vi), the Cost or Fair Value of Available Permanent Additions acquired by the Company during the preceding calendar year, the documents specified in paragraphs 2, 3, 5, 6 and 7 of subdivision (B) of Section 3 of Article IV of the Original Indenture.

(c) An amount in cash equal to the sum set forth in subparagraph (viii) of the Officers' Certificate provided for in paragraph (a) hereof.

SECTION 3. All cash deposited with the Trustee as part of any Maintenance or Improvement Deposit provided for in Section 1 of this Article, may, at the option of the Company, be applied to the purchase of bonds under the provisions of Section 2 of Article X of the Original Indenture or to the redemption of bonds under the provisions of Section 3 of Article X of the Original Indenture or may be withdrawn by the Company at any time to reimburse the Company for the cost of a Net Amount of Available Permanent Additions (excluding, however, from any such Available Permanent Additions all Permanent Additions included in any certificate delivered to the Trustee for the purpose of obtaining a credit against any Maintenance or Improvement Deposit provided for in Section 1 of this Article to the extent that such Permanent Additions have been used for any such credit). The Trustee shall pay to or upon the written order of the Company all or any part of such cash upon the receipt by the Trustee of:

(a) A Resolution requesting such payment; and

(b) The documents specified in paragraphs 2, 5, 6 and 7 of subdivision (B) of Section 3 of Article IV of the Original Indenture, with such modifications, additions and omissions as may be appropriate in the light of the purposes for which they are used.

ARTICLE III.
Covenants of the Company.

SECTION 1. The Company hereby covenants and agrees with the Trustee, for the benefit of the Trustee and all the present and future holders of the Bonds, that the Company will pay the principal of, and premium, if any, and interest on, all bonds issued or to be issued as aforesaid under and secured by the Original Indenture as hereby supplemented, as well as all bonds which may be hereafter issued in exchange or substitution therefor, and will perform and fulfill all of the terms, covenants and conditions of the Original Indenture and of this Forty-fifth Supplemental Indenture with respect to the additional bonds to be issued under the Original Indenture as hereby supplemented.

SECTION 2. The Company covenants and agrees that so long as any of the Bonds are outstanding (a) the Company will not make any Stock Payment if, after giving effect thereto, its retained earnings, computed in accordance with generally accepted accounting principles consistently applied, will be less than the sum of (i) Excluded Earnings, if any, since December 31, 2008, and (ii) \$20,000,000; (b) Stock Payments made more than 40 days after the commencement, and prior to the expiration, of any Restricted Period shall not exceed 65% of the Company's Net Income during such Restricted Period; and (c) the Company will not authorize a Stock Payment if there has occurred and is continuing an event of default under subsections (a) and (b) of Section 1 of Article XI of the Original Indenture.

For the purposes of this Section 2 the following terms shall have the following meanings:

"Capitalization" shall mean the sum of (i) the aggregate principal amount of all Debt at the time outstanding, (ii) the aggregate par or stated value of all capital stock of the Company of all classes at the time outstanding, (iii) premium on capital stock, (iv) capital surplus, and (v) retained earnings.

"Debt" means (i) all indebtedness, whether or not represented by bonds, debentures, notes or other securities, for the repayment of money borrowed, (ii) all deferred indebtedness for the payment of the purchase price of property or assets purchased (but Debt shall not be deemed to include customer advances for construction or any bonds issued under the Indenture which are not Outstanding Bonds), (iii) leases which have been or, in accordance with generally accepted accounting principles, should be recorded as capital leases and (iv) guarantees of the obligations of another of the nature described in clauses (i), (ii) or (iii) which have been or, in accordance with generally accepted accounting principles, should be recorded as debt.

"Determination Date" shall mean the last day of each calendar quarter. Any calculation with respect to any Determination Date shall be based on the Company's balance sheet as of such date.

"Excluded Earnings" shall mean 35% of the Company's Net Income during any Restricted Period.

"Net Income" for any particular Restricted Period shall mean the amount of net income properly attributable to the conduct of the business of the Company for such period, as determined in accordance with generally accepted accounting principles consistently applied, after payment of or provision for taxes on income for such period.

“Outstanding Bonds” shall mean bonds which are outstanding within the meaning indicated in Section 20 of Article I of the Original Indenture except that, in addition to the bonds referred to in clauses (a), (b) and (c) of said Section 20, said term shall not include bonds for the retirement of which sufficient funds have been deposited with the Trustee with irrevocable instructions to apply such funds to the retirement of such bonds at a specified time, which may be either the maturity thereof or a specified redemption date, whether or not notice of redemption shall have been given.

“Restricted Period” shall mean a period commencing on any Determination Date on which the total Debt of the Company is, or as the result of any Stock Payment then declared or set aside and to be made thereafter will be, more than 70% of Capitalization, and continuing until the third consecutive Determination Date on which the total Debt of the Company does not exceed 70% of Capitalization.

“Stock Payment” shall mean any payment in cash or property (other than stock of the Company) to any holder of shares of any class of capital stock of the Company as such holder, whether by dividend or upon the purchase, redemption, conversion or other acquisition of such shares, or otherwise.

SECTION 3. The Company covenants and agrees that so long as any of the Bonds are outstanding, neither the Company nor any subsidiary of the Company will, directly or indirectly, lend or in any manner extend its credit to, or indemnify, or make any donation or capital contribution to, or purchase any security of, any corporation which directly or indirectly controls the Company, or any subsidiary or affiliate (other than an affiliate which is a subsidiary of the Company) of any such corporation.

ARTICLE IV.
The Trustee.

SECTION 1. The Trustee hereby accepts the trust hereby declared and provided, and agrees to perform the same upon the terms and conditions in the Original Indenture, as supplemented by this Forty-fifth Supplemental Indenture.

SECTION 2. Subject to the provisions of Article XIII of the Original Indenture, the Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through and consult with attorneys, agents, officers or employees selected by the Trustee in its sole discretion. The Trustee shall be entitled to advice of counsel concerning all matters of trusts hereof and the duties hereunder and may in all cases pay such reasonable compensation to all such attorneys, agents, officers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act or refrain from acting and rely upon and be free from all liability for so relying upon the opinion or advice of any attorney (who may be the attorney or attorneys for the Company). The Trustee may act and rely on written opinions of experts employed by the Trustee and such advice shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by the Trustee hereunder in good faith and in reliance thereon. The Trustee shall not be responsible for any loss or damage resulting from any action or non-action in good faith taken in reliance upon such opinion or advice. The Trustee shall not be bound to confirm, verify or make any investigation into the facts or matters stated in any financial or other statements, resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order or other paper or document furnished pursuant to the terms hereof.

SECTION 3. Before the Trustee shall be required to foreclose on, or to take control or possession of, the real property or leasehold interest (the "Premises") which may be the subject of any mortgage or mortgages for which the Trustee is mortgagee in connection with the issuance of the Bonds, the Trustee shall be indemnified and held harmless by the holders and/or beneficial owners of the Bonds from and against any and all expense, loss, or liability that may be suffered by the Trustee in connection with any spill, leak or release which may have occurred on or invaded the Premises or any contamination by any Hazardous Substance (hereinafter defined), whether caused by the Company or any other person or entity, including, but not limited to, (1) any and all reasonable expenses that the Trustee may incur in complying with any of the Environmental Statutes (hereinafter defined), (2) any and all reasonable costs that the Trustee may incur in studying or remedying any spill, leak or release which may have occurred on or invaded the Premises or any contamination, (3) any and all fines or penalties assessed upon the Trustee by reason of such contamination, (4) any and all loss of value of the Premises or the improvements thereon by reason of such contamination, and (5) any and all legal fees and costs reasonably incurred by the Trustee in connection with any of the foregoing. As used in this Section, contamination by any Hazardous Substance shall include contamination, arising from the presence, creation, production, collection, treatment, disposal, discharge, release, storage, transport or transfer of any Hazardous Substance at or from the Premises or any improvements thereon. As used in this Section, the term "Hazardous Substance" shall mean petroleum hydrocarbons or any substance which (a) constitutes a hazardous waste or substance under any applicable federal, state or local law, rule, order or regulation now or hereafter adopted; (b) constitutes a "hazardous substance" as such term is defined under the Comprehensive Environmental Response, Compensation and Liability Act, as amended (42 U.S.C. §9601 et seq.) and the regulations issued thereunder and any comparable state or local law or regulation; (c) constitutes a "hazardous waste" under the Resource Conservation and Recovery Act, (42 U.S.C. §6991) and the regulations issued thereunder and any comparable state or local law or regulation; (d) constitutes a pollutant, contaminant, chemical or industrial, toxic or hazardous substance or waste as such terms are defined under Federal Clean Water Act, as amended (33 U.S.C. §1251 et seq.), the Toxic Substances Control Act, as amended (15 U.S.C. §2601 et seq.), or any comparable state or local laws or regulations; (e) exhibits any of the characteristics enumerated in 40 C.F.R. Sections 261.20 – 261.24, inclusive; (f) those extremely hazardous substances listed in Section 302 of the Superfund Amendments and Reauthorization Act of 1986 (Public Law 99-499, 100 Stat. 1613) which are present in threshold planning or reportable quantities as defined under such act; (g) toxic or hazardous chemical substances which are present in quantities which exceed exposure standards as those terms are defined under Sections 6 and 8 of the Occupational Safety and Health Act, as amended (29 U.S.C. §§655 and 657 and 29 C.F.R. Part 1910, subpart 2); and (h) any asbestos, petroleum-based products or any Hazardous Substance contained within or release from any underground or aboveground storage tanks. As used in this Section, the term "Environmental Statutes" shall mean the statutes, laws, rules, orders and regulations referred to in (a) through (g) inclusive in the preceding sentence.

ARTICLE V.
Miscellaneous.

SECTION 1. This instrument is executed and shall be construed as an indenture supplemental to the Original Indenture, and shall form a part thereof, and except as hereby supplemented, the Original Indenture and the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth, Eighteenth, Nineteenth, Twentieth, Twenty-First, Twenty-Second, Twenty-Third, Twenty-Fourth, Twenty-Fifth, Twenty-Sixth, Twenty-Seventh, Twenty-Eighth, Twenty-Ninth, Thirtieth, Thirty-First, Thirty-Second, Thirty-Third, Thirty-Fourth, Thirty-Fifth, Thirty-Sixth, Thirty-Seventh, Thirty-Eighth, Thirty-Ninth, Fortieth, Forty-first, Forty-second, Forty-third and Forty-fourth Supplemental Indentures are hereby confirmed. All references in this Forty-fifth Supplemental Indenture to the Original Indenture shall be deemed to refer to the Original Indenture as heretofore amended and supplemented, and all terms used herein and not specifically defined herein shall be taken to have the same meaning as in the Original Indenture, as so amended, except in the cases where the context clearly indicates otherwise.

SECTION 2. Any notices to the Trustee under this Forty-fifth Supplemental Indenture shall be delivered to the Trustee by registered or certified mail, hand delivery or other courier or express delivery service (with receipt confirmed) or by telecopy (with receipt confirmed) at the following address:

The Bank of New York Mellon Trust Company, N. A.
Global Corporate Trust
1600 Market Street, Suite 1500
Philadelphia, PA 19103
Attention: Philip Newmuis
Phone: 215-640-8455
Fax: 215-9981-0316/0352

Any change in such address or telecopy number may be made by notice to the Company delivered in the manner set forth above.

SECTION 3. All recitals in this Forty-fifth Supplemental Indenture are made by the Company only and not by the Trustee; and all of the provisions contained in the Original Indenture in respect of the rights, privileges, immunities, powers and duties of the Trustee shall be applicable in respect hereof as fully and with like effect as if set forth herein in full.

SECTION 4. Although this Forty-fifth Supplemental Indenture is dated as of October 15, 2009 for convenience and for the purpose of reference, the actual date or dates of execution hereof by the Company and the Trustee are as indicated by their respective acknowledgments annexed hereto.

SECTION 5. In order to facilitate the recording or filing of this Forty-fifth Supplemental Indenture, the same may be simultaneously executed in several counterparts, each of which shall be deemed to be an original and such counterparts shall together constitute but one and the same instrument.

SECTION 6. This Forty-fifth Supplemental Indenture shall become effective upon delivery to the Trustee by the Company of the certificates required by Articles IV, VI and VII of the Original Indenture, which shall occur concurrently with the issuance of the 5.00% Series due 2040 and the 4.75% Series due 2040 on November 17, 2009.

IN WITNESS WHEREOF the parties hereto have caused their corporate seals to be hereunto affixed and their authorized officers have hereto affixed their signatures, and their authorized officers have duly attested the execution hereof, as of the day first above written.

[CORPORATE SEAL]

AQUA PENNSYLVANIA, INC.,
as successor by merger to
Philadelphia Suburban Water Company

Attest: Maria Gordiany

By: /s/ Stephen F. Anzaldo
Treasurer

[CORPORATE SEAL]

THE BANK OF NEW YORK
MELLON TRUST COMPANY, N. A.,
as Trustee

Attest: Noreen Wichert
Authorized Officer

By: /s/ Philip Newmuis
Name: Philip Newmuis
Title: Authorized Signer

The Bank of New York Mellon Trust Company, N. A., Mortgagee and Trustee named in the foregoing Forty-fifth Supplemental Indenture, hereby certifies that its precise name and the post office address are as follows:

The Bank of New York Mellon Trust Company, N. A.
Global Corporate Trust
1600 Market Street, Suite 1500
Philadelphia, PA 19103
Attention: Philip Newmuis
Telephone: 215-640-8455
Fax: 215-981-0316/0352

THE BANK OF NEW YORK
MELLON TRUST COMPANY, N. A.,
as Trustee

By: /s/ Philip Newmuis _____
Name: Philip Newmuis
Title: Authorized Signer

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF MONTGOMERY

On the 23 day of October, 2009 before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared Stephen Anzaldo, who acknowledged himself to be the Treasurer of Aqua Pennsylvania, Inc., a corporation, and that he as such Treasurer, being authorized to do so, executed the foregoing Forty-fifth Supplemental Indenture as and for the act and deed of said corporation and for the uses and purposes therein mentioned, by signing the name of the corporation by himself as such officer.

In Witness Whereof I hereunto set my hand and official seal.

[NOTARIAL SEAL]

Lisa S. Piotrowski

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF PHILADELPHIA

On the 22 day of October, 2009 before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared Philip Newmuis, who acknowledged himself to be an Authorized Signer of The Bank of New York Mellon Trust Company, N.A., a national banking association, and that he as such Authorized Signer, being authorized to do so, executed the foregoing Forty-fifth Supplemental Indenture as and for the act and deed of said national banking association and for the uses and purposes therein mentioned by signing the name of said national banking association by himself as such officer.

In Witness Whereof I hereunto set my hand and official seal.

[NOTARIAL SEAL]

Sandra M. Abrahams

**EXHIBIT A
OUTSTANDING FIRST MORTGAGE BONDS**

Division	Structure	Interest Rate	Issue Date	Maturity Date	Original Amount	Balance (incl. CP) @ 00/30/09
Aqua Pa	Tax Exempt	5.35%	11/01/01	10/01/31	30,000,000	30,000,000
Aqua Pa	Tax Exempt	5.55%	06/01/02	09/01/32	25,000,000	25,000,000
Shenango	Tax Exempt	6.00%	10/01/99	06/01/29	25,000,000	25,000,000
Aqua Pa	Tax Exempt	6.00%	06/28/00	07/01/30	18,360,000	18,360,000
Roaring Creek	Tax Exempt	5.05%	11/30/04	10/01/39	14,000,000	14,000,000
Aqua Pa	Tax Exempt	3.75%	12/31/02	06/01/10	3,200,000	400,000
Aqua Pa	Tax Exempt	5.15%	06/26/02	09/01/32	25,000,000	25,000,000
Aqua Pa	Tax Exempt	5.00%	05/19/05	11/01/36	21,770,000	21,770,000
Aqua Pa	Tax Exempt	5.00%	05/19/05	11/01/37	24,165,000	24,165,000
Aqua Pa	Tax Exempt	5.00%	05/19/05	11/01/38	25,375,000	25,375,000
Aqua Pa	Tax Exempt	5.00%	12/28/06	02/01/35	24,675,000	24,675,000
Aqua Pa	Tax Exempt	5.00%	01/16/07	02/01/40	23,915,000	23,915,000
Aqua Pa	Tax Exempt	5.00%	01/16/07	02/01/41	23,915,000	23,915,000
Aqua Pa	Tax Exempt	5.25%	12/20/07	07/01/42	24,830,000	24,830,000
Aqua Pa	Tax Exempt	5.25%	12/20/07	07/01/43	24,830,000	24,830,000
Aqua Pa	Tax Exempt	6.25%	12/18/08	10/01/17	9,000,000	9,000,000
Aqua Pa	Tax Exempt	6.75%	12/18/08	10/01/18	13,000,000	13,000,000
Aqua Pa	Tax-Exempt	5.00%	07/16/09	10/01/39	58,000,000	58,000,000
					<u>414,035,000</u>	<u>411,235,000</u>
Aqua Pa	Taxable	5.93%	06/26/02	07/01/12	25,000,000	25,000,000
Aqua Pa	Taxable	6.21%	10/25/01	11/01/11	15,000,000	15,000,000
Aqua Pa	Taxable	6.89%	12/19/95	12/15/15	12,000,000	12,000,000
Aqua Pa	Taxable	7.72%	05/19/95	05/15/25	15,000,000	15,000,000
Shenango	Taxable	8.14%	11/01/95	11/01/25	4,000,000	4,000,000
Susquehanna	Taxable	8.26%	11/01/92	11/01/22	1,500,000	1,500,000
Shenango	Taxable	8.32%	11/01/92	11/01/22	3,500,000	3,500,000
Aqua Pa	Taxable	9.12%	01/12/90	01/15/10	20,000,000	20,000,000
Aqua Pa	Taxable	9.17%	11/01/91	09/15/21	8,000,000	5,200,000
Aqua Pa	Taxable	9.17%	11/01/91	09/15/11	5,000,000	5,000,000
Aqua Pa	Taxable	9.29%	11/01/91	09/15/26	12,000,000	12,000,000
Roaring Creek	Taxable	9.53%	12/15/89	12/15/19	4,000,000	4,000,000
Aqua Pa	Taxable	9.93%	06/01/88	06/01/13	5,000,000	5,000,000
Aqua Pa	Taxable	9.97%	06/01/88	06/01/18	5,000,000	5,000,000
Aqua Pa	Taxable	5.08%	05/10/04	05/15/15	20,000,000	20,000,000
Aqua Pa	Taxable	5.17%	05/10/04	05/10/17	7,000,000	7,000,000
Aqua Pa	Taxable	5.751%	05/10/04	05/15/19	15,000,000	15,000,000
Aqua Pa	Taxable	5.751%	05/10/04	05/15/19	5,000,000	5,000,000
Aqua Pa	Taxable	6.06%	05/10/04	05/10/27	15,000,000	15,000,000
Aqua Pa	Taxable	6.06%	05/10/04	05/15/27	5,000,000	5,000,000
Aqua Pa	Taxable	5.98%	05/10/04	05/15/28	3,000,000	3,000,000
					<u>205,000,000</u>	<u>202,020,000</u>
TOTAL FIRST MORTGAGE BONDS					<u>619,035,000</u>	<u>613,435,000</u>

**EXHIBIT B
RECORDING INFORMATION**

BUCKS, CHESTER, DELAWARE AND MONTGOMERY COUNTIES

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Original	2/20/41	496	1	H-13.Vol.307	20	1034	1	1625	1
First Supplemental	8/26/48	632	1	F-16.Vol.380	200	1668	169	2031	257
Second Supplemental	7/1/52	768	438	18.Vol.425	186	1962	376	2360	517
Third Supplemental	11/25/53	895	1	18.Vol.442	325	2052	1	2493	1
Fourth Supplemental	1/9/56	1089	155	Z-20.Vol.499	1	2199	1	2722	425
Fifth Supplemental	3/20/57	1181	316	B-22.Vol.536	601	2294	50	2850	335
Sixth Supplemental	5/9/58	1254	1	G-23	201	2380	039	2952	289
Seventh Supplemental	9/25/59	1332	509	B-25	109	2442	1	3090	249
Eighth Supplemental	5/9/61	—	—	Z-26	17	2526	312	—	—
Eighth Supplemental	5/10/61	1409	225	—	—	—	—	3249	289
Ninth Supplemental	4/10/62	1458	372	G-28	126	2581	463	3307	169
Tenth Supplemental	3/19/64	1568	1	M-30	967	2976	1043	3310	237
Eleventh Supplemental	11/4/66	1655	695	Q-32	6682	762	223	3549	129
Twelfth Supplemental	1/23/68	1691	531	N-33	219	2792	708	3542	315
Thirteenth Supplemental	7/2/70	1763	1167	D-35	80	2850	301	3687	23
Fourteenth Supplemental	11/5/70	1774	331	K-35	713	2858	3113	700	548
Fifteenth Supplemental	12/11/72	1869	196	O-37	998	2926	550	3786	96
Sixteenth Supplemental	5/28/75	1979	14	E-44	77	3005	511	4010	307
Seventeenth Supplemental	12/18/77	2072	683	L-51	1	3072	43	5002	436

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Eighteenth Supplemental	4/29/77	2082	567	B-52	344	3078	728	5003	291
Nineteenth Supplemental	6/23/80	2303	714	J-62	92	3261	293	5030	502
Twentieth Supplemental	8/2/83	2487	370	D-72	1	96	810	5662	1045
Twenty-First Supplemental	8/27/85	2690	806	54	550	—	—	5864	1347
Twenty-First Supplemental	8/28/85	—	—	—	—	264	159	—	—
Twenty-Second Supplemental	4/22/86	2774	160	263	275	326	592	5944	360
Twenty-Third Supplemental	4/1/87	2960	693	—	—	—	—	—	—
Twenty-Third Supplemental	4/2/87	—	—	680	337	447	1807	6115	602
Twenty-Fourth Supplemental	7/25/88	3199	1095	1224	389	0593	0585	6324	143
Twenty-Fifth Supplemental	1/12/90	0136	0250	1848	205	731	1571	6538	376
Twenty-Sixth Supplemental	11/8/91	369	2190	2660	205	894	2241	6780	891
Twenty-Seventh Supplemental	6/29/92	0487	1829	3055	182	0969	2023	6918	302
Twenty-Eighth Supplemental	4/22/93	0652	1335	3542	1542	1081	0852	7112	0539
Twenty-Ninth Supplemental	3/30/95	1045	1872	3875	1368	1349	0829	7561	1155
Thirtieth Supplemental	8/30/95	1111	0798	3932	0471	1393	2255	7631	0689
Thirty-First Supplemental	7/11/97	1421	2196	4201	2133	1607	138	7968	779
Thirty-Second Supplemental	10/6/99	1939	421	4646	642	1936	1207	8548	1067
Thirty-Third Supplemental	11/30/99	1970	1573	4675	1272	1936	1207	85898	317
Thirty-Fourth Supplemental	10/31/01	2471	1207	5101	2142	2288	0174	9225	761

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Thirty-Fifth Supplemental	1/10/02	2541	765	5152	818	2329	1019	9314	1079
Thirty-Sixth Supplemental	6/5/02	2731	1881	5296	356	2448	1862	9593	1416
Thirty-Seventh Supplemental	12/27/02	3036	1425	12/31/02 B-5514	1552	12/31/02 02631	0294	12/30/02 10018	0204
Thirty-Eighth Supplemental	11/9/04	4196	1557	11/23/04 B-6342	800	11/22/04 B-3348	1698	11/22/04 B-00020	0237
Thirty-Ninth Supplemental	5/18/05	4441	1471	5/19/05 #2005066104	1375	03487 #10534807	0939	0020 32005044507	0688 2005069126
Fortieth Supplemental	12/27/05	4768	1853	12/23/05 6720	897	12/23/05 #10608829	2206	12/29/05 03687	1156 #2005123053
Forty-first Supplemental	1/11/07	5250	1290	1/12/07 #2007004610	820	1/11/07 #10720615	2257	1/30/07 0225	00329 #2007005061
Forty-second Supplemental	12/13/07		#2007119080	12/13/07 7326	2091	12/13/07 #10809606	1166	12/17/07 04262	02498-02544 #2007105884
Forty-third Supplemental	12/08/08	5961	2131	12/08/08 #2008099812	1527	12/08/08 #10889672	1185	12/08/08 12504	2585 #2008115955
Forty-fourth Supplemental	07/14/09	6158	2032	07/13/09 2009057188	1563	07/09/09 #10943667	1919	07/14/09 4579	894 #2009042911
								12659	#2009075197

BERKS COUNTY

<u>Indenture</u>	<u>Date of Recording</u>	<u>Book</u>	<u>Page</u>
Original	8/16/99	3113	707
Thirty-Second Supplemental	10/6/99	3132	1510
Thirty-Third Supplemental	11/30/99	3149	1260
Thirty-Fourth Supplemental	10/31/01	3421	896
Thirty-Fifth Supplemental	1/10/02	3461	417
Thirty-Sixth Supplemental	6/4/02	3544	1357
Thirty-Seventh Supplemental	12/30/02	3664	0001
Thirty-Eighth Supplemental	11/30/04	4197	988
Thirty-Ninth Supplemental	5/18/05	04583	1017
Fortieth Supplemental	02/09/06	04782	1916
Forty-first Supplemental	1/11/07	05054	0013
Forty-second Supplemental	12/13/07	05272	1398
			#2007073573
Forty-third Supplemental	12/09/08		#200805825
Forty-fourth Supplemental	07/14/09		#2009033415

**BRADFORD, COLUMBIA, LAWRENCE, MERCER, NORTHUMBERLAND, PIKE, SCHUYLKILL AND WAYNE
COUNTIES**

Indenture	BRADFORD		COLUMBIA		LAWRENCE			MERCER	
	Date of Recording	Instrument No.	Date of Recording	Instrument No.	Date of Recording	Book	Page	Date of Recording	Instrument No.
Thirty-Fifth Supplemental	12/21/01	200115497				1688	744		
Thirty-Sixth Supplemental	07/04/02	200207151							
Thirty-Seventh Supplemental	12/30/02	200216472							
Thirty-Eighth Supplemental	11/22/04	200415112	11/30/04	200413567	11/24/04	1992	0291	11/24/04	2004020435
Thirty-Ninth Supplemental	5/16/05	200504827	5/18/05	200505042	5/16/2005	2032	200 #005488 0934	5/13/05	2005-7340
Fortieth Supplemental	12/23/05	200594992	12/23/05	200513981	12/27/05	2088	#015325	12/27/05	2005-00020320
Forty-first Supplemental	1/12/07	200700440	1/17/07	200700636	1/11/07	2007	000466	1/12/07	2007- 00000583
Forty-second Supplemental	12/18/07	200714762	12/20/07	200712896	12/17/07	2007	013275	12/14/07	2007 00016849
Forty-third Supplemental	12/10/08	200821178	12/11/08	200812596	12/12/08	2008	00014552	12/12/08	2008 00014552
Forty-fourth Supplemental	07/09/09	200914068	07/10/09	200906468	07/14/09	2009	005608	07/09/09	2009 00007283

Indenture	NORTHUMBERLAND			PIKE			SCHUYLKILL			WAYNE		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Thirty-Fifth												
Supplemental		1404	246		1909	2328		1413	1		1911	1
Thirty-Sixth												
Supplemental		1445	028					1584	0259			
Thirty-Seventh												
Supplemental	12/30/02	1500	911	12/30/02	1959	2447	12/27/02	2022	1006	12/30/02	2136	148
Thirty-Eighth												
Supplemental	11/22/04	1714	748	11/23/04	2081	1757	11/24/04	2126	569	11/23/04	2658	252
Thirty-Ninth												
Supplemental			50			2201			1871-1919			1
	5/18/05	1761	#200509076	5/17/05	2109	#200500008491	5/18/05	2150	#200500010263	5/16/05	Vol. 2769	#200500004960
Fortieth												
Supplemental	12/2705	1828	571	12/27/05	2151	1334	12/23/05	2184	875	12/27/05	2944	243
Forty-first												
Supplemental			634			472-515			798-840			229-272
	1/11/07	1933	#200700696	1/12/07	2214	#200700000749	1/11/07	2238	#200700000686	1/16/07	3216	#200700000492
Forty-second												
Supplemental			953			175			473			1
	12/17/07	2024	#200721572	12/19/07	2261	#200700018937	12/18/07	2285	#200700022991	12/18/07	3433	#200700013194
Forty-third												
Supplemental												1
	12/10/08		#200819618	12/18/08	2296	268	12/10/08	2324	2159	12/09/08	3633	1-45
Forty-fourth												
Supplemental			680			2050			842			204
	07/14/09	2160	#200910564	07/14/09	2313	#200900007071	07/10/09	2344	#200900009544	07/10/09	3777	#200900007610

ADAMS, CARBON, CUMBERLAND, FOREST, JUNIATA, LACKAWANNA, LUZERNE, MONROE, NORTHAMPTON, SNYDER, SUSQUEHANNA AND WYOMING COUNTIES

Indenture	ADAMS			CARBON			CUMBERLAND			FOREST		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Thirty-Eighth Supplemental	11/23/04	3781	1	11/30/04	200416309		11/22/04	2004047145		11/29/04	231	306
Thirty-Ninth Supplemental	5/19/05	3970	54	5/18/05	1330	#200505926	5/13/05	1907	0247	5/16/05	234	345 #478
Fortieth Supplemental	12/28/05	4261	162	12/27/05	1408	576	12/27/05	1935	3233	12/27/05	0238	0304
Forty-first Supplemental	1/11/07	4707	2081 #2007000007	1/12/07	1540	#200700596	1/11/07	1979	0482	1/09/07	0244	0362 #2007000022
Forty-second Supplemental	12/17/07	5062	223 200700023048	12/18/07	1650	#200715671	12/14/07	200746336		12/18/07	250	219 #2007-1339
Forty-third Supplemental	12/10/08	5312	110 200800020691	12/11/08	1735	#7520A3.03	12/11/08	200839447		12/08/08	255	548 #200800142
Forty-fourth Supplemental	07/13/09	5390	643 200900011159	07/10/09	1778	#200905920	07/10/09	200924123		07/13/09	258	466
Indenture	JUNIATA			LACKAWANNA			LUZERNE			MONROE		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Recording	Book	Page
Thirty-Eighth Supplemental	11/22/04	345	1047	11/29/04	#200441665		11/23/04	3004	294775	11/24/04	2208	7674
Thirty-Ninth Supplemental	5/13/05	354	0049 #2005-1512	5/16/05	#200512642		5/17/05	3005	117727 #5637329	5/18/05	2225	8444 #200521128
Fortieth Supplemental	12/22/05	0365	1028	12/23/05	#20536270		12/28/05	3005	349088 #5677739	12/27/05	2252	9105 #200560314
Forty-first Supplemental	1/09/07	385	0188	1/12/07	#200701277		1/16/07	3007	13425	11/06/07	2320	4708
Forty-second Supplemental	12/13/07	401	0847 #20073981	12/17/07	#200734133		12/17/07	3007	328532 #5799531	12/17/07	2323	4362 #200745976
Forty-third Supplemental	12/08/08	418	356 #2008004757	12/11/08	#200829528		12/11/08	3008	262977 #5850129	12/08/08	2346	263 #200834800
Forty-fourth Supplemental	07/13/09	428	403	07/10/09	#200917720		07/14/09	3009	137259 #5877023	07/14/09	2356	6497 #200917344

Indenture	NORTHAMPTON			SNYDER			SUSQUEHANNA			WYOMING		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Thirty-Eighth Supplemental	11/22/04	2004-1	452932	11/24/04	631	0001	11/24/04	200411624		11/24/04	0513	0774
Thirty-Ninth Supplemental	5/17/05	2005-1	#2005026917	5/17/05	650	#2005028880	5/16/05	#200504384		5/18/05	0522	1289
Fortieth Supplemental	12/23/05	2005-1	521563	12/27/05	677	684	12/22/05	#200512620	n/a	12/22/05	#2005004922	0748
Forty-first Supplemental	1/19/07	2007-1	#2007003204	1/11/07	724	#200700240	1/10/07	#200700387		1/10/07	0558	0959
Forty-second Supplemental	12/17/07	2007-1	#2007057981	12/18/07	763	#200707447	12/17/07	#200713519		12/18/07	#2007-5154	
Forty-third Supplemental	12/09/08	2008-1	320419	12/12/08	803	#220807546	12/09/08	#200818392		12/10/08	#2008-6990	
Forty-fourth Supplemental	07/10/09	2009-1	#2009024436	07/14/09	827	#200904115	07/09/09	#200911054		07/10/09	#2009-4233	

LEHIGH AND CRAWFORD COUNTIES

Indenture	LEHIGH			CRAWFORD		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Forty-first Supplemental	1/10/07	7390692		1/11/07	856	177
Forty-second Supplemental	12/14/07	7455854		12/14/07	905	577
Forty-third Supplemental	12/09/08	2008001239		12/10/08	948	860
Forty-fourth Supplemental	07/10/09	2009027356		07/13/09	971	685
						#200900006196

CLARION, VENANGO AND WARREN COUNTIES

Indenture	CLARION			VENANGO			WARREN		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Forty-third Supplemental									
Forty-fourth Supplemental	07/10/09	0790	0674 #2009-3120	07/13/09	544	184 #2009003193	07/09/09	1921	4 #2009-2683

EXHIBIT C

COUNTY	GRANTOR	DEED DATE	TAX PARCEL NO.	DEED BOOK	PAGE
Wayne	Gouldsboro Water Company and William & Kathryn Stocoski	12/29/2008	14-0-0370-0044		
Wyoming	W.P. Water Company, Inc. aka (Washington Park)	3/31/2009	27-71.0-134-00 and 27-71.0-97-00-00-43		
Wyoming	W.P. Sanitary Company, Inc. (aka Washington Park)	3/31/2009	27-71.0-97-03-PU-0		
Luzerne	W.P. Water Company (aka Washington Park)	3/31/2009	35-D9S4-002-012	3009	68695
Warren	Thomas E. Eaton; James A. Eaton and Clarendon Water Company	4/29/2009	WN-008-6497		
Warren	Thomas E. Eaton; James A. Eaton and Clarendon Water Company	4/29/2009	WN-868-8355		
Warren	Thomas E. Eaton; James A. Eaton and Clarendon Water Company	4/29/2009	WN-868-6798		
Warren	Thomas E. Eaton; James A. Eaton and Clarendon Water Company	4/29/2009	WN-868-9113		
Warren	Thomas E. Eaton; James A. Eaton and Clarendon Water Company	4/29/2009	WN-869-4421		
Snyder	Kratzerville Municipal Authority	5/28/2009	08-01-075		
Snyder	Kratzerville Municipal Authority	5/28/2009	08-02-048		
Snyder	Kratzerville Municipal Authority	5/28/2009	08-01-082		

TWELFTH AMENDMENT TO CREDIT AGREEMENT

THIS TWELFTH AMENDMENT TO CREDIT AGREEMENT is made as of this 2nd day of December, 2009, by and among AQUA PENNSYLVANIA, INC., a Pennsylvania corporation (formerly known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company) (“Borrower”), the several banks which are parties to this Agreement (each a “Bank” and collectively, “Banks”) and PNC BANK, NATIONAL ASSOCIATION in its capacity as agent for Banks (in such capacity, “Agent”).

BACKGROUND

A. Borrower, Agent and Banks are parties to a Credit Agreement, dated as of December 22, 1999, as amended by a First Amendment to Credit Agreement dated as of November 28, 2000, a Second Amendment to Credit Agreement dated as of December 18, 2001, a Third Amendment to Credit Agreement dated as of December 16, 2002, a Fourth Amendment dated as of December 24, 2002, a Fifth Amendment to Credit Agreement dated as of December 14, 2003, a Sixth Amendment to Credit Agreement dated as of December 12, 2004, a Seventh Amendment to Credit Agreement dated as of December 6, 2005, an Eighth Amendment to Credit Agreement dated as of December 1, 2006, a Ninth Amendment to Credit Agreement dated as of February 28, 2007, a Tenth Amendment to Credit Agreement dated as of December 6, 2007 and an Eleventh Amendment to Credit Agreement dated as of December 4, 2008 (as so amended, the “Credit Agreement”), pursuant to which Banks agreed to make revolving credit loans to Borrower in an aggregate outstanding amount of up to \$70,000,000 (the “Loans”). The Loans are evidenced by Borrower’s Revolving Credit Notes in the aggregate principal face amount of \$70,000,000.

B. Borrower, Agent and Banks desire to extend the Termination Date and modify certain interest rate and fee provisions of the facility, all on the terms and subject to the conditions herein set forth.

NOW THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

AGREEMENT

1. Terms. Capitalized terms used herein and not otherwise defined herein shall have the meanings given to such terms in the Credit Agreement.

2. Amendments to Credit Agreement. Effective on December 2, 2009 (the "Effective Date") the Credit Agreement is hereby amended as follows:

(a) The definitions of "Base Rate" and "Termination Date" in Section 1.1 are hereby amended and restated to read in full as follows:

"Base Rate": for any day, a rate per annum (rounded upwards, if necessary, to the next 1/100th of 1%) equal to the highest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Open Rate in effect on such day plus one half of one percent (0.5%) and (c) the Daily LIBOR Rate plus one hundred twenty five basis points (1.25%). If for any reason the Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Open Rate for any reason, including the inability or failure of the Agent to obtain sufficient quotations in accordance with the definition of such term, the Base Rate shall be determined without regard to clause (b) of the first sentence of this definition until the circumstances giving rise to such inability no longer exist. Any change in the Base Rate due to a change in the Prime Rate, the Federal Funds Open Rate or the Daily LIBOR Rate shall be effective on the effective date of such change in the Prime Rate, the Federal Funds Open Rate or the Daily LIBOR Rate, as the case may be.

"Termination Date": the earlier of (a) November 30, 2010 or any later date to which the Termination Date shall have been extended pursuant to subsection 2.8(d) hereof and (b) the date the Commitments are terminated as provided herein."

(b) Section 2.6(b) is hereby amended by deleting "seventy five basis points (.75%)" and substituting therefor "one hundred twenty five basis points (1.25%)."

(c) Section 3.10(b) of the Credit Agreement is hereby amended and restated to read in full as follows:

"(b) The aggregate present value of accrued benefit liabilities under the retirement income Plans maintained by the Borrower and other Commonly Controlled Entities using the long-term assumptions under the FAS 35 calculations prepared for plan audit purposes do not exceed the asset values for these Plans as of the latest valuation date of January 1, 2009 by more than \$18,000,000."

(d) Schedule 3.13 to the Credit Agreement is hereby amended and replaced with Schedule 3.13 attached hereto.

3. Amendment to Working Cash Rider to Credit Agreement. The first sentence of Section 2 of the Working Cash, Line of Credit, Investment Sweep Rider dated as of May 11, 2001 between the Borrower and the Agent, which constitutes a Cash Management Agreement under Section 2.2 (k) of the Credit Agreement, is hereby amended and restated to read in full as follows:

"Effective as of the date hereof, Bank has agreed that Loans made by Bank under the Line of Credit shall bear interest at a variable rate per annum equal to the sum of (A) the Index plus (B) one hundred twenty five basis points (1.25%)."

4. Loan Documents. Except where the context clearly requires otherwise, all references to the Credit Agreement in any of the Loan Documents or any other document delivered to Banks or Agent in connection therewith shall be to the Credit Agreement as amended by this Agreement.

5. Borrower's Ratification. Borrower agrees that it has no defenses or set-offs against Banks or Agent or their respective officers, directors, employees, agents or attorneys, with respect to the Loan Documents, all of which are in full force and effect, and that all of the terms and conditions of the Loan Documents not inconsistent herewith shall remain in full force and effect unless and until modified or amended in writing in accordance with their terms. Borrower hereby ratifies and confirms its obligations under the Loan Documents as amended hereby and agrees that the execution and delivery of this Agreement does not in any way diminish or invalidate any of its obligations thereunder.

6. Representations and Warranties. Borrower hereby represents and warrants to Agent and Banks that:

(a) The representations and warranties made in the Credit Agreement, as the Credit Agreement is amended by this Agreement, are true and correct in all material respects as of the date hereof;

(b) No Default or Event of Default under the Credit Agreement exists on the date hereof; and

(c) This Agreement has been duly authorized, executed and delivered so as to constitute the legal, valid and binding obligation of Borrower, enforceable in accordance with its terms.

All of the above representations and warranties shall survive the making of this Agreement.

7. Conditions Precedent. The effectiveness of the amendments set forth herein is subject to the fulfillment, to the satisfaction of Agent and its counsel, of the following conditions precedent:

(a) Borrower shall have delivered to Agent, with copies or counterparts for each Bank as appropriate, the following, all of which shall be in form and substance satisfactory to Agent and shall be duly completed and executed:

(i) This Agreement;

(ii) Copies, certified by the Secretary or an Assistant Secretary of Borrower of resolutions of the board of directors of Borrower in effect on the date hereof authorizing the execution, delivery and performance of this Agreement and the other documents and transactions contemplated hereby;

(iii) Copies, certified by its corporate secretary of the articles of incorporation, certificate of formation, and by-laws of Borrower as in effect, or a certificate stating that there have been no changes to any such documents since the most recent date, true and correct copies thereof were delivered to Agent; and

(iv) Such additional documents, certificates and information as Agent or Banks may require pursuant to the terms hereof or otherwise reasonably request.

