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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON DC 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2009

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-6659

**AQUA AMERICA, INC.**

(Exact name of registrant as specified in its charter)

Pennsylvania

23-1702594

(State or other jurisdiction of incorporation or organization)

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

762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania

19010-3489

(Address of principal executive offices)

(Zip Code)

(610) 527-8000

(Registrant's telephone number, including area code)

(Former Name, former address and former fiscal year, if changed since last report.)

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 (§232.405 of this chapter) 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 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 "smaller reporting company" in Rule 12(b)-2 of the Exchange Act.:

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 21, 2009.

135,917,740.

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AQUA AMERICA, INC. AND SUBSIDIARIES

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AQUA AMERICA, INC. AND SUBSIDIARIES

Part 1 – Financial Information  
Item 1.

Financial Statements

CONSOLIDATED BALANCE SHEETS  
(In thousands of dollars, except per share amounts)  
(UNAUDITED)

	June 30, 2009	December 31, 2008
<b>Assets</b>		
Property, plant and equipment, at cost	\$ 3,954,317	\$ 3,848,419
Less: accumulated depreciation	893,836	851,036
Net property, plant and equipment	<u>3,060,481</u>	<u>2,997,383</u>
Current assets:		
Cash and cash equivalents	13,822	14,944
Accounts receivable and unbilled revenues, net	84,851	84,523
Inventory, materials and supplies	9,723	9,822
Prepayments and other current assets	14,134	11,752
Total current assets	<u>122,530</u>	<u>121,041</u>
Regulatory assets	230,786	234,980
Deferred charges and other assets, net	51,106	50,603
Funds restricted for construction activity	24,519	52,931
Goodwill	40,842	41,007
	<u>\$ 3,530,264</u>	<u>\$ 3,497,945</u>
<b>Liabilities and Stockholders' Equity</b>		
Aqua America stockholders' equity:		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 136,596,294 and 136,053,467 in 2009 and 2008	\$ 68,297	\$ 68,026
Capital in excess of par value	632,140	623,407
Retained earnings	387,406	379,778
Treasury stock, 679,843 and 683,958 shares in 2009 and 2008	(12,662)	(12,751)
Accumulated other comprehensive income	260	(14)
Total Aqua America stockholders' equity	<u>1,075,441</u>	<u>1,058,446</u>
Noncontrolling interest	<u>2,282</u>	<u>2,181</u>
Total equity	<u>1,077,723</u>	<u>1,060,627</u>
Long-term debt, excluding current portion	1,227,744	1,248,104
Commitments and contingencies	—	—
Current liabilities:		
Current portion of long-term debt	27,659	7,297
Loans payable	97,078	80,589
Accounts payable	29,521	50,044
Accrued interest	19,533	16,070
Accrued taxes	11,740	15,362
Other accrued liabilities	20,241	23,809
Total current liabilities	<u>205,772</u>	<u>193,171</u>
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	375,907	355,166
Customers' advances for construction	77,998	72,955
Regulatory liabilities	27,058	27,894
Other	118,745	120,333
Total deferred credits and other liabilities	<u>599,708</u>	<u>576,348</u>
Contributions in aid of construction	<u>419,317</u>	<u>419,695</u>
	<u>\$ 3,530,264</u>	<u>\$ 3,497,945</u>

See notes to consolidated financial statements beginning on page 8 of this report.

AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(In thousands, except per share amounts)  
(UNAUDITED)

	Six Months Ended June 30,	
	2009	2008
Operating revenues	\$ 321,820	\$ 290,034
Costs and expenses:		
Operations and maintenance	135,538	129,450
Depreciation	51,359	42,100
Amortization	5,819	2,185
Taxes other than income taxes	23,474	22,954
	<u>216,190</u>	<u>196,689</u>
Operating income	105,630	93,345
Other expense (income):		
Interest expense, net	33,437	34,193
Allowance for funds used during construction	(1,193)	(2,056)
Gain on sale of other assets	(213)	(553)
Income before income taxes	73,599	61,761
Provision for income taxes	29,375	24,888
Net income attributable to common shareholders	<u>\$ 44,224</u>	<u>\$ 36,873</u>
Net income attributable to common shareholders	\$ 44,224	\$ 36,873
Other comprehensive income, net of tax:		
Unrealized holding gain on investments	269	189
Reclassification adjustment for losses reported in net income	5	—
Comprehensive income	<u>\$ 44,498</u>	<u>\$ 37,062</u>
Net income per common share:		
Basic	<u>\$ 0.33</u>	<u>\$ 0.28</u>
Diluted	<u>\$ 0.33</u>	<u>\$ 0.28</u>
Average common shares outstanding during the period:		
Basic	<u>135,519</u>	<u>133,549</u>
Diluted	<u>135,880</u>	<u>133,988</u>
Cash dividends declared per common share	<u>\$ 0.270</u>	<u>\$ 0.250</u>

See notes to consolidated financial statements beginning on page 8 of this report.

AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(In thousands, except per share amounts)  
(UNAUDITED)

	Three Months Ended June 30,	
	2009	2008
Operating revenues	\$ 167,333	\$ 150,751
Costs and expenses:		
Operations and maintenance	68,549	65,146
Depreciation	24,972	20,619
Amortization	3,064	1,012
Taxes other than income taxes	11,884	10,845
	<u>108,469</u>	<u>97,622</u>
Operating income	58,864	53,129
Other expense (income):		
Interest expense, net	16,809	17,063
Allowance for funds used during construction	(568)	(1,100)
Gain on sale of other assets	(80)	(553)
Income before income taxes	42,703	37,719
Provision for income taxes	16,850	15,167
Net income attributable to common shareholders	<u>\$ 25,853</u>	<u>\$ 22,552</u>
Net income attributable to common shareholders	\$ 25,853	\$ 22,552
Other comprehensive income, net of tax:		
Unrealized holding gain on investments	232	189
Reclassification adjustment for losses reported in net income	5	—
Comprehensive income	<u>\$ 26,090</u>	<u>\$ 22,741</u>
Net income per common share:		
Basic	<u>\$ 0.19</u>	<u>\$ 0.17</u>
Diluted	<u>\$ 0.19</u>	<u>\$ 0.17</u>
Average common shares outstanding during the period:		
Basic	<u>135,631</u>	<u>133,683</u>
Diluted	<u>135,939</u>	<u>134,060</u>
Cash dividends declared per common share	<u>\$ 0.135</u>	<u>\$ 0.125</u>

See notes to consolidated financial statements beginning on page 8 of this report.

AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CAPITALIZATION  
(In thousands of dollars, except per share amounts)  
(UNAUDITED)

	June 30, 2009	December 31, 2008
Aqua America stockholders' equity:		
Common stock, \$.50 par value	\$ 68,297	\$ 68,026
Capital in excess of par value	632,140	623,407
Retained earnings	387,406	379,778
Treasury stock	(12,662)	(12,751)
Accumulated other comprehensive income	260	(14)
<b>Total Aqua America stockholders' equity</b>	<b>1,075,441</b>	<b>1,058,446</b>
Noncontrolling interest	2,282	2,181
<b>Total equity</b>	<b>1,077,723</b>	<b>1,060,627</b>
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	6,940
1.00% to 1.99%	2009 to 2035	21,533
2.00% to 2.99%	2019 to 2027	13,366
3.00% to 3.99%	2010 to 2025	29,168
4.00% to 4.99%	2020 to 2041	196,034
5.00% to 5.99%	2011 to 2043	318,936
6.00% to 6.99%	2011 to 2036	121,562
7.00% to 7.99%	2012 to 2025	31,749
8.00% to 8.99%	2021 to 2025	34,677
9.00% to 9.99%	2010 to 2026	70,806
10.00% to 10.99%	2018	6,000
		850,771
Notes payable to bank under revolving credit agreement, variable rate, due May 2012	62,500	62,500
Unsecured notes payable:		
Notes of 4.87%, due 2010 through 2023	135,000	135,000
Notes ranging from 5.00% to 5.99%, due 2013 through 2037	207,132	207,132
	1,255,403	1,255,401
Current portion of long-term debt	27,659	7,297
Long-term debt, excluding current portion	1,227,744	1,248,104
<b>Total capitalization</b>	<b>\$2,305,467</b>	<b>\$2,308,731</b>

See notes to consolidated financial statements beginning on page 8 of this report.

AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF EQUITY  
(In thousands of dollars)  
(UNAUDITED)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
Balance at December 31, 2008	\$ 68,026	\$ 623,407	\$ 379,778	\$ (12,751)	\$ (14)	\$ 2,181	\$1,060,627
Net income	—	—	44,224	—	—	101	44,325
Unrealized holding gain on investments, net of income tax of \$146	—	—	—	—	269	—	269
Reclassification adjustment for losses reported in net income, net of income tax of \$2	—	—	—	—	5	—	5
Dividends paid	—	—	(36,596)	—	—	—	(36,596)
Sale of stock (353,542 shares)	167	5,340	—	389	—	—	5,896
Repurchase of stock (14,935 shares)	—	—	—	(300)	—	—	(300)
Equity compensation plan (59,500 shares)	30	(30)	—	—	—	—	—
Exercise of stock options (148,835 shares)	74	1,466	—	—	—	—	1,540
Stock-based compensation	—	1,903	—	—	—	—	1,903
Employee stock plan tax benefits	—	54	—	—	—	—	54
Balance at June 30, 2009	<u>\$ 68,297</u>	<u>\$ 632,140</u>	<u>\$ 387,406</u>	<u>\$ (12,662)</u>	<u>\$ 260</u>	<u>\$ 2,282</u>	<u>\$1,077,723</u>

See notes to consolidated financial statements beginning on page 8 of this report.

AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOW  
(In thousands of dollars)  
(UNAUDITED)

	Six Months Ended June 30,	
	2009	2008
<b>Cash flows from operating activities:</b>		
Net income attributable to common shareholders	\$ 44,224	\$ 36,873
Adjustments to reconcile net income attributable to common shareholders to net cash flows from operating activities:		
Depreciation and amortization	57,178	44,285
Deferred income taxes	18,218	20,180
Provision for doubtful accounts	3,116	3,372
Stock-based compensation	1,830	2,029
Gain on sale of utility system	(1,009)	—
Gain on sale of other assets	(213)	(553)
Net increase in receivables, inventory and prepayments	(3,758)	(6,000)
Net decrease in payables, accrued interest, accrued taxes and other accrued liabilities	(12,116)	(20,099)
Other	(921)	(2,098)
<b>Net cash flows from operating activities</b>	<b>106,549</b>	<b>77,989</b>
<b>Cash flows from investing activities:</b>		
Property, plant and equipment additions, including allowance for funds used during construction of \$1,193 and \$2,056	(117,134)	(110,523)
Acquisitions of utility systems and other, net	(1,170)	(1,600)
Proceeds from the sale of utility system and other assets	1,937	17,060
Additions to funds restricted for construction activity	(4,901)	(951)
Release of funds previously restricted for construction activity	33,299	15,004
Other	(768)	73
<b>Net cash flows used in investing activities</b>	<b>(88,737)</b>	<b>(80,937)</b>
<b>Cash flows from financing activities:</b>		
Customers' advances and contributions in aid of construction	2,524	3,866
Repayments of customers' advances	(1,306)	(1,589)
Net proceeds of short-term debt	16,489	22,807
Proceeds from long-term debt	3,705	15,442
Repayments of long-term debt	(3,650)	(35,113)
Change in cash overdraft position	(7,328)	(8,714)
Proceeds from exercised stock options	1,540	1,436
Stock-based compensation windfall tax benefits	92	103
Proceeds from issuing common stock	5,896	27,637
Repurchase of common stock	(300)	(295)
Dividends paid on common stock	(36,596)	(33,383)
Proceeds from net cash settlements of forward equity sale agreement	—	11,011
<b>Net cash flows from (used in) financing activities</b>	<b>(18,934)</b>	<b>3,208</b>
Net increase (decrease) in cash and cash equivalents	(1,122)	260
Cash and cash equivalents at beginning of period	14,944	14,540
Cash and cash equivalents at end of period	<u>\$ 13,822</u>	<u>\$ 14,800</u>

See notes to consolidated financial statements beginning on page 8 of this report.

AQUA AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands of dollars, except per share amounts)  
(UNAUDITED)

Note 1 Basis of Presentation

The accompanying consolidated balance sheets and statements of capitalization of Aqua America, Inc. and subsidiaries (the "Company") at June 30, 2009, the consolidated statements of income and comprehensive income for the six months and three months ended June 30, 2009 and 2008, the consolidated statements of cash flow for the six months ended June 30, 2009 and 2008, and the consolidated statement of equity for the six months ended June 30, 2009, are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present fairly the consolidated financial position, the consolidated changes in equity, the consolidated results of operations, and the consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2008 and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2009. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year. Effective January 1, 2009, we adopted Statement of Financial Accounting Standards ("SFAS") No. 160, "Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51," which was retrospectively applied, and requires a noncontrolling interest to be separately presented as a component of stockholders' equity on the Consolidated Balance Sheet and Statement of Equity. In connection with the preparation of the consolidated financial statements and in accordance with the recently issued SFAS No. 165, "Subsequent Events," the Company evaluated subsequent events after the balance sheet date of June 30, 2009 through to the time the financial statements were filed with the Securities and Exchange Commission on August 6, 2009. See Note 12, *Recent Accounting Pronouncements*, for further information regarding the adoption of SFAS No. 160 and SFAS No. 165. Certain prior period amounts have been reclassified to conform to the current period presentation.

Note 2 Goodwill

The following table summarizes the changes in the Company's goodwill, by business segment:

	<u>Regulated Segment</u>	<u>Other</u>	<u>Consolidated</u>
Balance at December 31, 2008	\$ 36,887	\$ 4,120	\$ 41,007
Reclassifications to utility plant acquisition adjustment	(1,353)	—	(1,353)
Other	1,188	—	1,188
Balance at June 30, 2009	<u>\$ 36,722</u>	<u>\$ 4,120</u>	<u>\$ 40,842</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 3 Dispositions

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 Company's 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 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 a local 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 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, 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. The Company expects a ruling from the judge in the second half of 2009. Depending upon the outcome of the legal proceeding in the 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 system relinquished represents approximately 0.5% of the Company's total assets.

In June 2009, the Company sold a water and wastewater utility system in Texas for net proceeds of \$1,601. The sale resulted in the recognition of a gain on the sale of these assets, net of expenses, of \$1,009. The gain is reported in the consolidated statement of income as a reduction to operations and maintenance expense.

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(In thousands of dollars, except per share amounts)  
(UNAUDITED)

Note 4 Long-term Debt and Loans Payable

In July 2009, the Company's Pennsylvania operating subsidiary 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.

Note 5 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:

	June 30, 2009	December 31, 2008
Carrying Amount	\$1,255,403	\$ 1,255,401
Estimated Fair Value	1,172,288	1,191,877

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 \$77,988 as of June 30, 2009, and \$72,955 as of December 31, 2008. 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.

## AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(In thousands of dollars, except per share amounts)  
(UNAUDITED)Note 6 Net Income per Common Share

Basic net income per common share is based on the weighted average number of common shares outstanding. Diluted net income per common share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock options is included in the computation of diluted net income per common share. The dilutive effect of stock options is calculated using the treasury stock method and expected proceeds upon exercise of the stock options. The following table summarizes the shares, in thousands, used in computing basic and diluted net income per common share:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2009	2008	2009	2008
Average common shares outstanding during the period for basic computation	135,519	133,549	135,631	133,683
Dilutive effect of employee stock options	361	449	308	377
Average common shares outstanding during the period for diluted computation	<u>135,880</u>	<u>133,998</u>	<u>135,939</u>	<u>134,060</u>

For the six and three months ended June 30, 2009, employee stock options to purchase 2,144,059 and 2,720,294 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. For the six and three months ended June 30, 2008, employee stock options to purchase 1,650,796 and 2,245,247 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.

Note 7 Stock-based Compensation

Under the Company's 2009 Omnibus Equity Compensation Plan (the "2009 Plan"), as approved by the 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 plans 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 June 30, 2009, 4,986,000 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.

## AQUA AMERICA, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

**Stock Options**— During the six months ended June 30, 2009 and 2008, the Company recognized compensation cost associated with stock options as a component of operations and maintenance expense of \$1,201 and \$1,500, respectively. During the three months ended June 30, 2009 and 2008, the Company recognized compensation cost associated with stock options as a component of operations and maintenance expense of \$658 and \$712, respectively. For the six months ended June 30, 2009 and 2008, the Company recognized income tax benefits associated with stock options in its income statement of \$235 and \$151, respectively. For the three months ended June 30, 2009 and 2008, the Company recognized income tax benefits associated with stock options in its income statement of \$134 and \$72, respectively. In addition, the Company capitalized compensation costs associated with stock options within property, plant and equipment of \$73 and \$212 during the six months ended June 30, 2009 and 2008, and \$0 and \$117 during three months ended June 30, 2009 and 2008, respectively.

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 six months ended June 30, 2009 and 2008 was \$4.37 and \$4.12 per option, respectively. There were no stock options granted during the three months ended June 30, 2009 and 2008. The following assumptions were used in the application of this valuation model:

	2009	2008
Expected term (years)	5.3	5.2
Risk-free interest rate	2.2%	3.0%
Expected volatility	31.3%	23.7%
Dividend yield	2.98%	2.24%

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.

