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

FORM 10-K

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

For the fiscal year ended December 31, 2007

Commission File number 1-6659

AQUA AMERICA, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of
incorporation or organization)

23-1702594

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

762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania

(Address of principal executive offices)

19010-3489

(Zip Code)

Registrant's telephone number, including area code: (610) 527-8000

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

Title of each class

Common stock, par value \$.50 per share

Name of each exchange on
which registered

New York Stock Exchange, Inc.
Philadelphia Stock Exchange Inc.

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Small reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2007: \$2,966,889,639

For purposes of determining this amount only, registrant has defined affiliates as including (a) the executive officers named in Part I of this 10-K report, (b) all directors of registrant, and (c) each shareholder that has informed registrant by June 30, 2007, that it has sole or shared voting power of 5% or more of the outstanding common stock of registrant.

The number of shares outstanding of the registrant's common stock as of February 11, 2008:

133,425,687

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of registrant's 2007 Annual Report to Shareholders have been incorporated by reference into Parts I and II of this Form 10-K.

(2) Portions of the definitive Proxy Statement, relative to the May 15, 2008 annual meeting of shareholders of registrant, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, have been incorporated by reference into Part III of this Form 10-K.



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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- projected capital expenditures and related funding requirements;
- developments, trends and consolidation in the water and wastewater utility industries;
- dividend payment projections;
- opportunities for future acquisitions, the success of pending acquisitions and the impact of future acquisitions;
- the capacity of our water supplies, water facilities and wastewater facilities;
- the impact of geographic diversity on our exposure to unusual weather;
- our capability to pursue timely rate increase requests;
- our authority to carry on our business without unduly burdensome restrictions;
- our ability to obtain fair market value for condemned assets;
- the impact of fines and penalties;
- the development of new services and technologies by us or our competitors;
- the availability of qualified personnel;
- the condition of our assets;
- the impact of legal proceedings;
- general economic conditions;
- acquisition-related costs and synergies; and
- the forward-looking statements contained under the heading “Forward-Looking Statements” in the section entitled “Management’s Discussion and Analysis” from the portion of our 2007 Annual Report to Shareholders incorporated by reference herein and made a part hereof.

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

- changes in general economic, business and financial market conditions;
- changes in government regulations and policies, including environmental and public utility regulations and policies;
- changes in environmental conditions, including those that result in water use restrictions;
- abnormal weather conditions;

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- changes in, or unanticipated, capital requirements;
- changes in our credit rating or the market price of our common stock;
- our ability to integrate businesses, technologies or services which we may acquire;
- our ability to manage the expansion of our business;
- the extent to which we are able to develop and market new and improved services;
- the effect of the loss of major customers;
- our ability to retain the services of key personnel and to hire qualified personnel as we expand;
- labor disputes;
- increasing difficulties in obtaining insurance and increased cost of insurance;
- cost overruns relating to improvements or the expansion of our operations;
- increases in the costs of goods and services;
- civil disturbance or terroristic threats or acts; and
- changes in accounting pronouncements.

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

PART I

Item 1. Business

The Company

Aqua America, Inc. (referred to as “Aqua America”, “we” or “us”) is the holding company for regulated utilities providing water or wastewater services to what we estimate to be approximately 3 million people in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, New York, Florida, Indiana, Virginia, Maine, Missouri and South Carolina. Our largest operating subsidiary, Aqua Pennsylvania, Inc., accounted for approximately 52% of our operating revenues for 2007 and as of December 31, 2007, provided water or wastewater services to approximately one-half of the total number of people we serve, and is located in the suburban areas north and west of the City of Philadelphia and in 23 other counties in Pennsylvania. Our other subsidiaries provide similar services in 12 other states. In addition, we provide water and wastewater services through operating and maintenance contracts with municipal authorities and other parties, and septage hauling services, close to our utility companies’ service territories.

The following table reports our operating revenues by principal state for the Regulated segment and other for the year ended December 31, 2007:

	Operating Revenues (000's)	Operating Revenues (%)
Pennsylvania	\$ 314,342	52.2%
Texas	46,387	7.7%
Illinois	42,395	7.0%
Ohio	40,948	6.8%
North Carolina	35,442	5.9%
New Jersey	27,499	4.6%
New York	25,937	4.3%
Indiana	16,912	2.8%
Florida	16,629	2.8%
Virginia	11,818	2.0%
Maine	10,092	1.7%
Other states	1,342	0.1%
Regulated segment total	589,743	97.9%
Other	12,756	2.1%
Consolidated	\$ 602,499	100.0%

Information concerning revenues, net income, identifiable assets and related financial information of the Regulated segment and other for 2007, 2006 and 2005 is set forth in Note 18 – Segment Information in the “Notes to Consolidated Financial Statements” and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” from the portions of our 2007 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K. The information from these sections of our 2007 Annual Report to Shareholders is incorporated by reference herein.