(b) The representations and warranties set forth in the Credit Agreement, as amended by this Agreement, shall be true and correct in all material respects on and as of the date hereof.

(c) No Default or Event of Default shall have occurred and be continuing as of the date hereof.

(d) Borrower shall have paid to Agent for the benefit of Banks an additional fee of \$175,000 to be distributed to Banks pro rata in accordance with their Commitments.

8. Miscellaneous.

(a) All terms, conditions, provisions and covenants in the Loan Documents and all other documents delivered to Agent and Banks in connection therewith shall remain unaltered and in full force and effect except as modified or amended hereby. To the extent that any term or provision of this Agreement is or may be deemed expressly inconsistent with any term or provision in any Loan Document or any other document executed in connection therewith, the terms and provisions hereof shall control.

(b) The execution, delivery and effectiveness of this Agreement shall neither operate as a waiver of any right, power or remedy of Agent or Banks under any of the Loan Documents nor constitute a waiver of any Default or Event of Default or default thereunder.

(c) In consideration of Agent's and Banks' agreement to amend the existing credit facility, Borrower hereby waives and releases Agent and Banks and their respective officers, attorneys, agents and employees from any liability, suit, damage, claim, loss or expense of any kind or failure whatsoever and howsoever arising that it ever had up until, or has as of, the date of this Agreement.

(d) This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous understandings and agreements.

(e) In the event any provisions of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

(f) This Agreement shall be governed by and construed according to the laws of the Commonwealth of Pennsylvania.

(g) This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors and assigns and may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(h) The headings used in this Agreement are for convenience of reference only, do not form a part of this Agreement and shall not affect in any way the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, Borrower, Agent and Banks have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

AQUA PENNSYLVANIA, INC.

By: /s/ David Smeltzer
Title: Chief Financial Officer

PNC BANK, NATIONAL ASSOCIATION,
as a Bank and as Agent

By: /s/ Meredith L. Jermann
Title: Vice President

TD BANK, N.A.

By: /s/ Thomas M. McGrory
Title: Vice President

Schedule 3.13

Environmental Matters

A. Little Washington Wastewater Company entered into a Consent Order and Agreement dated September 11, 2008 with the Pennsylvania Department of Environmental Protection (DEP) for the Media wastewater system. The agreement requires the company to take certain actions to avoid sanitary sewer overflows at two lift stations. The agreement arose from conditions that pre-existed ownership of the system by LWWC and the company has already taken substantial measures to address these conditions. LWWC is in compliance with the terms and conditions of the agreement.

B. Borrower acquired the Honesdale water system by merger on October 1, 2008. The system owners had been presented with a Consent Order and Agreement by Pennsylvania Department of Environment Protection (DEP) to treat or abandon the Quarry Well that from time to time had tested above the Maximum Contaminant Level for arsenic. The Consent Order and Agreement was never fully executed. Borrower has received a permit to construct treatment at the well. Construction is underway and due to be complete at the end of 2009.

C. Borrower acquired the assets of the Emlenton water system in 2008. DEP had issued orders to the former owners of the system. Prior to the acquisition, Borrower entered into a Consent Order and Agreement with DEP to bring this system into compliance. Borrower has made substantial improvements to the system, has designed and bid a project for a new treatment plant, and is in compliance with the terms of the COA.

D. In 2009, Borrower was designated by DEP and the Pennsylvania Public Utilities Commission as the owner of assets of Washington Park water and wastewater systems. Borrower entered into a Consent Order and Agreement with DEP to bring these systems into compliance. Borrower has already made improvements to the system and is in compliance with the COA.

E. In its water treatment process, Borrower uses chemicals, including chlorine and caustic soda, which are listed as hazardous substances. These chemicals are, in all material respects, stored and used at Borrower's plants and facilities in accordance with the environmental laws.

F. Borrower operates a central laboratory at its Bryn Mawr facility for analysis of drinking water samples. To perform required analyses, Borrower maintains small quantities of solvents, reagents and chemical standards, some of which are listed as hazardous substances. These materials, in all material respects, are stored and used in compliance with the environmental laws.

**AQUA AMERICA, INC.
and SUBSIDIARIES
2010 ANNUAL CASH INCENTIVE COMPENSATION PLAN**

BACKGROUND

- In 1989, the Company and its compensation consultant conducted a feasibility study to determine whether the Company should implement an incentive compensation plan. The study was prompted by the positive experience of other investor-owned water companies with incentive compensation.
- The study included interviews with executives and an analysis of competitive compensation levels. Based on the results, the compensation consultant recommended that the Company's objectives and competitive practice supported the adoption of an annual incentive plan (the "Plan"). The Company has had a cash incentive compensation plan in place since 1990 and management and the Board of Directors believe it has had a positive effect on the Company's operations, aiding employees, shareholders (higher earnings) and customers (better service and controlling expenses).
- The Plan has two components — a Management Incentive Program and an Employee Recognition ("Chairman's Award") Program.
- The Plan is designed to provide an appropriate incentive to the officers, managers and certain other key employees of the Company. The Management Incentive Program covers officers, managers and certain key employees of Aqua America, Inc., and its subsidiaries.
- All incentive awards under the Plan shall be paid by March 15 of the calendar year following the calendar year in which such awards are earned.

MANAGEMENT INCENTIVE PROGRAM

- **Performance Measures**
 - Annual incentive bonus awards are calculated by multiplying an individual's Target Bonus by a Company Factor based on the applicable company's performance and an Individual Factor based on the individual employee's performance.
-

The approach of having a portion of the calculation of the annual incentive bonus tied to the applicable company's financial performance is appropriate as the participants' assume some of the same risks and rewards as the shareholders who are investing in the company and making its capital construction and acquisition programs possible. Customers also benefit from the participants' individual objectives being met, as improvements in performance are accomplished by controlling costs, improving efficiencies and enhancing customer service. For these reasons, future rate relief should be lessened and less frequent, which directly benefits all customers.

- The after-tax net income from continuing operations or earnings before interest, taxes and depreciation ("EBITD") for the applicable company or business unit relative to its annual budget will be the primary measure for the company's performance. The measurement to be used as the Company Factor (financial factor, thresholds and weighting by applicable business unit) for each participant will be established by the Executive Compensation Committee for those participants whose annual incentive compensation is determined by the Committee and by the Chairman of the Company for all other participants. Each year a "Target Net Income" or "Target EBITD" level will be established for the applicable company or business unit. Portions of the Company Factor may be tied to the financial targets of more than one company or business unit for some participants whose responsibilities involve more than one company or business unit. For purposes of the Plan, the Target Net Income or EBITD may differ from the budgeted net income or EBITD level. The applicable company's or business unit's final net income or EBITD may exclude the impact of any unbudgeted extraordinary gains or losses as a result of changes in accounting principles and the financial results may be adjusted for other factors as deemed appropriate by the Executive Compensation Committee for those participants whose annual incentive compensation is determined by the Committee, and by the Chairman of the Company for the other participants.
- The threshold level of performance is set at 75 percent of the Target Net Income or Target EBITD. If the final net income or EBITD for the applicable company or business unit for the year is less than 75 percent of the Target Net Income or Target EBITD, the Company Factor for that company or business unit will be set at 0%. No additional bonus will be earned for results exceeding 110 percent of the Target Net Income or EBITD.
- Each individual's performance and achievement of his or her objectives will also be evaluated and factored into the bonus calculation (the "Individual Factor"). Performance objectives for each participant are established each year and are primarily directed toward customer growth, improving customer service, controlling costs and improving efficiencies and productivity. Each objective has specific performance measures that are used to determine the level of achievement for each objective. A participant's target Individual Factor should be no more than 90 points, with the possibility of additional points up to 110 points being awarded for measurable performance above the participant's targeted performance level. Participants must achieve at least 70 points for their Individual Factor to be eligible for a bonus award under the Plan.

Participation

- Eligible participants consist of officers, managers and certain key employees.
- Participation in the Management Incentive Program will be determined each year. Each participant will be assigned a “Target Bonus Percentage” ranging from 5 to 70 percent depending on duties and responsibilities. The Executive Compensation Committee will approve the Target Bonus Percentage for the CEO and the senior officers designated by the Committee each year.
- The Target Bonus Percentage for each participant will be applied to their base salary.
- Actual bonuses may range from 0, if the company’s financial results fall below the minimum threshold or the participant does not make sufficient progress toward achieving his or her objectives (i.e. performance measure points totaling less than 70 points), to 187.5 percent if performance — both Company and individual — is rated at the maximum.
- New employees who are hired into a position that is eligible to participate in the Management Incentive Plan, will normally be eligible to receive a portion of the bonus calculated in accordance with this Plan that is pro-rated based on the number of full calendar months between the new employee’s hire date and the end of the calendar year.
- Employees who would otherwise be eligible to participate in this Management Incentive Plan, but who leave employment with the company, either voluntarily (other than for retirement), or involuntarily, prior to the end of the Company’s fiscal year will not receive a bonus for the year in which their employment terminates.
- If an employee who would otherwise be eligible to participate in this Management Incentive Plan dies, the company will pay the deceased employee’s estate a portion of the bonus the deceased employee would otherwise have been entitled to assuming a 100% Company Factor and 100% Individual Factor, but pro-rated for the number of full calendar months the employee completed before his or her death.
- If an employee who would otherwise be eligible to participate in this Management Incentive Plan retires from the Company within the first ten (10) months of the Company’s fiscal year, the employee will receive payment of the bonus calculated under the terms of this Plan that the employee would otherwise have been entitled to assuming a 100% Company Factor and 100% Individual Factor, but pro-rated for the number of full calendar months the employee completed before his or her retirement. If an employee who would otherwise be eligible to participate in this Management Incentive Plan retires from the Company after completion of the first ten (10) months of the Company’s fiscal year, the employee will receive payment of the bonus calculated under the terms of this Plan, but pro-rated for the number of full calendar months the employee completed before his or her retirement.

Compliance

- The Management Incentive Program is intended to comply with the short-term deferral rule set forth in the regulations under section 409A of the Code, in order to avoid application of section 409A to the Management Incentive Program. If and to the extent that any payment under this Management Incentive Program is deemed to be deferred compensation subject to the requirements of section 409A, this Management Incentive Program shall be administered so that such payments are made in accordance with the requirements of section 409A.

Recovery of Incentive Compensation

- In the event of a significant restatement of our financial results caused by fraud or willful misconduct, the Company reserves the right to review the incentive compensation received by the participant with respect to the period to which the restatement relates, recalculate the Company's results for the period to which the restatement relates and seek reimbursement of that portion of the incentive compensation that was based on the misstated financial results from the participant whose fraud or willful misconduct was the cause of the restatement.

Company Factor

- Company performance will be measured on the following schedule:

	<u>Percent of Target</u>	<u>Company Factor</u>
Threshold	<75%	0%
	75	35
	80	40
	85	45
	89.9	50
	90	60
	95	80
Plan	100	100
	105	110
	>110	125

- The actual Company Factor should be calculated by interpolation between the points shown in the table above.
- Regardless of the Company rating resulting from this Schedule, the Executive Compensation Committee retains the authority to determine the final Company Factor for participants whose annual incentive compensation is determined by the Committee and by the Chairman of the Company for the other participants under the Plan.

- **Individual Factor**

- Individual performance will be measured on the following scale:

Performance Measure Points	Individual Factor
0 – 69	0%
70	70%
80	80%
90	90%
100	100%
110	110%

- In addition, up to 40 additional points and additional percentage points may be awarded to a participant at the discretion of the Chairman for exemplary performance, subject to approval by the Executive Compensation Committee for those participants whose annual incentive compensation is determined by the Committee. Individual performance points for the Chief Executive Officer are determined by the Executive Compensation Committee.

Sample Calculations

Example 1

Salary or Target Bonus	\$70,000
Company Factor	10 percent (\$7,000)
Individual Factor	100 percent
	90 percent

Calculation:

$$\begin{array}{rcccccc}
 \text{Target} & & \text{Individual} & & \text{Company} & & \text{Individual} \\
 \text{Bonus} & \times & \text{Factor} & \times & \text{Factor} & = & \text{Bonus Earned} \\
 \hline
 \$7,000 & \times & 100\% & \times & 90\% & = & \underline{\underline{\$6,300}}
 \end{array}$$

Example 2

Salary or Target Bonus	\$70,000
Company Factor	10 percent (\$7,000)
Individual Factor	70 percent

Calculation:

$$\begin{array}{r} \text{Target Bonus} \times \frac{\text{Individual Factor}}{\text{Company Factor}} = \text{Individual Bonus Eamed} \\ \$7,000 \times 90\% \times 70\% = \underline{\underline{\$4,410}} \end{array}$$

Example 3

- If the Individual Factor is rated below 70 points, no bonus would be earned regardless of the Company Factor.

Calculation:

$$\begin{array}{r} \frac{\text{Individual Target Bonus}}{\text{Company Factor}} \times \frac{\text{Individual Factor}}{\text{Company Factor}} = \text{Bonus Earned} \\ \$7,000 \times 100\% \times 0 = \$0 \end{array}$$

Example 4

- If the Company Factor is allocated between two companies, the bonus will be calculated separately based on the allocation.

Calculation:

<u>Target Bonus</u>	x	<u>Company Factor</u>	x	<u>Company Allocation</u>	x	<u>Individual Factor</u>	=	<u>Bonus Earned</u>
\$7,000	x	100%	x	20%	x	90%	=	\$1,260
\$7,000	x	110%	x	80%	x	90%	=	<u>\$5,544</u>
Total Bonus							=	<u><u>\$6,804</u></u>

EMPLOYEE RECOGNITION (“CHAIRMAN’S AWARD”) PROGRAM

1. In addition to the Management Incentive Program, the Company maintains an Employee Recognition Program known as the Chairman’s Award program to reward non-union employees who are not eligible for the management bonus plan for superior performance that contains costs, improves efficiency and productivity of the workforce and better serves our customers. Awards may also be made for a special action or heroic deed, or for a project that positively impacts the performance or image of the Company. Awards are entirely discretionary and may or may not be awarded to any individual employee. The availability of Awards is also contingent upon the Company’s meeting certain metrics of successful performance.
2. Awards may be made from an annual pool designated by the Chairman of Aqua America with the approval of the Executive Compensation Committee. Unused funds will not be carried over to the next year. If financial performance warrants, management may request special Awards under the program. The individual Award calculation and the distribution of Chairman’s Awards to non-management employees are solely at the discretion of the officer to whom the employee reports and the Chairman of Aqua America. No Chairman’s Award(s) granted to non-management employees in prior years should be construed as a guaranty of future awards.
3. In general, the company or business unit must achieve at least 90% of its EBITD objective for the year to be eligible for the full amount of the pool created for Chairman’s Awards for that company or business unit for the year. Chairman’s Awards will not be made to employees of a company or business unit that does not achieve at least 75% of its EBITD objective for the year, however, the Chairman may approve a pool of up to one-third of the annual pool that would otherwise be available for that company or business unit for awards to the eligible employees of that company or business unit if the company or business unit achieves between 75% and 89.9% of its EBITD target.
4. Awards may be made throughout the year, however, no more than one-third of a company’s Chairman’s Award pool may be awarded until the company’s final EBITD for the year is determined.
5. Nominations for employees to receive Chairman’s Awards will be made to the applicable officer and should include documentation on the reasons for the recommendations. The applicable officer will review the nominations and forward their recommendations to the Chairman of Aqua America. The applicable officer has complete discretion to choose to recommend an Award or not, depending on factors and considerations deemed by the officer as relevant. Moreover, the Chairman may exercise his own discretion to determine if any individual employee will receive an Award.
6. The Chairman will determine the individuals to actually receive a bonus and the amount. The maximum award to any one employee is \$5,000.

7. An employee must be actively employed by the Company at the end of the fiscal year in order to be eligible to be considered to receive a Chairman's Award, unless the award is made to the eligible employee during the year.
8. All Chairman's Awards under the Employee Recognition Program shall be paid by March 15 of the calendar year following the calendar year in which such awards are earned.
9. The Employee Recognition Program is intended to comply with the short-term deferral rule set forth in the regulations under section 409A of the Code, in order to avoid application of section 409A to the Plan. If and to the extent that any payment under this Employee Recognition Program is deemed to be deferred compensation subject to the requirements of section 409A, this Employee Recognition Program shall be administered so that such payments are made in accordance with the requirements of section 409A.

**AQUA AMERICA, INC.
2009 OMNIBUS EQUITY COMPENSATION PLAN**

STOCK OPTION AND DIVIDEND EQUIVALENT GRANT

Date of Grant: _____

This Stock Option and Dividend Equivalent Grant Agreement evidences the grant made by Aqua America, Inc., a Pennsylvania corporation (the "Corporation"), to «Name», an officer of the Corporation or one of its subsidiaries (the "Grantee"), under the terms and provisions of the Aqua America, Inc. 2009 Omnibus Equity Compensation Plan (the "Plan").

WHEREAS, on May 8, 2009 the Executive Committee of the Board of Directors of the Corporation (the "Board") adopted the Plan, subject to the approval of the shareholders of the Corporation;

WHEREAS, the Plan was approved and ratified at the Corporation's 2009 Annual Meeting of the Shareholders by the vote of the holders of a majority of the Corporation's common stock (the "Common Stock") entitled to vote thereon;

WHEREAS, pursuant to the Plan, the Board has empowered its Executive Compensation Committee (the "Committee") to grant options to purchase Common Stock and to grant dividend equivalents based upon the dividends earned on Common Stock (collectively, the "Grants") to eligible persons in accordance with the terms and provisions of the Plan; and

WHEREAS, the Committee has determined that the Grantee is an eligible person as contemplated by the Plan and has determined that it would be in the best interests of the Corporation to grant to the Grantee as of the date of grant specified above (the "Date of Grant") options to purchase Common Stock and dividend equivalents;

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Grant of Option.

a. Number of Shares, Option Price and Exercise Schedule. Subject to the terms and conditions hereinafter set forth, the Corporation, with the approval and at the direction of the Committee, hereby grants to the Grantee an option to purchase an aggregate of «Proposed _____ of Options _» shares of Common Stock at a price of \$_____ per share. This option shall become exercisable in three (3) annual installments, the Grantee having the right hereunder to purchase from the Corporation, on and after the following dates, the following numbers of shares of Common Stock:

_____: **«Year_1» shares,**
_____: **an additional «Year_2» shares,**
_____: **an additional «Year_3» shares;**

The right of the Grantee to purchase shares of Common Stock subject to any accrued installment may be exercised in whole or in part from time to time, subject to the restrictions set forth herein. The Committee may, in its sole discretion, accelerate the time at which the option may be exercised in whole or in part. Notwithstanding any determinations by the Committee regarding the exercise period of the option or the exercise schedule set forth above, all outstanding options shall become immediately exercisable upon a Change in Control of the Corporation (as defined in the Plan).

b. Termination of Option. This option and all rights hereunder, to the extent such rights shall not have been exercised, shall terminate and become null and void after the expiration of ten (10) years from the Date of Grant (the “option term”).

Upon the termination of the Grantee’s regular full-time employment for any reason (except as a result of Retirement, Disability or death as described below), this option, whether exercisable or unexercisable, shall terminate. Notwithstanding the fact that, in all cases, the Grantee’s employment shall be deemed to have terminated upon the sale of a subsidiary of the Corporation that employs the Grantee, the Committee, in its sole discretion, may extend the period during which the option may be exercised after such sale to the earliest of (i) a date which is not more than three years from the date of the sale of the subsidiary, (ii) the date of the Grantee’s termination of employment as a regular full time employee with the subsidiary (or successor employer) following such sale for reasons other than Retirement, Disability or death, (iii) the date which is one year from the date of the Grantee’s termination of employment with the subsidiary on account of the Grantee’s Disability, or three months from the date of such termination if on account of Retirement or (iv) the expiration of the original term of the option as established in the first paragraph of this Section. The Committee, in its sole discretion, may similarly extend the period of exercise of the option if the Grantee’s employment with the Corporation or subsidiary is terminated in connection with the sale of a subsidiary of the Corporation.

Upon termination of the Grantee’s employment as a result of Retirement, Disability or death, this option may be exercised over a period that does not exceed: (i) 12 months from the date of such termination of employment in the case of death, and (ii) 38 months from the date of such termination in the case Retirement or Disability; but in no event shall the exercise period extend beyond the expiration of the option term and the exercise period for any option shall not be accelerated as a result of Retirement. Stock options become immediately exercisable as of the termination of the Grantee’s employment as a result of Disability or death.

For purposes of this option, “Disability” means the Grantee becomes disabled within the meaning of Section 22(e)(3) of the Internal Revenue Code, as amended (the “Code”) or within the meaning of the Corporation’s long-term disability plan applicable to the Grantee.

For purposes of this option, "Retirement" means Early Retirement or Normal Retirement. Early Retirement means a Grantee's termination of employment that occurs on or after (i) the date that the Grantee becomes eligible for early retirement pursuant to the terms of the Retirement Income Plan for Aqua America, Inc. and Subsidiaries (the "Pension Plan"), or (ii) if the Grantee is not an active participant in the Pension Plan, the date that the Grantee is first eligible for Social Security retirement benefits and has completed at least 10 years of service for vesting purposes under the Pension Plan. Normal Retirement means a Grantee's termination of employment on or after the date the Grantee first satisfies the conditions for normal retirement benefits under the Pension Plan, whether or not the Grantee is covered by the Pension Plan.

Subject to the foregoing, in the event of the Grantee's death, the option may be exercised by the Grantee's legal representative but only to the extent exercisable as of the date of death. The Grantee's transfer of employment among the Corporation, its parent or any subsidiary shall not be deemed to be a termination of employment.

c. Forfeiture of Option. Notwithstanding any other provisions set forth herein or in the Plan, if the Grantee shall (i) commit any act of malfeasance or wrongdoing affecting the Corporation, any parent or subsidiary, (ii) breach the terms of any covenant not to compete, or any employment contract, with the Corporation, any parent or subsidiary, or (iii) engage in conduct that would warrant the Grantee's discharge for cause (excluding general dissatisfaction with the performance of the Grantee's duties, but including any act of disloyalty or any conduct clearly tending to bring discredit upon the Corporation, any parent or subsidiary) this option, or the unexercised portion thereof, shall immediately terminate and be void.

d. Non-Compete Agreement. The Grantee hereby agrees that all unexercised stock options following a Grantee's termination of full-time employment by reason of Retirement shall be forfeited if, during the 38 month period following the Grantee's termination of regular full-time employment, the Grantee violates the terms of Section 3.

e. Exercise Procedures. The Grantee may exercise this option with respect to all or any part of the whole number of shares then subject to exercise. Such exercise shall be effected as follows: Grantee shall deliver to the Corporation written notice of intent to exercise. Such notice shall specify the number of shares as to which this option is to be exercised and the date of exercise thereof, which date shall be at least five (5) days after the delivery of such notice unless an earlier time shall have been mutually agreed upon. Such notice may instruct the Corporation to deliver shares of Common Stock due upon the exercise of the option to any registered broker or dealer in lieu of delivery to the Grantee. Such instructions must designate the account into which the shares are to be deposited. The Grantee may tender this notice of exercise, which has been properly executed by the Grantee, and the aforementioned delivery instructions to any broker or dealer. Full payment by the Grantee of the option price for the shares purchased shall be made on or before the date of issuance of the shares being purchased in cash, or, with the prior written consent of the Committee, in whole or in part through the surrender of shares of Common Stock (including without limitation shares of Common Stock acquired pursuant to the option then being exercised) at their fair market value as determined pursuant to the terms of the Plan. On the exercise date specified in the Grantee's notice or as soon thereafter as is practicable, the Corporation shall, without transfer or issue tax or other incidental expense to the Grantee, cause to be delivered to the Grantee a certificate or certificates for such shares out of theretofore unissued shares or reacquired shares, as the Corporation may elect, upon payment for the shares. The Corporation shall, without transfer or issue tax or other incidental expense to the Grantee, cause to be delivered to the Grantee separate certificates for those shares which will be treated as being issued pursuant to the exercise of an incentive stock option and for those shares, if any, which under Section 2 of the Agreement will be treated as being issued pursuant to the exercise of an option which is not an incentive stock option. The Corporation shall identify in its stock transfer records which shares are being issued pursuant to the exercise of an incentive stock option and which shares are being issued pursuant to the exercise of an option which is not an incentive stock option.

2. Dividend Equivalents.

a. Number of Dividend Equivalents. Subject to the terms and conditions hereinafter set forth, the Corporation, with the approval and at the direction of the Committee, hereby grants to the Grantee «Proposed _____ of Div Equiv» dividend equivalents. The amount of dividend equivalents (the “Dividend Equivalent Amount”) subject to this Grant shall be equal to the number of dividend equivalents specified in this Section 2.a. multiplied by the per-share cash dividend, or the per-share fair market value (as determined by the Committee) of any dividend in other than cash, paid by the Corporation with respect to each record date for the payment of a dividend during the period described in Section 2.b.

b. Amount of Dividend Equivalent Credited. The Corporation shall credit to an account for each Grantee maintained by the Corporation in its books and records on each record date that portion of the Dividend Equivalent Amount for each Grantee attributable to each record date, from the date of Grant until the earlier of the date of

(i) the end of the applicable accumulation period designated by the Committee at the time of Grant (the “Accumulation Period”),

(ii) the date of the Grantee’s termination of regular full-time employment for any reason other than Disability or Retirement as defined in Section 1.b. above, or death of the Grantee, or as otherwise determined by the Committee, in its sole discretion, at the time of a Grantee’s termination of employment, or

(iii) the end of a period of four years from the date of grant.

The Corporation shall maintain in its books and records separate accounts which identify each Grantee’s Dividend Equivalent Amount, reduced by all amounts paid pursuant to subsection (c) below. No interest shall be credited to any such account. The Date of Grant for the dividend equivalents granted hereunder is _____ and the Accumulation Period for the Grant is _____ (____) years from the Date of Grant.

c. Payment of Credited Dividend Equivalents. Any Dividend Equivalent Amounts accrued in an account between the date of the Grant to March 1 of the following year shall be distributed to the Grantee between March 1 and March 15 of the year following the Date of Grant, and any Dividend Equivalent Amounts accrued in an account from March 2 of the year following the Date of Grant (or any anniversary thereof) through March 1 of the following year shall be distributed to the Grantee between March 1 and March 15 of such following year, subject to subsection (d) below. Notwithstanding the foregoing, upon a Change in Control of the Corporation, as defined in the Plan, any Dividend Equivalent Amount or portion thereof, which has not, prior to such date, been paid to the Grantee or forfeited shall be paid within 60 days to the Grantee; provided, however, that if any Dividend Equivalent Amount is subject to section 409A of the Code and the Change in Control is not a “change in control event” for purposes of section 409A of the Code, payment will be made between March 1 and March 15 of the applicable year described above, if required to comply with section 409A of the Code.

d. Forfeiture of Dividend Equivalents. Except as otherwise determined by the Committee, payment of Dividend Equivalent Amounts for any accrual period ending on March 1 as described in subsection (c) shall be forfeited by the Grantee if the Grantee is not employed in regular full-time employment by the Corporation or a subsidiary on March 1 of such accrual period; provided, however, that a Grantee shall not forfeit any payments if the Grantee terminates employment by reason of (i) death, (ii) total disability (as defined in section 22(e)(3) of the Code), or (iii) Normal Retirement or Early Retirement as defined in Section 1.b. above, subject to subsection (e) below.

e. Non-Compete Agreement. All unpaid Dividend Equivalent Amounts following a Grantee’s termination of full-time employment by reason of Retirement shall be forfeited if, during applicable Accumulation Period, the Grantee violates the terms of Section 3.

f. Form of Payment. Dividend Equivalent Amounts shall be paid solely in cash.

3. Restrictive Covenant.

(i) For the period of 38 months following the Grantee’s Retirement, as described in Section 1.b., the Grantee agrees that he/she will not, unless acting pursuant with the prior written consent of the Board, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with or use or permit his/her name to be used in connection with, any business or enterprise engaged in a geographic area within 25 miles of any location from which the Corporation or any of its subsidiaries is operating on the Grantee’s date of termination (the “Geographic Area”), in any business that is competitive to a business from which the Corporation and any of its subsidiaries, taken as a whole from all geographic area, derived at least ten percent of its respective annual gross revenues for the twelve (12) months preceding the Grantee’s date of termination. It is recognized by the Grantee that the business of the Corporation and its subsidiaries and the Grantee’s connection therewith is or will be involved in activity throughout the Geographic Area, and that more limited

geographical limitations on this non-competition covenant are therefore not appropriate. The foregoing restriction shall not be construed to prohibit the ownership by the Grantee of less than one percent of any class of securities of any corporation which is engaged in any of the foregoing businesses having a class of securities registered pursuant to the Securities Exchange Act of 1934, provided that such ownership represents a passive investment and that neither the Grantee nor any group of persons including the Grantee in any way, either directly or indirectly, manages or exercises control of any such corporation, guarantees any of its financial obligations, otherwise takes any part in its business, other than exercising his/her rights as a shareholder, or seeks to do any of the foregoing.

(ii) The Grantee acknowledges that the restrictions contained in paragraph (i) above are reasonable and necessary to protect the legitimate interests of the Corporation and its subsidiaries and affiliates, and that any violation of those provisions will result in irreparable injury to the Corporation. The Grantee represents that his/her experience and capabilities are such that the restrictions contained in paragraph (i) will not prevent the Grantee from obtaining employment or otherwise earning a living at the same general level of economic benefit as is the case as of the date hereof. The Grantee agrees that the Corporation shall be entitled to preliminary and permanent injunctive relief, without the necessity of proving actual damages, which right shall be cumulative and in addition to any other rights or remedies to which the Corporation may be entitled. In the event that any of the provisions of paragraph (i) should ever be adjudicated to exceed the time, geographic, service, or other limitations permitted by applicable law in any jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, service, or other limitations permitted by applicable law.

4. Adjustment of and Changes in Common Stock of the Corporation.

In the event of a reorganization, recapitalization, change of shares, stock split, spin-off, stock dividend, reclassification, subdivision or combination of shares, merger, consolidation, rights offering, or any other change in the corporate structure or shares of the Corporation, the Committee will make such adjustment as it deems appropriate in the number and kind of shares subject to the Grants, the option price or other terms and conditions applicable to dividend equivalents.

5. No Rights of Shareholders.

Neither the Grantee nor any personal representative shall be, or have any of the rights and privileges of, a shareholder of the Corporation with respect to any shares related to the Grants or purchasable upon the exercise of this option, in whole or in part, prior to the date of exercise of the option.

6. Non-Transferability of Grants.

Except as otherwise provided in this Section, during the Grantee's lifetime, only the Grantee or any guardian or legal representative of the Grantee, may exercise rights under the Grants and the Grants shall not be assigned or transferred by the Grantee (other than an assignment pursuant to a qualified domestic order as defined under the Code or Title I of ERISA or the rules thereunder or transfer by will or by the laws of descent or distribution in the event of the death of the Grantee). Upon a transfer of an option granted hereunder by will or by the laws of descent or distribution, or a family transfer (as hereinafter provided), the person to whom the option is transferred shall have the right to exercise the option in accordance with the Plan and this Grant.

The Grantee may transfer all or a portion of a nonqualified stock option granted hereunder to family members, one or more trusts for the benefit of family members, or one or more other entities of which family members control the management of assets or own more than 50% of the voting interests, consistent with applicable securities laws, provided that the Grantee receives no consideration for the transfer of the option and the transferred option shall continue to be subject to the same terms and conditions as were applicable to the option immediately before the transfer.

In the event of any attempt by the Grantee (or assignee) to alienate, assign, pledge, hypothecate or otherwise dispose of a Grant or of any right hereunder, except as provided for herein, or in the event of the levy of any attachment, execution or similar process upon the rights or interest hereby conferred, the Corporation may terminate the Grant by notice to the Grantee and it shall thereupon become null and void.

7. Employment Not Affected.

Neither the making of the Grants nor the exercise of the option or the payment of the Dividend Equivalent Amount shall be construed as granting to the Grantee any right with respect to continuance of employment by the Corporation or any of its subsidiaries. Except as may otherwise be limited by a written agreement between the Corporation or any subsidiary and the Grantee, the right of the Corporation or any parent or subsidiary to terminate at will the Grantee's employment with it at any time (whether by dismissal, discharge, or otherwise) is specifically reserved and acknowledged by the Grantee.

8. Withholding of Tax.

Whenever shares of Common Stock are to be delivered upon exercise of the option, the Corporation shall be entitled to require as a condition of such delivery that the Grantee remit to the Grantee's employer or, in appropriate cases, agree to remit to such employer when due, an amount sufficient to satisfy all federal, state and local withholding tax requirements relating thereto.

9. Amendment of Grants.

The Grants may be amended by the Committee at any time (i) if it determines, in its sole discretion, that amendment is necessary or advisable in the light of any addition to or change in the Internal Revenue Code or regulations issued thereunder, or any federal or state securities law or other law or regulation, which change occurs after the grant of the option and dividend equivalents and by its terms retroactively applies to the option or dividend equivalent; and (ii) with the consent of the Grantee. Any such amendment shall be in writing and signed by the Corporation and the Grantee.

10. Notice.

Any notice to the Corporation provided for in this instrument shall be addressed to it in care of its Secretary, and any notice to the Grantee shall be addressed to the Grantee at the current address shown on the payroll of the Corporation or any subsidiary. Except as otherwise provided herein, any notice shall be deemed to be duly given if and when properly addressed and posted by registered or certified mail, postage prepaid.

11. Incorporation of Plan by Reference.

The Grants are made pursuant to the terms of the Plan, as approved by a majority of the Corporation's shareholders on May 8, 2009 and as the Plan may be amended from time to time, and shall in all respects be interpreted in accordance therewith. The Committee shall interpret and construe the Grants, and its decision shall be conclusive and binding upon any questions arising hereunder. By executing this Grant Agreement and by accepting the option granted hereunder, the Grantee acknowledges and accepts the terms of the Plan and the Committee's authority and discretion as specified in the Plan.

12. Governing Law.

The validity, construction, interpretation and effect of this instrument shall exclusively be governed by and determined in accordance with the law of the Commonwealth of Pennsylvania.

13. Section 409A.

This Agreement is intended to comply with section 409A of the Code and its corresponding regulations, or an exemption, and payments may only be made under this Agreement upon an event and in a manner permitted by section 409A of the Code, to the extent applicable.

GRANTEE

AQUA AMERICA, INC.

By: _____
Grantee

By: _____

Non-Employee Directors' Compensation for 2010

At its regularly scheduled meeting on December 10, 2009, the Board of Directors of Aqua America, Inc., upon the recommendation of its Executive Compensation Committee, approved the following directors' compensation for 2010 for the non-employee directors of Aqua America, Inc.: (1) an annual cash retainer of \$28,000; (2) an annual cash retainer for the Chair of the Executive Compensation Committee and Corporate Governance Committee of \$7,500; (3) an annual cash retainer for the Chair of the Audit Committee of \$10,000; (4) a meeting fee of \$1,500 for each meeting of the Board of Directors; (5) a meeting fee of \$1,500 per meeting for meetings of the Board Committees; and (6) an annual stock grant to directors of 2,000 shares payable on the first of the month following the Annual Meeting of Shareholders. All directors are reimbursed for reasonable expenses incurred in connection with attendance at Board or Committee meetings.

AQUA AMERICA, INC.
2009 OMNIBUS EQUITY COMPENSATION PLAN
RESTRICTED STOCK GRANT AGREEMENT

Date of Grant: _____

This Restricted Stock Grant Agreement evidences the grant made by Aqua America, Inc., a Pennsylvania corporation (the "Corporation"), to _____, a key employee of the Corporation or one of its subsidiaries (the "Grantee"), under the terms and provisions of the Aqua America, Inc. 2009 Omnibus Equity Compensation Plan (the "Plan").

WHEREAS, the Executive Committee of the Board of Directors of the Corporation (the "Board") adopted the Plan, effective as of May 8, 2009, subject to the approval of the shareholders of the Corporation;

WHEREAS, the Plan was approved and ratified at the Corporation's 2009 Annual Meeting of the Shareholders by the vote of the holders of a majority of the Corporation's common stock (the "Common Stock") entitled to vote thereon;

WHEREAS, pursuant to the Plan, the Board has empowered its Executive Compensation Committee (the "Committee") to grant shares of Common Stock subject to certain restrictions (the "Restricted Stock") to eligible persons in accordance with the terms and provisions of the Plan; and

WHEREAS, the Committee has determined that the Grantee is an eligible person as contemplated by the Plan and has determined that it would be in the best interests of the Corporation to grant to the Grantee as of the date of grant specified above (the "Date of Grant") shares of Restricted Stock;

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Restricted Stock Grant.

Subject to the terms and conditions hereinafter set forth, the Corporation, with the approval and at the direction of the Committee, hereby grants to the Grantee _____ shares of Common Stock (the "Granted Shares"). Subject to the Grantee's signifying acceptance of this grant (in the manner indicated in Section 2 below), the Corporation shall cause a certificate or certificates representing the Granted Shares to be issued to Grantee (the "Initial Share Certificates"), which shall be registered in the name of the Grantee, and which shall bear the following restrictive legend, in addition to such other legends as the Corporation may deem necessary or desirable:

The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the Aqua America, Inc. 2009 Omnibus Equity Compensation Plan and an Agreement entered into between the registered owner and Aqua America, Inc. Copies of such Plan and Agreement are on file at the offices of Aqua America, Inc., 762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania 19010.

2. Acceptance by Grantee; Escrow Agent.

The Grantee shall signify acceptance of the Granted Shares by delivering to the Secretary of the Corporation an executed copy of this Agreement. Upon receipt from the Grantee of the executed copy of this Agreement, the proper officers of the Corporation promptly shall deposit the Initial Share Certificates with the Secretary of the Corporation or the Secretary's designee, as escrow agent for the Corporation (the "Escrow Agent"), to be held in accordance with the terms of this Agreement.

3. Restrictions.

(a) Restriction Period. The restrictions on the sale, encumbrance and transfer of the Granted Shares, or portions of the Granted Shares, as applicable, as described in Section 3(c) below shall lapse on the dates set forth in Appendix A, or if earlier, in accordance with Section 3(d), subject to continued employment as described below. The period during which any portion of the Granted Shares actually remains subject to the restrictions of Section 3(c) hereof is referred to in this Agreement and in the Plan as the "Restriction Period" for such portion of the Granted Shares.

(b) Forfeiture of Granted Shares. Except as provided in Section 3(b)(1), 3(b)(2), or 3(d)(3), upon the termination of the Grantee's employment with the Corporation or any of its subsidiaries during the Restriction Period, the Grantee shall forfeit all of the Granted Shares as to which the restrictions under Section 3(c) hereof have not, on or before the effective date of such termination, lapsed pursuant to this Section 3. Upon such termination, Grantee hereby authorizes the Escrow Agent to immediately transfer all such forfeited shares to the Corporation, and the forfeited shares shall be cancelled. The purchase price paid, if any, for such forfeited shares shall also be returned to the Grantee upon such forfeiture. For purposes of this Agreement, the effective date of termination of the Grantee's employment shall be the first day on which the Grantee is no longer a regular full-time employee of the Corporation or any of its subsidiaries. The Committee may, however, pursuant to Section 3(d)(2) of the Agreement provide for complete or partial exceptions to the requirement of employment as it deems equitable.

(1) In the case of Grantee's termination of employment due to Normal Retirement as defined in Section 3(b)(3), Grantee shall not forfeit, as a result of Grantee's Normal Retirement any Granted Shares as to which the restrictions under Section 3(c) hereof have not lapsed, on or before the effective date of such termination, pursuant to this Section 3.

(2) In the case of Grantee's termination of employment due to Early Retirement as defined in Section 3(b)(4), Grantee shall not forfeit as a result of Grantee's Early Retirement, a pro-rata share of the Granted Shares based on the period in which the Grantee was employed during the Restriction Period, as to which the restrictions under Section 3(c) hereof have not lapsed, on or before the effective date of such termination, pursuant to this Section 3.

3) Normal Retirement shall mean a termination of employment on or after the date the Grantee first satisfies the conditions for normal retirement benefits under the terms of the the Retirement Income Plan for Aqua America, Inc. and Subsidiaries (the "Pension Plan"), whether or not the Grantee is covered by the Pension Plan.

(4) Early Retirement shall mean a termination of employment that occurs on or after the date that the Grantee become eligible for early retirement pursuant to the terms of the Pension Plan; provided, however, that if the Grantee is not an active participant in the Pension Plan immediately prior to terminating employment, "Early Retirement" shall mean a termination of employment that occurs on or after the date that the Grantee is first eligible for Social Security retirement benefits and has completed at least 10 years of service for vesting purposes under the Pension Plan.

(c) Restrictions on Transfer; Shares Subject to Forfeiture. At no time during the Restricted Period shall the Grantee sell, assign, transfer, pledge or otherwise dispose of any portion of the Granted Shares as to which the restrictions under this Section 3 have not lapsed, except to a successor grantee (as defined in the Plan). Any attempt to assign, transfer, pledge or dispose of the Granted Shares contrary to the provisions hereof, and the levy or any execution, attachment or similar process upon the Granted Shares, shall be null and void and without effect.

(d) Lapse of Restrictions.