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

The following table summarizes stock option transactions for the six months ended June 30, 2009:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
<b>Options:</b>				
Outstanding at beginning of period	3,543,573	\$ 18.83		
Granted	586,950	19.12		
Forfeited	(17,864)	20.81		
Expired	(25,920)	23.31		
Exercised	(148,835)	10.35		
Outstanding at end of period	<u>3,937,904</u>	<u>\$ 19.15</u>	<u>6.4</u>	<u>\$ 5,603</u>
Exercisable at end of period	<u>2,805,097</u>	<u>\$ 18.77</u>	<u>5.3</u>	<u>\$ 5,603</u>

**Restricted Stock**— During the six months ended June 30, 2009 and 2008, the Company recorded stock-based compensation related to restricted stock awards as a component of operations and maintenance expense in the amounts of \$629 and \$529, respectively. During the three months ended June 30, 2009 and 2008, the Company recorded stock-based compensation related to restricted stock awards as a component of operations and maintenance expense in the amounts of \$443 and \$339, respectively. The following table summarizes nonvested restricted stock transactions for the six months ended June 30, 2009:

	Number of Shares	Weighted Average Fair Value
Nonvested shares at beginning of period	74,251	\$ 21.88
Granted	59,500	18.58
Vested	(41,333)	21.46
Forfeited	—	—
Nonvested shares at end of period	<u>92,418</u>	<u>\$ 19.94</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 8 Pension Plans and Other Postretirement Benefits

The Company maintains qualified defined benefit pension plans, nonqualified pension plans and other postretirement benefit plans for certain of its employees. The net periodic benefit cost is based on estimated values and 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. The following tables provide the components of net periodic benefit costs:

	Pension Benefits			
	Six Months Ended		Three Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Service cost	\$ 2,174	\$ 2,306	\$ 1,050	\$ 1,153
Interest cost	6,263	6,098	3,150	3,049
Expected return on plan assets	(4,658)	(5,996)	(2,341)	(2,998)
Amortization of transition asset	(91)	(104)	(45)	(52)
Amortization of prior service cost	76	132	41	66
Amortization of actuarial loss	2,576	128	1,374	64
Capitalized costs	(1,320)	(1,287)	(649)	(667)
Settlement charge	641	—	641	—
Net periodic benefit cost	<u>\$ 5,661</u>	<u>\$ 1,277</u>	<u>\$ 3,221</u>	<u>\$ 615</u>

	Other Postretirement Benefits			
	Six Months Ended		Three Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Service cost	\$ 541	\$ 542	\$ 262	\$ 271
Interest cost	1,144	1,088	571	544
Expected return on plan assets	(845)	(896)	(423)	(448)
Amortization of transition obligation	52	52	26	26
Amortization of prior service cost	(140)	(140)	(70)	(70)
Amortization of actuarial loss	294	116	159	58
Amortization of regulatory asset	68	69	30	31
Capitalized costs	(180)	(255)	(88)	(132)
Net periodic benefit cost	<u>\$ 934</u>	<u>\$ 576</u>	<u>\$ 467</u>	<u>\$ 280</u>

The Company made cash contributions of \$9,030 to its defined benefit pension plans during the first six months of 2009 and intends to make cash contributions of \$7,869 to the plans during the remainder of 2009. In addition, the Company expects to make cash contributions of \$1,684 for the funding of its other postretirement benefit plans during the remainder of 2009.

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 9 Water and Wastewater Rates

During the first six months of 2009, certain of the Company's operating divisions in New York, Indiana, Ohio, North Carolina and Florida were granted base rate increases designed to increase total operating revenues on an annual basis by approximately \$15,980.

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 subsidiaries 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, the regulatory asset for the deferred operating costs and rate case expenses was set at \$13,697. Beginning January 1, 2009, the regulatory asset for the deferred operating costs and rate case expense will be recovered through two twenty-four month surcharge mechanisms. The final order was 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. As a result, the appealing parties have 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 June 30, 2009, the Company has deferred \$8,574 of operating costs and \$2,155 of rate case expenses and recognized \$41,799 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.

## AQUA AMERICA, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 10 Taxes Other than Income Taxes

The following table provides the components of taxes other than income taxes:

	Six Months Ended		Three Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Property	\$ 12,518	\$ 12,908	\$ 6,355	\$ 6,050
Capital stock	1,246	1,541	641	767
Gross receipts, excise and franchise	4,206	3,779	2,254	1,822
Payroll	3,731	3,377	1,652	1,506
Other	1,773	1,349	982	700
Total taxes other than income	<u>\$ 23,474</u>	<u>\$ 22,954</u>	<u>\$ 11,884</u>	<u>\$ 10,845</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 11 Segment Information

The Company has identified fourteen operating segments and has one reportable segment named the Regulated segment. The reportable segment is comprised of thirteen operating segments for the Company's water and wastewater regulated utility companies which are organized by the states where we provide these services. In addition, 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 the tables below. Also included in "Other" are corporate costs that have not been allocated to the Regulated segment and intersegment eliminations.

The following tables present the Company's segment information:

	Three Months Ended June 30, 2009			Three Months Ended June 30, 2008		
	Regulated	Other	Consolidated	Regulated	Other	Consolidated
Operating revenues	\$ 164,308	\$ 3,025	\$ 167,333	\$ 147,604	\$ 3,147	\$ 150,751
Operations and maintenance expense	65,643	2,906	68,549	62,236	2,910	65,146
Depreciation	25,355	(383)	24,972	21,749	(1,130)	20,619
Operating income	58,755	109	58,864	52,074	1,055	53,129
Interest expense, net of AFUDC	16,155	86	16,241	15,595	368	15,963
Income tax	17,061	(211)	16,850	14,982	185	15,167
Net income attributable to common shareholders	25,626	227	25,853	22,046	506	22,552

	Six Months Ended June 30, 2009			Six Months Ended June 30, 2008		
	Regulated	Other	Consolidated	Regulated	Other	Consolidated
Operating revenues	\$ 316,039	\$ 5,781	\$ 321,820	\$ 284,073	\$ 5,961	\$ 290,034
Operations and maintenance expense	131,270	4,268	135,538	124,503	4,947	129,450
Depreciation	52,136	(777)	51,359	43,687	(1,587)	42,100
Operating income	104,188	1,442	105,630	91,454	1,891	93,345
Interest expense, net of AFUDC	32,052	192	32,244	30,993	1,144	32,137
Income tax	29,328	47	29,375	24,957	(69)	24,888
Net income attributable to common shareholders	43,009	1,215	44,224	36,053	820	36,873
Capital expenditures	116,364	770	117,134	110,375	148	110,523

## AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(In thousands of dollars, except per share amounts)  
(UNAUDITED)

	June 30, 2009	December 31, 2008
Total assets:		
Regulated	\$3,470,651	\$ 3,425,442
Other and eliminations	59,613	72,503
Consolidated	<u>\$3,530,264</u>	<u>\$ 3,497,945</u>

Note 12 Recent Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 165, “Subsequent Events.” SFAS No. 165 establishes general standards of accounting for and disclosing events that occur after the balance sheet date, but before financial statements are issued. This statement requires the disclosure of the date through which the Company has evaluated subsequent events and the basis for that date. This statement is effective for periods ending after June 15, 2009. The Company adopted SFAS No. 165 as required on June 30, 2009, and this statement did not have a material impact on the Company’s consolidated results of operations or consolidated financial position.

In April 2009, the FASB issued FASB Staff Position (“FSP”) No. FAS 107-1, “Interim Disclosures about Fair Value of Financial Instruments.” FSP No. FAS 107-1 amends FASB Statement No. 107, “Disclosures about Fair Value of Financial Instruments,” to require disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends Accounting Principle Board (APB) Opinion No. 28, “Interim Financial Reporting,” to require such disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim reporting periods ending after June 15, 2009. We adopted the provisions of FSP No. FAS 107-1 as of June 30, 2009. See Note 5, *Fair Value of Financial Instruments*, for applicable disclosures.

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations,” which replaced SFAS No. 141. SFAS No. 141(R) 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. This statement requires that acquisition-related costs and restructuring costs be recognized separately from the business combination. SFAS No. 141(R) is effective for the Company’s fiscal year beginning January 1, 2009. With the adoption of SFAS No. 141(R), the Company’s accounting for business combinations changed on a prospective basis beginning with transactions closing in the first quarter of 2009.

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51.” This statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent’s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. This statement 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 SFAS No. 160 as required on January 1, 2009, and this statement did not have a material impact on the Company’s consolidated results of operations or consolidated financial position.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” This statement defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. The statement applies when other statements require or permit the fair value measurement of assets and liabilities. This statement does not expand the use of fair value measurement. In February 2008, the FASB issued FSP No. 157-2, “Effective Date of FASB Statement No. 157” (“FSP 157-2”). FSP 157-2 delays the effective date of SFAS No. 157 for certain non-financial assets and liabilities to fiscal years beginning after November 15, 2008. The Company adopted SFAS No. 157 as required on January 1, 2008 for all financial assets and liabilities, and this statement 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 SFAS No. 157 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.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operation

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 Management’s Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report contain, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address, among other things: our use of cash; projected capital expenditures; liquidity; possible acquisitions and other growth ventures; the completion of various construction projects; the projected timing and annual value of rate increases; the recovery of certain costs and capital investments through rate increase requests; the projected effects of recent accounting pronouncements, as well as information contained elsewhere in this report where statements are preceded by, followed by or include the words “believes,” “expects,” “anticipates,” “plans,” “intends,” “will,” “continue” or similar expressions. These statements are based on a number of assumptions concerning future events, and are subject to a number of uncertainties and other factors, many of which are outside our control. Actual results may differ materially from such statements for a number of reasons, including the effects of regulation, abnormal weather, changes in capital requirements and funding, acquisitions, and our ability to assimilate acquired operations. In addition to these uncertainties or factors, our future results may be affected by the factors and risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.*

General Information

*Nature of Operations* — Aqua America, Inc. (“we” or “us”), a Pennsylvania corporation, 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, and South Carolina. Our largest operating subsidiary, Aqua Pennsylvania, Inc., provides water or wastewater services to approximately one-half of the total number of people we serve, which are located in the suburban areas north and west of the City of Philadelphia and in 24 other counties in Pennsylvania. Our other subsidiaries provide similar services in 12 other states. In addition, we provide 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. Aqua America, Inc., 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 1990’s 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 1990’s, 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 12 other states.