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The following table summarizes our operating revenues, by utility customer class, for the Regulated segment and other for the year ended December 31, 2007:

	Operating Revenues (000's)	Operating Revenues (%)
Residential water	\$ 360,542	59.8%
Commercial water	85,553	14.2%
Fire protection	26,478	4.4%
Industrial water	19,548	3.2%
Other water	31,796	5.3%
Water	523,917	86.9%
Wastewater	52,891	8.8%
Other	12,935	2.2%
Regulated segment total	589,743	97.9%
Other	12,756	2.1%
Consolidated	\$ 602,499	100.0%

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

Our growth in revenues over the past five years is primarily a result of increases in our utility customer base and in water and wastewater rates. The majority of the increase in utility customer base is due to customers added through acquisitions. During the three-year period of 2000 through 2002, our utility customer base increased at an annual compound rate of 3.3%. The utility customer growth rate in 2003 was 23.8%, and reflects the additional customers obtained in the AquaSource acquisition in July 2003. In 2004, the utility customer growth rate was 11.5% and reflects the additional customers added through the Heater and Florida Water Services acquisitions. In 2006, the utility customer growth rate was 7.2%, including 44,792 customers associated with the New York Water Service Corporation acquisition which was completed on January 1, 2007. In 2007 and 2005, the utility customer growth rate was 2.6% and 3.5%, respectively. Overall, for the five-year period of 2003 through 2007, our utility customer base increased at an annual compound rate of 9.4%.

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Acquisitions and Water Sale Agreements

With approximately 53,000 community water systems in the U.S. (83% of which serve less than 3,300 customers), the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). The nation's water systems range in size from large municipally-owned systems, such as the New York City water system that serves approximately 9 million people, to small systems, where a few customers share a common well. In the states where we operate, we believe there are approximately 22,000 public water systems of widely-varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the U.S. Environmental Protection Agency's ("EPA") most recent survey of publicly-owned (government-owned) wastewater treatment facilities in 2004, there are approximately 16,600 such facilities in the nation serving approximately 75% of the U.S. population. The remaining population represents individual homeowners with their own treatment facilities; for example, community on-lot disposal systems and septic tank systems. The vast majority of wastewater facilities are government-owned rather than privately-owned. The EPA survey also indicated that there are approximately 9,800 wastewater facilities in operation or planned in the 13 states where we operate. In 2006 and 2005, we acquired six businesses providing on-site septic tank pumping and other wastewater-related services. These businesses presently serve customers in eastern Pennsylvania, New Jersey, Delaware, New York and Maryland, and accounted for \$10,216,000 of our operating revenues for the year ended December 31, 2007.

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

- the benefits of economies of scale;
- increasingly stringent environmental regulations;
- the need for substantial capital investment; and
- the need for technological and managerial expertise.

We are actively exploring opportunities to expand our utility operations through acquisitions or other growth ventures. During the five-year period ended December 31, 2007, we completed 132 acquisitions or other growth ventures.

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

Water Supplies, Water Facilities and Wastewater Facilities

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

- Pennsylvania – The principal supply of water is surface water from streams, rivers and reservoirs. Wells and interconnections with adjacent municipal authorities supplement these surface supplies. We operate 11 surface water treatment plants.

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- Ohio – Water supply is obtained for customers in Lake County from Lake Erie. Customers in Mahoning County obtain their water from man-made lakes and the Ashtabula division is supplied by purchased water obtained through an interconnection with an adjacent water utility. Water supply is obtained for customers in Stark, Williams, Richland and Summit counties from wells, complemented by an interconnect to purchase water from an adjacent municipality. In Trumbull County, customers are served from surface water sources, including an interconnection from our Pennsylvania division.
- North Carolina – Water supply in approximately 700 non-contiguous divisions is obtained principally from wells, with several divisions purchasing water from neighboring municipalities.
- Illinois – Water supply is obtained for customers in Kankakee County from the Kankakee River and satellite wells, while customers in Vermilion County are supplied from Lake Vermilion and groundwater sources. In Will, Lee, Boone, Lake and Knox counties, our customers are served from wells. In some areas, water supply is supplemented with purchased water obtained through interconnections with adjacent water utilities.
- Texas – Water supply in 295 non-contiguous water systems is obtained principally from wells, supplemented in some cases by purchased water from adjacent water systems.
- Florida – Water supply in the majority of the 70 non-contiguous divisions is obtained principally from wells, supplemented in some cases by purchased water from adjacent water systems.
- New Jersey – Water supply is obtained principally from wells and the supply is supplemented with purchased water obtained through interconnections with adjacent water systems.
- New York – Water supply for seven systems is obtained from wells.
- Indiana – Water supply in three water systems is obtained principally from wells.
- Virginia – Water supply in 103 non-contiguous divisions is obtained from wells, one division's supply is from surface water, and 11 divisions supplement their supply with purchased water from a nearby water system.
- Maine – Eleven non-contiguous water systems obtain their water supply as follows: six systems use groundwater, four systems use surface water and one system purchases water from a neighboring municipal district.