- (1) Except with respect to any of the Granted Shares that are forfeited by the Grantee pursuant to Section 3(b) hereof, upon the expiration of the applicable Restriction Period, and satisfaction of the requirements, under Section 3(a) hereof, all restrictions imposed under Section 3(c) of this Agreement shall lapse with respect to the Granted Shares, or the portion of the Granted Shares to which the applicable Restriction Period relates.
- (2) Notwithstanding any other provision hereof, the Committee may, as it deems equitable in its sole discretion, accelerate the date on which the restrictions of Section 3(c) hereof shall lapse with respect to any of the Granted Shares which have not previously been forfeited by the Grantee.
- (3) Notwithstanding any determinations by the Committee, upon (i) the death of Grantee, (ii) the termination of employment of the Grantee due to Disability (as defined below), or (iii) a Change of Control of the Corporation (as defined in the Plan), all restrictions on the transfer of Granted Shares that have not prior to such date been forfeited, shall immediately lapse. For purposes of this Agreement, Disability means the Grantee becomes disabled within the meaning of Section 22(e)(3) of the Internal Revenue Code, as amended (the "Code") or within the meaning of the Corporation's long-term disability plan applicable to the Grantee.

(e) Delivery of Unrestricted Share Certificates. Promptly after the date on which restrictions lapse with respect to the Granted Shares, the Escrow Agent shall (1) cancel the certificate representing such Granted Shares then held by the Escrow Agent in the Grantee's name, and (2) issue and deliver to the Grantee a share certificate in the Grantee's name, which does not bear the restrictive legend recited in Section 1 hereof, but which may bear any other restrictive legend that the Corporation may then deem necessary or desirable, for the number of Granted Shares.

(f) Non-assignability of Rights. No rights of the Grantee under any of Sections 1 through 3 of this Agreement may be assigned or transferred by the Grantee, except, in the event of the death of the Grantee, by will or by the laws of descent or distribution. Any attempt to assign, transfer, pledge or dispose of any Granted Shares which are then subject to the restrictions of Section 3(c) hereof or any rights of the Grantee hereunder shall be contrary to the provisions hereof, and the levy of any execution, attachment or similar process upon such Granted Shares, shall be null and void and without effect.

4. Voting of Shares; Dividends.

Effective as of the date on which the Grantee signifies acceptance of the Granted Shares, as described in Section 2 hereof, the Grantee (and in the event of the Grantee's death, his heirs or successors) shall be entitled to vote all of the Granted Shares and to receive any dividends payable to stockholders of record on and after the date of such acceptance; provided, however that neither the Grantee nor any successors shall have any dividend or voting rights or any other rights whatsoever with respect to any Granted Shares which are forfeited pursuant to Section 3(b), on and after the date of forfeiture. Any dividends payable in shares or other property (other than cash) shall be subject to the same restrictions as the Granted Shares on which such dividends were paid.

5. Adjustment of and Changes in Common Stock of the Corporation.

In the event of a reorganization, recapitalization, change of shares, stock split, spin-off, stock dividend, reclassification, subdivision or combination of shares, merger, consolidation, rights offering, or any other change in the corporate structure or shares of the Corporation, the Committee shall make such adjustment as it deems appropriate in the number and kind of shares that constitute the Granted Shares.

6. No Rights of Shareholders.

Except as provided in Section 4 of the Agreement, neither the Grantee nor any personal representative shall be, or have any of the rights and privileges of, a shareholder of the Corporation with respect to all or any portion of the Granted Shares as to which the restrictions under the Agreement have not lapsed prior to the date the restrictions lapse with respect to such Granted Shares under Section 3 of the Agreement.

7. Non-Transferability of Grants.

During the Grantee's lifetime, only the Grantee or any guardian or legal representative of the Grantee, may exercise rights with respect to the Granted Shares. Such persons may not transfer those rights except by will or the laws of descent and distribution or, if permitted under Rule 16b-3 of the Exchange Act and if permitted in any specific case by the Committee in their sole discretion, pursuant to a qualified domestic relations order as defined under the Code or Title I of ERISA or the rules thereunder. The Granted Shares shall not be subject to attachment, execution or other similar process. In the event of any attempt by the Grantee to alienate, assign, pledge, hypothecate or otherwise dispose of the Granted Shares or of any right hereunder, except as provided for herein, or in the event of the levy of any attachment, execution or similar process upon the rights or interest hereby conferred, the Corporation may terminate the Granted Shares by notice to the Grantee and the Escrow Agent is authorized to immediately utilize the stock powers delivered by the Grantee pursuant to Section 2 hereof and to transfer all such forfeited shares to the Corporation.

8. Employment Not Affected.

Neither the grant of the Granted Shares nor the lapse of the restrictions thereon shall be construed as granting to the Grantee any right with respect to continuance of employment by the Corporation or any of its subsidiaries. Except as may otherwise be limited by a written agreement between the Corporation or any subsidiary and the Grantee, the right of the Corporation or any parent or subsidiary to terminate at will the Grantee's employment with it at any time (whether by dismissal, discharge, or otherwise) is specifically reserved and such right is acknowledged by the Grantee.

9. Withholding of Tax.

As a condition of this Grant, and as a condition of delivery of the Granted Shares, when the Granted Shares become taxable to the Grantee, the Corporation shall have the right to require that the Grantee (or other person to whom the Granted Shares are to be delivered) remit to the Grantee's employer or, in appropriate cases, agree to remit to such employer when due, an amount sufficient to satisfy all federal, state and local withholding tax requirements relating to this Grant. When Granted Shares become taxable to the Grantee, the Committee may permit the Grantee to elect to satisfy the Corporation's tax withholding obligation with respect to the Granted Shares by having shares withheld up to an amount that does not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state and local tax liabilities.

10. Amendment of Grant.

The Restricted Stock Grant may be amended by the Committee at any time (i) if it determines, in its sole discretion, that amendment is necessary or advisable in the light of any addition to or change in the Code or regulations issued thereunder, or any federal or state securities law or other law or regulation, which change occurs after the Restricted Stock Grant and by its terms retroactively applies to such Grant and (ii) with the consent of the Grantee. Any such amendment shall be in writing and signed by the Corporation and the Grantee.

11. Notice.

Any notice to the Corporation provided for in this instrument shall be addressed to it in care of its Secretary, and any notice to the Grantee shall be addressed to the Grantee at the current address shown on the payroll of the Corporation or any subsidiary. Except as otherwise provided herein, any notice shall be deemed to be duly given if and when (i) hand delivered, (ii) properly addressed and posted by registered or certified mail, postage prepaid or (iii) sent by a recognized express courier service.

12. Incorporation of Plan by Reference.

This Restricted Stock Grant is made pursuant to the terms of the Plan. The terms of the Plan as in effect on the date hereof and as the Plan may be amended from time to time are incorporated herein by reference, and the Agreement shall in all respects be interpreted in accordance therewith. The Committee shall interpret and construe the Restricted Stock Grant, and its decision shall be conclusive and binding upon any questions arising hereunder.

13. Governing Law.

The validity, construction, interpretation and effect of this instrument shall exclusively be governed by and determined in accordance with the law of the Commonwealth of Pennsylvania.

14. Non-compete and Non-Solicitation Agreement.

(a) In consideration for the Restricted Stock Grant made to Grantee under the terms of this Agreement, Grantee agrees that during the term of Grantee's employment with the Corporation or one or more of its direct or indirect subsidiaries ("Employer") and for a twelve (12) month period beginning on the date that Grantee's employment with Employer ceases for any reason (the "Termination Date"), Grantee shall not directly or indirectly, (i) accept employment with, (ii) own, manage, operate, join, control, solicit, finance, or participate in the ownership, management, operation, acquisition, control or financing of, (iii) be connected as a partner, principal, agent, representative, consultant or otherwise with, or (iv) use or permit Grantee's name to be used in connection with, any business or enterprise engaged directly or indirectly in any business or enterprise engaged in a geographic area within 50 miles of any location from which the Corporation or any of its subsidiaries is operating on the Termination Date (the "Geographic Area"), in any business that is competitive to a business from which the Corporation and any of its subsidiaries, taken as a whole from all geographic area, derived at least ten percent of its respective annual gross revenues for the twelve (12) months preceding the Termination Date.

(b) In consideration for the Restricted Stock Grant made to Grantee under the terms of this Agreement, Grantee agrees that during a twelve (12) month period beginning on the date that Grantee's employment with Employer ceases for any reason, Grantee shall not

(i). directly or indirectly solicit, entice, broker or induce an agreement with any person or entity that had a contractual agreement with Employer during the term of Grantee's employment to enter into an agreement or arrangement with Grantee or any third party that would preclude the person or entity, either contractually or practically, from working with Employer; or

(ii). directly or indirectly solicit, recruit or hire any employee (full-time or part-time) of Employer to work for a third party other than Employer.

(c) Grantee acknowledges, agrees and represents that the type and periods of restrictions imposed in this Agreement are fair and reasonable, and that such restrictions are intended solely to protect the legitimate interests of Employer, rather than to prevent Grantee from earning a livelihood. Grantee recognizes that Employer competes or may compete in the Restricted Territory and that Grantee's access to confidential information makes it necessary for Employer to restrict Grantee's post-employment activities in the Restricted Territory. Grantee further represent that: (i) Grantee is familiar with the covenants not to compete and not to solicit set forth in this Agreement, (ii) Grantee is fully aware of his or her obligations hereunder, including, without limitation, the length of time, scope and geographic coverage of these covenants, (iii) Grantee find the length of time, scope and geographic coverage of these covenants to be reasonable, and (iv) Grantee is receiving valuable and sufficient consideration for Grantee's covenants not to compete and not to solicit.

GRANTEE

AQUA AMERICA, INC.

By: _____
Grantee

By: _____

Appendix A

The Restriction Period for the Granted Shares is as follows:

Granted Shares

**End of
Restriction Period**

AQUA AMERICA, INC.
2009 OMNIBUS EQUITY COMPENSATION PLAN
RESTRICTED STOCK GRANT AGREEMENT

Date of Grant: _____

This Restricted Stock Grant Agreement evidences the grant made by Aqua America, Inc., a Pennsylvania corporation (the "Corporation"), to _____, a key employee of the Corporation or one of its subsidiaries (the "Grantee"), under the terms and provisions of the Aqua America, Inc. 2009 Omnibus Equity Compensation Plan (the "Plan").

WHEREAS, the Executive Committee of the Board of Directors of the Corporation (the "Board") adopted the Plan, effective as of May 8, 2009, subject to the approval of the shareholders of the Corporation;

WHEREAS, the Plan was approved and ratified at the Corporation's 2009 Annual Meeting of the Shareholders by the vote of the holders of a majority of the Corporation's common stock (the "Common Stock") entitled to vote thereon;

WHEREAS, pursuant to the Plan, the Board has empowered its Executive Compensation Committee (the "Committee") to grant shares of Common Stock subject to certain restrictions (the "Restricted Stock") to eligible persons in accordance with the terms and provisions of the Plan; and

WHEREAS, the Committee has determined that the Grantee is an eligible person as contemplated by the Plan and has determined that it would be in the best interests of the Corporation to grant to the Grantee as of the date of grant specified above (the "Date of Grant") shares of Restricted Stock;

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Restricted Stock Grant.

Subject to the terms and conditions hereinafter set forth, the Corporation, with the approval and at the direction of the Committee, hereby grants to the Grantee _____ shares of Common Stock (the "Granted Shares"). Subject to the Grantee's signifying acceptance of this grant (in the manner indicated in Section 2 below), the Corporation shall cause a certificate or certificates representing the Granted Shares to be issued to Grantee (the "Initial Share Certificates"), which shall be registered in the name of the Grantee, and which shall bear the following restrictive legend, in addition to such other legends as the Corporation may deem necessary or desirable:

The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the Aqua America, Inc. 2009 Omnibus Equity Compensation Plan and an Agreement entered into between the registered owner and Aqua America, Inc. Copies of such Plan and Agreement are on file at the offices of Aqua America, Inc., 762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania 19010.

2. Acceptance by Grantee; Escrow Agent.

The Grantee shall signify acceptance of the Granted Shares by delivering to the Secretary of the Corporation an executed copy of this Agreement. Upon receipt from the Grantee of the executed copy of this Agreement, the proper officers of the Corporation promptly shall deposit the Initial Share Certificates with the Secretary of the Corporation or the Secretary's designee, as escrow agent for the Corporation (the "Escrow Agent"), to be held in accordance with the terms of this Agreement.

3. Restrictions.

(a) Restriction Period. The restrictions on the sale, encumbrance and transfer of the Granted Shares, or portions of the Granted Shares, as applicable, as described in Section 3(c) below shall lapse on the dates set forth in Appendix A, provided that the performance criteria established by the Committee, and set forth in Appendix A has been satisfied, or if earlier, in accordance with Section 3(d), subject to continued employment as described below. The period during which any portion of the Granted Shares actually remains subject to the restrictions of Section 3(c) hereof is referred to in this Agreement and in the Plan as the "Restriction Period" for such portion of the Granted Shares.

(b) Forfeiture of Granted Shares. Except as provided in Section 3(b)(1), 3(b)(2), or 3(d)(3), upon the termination of the Grantee's employment with the Corporation or any of its subsidiaries during the Restriction Period, the Grantee shall forfeit all of the Granted Shares as to which the restrictions under Section 3(c) hereof have not, on or before the effective date of such termination, lapsed pursuant to this Section 3. Upon such termination, Grantee hereby authorizes the Escrow Agent to immediately transfer all such forfeited shares to the Corporation, and the forfeited shares shall be cancelled. The purchase price paid, if any, for such forfeited shares shall also be returned to the Grantee upon such forfeiture. For purposes of this Agreement, the effective date of termination of the Grantee's employment shall be the first day on which the Grantee is no longer a regular full-time employee of the Corporation or any of its subsidiaries. The Committee may, however, pursuant to Section 3(d)(2) of the Agreement provide for complete or partial exceptions to the requirement of employment as it deems equitable.

(1) In the case of Grantee's termination of employment due to Normal Retirement as defined in Section 3(b)(3), Grantee shall not forfeit, as a result of Grantee's Normal Retirement any Granted Shares as to which the restrictions under Section 3(c) hereof have not lapsed, on or before the effective date of such termination, pursuant to this Section 3.

(2) In the case of Grantee's termination of employment due to Early Retirement as defined in Section 3(b)(4), Grantee shall not forfeit as a result of Grantee's Early Retirement, a pro-rata share of the Granted Shares based on the period in which the Grantee was employed during the Restriction Period, as to which the restrictions under Section 3(c) hereof have not lapsed, on or before the effective date of such termination, pursuant to this Section 3.

(3) Normal Retirement shall mean a termination of employment on or after the date the Grantee first satisfies the conditions for normal retirement benefits under the terms of the the Retirement Income Plan for Aqua America, Inc. and Subsidiaries (the "Pension Plan"), whether or not the Grantee is covered by the Pension Plan.

(4) Early Retirement shall mean a termination of employment that occurs on or after the date that the Grantee become eligible for early retirement pursuant to the terms of the Pension Plan; provided, however, that if the Grantee is not an active participant in the Pension Plan immediately prior to terminating employment, "Early Retirement" shall mean a termination of employment that occurs on or after the date that the Grantee is first eligible for Social Security retirement benefits and has completed at least 10 years of service for vesting purposes under the Pension Plan.

(c) Restrictions on Transfer; Shares Subject to Forfeiture. At no time during the Restricted Period shall the Grantee sell, assign, transfer, pledge or otherwise dispose of any portion of the Granted Shares as to which the restrictions under this Section 3 have not lapsed, except to a successor grantee (as defined in the Plan). Any attempt to assign, transfer, pledge or dispose of the Granted Shares contrary to the provisions hereof, and the levy or any execution, attachment or similar process upon the Granted Shares, shall be null and void and without effect.

(d) Lapse of Restrictions.

- (1) Except with respect to any of the Granted Shares that are forfeited by the Grantee pursuant to Section 3(b) hereof, upon the expiration of the applicable Restriction Period, and satisfaction of the requirements, under Section 3(a) hereof, all restrictions imposed under Section 3(c) of this Agreement shall lapse with respect to the Granted Shares, or the portion of the Granted Shares to which the applicable Restriction Period relates.
- (2) Notwithstanding any other provision hereof, the Committee may, as it deems equitable in its sole discretion, accelerate the date on which the restrictions of Section 3(c) hereof shall lapse with respect to any of the Granted Shares which have not previously been forfeited by the Grantee.
- (3) Notwithstanding any determinations by the Committee, upon (i) the death of Grantee, (ii) the termination of employment of the Grantee due to Disability (as defined below), or (iii) a Change of Control of the Corporation (as defined in the Plan), all restrictions on the transfer of Granted Shares that have not prior to such date been forfeited, shall immediately lapse. For purposes of this Agreement, Disability means the Grantee becomes disabled within the meaning of Section 22(e)(3) of the Internal Revenue Code, as amended (the "Code") or within the meaning of the Corporation's long-term disability plan applicable to the Grantee.

(e) If the performance criteria set forth in Appendix A with respect to the Granted shares, or with respect to the portion of the Granted Shares to which the performance criteria relates, are determined by the Committee not to have been satisfied, then the Grantee shall forfeit such Granted Shares, or the applicable portion of the Granted Shares, as to which such performance criteria have not been satisfied.

(f) Delivery of Unrestricted Share Certificates. Promptly after the date on which restrictions lapse with respect to the Granted Shares, the Escrow Agent shall (1) cancel the certificate representing such Granted Shares then held by the Escrow Agent in the Grantee's name, and (2) issue and deliver to the Grantee a share certificate in the Grantee's name, which does not bear the restrictive legend recited in Section 1 hereof, but which may bear any other restrictive legend that the Corporation may then deem necessary or desirable, for the number of Granted Shares.

(g) Non-assignability of Rights. No rights of the Grantee under any of Sections 1 through 3 of this Agreement may be assigned or transferred by the Grantee, except, in the event of the death of the Grantee, by will or by the laws of descent or distribution. Any attempt to assign, transfer, pledge or dispose of any Granted Shares which are then subject to the restrictions of Section 3(c) hereof or any rights of the Grantee hereunder shall be contrary to the provisions hereof, and the levy of any execution, attachment or similar process upon such Granted Shares, shall be null and void and without effect.

4. Voting of Shares; Dividends.

(a) Effective as of the date on which the Grantee signifies acceptance of the Granted Shares, as described in Section 2 hereof, the Grantee (and in the event of the Grantee's death, his heirs or successors) shall be entitled to vote all of the Granted Shares on and after the date of such acceptance; provided, however that neither the Grantee nor any successors shall have any voting rights or any other rights whatsoever with respect to any Granted Shares which are forfeited pursuant to Section 3(b), on and after the date of forfeiture.

(b) Dividends that are paid by the Corporation on the Granted Shares shall be withheld by the Corporation and shall be payable to the Grantee upon lapse of the restrictions applicable to the underlying Granted Shares as set forth in this Agreement. On each payment date for a dividend by the Corporation on its common stock, the Corporation shall credit to a bookkeeping account on the records of the Corporation, an amount equal to the dividend associated with the Granted Shares. No interest shall be credited to any such account. The accrued dividends will be paid in cash at the same time as the underlying Granted Shares are paid, upon release of the restrictions under this Agreement. If and to the extent the underlying Granted Shares are forfeited, all related dividends shall also be forfeited.

5. Adjustment of and Changes in Common Stock of the Corporation.

In the event of a reorganization, recapitalization, change of shares, stock split, spin-off, stock dividend, reclassification, subdivision or combination of shares, merger, consolidation, rights offering, or any other change in the corporate structure or shares of the Corporation, the Committee shall make such adjustment as it deems appropriate in the number and kind of shares that constitute the Granted Shares.

6. No Rights of Shareholders.

Except as provided in Section 4 of the Agreement, neither the Grantee nor any personal representative shall be, or have any of the rights and privileges of, a shareholder of the Corporation with respect to all or any portion of the Granted Shares as to which the restrictions under the Agreement have not lapsed prior to the date the restrictions lapse with respect to such Granted Shares under Section 3 of the Agreement.

7. Non-Transferability of Grants.

During the Grantee's lifetime, only the Grantee or any guardian or legal representative of the Grantee, may exercise rights with respect to the Granted Shares. Such persons may not transfer those rights except by will or the laws of descent and distribution or, if permitted under Rule 16b-3 of the Exchange Act and if permitted in any specific case by the Committee in their sole discretion, pursuant to a qualified domestic relations order as defined under the Code or Title I of ERISA or the rules thereunder. The Granted Shares shall not be subject to attachment, execution or other similar process. In the event of any attempt by the Grantee to alienate, assign, pledge, hypothecate or otherwise dispose of the Granted Shares or of any right hereunder, except as provided for herein, or in the event of the levy of any attachment, execution or similar process upon the rights or interest hereby conferred, the Corporation may terminate the Granted Shares by notice to the Grantee and the Escrow Agent is authorized to immediately utilize the stock powers delivered by the Grantee pursuant to Section 2 hereof and to transfer all such forfeited shares to the Corporation.

8. Employment Not Affected.

Neither the grant of the Granted Shares nor the lapse of the restrictions thereon shall be construed as granting to the Grantee any right with respect to continuance of employment by the Corporation or any of its subsidiaries. Except as may otherwise be limited by a written agreement between the Corporation or any subsidiary and the Grantee, the right of the Corporation or any parent or subsidiary to terminate at will the Grantee's employment with it at any time (whether by dismissal, discharge, or otherwise) is specifically reserved and such right is acknowledged by the Grantee.

9. Withholding of Tax.

As a condition of this Grant, and as a condition of delivery of the Granted Shares, when the Granted Shares become taxable to the Grantee, the Corporation shall have the right to require that the Grantee (or other person to whom the Granted Shares are to be delivered) remit to the Grantee's employer or, in appropriate cases, agree to remit to such employer when due, an amount sufficient to satisfy all federal, state and local withholding tax requirements relating to this Grant. When Granted Shares become taxable to the Grantee, the Committee may permit the Grantee to elect to satisfy the Corporation's tax withholding obligation with respect to the Granted Shares by having shares withheld up to an amount that does not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state and local tax liabilities.

10. Amendment of Grant.

The Restricted Stock Grant may be amended by the Committee at any time (i) if it determines, in its sole discretion, that amendment is necessary or advisable in the light of any addition to or change in the Code or regulations issued thereunder, or any federal or state securities law or other law or regulation, which change occurs after the Restricted Stock Grant and by its terms retroactively applies to such Grant and (ii) with the consent of the Grantee. Any such amendment shall be in writing and signed by the Corporation and the Grantee.

11. Notice.

Any notice to the Corporation provided for in this instrument shall be addressed to it in care of its Secretary, and any notice to the Grantee shall be addressed to the Grantee at the current address shown on the payroll of the Corporation or any subsidiary. Except as otherwise provided herein, any notice shall be deemed to be duly given if and when (i) hand delivered, (ii) properly addressed and posted by registered or certified mail, postage prepaid or (iii) sent by a recognized express courier service.

12. Incorporation of Plan by Reference.

This Restricted Stock Grant is made pursuant to the terms of the Plan. The terms of the Plan as in effect on the date hereof and as the Plan may be amended from time to time are incorporated herein by reference, and the Agreement shall in all respects be interpreted in accordance therewith. The Committee shall interpret and construe the Restricted Stock Grant, and its decision shall be conclusive and binding upon any questions arising hereunder.

13. Governing Law.

The validity, construction, interpretation and effect of this instrument shall exclusively be governed by and determined in accordance with the law of the Commonwealth of Pennsylvania.

14. Non-compete and Non-Solicitation Agreement.

(a) In consideration for the Restricted Stock Grant made to Grantee under the terms of this Agreement, Grantee agrees that during the term of Grantee's employment with the Corporation or one or more of its direct or indirect subsidiaries ("Employer") and for a twelve (12) month period beginning on the date that Grantee's employment with Employer ceases for any reason (the "Termination Date"), Grantee shall not directly or indirectly, (i) accept employment with, (ii) own, manage, operate, join, control, solicit, finance, or participate in the ownership, management, operation, acquisition, control or financing of, (iii) be connected as a partner, principal, agent, representative, consultant or otherwise with, or (iv) use or permit Grantee's name to be used in connection with, any business or enterprise engaged directly or indirectly in any business or enterprise engaged in a geographic area within 50 miles of any location from which the Corporation or any of its subsidiaries is operating on the Termination Date (the "Geographic Area"), in any business that is competitive to a business from which the Corporation and any of its subsidiaries, taken as a whole from all geographic area, derived at least ten percent of its respective annual gross revenues for the twelve (12) months preceding the Termination Date.

(b) In consideration for the Restricted Stock Grant made to Grantee under the terms of this Agreement, Grantee agrees that during a twelve (12) month period beginning on the date that Grantee's employment with Employer ceases for any reason, Grantee shall not

- (i). directly or indirectly solicit, entice, broker or induce an agreement with any person or entity that had a contractual agreement with Employer during the term of Grantee's employment to enter into an agreement or arrangement with Grantee or any third party that would preclude the person or entity, either contractually or practically, from working with Employer; or
- (ii). directly or indirectly solicit, recruit or hire any employee (full-time or part-time) of Employer to work for a third party other than Employer.

(c) Grantee acknowledges, agrees and represents that the type and periods of restrictions imposed in this Agreement are fair and reasonable, and that such restrictions are intended solely to protect the legitimate interests of Employer, rather than to prevent Grantee from earning a livelihood. Grantee recognizes that Employer competes or may compete in the Restricted Territory and that Grantee's access to confidential information makes it necessary for Employer to restrict Grantee's post-employment activities in the Restricted Territory. Grantee further represent that: (i) Grantee is familiar with the covenants not to compete and not to solicit set forth in this Agreement, (ii) Grantee is fully aware of his or her obligations hereunder, including, without limitation, the length of time, scope and geographic coverage of these covenants, (iii) Grantee find the length of time, scope and geographic coverage of these covenants to be reasonable, and (iv) Grantee is receiving valuable and sufficient consideration for Grantee's covenants not to compete and not to solicit.

GRANTEE

AQUA AMERICA, INC.

By: _____
Grantee

By: _____

Appendix A

The Restriction Period for the Granted Shares is as follows:

<u>Granted Shares</u>	<u>End of Restriction Period</u>	<u>Performance Criteria</u>
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**FIRST AMENDMENT TO AQUA AMERICA, INC.
SUPPLEMENTAL PENSION BENEFIT PLAN
FOR SALARIED EMPLOYEES**

(As Amended and Restated Effective January 1, 2008)

WHEREAS, Aqua America, Inc. (the "Company") maintains the Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (the "Plan") for the benefit of a select group of management and highly compensated employees; and

WHEREAS, the Company desires to amend the Plan to increase the benefit payable to a Surviving Spouse;

NOW, THEREFORE, effective as of the date set forth below, Section 1.16 of the Plan is hereby amended to read as follows:

1.16 "Surviving Spouse Benefit" means the survivor annuity payable to the Surviving Spouse determined as if the Participant had retired on the later of the day prior to his death or on the date of his earliest retirement age (having survived to such date), with an immediate joint and survivor annuity. The survivor annuity percentage shall be 75% with respect to Participants in Part A of the Retirement Plan and 50% with respect to Participants in Part C of the Retirement Plan. A Surviving Spouse Benefit shall be determined in the form of a single life annuity (based on such survivor annuity) for the life of the Surviving Spouse commencing on the later of the Participant's date of death or earliest retirement age. Earliest retirement age shall have the same meaning as under the Retirement Plan.

IN WITNESS WHEREOF, Aqua America, Inc. has caused this Amendment to be duly executed, under seal, this 10th day of December, 2009.

Maria Gordiany
Assistant Secretary

AQUA AMERICA, INC.

By: Roy H. Stahl
Chief Administrative Officer,
General Counsel and Secretary

[Corporate Seal]

**FIRST AMENDMENT TO AQUA AMERICA, INC.
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN
FOR NICHOLAS DEBENEDICTIS**

(As Amended and Restated Effective January 1, 2008)

WHEREAS, Aqua America, Inc. (the "Company") maintains the Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis (the "Plan"); and

WHEREAS, the Company desires to amend the Plan to increase the benefit payable to a Surviving Spouse;

NOW, THEREFORE, effective as of the date set forth below, Section 1.19 of the Plan is hereby amended to read as follows:

1.19 "Surviving Spouse Benefit" means the survivor annuity payable to the Surviving Spouse determined as if the Participant had retired on the later of the day prior to his death or on the date of his earliest retirement age (having survived to such date), with an immediate joint and 75% survivor annuity. A Surviving Spouse Benefit shall be determined in the form of a single life annuity (based on such 75% survivor annuity) for the life of the Surviving Spouse commencing on the later of the Participant's date of death or earliest retirement age. Earliest retirement age shall have the same meaning as under the Retirement Plan.

IN WITNESS WHEREOF, Aqua America, Inc. has caused this Amendment to be duly executed, under seal, this 10th day of December, 2009.

AQUA AMERICA, INC.

Maria Gordiany
Assistant Secretary

By: Roy H. Stahl
Chief Administrative Officer,
General Counsel and Secretary

[Corporate Seal]

BOND PURCHASE AGREEMENT

\$74,685,000

PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY

**Water Facilities Revenue Bonds
(Aqua Pennsylvania, Inc. Project)
Series B of 2009**

Bond Purchase Agreement dated October 20, 2009, (this “Bond Purchase Agreement”) among the PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY (the “Authority”), AQUA PENNSYLVANIA, INC., a Pennsylvania corporation (the “Company”), and JEFFERIES & COMPANY, Inc., a Delaware Corporation (the “Representative”), on behalf of itself and as representative of the underwriters identified on Schedule I attached hereto (collectively, the “Underwriters”).

Section 1. Background.

(a) The Authority proposes to enter into a Financing Agreement (the “Financing Agreement”) dated as of October 15, 2009 with the Company, under which the Authority will agree to loan to the Company funds to (i) finance certain capital costs of the construction, acquisition and installation of modifications, expansions and replacements of water distribution, treatment and related operating systems located in the counties of Montgomery, Bucks, Chester, Delaware, and Mercer in Pennsylvania (the “Facilities”) that are part of the Company’s system (the “System”) for the distribution of water to its customers, and (ii) pay related financing costs (collectively, the “Project”). To finance the loan under the Financing Agreement, the Authority proposes to issue and sell \$74,685,000 aggregate principal amount of its Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series B of 2009 (the “Bonds”) to the Underwriters, who will in turn reoffer the Bonds for sale to the public.

(b) The Bonds will be issued pursuant to the Pennsylvania Economic Development Financing Law, Act of August 23, 1967, P.L. 251, as amended and supplemented (the “Act”), a resolution adopted by the Authority on October 1, 2009 (the “Authority Resolution”) and a Trust Indenture, dated as of October 15, 2009 (the “Trust Indenture”), between the Authority and U.S. Bank National Association, as trustee (the “Trustee”). The Bonds will have such terms as are set forth in Schedule I attached hereto.

The Bonds will be payable out of payments by the Company under the Financing Agreement, including payments under its First Mortgage Bond, 5.00% Series due 2040 in the principal amount of \$62,165,000 and its First Mortgage Bond, 4.750% Series due 2040 in the principal amount of \$12,520,000 (together, the "First Mortgage Bonds") issued with respect to the Bonds. The First Mortgage Bonds will be issued under and secured by the Company's Indenture of Mortgage dated as of January 1, 1941 (the "Indenture of Mortgage"), from the Company to The Bank of New York Mellon Trust Company, N.A., as trustee (successor to The Pennsylvania Company for Insurance on Lives and Granting Annuities, The Pennsylvania Company for Banking and Trusts, The First Pennsylvania Banking and Trust Company, First Pennsylvania Bank, N.A., CoreStates Bank, N.A., Mellon Bank, N.A., Chase Manhattan Trust Company, National Association and J.P. Morgan Trust Company, National Association) (the "Mortgage Trustee"), as presently amended and supplemented and as to be further supplemented by a Forty-fifth Supplemental Indenture of Mortgage to be dated as of October 15, 2009, (the "Forty-fifth Supplemental Mortgage", which together with the Indenture of Mortgage, as amended and supplemented, is referred to hereinafter as the "Mortgage"). Each of the First Mortgage Bonds will be issued in the same aggregate principal amount, and will mature on the same date and bear interest at the same rate as the Bonds that it secures. All of the Authority's rights under the Financing Agreement to receive and enforce repayment of its loan to the Company and to enforce payment of the Bonds, including all of the Authority's rights to the First Mortgage Bonds, and all of the Authority's rights to moneys and securities in the Project Fund, the Revenue Fund and the Debt Service Fund (and the accounts within all such Funds applicable to the Bonds) established by the Trust Indenture, except for the Authority's rights to certain fees and reimbursements for expenses, indemnification and notice thereunder and rights relating to amendments of and notices under the Financing Agreement, will be assigned to the Trustee as security for the Bonds pursuant to the Trust Indenture.

(c) The Project will finance the acquisition, construction, installation and equipping of facilities for the furnishing of water for purposes of Section 142(a)(4) of the Internal Revenue Code of 1986, as amended (the "Code"), so that the interest on the Bonds will not be includable in gross income for federal income tax purposes under the Code and the Underwriters may offer the Bonds for sale without registration under the Securities Act of 1933, as amended (the "1933 Act"), or qualification of the Trust Indenture under the Trust Indenture Act of 1939, as amended (the "1939 Act").

(d) A Preliminary Official Statement dated October 9, 2009, including the Appendices thereto and all documents incorporated therein by reference (the "Preliminary Official Statement"), has been supplied to the parties hereto, and a final Official Statement to be dated the date hereof, including the Appendices thereto and all documents incorporated therein by reference, prepared for use in such offerings will be supplied to the parties hereto as soon as it is available, subject to Section 10 hereof (such final Official Statement, as it may be amended or supplemented with the consent of the Authority, the Representative and the Company, is hereinafter referred to as the "Official Statement").

Section 2. Purchase, Sale and Closing. On the terms and conditions herein set forth, the Underwriters will buy from the Authority, and the Authority will sell to the Underwriters, all (but not less than all) of the Bonds at a purchase price equal to \$73,875,469.55 which is equal to the \$74,685,000 aggregate principal amount of the Bonds, plus net original issue premium of \$310,744.55, less the underwriting discount of \$1,120,275.00. Payment for the Bonds shall be made in immediately available funds to the Trustee for the account of the Authority. Closing (the "Closing") will be at the offices of Ballard Spahr LLP, Philadelphia, Pennsylvania ("Bond Counsel"), at 10:00 a.m., Eastern Standard Time, on November 17, 2009 or at such other date, time or place or in such other manner as may be agreed on by the parties hereto. The Bonds will be delivered as fully registered bonds in the aggregate principal amount of \$74,685,000 in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), with CUSIP numbers printed thereon, and shall conform in all respects to DTC's Book-Entry Only System. Delivery of the Bonds to DTC will be made by delivering the Bonds to the Trustee utilizing the DTC FAST system. If the Representative so requests, the Bonds shall be made available to the Underwriters (prior to their delivery to DTC) in Philadelphia, Pennsylvania at least three full business days before the Closing for purposes of inspection.

The Underwriters agree to make a bona fide public offering of the Bonds at the initial offering prices or yields set forth in the Official Statement; provided, however, that the Underwriters reserve the right (and the Authority and the Company hereby expressly acknowledge such right): to make concessions to dealers; to effect transactions that stabilize or maintain the market price of the Bonds above that which might otherwise prevail in the open market and to discontinue at any time such stabilizing transactions; and to change such initial offering prices, all as the Underwriters shall deem necessary in connection with the marketing of the Bonds.

Section 3. Authority's Representations. The Authority makes the following representations on and as of the date hereof, all of which shall survive Closing:

(a) The Authority is a body politic and corporate, duly created and existing under the Constitution and laws of the Commonwealth of Pennsylvania (the "Commonwealth"), including the "Act", and has, and at the date of Closing will have, full legal right, power and authority to: enter into this Bond Purchase Agreement; execute and deliver the Bonds, the Trust Indenture, the Financing Agreement, this Bond Purchase Agreement and the Authority's tax certificate and the other various certificates executed by the Authority in connection therewith (collectively, with the Authority Resolution, the "Authority Financing Documents"); issue, sell and deliver the Bonds to the Underwriters as provided herein; and carry out and consummate the transactions contemplated by the Authority Financing Documents and the Official Statement to be carried out and/or consummated by it.

(b) The Authority Resolution was duly adopted at a public meeting of the Authority at which a quorum was present and acted throughout; and the Authority Resolution is in full force and effect and has not been amended, repealed or superseded in any way.

(c) The sections entitled "INTRODUCTORY STATEMENT" (solely insofar as it relates to the Authority), "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION" (solely insofar as the information set forth therein relates to the Authority) contained in the Preliminary Official Statement as of its date did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

(d) The sections entitled "INTRODUCTORY STATEMENT" (solely insofar as it relates to the Authority), "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION" (solely insofar as the information set forth therein relates to the Authority) contained in the Official Statement as of its date does not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

(e) The Authority has complied, and will at the Closing be in compliance, in all material respects with the provisions of the Act.

(f) The Authority has duly authorized and approved the Preliminary Official Statement and the Official Statement; and has duly authorized and approved the execution and delivery of, and the performance by the Authority of the obligations on its part contained in, the Authority Financing Documents.

(g) To the best of the knowledge of the Authority after due inquiry, the Authority is not in material breach of or in default under any applicable law or administrative regulation of the Commonwealth or the United States; and the execution and delivery of the Authority Financing Documents, and compliance with the provisions of each thereof, do not and will not conflict with or constitute a breach of or default under any existing law, administrative regulation, judgment, decree, loan agreement, note, resolution, agreement or other instrument to which the Authority is a party or is otherwise subject.

(h) All approvals, consents and orders of any governmental authority, board, agency or commission having jurisdiction that would constitute a condition precedent to the Authority's legal ability to issue the Bonds or to the Authority's performance of its obligations hereunder and under the Authority Financing Documents have been obtained or will be obtained prior to the Closing.

(i) The Bonds, when issued, authenticated and delivered in accordance with the Trust Indenture and sold to the Underwriters as provided herein, will be validly issued and will be valid and binding limited obligations of the Authority enforceable against the Authority in accordance with their terms (except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium or other laws or legal or equitable principles affecting the enforcement of creditors' rights ("Creditors' Rights Limitations")).

(j) The terms and provisions of the Authority Financing Documents when executed and delivered by the respective parties thereto will constitute the valid, legal and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms (except as enforcement of remedies may be limited by Creditors' Rights Limitations).

(k) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, or public board or body, pending or, to the knowledge of the Authority after due inquiry, threatened against the Authority, affecting the existence of the Authority or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or of the revenues or assets of the Authority pledged or to be pledged to pay the principal of and interest on the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Authority Financing Documents or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or contesting the power or authority of the Authority with respect to the issuance of the Bonds or the execution, delivery or performance of any of the Authority Financing Documents, wherein an unfavorable decision, ruling or finding would affect in any way the validity or enforceability of any of the Authority Financing Documents.

(l) The net proceeds received from the Bonds and applied in accordance with the Trust Indenture and the Financing Agreement shall be used in accordance with the Act as described in the Official Statement.

(m) Any certificate signed by any of the authorized officers of the Authority and delivered to the Representative shall be deemed a representation and warranty by the Authority to the Underwriters as to the statements made therein.

Section 4. Company's Representations and Warranties. The Company makes the following representations and warranties on and as of the date hereof and as of the date of Closing, all of which will survive the Closing:

(a) The Company has not sustained, since December 31, 2008, any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree; and since the respective dates as of which information is given in the Official Statement, there have not been any material changes in the outstanding capital stock or the long-term debt of the Company or any material adverse change, or a development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, stockholder's equity or results of operations of the Company, otherwise than as set forth or contemplated in the Official Statement.

(b) The Company was organized, is in good standing and subsists as a corporation under the laws of the Commonwealth, with power (corporate and other) to own its properties and conduct its business as described in the Official Statement.

(c) The First Mortgage Bonds have been duly authorized and, when issued and delivered as contemplated by this Bond Purchase Agreement, will have been duly executed, authenticated, issued and delivered and will constitute valid and legally binding obligations of the Company enforceable in accordance with their terms (except as may be affected by Creditors' Rights Limitations) entitled to the benefits provided by the Mortgage.

(d) The Indenture of Mortgage has been duly authorized, executed and delivered by the Company, and the Forty-fifth Supplemental Mortgage has been duly authorized by the Company. When the Forty-fifth Supplemental Mortgage, in substantially the form approved by the Representative and Bond Counsel, has been executed and delivered by the Company and assuming due authorization and execution by the Mortgage Trustee, and recorded as required by law, the Mortgage will constitute a valid and legally binding instrument enforceable against the Company in accordance with its terms except as enforceability may be affected by Creditors' Rights Limitations; will constitute a direct, valid and enforceable first mortgage lien (except as enforceability of such lien may be affected by Creditors' Rights Limitations) upon all of the properties and assets of the Company (not heretofore released as provided for in the Mortgage) specifically or generally described or referred to in the Mortgage as being subject to the lien thereof, excepting permitted liens under the Mortgage and excepting property and assets that the Mortgage expressly excludes from the lien thereof; and will create a mortgage upon all properties and assets acquired by the Company after the execution and delivery of the Forty-fifth Supplemental Mortgage and required to be subjected to the lien of the Mortgage pursuant thereto when so acquired, except for permitted liens under the Mortgage. The Indenture of Mortgage has been and the Forty-fifth Supplemental Mortgage will be duly filed, recorded or registered in each place in the Commonwealth in which such filing, recording or registration was or is required to protect and preserve the lien of the Mortgage; and all necessary approvals of regulatory authorities, commissions and other governmental bodies having jurisdiction over the Company required to subject the mortgaged properties and assets or trust estate (as defined in the Mortgage) to the lien of the Mortgage have been duly obtained.