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)

Financial Condition

During the first half of 2009, we had \$117,134 of capital expenditures, repaid debt and made sinking fund contributions and other loan repayments of \$3,650, and repaid \$1,306 of customer advances for construction. The capital expenditures were related to improvements to treatment plants, new and rehabilitated water mains, tanks, hydrants, and service lines, well and booster improvements, and other enhancements and improvements.

At June 30, 2009, we had \$13,822 of cash and cash equivalents compared to \$14,944 at December 31, 2008. During the first half of 2009, we used the proceeds from the issuance of common stock, internally generated funds and available working capital, to fund the cash requirements discussed above and to pay dividends.

At June 30, 2009, our \$95,000 unsecured revolving credit facility, which expires in May 2012, had \$18,946 available for borrowing. At June 30, 2009, we had short-term lines of credit of \$139,000, of which \$41,922 was available. One of our short-term lines of credit is an Aqua Pennsylvania \$70,000 364-day unsecured revolving credit facility with two banks. This facility is used to provide working capital and expires in December 2009. In addition, we have \$66,500 of short-term lines of credit maturing in August and December 2009.

Our short-term lines of credit of \$139,000 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, has 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.

The Company's 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 for the balance of the year and the reasonably foreseeable future.

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)

Results of Operations

Analysis of First Six Months of 2009 Compared to First Six Months of 2008

Revenues for the first six months increased \$31,786 or 11.0% primarily due to additional revenues associated with increased water and wastewater rates of \$33,462 and additional wastewater and water revenues of \$2,702 associated with a larger customer base due to acquisitions, offset partially by the loss of utility revenues of \$1,391 associated with utility systems sold, and decreased water consumption as compared to the first six months of 2008. The decrease in customer water consumption is largely due to unfavorable weather conditions in our service territories during the first half of 2009 that reduced water usage.

Operations and maintenance expenses increased by \$6,088 or 4.7% primarily due to increases in water production costs of \$2,456, operating costs associated with acquisitions of \$1,557, increased insurance and claims expense of \$1,087, additional expenses resulting from the write-off of previously deferred expenses related to our rate filing in North Carolina of \$996, and normal increases in other operating costs. In addition, pension expense increased as compared to the first six months of 2008, and most of the increased cost is recoverable in rates going forward. Offsetting these increases were the June 2009 gain on the sale of our utility system in Texas of \$1,009, decreases in fuel costs for our service vehicles of \$952, and reduced expenses of \$703 associated with the dispositions of utility systems. The increased water production costs, principally purchased water, power, and chemicals were associated with vendor price increases.

Depreciation expense increased \$9,259 or 22.0% due to an increase in depreciation rates, the utility plant placed in service since June 30, 2008, and additional expense of \$2,037 resulting from a rate case adjustment related to our rate filing in North Carolina.

Amortization increased \$3,634 primarily due to additional expense of \$2,983 resulting from the recovery of our costs associated with our rate filing in Texas and \$394 resulting from a rate case adjustment related to our rate filing in North Carolina, as well as the amortization of the costs associated with, and other costs being recovered in, various rate filings.

Taxes other than income taxes increased by \$520 or 2.3% primarily due to an increase in the assessment of taxes associated with water pumping fees and an increase in gross receipts, excise and franchise taxes, offset by a reduction in the assessment of property taxes.

Interest expense decreased by \$756 or 2.2% primarily due to decreased interest rates on short-term borrowings and long-term debt, offset partially by additional borrowings to finance capital projects.

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)

Allowance for funds used during construction ("AFUDC") decreased by \$863 primarily 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.

Gain on sale of other assets totaled \$213 during the half of 2009 and \$553 in the first half of 2008. The decrease of \$340 is due to the timing of sales of land and other property.

Our effective income tax rate was 39.9% in the first half of 2009 and 40.3% in the first half of 2008. The effective income tax rate decreased due to an increase in a tax credit for qualified domestic production activities in the first six months of 2009 versus the same period in 2008.

Net income attributable to common shareholders for the first half of 2009 increased by \$7,351 or 19.9%, in comparison to the same period in 2008 primarily as a result of the factors described above. On a diluted per share basis, earnings increased \$0.05 reflecting the change in net income attributable to common shareholders and a 1.4% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the issuance of 1,000,000 shares related to the settlement of the forward equity sale agreement in June 2008, and the additional shares sold or issued through our dividend reinvestment plan, equity compensation plan, and employee stock purchase plan.

Results of Operations

Analysis of Second Quarter of 2009 Compared to Second Quarter of 2008

Revenues for the quarter increased \$16,582 or 11.0% primarily due to additional revenues associated with increased water and wastewater rates of \$19,456 and additional wastewater and water revenues of \$1,396 associated with a larger customer base due to acquisitions, offset partially by the loss of utility revenues of \$561 associated with utility systems sold, and decreased water consumption as compared to the second quarter of 2008. The decrease in customer water consumption is largely due to unfavorable weather conditions in our service territories during the second quarter of 2009 that reduced water usage.

Operations and maintenance expenses increased by \$3,403 or 5.2% primarily due to increases in water production costs of \$1,152, operating costs associated with acquisitions of \$847, increased insurance and claims expense of \$491, and normal increases in other operating costs. In addition, pension expense increased as compared to the second quarter of 2008, and most of the increased cost is recoverable in rates going forward. Offsetting these increases were the gain on the sale of our utility system in Texas of \$1,009, decreases in fuel costs for our service vehicles of \$514, and reduced expenses of \$297 associated with the dispositions of utility systems. The increased water production costs, principally purchased water, power, and chemicals were associated with vendor price increases.

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)

Depreciation expense increased \$4,353 or 21.1% due to an increase in depreciation rates, and the utility plant placed in service since June 30, 2008.

Amortization increased \$2,052 due to additional expense of \$1,792 resulting from recovery of our costs associated with our rate filing in Texas, and the amortization of the costs associated with, and other costs being recovered in, various rate filings.

Taxes other than income taxes increased by \$1,039 or 9.6% primarily due to an increase in gross receipts, excise and franchise taxes, an increase in the assessment of taxes associated with water pumping fees, and an increase in property taxes.

Interest expense decreased by \$254 or 1.5% primarily due to decreased interest rates on short-term borrowings and long-term debt, offset partially by additional borrowings to finance capital projects.

Allowance for funds used during construction ("AFUDC") decreased by \$532 primarily 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.

Gain on sale of other assets totaled \$80 in the second quarter of 2009 and \$553 in the second quarter of 2008. The decrease of \$473 is due to the timing of sales of land and other property.

Our effective income tax rate was 39.5% in the second quarter of 2009 and 40.2% in the second quarter of 2008. The effective income tax rate decreased due to an increase in a tax credit for qualified domestic production activities in the second quarter of 2009 versus the same period in 2008.

Net income attributable to common shareholders for the quarter increased by \$3,301 or 14.6%, in comparison to the same period in 2008 primarily as a result of the factors described above. On a diluted per share basis, earnings increased \$0.02 reflecting the change in net income attributable to common shareholders and a 1.4% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the issuance of 1,000,000 shares related to the settlement of the forward equity sale agreement in June 2008, and the additional shares sold or issued through our dividend reinvestment plan, equity compensation plan, and employee stock purchase plan.

Impact of Recent Accounting Pronouncements

We describe the impact of recent accounting pronouncements in Note 12, *Recent Accounting Pronouncements*, of the consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES

Item 3. 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. There have been no significant changes in our exposure to market risks since December 31, 2008. Refer to Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2008 for additional information.

Item 4. 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 such 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.

(b) 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.

Part II. Other Information

Item 1. Legal Proceedings

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 was 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. As a result, the appealing parties have 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 – Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2008, and refer to "Note 9 – Water and Wastewater Rates" to the Consolidated Financial Statements of Aqua America, Inc. and subsidiaries in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.

AQUA AMERICA, INC. AND SUBSIDIARIES

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 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 a local 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 northern portion 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 on certain procedural aspects with respect to the valuation evidence that may be presented and whether we are entitled to a jury trial. We expect a ruling from the judge in the second half of 2009. Depending upon the outcome of the legal proceeding in the 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 0.5% of Aqua America, Inc.’s total assets.