(e) With only such exceptions as are not material and do not interfere with the conduct of the business of the Company, the Company has good and marketable title to all of its real property currently held in fee simple, and all of its other interests in real property (other than certain rights of way, easements, occupancy rights, riparian and flowage rights, licenses, leaseholds and real property interests of a similar nature). In each case such title is free and clear of all liens, encumbrances and defects except such as may be described in the Official Statement, the lien of the Mortgage, permitted liens under the Mortgage or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company. Any real property and buildings held under lease by the Company are held by it under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company.

(f) With only such exceptions as are not material and do not interfere with the conduct of the business of the Company, the Company has all licenses, franchises, permits, authorizations, rights, approvals, consents and orders of all governmental authorities or agencies necessary for the ownership or lease of the properties owned or leased by it and for the operation of the business carried on by it as described in the Official Statement, and all water rights, riparian rights, easements, rights of way and other similar interests and rights described or referred to in the Mortgage necessary for the operation of the business carried on by it as described in the Official Statement. Except as otherwise set forth in the Official Statement, all such licenses, franchises, permits, orders, authorizations, rights, approvals and consents are in full force and effect and contain no unduly burdensome provisions. Except as otherwise set forth in the Official Statement, there are no legal or governmental proceedings pending or, to the knowledge of the Company after due inquiry, threatened that would result in a material modification, suspension or revocation thereof. The Company has the legal power to exercise the rights of eminent domain for the purposes of conducting its water utility operations.

(g) The issue and sale of the Bonds, the issue and delivery of the First Mortgage Bonds and the compliance by the Company with all of the applicable provisions of the First Mortgage Bonds and the Mortgage and the execution, delivery and performance by the Company of the Forty-fifth Supplemental Mortgage, the Financing Agreement, this Bond Purchase Agreement and the Continuing Disclosure Agreement will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance (other than the lien of the Mortgage) upon any of the property or assets of the Company pursuant to the terms of any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company is a party or by which the Company is bound or to which any of the property or assets of the Company are subject, nor will such action result in a violation of the provisions of the Articles of Incorporation, as amended, or the Bylaws of the Company or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its property. No consent, approval, authorization, order, registration or qualification of or with any court or any such regulatory authority or other governmental body (other than those already obtained) is required to be obtained by the Company for the issue and sale of the Bonds, the issue and delivery of the First Mortgage Bonds, the execution, delivery and performance by the Company of this Bond Purchase Agreement, the Financing Agreement, the Forty-fifth Supplemental Mortgage, the First Mortgage Bonds and the Continuing Disclosure Agreement, or the consummation by the Company of the other transactions contemplated by this Bond Purchase Agreement or the Mortgage.

(h) The Company has obtained from the Pennsylvania Public Utility Commission an order duly authorizing the issuance and delivery of the First Mortgage Bonds by the Company and the incurring of the debt evidenced thereby, on terms not inconsistent with this Bond Purchase Agreement.

(i) The Company is not a holding company, a registered holding company or an affiliate of a registered holding company within the meaning of the Public Utility Holding Company Act of 1935, as amended.

(j) There are no legal or governmental proceedings pending to which the Company is a party or to which any property of the Company is subject, other than as set forth in the Official Statement, wherein an unfavorable ruling, decision or finding would have a material adverse effect on the financial position, stockholder's equity or results of operations of the Company; and, to the best of the Company's knowledge after due diligence, no such proceedings are threatened by governmental authorities or threatened by others.

(k) The Project consists of either land or property of a character subject to depreciation for federal income tax purposes and will be used to furnish water that is or will be made available to members of the general public (including electric utility, industrial, agricultural, or commercial users); the rates for the furnishing or sale of the water have been established or approved by a state or political subdivision thereof, by an agency or instrumentality of the United States, or by a public service or public utility commission or other similar body of any state or political subdivision thereof; and all other information supplied by the Company to the Representative with respect to the exclusion from gross income pursuant to Section 103 of the Code of the interest on the Bonds is correct and complete.

(l) The Company has not, within the immediately preceding ten (10) years, defaulted in the payment of principal or interest on any of its bonds, notes or other securities, or any legally authorized obligation issued by it.

(m) The information with respect to the Company and the Project and the descriptions of the First Mortgage Bonds and the Mortgage contained in the Preliminary Official Statement and the Official Statement (including appendices A and B thereto) do not contain any untrue statement of a material fact or omit to state any material fact necessary to be stated therein in order to make such information and descriptions, in the light of the circumstances under which they were made, not misleading.

Section 5. Authority's Covenants. The Authority will:

(a) Furnish such information, execute such instruments and take such other action in cooperation with the Representative as the Representative may reasonably request to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions in the United States of America as the Representative may designate and will assist, if necessary therefor, in the continuance of such qualifications in effect so long as required for distribution of the Bonds; provided, however, that the Authority shall in no event be required to file a general consent to suit or service of process or to qualify as a foreign corporation or as a dealer in securities in any such state or other jurisdiction.

(b) Not, on its part, amend or supplement the Official Statement without prior notice to and the consent of the Representative and the Company and will advise the Representative and the Company promptly of the institution of any proceedings by any governmental agency or otherwise affecting the use of the Official Statement in connection with the offer and sale of the Bonds.

(c) Refrain from knowingly taking any action (and permitting any action with regard to which the Authority may exercise control) that would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Section 6. Company's Covenants. The Company agrees that it will:

(a) Refrain from knowingly taking any actions (and from permitting any action with regard to which the Company may exercise control) that would result in the loss of the exclusion from gross income for federal tax purposes of interest on the Bonds.

(b) Indemnify and hold harmless the Authority, its members, directors, officers, agents, attorneys, and employees and the Underwriters, their respective officers, directors, officials, agents, attorneys, employees, and each person, if any, who controls each of the Underwriters within the meaning of Section 15 of the 1933 Act or Section 20 of the Securities Exchange Act of 1934, as amended (the "1934 Act"), from and against all losses, claims, damages, liabilities and expenses, joint or several, to which the Authority and the Underwriters, or either of them, or any of their respective members, directors, officers, agents, attorneys, and employees and each person, if any, who controls the Underwriters within the meaning of the 1933 Act or 1934 Act as aforesaid may become subject, under federal laws or regulations, or otherwise, insofar as such losses, claims, damages, liabilities and expenses (or actions in respect thereof) arise out of or are based upon: (i) a breach of the Company's representations included in this Agreement; (ii) any untrue statement or alleged untrue statement of any material fact pertaining to the Project or the Company set forth in the Official Statement, the Preliminary Official Statement or any amendment to either; (iii) the willful or negligent omission of (or the alleged omission to state) a material fact in the Official Statement, the Preliminary Official Statement, or any amendment or supplement to either, as such fact is required to be stated therein or necessary to make the statements therein that pertain to the Company or the Project not misleading in the light of the circumstances under which they were made; (iv) or arising by virtue of the failure to register the Bonds under the 1933 Act or the failure to qualify the Trust Indenture under the 1939 Act; or (v) arising by virtue of any audit or investigation conducted by a state or federal agency, department or entity questioning, among other things, the tax-exempt status of the Bonds.

(c) Undertake, pursuant to the Continuing Disclosure Agreement dated as of November 17, 2009 to be entered into between the Company and the Trustee (the "Continuing Disclosure Agreement"), to provide annual reports and notices of certain material events in accordance with Rule 15c2-12 under the 1934 Act, as amended ("Rule 15c2-12").

(d) Not amend or supplement the Official Statement without prior notice to, and the consent of, the Representative, and will advise the Representative and the Authority promptly of the institution of any proceedings by any governmental agency or otherwise affecting the use of the Official Statement in connection with the offer and the sale of the Bonds.

(e) Take all actions reasonably necessary to maintain in effect and to comply with the order of the Commonwealth Public Utility Commission dated October 15, 2009, registering the Securities Certificate for the issuance of the First Mortgage Bonds in support of the Bonds.

Section 7. Underwriters' Covenant and Compensation.

(a) By acceptance hereof, each of the Underwriters, on a several (according to their respective percentages on Schedule I) but not joint basis, agrees to indemnify and hold harmless the Authority, its members, directors, officers, agents, attorneys, and employees and the Company, its officers, directors, agents, attorneys, and employees and each person if any, who controls the Company within the meaning of Section 15 of the 1933 Act against all or several claims, losses, damages, liabilities and expenses asserted against them, or any of them, at law or in equity, in connection with the offering and sale of the Bonds on the grounds that the information under the caption "UNDERWRITING" in the Preliminary Official Statement or the Official Statement (or any supplement or amendment to said information) contains an untrue or allegedly untrue statement of a material fact or omits or allegedly omits to state any material fact necessary to make the statements therein not misleading in the light of the circumstances under which they were made (it being understood that the Underwriters furnished only the information under such "UNDERWRITING" heading), or failure on the part of the Underwriters to deliver an Official Statement to any purchaser. The Underwriters will reimburse any legal or other expenses reasonably incurred by a party, person or entity indemnifiable under this Section 7 in connection with investigating or defending any such loss, claim, damage, liability or action. This indemnity agreement will be in addition to any liability that the Underwriters may otherwise have. The Underwriters shall not be liable for any settlement of, any such action effected without its consent.

(b) The Underwriters will be paid an underwriting discount of \$1,120,275 with respect to the Bonds.

(c) The Underwriters acknowledge that the Authority is relying upon the accuracy of the certification in clause (b) above on the date hereof as a condition precedent to lending the proceeds of the Bonds to the Company.

Section 8. Notice of Indemnification; Settlement. Promptly after a party, person or entity indemnifiable under Section 6 or 7 of this Bond Purchase Agreement (an “Indemnitee”) receives notice of the commencement of any audit, investigation or action against such Indemnitee in respect of which indemnity is to be sought by the Indemnitee against the Company or any of the respective Underwriters, as the case may be (the “Indemnifying Party”), the Indemnitee will notify the Indemnifying Party in writing of such action, and the Indemnifying Party may assume the defense thereof, including the employment of counsel and the payment of all expenses; but the failure so to notify the Indemnifying Party will not relieve the Indemnifying Party from any liability that it may have to the Indemnitee otherwise than hereunder. The Indemnifying Party shall not be liable for any settlement of any such action effected without its consent, but if settled with the consent of the Indemnifying Party or if there is a final judgment for the plaintiff in any such action, the Indemnifying Party will indemnify and hold harmless the Indemnitee from and against any loss or liability by reason of such settlement or judgment. The indemnity agreements contained in this Bond Purchase Agreement shall include reimbursement for expenses reasonably incurred by an Indemnitee in investigating the claim and in defending it if the Indemnifying Party declines to assume the defense and shall survive delivery of the Bonds. Notwithstanding the foregoing, in the event of an investigation or audit by the Internal Revenue Service or the Securities and Exchange Commission or any other state or federal agency, department, or entity with respect to the Bonds, the Authority shall have the right and duty to undertake its own defense, including the employment of counsel, with full power to litigate, compromise or settle the same on its own behalf, and the Company agrees that it will indemnify and hold the Authority harmless for all costs and expenses, including, but not limited to, attorney fees and expenses and costs, of any such settlement.

Section 9. Equitable Contribution. If the indemnification provided for in Section 6(b) of this Bond Purchase Agreement is unavailable to any of the respective Underwriters (or any controlling person thereof) in respect of any losses, claims, damages or liabilities referred to therein, then the Company shall, in lieu of indemnifying each or any of the respective Underwriters, contribute to the amount paid or payable by each or any of the Underwriters as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect the relative benefits received by the Company and the Underwriters, respectively, from the offering of the Bonds. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law, then the Company shall contribute to such amount paid or payable by the Underwriters in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company and each or any of the Underwriters, respectively, in connection with the statements or omission which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefit received by the Company or the Underwriters shall be deemed to be in the same proportion as the total proceeds from the offering (before deducting issuance costs and expenses other than underwriting fees and commissions) received by the Company, on the one hand, bear to the total Underwriting fees and commissions received by the Underwriters, on the other hand. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact related to information supplied by the Company or each of the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 9 were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to above in this Section 9. The amount paid or payable by each of the Underwriters as a result of the losses, claims, damages or liabilities referred to above in this Section 9 shall be deemed to include any reasonable legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 9, no Underwriter shall be required to contribute any amount in excess of the amount of the discount allowed to each Underwriter as set forth in Section 7(b) hereof.

Section 10. Official Statement; Public Offering.

(a) In order to enable the Underwriters to comply with Rule 15c2-12, the Company has prepared (or caused to be prepared) the Preliminary Official Statement, which the Company and the Authority (in the case of the Authority, only with respect to the information therein under the headings "THE AUTHORITY" and, insofar as they relate to the Authority, "INTRODUCTORY STATEMENT" and "ABSENCE OF MATERIAL LITIGATION") deem final and complete as of its date except for certain permitted omissions as described in Rule 15c2-12. The Company shall provide to the Representative sufficient copies of the Official Statement in sufficient time to accompany any confirmation that requires payment from any customer and in any event within seven (7) business days after the date of this Bond Purchase Agreement. If the Company, during the period described in Section 10(b) below, has or gains knowledge of a fact or circumstance that would render the Official Statement misleading in any material respect, then the Company shall promptly give the Representative written notice thereof. The Authority and the Company hereby authorize the use of the Preliminary Official Statement and the Official Statement by the Underwriters in connection with the offering of the Bonds.

(b) The Authority and the Company will not adopt or distribute any amendment of or supplement to the Official Statement, except with the prior written consent of the Representative. If from the date hereof until the earlier of (i) ninety (90) days after the end of the underwriting period (as defined in Rule 15c2-12) or (ii) the time when the Official Statement is available to any person from the Repository with which it has been deposited, but in no case less than twenty-five (25) days following the end of the underwriting period, any event relating to or affecting the Authority, the Company or the Bonds shall occur, the result of which shall make it necessary, in the opinion of the Representative, to amend or supplement the Official Statement in order to make it not misleading in the light of the circumstances existing at that time, the Company shall forthwith prepare, and the Company and the Authority shall approve for distribution, a reasonable number of copies of an amendment of or supplement to the Official Statement, in form and substance reasonably satisfactory to the Underwriters, so that the Official Statement then will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances existing at that time, not misleading. The Authority shall cooperate with the Company in the issuance and distribution of any such amendment or supplement.

(c) Upon Closing, the Representative shall promptly provide the Municipal Securities Rulemaking Board (which as of July 1, 2009 is the only nationally recognized municipal securities information repository) with a copy of the Official Statement for filing in accordance with Rule 15c2-12, and inform the Authority and the Company in writing as to the date and place of such filing and the date of the end of the underwriting period.

Section 11. Conditions of Underwriters' and Authority's Obligations . The Underwriters' obligations to purchase and pay for the Bonds and the Authority's obligation to issue and deliver the Bonds are subject to fulfillment of the following conditions at or before Closing:

(a) The representations of the Authority and the Company herein, as applicable, shall be true in all material respects on and as of the date of the Closing and shall be confirmed by appropriate certificates at Closing.

(b) Neither the Authority nor the Company, as applicable, shall be in default in the performance of any of their respective covenants herein.

(c) The Representative shall have received:

(i) An opinion of Ballard Spahr LLP, Bond Counsel, dated the date of Closing, substantially in the form attached as Appendix E to the Preliminary Official Statement, addressed to (or with reliance letters delivered in respect of) the Authority, the Trustee, the Company and the Representative.

(ii) An opinion of Ballard Spahr LLP, Bond Counsel, dated the date of Closing, substantially in the form attached as Exhibit A hereto, addressed to the Representative.

(iii) An opinion of the Office of Chief Counsel of the Pennsylvania Department of Community and Economic Development, as counsel for the Authority, dated the date of Closing, substantially in the form attached as Exhibit B hereto, addressed to the Representative, the Trustee, the Company and Bond Counsel.

(iv) An opinion of Dilworth Paxson LLP, counsel to the Company, and the Company's Senior Vice President-Law and Administration, dated the date of Closing, substantially in the forms attached as Exhibit C hereto, addressed to the Representative, the Authority and Bond Counsel.

(v) An agreed upon procedures letter dated the date of the Official Statement and addressed to the Company and the Representative from the Company's auditor with respect to financial information set forth in Appendix A and Appendix B to the Official Statement, in form and substance reasonably satisfactory to the Company's auditor and the Representative.

(vi) A certificate dated the date of Closing executed by the Executive Director of the Authority and addressed to the Representative to the effect that, to the best of his or her respective knowledge:

(A) the representations and warranties of the Authority contained herein are true and correct in all material respects as of the date of Closing; and

(B) the Authority has complied in all material respects with all agreements executed by the Authority in connection with issuance of the Bonds and satisfied in all material respects the Authority's covenants contained in Section 5 herein and all of the conditions on its part to be performed or satisfied at or prior to the Closing.

(vii) A certificate dated the date of Closing executed by the chief financial officer of the Company and addressed to the Representative to the effect that, to the best of his knowledge:

(A) the representations and warranties of the Company in this Bond Purchase Agreement are true and correct in all material respects as of the date of Closing;

(B) the Preliminary Official Statement and the Official Statement, as of their respective dates, insofar as they relate to the Company, do not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, under the circumstances in which they were made, not misleading in any respect; and

(C) no event affecting the Company has occurred since the date of this Bond Purchase Agreement that is required to be disclosed in the Official Statement or necessary in order to make the statements and information therein not misleading in any material respect.

(viii) Two executed copies of the Trust Indenture, the Financing Agreement, the Bond Purchase Agreement, the Forty-fifth Supplemental Mortgage and the Continuing Disclosure Agreement and specimen copies of the First Mortgage Bonds.

(ix) Two copies of the Articles of Incorporation and Bylaws of the Company, as amended to the date of Closing, and of the resolutions of the Board of Directors of the Company authorizing and approving the execution and delivery of this Bond Purchase Agreement, the Financing Agreement, the First Mortgage Bonds, the Forty-fifth Supplemental Mortgage, the Continuing Disclosure Agreement and the incurrence of indebtedness with respect thereto and all transactions described in the Official Statement and contemplated by this Bond Purchase Agreement, all certified by its Secretary or Assistant Secretary.

(x) Two copies of the Authority Resolution.

(xi) One or more letters from the Company's auditor, dated the date of the Preliminary Official Statement and the Official Statement and addressed to the Company and the Representative, consenting to the use of the financial statements reported upon by such firm and all references to such firm contained in the Preliminary Official Statement and the Official Statement.

(xii) Evidence satisfactory to the Representative of a long-term credit rating of "AA-" and a recovery rating of "1+" assigned by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, and that such ratings are in full force and effect as of the date of Closing.

(xiii) Evidence satisfactory to Bond Counsel and the Representative of the receipt by the Authority of a Preliminary Allocation relating to the Bonds and of the registration of a Securities Certificate relating to the First Mortgage Bonds and the Bonds with the Pennsylvania Public Utility Commission.

(xiv) Such additional documentation, including, without limitation, legal opinions, as the Representative or its counsel, or Bond Counsel may reasonably request to evidence compliance with applicable law and the validity of the Bonds, the Financing Agreement, the Trust Indenture, this Bond Purchase Agreement, the Forty-fifth Supplemental Mortgage, the First Mortgage Bonds and the Continuing Disclosure Agreement, and to evidence that the interest on the Bonds is not includable in gross income under the Code and the status of the offering under the 1933 Act and the 1939 Act.

(d) At Closing there shall not have been any material adverse change in the financial condition of the Company or any adverse development concerning the business or assets of the Company that would result in a material adverse change in the prospective financial condition or results of operations of the Company from that described in the Official Statement, which, in the judgment of the Representative, makes it inadvisable to proceed with the sale of the Bonds; and the Representative shall have received certificates of the Company certifying that no such material adverse change has occurred or, if such a change has occurred, full information with respect thereto.

(e) The Representative shall deliver at Closing a certificate in form acceptable to Bond Counsel to the effect that the Underwriters have sold to the public (excluding bond houses and brokers) a substantial amount of the Bonds at initial offering prices no higher than, or yields no lower than, those shown on the cover page of the Official Statement and that such certificate may be relied upon for purposes of determining compliance with Section 148 of the Code.

Section 12. Events Permitting the Underwriters to Terminate. The Underwriters may terminate their obligation to purchase the Bonds at any time before Closing if any of the following occurs:

(a) A legislative, executive or regulatory action or proposed action, or a court decision, which in the reasonable judgment of the Representative casts sufficient doubt on the legality of, or the exclusion from gross income for federal income tax purposes of interest on, obligations such as the Bonds so as to materially impair the marketability or materially lower the market price of the Bonds.

(b) Any action by the Securities and Exchange Commission or a court that would require registration of the Bonds or the First Mortgage Bonds under the 1933 Act or qualification of the Trust Indenture under the 1939 Act.

(c) Any general suspension of trading in securities on the New York Stock Exchange or the establishment, by the New York Stock Exchange, by the Securities and Exchange Commission, by any federal or state agency, or by the decision of any court, of any limitation on prices for such trading, or any outbreak of new hostilities or other national or international calamity or crisis, or any material escalation in any such hostilities, calamity or crisis, the effect of which on the financial markets of the United States of America shall be such as to materially impair the marketability or materially lower the market price of the Bonds.

(d) Any event or condition occurring or arising after the date hereof, which in the reasonable judgment of the Representative renders untrue or incorrect, in any material respect as of the time to which the same purports to relate, the information contained in the Official Statement, or which requires that information not reflected in the Official Statement or Appendices thereto should be reflected therein in order to make the statements and information contained therein not misleading in any material respect as of such time; provided that the Authority, the Company and the Representative will use their best efforts to amend or supplement the Official Statement to reflect, to the reasonable satisfaction of the Representative, such changes in or additions to the information contained in the Official Statement.

(e) Pending or threatened litigation affecting or arising out of the ownership of the Facilities or any other facilities of the Company or the issuance of the Bonds, which, in the reasonable judgment of the Representative, would materially impair the marketability or materially lower the market price of the Bonds.

(f) Quantities of the Official Statement are not delivered to the Underwriters in a timely manner as required by Section 10 hereof.

If the Underwriters terminate their obligation to purchase the Bonds because any of the conditions specified in Section 11 hereof or this Section 12 shall not have been fulfilled at or before the Closing, such termination shall not result in any liability on the part of the Authority, the Underwriters or the Company, except for the obligations of the Company under Sections 6(b), 8, 9 and 14 which shall remain in full force and effect.

Section 13. [Intentionally Omitted]

Section 14. Expenses. All expenses and costs of the authorization, issuance, sale and delivery of the Bonds including, without limitation, accrued interest, the preparation of and furnishing to the Underwriters of the Preliminary Official Statement and the Official Statement, the preparation and execution of the Bonds, the Financing Agreement, the Trust Indenture, the First Mortgage Bonds, the Forty-fifth Supplemental Mortgage, the Continuing Disclosure Agreement and this Bond Purchase Agreement, rating agency fees, the issuance and closing fees of the Authority, the fees and disbursements of counsel to the Authority, the fees and disbursements of Bond Counsel, the fees and disbursements of counsel to the Underwriters and the expenses incurred in connection with qualifying the Bonds for sale under the securities laws of various jurisdictions and preparing a Blue Sky memorandum, if any, shall be paid by the Company from funds contributed by the Company and from proceeds of the Bonds. The Authority shall bear no out-of-pocket expense in connection with the transactions contemplated by this Bond Purchase Agreement. Each of the respective Underwriters will pay all other expenses it may incur in connection with the public offering of the Bonds.

Section 15. Execution in Counterparts. This Bond Purchase Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Bond Purchase Agreement by signing any such counterpart.

Section 16. Notices and Other Actions. All notices, requests, demands and formal actions hereunder will be in writing mailed, faxed (with confirmation of receipt) or delivered by nationally recognized, next-day delivery service to:

The Underwriters:	Jefferies & Company, Inc., as Representative of the Underwriters 9 Orchard View Chadds Ford, PA 19317 Attention: George C. Werner, III, Managing Director Fax #: (610) 388-0531 Email: gwerner@Jefferies.com
The Company:	Aqua Pennsylvania, Inc. 762 Lancaster Avenue Bryn Mawr, PA 19010 Attention: Stephen F. Anzaldo, Treasurer Fax #: (610) 519-0989 Email: sfanzaldo@aquaamerica.com
The Authority:	Pennsylvania Economic Development Financing Authority Center for Private Financing 400 North Street, 4th Floor Harrisburg, PA 17120-0225 Attention: Stephen Drizos, Executive Director Fax #: (717) 787-0879 Email: sdrizos@state.pa.us

Section 17. Governing Law. This Bond Purchase Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, excluding those relating to choice of laws or conflict of laws, and may not be assigned by the Authority, the Company or the Underwriters.

Section 18. Successors. This Bond Purchase Agreement will inure to the benefit of and be binding upon the parties and their respective successors and, as to Sections 6, 7, 8 and 9 hereof, the Indemnitees, and will not confer any rights upon any other person. The term "successor" shall not include any holder of any Bonds merely by virtue of such holding.

Section 19. Limitations on Liability. No personal recourse shall be had for any claim based on this Bond Purchase Agreement or the Bonds against any board member, officer, agent, employee, or attorney past, present or future, of the Authority or any successor body as such, either directly or through the Authority or any successor body, under any constitutional provision, statute, or rule of law or by enforcement of any assessment or penalty or otherwise. Notwithstanding any provision or obligation to the contrary in this Bond Purchase Agreement, the liability of the Authority for payments of any kind, nature or description provided for herein or in any other document executed pursuant hereto shall be limited to the revenues derived by the Authority from the Financing Agreement.

(Signatures on next page)

IN WITNESS WHEREOF, the Authority, the Company and the Underwriters have caused their duly authorized officers to execute and deliver this Bond Purchase Agreement as of the date first written above.

**PENNSYLVANIA ECONOMIC DEVELOPMENT
FINANCING AUTHORITY**

By: /s/ Stephen M. Drizos
STEPHEN M. DRIZOS
Executive Director

AQUA PENNSYLVANIA, INC.

By: /s/ Stephen F. Anzaldo
STEPHEN F. ANZALDO
Treasurer

**JEFFERIES & COMPANY, Inc., on its own behalf
and as Representative of the Underwriters**

By: /s/ George C. Werner, III
GEORGE C. WERNER, III
Managing Director

SCHEDULE I

Underwriters

Jefferies & Company, Inc.	76%
Janney Montgomery Scott LLC	12%
PNC Capital Markets LLC	12%

SCHEDULE II

Terms of Bonds

Dated Date: November 17, 2009

<u>Series</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>	<u>Price</u>	<u>Yield</u>
2009B	November 15, 2040	\$ 62,165,000	5.000%	100.979*	4.875%
2009B	November 15, 2040	\$ 12,520,000	4.750%	97.621	4.900%

* Priced to first optional call date of November 15, 2019.

Interest Payment Dates: May 15 and November 15, commencing May 15, 2010

Redemption Provisions: The Bonds are subject to redemption as follows:

Optional Redemption. The Bonds are subject to optional redemption prior to maturity by the Authority, at the direction of the Company, on and after November 15, 2019, as a whole or in part at any time, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued thereon to the date fixed for redemption.

Extraordinary Optional Redemption. The Bonds are subject to redemption, at any time prior to maturity, at the option of the Authority, upon the direction of the Company, in whole, at a Redemption Price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, if any of the following events shall have occurred:

(a) the damage or destruction of all or substantially all of the Facilities to such extent, that, in the reasonable opinion of the Company, the repair and restoration thereof would not be economical; or

(b) the taking by condemnation, or the threat thereof, of all or substantially all of the Facilities or the taking by condemnation of any part, use or control of the Facilities so as to render them unsatisfactory to the Company for their intended use; or

(c) in the Company's reasonable opinion, (1) unreasonable burdens or excessive liabilities shall have been Imposed upon the Company with respect to the Facilities or the operation thereof, including, but not limited to, federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Agreement other than ad valorem property taxes presently levied upon privately owned property used for the same general purposes as the Facilities, or (2) the continued operation of the Facilities is impractical, uneconomical or undesirable for any reason.

Any such redemption shall be on any date within 180 days following the occurrence of one of the events listed above permitting the exercise of the option.

Special Mandatory Redemption. The Bonds are subject to mandatory redemption, in part, on the first interest payment date for which notice can be given in accordance with the Trust Indenture after the Project has been completed and the certificate of the Company with respect thereto required by the Financing Agreement has been filed with the Authority and the Trustee, to the extent of any amounts transferred from the Project Fund to the Debt Service Fund pursuant to the Trust Indenture, at a Redemption Price of 100% of the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption.

Selection shall be made and notice given in accordance with the Trust Indenture.

Ballard Spahr LLP

1735 Market Street, 51st Floor
Philadelphia, PA 19103-7599
TEL 215.663.8500
FAX 215.864.8999
www.ballardspahr.com

EXHIBIT "A"

November 17, 2009

Jefferies & Company, Inc.,
as representative of the Underwriters
9 Orchard View
Chadds Ford, PA 19317

Re: \$74,685,000 aggregate principal amount of Pennsylvania Economic Development Financing Authority Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series B of 2009

Ladies and Gentlemen:

Reference is made to our approving opinion as Bond Counsel of even date herewith identified as Closing Item No. E-3 delivered to you concurrently herewith and relating to the above-referenced Bonds (the "Bonds"). At your request we have undertaken a review of certain other matters pertaining to the Bonds. All terms used but not defined herein shall have the same meanings ascribed to them in the Official Statement dated October 21, 2009 (the "Official Statement") prepared in connection with the public offering of the Bonds.

Based on the review described in our approving opinion, it is our opinion that:

1. The Bond Purchase Agreement dated October 20, 2009 (the "Bond Purchase Agreement"), among you, as representative of the underwriters named therein, the Company and the Authority relating to the Bonds has been duly authorized, executed and delivered by the Authority and constitutes the legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms, except as enforceability thereof may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and general principles of equity.

2. It is not necessary in connection with the offering and sale of the Bonds to register the Bonds under the Securities Act of 1933, as amended, or to qualify the Indenture under the Trust Indenture Act of 1939, as amended.

Jefferies & Company, Inc.,
as representative of the Underwriters
November 17, 2009
Page 2

3. The information in the Official Statement under the captions “INTRODUCTORY STATEMENT – Description of the Bonds,” “INTRODUCTORY STATEMENT – Security for the Bonds,” “THE BONDS” (other than the information under the sub-caption “Book-Entry Only System,” as to which we express no view) and “SECURITY FOR THE BONDS” (other than the information under the sub-captions “The Mortgage” and “Additional Parity Indebtedness” as to which we express no view) and the information set forth in Appendix C to the Official Statement (other than information under the heading “THE FIRST MORTGAGES BOND AND THE MORTGAGE” as to which we express no view), insofar as such information purports to summarize provisions of the Bonds, the Indenture and the Agreement, fairly and accurately summarizes in all material respects such information. The information in the Official Statement under the caption “TAX MATTERS” and the related information set forth on the outside front cover of the Official Statement accurately reflects in all material respects our firm’s opinion with respect to the matters discussed therein.

This letter is furnished by us solely for your benefit in connection with the provisions of the Bond Purchase Agreement and may not be relied upon by any other persons for any purpose without our express written permission.

Very truly yours,

A-2



COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE OF GENERAL COUNSEL

EXHIBIT "B"

U.S. Bank National Association
Philadelphia, Pennsylvania

Ballard Spahr Andrews & Ingersoll, LLP
Philadelphia, Pennsylvania

Jefferies & Company, Inc.
Chadds Ford, Pennsylvania

Aqua Pennsylvania, Inc.
Bryn Mawr, Pennsylvania

Re: Pennsylvania Economic Development Financing Authority Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series B of 2009

Ladies and Gentlemen:

The Office of Chief Counsel of the Pennsylvania Department of Community and Economic Development, which agency is responsible for providing staff services to Pennsylvania Economic Development Financing Authority (the "Authority"), a public body corporate and politic and a public instrumentality of the Commonwealth of Pennsylvania, has participated in the proceedings relating to the authorization and issuance of the Authority's Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series B of 2009, in the aggregate principal amount of \$74,685,000 (the "Bonds").

The Bonds are being issued under and pursuant to the Pennsylvania Economic Development Financing Law (Act No. 102, approved August 23, 1967, P.L. 251, as amended, including the amendments effected by Act No. 48, approved July 10, 1987, P.L. 273, and Act No. 74, approved December 17, 1993, P.L. 490) (the "Act"), a certain Trust Indenture dated as of October 15, 2009 (the "Indenture") by and between the Authority and U.S. Bank National Association, as Trustee (the "Trustee") and resolution of the Authority adopted on October 1, 2009 (the "Resolution") authorizing the issuance of the Bonds.



Commonwealth Keystone Building | 400 North Street, 4th Floor | Harrisburg, Pennsylvania 17120-0225
Tel: 717-783-8452 | Fax: 717-772-3103 | 866-GO-NEWPA | newPA.com

The Bonds are being issued for the purpose of providing financing for a certain project (the "Project") as more fully described in the Financing Agreement (hereafter defined), for the benefit of Aqua Pennsylvania, Inc. (the "Borrower"). The Project has been authorized and approved by the Montgomery County Industrial Development Authority for financing by the Authority pursuant to the Act.

The Authority and the Borrower have entered into a Financing Agreement dated as of October 15, 2009 (the "Financing Agreement") providing, among other things, for a loan in the principal amount of the Bonds to pay costs of the Project and for the repayment of such loan by the Borrower in such amounts and at such times as are required to pay the interest on and the principal of the Bonds when due. Pursuant to the Indenture, the Authority has assigned to the Trustee all its rights, title and interest in, to and under the Loan Agreement (except as otherwise provided therein).

The Authority has entered into a Bond Purchase Agreement with Jefferies & Company, Inc., on its own behalf and as Representative for Janney Montgomery Scott LLC, PNC Capital Markets, Inc., and Jefferies & Company, Inc. (collectively, the "Underwriters"), and the Borrower dated October 20, 2009 (the "Bond Purchase Agreement") providing for the offering and sale of the Bonds, and pursuant thereto the Authority has authorized the use of a Preliminary Official Statement dated October 9, 2009 (the "Preliminary Official Statement") and an Official Statement dated October 21, 2009, in connection with the offering and sale of the Bonds (the "Official Statement"). The Indenture, the Financing Agreement and the Bond Purchase Agreement are sometimes referred to herein collectively as the "Authority Documents".

In the course of serving as counsel to the Authority, the Office of Chief Counsel has examined the Indenture, the Financing Agreement, the Bond Purchase Agreement, and such legislation, proceedings, certificates, records, approvals, resolutions and other documents as have been deemed necessary for the purposes of this opinion.

The Office of Chief Counsel has assumed and relied upon the truth, completeness, authority and accuracy of all documents, certificates and instruments examined and the authenticity of all signatures thereon other than those of the Authority.

The Office of Chief Counsel has also assumed that each of the documents referred to herein are, where appropriate, duly authorized and executed by and valid and legally binding obligations of, and enforceable in accordance with their terms against all parties thereto other than the Authority and that the actions required to be taken or consents required to be obtained by such parties have been taken and obtained. In rendering this opinion, The Office of Chief Counsel has also assumed that such parties have acted in full compliance with the terms of all applicable laws, regulations and orders.

As to questions of fact material to this opinion, The Office of Chief Counsel has relied upon certificates and representations of officers and representatives of the Authority or of other public officials, without independent investigation.

The Office of Chief Counsel has not made any independent investigation in rendering this opinion other than the examination described above. This opinion is therefore qualified in all respects by the scope of that examination.

The Office of Chief Counsel's opinions are specifically limited to the present internal laws of the Commonwealth of Pennsylvania ("Commonwealth") and no opinion is expressed as to the effect the laws of any other jurisdiction may have upon the subject matter of the opinions expressed herein under conflict of laws principles or otherwise.

Based upon the foregoing, and subject to the limitations, assumptions, qualifications and exceptions set forth herein, the Office of Chief Counsel is of the opinion that:

1. The Authority is a public body corporate and politic and a public instrumentality of the Commonwealth of Pennsylvania, organized and existing under the Act. Under the Act, and by the Resolution, the Authority has full power and authority to undertake the financing of the Project, to execute, deliver and perform its obligations under the Indenture, the Financing Agreement and the Bond Purchase Agreement and to issue and deliver the Bonds.

2. The Resolution has been duly adopted by the Authority in compliance with the Pennsylvania Sunshine Act of October 15, 1998, P.L. 729, No. 93 (65 P.S. § 701 et seq.) The Resolution complies in all respects with the procedural rules of the Authority and the requirements of Pennsylvania law, constitutes the legal, valid and binding act of the Authority and remains in full force and effect on the date hereof.

3. The Authority has duly authorized the execution and issuance of the Bonds and the execution and delivery of the Authority Documents. The Bonds have been duly and validly executed and delivered by the Authority and the Authority Documents have each been duly and validly executed and delivered by the Authority and the Bonds and each of the Authority Documents are valid and binding agreements of the Authority, enforceable against the Authority in accordance with their respective terms.

4. The directors and officers of the Authority identified in the Authority's General Certificate delivered at the closing for the issuance of the Bonds have been duly elected or appointed, and are qualified to serve as such. To the best of our knowledge, no director or officer of the Authority has any financial interest, direct or indirect, in the Borrower or the Project or the financing thereof.

5. The Indenture, the Financing Agreement, the Bond Purchase Agreement and the Bonds have been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the other parties thereto, constitute legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms, except as enforcement may be limited by general principles of equity, regardless of whether applied in proceedings in equity or at law, or by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws affecting the enforcement of creditors' rights generally.

6. The execution and the issuance by the Authority of the Bonds, the execution and delivery by the Authority of the Authority Documents and performance by the Authority of the Authority's obligations under the Bonds and the Authority Documents, do not conflict with or constitute on the part of the Authority a violation of, breach of or default under any existing constitutional provision or statute of the Commonwealth applicable to the Authority, or, to our knowledge without having undertaken any independent investigation, any indenture, mortgage, deed of trust, resolution, note agreement or other agreement or instrument to which the Authority is a party or by which the Authority is bound and which is known to the Office of Chief Counsel, or, to our knowledge, without having undertaken any independent investigation, any order, rule or regulation of any court, governmental agency or body of the Commonwealth having jurisdiction over the Authority or any of its activities or property. In rendering the opinion set forth in this paragraph, we have relied without independent investigation on the representations of the Borrower that the Project will be located in Pennsylvania and will not be used in whole or in part for illegal activities.

7. To our knowledge, without having undertaken any independent investigation, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending or threatened against the Authority, wherein an unfavorable decision, ruling or order would materially and adversely affect the obligations of the Authority under the Bonds.

8. Except for any approval, consent or authorization required under the securities or blue sky laws of any jurisdiction in connection with the purchase and distribution of the Bonds, as to which no opinion is expressed, no additional or further approval, consent or authorization of any governmental or public agency or authority not already obtained is required by the Authority in connection with the issuance of delivery of the Bonds or the entering into and performance of its obligation under the Indenture, the Financing Agreement or the Bond Purchase Agreement.

9. The Authority has approved the distribution of the Preliminary Official Statement and the Official Statement by the Underwriter in connection with the offering of the Bonds.

10. The information contained in the Official Statement under the headings "INTRODUCTORY STATEMENT – The Authority," "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION" (solely insofar as the information set forth therein relates to the Authority) has been reviewed and nothing has come to our attention which would lead us to believe that such information contains any untrue statement of a material fact or omits to state a material fact which is required to be stated therein or which is necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect. Except as set forth in this paragraph, no opinion is expressed with respect to the adequacy or accuracy of the Official Statement or other information pertaining to the offering for sale of the Bonds.

The opinions expressed herein are subject in all respects to the following qualifications: (a) no opinion is rendered as to the availability of equitable remedies including, but not limited to, specific performance and injunctive relief, whether enforceability is considered in a proceeding in equity or at law; (b) no opinion is rendered as to the effect of bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium and other similar laws or legal principles affecting creditors' rights or remedies; (c) no opinion is rendered as to the creation, perfection or priority of any lien or security interest; (d) no opinion is rendered with respect to any "blue sky" or other securities laws of the Commonwealth or of other jurisdictions; and (e) no opinion is rendered with regard to any federal income tax law or regulation or any state tax law or regulation of the Commonwealth or of other jurisdictions.

No opinion is expressed as to the validity or enforceability of any provisions of the Authority Documents: (a) allowing any person or entity to institute judicial or non judicial proceedings or to exercise any other rights, without notice to the person or entity against whom enforcement is sought; (b) waiving any right or defense of any person or entity; (c) providing or implying the availability of self-help in any particular event or circumstances; (d) relating to court costs or legal fees which may be properly chargeable or recoverable in any judicial proceedings; and (e) relating to indemnification.

We call your attention to the fact that the Bonds are special and limited obligations of the Authority, payable solely from the payments derived by the Authority under the Financing Agreement. The Bonds are not obligations or liabilities of the Commonwealth or any political subdivision thereof nor do the Bonds pledge the credit of the Commonwealth of Pennsylvania or any political subdivision thereof nor do the Bonds pledge the credit of the Authority (other than to the limited extent described above). The Authority has no taxing power.

This opinion is given as of the date hereof. No opinion is expressed as to any matter not set forth in the numbered paragraphs herein. We make no undertaking to supplement this opinion if facts or circumstances hereafter come to our attention or changes in law occur after the date hereof. This opinion is rendered solely in connection with the original delivery and payment for the Bonds on the date hereof, and may not be relied upon for any other purpose. This opinion may not be relied upon by any other person, including any purchaser of the Bonds from the Underwriter or otherwise or for any other purpose, nor may this opinion be distributed, quoted or disclosed to any person, firm or entity without the Office of Chief Counsel's prior written consent in each instance.

The opinions herein expressed are issued by the Pennsylvania Department of Community and Economic Development Office of Chief Counsel, a division of the Commonwealth of Pennsylvania Office of General Counsel, each of which is an executive agency of the Commonwealth of Pennsylvania and not by any individual attorney therein either individually or as an employee of the Commonwealth of Pennsylvania.

OFFICE OF CHIEF COUNSEL

EXHIBIT “C”

Opinions of Dilworth Paxson LLP, counsel to the Company, and the Company’s Senior Vice President-Law and Administration

November __, 2009

Pennsylvania Economic Development
Financing Authority
400 North 4th Street, 4th Floor
Harrisburg, Pennsylvania 17120-0225

Jefferies & Company, Inc., as representative
9 Orchard View
Chadds Ford, PA 19317

**RE: \$74,685,000 Aggregate Principal Amount of Pennsylvania Economic Development Financing Authority
Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project) Series B of 2009**

Ladies and Gentlemen:

We have acted as counsel to Aqua Pennsylvania, Inc. (the “Company”) in connection with (i) the issuance by Pennsylvania Economic Development Financing Authority (the “Authority”), and the sale to Jefferies & Company, Inc., as representative of itself, Janney Montgomery Scott LLC and PNC Capital Markets LLC, as underwriters (the “Underwriters”) pursuant to that certain Bond Purchase Agreement dated October 20, 2009 (the “Purchase Agreement”) among the Company, the Authority and the Underwriters, of \$74,685,000 aggregate principal amount of Pennsylvania Economic Development Financing Authority Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project) Series B of 2009 (the “Authority Bonds”), and (ii) the issuance and delivery of \$62,165,000 principal amount of the Company’s First Mortgage Bond, 5.00% Series due 2040 and \$12,520,000 principal amount of the Company’s First Mortgage Bond, 4.75% Series due 2040 (collectively, the “First Mortgage Bond”), issued under an Indenture of Mortgage (the “Original Mortgage”) dated as of January 1, 1941, as amended and supplemented by supplemental indentures thereto, including the Forty-fifth Supplemental Indenture dated as of October 15, 2009 (the “Forty-fifth Supplemental Indenture”) under which The Bank of New York Mellon Trust Company, N.A. is trustee (the “Mortgage Trustee”). The Original Mortgage as amended and supplemented is hereinafter called the “Mortgage”. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Purchase Agreement.

We have examined and reviewed, among other things:

- (a) a copy of the Articles of Incorporation of the Company, as amended and restated and now in effect;
- (b) a copy of the bylaws of the Company as now in effect;
- (c) resolutions of the Board of Directors of the Company authorizing the execution and delivery of the Purchase Agreement, the Financing Agreement, the Forty-fifth Supplemental Indenture, the First Mortgage Bond, the Continuing Disclosure Agreement and the Official Statement;
- (d) the Purchase Agreement;
- (e) the Financing Agreement dated as of October 15, 2009 (the "Financing Agreement") between the Authority and the Company;
- (f) the Continuing Disclosure Agreement dated as of October 15, 2009 (the "Continuing Disclosure Agreement") between the Company and U.S. Bank National Association, as initial dissemination agent and as trustee for the Authority Bonds;
- (g) the Official Statement relating to the Authority Bonds dated October ____, 2009, (the "Official Statement");
- (h) the Securities Certificate relating to the issue and sale of the First Mortgage Bond, filed by the Company with the Pennsylvania Public Utility Commission pursuant to the provisions of Chapter 19 of the Pennsylvania Public Utility Code, and a copy of the Order of the Public Utility Commission dated October 15, 2009 registering such Securities Certificate, certified by the Secretary of the Pennsylvania Public Utility Commission;
- (i) a Subsistence Certificate from the Secretary of the Commonwealth with respect to the Company;
- (j) executed counterparts of the Original Mortgage and of the Forty-fifth Supplemental Indenture supplemental thereto and evidence satisfactory to us of the due recordation thereof in the Counties of Adams, Berks, Bradford, Bucks, Carbon, Chester, Clarion, Columbia, Crawford, Cumberland, Delaware, Forest, Juniata, Lackawanna, Lawrence, Lehigh, Luzerne, Mercer, Monroe, Montgomery, Northampton, Northumberland, Pike, Schuylkill, Snyder, Susquehanna, Venango, Warren, Wayne and Wyoming, Pennsylvania;
- (k) the documents delivered to the Mortgage Trustee in connection with the authentication of the First Mortgage Bond pursuant to the provisions of Sections 2(B) and 3 of Article IV of the Original Mortgage;
- (l) the First Mortgage Bond delivered to U.S. Bank National Association, as trustee for the Authority Bonds at the Closing held today;

- (m) the certificates of the Company and other documents delivered to the Mortgage Trustee at the Closing;
- (n) a certificate of the Company and various bringdown title searches by various title insurance companies in the Counties of Adams, Berks, Bradford, Bucks, Carbon, Chester, Clarion, Columbia, Crawford, Cumberland, Delaware, Forest, Juniata, Lackawanna, Lawrence, Lehigh, Luzerne, Mercer, Monroe, Montgomery, Northampton, Northumberland, Pike, Schuylkill, Snyder, Susquehanna, Venango, Warren, Wayne and Wyoming, Pennsylvania, each dated as of a recent date (collectively, "Title Searches"), as to matters relating to title to real estate and the lien of the Mortgage thereon, on which certificate and searches we are relying for the purposes of this opinion; and
- (o) various certificates of officers of the Company relating to title to real property and the priority of any lien thereon.

In rendering this opinion, we have assumed that all signatures on documents and instruments examined by us are genuine (except signatures of the Company on the Purchase Agreement, the Forty-fifth Supplemental Indenture, the Financing Agreement, the First Mortgage Bond and the Continuing Disclosure Agreement (collectively, the "Company Documents") and the Official Statement), the authenticity of all documents submitted to us as originals and the conformity with the original documents of all documents submitted to us as copies. We have also assumed, with your permission, that none of the signatories of the documents and instruments referred to above is an affiliate of the Company within the meaning of 66 Pa.C.S. §2101 (1989).

As to questions of fact material to the opinions hereinafter expressed, we have relied solely and without investigation upon certificates of public officials, certificates of officers of the Company and the representations of the Company contained in the Company Documents (including the exhibits and schedules to such documents) and the certificates and other documents delivered pursuant thereto. To the extent that the opinions contained herein are given to the best of our knowledge, such knowledge means the actual knowledge of those attorneys within our firm who have provided substantive representation to the Company in connection with this financing, without investigation and inquiry, and does not include matters of which such attorneys could be deemed to have constructive knowledge.

In rendering this opinion, we have also assumed that each of the Company Documents has been duly authorized, executed and delivered by each party thereto (other than the Company) and that each of the Company Documents is binding and enforceable against each such party in accordance with its respective terms.

Further, as to matters relating to title to real estate and the lien of the Mortgage, we have relied exclusively upon various certificates of officers of the Company and the Title Searches and we have not made, nor undertaken to make, any investigation or inquiry with respect to title to real property or the priority of any lien thereon.

We are generally familiar with the Company's operations as a public utility within the Commonwealth of Pennsylvania (the "Commonwealth").

Based upon the foregoing and such other examination of fact and law as we have deemed necessary for purposes of this opinion, we are of the opinion that:

1. The Company was organized and subsists under the laws of the Commonwealth, with power (corporate and other) to own its properties and conduct its business as described in the Official Statement.

2. The Company has the corporate power and authority to enter into and perform the Company Documents. The execution, delivery and performance by the Company of the Company Documents have been duly authorized by all requisite corporate action.

3. The Purchase Agreement, the Financing Agreement and the Continuing Disclosure Agreement constitute legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms.

4. The First Mortgage Bond has been duly authorized, executed, authenticated, issued and delivered and constitutes a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, and entitled to the benefits provided by the Mortgage.

5. The First Mortgage Bond is not subject to the registration requirements of the 1933 Act.

6. The Mortgage constitutes a direct, valid and enforceable mortgage lien (except as enforceability of such lien may be limited by bankruptcy, insolvency, reorganization or other laws affecting the enforcement of creditors' rights) upon all of the properties and assets of the Company (not heretofore released as provided for in the Mortgage) specifically or generally described or referred to in the Mortgage as being subject to the lien thereof, except for permitted liens under the Mortgage. The Original Mortgage, either separately or as an exhibit to the Thirty-Fifth Supplemental Indenture dated as of January 1, 2002, an exhibit to the Thirty-Eighth Supplemental Indenture dated as of November 15, 2004, as an exhibit to the Forty-First Supplemental Indenture dated as of January 1, 2007, or as an exhibit to the Forty-third Supplemental Indenture dated as of December 1, 2008, and the Forty-fifth Supplemental Indenture have been properly recorded in the Counties of Adams, Berks, Bradford, Bucks, Carbon, Chester, Clarion, Columbia, Crawford, Cumberland, Delaware, Forest, Juniata, Lackawanna, Lawrence, Lehigh, Luzerne, Mercer, Monroe, Montgomery, Northampton, Northumberland, Pike, Schuylkill, Snyder, Susquehanna, Venango, Warren, Wayne and Wyoming in the Commonwealth and such recordations are the only recordations necessary in order to establish, preserve, protect and perfect the lien of the Mortgage on all real estate and fixed property of the Company (excluding easement and other similar rights) described in the Mortgage as subject to the lien thereof.

7. In each of the following cases with such exceptions as are not material and do not interfere with the conduct of the business of the Company, the Company has good and marketable title to all of its real property currently held in fee simple; good and marketable title to all of its other interests in real property (other than to certain rights of way, easements, occupancy rights, riparian and flowage rights, licenses, leaseholds, and real property interests of a similar nature); and good and marketable title to all personal property owned by it; in each case free and clear of all liens, encumbrances and defects except such as may be described in the Official Statement, the lien of the Mortgage, permitted liens under the Mortgage or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company; and any real property and buildings held under lease by the Company are held by it under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company.

8. The Company is not a holding company, a registered holding company or an affiliate of a registered holding company within the meaning of the Public Utility Company Holding Act of 1935, as amended.

9. The provisions of the Mortgage and the First Mortgage Bond conform in all material respects as to legal matters to the descriptions thereof in the Official Statement.

Without having undertaken to determine independently the accuracy, completeness and fairness of the statements contained in the Official Statement, nothing has come to our attention in connection with our representation of the Company in respect of the issuance of the First Mortgage Bond which leads us to believe that the information with respect to the Company contained in the Official Statement (including Appendix A thereto and the information incorporated therein by reference, but excluding the financial and statistical data and projections, forecasts, numbers, estimates, assumptions and expressions of opinion therein, as to which we express no belief) contains any untrue statement of a material fact or omits to state a material fact which is required to be stated therein or which is necessary to make such information and descriptions, in the light of the circumstances under which they were made, not misleading in any material respect.

The foregoing opinions are subject to the following qualifications:

(i) The opinions expressed in paragraphs 3 and 4 are subject to the qualifications that the enforceability of the Purchase Agreement, the Financing Agreement, the First Mortgage Bond and the Continuing Disclosure Agreement are subject to (i) applicable bankruptcy, insolvency, reorganization, moratorium, and other similar laws of general application relating to or affecting creditors' rights, (ii) certain provisions of Pennsylvania law affecting the availability of certain remedies, and (iii) the further qualification that the availability of specific performance, injunctive relief or other equitable remedies is subject to the discretion of the court before which any proceeding therefor may be brought.

(ii) Our opinions are subject to limitations imposed by general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is considered in proceedings at law or in equity).

(iii) We express no opinion as to the enforceability with respect to any provisions purporting to waive the effect of applicable laws and remedies and any provisions releasing any party from, or requiring indemnification for, liability for gross negligence, recklessness or willful misconduct.

(iv) Any requirements in any of the documents specifying that provisions of a document may only be waived in writing may not be enforced to the extent that an oral agreement or an implied agreement by trade practice or course of conduct has been created modifying any provision of such document.

(v) We express no opinion as to the applicability to the transactions contemplated by the Company Documents of Section 548 of the Bankruptcy Code or any applicable state law relating to fraudulent transfers and obligations.

(vi) Other applicable local, state and federal laws, regulations and ordinances, court decisions and constitutional requirements may limit or render unenforceable certain of the rights or remedies contained in the Company Documents, but in our opinion, none of the same would materially impair the practical realization of the benefits intended to be provided by the Company pursuant to the Company Documents.

(vii) Our opinion is limited in all respects to the laws of the Commonwealth in effect as of the date hereof and we express no opinion as to the laws of any other jurisdiction.

(viii) This opinion is limited to the matters set forth herein, no opinion may be inferred or implied beyond the matters expressly stated herein, and our statements contained in the opinion portion of this letter must be read in conjunction with the assumptions, limitations, exceptions and qualifications set forth in this letter.

(ix) The opinions herein are expressed as of the date hereof only and not as of some future date. We undertake no responsibility to advise you of any change in law or new laws, regulations or judicial decisions in the future. Nor do we assume any obligation to update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention. References to "laws," "regulations" and "judicial decisions" herein shall include only officially published laws and regulations of the Commonwealth of Pennsylvania.

This opinion is solely for the benefit of each of you and the benefit of any subsequent holder of the First Mortgage Bond or the Authority Bonds and may not be relied upon by any other person or for any other purpose.

Very truly yours,

SELECTED PORTIONS OF ANNUAL REPORT TO SHAREHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2009

AQUA AMERICA, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations
(In thousands of dollars, except per share amounts)

FORWARD-LOOKING STATEMENTS

This report by Aqua America, Inc. ("Aqua America," "we" or "us") contains, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks, uncertainties and other factors, that may be outside our control and that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In some cases you can identify forward-looking statements where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans," "future," "potential" or the negative of such terms or similar expressions. Forward-looking statements in this report, include, but are not limited to, statements regarding:

- recovery of capital expenditures and expenses in rates;
- projected capital expenditures;
- availability and cost of capital financing;
- dividend payment projections;
- future financing plans;
- future pension contributions;
- opportunities for future acquisitions, the success of pending acquisitions and the impact of future acquisitions;
- acquisition-related costs and synergies;
- the capacity of our water supplies, water facilities and wastewater facilities;
- the impact of geographic diversity on our exposure to unusual weather;
- the impact of conservation awareness of customers and more efficient plumbing fixtures and appliances on water usage;
- the availability and cost of key production necessities, including power, chemicals and purchased water or wastewater services;
- the availability of qualified personnel;
- the return performance of our defined benefit pension plan assets;
- general economic conditions; and
- the impact of accounting pronouncements.

Because forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including but not limited to:

- changes in general economic, business, credit and financial market conditions;
- changes in government regulations and policies, including environmental and public utility regulations and policies;
- the decisions of governmental and regulatory bodies, including decisions on rate increase requests;
- our ability to file rate cases on a timely basis to minimize regulatory lag;
- changes in environmental conditions, including those that result in water use restrictions;
- abnormal weather conditions;
- changes in, or unanticipated, capital requirements;
- changes in our credit rating or the market price of our common stock;
- our ability to integrate businesses, technologies or services which we may acquire;
- our ability to manage the expansion of our business;
- the extent to which we are able to develop and market new and improved services;
- the effect of the loss of major customers;
- our ability to retain the services of key personnel and to hire qualified personnel as we expand;
- increasing difficulties in obtaining insurance and increased cost of insurance;
- cost overruns relating to improvements or the expansion of our operations;
- changes in accounting pronouncements; and
- civil disturbance or terroristic threats or acts.

AQUA AMERICA, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
(In thousands of dollars, except per share amounts)

Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this report with the understanding that our actual future results, performance and achievements may be materially different from what we expect. These forward-looking statements represent our estimates and assumptions only as of the date of this report. Except for our ongoing obligations to disclose material information under the federal securities laws, we are not obligated to update these forward-looking statements, even though our situation may change in the future. We qualify all of our forward-looking statements by these cautionary statements. As you read this report, you should pay particular attention to the "Risk Factors" included in our Annual Report on Form 10-K.

OVERVIEW

The Company

Aqua America, Inc. is the holding company for regulated utilities providing water or wastewater services to what we estimate to be approximately 3.0 million people in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, New York, Florida, Indiana, Virginia, Maine, Missouri, South Carolina, and Georgia. Our largest operating subsidiary, Aqua Pennsylvania, Inc., accounted for approximately 52% of our operating revenues for 2009 and, as of December 31, 2009, provided water or wastewater services to approximately one-half of the total number of people we serve located in the suburban areas in counties north and west of the City of Philadelphia and in 25 other counties in Pennsylvania. Our other subsidiaries provide similar services in 13 other states. In addition, we provide water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our utility companies' service territories, as well as sludge hauling, septage and grease services, and backflow prevention services.

Aqua America, which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, Inc., formerly known as Philadelphia Suburban Water Company. In the early 1990s we embarked on a growth through acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of New York Water Service Corporation in 2007. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry and has extended our regulated operations from southeastern Pennsylvania to include operations in 13 other states.

Industry Mission

The mission of the investor-owned water utility industry is to provide quality and reliable water service at an affordable price to customers, while earning a fair return for shareholders. A number of challenges face the industry, including:

- strict environmental, health and safety standards;
- the need for substantial capital investment;
- economic regulation by state, and /or, in some cases, local government; and
- the impact of weather and drought conditions on water sales demand.

Economic Regulation

Most of our water and wastewater utility operations are subject to regulation by their respective state regulatory commissions, which have broad administrative power and authority to regulate rates and charges, determine franchise areas and conditions of service, approve acquisitions and authorize the issuance of securities. The regulatory commissions also establish uniform systems of accounts and approve the terms of contracts with affiliates and customers, business combinations with other utility systems, loans and other financings, and the franchise areas that we serve. The policies of the regulatory commissions often differ from state to state, and may change over time. A small number of our operations are subject to rate regulation by county or city government. The profitability of our utility operations is influenced to a great extent by the timeliness and adequacy of rate allowances in the various states in which we operate.

AQUA AMERICA, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
(In thousands of dollars, except per share amounts)

Rate Case Management Capability — We strive to achieve the industry's mission by effective planning and efficient use of our resources. We maintain a rate case management capability to pursue timely and adequate returns on the capital investments that we make in improving or replacing water mains, treatment plants and other infrastructure. This capability is important to our continued profitability and in providing a fair return to our shareholders, and thus providing access to capital markets to help fund these investments. Accordingly, the objective of our rate case management strategy is to provide that the rates of our utility operations reflect, to the extent practicable, the timely recovery of increases in costs of operations, capital, taxes, energy, materials and compliance with environmental regulations. In pursuing our rate case strategy, we consider the amount of utility plant additions and replacements made since the previous rate decision, the changes in the cost of capital, changes in the capital structure and changes in operating and other costs. Based on these assessments, our utility operations periodically file rate increase requests with their respective state regulatory commissions or local regulatory authorities. In general, as a regulated enterprise, our water and wastewater rates are established to provide recovery of utility operating costs, taxes, interest on debt used to finance capital investments and a return on equity used to finance capital investments. Our ability to recover our expenses in a timely manner and earn a return on equity employed in the business determines the profitability of the Company.

Our water and wastewater operations are comprised of approximately 140 rate divisions, each of which requires a separate rate filing for the evaluation of the cost of service and recovery of investments in connection with the establishment of tariff rates for that rate division. Eight of the states in which we operate permit some form of consolidated rates in varying degrees for the rate divisions in that state, and two states currently permit us to fully consolidate rate filings state-wide. Due to the length of time since the last rate increase for some of our systems and the large amount of capital improvements relative to the number of customers in some smaller systems, the proposed rate increase in some of these systems may be substantial. Also, as a result of the condition of some of the systems acquired and the time needed to make the capital investments required to maintain compliance prior to requesting rates, some divisions have experienced or are experiencing longer periods of regulatory lag. We can provide no assurance that the rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which we initially sought the rate increases. We are currently in active rate proceedings in 10 of our 14 states.

Revenue Surcharges — Six states in which we operate water utilities, and two states in which we operate wastewater utilities, permit us to add a surcharge to water or wastewater bills to offset the additional depreciation and capital costs associated with certain capital expenditures related to replacing and rehabilitating infrastructure systems. In all other states, water and wastewater utilities absorb all of the depreciation and capital costs of these projects between base rate increases without the benefit of additional revenues. The gap between the time that a capital project is completed and the recovery of its costs in rates is known as regulatory lag. The infrastructure rehabilitation surcharge mechanism is intended to substantially reduce regulatory lag, which often acts as a disincentive to water and wastewater utilities to rehabilitate their infrastructure. In addition, certain states permit our subsidiaries to use a surcharge or credit on their bills to reflect certain allowable changes in costs, such as changes in state tax rates, other taxes and purchased water, until such time as these changes in costs are fully incorporated in base rates.

Effects of Inflation — Recovery of the effects of inflation through higher water rates is dependent upon receiving adequate and timely rate increases. However, rate increases are not retroactive and often lag increases in costs caused by inflation. Even during periods of moderate inflation, as has been experienced in 2009, 2008, and 2007, the effects of inflation on our operating results are noticeable. Two states allow annual inflationary index filings to help offset the effects of inflation on our operating costs.

Growth-Through-Acquisition Strategy

Part of our strategy to meet the industry challenges is to actively explore opportunities to expand our utility operations through acquisitions of water and wastewater utilities either in areas adjacent to our existing service areas or in new service areas, and to explore acquiring non-regulated businesses that are complementary to our regulated water and wastewater operations. To complement our growth strategy, we routinely evaluate the operating performance of our individual utility systems and in instances where limited customer-growth opportunities exist or where we are unable to achieve favorable operating results or a return on equity that we consider acceptable, we will seek to sell the utility system and reinvest the proceeds in other utility systems. Our growth-through-acquisition strategy allows us to operate more efficiently by sharing operating expenses over more utility customers and provides new locations for possible future growth. The ability to successfully execute this strategy and meet the industry challenges is largely due to our qualified and trained workforce, which we strive to retain by treating employees fairly and providing our employees with development and growth opportunities.

During 2009, we completed 18 acquisitions and other growth ventures which, along with the organic growth in our existing systems, represent 4,484 new customers. During 2008, we completed 9 acquisitions and other growth ventures which, along with the organic growth in our existing systems, represent 9,941 new customers. During 2007, we completed 26 acquisitions which, along with the organic growth in our existing systems, represent 23,909 new customers. In addition on January 1, 2007, we completed the acquisition of the capital stock of New York Water Service Corporation for \$26,664 in cash, as adjusted pursuant to the purchase agreement primarily based on working capital at closing, and the assumption of \$23,000 of long-term debt. The operating results of New York Water Service Corporation have been included in our consolidated financial statements beginning January 1, 2007. The acquired operation provides water service to 44,792 customers in several water systems located in Nassau County, Long Island, New York and these customers are included in our customer count as of December 31, 2006. The acquisition was funded through the issuance of long-term debt that was issued in 2006.

In addition to acquisitions, from time to time, we sell utility systems or relinquish ownership in systems through condemnation. In February 2008, through a condemnation proceeding we turned over the northern portion of our Fort Wayne, Indiana system representing 10,921 customers. In addition, pursuant to our plan to evaluate and dispose of underperforming utility systems, we sold the following utility systems: in June 2009, we sold a water and wastewater utility system in Texas representing 561 customers, in August 2008 we sold a water and wastewater utility system in Illinois representing 11,598 customers, and in December 2007 we sold a water utility system in Virginia representing 1,304 customers.

We believe that utility acquisitions will continue to be the primary source of customer growth for us. With approximately 52,000 community water systems in the U.S., 83% of which serve less than 3,300 customers, the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). In the states where we operate, we believe there are approximately 23,000 community water systems of widely-varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the U.S. Environmental Protection Agency's (EPA) most recent survey of wastewater treatment facilities (which includes both government-owned and privately-owned facilities) in 2004, there are approximately 16,600 such facilities in the nation serving approximately 75% of the U.S. population. The remaining population represents individual homeowners with their own treatment facilities; for example, community on-lot disposal systems and septic tank systems. The vast majority of wastewater facilities are government-owned rather than privately-owned. The EPA survey also indicated that there are approximately 10,200 wastewater facilities in operation or planned in the 14 states where we operate. We also intend to explore opportunities in the non-regulated wastewater and septage businesses when they complement our utility companies.

Because of the fragmented nature of the water and wastewater utility industries, we believe that there are many potential water and wastewater system acquisition candidates throughout the United States. We believe the factors driving the consolidation of these systems are:

- the benefits of economies of scale;
- increasingly stringent environmental regulations;
- the need for substantial capital investment;
- limited access to cost-effective financing; and
- the need for technological and managerial expertise.

AQUA AMERICA, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
(In thousands of dollars, except per share amounts)

We are actively exploring opportunities to expand our water and wastewater utility operations through acquisitions or otherwise. We intend to continue to pursue acquisitions of government-owned and privately-owned water and wastewater systems of all sizes that provide services in areas near our existing service territories or in new service areas. We continue to explore opportunities for the acquisition of other non-regulated wastewater service and septage businesses that are located near our existing markets, growing our existing revenue base in this business by offering the wastewater services to nearby residents with on-site sewer systems, adding new customers to this business and expanding the services that are provided to them.

Sendout

"Sendout" represents the quantity of treated water delivered to our distribution systems. We use sendout as an indicator of customer demand. Weather conditions tend to impact water consumption, particularly in our northern service territories during the late spring and summer months when nonessential and recreational use of water is at its highest. Consequently, a higher proportion of annual operating revenues is realized in the second and third quarters. In general during this period, an extended period of dry weather increases water consumption, while above average rainfall decreases water consumption. Also, an increase in the average temperature generally causes an increase in water consumption. Conservation efforts, construction codes which require the use of low flow plumbing fixtures, as well as mandated water use restrictions in response to drought conditions can adversely affect water consumption. We believe an increase in conservation awareness by our customers, including the increased use of more efficient plumbing fixtures and appliances, may result in a structural trend of decline in water usage per customer.

On occasion, drought warnings and water use restrictions are issued by governmental authorities for portions of our service territories in response to extended periods of dry weather conditions regardless of our ability to meet unrestricted customer water demands. The timing and duration of the warnings and restrictions can have an impact on our water revenues and net income. In general, water consumption in the summer months is affected by drought warnings and restrictions to a higher degree because discretionary and recreational use of water is highest during the summer months, particularly in our northern service territories. At other times of the year, warnings and restrictions generally have less of an effect on water consumption.

The geographic diversity of our utility customer base reduces the effect on Aqua America of our exposure to extreme or unusual weather conditions in any one area of our service territory. During the year ended December 31, 2009, our operating revenues were derived principally from the following states: 52% in Pennsylvania, 8% in Texas, 6% in Ohio, 6% in Illinois, and 6% in North Carolina.

Performance Measures Considered by Management

We consider the following financial measures to be the fundamental basis by which we evaluate our operating results: earnings per share, operating revenues, net income attributable to common shareholders and the dividend rate on common stock. In addition, we consider other key measures in evaluating our utility business performance within our Regulated segment: our number of utility customers, the ratio of operations and maintenance expense compared to operating revenues (this percentage is termed "operating expense ratio" or "efficiency ratio"); return on revenues (net income attributable to common shareholders divided by operating revenues); and return on equity (net income attributable to common shareholders divided by Aqua America stockholders' equity). We review these measurements regularly and compare them to historical periods, to our operating budget as approved by the Aqua America, Inc. Board of Directors, and to other publicly-traded water utilities.

AQUA AMERICA, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
(In thousands of dollars, except per share amounts)

Our operating expense ratio is one measure that we use to evaluate our operating efficiency and management effectiveness in light of the changing nature of our company. During the past five years, our operating expense ratio has been effected over time due to a number of factors, including the following:

- **Acquisitions** — In general, acquisitions in certain areas may increase our operating expense ratio if the operating revenues generated by these operations are accompanied by a higher ratio of operations and maintenance expenses as compared to other operational areas of the company which are more densely-populated and have integrated operations. In these cases, the acquired operations are characterized as having relatively higher operating costs to fixed capital costs, in contrast to the majority of the Aqua America operations which generally consist of larger, interconnected systems, with higher fixed capital costs (utility plant investment) and lower operating costs per customer. In addition, in 2006 we completed several acquisitions of companies that provide on-site septic tank pumping and sludge hauling services. The cost-structure of these businesses differs from our utility companies in that these businesses have a much higher ratio of operations and maintenance expenses to operating revenues and lower capital investment and consequently a lower ratio of fixed capital costs versus operating revenues. As a result, the ratio of operating income compared to operating revenues is not comparable between the businesses. The non-regulated wastewater and septage service business is not a component of our Regulated segment.
- **Regulatory lag** — The efficiency ratio is influenced by regulatory lag (increases in operations and maintenance expenses not yet recovered in rates or a gap between the time that a capital project is completed and the start of its cost recovery in rates), or decreases in operating revenues without a commensurate decrease in operations and maintenance expense, such as changes in customer water consumption as impacted by adverse weather conditions or conservation trends.
- **New accounting pronouncements** — Beginning in 2006, our results reflect the effects of the adoption of the Financial Accounting Standards Board's (FASB) accounting guidance for stock compensation, as we began to record compensation expense for the fair value of stock options granted. The effect of recording compensation expense for stock options increased our operations and maintenance expense by \$2,531 in 2009, \$2,997 in 2008, \$3,223 in 2007 and \$2,894 in 2006. Prior to 2006, no compensation expense related to granting of stock options had been recognized in the financial statements.

We continue to evaluate initiatives to help control operating costs and improve efficiencies.

AQUA AMERICA, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
(In thousands of dollars, except per share amounts)

Consolidated Selected Financial and Operating Statistics

Our selected five-year consolidated financial and operating statistics follow:

Years ended December 31,	2009 (a)	2008 (b)	2007 (c)	2006 (d)	2005
Utility customers:					
Residential water	796,926	791,929	796,591	780,828	724,954
Commercial water	38,781	38,334	37,330	36,280	33,975
Industrial water	1,270	1,299	1,317	1,337	1,356
Other water	17,191	16,466	16,509	15,587	15,584
Wastewater	99,269	97,512	97,631	92,791	89,025
Total	953,437	945,540	949,378	926,823	864,894
Operating revenues:					
Residential water	\$ 392,054	\$ 374,572	\$ 360,542	\$ 317,770	\$ 295,473
Commercial water	94,149	90,062	85,553	76,076	73,455
Industrial water	19,437	19,873	19,548	18,752	18,364
Other water	70,374	58,504	58,274	51,263	50,827
Wastewater	70,226	58,873	52,891	48,907	42,176
Other utility	12,665	13,278	12,935	13,525	13,161
Regulated segment total	658,905	615,162	589,743	526,293	493,456
Other	11,634	11,810	12,756	7,198	3,323
Consolidated	\$ 670,539	\$ 626,972	\$ 602,499	\$ 533,491	\$ 496,779
Operations and maintenance expense	\$ 270,060	\$ 262,122	\$ 253,092	\$ 219,560	\$ 203,088
Net income attributable to common shareholders	\$ 104,353	\$ 97,918	\$ 95,014	\$ 92,004	\$ 91,156
Capital expenditures	\$ 283,584	\$ 267,418	\$ 238,140	\$ 271,706	\$ 237,462
Operating Statistics					
Selected operating results as a percentage of operating revenues:					
Operations and maintenance	40.3%	41.8%	42.0%	41.2%	40.9%
Depreciation and amortization	17.1%	15.0%	14.6%	14.1%	13.2%
Taxes other than income taxes	7.2%	7.1%	7.5%	6.2%	6.4%
Interest expense, net	10.2%	10.9%	11.1%	10.9%	10.4%
Net income	15.6%	15.6%	15.8%	17.2%	18.3%
Return on average Aqua America stockholders' equity	9.6%	9.6%	10.0%	10.6%	11.7%
Effective tax rates	39.4%	39.7%	38.9%	39.6%	38.4%

- (a) Net income attributable to common shareholders includes the gain of \$605 (\$1,009 pre-tax) realized on the sale of a utility system. The gain is reported in the 2009 consolidated statement of income as a reduction to operations and maintenance expense.
- (b) 2008 utility customers were impacted by the loss of 22,519 utility customers associated with the utility systems disposed of. Net income includes the gain of \$2,427 (\$4,118 pre-tax) realized on the sale of a utility system. The gain is reported in the 2008 consolidated statement of income as a reduction to operations and maintenance expense.
- (c) Net income attributable to common shareholders includes the gain of \$657 (\$1,095 pre-tax) realized on the sale of a utility system. The gain is reported in the 2007 consolidated statement of income as a reduction to operations and maintenance expense.
- (d) 2006 includes 44,792 customers associated with the New York Water Service Corporation acquisition which was completed on January 1, 2007, and the operating results have been reported in our consolidated financial statements beginning January 1, 2007.

AQUA AMERICA, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
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RESULTS OF OPERATIONS

Our net income has grown at an annual compound rate of approximately 5.5% during the five-year period ended December 31, 2009. During the past five years, operating revenues grew at a compound rate of 8.7% and total expenses, exclusive of income taxes, grew at a compound rate of 9.9%.

Operating Segments

We have identified fifteen operating segments and we have one reportable segment based on the following:

- Fourteen segments are comprised of our water and wastewater regulated utility operations in the fourteen states where we provide these services. These operating segments are aggregated into one reportable segment since each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment. Our single reportable segment is named the Regulated segment.
- One segment is not quantitatively significant to be reportable and is comprised of the businesses that provide on-site septic tank pumping, sludge hauling services, and certain other non-regulated water and wastewater services. This segment is included as a component of "other," in addition to corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include certain general and administrative expenses, and interest expense.

Unless specifically noted, the following discussion and analysis provides information on our consolidated results of operations. The following table provides the Regulated segment and consolidated information for the years ended December 31, 2009, 2008, and 2007:

	2009			2008		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$ 658,905	\$ 11,634	\$ 670,539	\$ 615,162	\$ 11,810	\$ 626,972
Operations and maintenance expense	260,587	9,473	270,060	251,799	10,323	262,122
Taxes other than income taxes	44,698	3,383	48,081	43,323	1,426	44,749
Earnings (losses) before interest, taxes, depreciation and amortization	<u>\$ 353,620</u>	<u>\$ (1,222)</u>	352,398	<u>\$ 320,040</u>	<u>\$ 61</u>	320,101
Depreciation and amortization			114,939			94,300
Operating income			237,459			225,801
Interest expense, net of AFUDC			65,736			64,898
Gain on sale of other assets			(472)			(1,599)
Provision for income taxes			67,842			64,584
Net income			<u>\$ 104,353</u>			<u>\$ 97,918</u>

	2007		
	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$ 589,743	\$ 12,756	\$ 602,499
Operations and maintenance expense	243,755	9,337	253,092
Taxes other than income taxes	44,011	1,369	45,380
Earnings before interest, taxes, depreciation and amortization	<u>\$ 301,977</u>	<u>\$ 2,050</u>	304,027
Depreciation and amortization			88,011
Operating income			216,016
Interest expense, net of AFUDC			63,968
Gain on sale of other assets			(3,494)
Provision for income taxes			60,528
Net income			<u>\$ 95,014</u>

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Consolidated Results

Operating Revenues — The growth in revenues over the past five years is a result of increases in water rates, our customer base, and the acquisition of non-regulated operations. Rate increases implemented during the past three years have provided additional operating revenues of approximately \$55,711 in 2009, \$28,898 in 2008, and \$25,658 in 2007. Offsetting our revenue growth from water rate increases in 2009 was a decrease in customer water consumption, which is largely due to unfavorable weather conditions in many of our service territories during 2009 that reduced water usage. The number of customers increased at an annual compound rate of 2.7% in the past five years primarily as a result of acquisitions of water and wastewater systems, including the January 1, 2007 acquisition of New York Water Service Corporation. If adjusted for the utility system dispositions during the past five years, the annual compound customer growth rate would have been 3.2%. The operating revenues and financial results of New York Water Service Corporation have been included in our consolidated financial statements beginning January 1, 2007. Acquisitions in our Regulated segment have provided additional water and wastewater revenues of approximately \$4,637 in 2009, \$5,859 in 2008, and \$28,578 in 2007. Excluding the effect of acquisitions and dispositions, our customer base increased at a five-year annual compound rate of 1.3%. We believe the economy and its effect on our customer growth rate and water usage have affected the revenue comparison for 2009.

On November 18, 2009 our operating subsidiary in Pennsylvania filed an application with the Pennsylvania Public Utility Commission ("PAPUC") designed to increase water rates by \$43,200 or 11.8% on an annual basis. The Company anticipates a final order to be issued by August 2010.

On July 31, 2008, the PAPUC granted our operating subsidiary in Pennsylvania a water rate increase designed to increase total operating revenues by \$34,428, on an annualized basis. The rates in effect at the time of the filing included \$14,269 in Distribution System Improvement Charges ("DSIC") or 5% above prior base rates. Consequently, the total base rates increased by \$48,697 and the DSIC was reset to zero.

In May 2008, our operating subsidiary in Florida filed an application with the Florida Public Service Commission ("FPSC") designed to increase water and wastewater rates by \$8,374 on an annual basis. On April 1, 2009, the FPSC granted our operating subsidiary in Florida a \$5,524 water and wastewater rate increase. In December 2006, our operating subsidiary in Florida had filed a rate application with the FPSC designed to increase water and wastewater rates by \$7,298 on an annual basis. In April 2007, we had commenced billing for a portion of the requested rates, in accordance with authorization from the FPSC. However, during the third quarter of 2007 we reached a settlement agreement that, among other stipulations, resulted in us voluntarily withdrawing our application, and agreeing to refund the interim revenue billed that was associated with this rate application. As a result of this agreement, the Company wrote-off rate case expenses of \$2,385 in 2007.

On September 23, 2008, the Texas Commission on Environmental Quality ("TCEQ") issued its final ruling approving the rate application that was filed in 2004 by our operating subsidiary to increase rates, on an annualized basis, by \$11,920 over a multi-year period beginning in 2004. The application sought to increase annual revenues in phases and was accompanied by a plan to defer and amortize a portion of our depreciation, operating and other tax expense over a similar multi-year period, such that the impact on operating income approximated the requested amount during the first years that the new rates were in effect. We commenced billing for the requested rates and implemented the deferral plan in 2004. As a result of the final order in 2008, the regulatory asset for the deferred operating costs and rate case expenses was set at \$13,697. As of February 1, 2009, recovery of the regulatory assets for the deferred operating costs and rate case expenses began through two surcharge mechanisms. The final order had been appealed to the TCEQ by two parties, and the TCEQ has exercised its legal authority to take no action within the required period. As a result, the parties have filed suit against the TCEQ in an effort to appeal the order. The additional revenues billed and collected in connection with the case are subject to refund based on the outcome of the appeal. The revenue recognized and the expenses deferred by us reflect an estimate of the final outcome of the case. As of December 31, 2009, we have deferred \$5,769 of operating costs and \$1,449 of rate case expenses, and recognized \$47,187 of revenue that is subject to refund based on the outcome of the appeal. Based on our review of the present circumstances, no reserve is considered necessary for the revenue recognized to date.

Our operating subsidiaries located in other states received rate increases representing estimated annualized revenues of \$10,606 in 2009 resulting from seven rate decisions, \$18,310 in 2008 resulting from twenty-two rate decisions, and \$5,596 in 2007 resulting from twenty-three rate decisions. Revenues from these increases realized in the year of grant were approximately \$7,561 in 2009, \$7,531 in 2008, and \$4,636 in 2007. As of December 31, 2009, our operating subsidiaries located in other states, currently have filed nine rate requests which are being reviewed by the state regulatory commissions, proposing an aggregate increase of \$17,163 in annual revenues. During 2010, we intend to file nine additional rate requests proposing an aggregate of approximately \$23,295 of increased annual revenues; however we can provide no assurance that the full amount of the requested rate increases will be granted.

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Currently, Pennsylvania, Illinois, Ohio, New York, Indiana and Missouri allow for the use of infrastructure rehabilitation surcharges. In Pennsylvania, this mechanism is referred to as a DSIC. These surcharge mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped as a percentage of base rates, generally at 5% to 9% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. Infrastructure rehabilitation surcharges provided revenues of \$16,901 in 2009, \$11,771 in 2008, and \$11,507 in 2007.

Our Regulated segment also includes certain non-regulated operating revenues of \$12,665 in 2009, \$13,278 in 2008, and \$12,935 in 2007. These operating revenues are associated with contract operations that are integral to the regulated utility business and operations. These amounts vary over time according to the level of activity associated with the utility contract operations.

In addition to the Regulated segment operating revenues, we had other non-regulated revenues that were primarily associated with non-regulated wastewater, septage, and operating and maintenance contracts of \$11,634 in 2009, \$11,810 in 2008, and \$12,756 in 2007. The decrease in 2008 compared to 2007 resulted from eliminating certain data processing services in 2008 and the associated reduction in service fees. Acquisitions outside our Regulated segment have provided additional operating revenues of \$0 for operations acquired in 2009 and 2008, and \$4,765 for operations acquired in 2007.