A lawsuit was filed by a husband and wife who lived in a house abutting a percolation pond at a Pasco County, Florida wastewater treatment plant owned by one of the Company’s subsidiaries, Aqua Utilities Florida, Inc. 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. They are represented by the same counsel as the original 2006 plaintiffs. 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. We believe that the plaintiffs’ claims in both lawsuits are without foundation. At this time, it is impossible to estimate the likelihood of a loss in these matters or the extent of a loss should one occur.

AQUA AMERICA, INC. AND SUBSIDIARIES

Two homeowners' associations comprised of approximately 170 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. 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 construct a new plant elsewhere and close and remove the existing plant. While the Company continues to assess the matter and any potential losses, we cannot currently estimate the likelihood of a loss in connection with this matter or the extent of a loss should one occur. Based on our current understanding of the controversy, this matter would not be covered by any of the Company's insurance policies.

There are no other pending legal proceedings to which we or any of our subsidiaries is a party or to which any of their properties is the subject that are material or are expected to have a material effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes to the risks disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008 ("Form 10-K") under "Part 1, Item 1A – Risk Factors." The risks described in our Form 10-K are not the only risks facing the Company. Additional risks that we do not presently know or that we currently believe are immaterial could also impair our business, financial position, or future results and prospects.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

The Annual Meeting of Shareholders of Aqua America, Inc. was held on May 8, 2009 at the Drexelbrook Banquet Facility & Corporate Events Center, Drexelbrook Drive and Valley Road, Drexel Hill, Pennsylvania, pursuant to the Notice sent on or about April 2, 2009 to all shareholders of record at the close of business on March 16, 2009. At that meeting:

- (1) The following nominees were elected as directors of Aqua America, Inc. for terms expiring in the year 2012 and received the votes set forth adjacent to their names below:

Name of Nominee	For	Withheld
Nicholas DeBenedictis	98,138,966	8,375,169
Richard H. Glanton	100,884,580	5,629,555
Lon R. Greenberg	100,587,804	5,926,331

Since the Board of Directors is divided into three classes with one class elected each year to hold office for a three-year term, the term of office for the following directors continued after the Annual Meeting: Mary C. Carroll; William P. Hankowsky; Ellen T. Ruff; Richard L. Smoot; and Andrew J. Sordoni, III.

- (2) The appointment of PricewaterhouseCoopers LLP as the independent registered public accountants for the fiscal year ending December 31, 2009 was ratified by the following vote of:

For	Against	Abstain
103,434,634	2,498,059	581,442

- (3) The 2009 Equity Compensation Plan was approved by the following vote of:

For	Against	Abstain	Broker Non-Votes
60,643,846	10,258,312	2,345,398	33,266,579

- (4) The shareholder proposal regarding the preparation and publication of a sustainability report was not adopted by the following vote of:

For	Against	Abstain	Broker Non-Votes
17,015,715	46,713,604	9,518,236	33,266,580

AQUA AMERICA, INC. AND SUBSIDIARIES

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
4.38	Forty-fourth Supplemental Indenture, dated as of July 1, 2009.
10.52	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jefferies and Company, Inc., and Janney Montgomery Scott LLC, dated June 30, 2009.
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.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be executed on its behalf by the undersigned thereunto duly authorized.

August 6, 2009

AQUA AMERICA, INC.  
Registrant

/s/ Nicholas DeBenedictis  
Nicholas DeBenedictis  
Chairman, President and  
Chief Executive Officer

/s/ David P. Smeltzer  
David P. Smeltzer  
Chief Financial Officer

**EXHIBIT INDEX**

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32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.

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

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**FORTY-FOURTH SUPPLEMENTAL  
INDENTURE**

DATED AS OF JULY 1, 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.

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**THIS FORTY-FOURTH SUPPLEMENTAL INDENTURE** dated as of July 1, 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:

<b>Designation</b>	<b>Indenture</b>	<b>Amount</b>
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

<u>Designation</u>	<u>Indenture</u>	<u>Amount</u>
6.00% Subseries F due 2004	15,000,000	
6.00% Series due 2029	Thirty-Second Supplemental	25,000,000
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

**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-three 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**, in addition to the property described in the Original Indenture and the First through Forty-third Supplemental Indentures thereto, the Company has acquired certain other property and desires to confirm the lien of the Original Indenture thereon and in order to confirm such lien shall cause this Forty-fourth supplemental Indenture, with a true and correct copy of the Original Indenture attached hereto as Exhibit D (redacted to delete property descriptions for counties in which such Original Indenture has already been recorded), to be recorded in the office for the Recording of Deeds for the counties of Clarion, Venango and Warren; 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-fourth Supplemental Indenture, a series of bonds to be designated "First Mortgage Bonds, 5.00% Series due 2039" (herein referred to as the "5.00% Series due 2039" or the "Bonds") to be limited in aggregate principal amount to \$58,000,000 to bear interest at the rate of 5.00% per annum, and to mature on October 1, 2039, 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 Chester, Delaware and Montgomery 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 July 1, 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 A of 2009 the aggregate principal amount of \$58,000,000 (the "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 July 1, 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 2039 (to be issued in accordance with the terms and provisions of the Original Indenture and indentures supplemental thereto, including this Forty-fourth Supplemental Indenture, and to be secured by said Original Indenture and indentures supplemental thereto, including this Forty-fourth Supplemental Indenture) and has further duly authorized the execution, delivery and recording of this Forty-fourth Supplemental Indenture setting forth the terms and provisions of the 5.00% Series due 2039 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:

[Form of 5.00% Series due 2039]

No. R-1

\$ \_\_\_\_\_

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth  
of Pennsylvania)

First Mortgage Bond, 5.00% Series due 2039

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 1st day of October, 2039, 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 Fifty-eight Million 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 October 1, 2009 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 first day of April and the first day of October in each year, commencing October 1, 2009 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-fourth 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 fifteenth day of the calendar month next preceding the 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-fourth Supplemental Indenture" dated as of July 1, 2009, and designated therein as "First Mortgage Bonds, 5.00% Series due 2039" (the "Bonds").

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 July 1, 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 Chester, Delaware and Montgomery 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 A of 2009, in the aggregate principal amount of \$58,000,000 (the "Authority Bonds").

The Authority Bonds are to be issued under a Trust Indenture, dated as of July 1, 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 Authority Bonds shall be purchased by the Company and cancelled pursuant to the Authority Indenture, Bonds corresponding in principal amount to the 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 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 October 1, 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 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 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:  
  
\_\_\_\_\_  
(Assistant) Secretary

AQUA PENNSYLVANIA, INC.  
  
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-fourth 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-fourth Supplemental Indenture provided and issued by the Company, valid, binding and legal obligations of the Company, and this Forty-fourth Supplemental Indenture a valid and enforceable supplement to said Original Indenture, have been done, performed and fulfilled, and the execution of this Forty-fourth Supplemental Indenture has been in all respects duly authorized; and

NOW, THEREFORE, THIS FORTY-FOURTH 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-fourth

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-third 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-fifth series of bonds, limited in aggregate principal amount to \$58,000,000 designated as “Aqua Pennsylvania, Inc., First Mortgage Bonds, 5.00% Series due 2039”.

Interest on the Bonds shall be payable semiannually on April 1 and October 1 of each year (each an “interest payment date”), commencing October 1, 2009. 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 2039 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 October 1, 2039 and shall bear interest at the rate of 5.00%. In any case where the date of payment of the principal of 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 fifteenth day of the calendar month next preceding the 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 October 1, 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 Bonds 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 Authority Bonds maturing October 1, 2039 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 Authority Bonds maturing October 1, 2039 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.

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-fourth 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 2039 in the aggregate principal amount of \$58,000,000 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 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-fourth 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-fourth 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 and Forty-third Supplemental Indentures are hereby confirmed. All references in this Forty-fourth 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-fourth 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 teletype (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 teletype number may be made by notice to the Company delivered in the manner set forth above.