Operations and Maintenance Expenses — Operations and maintenance expenses totaled \$270,060 in 2009, \$262,122 in 2008, and \$253,092 in 2007. Most elements of operating costs are subject to the effects of inflation and changes in the number of customers served. Several elements are subject to the effects of changes in water consumption, weather and the degree of water treatment required due to variations in the quality of the raw water. The principal elements of operating costs are labor and employee benefits, electricity, chemicals, maintenance expenses and insurance and claims costs. Electricity and chemical expenses vary in relationship to water consumption, raw water quality, and price increases. Maintenance expenses are sensitive to extremely cold weather, which can cause water mains to rupture.

Operations and maintenance expenses increased in 2009 as compared to 2008 by \$7,938 or 3.0% primarily due to the effect of the absence of the third quarter 2008 gain on the sale of a utility system of \$4,118, additional operating costs associated with acquisitions of \$2,475, and normal increases in other operating expenses, offset partially by lower water production costs of \$1,103 due to a decrease in consumption, the gain on sale of a utility system in the second quarter of 2009 of \$1,009, and reduced expenses of \$963 associated with the dispositions of our utility systems sold. In the consolidated statement of income for 2009, the gain on sale of utility system is reported as a component of operations and maintenance expense.

Operations and maintenance expenses increased in 2008 as compared to 2007 by \$9,030 or 3.6% primarily due to additional operating costs associated with acquisitions of \$3,677, higher water production costs of \$1,702 due to price increases principally on purchased water, additional bad debt expense of \$1,399, an increase in fuel costs to fuel our service vehicles of \$1,380, the effect of the absence of the 2007 gain on the sale of a utility system of \$1,095 in the fourth quarter of 2007, rate case expenses resulting from the final Texas rate case order of \$859, and normal increases in other operating costs, offset partially by the gain on sale of a utility system of \$4,118 in the third quarter of 2008, reduced expenses of \$2,872 associated with the dispositions of our utility systems sold, and the absence of the charges that occurred in the third quarter of 2007 upon the withdrawal of the Florida rate case application of \$2,385. In the consolidated statement of income for 2008, the gain on sale of utility system is reported as a component of operations and maintenance expense.

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Depreciation and Amortization Expenses — Depreciation expense was \$103,001 in 2009, \$88,785 in 2008, and \$83,178 in 2007, and has increased principally as a result of the significant capital expenditures made to expand and improve our utility facilities, our acquisitions of new utility systems, and additional expense of \$2,037 resulting from a rate case adjustment related to our rate filing in North Carolina.

Amortization expense was \$11,938 in 2009, \$5,515 in 2008, and \$4,833 in 2007, and has increased due to the amortization of the costs associated with, and other costs being recovered in, various rate filings. Expenses associated with filing rate cases are deferred and amortized over periods that generally range from one to three years.

Taxes Other than Income Taxes — Taxes other than income taxes was \$48,081 in 2009, \$44,749 in 2008, and \$45,380 in 2007. The increase in 2009 is primarily due to an increase in gross receipts, excise and franchise taxes of \$1,299, an increase in other of \$889 associated with an increase in the local assessment of water pumping fees in Texas, an increase in property taxes of \$687 associated with properties acquired through acquisition, and an increase in payroll taxes of \$520 associated with a decrease in our capitalized labor rate in our operating subsidiary in Pennsylvania. The decrease in 2008 is primarily due to a reduction in capital stock taxes of \$300 associated with a decrease in the capital stock tax rate imposed on our operating subsidiary in Pennsylvania, a reduction in gross receipts tax of \$290, a decrease in payroll taxes of \$264 associated with an increase in our capitalized labor rate in our operating subsidiary in Pennsylvania, and a reduction in property taxes of \$219 associated with the dispositions of utility systems, offset primarily by an increase in public utility commission assessment taxes on our operating subsidiary in Pennsylvania.

Interest Expense, net — Net interest expense was \$68,607 in 2009, \$68,572 in 2008, and \$66,921 in 2007. Interest income of \$1,149 in 2009, \$2,310 in 2008, and \$3,569 in 2007 was netted against interest expense. Interest expense increased in 2009 and 2008 primarily due to additional borrowings to finance capital projects and acquisitions. The increases were offset partially by the effects of decreased interest rates on short-term borrowings and long-term debt. Interest income decreased in 2009 and 2008 due to lower investment income earned on the proceeds from the issuance of tax-exempt bonds while being held by trustees pending completion of projects financed with the issuances and from lower income earned on overnight cash sweeps. The interest income earned on the proceeds from the issuance of tax-exempt bonds is capitalized through our allowance for funds used during construction, a reduction to net interest expense. Interest expense on long-term debt during 2009 and 2008 was favorably impacted by a reduction in the weighted cost of long-term debt from 5.58% at December 31, 2007 to 5.35% at December 31, 2008 and to 5.25% at December 31, 2009.

Allowance for Funds Used During Construction — The allowance for funds used during construction (AFUDC) was \$2,871 in 2009, \$3,674 in 2008, and \$2,953 in 2007 and has varied over the years as a result of changes in the average balance of utility plant construction work in progress (CWIP), to which AFUDC is applied, and to changes in the AFUDC rate which is based predominantly on short-term interest rates. The decrease in 2009 is due to a decrease in short-term interest rates, which are a component of the applied AFUDC rate, as well as a decrease in the average balance of utility plant construction work in progress, to which AFUDC is applied. The increase in 2008 is due to an increase in capital expenditures eligible for AFUDC.

Gain on Sale of Other Assets — Gain on sale of other assets totaled \$472 in 2009, \$1,599 in 2008, and \$3,494 in 2007 and consisted of gains on properties and marketable securities sales. Gain on sale of properties totaled \$472 in 2009, \$1,278 in 2008, and \$1,831 in 2007. Gain on sale of marketable securities totaled \$0 in 2009, \$321 in 2008 and \$1,663 in 2007. The gain realized on the following sales of utility systems was reported in the consolidated statement of income as a component of the line titled operations and maintenance expense: June 2009 gain on sale of \$1,009, August 2008 gain on sale of \$4,118, and a December 2007 gain on sale of \$1,095.

Income Taxes — Our effective income tax rate was 39.4% in 2009, 39.7% in 2008, and 38.9% in 2007. The decrease in the effective tax rate for 2009 was due to an increase in the tax deduction for qualified domestic production activities, which was offset by a decrease in the tax deductible portion of our stock-based compensation expense. The change in the effective tax rate in 2008 was due to a decrease in the tax deduction for qualified domestic production activities that increased our tax provision by approximately \$763 in 2008 as compared to 2007.

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Summary — Operating income was \$237,459 in 2009, \$225,801 in 2008, and \$216,016 in 2007 and net income attributable to common shareholders was \$104,353 in 2009, \$97,918 in 2008, and \$95,014 in 2007. Diluted income per share was \$0.77 in 2009, \$0.73 in 2008, and \$0.71 in 2007. The changes in the per share income in 2009 and 2008 over the previous years were due to the aforementioned changes in income and impacted by a 1.1% increase in the average number of common shares outstanding during 2009 and a 0.8% increase in the average number of common shares outstanding during 2008. The increase in the number of shares outstanding in 2009 is primarily a result of the full year impact in 2009 of the 1,000,000 shares issued in June 2008 related to the final settlement of the forward equity sale agreement, the additional shares sold or issued through our dividend reinvestment plan, equity compensation plan, and the additional shares issued in August 2009 in connection with an acquisition. The increase in the number of shares outstanding in 2008 is primarily a result of the additional shares sold or issued through our dividend reinvestment plan, the issuance of 1,000,000 shares in June 2008 associated with the final settlement of the forward equity sale agreement, and our employee stock and incentive plan.

Although we have experienced increased income in the recent past, continued adequate rate increases reflecting increased operating costs and new capital investments are important to the future realization of improved profitability.

Fourth Quarter Results — The following table provides our fourth quarter results:

	Three Months Ended December 31,	
	2009	2008
Operating revenues	\$ 167,893	\$ 159,840
Operations and maintenance	66,034	65,929
Depreciation and amortization	29,296	25,391
Taxes other than income taxes	12,189	10,638
	<u>107,519</u>	<u>101,958</u>
Operating income	60,374	57,882
Interest expense, net	17,914	17,365
Allowance for funds used during construction	(931)	(642)
Gain on sale of other assets	(97)	(514)
Income before income taxes	43,488	41,673
Provision for income taxes	16,829	16,008
Net income	<u>\$ 26,659</u>	<u>\$ 25,665</u>

The increase in operating revenues was a result of additional revenues of \$6,001 from an increase in water and wastewater rates implemented in various operating subsidiaries, and an increase in infrastructure rehabilitation surcharge revenue of \$4,428, offset by a decrease in water consumption. The higher operations and maintenance expense is due primarily to \$363 of additional operating costs associated with acquisitions, and normal increases in other operating expenses, offset by a decrease in water production costs of \$956 associated with the decrease in water consumption, and a decrease in fuel costs for our service vehicles of \$234. The increased depreciation expense reflects the utility plant placed in service since the fourth quarter of 2008. The increase in other taxes is primarily due to increases in property taxes of \$585 associated with utility systems acquired, gross receipts, excise and franchise taxes of \$424, capital stock taxes of \$356 associated with an increase in the capital stock tax imposed on our operating subsidiary in Pennsylvania, and in the local assessment of water pumping fees in Texas of \$142. The increased interest expense is due to additional borrowings to finance capital projects. The decrease in gain on sale of other assets is due to reduced gains on the sales of land and other assets of \$417. The decrease in customer water consumption is largely due to unfavorable weather conditions in many of our service territories during the fourth quarter of 2009 that reduced water usage. We believe the economy and its effect on water usage have affected the revenue comparison for the fourth quarter.

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FINANCIAL CONDITION

Consolidated Cash Flow and Capital Expenditures

Net operating cash flow, dividends paid on common stock, capital expenditures, including allowances for funds used during construction, and expenditures for acquiring water and wastewater systems for the five years ended December 31, 2009 were as follows:

	Net Operating Cash Flow	Common Dividends	Capital Expenditures	Acquisitions
2005	\$ 199,674	\$ 51,139	\$ 237,462	\$ 11,633
2006	170,726	58,023	271,706	11,848
2007	194,168	63,763	238,140	51,226
2008	221,506	68,504	267,418	14,659
2009	258,590	74,729	283,584	3,373
	<u>\$ 1,044,664</u>	<u>\$ 316,158</u>	<u>\$ 1,298,310</u>	<u>\$ 92,739</u>

Included in capital expenditures for the five-year period are: expenditures for the modernization and replacement of existing treatment plants, new water mains and customer service lines, rehabilitation of existing water mains and hydrants, water meters and an office building expansion. During this five-year period, we received \$47,348 of customer advances and contributions in aid of construction to finance new water mains and related facilities which are not included in the capital expenditures presented in the above table. In addition, during this period, we have made sinking fund contributions and repaid debt in the amount of \$206,455, and have refunded \$23,997 of customer advances for construction. Common dividends increased during the past five years as a result of an annual increase in the common dividends declared and paid and an increase in the number of shares outstanding during the period.

Our planned 2010 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to be \$338,100 of which \$135,240 is for infrastructure rehabilitation surcharge-qualified projects. Our planned capital program includes spending for infrastructure rehabilitation that qualifies for infrastructure rehabilitation surcharge mechanisms, and should these mechanisms be discontinued for any reason, which is not anticipated, we would re-evaluate the magnitude of our capital program. Our 2010 capital program, along with \$59,577 of sinking fund obligations and debt maturities, and \$140,328 of other contractual cash obligations, as reported in the section captioned "Contractual Obligations", has been or is expected to be financed through internally-generated funds, our revolving credit facilities, the issuance of equity, and the issuance of long-term debt.

Future utility construction in the period 2011 through 2014, including recurring programs, such as the ongoing replacement or rehabilitation of water meters, water mains, water treatment plant upgrades, storage facility renovations, and additional transmission mains to meet customer demands, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to require aggregate expenditures of approximately \$1,270,000. We anticipate that approximately one-half of these expenditures will require external financing with debt and the additional issuance of common stock through our dividend reinvestment and stock purchase plans and the issuance of equity through public offerings. We expect to refinance \$249,452 of sinking fund obligations and debt maturities during this period as they become due with new issues of long-term debt. The estimates discussed above do not include any amounts for possible future acquisitions of water systems or the financing necessary to support them.

Our primary sources of liquidity are cash flows from operations, borrowings under various short-term lines of credit and other credit facilities, and customer advances and contributions in aid of construction. Our cash flow from operations, or internally-generated funds, is impacted by the timing of rate relief and water consumption. We fund our capital and acquisition programs through internally-generated funds, supplemented by short-term borrowings. Over time, we refinance our short-term borrowings with long-term debt and proceeds from the issuance of common stock. The ability to finance our future construction programs, as well as our acquisition activities, depends on our ability to attract the necessary external financing and maintain internally-generated funds. Rate orders permitting compensatory rates of return on invested capital and timely rate adjustments will be required by our operating subsidiaries to achieve an adequate level of earnings and cash flow to enable them to secure the capital they will need to operate and to maintain satisfactory debt coverage ratios.

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(In thousands of dollars, except per share amounts)

Acquisitions

During the past five years, we have expended cash of \$92,739 and issued 314,459 shares of common stock, valued at \$5,584 at the time of the acquisition, related to the acquisition of utility systems, both water and wastewater utilities, and non-regulated businesses that provide wastewater and septage services. We included the operating results of these acquisitions in our consolidated financial statements beginning on the respective acquisition dates. During 2009, we completed 18 acquisitions of water and wastewater systems in five of the states in which we operate, including expanding our operations into one new state. The 2009 acquisitions were completed for \$3,373 in cash and the issuance of 164,052 shares of common stock valued at \$2,909 at the time of the acquisition. During 2008, we completed 9 acquisitions of water and wastewater systems in four of the states in which we operate. The 2008 acquisitions were completed for \$14,659 in cash and the issuance of 125,723 shares of common stock valued at \$2,000 at the time of the acquisition.

On January 1, 2007 we completed the acquisition of the capital stock of New York Water Service Corporation for \$26,664 in cash, as adjusted pursuant to the purchase agreement primarily based on working capital at closing, and the assumption of \$23,000 of long-term debt. The operating results of New York Water Service Corporation have been included in our consolidated financial statements beginning January 1, 2007. The acquired operation provides water service to 44,792 customers in several water systems located in Nassau County, Long Island, New York. The acquisition was accounted for as a purchase and was funded through the issuance of long-term debt that was issued in December 2006. In addition to New York Water Service, during 2007, we completed 26 acquisitions for \$24,562 in cash. The acquisitions completed in 2007 included both water and wastewater systems in ten of the states in which we operate.

During 2006, we completed 27 acquisitions for \$11,848 in cash. The acquisitions completed in 2006 included both water and wastewater systems in seven of the states in which we operate, and the acquisition of several non-regulated companies that provide on-site septic tank pumping, sludge hauling services and other wastewater services to customers in eastern Pennsylvania, New Jersey, Delaware, New York and Maryland.

During 2005, we completed 30 acquisitions for \$11,633 in cash and the issuance of 24,684 shares of common stock. The acquisitions completed in 2005 included both water and wastewater systems in seven of the states in which we operate.

We continue to hold acquisition discussions with several water and wastewater systems. Generally acquisitions are expected to be financed through the issuance of equity (for the acquisition of some investor-owned systems) or funded initially with short-term debt with subsequent repayment from the proceeds of long-term debt or proceeds from equity offerings.

Dispositions

We routinely review and evaluate areas of our business and operating divisions and over time may sell certain utility systems or portions of systems. In June 2009, we sold a water and wastewater utility system for net proceeds of \$1,601, which was in excess of the book value for these assets. The proceeds were used to pay-down short-term debt and the sale resulted in the recognition in 2009 of a gain on the sale of these assets, net of expenses of \$1,009. The gain is reported in the 2009 consolidated statement of income as a reduction to operations and maintenance expense. These utility systems represented approximately 0.02% of Aqua America's total assets.

In August 2008, we sold a water and wastewater utility system for net proceeds of \$10,500, which consisted of \$1,900 in cash and the issuance of a 25-year note receivable of \$8,600 that bears interest at 7.25% and provides for semi-annual principal and interest payments. The sale resulted in the recognition of a gain on the sale of these assets, net of expenses, of \$4,118. The gain is reported in the consolidated statement of income as a reduction to operations and maintenance expense. These utility systems represented approximately 0.20% of Aqua America's total assets.

In December 2007, we sold a water utility system for net proceeds of \$1,498, which was in excess of the book value for these assets. The proceeds were used to pay-down short-term debt and the sale resulted in the recognition in 2007 of a gain on the sale of these assets, net of expenses, of \$1,095. The gain is reported in the 2007 consolidated statement of income as a reduction to operations and maintenance expense. This utility system represented approximately 0.01% of Aqua America's total assets.

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The City of Fort Wayne, Indiana (the "City") has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the operating subsidiaries that we acquired in connection with the AquaSource acquisition in 2003. We challenged whether the City was following the correct legal procedures in connection with the City's condemnation, but the Indiana Supreme Court, in an opinion issued in June 2007, supported the City's position. In October 2007, the City's Board of Public Works approved proceeding with its process to condemn the northern portion of our utility system at a preliminary price based on the City's valuation. We filed an appeal with the Allen County Circuit Court challenging the Board of Public Works' valuation on several bases. In November 2007, the City Council authorized the taking of the northern portion of our system and the payment of \$16,911 based on the City's valuation of this portion of the system. In January 2008, we reached a settlement with the City to transition the northern portion of the system in February 2008 upon receipt of the City's initial valuation payment of \$16,911. The settlement agreement specifically states that the final valuation of the northern portion of our system will be determined through a continuation of the legal proceedings that were filed challenging the City's valuation. On February 12, 2008, we turned over the northern portion of our system to the City upon receipt of the initial valuation payment. The Indiana Utility Regulatory Commission also reviewed and acknowledged the transfer of the Certificate of Territorial Authority for the northern portion of the system to the City. The proceeds received are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. On March 16, 2009 oral argument was held on certain procedural aspects with respect to the valuation evidence that may be presented and whether we are entitled to a jury trial. Depending upon the ultimate outcome of the legal proceeding in the Allen County Circuit Court we may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The northern portion of the utility system relinquished represents approximately 0.50% of our total assets.

The Company is routinely involved in other legal matters, including both asserted and unasserted legal claims, during the ordinary course of business. See Note 9 — Commitments and Contingencies for a discussion of the Company's legal matters. It is not always possible for management to make a meaningful estimate of the potential loss or range of loss associated with such litigation. Also, unanticipated changes in circumstances and/or revisions to the assessed probability of the outcomes of legal matters could result in expenses being incurred in future periods as well as an increase in actual cash required to resolve the legal matter.

Despite these transactions, our primary strategy continues to be to acquire additional water and wastewater systems, to maintain our existing systems where there is a business or a strategic benefit, and to actively oppose unilateral efforts by municipal governments to acquire any of our operations.

Sources of Capital

Since net operating cash flow plus advances and contributions in aid of construction have not been sufficient to fully fund cash requirements, we issued approximately \$772,394 of long-term debt and obtained other short-term borrowings during the past five years. At December 31, 2009, we have a \$95,000 long-term revolving credit facility that expires in May 2012, of which \$13,991 was designated for letter of credit usage, \$16,860 was available for borrowing and \$64,149 of borrowings was outstanding at December 31, 2009. In addition, we had short-term lines of credit of \$137,000, of which \$109,513 was available. One of our credit facilities of \$70,000 has a 364 day term and the balance of our short-term lines of credit are payable on demand. These short-term lines of credit are subject to renewal on an annual basis. Although we believe we will be able to renew these facilities, there is no assurance that they will be renewed, or what the terms of any such renewal will be. The United States credit and liquidity crisis that started in 2008 which caused substantial volatility in capital markets, including credit markets and the banking industry, increased the cost and significantly reduced the availability of credit from financing sources, which may continue or worsen in the future. If in the future, our credit facilities are not renewed or our short-term borrowings are called for repayment, we would have to seek alternative financing sources, although there can be no assurance that these alternative financing sources would be available on terms acceptable to us. In the event we are not able to obtain sufficient capital, we may need to reduce our capital expenditures and our ability to pursue acquisitions that we may rely on for future growth could be impaired.

Our consolidated balance sheet historically has had a negative working capital position whereby routinely our current liabilities exceed our current assets. Management believes that internally generated funds along with existing credit facilities and the proceeds from the issuance of long-term debt and common stock will be adequate to provide sufficient working capital to maintain normal operations and to meet our financing requirements.

AQUA AMERICA, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
(In thousands of dollars, except per share amounts)

We are obligated to comply with covenants under some of our loan and debt agreements. These covenants contain a number of restrictive financial covenants, which among other things limit, subject to certain exceptions, the Company's ratio of consolidated total indebtedness to consolidated total capitalization, and require a minimum level of earnings coverage over interest expense. During 2009, we were in compliance with our debt covenants under our credit facilities. Failure to comply with our debt covenants could result in an event of default, which could result in us being required to repay or finance our borrowings before their due date, possibly limiting our future borrowings, and increasing our borrowing costs.

We maintain a universal shelf registration on file with the SEC to allow for the potential future sale by us, from time to time, in one or more public offerings, of an indeterminate amount of our common stock, preferred stock, debt securities and other securities specified therein at indeterminate prices.

In August 2006, we entered into a forward equity sale agreement for 3,525,000 shares of common stock with a third party ("forward purchaser") and as of the completion of the following transactions in June 2008, no shares remain under contract. In connection with the forward equity sale agreement, the forward purchaser borrowed an equal number of shares of our common stock from stock lenders and sold the borrowed shares to the public. We did not receive any proceeds from the sale of our common stock by the forward purchaser until settlement of the shares underlying the forward equity sale agreement. In March and June 2008, we elected to perform a net cash settlement under the forward equity sale agreement of an aggregate 2,525,000 shares of the Company's common stock, which resulted in payments of \$11,011 by the forward purchaser to the Company. No shares were issued in connection with the net cash settlement and the payments received were recorded as an increase to common stockholders' equity. Also in June 2008, we settled the remaining 1,000,000 shares under the forward equity sale agreement by physical settlement. As a result, we issued 1,000,000 shares of common stock and received proceeds from the forward purchaser of \$22,318. The forward equity sale agreement has now been completely settled and there are no additional shares subject to the forward equity sale agreement. The proceeds received by us upon settlement of the forward equity sale agreement were used to fund our future capital expenditure program and acquisitions, and for working capital and other general corporate purposes.

In addition, we have a shelf registration statement filed with the SEC to permit the offering from time to time of shares of common stock and shares of preferred stock in connection with acquisitions. During 2009, we issued 164,052 shares of common stock totaling \$2,909 to acquire a water system. During 2008, we issued 125,723 shares of common stock totaling \$2,000 to acquire a wastewater system. During 2007 we did not issue any shares under the acquisition shelf registration. The balance remaining available for use under the acquisition shelf registration as of December 31, 2009 is 1,904,487 shares. We will determine the form and terms of any securities issued under these shelf registrations at the time of issuance.

We offer a Dividend Reinvestment and Direct Stock Purchase Plan (Plan) that provides a convenient and economical way to purchase shares of Aqua America, Inc. Under the direct stock purchase portion of the Plan, shares are sold throughout the year. The dividend reinvestment portion of the Plan offers a 5% discount on the purchase of shares of common stock with reinvested dividends. As of the December 2009 dividend payment, holders of 15.0% of the common shares outstanding participated in the dividend reinvestment portion of the Plan. The shares issued under the Plan are either original issue shares or shares purchased by the Company's transfer agent in the open-market. During the past five years, we have sold 2,542,003 original issue shares of common stock for net proceeds of \$49,438 through the dividend reinvestment portion of the Plan and we used the proceeds to invest in our operating subsidiaries, to repay short-term debt, and for general corporate purposes.

The Board of Directors has authorized us to purchase our common stock, from time to time, in the open market or through privately negotiated transactions. We have not purchased any shares under this authorization since 2000. As of December 31, 2009, 548,278 shares remain available for repurchase. Funding for future stock purchases, if any, is not expected to have a material impact on our financial position.

Off-Balance Sheet Financing Arrangements

We do not engage in any off-balance sheet financing arrangements. We do not have any interest in entities referred to as variable interest entities, which includes special purpose entities and other structured finance entities.

AQUA AMERICA, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
(In thousands of dollars, except per share amounts)

Contractual Obligations

The following table summarizes our contractual cash obligations as of December 31, 2009:

	Total	Payments Due By Period			
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt (a)	\$1,446,134	\$ 59,577	\$128,018	\$121,434	\$1,137,105
Interest on fixed-rate, long-term debt (b)	1,210,776	75,320	140,338	133,685	861,433
Operating leases (c)	24,960	3,427	4,390	2,215	14,928
Unconditional purchase obligations (d)	101,896	12,451	21,218	16,682	51,545
Other purchase obligations (e)	35,320	35,320	—	—	—
Pension and other postretirement benefit plans' obligations (f)	20,197	13,057	3,870	3,270	—
Other obligations (g)	18,388	753	1,646	4,646	11,343
Total	<u>\$2,857,671</u>	<u>\$199,905</u>	<u>\$299,480</u>	<u>\$281,932</u>	<u>\$2,076,354</u>

- (a) Represents sinking fund obligations and debt maturities.
- (b) Represents interest payable on fixed rate, long-term debt. Amounts reported may differ from actual due to future refinancing of debt.
- (c) Represents operating leases that are noncancelable, before expiration, for the lease of motor vehicles, buildings, land and other equipment.
- (d) Represents our commitment to purchase minimum quantities of water as stipulated in agreements with other water purveyors. We use purchased water to supplement our water supply, particularly during periods of peak customer demand. Our actual purchases may exceed the minimum required levels.
- (e) Represents an approximation of the open purchase orders for goods and services purchased in the ordinary course of business.
- (f) Represents contributions obligated to be made to pension and other postretirement benefit plans.
- (g) Represents capital expenditures estimated to be required under legal and binding contractual obligations.

In addition to these obligations, we pay refunds on Customers' Advances for Construction over a specific period of time based on operating revenues related to developer-installed water mains or as new customers are connected to and take service from such mains. After all refunds are paid, any remaining balance is transferred to Contributions in Aid of Construction. The 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 through 2024 and amounts not paid by the contract expiration dates become non-refundable.

We will fund these contractual obligations with cash flows from operations and liquidity sources held by or available to us.

AQUA AMERICA, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
(In thousands of dollars, except per share amounts)

Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed rate, long-term debt. Such exposure is typically related to financings between utility rate increases, because generally our rate increases provide a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2009, the debt maturities by period and the weighted average interest rate for long-term debt are as follows:

	2010	2011	2012	2013	2014	Thereafter	Total	Fair Value
Long-term debt:								
Fixed rate	\$55,428	\$28,472	\$39,546	\$34,325	\$87,109	\$1,137,105	\$1,381,985	\$1,251,805
Variable rate	4,149	—	60,000	—	—	—	64,149	64,149
Total	<u>\$59,577</u>	<u>\$28,472</u>	<u>\$99,546</u>	<u>\$34,325</u>	<u>\$87,109</u>	<u>\$1,137,105</u>	<u>\$1,446,134</u>	<u>\$1,315,954</u>
Weighted average interest rate*	5.89%	6.17%	2.51%	5.43%	5.31%	5.43%	5.25%	

* Weighted average interest rates of 2010 and 2012 long-term debt maturities are as follows: fixed rate debt of 6.30% and 5.61% and variable rate debt of 0.47% and 0.47%.

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for the "available for sale" marketable equity securities. As of December 31, 2009, our carrying value of certain investments was \$2,288, which reflects the market value of such investments and is in excess of our original cost.

Capitalization

The following table summarizes our capitalization during the past five years:

December 31,	2009	2008	2007	2006	2005
Long-term debt*	56.6%	54.3%	55.9%	51.6%	52.7%
Aqua America stockholders' equity	43.4%	45.7%	44.1%	48.4%	47.3%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

* Includes current portion, as well as our borrowings under a variable rate revolving credit agreement of \$64,149 at December 31, 2009 and \$62,500 at December 31, 2008.

Over the past five years, the changes in the capitalization ratios primarily resulted from the issuance of common stock, and the issuance of debt to finance our acquisitions and capital program. In 2007, the conversion of a short-term line of credit into a \$95,000 long-term revolving credit facility caused a shift in the capitalization ratio. It is our goal to maintain an equity ratio adequate to support the current Standard and Poors corporate credit rating of "A+" and the senior secured debt rating of "AA-" for Aqua Pennsylvania, our largest operating subsidiary.

Dividends on Common Stock

We have paid common dividends consecutively for 65 years. Our Board of Directors authorized an increase of 7.4% in the quarterly dividend over the amount we paid in the previous quarter for the December 1, 2009 dividend. As a result of this authorization, beginning with the dividend payment in December 2009, the annualized dividend rate increased to \$0.58 per share from \$0.54 per share. This is the 19th dividend increase in the past 18 years and the eleventh consecutive year that we have increased our dividend in excess of five percent. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1 and December 1, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, our common dividends paid have averaged 65.8% of net income attributable to common shareholders.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial condition and results of operations are impacted by the methods, assumptions, and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to our financial condition or results of operations, and require estimates or other judgments of matters of uncertainty. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the financial statements. We believe our most critical accounting policies include revenue recognition, the use of regulatory assets and liabilities, the valuation of our long-lived assets which consist primarily of utility plant in service, regulatory assets, and goodwill, our accounting for postretirement benefits, and our accounting for income taxes. We have discussed the selection and development of our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

Revenue Recognition — Our utility revenues recognized in an accounting period include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the last billing to the end of the accounting period. The estimated usage is based on our judgment and assumptions; our actual results could differ from these estimates which would result in operating revenues being adjusted in the period that the revision to our estimates is determined.

In some operating divisions, we commence the billing of our utility customers, under new rates, upon authorization from the respective regulatory commission and before the final commission rate order is issued. The revenue recognized reflects an estimate based on our judgment of the final outcome of the commission's ruling. We monitor the applicable facts and circumstances regularly, and revise the estimate as required. The revenue billed and collected prior to the final ruling is subject to refund based on the commission's final ruling. Please refer to the section named "Operating Revenues" for a discussion of revenue currently being recognized under rate filings that are not final.

Regulatory Assets and Liabilities — We defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in our rates charged for water and wastewater service. In the event that our assessment as to the probability of the inclusion in the rate-making process is incorrect, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

Valuation of Long-Lived Assets, Goodwill and Intangible Assets — We review our long-lived assets for impairment, including utility plant in service. We also review regulatory assets for the continued application of the FASB's accounting guidance for regulated operations. Our review determines whether there have been changes in circumstances or events that have occurred that require adjustments to the carrying value of these assets. Adjustments to the carrying value of these assets would be made in instances where their inclusion in the rate-making process is unlikely.

We test the goodwill attributable to each of our reporting units for impairment at least annually on July 31, or more often, if certain circumstances indicate a possible impairment may exist. We evaluate goodwill for impairment using the discounted cash flow methodologies, transaction values for other comparable companies, and other valuation techniques for all of our reporting units with goodwill balances. The evaluation requires significant management judgment and estimates that are based on budgets, general strategic business plans, historical trends and other data and relevant factors. If changes in circumstances or events occur, or estimates and assumptions which were used in our impairment test change, we may be required to record an impairment charge for goodwill. Based on our comparison of the estimated fair value of each reporting unit to their respective carrying amounts, the impairment test performed in 2009 concluded that none of our goodwill was impaired.

Accounting for Postretirement Benefits — We maintain qualified defined benefit pension plans and plans that provide for certain postretirement benefits other than pensions. Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by our employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from our actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that we recognize.

AQUA AMERICA, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
(In thousands of dollars, except per share amounts)

Our discount rate assumption was determined using a yield curve that was produced from a universe containing approximately 250 U.S.-issued Aa-graded corporate bonds, all of which were noncallable (or callable with make-whole provisions), and excluding the 10% of the bonds with the highest yields and the 10% with the lowest yields. The discount rate was then developed as the single rate that would produce the same present value as if we used spot rates, for various time periods, to discount the projected pension benefit payments. Our pension expense and liability (benefit obligations) increases as the discount rate is reduced. A 25 basis-point reduction in this assumption would have increased 2009 pension expense by \$680 and the pension liabilities by \$7,080. The present values of Aqua America's future pension and other postretirement obligations were determined using discount rates of 5.91% at December 31, 2009, and 6.11% at December 31, 2008. Our expense under these plans is determined using the discount rate as of the beginning of the year, which was 6.11% for 2009, and will be 5.91% for 2010.

Our expected return on assets is determined by evaluating the asset class return expectations with our advisors as well as actual, long-term, historical results of our asset returns. The Company's market related value of plan assets is equal to the fair value of the plan assets as of the last day of its fiscal year, and is a determinant for the expected return on assets which is a component of net pension expense. Our pension expense increases as the expected return on assets decreases. A 25 basis-point reduction in this assumption would have increased 2009 pension expense by \$290. For 2009, we used an 8.0% expected return on assets assumption which will remain unchanged for 2010. The expected return on assets is based on a targeted allocation of 50% to 75% equities and 25% to 50% fixed income. We believe that our actual long-term asset allocation on average will approximate the targeted allocation. Our targeted allocation is driven by the investment strategy to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories.

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and our funding policy, during 2010 our pension contribution is expected to be approximately \$11,563. Future years' contributions will be subject to economic conditions, plan participant data and the funding rules in effect at such time as the funding calculations are performed, though we expect future changes in the amount of contributions and expense recognized to be generally included in customer rates. During 2010, our funding of other postretirement benefit plans are expected to approximate \$1,494.

Accounting for Income taxes — We estimate the amount of income tax payable or refundable for the current year and the deferred income tax liabilities and assets that results from estimating temporary differences resulting from the treatment of certain items, such as depreciation, for tax and financial statement reporting. These differences result in the recognition of a deferred tax asset or liability on our consolidated balance sheet and require us to make judgments regarding the probability of the ultimate tax impact of the various transactions we enter into. Based on these judgments we may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realization of future tax benefits. Actual income taxes could vary from these estimates and changes in these estimates can increase income tax expense in the period that these changes in estimates occur.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

We describe the impact of recent accounting pronouncements in Note 1 — Summary of Significant Accounting Policies, of the consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Report On Internal Control Over Financial Reporting

Management of Aqua America, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In assessing the effectiveness of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. As a result of management's assessment and based on the criteria in the framework, management has concluded that, as of December 31, 2009, the Company's internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Nicholas DeBenedictis
Nicholas DeBenedictis
Chairman, President and Chief Executive Officer

David P. Smeltzer
David P. Smeltzer
Chief Financial Officer

February 26, 2010

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Aqua America, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of capitalization, of equity and of cash flows present fairly, in all material respects, the financial position of Aqua America, Inc. and its subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we consider necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 26, 2010

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands of dollars, except per share amounts)
Years ended December 31, 2009, 2008, and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 670,539	\$ 626,972	\$ 602,499
Operating costs and expenses:			
Operations and maintenance	270,060	262,122	253,092
Depreciation	103,001	88,785	83,178
Amortization	11,938	5,515	4,833
Taxes other than income taxes	48,081	44,749	45,380
	<u>433,080</u>	<u>401,171</u>	<u>386,483</u>
Operating income	237,459	225,801	216,016
Other expense (income):			
Interest expense, net	68,607	68,572	66,921
Allowance for funds used during construction	(2,871)	(3,674)	(2,953)
Gain on sale of other assets	(472)	(1,599)	(3,494)
Income before income taxes	172,195	162,502	155,542
Provision for income taxes	67,842	64,584	60,528
Net income attributable to common shareholders	<u>\$ 104,353</u>	<u>\$ 97,918</u>	<u>\$ 95,014</u>
Net income attributable to common shareholders	\$ 104,353	\$ 97,918	\$ 95,014
Other comprehensive income, net of tax:			
Unrealized holding gains on investments	289	195	1,121
Reclassification adjustment for (gains) losses reported in net income	5	(209)	(1,315)
	<u>294</u>	<u>(14)</u>	<u>(194)</u>
Comprehensive income	<u>\$ 104,647</u>	<u>\$ 97,904</u>	<u>\$ 94,820</u>
Net income per common share:			
Basic	<u>\$ 0.77</u>	<u>\$ 0.73</u>	<u>\$ 0.72</u>
Diluted	<u>\$ 0.77</u>	<u>\$ 0.73</u>	<u>\$ 0.71</u>
Average common shares outstanding during the period:			
Basic	<u>135,816</u>	<u>134,302</u>	<u>132,814</u>
Diluted	<u>136,129</u>	<u>134,705</u>	<u>133,602</u>
Cash dividends declared per common share	<u>\$ 0.55</u>	<u>\$ 0.51</u>	<u>\$ 0.48</u>

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)
December 31, 2009 and 2008

	2009	2008
Assets		
Property, plant and equipment, at cost	\$ 4,141,690	\$ 3,848,419
Less: accumulated depreciation	914,396	851,036
Net property, plant and equipment	<u>3,227,294</u>	<u>2,997,383</u>
Current assets:		
Cash and cash equivalents	21,869	14,944
Accounts receivable and unbilled revenues, net	78,742	84,523
Inventory, materials and supplies	9,519	9,822
Prepayments and other current assets	11,441	11,752
Total current assets	<u>121,571</u>	<u>121,041</u>
Regulatory assets	226,351	234,980
Deferred charges and other assets, net	59,468	50,603
Funds restricted for construction activity	84,830	52,931
Goodwill	43,083	41,007
	<u>\$ 3,762,597</u>	<u>\$ 3,497,945</u>
Liabilities and Equity		
Aqua America stockholders' equity:		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 137,148,749 and 136,053,467 in 2009 and 2008	\$ 68,574	\$ 68,026
Capital in excess of par value	642,786	623,407
Retained earnings	409,402	379,778
Treasury stock, at cost, 662,410 and 683,958 shares in 2009 and 2008	(12,138)	(12,751)
Accumulated other comprehensive income	280	(14)
Total Aqua America stockholders' equity	<u>1,108,904</u>	<u>1,058,446</u>
Noncontrolling interest	<u>560</u>	<u>2,181</u>
Total Equity	<u>1,109,464</u>	<u>1,060,627</u>
Long-term debt, excluding current portion	1,386,557	1,248,104
Commitments and contingencies (See Note 9)	—	—
Current liabilities:		
Current portion of long-term debt	59,577	7,297
Loans payable	27,487	80,589
Accounts payable	57,862	50,044
Accrued interest	16,265	16,070
Accrued taxes	18,813	15,362
Other accrued liabilities	21,003	23,809
Total current liabilities	<u>201,007</u>	<u>193,171</u>
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	408,583	355,166
Customers' advances for construction	76,913	72,955
Regulatory liabilities	28,812	27,894
Other	114,490	120,333
Total deferred credits and other liabilities	<u>628,798</u>	<u>576,348</u>
Contributions in aid of construction	<u>436,771</u>	<u>419,695</u>
	<u>\$ 3,762,597</u>	<u>\$ 3,497,945</u>

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)
December 31, 2009 and 2008

	2009	2008
Aqua America stockholders' equity:		
Common stock, \$.50 par value	\$ 68,574	\$ 68,026
Capital in excess of par value	642,786	623,407
Retained earnings	409,402	379,778
Treasury stock, at cost	(12,138)	(12,751)
Accumulated other comprehensive income	280	(14)
Total Aqua America stockholders' equity	1,108,904	1,058,446
Noncontrolling interest	560	2,181
Total Equity	1,109,464	1,060,627
Long-term debt:		
Long-term debt of subsidiaries (substantially secured by utility plant):		
Interest Rate Range	Maturity Date Range	
0.00% to 0.99%	2012 to 2034	6,868 3,606
1.00% to 1.99%	2011 to 2035	21,917 22,076
2.00% to 2.99%	2019 to 2027	12,935 13,683
3.00% to 3.99%	2010 to 2025	28,455 30,437
4.00% to 4.99%	2020 to 2041	271,346 196,150
5.00% to 5.99%	2011 to 2043	384,694 318,913
6.00% to 6.99%	2011 to 2036	121,876 121,552
7.00% to 7.99%	2012 to 2025	31,236 32,245
8.00% to 8.99%	2021 to 2025	34,543 34,806
9.00% to 9.99%	2010 to 2026	69,983 71,301
10.00% to 10.99%	2018	6,000 6,000
		989,853 850,769
Notes payable to bank under revolving credit agreement, variable rate, due May 2012	64,149	62,500
Unsecured notes payable:		
Notes ranging from 4.72% to 4.87%, due 2010 through 2023	185,000	135,000
Notes ranging from 5.00% to 5.99%, due 2013 through 2037	207,132	207,132
	1,446,134	1,255,401
Current portion of long-term debt	59,577	7,297
Long-term debt, excluding current portion	1,386,557	1,248,104
Total capitalization	\$2,496,021	\$2,308,731

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(In thousands of dollars, except per share amounts)