SECTION 3. All recitals in this Forty-fourth 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-fourth Supplemental Indenture is dated as of July 1, 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-fourth 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-fourth 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 2039 on July 16, 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: Robert A. Rubin

By: Stephen Anzaldo  
Treasurer

[CORPORATE SEAL]

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

Attest: Michael L. Shelton  
Authorized Officer

By: Philip S. Newmuis  
Name: Philip S. Newmuis  
Title: Authorized Signer

**EXHIBIT A  
OUTSTANDING FIRST MORTGAGE BONDS**

Division	Structure	Interest Rate	Issue Date	Maturity Date	Original Amount	Balance (incl. CP) @ 06/01/09
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
					356,035,000	353,235,000
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
					205,000,000	202,200,000
					561,035,000	555,435,000

**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 #2005066104	5/19/05 6496	1375 #10534807	0939 03487	32005044507	0020	0688 2005069126
Fortieth Supplemental	12/27/05	4768	1853	12/23/05 6720	897 #10608829	12/23/05 03687	2206 #2005123053	12/29/05 11689	1156
Forty-first Supplemental	1/11/07	5250	1290 #2007004610	1/12/07 7058	820 #10720615	1/11/07 04002	2257	1/30/07 0225	00329 #2007005061
Forty-second Supplemental	12/13/07		2131 #2007119080	12/13/07 7326	2091 #10809606	12/13/07 04262	1166 #2007105884	12/17/07 12287	02498-02544 #2007147147
Forty-third Supplemental	12/08/08	5961	2131 #2008099812	12/08/08 7556	1527 #10889672	12/08/08 4466	1185	12/08/08 12504	2585 #2008115955

**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

**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	5/13/05	2005-7340
Fortieth Supplemental	12/23/05	200594992	12/23/05	200513981	12/27/05	2088	#005488 0934	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

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		Vol.	1
Supplemental	5/18/05	1761	#200509076	5/17/05	2109	#200500008491	5/18/05	2150	#200500010263	5/16/05	2769	#200500004960
Fortieth Supplemental	12/27/05	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
Supplemental	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
Supplemental	12/17/07	2024	#200721572	12/19/07	2261	#200700018937	12/18/07	2285	#200700022991	12/18/07	3433	#200700013194
Forty-third Supplemental												1
Supplemental	12/10/08		#200819618	12/18/08	2296	268	12/10/08	2324	2159	12/09/08	3633	1-45



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
			182906			135						
Thirty-Ninth Supplemental	5/17/05	2005-1	#2005026917	5/17/05	650	#2005028880	5/16/05	#200504384		5/18/05	0522	1289
								Instrument			0536	
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			25009			734						
Forty-second Supplemental	1/19/07	2007-1	#2007003204	1/11/07	724	#200700240	1/10/07	#200700387		1/10/07	0558	0959
Forty-third Supplemental			446608			178						
Forty-third Supplemental	12/17/07	2007-1	#2007057981	12/18/07	763	#200707447	12/17/07	#200713519		12/18/07	#2007-5154	
						217						
Forty-third Supplemental	12/09/08	2008-1	320419	12/12/08	803	#220807546	12/09/08	#200818392		12/10/08	#2008-6990	

**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
						#200700000444
						#200700015228
						#200800012935

**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									

**EXHIBIT C**

<u>County and Grantor</u>	<u>Date of Deed</u>	<u>Book</u>	<u>Recorded Page</u>	<u>Tax Parcel I.D. Number</u>
Clarion Co.				
Venango Co.	12/30/08	525	396	Map #09-004-56
Emlenton Water Company				Map #09-005-005 Map #23-007-017
Warren Co.	04/29/09	1903	326	WN-008-649700
		1903	334	WN-868-679800
		1903	326	WN-868-835500
		1903	341	WN-868-911300
		1904	1	WN-869-442100

**EXHIBIT D**

Copy of Indenture of Mortgage dated as of January 1, 1941

The Bank of New York Mellon Trust Company, N. A., Mortgagee and Trustee named in the foregoing Forty-fourth 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: Philip S. Newmuis

Name: Philip S. Newmuis

Title: Authorized Signer

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF MONTGOMERY

On the 1st day of July, 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-fourth 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 1st day of July, 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-fourth 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

**BOND PURCHASE AGREEMENT**

**\$58,000,000**

**PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY**

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

Bond Purchase Agreement dated June 30, 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, as representative of itself and of Janney Montgomery Scott LLC (the “Underwriters”).

**Section 1. Background.**

(a) The Authority proposes to enter into a Financing Agreement (the “Financing Agreement”) dated as of July 1, 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 Chester, Delaware and Montgomery 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 \$58,000,000 aggregate principal amount of its Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series A 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 January 21, 2009 (the “Authority Resolution”) and a Trust Indenture, dated as of July 1, 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 % Series due October 1, 2039 in the principal amount of \$58,000,000 (the “First Mortgage Bond”) issued with respect to the Bonds. The First Mortgage Bond 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-fourth Supplemental Indenture of Mortgage to be dated as of July 1, 2009 (the "Forty-fourth Supplemental Mortgage", which together with the Indenture of Mortgage, as amended and supplemented, is referred to hereinafter as the "Mortgage"). The First Mortgage Bond 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. 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 Bond, and all of the Authority's rights to moneys and securities in the Project Funds, the Revenue Funds and the Debt Service Funds (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 June 25, 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 Underwriters 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 \$55,110,440.00 which is equal to the \$58,000,000 aggregate principal amount of the Bonds, less original issue discount of \$2,019,560, less the underwriting discount of \$870,000. 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 Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania ("Bond Counsel"), at 10:00 a.m., Eastern Standard Time, on July 16, 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 one fully registered bond in the principal amount of \$58,000,000 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 Underwriters so request, 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" (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" (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 Underwriters 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 Bond has 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 a valid and legally binding obligation of the Company enforceable in accordance with its 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-fourth Supplemental Mortgage has been duly authorized by the Company. When the Forty-fourth Supplemental Mortgage, in substantially the form approved by the Underwriters 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-fourth 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-fourth 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 Bond and the compliance by the Company with all of the applicable provisions of the First Mortgage Bond and the Mortgage and the execution, delivery and performance by the Company of the Forty-fourth 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 Bond, the execution, delivery and performance by the Company of this Bond Purchase Agreement, the Financing Agreement, the Forty-fourth Supplemental Mortgage, the First Mortgage Bond 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 Bond 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 Underwriters 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 Bond 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 Underwriters as the Underwriters 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 Underwriters 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 Underwriters and the Company and will advise the Underwriters 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 aforescribed 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 July 1, 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 Underwriters, and will advise the Underwriters 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 March 26, 2009, registering the Securities Certificate for the issuance of the First Mortgage Bond in support of the Bonds.

#### **Section 7. Underwriters' Covenant and Compensation.**

(a) By acceptance hereof the Underwriters agree 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 \$870,000 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 either 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 one 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 each of 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 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 each of 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 each of the respective Underwriters in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 9, the Underwriters shall not be required to contribute any amount in excess of the amount of the discount allowed to each of the respective Underwriters 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 Underwriters 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 Underwriters 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 Underwriters. 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 Underwriters, 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 Underwriters 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 Underwriters shall have received:

(i) An opinion of Ballard Spahr Andrews & Ingersoll, LLP, Bond Counsel, dated the date of Closing, substantially in the form attached as Exhibit A hereto, addressed to (or with reliance letters delivered in respect of) the Authority, the Trustee, the Company and the Underwriters.

(ii) An opinion of Ballard Spahr Andrews & Ingersoll, LLP, Bond Counsel, dated the date of Closing, substantially in the form attached as Exhibit B hereto, addressed to the Underwriters.

(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 C hereto, addressed to the Underwriters, the Trustee, the Company and Bond Counsel.

(iv) Opinions 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 D hereto, addressed to the Underwriters, 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 Underwriters 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 Underwriters.

(vi) A certificate dated the date of Closing executed by the Executive Director of the Authority and addressed to the Underwriters 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 Underwriters 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-fourth Supplemental Mortgage and the Continuing Disclosure Agreement and specimen copies of the First Mortgage Bond.

(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 Bond, the Forty-fourth 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 Underwriters, 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 Underwriters of a rating of "AA-" assigned by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, and that such rating is in full force and effect as of the date of Closing.

(xiii) Evidence satisfactory to Bond Counsel and the Underwriters of the receipt by the Authority of a Preliminary Allocation relating to the Bonds and approval of the Project from the Pennsylvania Department of Community and Economic Development and of the registration of a Securities Certificate relating to the First Mortgage Bond and the Bonds with the Pennsylvania Public Utility Commission.

(xiv) Such additional documentation, including, without limitation, legal opinions, as the Underwriters or their 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-fourth Supplemental Mortgage, the First Mortgage Bond 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 Underwriters, makes it inadvisable to proceed with the sale of the Bonds; and the Underwriters 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 Underwriters 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 Underwriters 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 Bond under the 1933 Act or qualification of the 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 Underwriters 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 Underwriters will use their best efforts to amend or supplement the Official Statement to reflect, to the reasonable satisfaction of the Underwriters, 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 Underwriters, 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 Bond, the Forty-fourth 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 each 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.  
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: Stephen M. Drizos  
STEPHEN M. DRIZOS  
Executive Director

**AQUA PENNSYLVANIA, INC.**

By: Stephen F. Anzaldo  
STEPHEN F. ANZALDO  
Treasurer

**JEFFERIES & COMPANY, INC. on  
behalf of the Underwriters**

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

**SCHEDULE I**

**Term of Bonds**

Dated Date: June 16, 2009

<u>Series</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>	<u>Price</u>	<u>Yield</u>
2009A	October 1, 2039	\$58,000,000	5%	96.518	5.23%

*Interest Payment Dates:* April 1 and October 1, commencing October 1, 2009

*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 October 1, 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.