	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
Balance at December 31, 2006	\$ 66,509	\$548,806	\$319,113	\$(12,992)	\$ 194	\$ 1,814	\$ 923,444
Net income	—	—	95,014	—	—	233	95,247
Purchase of subsidiary shares from noncontrolling interest	—	—	—	—	—	(68)	(68)
Other comprehensive income:							
Unrealized holding gain on investments, net of income tax of \$603	—	—	—	—	1,121	—	1,121
Reclassification adjustment for gains reported in net income, net of income tax of \$708	—	—	—	—	(1,315)	—	(1,315)
Dividends	—	—	(63,763)	—	—	—	(63,763)
Sale of stock (482,785 shares)	227	9,483	—	689	—	—	10,399
Repurchase of stock (35,486 shares)	—	—	—	(863)	—	—	(863)
Equity Compensation Plan (50,000 shares)	25	(25)	—	—	—	—	—
Exercise of stock options (577,272 shares)	289	7,036	—	—	—	—	7,325
Stock-based compensation	—	4,871	—	—	—	—	4,871
Employee stock plan tax benefits	—	1,879	—	—	—	—	1,879
Balance at December 31, 2007	<u>67,050</u>	<u>572,050</u>	<u>350,364</u>	<u>(13,166)</u>	<u>—</u>	<u>1,979</u>	<u>978,277</u>
Net income	—	—	97,918	—	—	241	98,159
Purchase of subsidiary shares from noncontrolling interest	—	—	—	—	—	(39)	(39)
Net cash settlement of a portion of forward equity sale agreement	—	11,011	—	—	—	—	11,011
Other comprehensive income:							
Unrealized holding gain on investments, net of income tax of \$105	—	—	—	—	195	—	195
Reclassification adjustment for gains reported in net income, net of income tax of \$112	—	—	—	—	(209)	—	(209)
Dividends	—	—	(68,504)	—	—	—	(68,504)
Stock issued for acquisitions (125,723 shares)	63	1,937	—	—	—	—	2,000
Sale of stock (1,621,726 shares)	792	31,693	—	812	—	—	33,297
Repurchase of stock (19,827 shares)	—	—	—	(397)	—	—	(397)
Equity Compensation Plan (46,250 shares)	23	(23)	—	—	—	—	—
Exercise of stock options (195,487 shares)	98	2,183	—	—	—	—	2,281
Stock-based compensation	—	4,243	—	—	—	—	4,243
Employee stock plan tax benefits	—	313	—	—	—	—	313
Balance at December 31, 2008	<u>68,026</u>	<u>623,407</u>	<u>379,778</u>	<u>(12,751)</u>	<u>(14)</u>	<u>2,181</u>	<u>1,060,627</u>
Net income	—	—	104,353	—	—	39	104,392
Purchase of subsidiary shares from noncontrolling interest	—	—	—	—	—	(1,660)	(1,660)
Other comprehensive income:							
Unrealized holding gain on investments, net of income tax of \$156	—	—	—	—	289	—	289
Reclassification adjustment for losses reported in net income, net of income tax of \$2	—	—	—	—	5	—	5
Dividends	—	—	(74,729)	—	—	—	(74,729)
Stock issued for acquisitions (164,052 shares)	82	2,827	—	—	—	—	2,909
Sale of stock (732,229 shares)	348	10,627	—	917	—	—	11,892
Repurchase of stock (15,137 shares)	—	—	—	(304)	—	—	(304)
Equity Compensation Plan (70,000 shares)	35	(35)	—	—	—	—	—
Exercise of stock options (165,686 shares)	83	1,609	—	—	—	—	1,692
Stock-based compensation	—	3,677	—	—	—	—	3,677
Employee stock plan tax benefits	—	674	—	—	—	—	674
Balance at December 31, 2009	<u>\$ 68,574</u>	<u>\$642,786</u>	<u>\$409,402</u>	<u>\$(12,138)</u>	<u>\$ 280</u>	<u>\$ 560</u>	<u>\$1,109,464</u>

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)
Years ended December 31, 2009, 2008, and 2007

	2009	2008	2007
Cash flows from operating activities:			
Net income attributable to common shareholders	\$ 104,353	\$ 97,918	\$ 95,014
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	114,939	94,300	88,011
Deferred income taxes	47,240	45,768	21,993
Provision for doubtful accounts	5,924	6,811	5,407
Stock-based compensation	3,603	3,871	4,320
Gain on sale of utility system	(1,009)	(4,118)	(1,095)
Gain on sale of other assets	(472)	(1,599)	(3,494)
Net increase in receivables, inventory and prepayments	(1,704)	(10,081)	(12,642)
Net decrease in payables, accrued interest, accrued taxes and other accrued liabilities	(8,521)	(6,428)	(7,382)
Other	(5,763)	(4,936)	4,036
Net cash flows from operating activities	258,590	221,506	194,168
Cash flows from investing activities:			
Property, plant and equipment additions, including allowance for funds used during construction of \$2,871, \$3,674, and \$2,953	(283,584)	(267,418)	(238,140)
Acquisitions of utility systems and other, net	(3,373)	(14,659)	(51,226)
Release of funds previously restricted for construction activity	102,560	46,885	53,988
Additions to funds restricted for construction activity	(134,473)	(23,195)	(117,442)
Net proceeds from the sale of utility system and other assets	2,171	20,831	6,981
Other	(3,965)	(1,215)	1,795
Net cash flows used in investing activities	(320,664)	(238,771)	(344,044)
Cash flows from financing activities:			
Customers' advances and contributions in aid of construction	4,619	6,365	9,605
Repayments of customers' advances	(2,549)	(5,928)	(5,560)
Net proceeds (repayments) of short-term debt	(53,102)	23,671	(62,232)
Proceeds from long-term debt	197,855	52,741	275,757
Repayments of long-term debt	(20,789)	(39,038)	(46,987)
Change in cash overdraft position	4,284	1,951	(4,691)
Proceeds from issuing common stock	11,892	33,297	10,399
Proceeds from forward equity agreement	—	11,011	—
Proceeds from exercised stock options	1,692	2,281	7,325
Stock-based compensation windfall tax benefits	130	219	1,387
Repurchase of common stock	(304)	(397)	(863)
Dividends paid on common stock	(74,729)	(68,504)	(63,763)
Net cash flows from financing activities	68,999	17,669	120,377
Net increase (decrease) in cash and cash equivalents	6,925	404	(29,499)
Cash and cash equivalents at beginning of year	14,944	14,540	44,039
Cash and cash equivalents at end of year	<u>\$ 21,869</u>	<u>\$ 14,944</u>	<u>\$ 14,540</u>
Cash paid during the year for:			
Interest, net of amounts capitalized	<u>\$ 65,501</u>	<u>\$ 64,368</u>	<u>\$ 62,113</u>
Income taxes	<u>\$ 19,444</u>	<u>\$ 20,984</u>	<u>\$ 41,472</u>

See Note 1 — Summary of Significant Accounting Policies-Customers' Advances for Construction, Note 2 — Acquisitions, Note 10 — Long-term Debt and Loans Payable, and Note 14 — Employee Stock and Incentive Plan for a description of non-cash activities.

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(In thousands of dollars, except per share amounts)

Note 1 — Summary of Significant Accounting Policies

Nature of Operations — Aqua America, Inc. (“Aqua America” or the “Company”) is the holding company for regulated utilities providing water or wastewater services in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, New York, Florida, Indiana, Virginia, Maine, Missouri, South Carolina, and Georgia. Our largest operating subsidiary, Aqua Pennsylvania, Inc., accounted for approximately 52% of our operating revenues for 2009 and provided water or wastewater services to customers in the suburban areas north and west of the City of Philadelphia and in 25 other counties in Pennsylvania. The Company’s other subsidiaries provide similar services in 13 other states. In addition, the Company provides water and wastewater service through operating and maintenance contracts with municipal authorities and other parties, and septage services, close to our utility companies’ service territories.

The company has identified fifteen operating segments and has one reportable segment named the Regulated segment. The reportable segment is comprised of fourteen operating segments for our water and wastewater regulated utility companies which are organized by the states where we provide these services. These operating segments are aggregated into one reportable segment since each of the Company’s operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment. In addition, one operating segment is not quantitatively significant to be reportable and is comprised of the businesses that provide on-site septic tank pumping, sludge hauling services and certain other non-regulated water and wastewater services. This segment is included as a component of “other,” in addition to corporate costs that have not been allocated to the Regulated segment and intersegment eliminations.

Regulation — Most of the operating companies that are regulated public utilities are subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters. Some of the operating companies that are regulated public utilities are subject to rate regulation by county or city government. Regulated public utilities follow the Financial Accounting Standards Board’s (FASB) accounting guidance for regulated operations, which provides for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. The regulatory assets or liabilities are then relieved as the cost or credit is reflected in rates.

Use of Estimates in Preparation of Consolidated Financial Statements — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation — The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated. In accordance with the preparation of the consolidated financial statements the Company evaluated subsequent events after the balance sheet date of December 31, 2009 through to the time the financial statements were filed with the Securities and Exchange Commission on February 26, 2010. Certain prior period amounts have been reclassified to conform to the current period presentation.

Recognition of Revenues — Revenues include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the latest billing to the end of the accounting period. Non-regulated revenues are recognized when services are performed and are primarily associated with septage services, and operating and maintenance contracts. The Company’s Regulated segment includes non-regulated revenues that totaled \$12,665 in 2009, \$13,278 in 2008, and \$12,935 in 2007. In addition to the non-regulated revenues included in the Regulated segment operating revenues, the Company has other non-regulated revenues of \$11,634 in 2009, \$11,810 in 2008, and \$12,756 in 2007.

Property, Plant and Equipment and Depreciation — Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads and, for certain utility plant, allowance for funds used during construction. Water systems acquired are recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost, less applicable accumulated depreciation, and the purchase price is recorded as an acquisition adjustment within utility plant. At December 31, 2009, utility plant includes a net credit acquisition adjustment of \$49,436, which is generally being amortized from 2 to 20 years, except where not permitted or appropriate. Amortization of the acquisition adjustments totaled \$3,250 in 2009, \$4,245 in 2008, and \$3,732 in 2007.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Utility expenditures for maintenance and repairs, including major maintenance projects and minor renewals and betterments, are charged to operating expenses when incurred in accordance with the system of accounts prescribed by the public utility commissions of the states in which the company operates. The cost of new units of property and betterments are capitalized. Utility expenditures for water main cleaning and relining of pipes are deferred and recorded in net property, plant and equipment in accordance with the FASB's accounting guidance for regulated operations. As of December 31, 2009, \$15,643 of costs have been incurred since the last rate proceeding and the Company expects to recover these costs in future rates.

The cost of software upgrades and enhancements are capitalized if they result in added functionality which enable the software to perform tasks it was previously incapable of performing. Certain information technology costs associated with major system installations, conversions and improvements, such as software training, data conversion and business process reengineering costs, are deferred as a regulatory asset if the Company expects to recover these costs in future rates. If these costs are not deferred, then these costs are charged to operating expenses when incurred. As of December 31, 2009, \$9,234 of costs have been deferred, since the last rate proceeding, as a regulatory asset, and the deferral is reported as a component of net property, plant and equipment.

When units of utility property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates.

The straight-line remaining life method is used to compute depreciation on utility plant. Generally, the straight-line method is used with respect to transportation and mechanical equipment, office equipment and laboratory equipment.

Long-lived assets of the Company, which consist primarily of Utility Plant in Service and regulatory assets, are reviewed for impairment when changes in circumstances or events occur. There has been no change in circumstances or events that have occurred that require adjustments to the carrying values of these assets.

Allowance for Funds Used During Construction — The allowance for funds used during construction ("AFUDC") represents the capitalized cost of funds used to finance the construction of utility plant. In general, AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction or contributions in aid of construction. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. The amount of AFUDC related to equity funds in 2009 was \$107, in 2008 was \$26, and in 2007 was \$22. No interest was capitalized by our non-regulated businesses.

Cash and Cash Equivalents — The Company considers all highly liquid investments with an original maturity of three months or less, which are not restricted for construction activity, to be cash equivalents.

The Company had a book overdraft for certain of its disbursement cash accounts of \$15,283, and \$10,999 at December 31, 2009 and 2008, respectively. A book overdraft represents transactions that have not cleared the bank accounts at the end of the period. The Company transfers cash on an as-needed basis to fund these items as they clear the bank in subsequent periods. The balance of the book overdraft is reported as accounts payable and the change in the book overdraft balance is reported as cash flows from financing activities.

Accounts Receivable — Accounts receivable are recorded at the invoiced amounts. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in our existing accounts receivable, and is determined based on historical write-off experience and the aging of account balances. The Company reviews the allowance for doubtful accounts quarterly. Account balances are written off against the allowance when it is probable the receivable will not be recovered. When utility customers request extended payment terms, credit is extended based on regulatory guidelines, and collateral is not required.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Regulatory Assets, Deferred Charges and Other Assets — Deferred charges and other assets consist of financing expenses, other costs and marketable securities. Deferred bond issuance expenses are amortized over the life of the related issues. Call premiums related to the early redemption of long-term debt, along with the unamortized balance of the related issuance expense, are deferred and amortized over the life of the long-term debt used to fund the redemption. Other costs, for which the Company has received or expects to receive prospective rate recovery, are deferred as a regulatory asset and amortized over the period of rate recovery in accordance with the FASB's accounting guidance for regulated operations.

Marketable securities are considered "available-for-sale" and accordingly, are carried on the balance sheet at fair market value. Unrecognized gains are included in other comprehensive income.

Funds Restricted for Construction Activity — The proceeds received from certain financings for construction and capital improvement of utility facilities are held in escrow until the designated expenditures are incurred. These amounts are reported as funds restricted for construction activity and are expected to be released over time as the capital projects are funded.

Goodwill — Goodwill represents the excess cost over the fair value of net tangible and identifiable intangible assets acquired through acquisitions. Goodwill is not amortized but is tested for impairment annually, or more often, if circumstances indicate a possible impairment may exist. The Company tested the goodwill attributable to each of our reporting units for impairment as of July 31, 2009, in conjunction with the timing of our annual strategic business plan. Based on the Company's comparison of the estimated fair value of each reporting unit to their respective carrying amounts, the impairment test concluded that none of its goodwill was impaired. The following table summarizes the changes in the Company's goodwill:

	<u>Regulated Segment</u>	<u>Other</u>	<u>Consolidated</u>
Balance at December 31, 2007	\$ 32,510	\$ 4,121	\$ 36,631
Goodwill acquired during year	4,176	—	4,176
Other	200	—	200
Balance at December 31, 2008	<u>36,886</u>	<u>4,121</u>	<u>41,007</u>
Goodwill acquired during year	2,073	—	2,073
Reclassifications to utility plant acquisition adjustment	(1,453)	—	(1,453)
Other	1,456	—	1,456
Balance at December 31, 2009	<u>\$ 38,962</u>	<u>\$ 4,121</u>	<u>\$ 43,083</u>

Income Taxes — The Company accounts for certain income and expense items in different time periods for financial and tax reporting purposes. Deferred income taxes are provided on the temporary differences between the tax basis of the assets and liabilities, and the amounts at which they are carried in the consolidated financial statements. The income tax effect of temporary differences not allowed currently in rates is recorded as deferred taxes with an offsetting regulatory asset or liability. These deferred income taxes are based on the enacted tax rates expected to be in effect when such temporary differences are projected to reverse. Investment tax credits are deferred and amortized over the estimated useful lives of the related properties. Judgment is required in evaluating the Company's federal and state tax positions. Despite management's belief that the Company's tax return positions are fully supportable, the Company may establish reserves when it believes that certain tax positions are likely to be challenged and it may not fully prevail in these challenges. The Company's provision for income taxes includes interest, penalties and reserves for uncertain tax positions.

Customers' Advances for Construction and Contributions in Aid of Construction — Water mains, other utility property or, in some instances, cash advances to reimburse the Company for its costs to construct water mains or other utility property, are contributed to the Company by customers, real estate developers and builders in order to extend utility service to their properties. The value of these contributions is recorded as customers' advances for construction. Non-cash property, in the form of water mains and wastewater systems, has been received, generally from developers, as advances or contributions of \$49,957, \$39,564, and \$56,210 in 2009, 2008, and 2007, respectively. The increase in non-cash property contributions in 2009 is due to the receipt of mains, wastewater systems and wastewater treatment plants. The Company makes refunds on these advances over a specific period of time based on operating revenues related to the property, or as new customers are connected to and take service from the main. After all refunds are made, any remaining balance is transferred to contributions in aid of construction. Contributions in aid of construction include direct non-refundable contributions and the portion of customers' advances for construction that become non-refundable.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Contributed property is generally not depreciated for rate-making purposes as certain states' regulatory guidelines provide that contributions in aid of construction received must remain on the Company's consolidated balance sheet indefinitely. Based on regulatory conventions in other states where the Company operates, certain of the subsidiaries do depreciate contributed property and amortize contributions in aid of construction at the composite rate of the related property. Contributions in aid of construction are deducted from the Company's rate base for rate-making purposes, and therefore, no return is earned on contributed property.

Inventories, Materials and Supplies — Inventories are stated at cost. Cost is principally determined using the first-in, first-out method.

Stock-Based Compensation — The Company records compensation expense in the financial statements for stock-based awards based on the grant date fair value of those awards. Stock-based compensation expense includes an estimate for pre-vesting forfeitures and is recognized over the requisite service periods of the awards on a straight-line basis, which is generally commensurate with the vesting term.

Recent Accounting Pronouncements — In May 2009, the Financial Accounting Standards Board ("FASB") issued accounting guidance that establishes general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued. The guidance requires the disclosure of the date through which the Company has evaluated subsequent events and the basis for that date. Effective June 30, 2009, the Company adopted the guidance as required, and the adoption did not have a material impact on the Company's consolidated results of operations or consolidated financial position.

In April 2009, the FASB issued amended guidance that requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. Effective June 30, 2009, we adopted the provisions of the guidance as required.

In December 2007, the FASB revised its guidance on business combinations, which establishes principles for recognizing assets and liabilities acquired in a business combination, contractual contingencies and certain acquired contingencies to be measured at their fair values at the acquisition date. The guidance requires that acquisition-related costs and restructuring costs be recognized separately from the business combination. The guidance, which is effective for the Company's fiscal year beginning January 1, 2009, changed the Company's accounting for business combinations on a prospective basis beginning with transactions closing in the first quarter of 2009.

In December 2007, the FASB issued guidance that establishes accounting and reporting principles for a noncontrolling interest in a subsidiary that requires the identification of the amount of consolidated net income attributable to the parent and to the noncontrolling interest, the application of a single method of accounting for changes in a parent's ownership interest when the parent retains its controlling financial interest, and measurement at fair value of a retained noncontrolling equity investment when a subsidiary is deconsolidated. The guidance also requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interest of the parent and the interest of the noncontrolling owners. The Company adopted the guidance as required on January 1, 2009, and the adoption did not have a material impact on the Company's consolidated results of operations or consolidated financial position.

In September 2006, the FASB issued guidance on fair value measurements which defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. The guidance applies when fair value is required to or permitted to measure assets and liabilities, however, it does not expand the use of fair value measurement. In February 2008, the FASB delayed the effective date of applying fair value accounting for certain non-financial assets and liabilities that are fair valued on a non-recurring basis to fiscal years, beginning after November 15, 2008. The Company adopted the guidance as required on January 1, 2008 for all financial assets and liabilities, and the adoption did not have a material impact on the Company's consolidated results of operations or consolidated financial position. Effective January 1, 2009, the Company adopted the guidance on all non-financial assets and liabilities, and the adoption did not have a material impact on the Company's consolidated results of operations or consolidated financial position.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Note 2 — Acquisitions

New York Water Service Corporation — Pursuant to our strategy to grow through acquisitions, on January 1, 2007 the Company completed the acquisition of the capital stock of New York Water Service Corporation (“New York Water”) for \$26,664 in cash (net of cash acquired of \$2,288), as adjusted pursuant to the purchase agreement primarily based on working capital at closing, and the assumption of \$23,000 of long-term debt. At the time of the acquisition, the operation provided water service to 44,792 customers in several water systems located in Nassau County, Long Island, New York. The operating results of New York Water have been included in our consolidated financial statements beginning January 1, 2007. For the years ended December 31, 2009, 2008, and 2007, New York Water had operating revenues of \$23,414, \$23,540 and \$23,420. Under the purchase method of accounting, the purchase price was allocated to the net tangible and intangible assets based upon their estimated fair values at the date of the acquisition, and the Company recorded goodwill of \$10,894.

Other Acquisitions — During 2009, the Company completed 18 acquisitions or other growth ventures in various states. The total purchase price of \$6,282 for the systems acquired in 2009 consisted of \$3,373 in cash, and the issuance of 164,052 shares of the Company’s common stock. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were \$1,176. The pro forma effect of the businesses acquired in 2009 is not material to the Company’s results of operations.

During 2008, the Company completed 9 acquisitions or other growth ventures in various states. The total purchase price of \$16,659 for the systems acquired in 2008 consisted of \$14,659 in cash, and the issuance of 125,723 shares of the Company’s common stock. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were \$5,453 in 2009 and \$2,129 in 2008. The pro forma effect of the businesses acquired in 2008 is not material to the Company’s results of operations.

During 2007, in addition to New York Water Service Corporation, the Company completed 26 acquisitions or other growth ventures in various states for an aggregate purchase price of \$24,562 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were \$8,170 in 2009, \$8,374 in 2008, and \$4,434 in 2007.

Note 3 — Dispositions

In June 2009, the Company sold a water and wastewater utility system for net proceeds of \$1,601, which was in excess of the book value for these assets. The proceeds were used to pay-down short-term debt and the sale resulted in the recognition in 2009 of a gain on the sale of these assets, net of expenses of \$1,009. The gain is reported in the 2009 consolidated statement of income as a reduction to operations and maintenance expense. These utility systems represented approximately 0.02% of Aqua America’s total assets.

In August 2008, the Company sold a water and wastewater utility system for net proceeds of \$10,500, which consisted of \$1,900 in cash and the issuance of a 25-year note receivable of \$8,600 that bears interest at 7.25% and provides for semi-annual principal and interest payments. The sale resulted in the recognition of a gain on the sale of these assets, net of expenses, of \$4,118. The gain is reported in the consolidated statement of income as a reduction to operations and maintenance expense. These utility systems represented approximately 0.20% of Aqua America’s total assets.

In December 2007, the Company sold a water utility system for net proceeds of \$1,498, which was in excess of the book value for these assets. The proceeds were used to pay-down short-term debt and the sale resulted in the recognition in 2007 of a gain on the sale of these assets, net of expenses, of \$1,095. The gain is reported in the 2007 consolidated statement of income as a reduction to operations and maintenance expense. This utility system represented approximately 0.01% of Aqua America’s total assets.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The City of Fort Wayne, Indiana (“the City”) has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the operating subsidiaries that the Company acquired in connection with the AquaSource acquisition in 2003. The Company challenged whether the City was following the correct legal procedures in connection with the City’s attempted condemnation, but the Indiana Supreme Court, in an opinion issued in June 2007, supported the City’s position. In October 2007, the City’s Board of Public Works approved proceeding with its process to condemn the northern portion of the Company’s utility system at a preliminary price based on the City’s valuation. The Company has filed an appeal with the Allen County Circuit Court challenging the Board of Public Works’ valuation on several bases. In November 2007, the City Council authorized the taking of the northern portion of the Company’s system and the payment of \$16,911 based on the City’s valuation of this portion of the system. In January 2008, the Company reached a settlement with the City to transition the northern portion of the system in February 2008 upon receipt of the City’s initial valuation payment of \$16,911. The settlement agreement specifically stated that the final valuation of the northern portion of the Company’s system will be determined through a continuation of the legal proceedings that were filed challenging the City’s valuation. On February 12, 2008, the Company turned over the northern portion of the system to the City upon receipt of the initial valuation payment. The Indiana Utility Regulatory Commission also reviewed and acknowledged the transfer of the Certificate of Territorial Authority for the northern portion of the system to the City. The proceeds received by the Company are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. On March 16, 2009, oral argument was held on certain procedural aspects with respect to the valuation evidence that may be presented and whether the Company is entitled to a jury trial. Depending upon the outcome of the legal proceeding the Company may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The northern portion of the utility system relinquished represents approximately 0.50% of the Company’s total assets.

Note 4 — Property, Plant and Equipment

	December 31,		Approximate range of remaining lives
	2009	2008	
Utility plant and equipment:			
Mains and accessories	\$ 1,713,955	\$ 1,560,132	15 to 85 years
Services, hydrants, treatment plants and reservoirs	1,082,680	990,335	5 to 88 years
Operations structures and water tanks	191,950	178,972	15 to 75 years
Miscellaneous pumping and purification equipment	520,566	505,617	5 to 78 years
Meters, data processing, transportation and operating equipment	505,500	486,269	3 to 78 years
Land and other non-depreciable assets	88,790	125,826	—
Utility plant and equipment	4,103,441	3,847,151	
Utility construction work in progress	81,529	44,390	—
Net utility plant acquisition adjustment	(49,436)	(49,727)	0 to 20 years
Non-utility plant and equipment	6,156	6,605	0 to 25 years
Total property, plant and equipment	<u>\$ 4,141,690</u>	<u>\$ 3,848,419</u>	

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Note 5 — Accounts Receivable

	December 31,	
	2009	2008
Billed utility revenue	\$ 48,869	\$ 53,673
Unbilled utility revenue	31,981	31,473
Other	3,554	5,733
	<u>84,404</u>	<u>90,879</u>
Less allowance for doubtful accounts	5,662	6,356
Net accounts receivable	<u>\$ 78,742</u>	<u>\$ 84,523</u>

The Company's utility customers are located principally in the following states: 45% in Pennsylvania, 9% in Ohio, 9% in North Carolina, 7% in Illinois, 6% in Texas, 5% in New Jersey, 5% in New York, 4% in Indiana and 4% in Florida. No single customer accounted for more than one percent of the Company's operating revenues during the years ended December 31, 2009, 2008, or 2007. The following table summarizes the changes in the Company's allowance for doubtful accounts:

	2009	2008	2007
Balance at January 1,	\$ 6,356	\$ 5,566	\$ 4,969
Amounts charged to expense	5,924	6,811	5,407
Accounts written off	(7,832)	(6,953)	(5,297)
Recoveries of accounts written off	1,214	932	487
Balance at December 31,	<u>\$ 5,662</u>	<u>\$ 6,356</u>	<u>\$ 5,566</u>

Note 6 — Regulatory Assets and Liabilities

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts recovered from customers in advance of incurring the costs. Except for income taxes and the competitive transition charge payment, regulatory assets and regulatory liabilities are excluded from the Company's rate base and do not earn a return. The components of regulatory assets and regulatory liabilities are as follows:

	December 31, 2009		December 31, 2008	
	Regulatory Assets	Regulatory Liabilities	Regulatory Assets	Regulatory Liabilities
Income taxes	\$ 76,539	\$ 2,760	\$ 73,536	\$ 2,576
Utility plant retirement costs	33,403	12,244	31,027	10,960
Postretirement benefits	90,220	12,777	95,964	12,923
Texas rate filing expense deferral	5,769	—	10,946	—
Competitive Transition Charge payment	1,147	—	2,293	—
Water tank painting	4,303	—	5,356	—
Fair value adjustment of long-term debt assumed in acquisition	1,962	311	2,172	385
Rate case filing expenses & other	13,008	720	13,686	1,050
	<u>\$ 226,351</u>	<u>\$ 28,812</u>	<u>\$ 234,980</u>	<u>\$ 27,894</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to certain differences between tax and book depreciation expense, are recognized in the rate setting process on a cash or flow-through basis and will be recovered as they reverse.

The regulatory asset for utility plant retirement costs, including cost of removal, represents costs already incurred that are expected to be recovered in future rates over a five year recovery period. The regulatory liability for utility plant retirement costs represents amounts recovered through rates during the life of the associated asset and before the costs are incurred.

Postretirement benefits include pension and other postretirement benefits. A regulatory asset has been recorded at December 31, 2009 and 2008 for the costs that would otherwise be charged to stockholders' equity for the underfunded status of the Company's pension and other postretirement benefit plans. The regulatory asset related to pension costs includes deferred net pension expense in excess of amounts funded which the Company believes will be recoverable in future years as pension funding is required. The regulatory asset related to postretirement benefits other than pensions represents costs that were deferred between the time that the accrual method of accounting for these benefits was adopted in 1993 and the recognition of the accrual method in the Company's rates as prescribed in subsequent rate filings. Amortization of the amount deferred for postretirement benefits other than pensions began in 1994 and is currently being recovered in rates.

The regulatory asset for the Texas rate filing of 2004 results from a multi-year plan to increase annual revenues in phases, and to defer and amortize a portion of the Company's depreciation, operating and other tax expense over a similar multi-year period. These costs are being amortized over approximately two years, beginning February 1, 2009, in accordance with the final rate order.

The regulatory asset associated with the Competitive Transition Charge ("CTC") payment represents the full payoff in 2001, net of amortization, of the allocable share of a CTC as negotiated by Aqua Pennsylvania, Inc. from an electric distribution company. The Pennsylvania Electricity Generation Customer Choice and Competition Act permitted electric distribution utilities to recover their stranded costs from its customers in the form of a CTC. Rate recovery of the \$11,465 CTC payment began in 2000 and is expected to conclude in 2010.

Expenses associated with water tank painting are deferred and amortized over a period of time as approved in the regulatory process. Water tank painting costs are generally being amortized over a period ranging from 5 to 17 years.

The Company recorded a fair value adjustment for fixed rate, long-term debt assumed in acquisitions that matures in various years ranging from 2012 to 2035. The regulatory asset or liability results from the rate setting process continuing to recognize the historical interest cost of the assumed debt.

The regulatory asset related to rate case filing expenses represents the costs associated with filing for rate increases that are deferred and amortized over periods that generally range from one to five years. Other represents costs incurred by the Company for which it has received or expects to receive rate recovery.

The regulatory asset related to the costs incurred for information technology software projects and water main cleaning and relining projects are described in Note 1 — Summary of Significant Accounting Policies — Property Plant and Equipment and Depreciation.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Note 7 — Income Taxes

The provision for income taxes consists of:

	Years Ended December 31,		
	2009	2008	2007
Current:			
Federal	\$ 10,193	\$ 8,576	\$ 30,197
State	10,398	10,240	9,054
	<u>20,591</u>	<u>18,816</u>	<u>39,251</u>
Deferred:			
Federal	45,514	44,017	19,664
State	1,737	1,751	1,613
	<u>47,251</u>	<u>45,768</u>	<u>21,277</u>
Total tax expense	<u>\$ 67,842</u>	<u>\$ 64,584</u>	<u>\$ 60,528</u>

The statutory Federal tax rate is 35% and for states with a corporate net income tax, the state corporate net income tax rates range from 5% to 9.99% for all years presented.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The reasons for the differences between amounts computed by applying the statutory Federal income tax rate to income before income tax expense are as follows:

	Years Ended December 31,		
	2009	2008	2007
Computed Federal tax expense at statutory rate	\$ 60,268	\$ 56,876	\$ 54,440
Increase in tax expense for depreciation expense to be recovered in future rates	399	376	458
Domestic Production Credit	(654)	(540)	(1,303)
Stock-based compensation	408	742	694
Deduction for Aqua America common dividends paid under employee benefit plan	(293)	(331)	(380)
Amortization of deferred investment tax credits	(274)	(276)	(277)
State income taxes, net of federal tax benefit	7,889	7,794	6,934
Other, net	99	(57)	(38)
Actual income tax expense	<u>\$ 67,842</u>	<u>\$ 64,584</u>	<u>\$ 60,528</u>

The tax effects of temporary differences between book and tax accounting that give rise to the deferred tax assets and deferred tax liabilities are as follows:

	December 31,	
	2009	2008
Deferred tax assets:		
Customers' advances for construction	\$ 16,757	\$ 16,933
Costs expensed for book not deducted for tax, principally accrued expenses	3,220	5,209
Utility plant acquisition adjustment basis differences	12,880	13,762
Postretirement benefits	30,391	33,021
Other	1,069	566
Total gross deferred tax assets	<u>64,317</u>	<u>69,491</u>
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	405,504	357,181
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	30,018	29,208
Tax effect of regulatory asset for postretirement benefits	30,391	33,021
Deferred investment tax credit	6,987	5,247
Total gross deferred tax liabilities	<u>472,900</u>	<u>424,657</u>
Net deferred tax liability	<u>\$ 408,583</u>	<u>\$ 355,166</u>

The Company has analyzed filing positions in its federal and state jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. The Company believes its income tax filing positions and deductions will be sustained under audit and it believes it does not have significant uncertain tax positions that, in the event of adjustment, will result in a material effect on its results of operations or financial position. The Company has elected to recognize accrued interest and penalties related to uncertain tax positions as income tax expense. As of December 31, 2009, the Company's Federal income tax returns for all years through 2005 have been closed. Tax years 2006 through 2009 remain open to examination by the major taxing jurisdictions to which we are subject.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Note 8 — Taxes Other than Income Taxes

The following table provides the components of taxes other than income taxes:

	Years Ended December 31,		
	2009	2008	2007
Property	\$ 25,388	\$ 24,701	\$ 24,920
Capital Stock	2,989	3,052	3,352
Gross receipts, excise and franchise	8,899	7,600	7,890
Payroll	6,906	6,386	6,650
Other	3,899	3,010	2,568
Total taxes other than income	<u>\$ 48,081</u>	<u>\$ 44,749</u>	<u>\$ 45,380</u>

Note 9 — Commitments and Contingencies

Commitments — The Company maintains agreements with other water purveyors for the purchase of water to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2026. The estimated annual commitments related to such purchases through 2014 are expected to approximate \$10,070 and the aggregate of the years remaining approximates \$51,545. The Company purchased approximately \$13,037, \$11,710, and \$11,096 of water under these agreements during the years ended December 31, 2009, 2008, and 2007, respectively.

The Company leases motor vehicles, buildings and other equipment under operating leases that are noncancelable. The future annual minimum lease payments due are: \$2,842 in 2010, \$1,994, in 2011, \$1,221 in 2012, \$668 in 2013, \$347 in 2014 and \$103 thereafter. The Company leases parcels of land on which treatment plants and other facilities are situated and adjacent parcels that are used for watershed protection. The operating leases are noncancelable, expire between 2015 and 2052 and contain certain renewal provisions. Certain leases are subject to an adjustment every five years based on changes in the Consumer Price Index. Subject to the aforesaid adjustment, during each of the next five years, approximately \$588 of annual lease payments for land are due, and the aggregate of the years remaining approximates \$14,824. The Company leases treatment plants to other parties under lease agreements that require payments to the Company of \$374 in 2010, \$374 in 2011, \$374 in 2012, \$374 in 2013, \$388 in 2014 and the aggregate of the years remaining approximates \$4,522. Rent expense was \$4,287, \$4,493, and \$4,621 for the years ended December 31, 2009, 2008, and 2007, respectively.

Contingencies — The Company is routinely involved in condemnation proceedings and legal matters during the ordinary course of business, including those described below and in the following notes:

- Note 16 — Water and Wastewater Rates — Discussion of the rate proceeding appeal process involving the Company's subsidiaries in Texas.
- Note 3 — Dispositions — Discussion of the Company's challenge to the valuation of the northern portion of its Fort Wayne, Indiana utility system that was turned over to the City of Fort Wayne, Indiana in February 2008.
- In 2009, a lawsuit was filed by two homeowner's associations comprised of approximately 180 homes located next to a wastewater plant owned by one of the Company's subsidiaries in Indiana claiming that the subsidiary breached an agreement that was allegedly entered into with the subsidiary's prior management, before our acquisition of the company in 2003, to cease the majority of operations at the wastewater plant and to remove most of the facilities at the plant site. The parties in this dispute are engaged in mediation in an attempt to resolve the dispute. The Company continues to assess the matter and any potential losses, which would not be covered by any of the Company's insurance policies. At this time, the Company believes that the estimated amount of any potential losses would not be material to the Company's consolidated results of operations or consolidated financial condition.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

- In 2006, a lawsuit was filed by two occupants of a house abutting a wastewater treatment plant facility owned by the Company's subsidiary in Florida. The lawsuit, as amended, alleges the plaintiffs sustained bodily injury and property damage due to the design, operation and maintenance of the plant. In the third quarter of 2008, approximately thirty-five additional plaintiffs, associated with approximately eight other nearby homes, and represented by the same counsel as the original plaintiffs, filed a separate lawsuit making similar allegations against our Florida subsidiary with respect to the operation of the facility. The Company continues to assess the matter and any potential losses, which based on the outcome of the litigation may or may not be covered by the Company's insurance coverage. At this time, the Company believes that the estimated amount of any potential losses would not be material to the Company's consolidated results of operations or consolidated financial condition.

Although the results of legal proceedings cannot be predicted with certainty, there are no other pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of its properties is the subject that are material or are expected to have a material effect on the Company's financial position, results of operations or cash flows.

Note 10 — Long-term Debt and Loans Payable

The consolidated statements of capitalization provide a summary of long-term debt as of December 31, 2009 and 2008. The supplemental indentures with respect to certain issues of the First Mortgage Bonds restrict the ability of Aqua Pennsylvania, Inc. and certain other operating subsidiaries of the Company to declare dividends, in cash or property, or repurchase or otherwise acquire the stock of these companies. As of December 31, 2009, approximately \$456,000 of Aqua Pennsylvania's retained earnings of approximately \$476,000 and approximately \$122,000 of the retained earnings of approximately \$131,000 of certain other subsidiaries were free of these restrictions. Certain supplemental indentures also prohibit Aqua Pennsylvania and certain other subsidiaries of the Company from making loans to, or purchasing the stock of, the Company.

Sinking fund payments are required by the terms of certain issues of long-term debt. Excluding amounts due under the Company's revolving credit agreement, the future sinking fund payments and debt maturities of the Company's long-term debt are as follows:

Interest Rate Range	2010	2011	2012	2013	2014	Thereafter
0.00% to 0.99%	\$ 332	\$ 333	\$ 330	\$ 327	\$ 331	\$ 5,215
1.00% to 1.99%	1,783	1,802	1,638	1,643	1,433	13,618
2.00% to 2.99%	782	799	807	842	866	8,839
3.00% to 3.99%	2,322	1,967	1,954	2,014	2,083	18,115
4.00% to 4.99%	27,206	227	238	21,844	27,255	379,576
5.00% to 5.99%	444	464	31,482	499	51,609	507,328
6.00% to 6.99%	77	15,076	77	74	—	106,572
7.00% to 7.99%	951	1,160	1,341	351	379	27,054
8.00% to 8.99%	202	303	325	349	376	32,988
9.00% to 9.99%	21,329	6,341	1,354	6,382	2,777	31,800
10.00% to 10.99%	—	—	—	—	—	6,000
Total	<u>\$ 55,428</u>	<u>\$ 28,472</u>	<u>\$ 39,546</u>	<u>\$ 34,325</u>	<u>\$ 87,109</u>	<u>\$1,137,105</u>

In December 2009, the Company issued \$50,000 of unsecured notes at an interest rate of 4.72% due in 2019. In November 2009, Aqua Pennsylvania, Inc. issued \$74,685 of tax-exempt bonds, secured by a supplement to its first mortgage indenture, which are due in 2040 with interest rates of 4.88% and 4.90%. The proceeds are restricted to funding certain capital projects during the period 2009 through 2012. In July 2009, Aqua Pennsylvania, Inc. issued \$58,000 of tax-exempt bonds, secured by a supplement to its first mortgage indenture, which are due in 2039 with an interest rate of 5.23%. The proceeds are restricted to funding certain capital projects during the period 2009 through 2012. As of December 31, 2009, the trustees for eight issues held \$84,830 pending construction of the projects to be financed with the issues and are reported in the consolidated balance sheet as funds restricted for construction activity.

One of the Company's subsidiaries in Texas entered into a surface water contract with a regional water authority. The contract provides that the regional water authority will construct and expand, as needed, a water distribution facility to provide surface water capacity. Pursuant to this agreement, in December 2009, we recorded a long-term obligation in the amount of \$10,420 and recognized a corresponding water rights asset. The agreement provides for water rights that extend for a period through 2040. The liability has been classified as long-term debt and the annual payment obligations extend through 2028.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

In May 2008, the Company issued \$15,000 of unsecured notes at an interest rate of 5.40% of which \$5,250 are due in 2016, \$5,250 are due in 2017, \$2,250 are due in 2021 and \$2,250 are due in 2022. Proceeds from the sales of these notes were used to repay short-term borrowings. In December 2008, Aqua Pennsylvania issued \$22,000 of tax-exempt bonds secured by a supplement to its first mortgage indenture at the following terms: \$9,000 at 6.25% due 2017 and \$13,000 at 6.75% due 2018. The proceeds are restricted to funding certain capital projects during the period 2009 through 2011. At various times during 2008, Aqua Pennsylvania and other operating subsidiaries issued other notes payable and first mortgage bonds in aggregate of \$6,652 at a weighted average interest rate of 1.78% due at various times ranging from 2010 to 2035. The proceeds from these issuances were used to reduce a portion of the balance of the short-term debt at each of the respective operating subsidiaries. The weighted average cost of long-term debt at December 31, 2009 and 2008 was 5.25% and 5.35%, respectively. The weighted average cost of fixed rate, long-term debt as of December 31, 2009 and 2008 was 5.49% and 5.59%, respectively.