**Exhibit "A"**

**FORM OF APPROVING OPINION OF BALLARD SPAHR ANDREWS AND INGERSOLL, LLP**

*Ballard Spahr Andrews & Ingersoll, LLP will render an opinion in substantially the following form in connection with the issuance of the Bonds.*

July 16, 2009

Re: \$58,000,000 principal amount of Pennsylvania Economic Development  
Financing Authority Water Facilities Revenue Bonds  
(Aqua Pennsylvania, Inc., Project) Series A of 2009

Ladies and Gentlemen:

We have acted as Bond Counsel to the Pennsylvania Economic Development Financing Authority (the "Authority") in connection with the issuance and sale of \$58,000,000 principal amount of its Pennsylvania Economic Development Financing Authority Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project) Series A of 2009 (the "Bonds"). The Bonds are being issued by the Authority at the request of Aqua Pennsylvania, Inc., as successor to Philadelphia Suburban Water Company (the "Company"), to finance facilities located in the Pennsylvania Counties of Chester, Delaware and Montgomery (the "Project Facilities") for the furnishing of water which is made available on reasonable demand to members of the general public in portions of the Pennsylvania Counties of Chester, Delaware and Montgomery.

The Bonds are being issued in fully registered form under a Trust Indenture dated as of July 1, 2009 (the "Indenture") between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Authority and the Company are entering into a Financing Agreement dated as of July 1, 2009 (the "Financing Agreement"), pursuant to which the Authority will lend the proceeds of the Bonds to the Company to finance the Project Facilities.

In satisfaction of its obligation under the Financing Agreement with respect to the Bonds, the Company, concurrently with the issuance of the Bonds, is delivering to the Trustee its First Mortgage Bond \_\_\_\_\_ % Due 2039\* (the "First Mortgage Bond") in the principal amount equal to the principal amount of the Bonds. The Authority has assigned its interests under the Financing Agreement with respect to the Bonds, including its right to receive the First Mortgage Bond and the payments thereunder, to the Trustee for the benefit of the holders of the Bonds.

Sections 103 and 141-150 of the Internal Revenue Code of 1986, as amended (the "Code"), provide generally that interest on certain issues of bonds, the proceeds of which are to be used to provide facilities for the furnishing of water within the meaning of Section 142(a) of the Code, will be excludable from the gross income of the holder thereof. The Code imposes various requirements pertaining to the use and investment of the proceeds of such bonds, the maturity of and security for such bonds, the procedure for issuance of such bonds, the rebate of arbitrage profits to the Internal Revenue Service and filings with the Internal Revenue Service. We have concluded that the Bonds meet the requirements of the Code in reliance on representations of the Authority and the Company with respect to the application of the proceeds of the Bonds, the nature of the Project Facilities and other matters solely within the knowledge of the Authority and the Company which we have not independently verified, and have

assumed continuing compliance with the covenants in the Indenture, the Financing Agreement and the certificates of the Company with respect to the Project Facilities delivered at closing pertaining to the requirements of those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. In the event that such representations are determined to be inaccurate or incomplete or the Authority or the Company fails to comply with the aforementioned covenants, interest on the Bonds could become includable in gross income from the date of issuance, regardless of the date on which the event causing such inclusion occurs.

In our capacity as Bond Counsel, we have examined such documents, records of the Authority and other instruments as we deemed necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Indenture, the Financing Agreement, the First Mortgage Bond, the other documents listed in the closing memorandum filed with the Trustee and an executed Water Facilities Revenue Bond (Aqua Pennsylvania, Inc. Project) Series A of 2009 as authenticated by the Trustee.

Based on the foregoing, it is our opinion that:

1. The Authority is a public instrumentality of the Commonwealth of Pennsylvania and a body corporate and politic, organized and existing under Pennsylvania law, with full power and authority to execute and deliver the Financing Agreement and the Indenture, and to issue and sell the Bonds.

2. The Financing Agreement and the Indenture have been duly authorized, executed and delivered by the Authority and constitute legal, valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms, subject to state and federal laws and equitable principles affecting the enforcement of creditors' rights.

3. All right, title and interest of the Authority under the Financing Agreement as they relate to the Bonds, including the right to receive the First Mortgage Bond and the payments thereunder (except for certain rights to indemnification and to payments in respect of administrative expenses of the Authority), have been effectively assigned to the Trustee by the Indenture.

4. The issuance and sale of the Bonds have been duly authorized by the Authority; the Bonds have been duly executed and delivered by the Authority; and, on the assumption that all Bonds have been authenticated by the Trustee, the Bonds are legal, valid and binding obligations of the Authority enforceable against the Authority in accordance with their terms, subject to state and federal laws and equitable principles affecting the enforcement of creditors' rights, and are entitled to the benefit and security of the Indenture.

5. Interest on the Bonds is excludable from gross income for purposes of federal income tax under existing laws as enacted and construed on the date of initial delivery of the Bonds, assuming the accuracy of the certifications of the Authority and the Company and continuing compliance by the Authority and the Company with the requirements of the Code, except that interest on a Bond is not excludable while the Bond is held by a substantial user of the financed facilities or a related person as provided in the Code. Interest on the Bonds is exempt from individual and corporate federal alternative minimum tax ("AMT") and is not includable in adjusted current earnings for purposes of corporate AMT. We express no opinion regarding other federal tax consequences relating to ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

6. Under the existing laws of the Commonwealth of Pennsylvania as enacted and construed on the date of initial delivery of the Bonds, interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax, and the Bonds are exempt from personal property taxes in Pennsylvania.

We do not express any opinion herein as to the adequacy or accuracy of the Official Statement of the Authority pertaining to the offering of the Bonds.

We call your attention to the fact that the Authority's obligation to make payments in respect of the Bonds is limited to moneys received from payments to be made by the Company pursuant to the First Mortgage Bond and as provided in the Indenture and that the Bonds do not pledge the credit or taxing power of the Commonwealth of Pennsylvania or any political subdivision thereof. The Authority has no taxing power.

Very truly yours,

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**EXHIBIT "B"**

**FORM OF SUPPLEMENTAL OPINION  
OF BALLARD SPAHR ANDREWS & INGERSOLL, LLP**

July 16, 2009

Re: \$58,000,000 principal amount of Pennsylvania Economic Development Financing Authority Water Facilities Revenue Bonds, (Aqua Pennsylvania, Inc. Project) Series A 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(a)] 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 are used but not defined herein shall have the same meanings ascribed to them in the Official Statement dated June 30, 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 June 30, 2009 (the "Bond Purchase Agreement"), among you, 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.

3. The information in the Official Statement under the captions "INTRODUCTORY STATEMENT -Description of the Bonds" and "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 MORTGAGE BONDS 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 summarize such information in all material respects. 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 reflect our firm's opinion with respect to the matters discussed therein in all material respects.

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,

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July \_\_\_\_, 2009

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 A 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 A of 2009 in the aggregate principal amount of \$58,000,000 (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 July 1, 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 January 21, 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

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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 Chester 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 July 1, 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., as Representative for Janney Montgomery Scott LLC and Jefferies & Company, Inc. (collectively, the "Underwriters"), and the Borrower dated June 30, 2009 (the "Bond Purchase Agreement") providing for the offering and sale of the Bonds, and pursuant thereto the Authority has authorized the use of an Official Statement dated June 30, 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.

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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.

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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 dated June 25, 2009 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.

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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

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**EXHIBIT "D"**

**FORM OF OPINIONS OF THE COMPANY'S LEGAL COUNSEL AND THE  
COMPANY'S SENIOR VICE PRESIDENT — LAW AND ADMINISTRATION**

**Letterhead of Dilworth Paxson LLP**

July 16, 2009

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

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

Ballard Spahr Andrews & Ingersoll, LLP  
1735 Market Street, 51st Floor  
Philadelphia, PA 19103

Re: \$58,000,000 principal amount of Pennsylvania Economic Development Financing Authority Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project) Series A of 2009

Ladies and Gentlemen:

We have acted as counsel to Aqua Pennsylvania, Inc. (the "Company") in connection with (i) the issuance by the Pennsylvania Economic Development Financing Authority (the "Authority"), and the sale to Jefferies & Company, Inc. and Janney Montgomery Scott LLC, pursuant to that certain Bond Purchase Agreement dated June 30, 2009 (the "Purchase Agreement"), of \$58,000,000 principal amount of Pennsylvania Economic Development Financing Authority Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series A of 2009 (the "Authority Bonds"), and (ii) the issuance and delivery of the Company's First Mortgage Bond, \_\_\_\_\_ % Series due 2039 in the principal amount of \$58,000,000 (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-fourth Supplemental Indenture dated as of July 1, 2009 (the "Supplemental Indenture") under which The Bank of New York Mellon Trust Company, N.A. is successor 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.