The Company has a five-year \$95,000 unsecured revolving credit facility with five banks that expires in May 2012. Included within this facility is a swing-line commitment of \$15,000 that is used to fund bank overdraft positions. Except for swing-line borrowings, funds borrowed under this agreement are classified as long-term debt and are used to provide working capital. As of December 31, 2009, the Company has the following sublimits and available capacity under the credit facility: \$20,000 letter of credit sublimit, \$6,000 of letters of credit available capacity, \$4,149 borrowed under the swing-line commitment, and \$60,000 of funds borrowed under the agreement. Interest under this facility is based at the Company's option, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. A facility fee is charged on the total commitment amount of the agreement. Under this facility the average cost of borrowings was 0.56% and 3.14%, and the average borrowing was \$67,296 and \$57,966, during 2009 and 2008, respectively.

Aqua Pennsylvania has a \$70,000 364-day unsecured revolving credit facility with two banks and the funds borrowed under this agreement are classified as loans payable and used to provide working capital. As of December 31, 2009 and 2008, funds borrowed under the Aqua Pennsylvania revolving credit agreement were \$15,000 and \$60,734, respectively. Interest under this facility is based, at the borrower's option, on the prime rate, an adjusted federal funds rate, an adjusted London Interbank Offered Rate corresponding to the interest period selected, an adjusted Euro-Rate corresponding to the interest period selected or at rates offered by the banks. This agreement restricts short-term borrowings of Aqua Pennsylvania. A commitment fee of 0.25% is charged on the total commitment amount of Aqua Pennsylvania's revolving credit agreement. The average cost of borrowing under this facility was 1.20% and 3.05%, and the average borrowing was \$56,389 and \$46,796, during 2009 and 2008, respectively. The maximum amount outstanding at the end of any one month was \$67,639 and \$62,669 in 2009 and 2008, respectively.

At December 31, 2009 and 2008, the Company had other combined short-term lines of credit of \$67,000 and \$69,000, respectively. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. As of December 31, 2009 and 2008, funds borrowed under the short-term lines of credit were \$12,487 and \$19,855, respectively. The average borrowing under the lines was \$25,062 and \$37,017 during 2009 and 2008, respectively. The maximum amount outstanding at the end of any one month was \$34,078 and \$42,775 in 2009 and 2008. Interest under the lines is based at the Company's option, depending on the line, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. The average cost of borrowings under all lines during 2009 and 2008 was 1.61% and 3.88%, respectively.

Interest income of \$1,149, \$2,310, and \$3,569 was netted against interest expense on the consolidated statements of income for the years ended December 31, 2009, 2008, and 2007, respectively. The total interest cost was \$69,756, \$70,882, and \$70,490 in 2009, 2008, and 2007, including amounts capitalized of \$2,871, \$3,674, and \$2,953, respectively.

Note 11 — Fair Value of Financial Instruments

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair value as of the dates presented. The carrying amount and estimated fair value of the Company's long-term debt are as follows:

	December 31,	
	2009	2008
Carrying amount	\$ 1,446,134	\$ 1,255,401
Estimated fair value	1,315,954	1,191,877

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The Company's customers' advances for construction and related tax deposits have a carrying value of \$76,913 and \$72,955 at December 31, 2009 and 2008, respectively. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2024 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Note 12 — Stockholders' Equity

At December 31, 2009, the Company had 300,000,000 shares of common stock authorized; par value \$0.50. Shares outstanding at December 31, 2009, 2008, and 2007 were 136,486,339, 135,369,509, and 133,400,150, respectively. Treasury shares held at December 31, 2009, 2008, and 2007 were 662,410, 683,958, and 699,090, respectively. At December 31, 2009, the Company had 1,738,619 shares of authorized but unissued Series Preferred Stock, \$1.00 par value.

The Company maintains a universal shelf registration with the Securities and Exchange Commission to allow for the potential future sale by the Company, from time to time, in one or more public offerings, of an indeterminate amount of our common stock, preferred stock, debt securities and other securities specified therein at indeterminate prices.

In August 2006, the Company entered into a forward equity sale agreement for 3,525,000 shares of common stock with a third-party (the "forward purchaser") and as of June 27, 2008, no shares remain under contract. In connection with the forward equity sale agreement, the forward purchaser borrowed an equal number of shares of the Company's common stock from stock lenders and sold the borrowed shares to the public. The Company did not receive any proceeds from the sale of its common stock by the forward purchaser until settlement of the shares underlying the forward equity sale agreement. Under the forward equity sale agreement, the Company could elect to settle by means of a physical share settlement, net cash settlement, or net share settlement, on a settlement date or dates, no later than August 1, 2008. The actual proceeds received by the Company varied depending upon the Company's price per share on the settlement date, the number of shares designated for settlement on that settlement date and the method of settlement. The forward equity sale agreement provided that the forward price would be computed based upon the initial forward price of \$21.857 per share.

In March 2008, the Company elected to perform a net cash settlement under the forward equity sale agreement of 750,000 shares of the Company's common stock, which resulted in a payment of \$2,662 by the forward purchaser to the Company. No shares were issued in connection with the net cash settlement and the payment received was recorded as an increase to stockholders' equity.

In June 2008, the Company elected to perform a net cash settlement under the forward equity sale agreement of 1,775,000 shares of the Company's common stock, which resulted in a payment of \$8,349 by the forward purchaser to the Company. No shares were issued in connection with the net cash settlement and the payment received was recorded as an increase to stockholders' equity. Also in June 2008, the Company settled the remaining 1,000,000 shares under the forward equity sale agreement by physical settlement. As a result, the Company issued 1,000,000 shares of common stock and received proceeds from the forward purchaser of \$22,318 or \$22.318 per share. The forward equity sale agreement has now been completely settled and there are no additional shares subject to the forward equity sale agreement. The Company used the proceeds received upon settlement of the forward equity sale agreement to fund the Company's future capital expenditure program and acquisitions, and for working capital and other general corporate purposes.

The Company has a shelf registration statement filed with the Securities and Exchange Commission to permit the offering from time to time of shares of common stock and shares of preferred stock in connection with acquisitions. During 2009, 164,052 shares of common stock totaling \$2,909 were issued by the Company to acquire a water system. During 2008, the Company issued 125,723 shares of common stock totaling \$2,000 to acquire a wastewater system. The balance remaining available for use under the acquisition shelf registration as of December 31, 2009 is 1,904,487 shares. The form and terms of any securities issued under these shelf registrations will be determined at the time of issuance.

The Company has a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that allows reinvested dividends to be used to purchase shares of common stock at a five percent discount from the current market value. Under the direct stock purchase program, shares are purchased by investors at market price. The shares issued under the Plan are either original issue shares or shares purchased by the Company's transfer agent in the open-market. During 2009, 2008, and 2007, under the dividend reinvestment portion of the Plan, 695,544, 585,206, and 454,643 original issue shares of common stock were sold providing the Company with proceeds of \$11,337, \$10,435, and \$9,809, respectively.

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The Board of Directors has authorized the Company to purchase its common stock, from time to time, in the open market or through privately negotiated transactions. The Company has not repurchased any shares under this authorization since 2000. As of December 31, 2009, 548,278 shares remain available for repurchase.

The Company's accumulated other comprehensive income is reported in the stockholders' equity section of the consolidated balance sheets, the consolidated statements of equity and the related other comprehensive income is reported in the consolidated statements of income and comprehensive income. The Company reports its unrealized gains on investments as other comprehensive income and accumulated other comprehensive income. The Company recorded a regulatory asset for its minimum pension liability that would otherwise be charged to other comprehensive income, as it anticipates recovery of its future pension expense through customer rates.

Note 13 — Net Income per Common Share and Equity per Common Share

Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock options and shares issuable under the forward equity sale agreement (from the date the company entered into the forward equity sale agreement to the settlement date) is included in the computation of diluted net income per share. The dilutive effect of stock options and shares issuable under the forward equity sale agreement is calculated using the treasury stock method and expected proceeds upon exercise of the stock options and settlement of the forward equity sale agreement. The following table summarizes the shares, in thousands, used in computing basic and diluted net income per share:

	Years ended December 31,		
	2009	2008	2007
Average common shares outstanding during the period for basic computation	135,816	134,302	132,814
Effect of dilutive securities:			
Employee stock options	313	403	715
Forward equity shares	—	—	73
Average common shares outstanding during the period for diluted computation	136,129	134,705	133,602

For the years ended December 31, 2009, 2008, and 2007, employee stock options to purchase 2,694,837, 2,179,414, and 1,101,581 shares of common stock, respectively, were excluded from the calculations of diluted net income per share as the calculated proceeds from the options' exercise were greater than the average market price of the Company's common stock during these periods.

Equity per common share was \$8.12 and \$7.82 at December 31, 2009 and 2008, respectively. These amounts were computed by dividing Aqua America stockholders' equity by the number of shares of common stock outstanding at the end of each year.

Note 14 — Employee Stock and Incentive Plan

Under the Company's 2009 Omnibus Equity Compensation Plan (the "2009 Plan"), as approved by the Company's shareholders to replace the 2004 Equity Compensation Plan (the "2004 Plan"), stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to employees, non-employee directors, and consultants and advisors. The 2009 Plan authorizes 5,000,000 shares for issuance under the plan. A maximum of 50% of the shares available for issuance under the 2009 Plan may be issued as restricted stock and the maximum number of shares that may be subject to grants under the Plan to any one individual in any one year is 200,000. Awards under the 2009 Plan are made by a committee of the Board of Directors. At December 31, 2009, 4,975,500 shares underlying stock option and restricted stock awards were still available for grant under the 2009 Plan. No further grants may be made under the 2004 plan.

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Stock Options — For the year ended December 31, 2009, the Company recognized share-based compensation as follows: operations and maintenance expense of \$2,531, capitalized compensation costs within property plant and equipment of \$74, a reduction in income tax expense by \$483, lowered net income attributable to common shareholders by \$2,048, lowered diluted net income per share by \$0.02, and lowered basic net income per share by \$0.02. For the year ended December 31, 2008, the Company recognized share-based compensation as follows: operations and maintenance expense of \$2,997, capitalized compensation costs within property, plant and equipment of \$391, a reduction in income tax expense by \$323, lowered net income attributable to common shareholders by \$2,674, lowered diluted net income per share by \$0.02, and lowered basic net income per share by \$0.02. For the year ended December 31, 2007, the Company recognized share-based compensation as follows: operations and maintenance expense of \$3,223, capitalized compensation costs within property, plant and equipment of \$551, a reduction in income tax expense by \$477, lowered net income attributable to common shareholders by \$2,746, lowered diluted net income per share by \$0.02, and lowered basic net income per share by \$0.02. The Company estimates forfeitures in calculating compensation expense instead of recognizing these forfeitures and the resulting reduction in compensation expense as they occur. The estimate of forfeitures will be adjusted over the vesting period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. The recording of compensation expense for share-based compensation has no impact on net cash flows and results in the reclassification on the consolidated cash flow statements of related tax benefits from cash flows from operating activities to cash flows from financing activities to the extent these tax benefits exceed the associated compensation cost.

Options under the plans were issued at the closing market price of the stock on the day of the grant. Options are exercisable in installments of 33% annually, starting one year from the date of the grant and expire 10 years from the date of the grant. The fair value of each option is amortized into compensation expense on a straight-line basis over their respective 36 month vesting period, net of estimated forfeitures. The fair value of options was estimated at the grant date using the Black-Scholes option-pricing model. The per share weighted average fair value at the date of grant for stock options granted during the years ended December 31, 2009, 2008, and 2007 was \$4.37, \$4.12, and \$5.52 per option, respectively. The application of this valuation model relies on the following assumptions that are judgmental and sensitive in the determination of the compensation expense for the periods reported:

	2009	2008	2007
Expected term (years)	5.3	5.2	5.2
Risk-free interest rate	2.2%	3.0%	4.7%
Expected volatility	31.3%	23.7%	22.5%
Dividend yield	2.98%	2.24%	1.95%

Historical information was the principal basis for the selection of the expected term and dividend yield. The expected volatility is based on a weighted average combination of historical and implied volatilities over a time period that approximates the expected term of the option. The risk-free interest rate was selected based upon the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option.

The following table summarizes stock option transactions for the year ended December 31, 2009:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Options:				
Outstanding, beginning of year	3,543,573	\$ 18.83		
Granted	586,950	19.12		
Forfeited	(21,114)	20.65		
Expired	(48,394)	23.16		
Exercised	(165,686)	10.21		
Outstanding, end of year	<u>3,895,329</u>	<u>\$ 19.17</u>	<u>5.9</u>	<u>\$ 4,984</u>
Exercisable, end of year	<u>2,767,522</u>	<u>\$ 18.80</u>	<u>4.8</u>	<u>\$ 4,984</u>

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Notes to Consolidated Financial Statements (continued)
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The intrinsic value of stock options is the amount by which the market price of the stock on a given date, such as at the end of the period or on the day of exercise, exceeded the closing market price of stock on the date of grant. The following table summarizes the aggregate intrinsic value of stock options exercised and the fair value of stock options which became vested:

	Years ended December 31,		
	2009	2008	2007
Intrinsic value of options exercised	\$ 1,393	\$ 1,497	\$ 6,030
Fair value of options vested	2,266	3,651	3,967

The following table summarizes information about the options outstanding and options exercisable as of December 31, 2009:

	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Range of prices:					
\$7.04 – 9.99	72,065	0.3	\$ 7.04	72,065	\$ 7.04
\$10.00 – 12.99	629,366	2.4	12.21	629,366	12.21
\$13.00 – 16.99	499,061	4.1	15.71	499,061	15.71
\$17.00 – 19.99	1,149,159	7.2	18.73	566,459	18.33
\$20.00 – 22.99	564,717	8.2	20.18	188,436	20.18
\$23.00 – 27.99	510,981	7.2	23.26	342,155	23.26
\$28.00 – 29.99	469,980	6.3	29.46	469,980	29.46
	<u>3,895,329</u>	<u>5.9</u>	<u>\$ 19.17</u>	<u>2,767,522</u>	<u>\$ 18.80</u>

As of December 31, 2009, there was \$2,778 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans. The cost is expected to be recognized over a weighted average period of 1.1 years.

Restricted Stock — Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. Restricted stock awards result in compensation expense which is equal to the fair market value of the stock on the date of the grant and is amortized ratably over the restriction period. The Company expects forfeitures of restricted stock to be de minimis. During the years ended December 31, 2009, 2008, and 2007, the company recorded stock-based compensation related to restricted stock awards as operations and maintenance expense in the amounts of \$1,072, \$873, and \$1,097, respectively. The following table summarizes nonvested restricted stock transactions for the year ended December 31, 2009:

	Number of Shares	Weighted Average Fair Value
Nonvested shares at beginning of period	74,251	\$ 21.88
Granted	70,000	18.47
Vested	(41,333)	21.46
Forfeited	—	—
Nonvested shares at end of period	<u>102,918</u>	<u>\$ 19.73</u>

The following table summarizes the value of restricted stock awards at the date the restrictions lapsed:

	Years ended December 31,		
	2009	2008	2007
Intrinsic value of restricted stock awards vested	\$ 746	\$ 768	\$ 835
Fair value of restricted stock awards vested	887	901	818

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As of December 31, 2009, \$1,118 of unrecognized compensation costs related to restricted stock is expected to be recognized over a weighted average period of 1.1 years. The aggregate intrinsic value of restricted stock as of December 31, 2009 was \$1,802. The aggregate intrinsic value of restricted stock is based on the number of shares of restricted stock and the market value of the Company's common stock as of the period end date.

Note 15 — Pension Plans and Other Postretirement Benefits

The Company maintains qualified, defined benefit pension plans that cover a substantial portion of its full-time employees who were hired prior to April 1, 2003. Retirement benefits under the plans are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund the plans annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations. To offset certain limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Supplemental Pension Benefit Plan for Salaried Employees in order to prevent certain employees from being penalized by these limitations. The Company also has non-qualified Supplemental Executive Retirement Plans for certain current and retired employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow. Employees hired after April 1, 2003 may participate in a defined contribution plan that provides a Company matching contribution on amounts contributed by participants and an annual profit-sharing contribution based upon a percentage of the eligible participants' compensation.

In addition to providing pension benefits, the Company offers certain Postretirement Benefits other than Pensions ("PBOPs") to employees hired before April 1, 2003 and retiring with a minimum level of service. These PBOPs include continuation of medical and prescription drug benefits, or a cash contribution toward such benefits, for eligible retirees and life insurance benefits for certain eligible retirees. The Company funds its gross PBOP cost through various trust accounts. The benefits of retired officers and certain other retirees are paid by the Company and not from plan assets due to limitations imposed by the Internal Revenue Code.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Years:	Pension Benefits	Other Postretirement Benefits
2010	\$ 9,320	\$ 1,447
2011	10,223	1,564
2012	10,916	1,638
2013	11,162	1,737
2014	12,116	1,936
2015 – 2019	71,321	12,197

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The changes in the benefit obligation and fair value of plan assets, the funded status of the plans and the assumptions used in the measurement of the company's benefit obligation are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Change in benefit obligation:				
Benefit obligation at January 1,	\$ 204,713	\$ 194,498	\$ 37,012	\$ 34,382
Service cost	4,349	4,478	1,080	1,076
Interest cost	12,524	12,253	2,288	2,167
Actuarial loss	6,415	2,680	1,885	408
Plan participants' contributions	—	—	164	70
Benefits paid	(11,642)	(9,196)	(952)	(1,091)
Settlements	1,478	—	—	—
Benefit obligation at December 31,	<u>217,837</u>	<u>204,713</u>	<u>41,477</u>	<u>37,012</u>
Change in plan assets:				
Fair value of plan assets at January 1,	112,177	147,783	24,054	24,435
Actual return on plan assets	21,014	(38,153)	1,825	(3,072)
Employer contributions	17,050	11,743	1,421	3,684
Benefits paid	(11,642)	(9,196)	(776)	(993)
Fair value of plan assets at December 31,	<u>138,599</u>	<u>112,177</u>	<u>26,524</u>	<u>24,054</u>
Funded status of plan:				
Net amount recognized at December 31,	<u>\$ 79,238</u>	<u>\$ 92,536</u>	<u>\$ 14,953</u>	<u>\$ 12,958</u>

The Company's pension plans had an accumulated benefit obligation of \$190,579 and \$178,851 at December 31, 2009 and 2008, respectively. The following table provides the net liability recognized on the consolidated balance sheets at December 31,:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Current liability	\$ (203)	\$ (132)	\$ —	\$ —
Noncurrent liability	(79,035)	(92,404)	(14,953)	(12,958)
Net liability recognized	<u>\$ (79,238)</u>	<u>\$ (92,536)</u>	<u>\$ (14,953)</u>	<u>\$ (12,958)</u>

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At December 31, 2009 and 2008, the Company's pension plans had benefit obligations in excess of its plan assets. The following tables provide the projected benefit obligation, the accumulated benefit obligation and fair market value of the plan assets as of December 31,:

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2009	2008
Projected benefit obligation	\$ 217,837	\$ 204,713
Fair value of plan assets	138,599	112,177

	Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2009	2008
Accumulated benefit obligation	\$ 190,579	\$ 178,851
Fair value of plan assets	138,599	112,177

The following table provides the components of net periodic benefit costs for the years ended December 31,:

	Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Service cost	\$ 4,349	\$ 4,478	\$ 4,905	\$ 1,080	\$ 1,076	\$ 1,141
Interest cost	12,524	12,253	11,534	2,288	2,167	2,014
Expected return on plan assets	(9,316)	(12,099)	(11,205)	(1,688)	(1,728)	(1,503)
Amortization of transition obligation (asset)	(182)	(209)	(209)	104	104	104
Amortization of prior service cost	151	260	270	(279)	(281)	(281)
Amortization of actuarial loss	5,152	173	739	587	177	307
Amortization of regulatory asset	—	—	—	137	137	152
Special termination benefits	—	—	389	—	—	51
Settlement loss	586	—	—	—	—	—
Capitalized costs	(2,721)	(2,569)	(2,548)	(363)	(508)	(895)
Net periodic benefit cost	<u>\$ 10,543</u>	<u>\$ 2,287</u>	<u>\$ 3,875</u>	<u>\$ 1,866</u>	<u>\$ 1,144</u>	<u>\$ 1,090</u>

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The Company records the underfunded status of its pension and other postretirement benefit plans on its consolidated balance sheets and records a regulatory asset for these costs that would otherwise be charged to stockholders' equity, as the Company anticipates recoverability of the costs through customer rates. The Company's pension and other postretirement benefit plans were underfunded at December 31, 2009 and 2008. There was a significant increase in the underfunded status of the plans during 2008, which was primarily due to the decline suffered in the fair value of the plans' assets resulting from the general market downturn in 2008. In 2009, as a result of the actual return on our plans' assets, the underfunded status of the plans decreased. Changes in the plans' funded status will affect the assets and liabilities recorded on the balance sheet. Due to the Company's regulatory treatment, the recognition of the funded status is recorded as a regulatory asset pursuant to the FASB's accounting guidance for regulated operations.

The following table provides the amounts recognized in regulatory assets that have not been recognized as components of net periodic benefit cost as of December 31,:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Net actuarial loss	\$ 62,178	\$ 71,036	\$ 11,123	\$ 9,963
Prior service cost (credit)	512	1,348	(1,497)	(1,776)
Transition obligation (asset)	—	(182)	311	415
Total recognized in regulatory assets	<u>\$ 62,690</u>	<u>\$ 72,202</u>	<u>\$ 9,937</u>	<u>\$ 8,602</u>

The estimated net actuarial loss, prior service cost and transition asset for the Company's pension plans that will be amortized in 2010 from the regulatory assets into net periodic benefit cost are \$4,121, \$140 and \$0, respectively. The estimated net actuarial loss, prior service credit and transition obligation for the Company's other postretirement benefit plans that will be amortized in 2010 from regulatory assets into net periodic benefit cost are \$686, \$268 and \$104, respectively.

Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from the Company's actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes.

The significant assumptions related to the Company's pension and other postretirement benefit plans are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Weighted Average Assumptions Used to Determine Benefit Obligations as of December 31,				
Discount rate	5.91%	6.11%	5.91%	6.11%
Rate of compensation increase	4.0-4.5%	4.0-4.5%	4.0%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Benefit Obligations as of December 31,				
Health care cost trend rate	n/a	n/a	8.0%	7.5%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2016	2014
Weighted Average Assumptions Used to Determine Net Periodic Benefit Costs for Years Ended December 31,				
Discount rate	6.11%	6.25%	6.11%	6.25%
Expected return on plan assets	8.0%	8.0%	5.33-8.0%	5.33-8.0%
Rate of compensation increase	4.0-4.5%	4.0-5.0%	4.0%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Net Periodic Benefit Costs for Years Ended December 31,				
Health care cost trend rate	n/a	n/a	7.5%	8.0%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2014	2014

n/a — Assumption is not applicable to pension benefits.

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Assumed health-care trend rates have a significant effect on the expense and liabilities for other postretirement benefit plans. The health care trend rate is based on historical rates and expected market conditions. A one-percentage point change in the assumed health-care cost trend rates would have the following effects:

	1-Percentage- Point Increase	1-Percentage- Point Decrease
Effect on the health-care component of the accrued other postretirement benefit obligation	\$ 2,516	\$ (2,216)
Effect on aggregate service and interest cost components of net periodic postretirement health-care benefit cost	\$ 262	\$ (230)

The Company's discount rate assumption was determined using a yield curve that was produced from a universe containing approximately 250 U.S. issued Aa-graded corporate bonds, all of which were noncallable (or callable with make-whole provisions), and excluding the 10% of the bonds with the highest yields and the 10% with the lowest yields. The discount rate was then developed as the single rate that would produce the same present value as if the Company used spot rates, for various time periods, to discount the projected pension benefit payments. The Company's pension expense and liability (benefit obligations) increases as the discount rate is reduced. A 25 basis-point reduction in this assumption would have increased 2009 pension expense by \$680 and the pension liabilities by \$7,080.

The Company's expected return on assets is determined by evaluating the asset class return expectations with its advisors as well as actual, long-term, historical results of our asset returns. The Company's market related value of plan assets is equal to the fair value of the plan assets as of the last day of its fiscal year, and is a determinant for the expected return on assets which is a component of net pension expense. The Company's pension expense increases as the expected return on assets decreases. A 25 basis-point reduction in this assumption would have increased 2009 pension expense by \$290. For 2009, the Company used an 8.0% expected return on assets assumption which will remain unchanged for 2010. The Company believes its actual long-term asset allocation on average will approximate the targeted allocation. The Company's investment strategy is to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories. Investment returns are compared to benchmarks that include the S&P 500 Index, the Barclays Capital Intermediate Government/Credit Index, and a combination of the two indices. The Pension Committee meets semi-annually to review plan investments and management monitors investment performance quarterly through a performance report prepared by an external consulting firm.

The Company's pension plan asset allocation and the target allocation by asset class are as follows:

Asset Class:	2010 Target Allocation	Percentage of Plan Assets at December 31,	
		2009	2008
Equity securities	50 to 75%	61%	58%
Debt securities	25 to 50%	27%	28%
Cash	0%	11%	11%
Other	0%	1%	3%
Total	100%	100%	100%

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Notes to Consolidated Financial Statements (continued)
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The fair value of the Company's pension plans' assets at December 31, 2009 by asset class are as follows:

Asset Class:	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities (a)				
Common stocks	\$ 75,519	\$ 75,519	\$ —	\$ —
Mutual funds	9,295	9,295	—	—
Debt securities (b)				
U.S. Treasury and government agency bonds	14,567	—	14,567	—
Corporate and foreign bonds	10,997	—	10,997	—
Mutual funds	11,361	11,361	—	—
Common /collective trust	344	—	344	—
Cash (c)	15,245	—	15,245	—
Other (d)	1,271	—	—	1,271
Total pension assets	<u>\$ 138,599</u>	<u>\$ 96,175</u>	<u>\$ 41,153</u>	<u>\$ 1,271</u>

- (a) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in mutual funds, which invest in common stocks, are valued using the net asset value per unit as obtained from quoted market prices for the mutual funds.
- (b) Investments in U.S. Treasury and government agency bonds and corporate and foreign bonds are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market information to value the fixed income securities. Investments in mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices for the mutual fund. Investment in the common /collective trust is valued using the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment manager.
- (c) Cash is comprised of money market funds, which are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.
- (d) Other is comprised of a hedge fund investment, which is valued using the estimated fair value as determined by the fair value presented in the managed hedge fund's annual financial statements.

Equity securities include Aqua America, Inc. common stock in the amounts of \$7,911 or 5.7% and \$8,995 or 8.0% of total pension plans' assets as of December 31, 2009 and 2008, respectively.

The change in the fair value for the pension assets valued using significant unobservable inputs (level 3) was due to the following:

	Other Investments
Balance at January 1, 2009	\$ 1,157
Actual return on plan assets:	
Relating to assets still held at the reporting date	114
Relating to assets sold during the period	—
Purchases, sales, and settlements	—
Transfers to / from level 3	—
Balance at December 31, 2009	<u>\$ 1,271</u>

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The asset allocation for the Company's other postretirement benefit plans and the target allocation by asset class are as follows:

Asset Class:	2009 Target Allocation	Percentage of Plan Assets at December 31,	
		2009	2008
Equity securities	35%	32%	24%
Debt securities	0%	5%	6%
Cash	65%	63%	70%
Total	100%	100%	100%

The fair value of the Company's other postretirement benefit plans' assets at December 31, 2009 by asset class are as follows:

Asset Class:	Total	Quoted Prices in Active	Significant	Significant
		Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Equity securities (a)	\$ 8,413	\$ 8,413	\$ —	\$ —
Debt securities (b)	1,248	—	1,248	—
Cash (c)	16,863	—	16,863	—
Total other postretirement assets	\$ 26,524	\$ 8,413	\$ 18,111	\$ —

- (a) Equity securities are comprised of common stocks, which are valued using unadjusted quoted prices obtained from active markets.
- (b) Debt securities are comprised of corporate bond holdings, which are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market information to value the fixed income securities.
- (c) Cash is comprised of money market funds, which are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and the Company's funding policy, during 2010 our pension contribution is expected to be approximately \$11,563. The Company's funding of its PBOP cost during 2010 is expected to approximate \$1,494.

The Company has 401(k) savings plans that cover substantially all employees. The Company makes matching contributions that are initially invested in Aqua America, Inc. common stock based on a percentage of an employee's contribution, subject to certain limitations. Participants may diversify their Company matching account balances into other investments offered under the 401(k) savings plans. The Company's matching contribution, recorded as compensation expense, was \$1,572, \$1,449, and \$1,316 for the years ended December 31, 2009, 2008, and 2007, respectively.

Note 16 — Water and Wastewater Rates

On November 18, 2009 our operating subsidiary in Pennsylvania filed an application with the Pennsylvania Public Utility Commission ("PAPUC") designed to increase water rates by \$43,200, or 11.8% on an annual basis. The Company anticipates a final order to be issued by August 2010.

On July 31, 2008, the PAPUC granted the Company's operating subsidiary in Pennsylvania a water rate increase designed to increase total operating revenues by \$34,428, on an annualized basis. The rates in effect at the time of the filing included \$14,269 in Distribution System Improvement Charges ("DSIC") or 5% above prior base rates. Consequently, the total base rates increased by \$48,697 and the DSIC was reset to zero.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) (In thousands of dollars, except per share amounts)

In May 2008, the Company's operating subsidiary in Florida filed an application with the Florida Public Service Commission ("FPSC") designed to increase water and wastewater rates by \$8,374 on an annual basis. On April 1, 2009, the FPSC granted our operating subsidiary in Florida a \$5,524 water and wastewater rate increase. In December 2006, the Company's operating subsidiary in Florida had previously filed a rate application with the FPSC designed to increase water and wastewater rates by \$7,298 on an annual basis. In April 2007, the Company had commenced billing for a portion of the requested rates, in accordance with authorization from the FPSC. However, during the third quarter of 2007, the Company reached a settlement agreement that among other stipulations, resulted in the Company voluntarily withdrawing its application, and agreeing to refund the interim revenue billed that was associated with this rate application. As a result of this agreement, the Company wrote-off rate case expenses of \$2,385 in 2007.

On September 23, 2008, the Texas Commission on Environmental Quality ("TCEQ") issued its final ruling with a unanimous decision approving the rate application that was filed in 2004 by the Company's operating subsidiary in Texas to increase rates, on an annualized basis, by \$11,920 over a multi-year period beginning in 2004. The application sought to increase annual revenues in phases and was accompanied by a plan to defer and amortize a portion of the Company's depreciation, operating and other tax expense over a similar multi-year period, such that the impact on operating income approximated the requested amount during the first years that the new rates were in effect. The Company commenced billing for the requested rates and implemented the deferral plan in 2004. As a result of the final order in 2008, the regulatory asset for the deferred operating costs and rate case expenses was set at \$13,697. As of February 1, 2009, recovery of the regulatory assets for the deferred operating costs and rate case expenses began through two surcharge mechanisms. The final order had been appealed to the TCEQ by two parties, and the TCEQ exercised its legal authority to take no action within the required period, therefore, affirming the TCEQ's approval decision. Thereafter, the appealing parties filed suit against the TCEQ in an effort to appeal the order. The additional revenue billed and collected in connection with the case are subject to refund based on the outcome of the appeal. The revenue recognized and the expenses deferred by the Company reflect an estimate of the final outcome of the case. As of December 31, 2009, we have deferred \$5,769 of operating costs and \$1,449 of rate case expenses and recognized \$47,187 of revenue that is subject to refund based on the outcome of any appeals. Based on the Company's review of the present circumstances, no reserve is considered necessary for the revenue recognized to date.

The Company's other operating subsidiaries were allowed annual rate increases of \$10,606 in 2009, \$18,310 in 2008, and \$5,596 in 2007, represented by seven, twenty-two, and twenty-three rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately \$7,561, \$7,531, and \$4,636 in 2009, 2008, and 2007, respectively.

Six states in which the Company operates permit water utilities, and in two states wastewater utilities, to add a surcharge to their water or wastewater bills to offset the additional depreciation and capital costs related to infrastructure system replacement and rehabilitation projects completed and placed into service between base rate filings. Currently, Pennsylvania, Illinois, Ohio, New York, Indiana and Missouri allow for the use of infrastructure rehabilitation surcharges. These mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped as a percentage of base rates, generally at 5% to 9% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. Infrastructure rehabilitation surcharges provided revenues in 2009, 2008, and 2007 of \$16,901, \$11,771, and \$11,507, respectively.

Note 17 — Segment Information

The Company has fifteen operating segments and one reportable segment. The Regulated segment, the Company's single reportable segment, is comprised of fourteen operating segments representing our water and wastewater regulated utility companies which are organized by the states where we provide water and wastewater services. These operating segments are aggregated into one reportable segment since each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment.

One operating segment is included within the other category below. This segment is not quantitatively significant and is comprised of the Company's businesses that provide on-site septic tank pumping, sludge hauling services and other water and wastewater services. In addition to this segment, other is comprised of other business activities not included in the reportable segment, including corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include certain general and administrative expenses, and interest expense.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The following table presents information about the Company's reportable segment:

	As of or For the Year Ended December 31, 2009			As of or For the Year Ended December 31, 2008		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$ 658,905	\$ 11,634	\$ 670,539	\$ 615,162	\$ 11,810	\$ 626,972
Operations and maintenance expense	260,587	9,473	270,060	251,799	10,323	262,122
Depreciation	104,592	(1,591)	103,001	90,426	(1,641)	88,785
Operating income	237,054	405	237,459	223,941	1,860	225,801
Interest expense, net of AFUDC	65,342	394	65,736	62,880	2,018	64,898
Income tax	67,886	(44)	67,842	64,663	(79)	64,584
Net income attributable to common shareholders	104,272	81	104,353	97,645	273	97,918
Capital expenditures	282,240	1,344	283,584	267,335	83	267,418
Total assets	3,689,689	72,908	3,762,597	3,425,442	72,503	3,497,945
Goodwill	38,962	4,121	43,083	36,886	4,121	41,007

	As of or For the Year Ended December 31, 2007		
	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$ 589,743	\$ 12,756	\$ 602,499
Operations and maintenance expense	243,755	9,337	253,092
Depreciation	84,998	(1,820)	83,178
Operating income	211,899	4,117	216,016
Interest expense, net of AFUDC	59,689	4,279	63,968
Income tax	60,224	304	60,528
Net income attributable to common shareholders	93,769	1,245	95,014
Capital expenditures	236,230	1,910	238,140
Total assets	3,223,681	3,231	3,226,912
Goodwill	32,510	4,121	36,631

Selected Quarterly Financial Data (Unaudited)
(In thousands of dollars, except per share amounts)

Aqua America, Inc. and Subsidiaries

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2009					
Operating revenues	\$ 154,487	\$ 167,333	\$ 180,826	\$ 167,893	\$ 670,539
Operations and maintenance expense	66,989	68,549	68,488	66,034	270,060
Operating income	46,766	58,864	71,455	60,374	237,459
Net income attributable to common shareholders	18,371	25,853	33,470	26,659	104,353
Basic net income per common share	0.14	0.19	0.25	0.20	0.77
Diluted net income per common share	0.14	0.19	0.25	0.20	0.77
Dividend paid per common share	0.135	0.135	0.135	0.145	0.550
Dividend declared per common share	0.135	0.135	0.280	—	0.550
Price range of common stock					
- high	21.50	20.37	18.34	17.89	21.50
- low	16.59	16.12	16.50	15.39	15.39
2008					
Operating revenues	\$ 139,283	\$ 150,751	\$ 177,098	\$ 159,840	\$ 626,972
Operations and maintenance expense	64,304	65,146	66,743	65,929	262,122
Operating income	40,216	53,129	74,574	57,882	225,801
Net income attributable to common shareholders	14,321	22,552	35,380	25,665	97,918
Basic net income per common share	0.11	0.17	0.26	0.19	0.73
Diluted net income per common share	0.11	0.17	0.26	0.19	0.73
Dividend paid per common share	0.125	0.125	0.125	0.135	0.510
Dividend declared per common share	0.125	0.125	0.260	—	0.510
Price range of common stock					
- high	22.00	19.78	19.14	22.00	22.00
- low	17.96	15.76	14.46	12.20	12.20

High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape. The cash dividend paid in December 2009 of \$0.145 was declared in August 2009, and the cash dividend paid in December 2008 of \$0.135 was declared in August 2008.

Summary of Selected Financial Data (Unaudited)
(in thousands of dollars, except per share amounts)

Aqua America, Inc. and Subsidiaries

Years ended December 31,	2009	2008	2007	2006	2005
PER COMMON SHARE:					
Net income					
Basic	\$ 0.77	\$ 0.73	\$ 0.72	\$ 0.70	\$ 0.72
Diluted	0.77	0.73	0.71	0.70	0.71
Cash dividends declared and paid	0.55	0.51	0.48	0.44	0.40
Return on average Aqua America stockholders' equity					
	9.6%	9.6%	10.0%	10.6%	11.7%
Book value at year end	\$ 8.12	\$ 7.82	\$ 7.32	\$ 6.96	\$ 6.30
Market value at year end	17.51	20.59	21.20	22.78	27.30
INCOME STATEMENT HIGHLIGHTS:					
Operating revenues	\$ 670,539	\$ 626,972	\$ 602,499	\$ 533,491	\$ 496,779
Depreciation and amortization	114,939	94,300	88,011	75,041	65,488
Interest expense, net (a)	65,736	64,898	63,968	54,491	49,615
Income before income taxes	172,195	162,502	155,542	152,250	148,069
Provision for income taxes	67,842	64,584	60,528	60,246	56,913
Net income attributable to common shareholders	104,353	97,918	95,014	92,004	91,156
BALANCE SHEET HIGHLIGHTS:					
Total assets	\$3,762,597	\$3,497,945	\$3,226,912	\$2,877,903	\$2,635,046
Property, plant and equipment, net	3,227,294	2,997,383	2,792,794	2,505,995	2,279,950
Aqua America stockholders' equity	1,108,904	1,058,446	976,298	921,630	811,923
Long-term debt, including current portion	1,446,134	1,255,401	1,238,980	982,815	903,083
Total debt	1,473,621	1,335,990	1,295,898	1,101,965	1,041,588
ADDITIONAL INFORMATION:					
Net cash flows from operating activities	\$ 258,590	\$ 221,506	\$ 194,168	\$ 170,726	\$ 199,674
Capital additions	283,584	267,418	238,140	271,706	237,462
Net cash expended for acquisitions of utility systems and other					
	3,373	14,659	51,226	11,848	11,633
Dividends on common stock	74,729	68,504	63,763	58,023	51,139
Number of utility customers served (b) (c)	953,437	945,540	949,378	926,823	864,894
Number of shareholders of common stock	27,984	28,565	28,286	28,348	27,054
Common shares outstanding (000)	136,486	135,370	133,400	132,326	128,970
Employees (full-time)	1,632	1,638	1,585	1,540	1,489

- (a) Net of allowance for funds used during construction and interest income.
- (b) 2006 includes 44,792 customers associated with the New York Water Service Corporation acquisition which closed on January 1, 2007. The operating results of this acquisition have been reported in our consolidated financial statements beginning January 1, 2007.
- (c) 2008 was impacted by the loss of 22,519 utility customers associated with two utility systems disposed of.

AQUA AMERICA, INC. AND SUBSIDIARIES

The following table lists the significant subsidiaries and other active subsidiaries of Aqua America, Inc. at December 31, 2009:

Aqua Pennsylvania, Inc. (Pennsylvania)
Aqua Resources, Inc. (Delaware)
Aqua Services, Inc. (Pennsylvania)
Aqua Ohio, Inc. (Ohio)
Aqua Illinois, Inc. (Illinois)
Aqua New Jersey, Inc. (New Jersey)
Aqua Maine, Inc. (Maine)
Aqua North Carolina, Inc. (North Carolina)
Aqua Texas, Inc. (Texas)
Aqua Indiana, Inc. (Indiana)
Aqua Utilities, Inc. (Texas)
Aqua Virginia, Inc. (Virginia)
Aqua Utilities Florida, Inc. (Florida)
Aqua Missouri, Inc. (Missouri)
Aqua South Carolina, Inc. (South Carolina)
Aqua New York, Inc. (New York)
New York Water Service Corporation (New York)
Aqua Wastewater Management, Inc. (Pennsylvania)
Aqua Georgia, Inc. (Georgia)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-61772, 333-42275, 333-104290, 333-122900, 333-130400, 333-152885 and 333-156058), on Form S-4 (No. 333-93243), and on Form S-8 (Nos. 333-159897, 333-148206, 333-61768, 333-70859, 033-52557, 033-53689, 333-81085, 333-107673, 333-116776, 333-126042 and 333-156047) of Aqua America, Inc. of our report dated February 26, 2009 relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP
Philadelphia, Pennsylvania
February 26, 2010

CERTIFICATION

I, Nicholas DeBenedictis, certify that:

1. I have reviewed this annual report on Form 10-K of Aqua America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2010

Nicholas DeBenedictis

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer

CERTIFICATION

I, David P. Smeltzer, certify that:

1. I have reviewed this annual report on Form 10-K of Aqua America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2010

David P. Smeltzer

David P. Smeltzer
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Annual Report on Form 10-K for the year ended December 31, 2009 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nicholas DeBenedictis, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Nicholas DeBenedictis
Nicholas DeBenedictis
Chairman, President and Chief Executive Officer
February 26, 2010

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Annual Report on Form 10-K for the year ended December 31, 2009 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Smeltzer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

David P. Smeltzer

David P. Smeltzer
Chief Financial Officer
February 26, 2010