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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 Supplemental Indenture, the First Mortgage Bonds, the Continuing Disclosure Agreement and the Official Statement;

(d) the Purchase Agreement;

(e) the Financing Agreement dated as of July 1, 2009 (the "Financing Agreement") between the Authority and the Company;

(f) the Continuing Disclosure Agreement dated as of July 1, 2009 (the "Continuing Disclosure Agreement") between the Company and U.S. Bank National Association, as trustee for the Authority Bonds (the "Trustee");

(g) the Official Statement relating to the Authority Bonds dated June 30, 2009 (the "Official Statement");

(h) the Securities Certificate relating to the issue and sale of the First Mortgage Bonds, 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 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 Supplemental Indenture and evidence satisfactory to us of the due recordation thereof in the Counties of Adams, Berks, Bradford, Bucks, Carbon, Chester, Columbia, Crawford, Cumberland, Delaware, Forest, Juniata, Lackawanna, Lawrence, Lehigh, Luzerne, Mercer, Monroe, Montgomery, Northampton, Northumberland, Pike, Schuylkill, Snyder, Susquehanna, 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 the Trustee at the Closing held today;

(m) the certificates of the Company and other documents delivered to the Mortgage Trustee at the Closing;

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(n) a certificate of the Company and various bringdown title searches of various title companies in the Counties of Adams, Berks, Bradford, Bucks, Carbon, Chester, Columbia, Crawford, Cumberland, Delaware, Forest, Juniata, Lackawanna, Lawrence, Lehigh, Luzerne, Mercer, Monroe, Montgomery, Northampton, Northumberland, Pike, Schuylkill, Snyder, Susquehanna, 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 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 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:

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1. The Company was organized and subsists under the laws of the Commonwealth, with the corporate power 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 each constitutes a valid and legally binding obligation of the Company 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; (i) the Original Mortgage, either separately or as an exhibit to (a) the Thirty-Fifth Supplemental Indenture dated as of January 1, 2002, (b) the Thirty-Eighth Supplemental Indenture dated as of November 15, 2004 or (c) the Forty-first Supplemental Indenture dated as of January 1, 2007, and (ii) the Forty-fourth Supplemental Indenture dated as of July 1, 2009, has been properly recorded in the Counties of Adams, Berks, Bradford, Bucks, Carbon, Chester, Columbia, Crawford, Cumberland, Delaware, Forest, Juniata, Lackawanna, Lawrence, Lehigh, Luzerne, Mercer, Monroe, Montgomery, Northampton, Northumberland, Pike, Schuylkill, Snyder, Susquehanna, 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. 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.

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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 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 and the information incorporated therein by reference) 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 First Mortgage Bond 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 maybe 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.

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(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.

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,

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**[Letterhead of Aqua Pennsylvania]**

July 16, 2009

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

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

Ballard Spahr Andrews & Ingersoll, LLP  
1735 Market Street, 51st Floor  
Philadelphia, PA 19103

Re: \$58,000,000 principal amount of Pennsylvania Economic Development Financing Authority Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project) Series A of 2009

Ladies and Gentlemen:

I am Senior Vice President-Law and Administration for Aqua Pennsylvania, Inc. (the "Company").

Pursuant to Section 11(c)(iv) of the Bond Purchase Agreement dated June 30, 2009 (the "Purchase Agreement") among the Authority, the Underwriter and the Company (a/k/a Pennsylvania Suburban Water Company, as successor by merger to Philadelphia Suburban Water Company) relating to the Authority Bonds, I have been asked to render an opinion to you regarding certain matters involving the Company. Capitalized terms used herein and not otherwise defined shall have the definitions ascribed to such terms in the Purchase Agreement.

In rendering this opinion, I have assumed the following:

(i) the genuineness of all signatures (other than the signatures of the Company on the Forty-fourth Supplemental Mortgage, as hereinafter defined);

(ii) the authenticity and completeness of all documents submitted to me as originals;

(iii) the conformity to original documents of all documents submitted to me as copies, and the authenticity of the originals of such copies;

(iv) the entity executing the Mortgage as trustee is duly organized and validly existing, in good standing under the laws of the jurisdiction of its organization, is properly qualified to do business in all jurisdictions in which the business conducted by it makes such qualification necessary and has all necessary legal and corporate power and authority to enter into and perform its obligations under the Mortgage;

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(v) the due authorization, execution and delivery of the Mortgage by or on behalf of the party thereto other than the Company;

(vi) the enforceability against each party thereto (other than the Company) of the Mortgage in accordance with its respective terms; and

(vii) that the execution, delivery and performance of the Mortgage by the entity other than the Company which is party thereto does not and will not conflict with, result in any breach of, or constitute a default under any order, writ, injunction or decree of any court or governmental authority, or any agreement, indenture or other instrument, to which any such party is a party or by which it or its properties are bound, and that all necessary approvals, consents, permits, registrations, filings or other notices to or grants of authority from any federal or local governmental body necessary for the execution, delivery and performance of the Mortgage by each party thereto (other than the Company) have been duly received or made, with all appeal periods expired and no appeals taken.

I am making each of the foregoing assumptions with your permission and with the disclaimer that we make no representation as to the accuracy of such assumptions, although I have no knowledge that any such assumption is untrue.

In my opinion:

1. With such exceptions as are not material and do not materially interfere with the conduct of the business of the Company: (a) the Company has all licenses, franchises, permits, authorizations, rights, approvals, consents and order 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; (b) 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; (c) to the best of my knowledge, except as otherwise set forth in the Official Statement, there are no legal or governmental proceedings pending or, to my knowledge, threatened that would result in a material modification, suspension or revocation thereof; and (d) the Company has the legal power to exercise the rights of eminent domain for the purposes of conducting its water utility operations.

2. The issue and sale of the Bonds; the issue and delivery of the First Mortgage Bond and the compliance by the Company with all of the applicable provisions of the First Mortgage Bond and the Mortgage; and the execution, delivery and performance by the Company of the Forty-fourth Supplemental Mortgage, the Financing Agreement, the Purchase Agreement and the Continuing Disclosure Agreement will not materially conflict with or result in a material breach of any of the terms or provisions of, or constitute a material default under, or result in the

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creation or imposition of any material 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 is 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 not already obtained is required for the issue and delivery of the First Mortgage Bond, the execution, delivery and performance of the Purchase Agreement, the Financing Agreement, the Forty-fourth Supplemental Mortgage, the First Mortgage Bond, and the Continuing Disclosure Agreement, or the consummation of the other transactions contemplated by the Purchase Agreement or the Mortgage.

3. There are no legal or governmental proceedings pending to which the Company is a party or of which any property of the Company is the subject, other than as set forth in the Official Statement and other than litigation incident to the kind of business conducted by the Company, wherein an unfavorable ruling, decision or finding is likely that would have a material adverse effect on the financial position, stockholders' equity or results of operations of the Company.

4. Each of the Indenture of Mortgage dated as of January 1, 1941 (the "Original Mortgage"), between the Company and The Philadelphia Company for Insurance on Lives and Exacting Annuities (now The Bank of New York Mellon Trust Company, N.A., as successor in interest), as trustee (the "Trustee") and the forty-four indentures supplemental thereto, including the Forty-fourth Supplemental Indenture dated as of July 1, 2009 between the Company and the Trustee (the Original Mortgage as so supplemented and amended, the "Mortgage") was duly authorized, executed and delivered by the Company and the Mortgage constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms (subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws relating to creditors' rights generally from time to time in effect, and subject, as to enforceability, to general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law).

The foregoing opinions are subject to the following qualifications:

(i) The enforceability of the Mortgage, including, without limitation, any non judicial and self-help remedies and waivers contained therein, may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws affecting the rights of creditors generally and 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), public policy and applicable law which may limit the availability of the remedies provided for therein,

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(ii) I express no opinion as to the adequacy of any notice with respect to the disposition of any collateral. I also express no opinion as to the effectiveness or enforceability of provisions relating to waivers of notice or waivers of other rights, severability, prepayment fees or penalties, choice of law, or any provisions which release or limit the Company's liability or relate to cumulative remedies or, to the extent they purport to or would have the effect of compensating the Company in amounts in excess of any actual loss suffered by the Company, provisions relating to the payment of a default rate of interest.

(iii) I express no opinion as to enforceability with respect to any provisions in the Mortgage executed by the Company 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) Requirements in the Mortgage specifying that provisions of the Mortgage 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 Mortgage.

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

(vi) 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.

(vii) The opinions herein are expressed as of the date hereof only and not as of some future date. I undertake no responsibility to advise you of any change in law or new laws, regulations or judicial decisions in the future nor do I 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 your benefit and may not be relied upon by any other person or for any other purpose.

Very truly yours,

## Certification

I, Nicholas DeBenedictis, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: August 6, 2009

/s/ Nicholas DeBenedictis

Nicholas DeBenedictis

Chairman, President and Chief Executive Officer

## Certification

I, David P. Smeltzer, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: August 6, 2009

/s/ David P. Smeltzer

David P. Smeltzer  
Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q for the period ended June 30, 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.

/s/ Nicholas DeBenedictis  
Nicholas DeBenedictis  
Chairman, President and Chief Executive Officer  
August 6, 2009

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q for the period ended June 30, 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.

/s/ David P. Smeltzer

David P. Smeltzer  
Chief Financial Officer  
August 6, 2009