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

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

In 2006, portions of central and northern Texas experienced severe drought conditions. This necessitated the imposition of water use restrictions on approximately a dozen of our water systems in Texas, and at times required supplemental water to be trucked into a small number of systems in the Fort Worth area. In other parts of the state, dry weather increased water sales during 2006. In 2007, drought conditions subsided in Texas and all drought restrictions were lifted by the end of the year. In 2007, our operating subsidiaries in North Carolina experienced drought conditions, and resulted in the imposition of temporary water use restrictions in these areas.

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

Economic Regulation

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

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

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

Our water and wastewater operations are comprised of approximately 200 rate divisions, each of which requires a separate rate filing for the evaluation of the cost of service and recovery of investments in connection with the establishment of tariff rates for that rate division. Seven of the states in which we operate permit some form of consolidated rates in varying degrees, and two states currently permit us to fully consolidate state-wide rate filings within either our water or wastewater operations. Due to the length of time since the last rate increase for some of our systems and the large amount of capital improvements relative to the number of customers in some smaller systems, the proposed rate increase in some of these systems may be substantial. Also, as a result of the condition of some of the systems acquired and capital investments required to maintain compliance, some divisions are experiencing longer periods of regulatory lag. We can provide no assurance that the rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which we initially sought the rate increases.

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

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

Currently, Pennsylvania, Illinois, Ohio, New York, Indiana and Missouri allow for the use of infrastructure rehabilitation surcharges. These mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped at a percentage of base rates, generally at 5% to 9% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. Infrastructure rehabilitation surcharges provided revenues of \$11,507,000 in 2007, \$7,873,000 in 2006 and \$10,186,000 in 2005.

In general, we believe that Aqua America, Inc. and its subsidiaries have valid authority, free from unduly burdensome restrictions, to enable us to carry on our business as presently conducted in the franchised or contracted areas we now serve. The rights to provide water or wastewater service to a particular franchised service territory are generally non-exclusive, although the applicable regulatory commissions usually allow only one regulated utility to provide service to a given area. In some instances, another water utility provides service to a separate area within the same political subdivision served by one of our subsidiaries.

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

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

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

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The City of Fort Wayne, Indiana has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the operating subsidiaries that we acquired in connection with the AquaSource acquisition in 2003. We had challenged whether the City was following the correct legal procedures in connection with the City's attempted condemnation, but the State Supreme Court, in an opinion issued in June 2007, supported the City's position. In October 2007, the City's Board of Public Works approved proceeding with its process to condemn the northern portion of our utility system at a preliminary price based on the City's valuation. We filed an appeal with the Allen County Circuit Court challenging the Board of Public Works' valuation on several bases. In November 2007, the City Council authorized the taking of 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 stated that the final valuation of the system will be determined through a continuation of the legal proceedings that were filed challenging the City's valuation. On February 12, 2008, we turned over the system to the City upon receipt of the initial valuation proceeds. The proceeds received are in excess of the book value of the assets relinquished, and the proceeds were used to pay-down short-term debt. We continue to operate this system for the City under an operating contract for 90 days, with a possible 90 day extension. The northern portion of the system relinquished represents approximately 0.5% of Aqua America's total assets, and approximately 1% of our total customer base.

A sanitary district and a city in two of our operating divisions have also indicated interest in the acquisition, by eminent domain or otherwise, of all or a portion of the utility assets of two of our operations. Together, the systems represent approximately 3,000 customers or less than 0.5% of our total customer base. We believe that our operating subsidiaries are entitled to fair market value for these assets.

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

Environmental, Health and Safety Regulation

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

Environmental compliance issues remain at various water and wastewater facilities associated with acquired systems, including facilities acquired in connection with the AquaSource acquisition completed in 2003, the Heater and Florida Water Service acquisitions completed in 2004 and the acquisitions of small utilities in Northeastern Pennsylvania over the past several years. We believe that the capital expenditures required to address these compliance issues have been budgeted in our capital program and represent less than 10% of our expected total capital expenditures over the next five years. We are parties to agreements with regulatory agencies in Texas, Florida, Indiana, Virginia and North Carolina under which we have committed to make certain improvements for environmental compliance. These agreements are intended to provide the regulators with assurance that problems covered by these agreements will be addressed, and the agreements generally provide protection from fines, penalties and other actions while corrective measures are being implemented. We are actively working directly with state environmental officials to implement or amend these agreements as necessary.

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

The EPA's issuance of a rule regulating radon in tap water has been postponed repeatedly since originally proposed in 1991. Limits for radon in tap water, if promulgated, would probably become effective 4 or 5 years after promulgation. The most likely scenario is that the rule might contain two standards and states would be encouraged to adopt Multi-Media Mitigation radon reduction programs to achieve cost-effective reductions in indoor air radon levels to qualify for the higher drinking water standard. Under this scenario, a small percentage of our wells, primarily in North Carolina, Pennsylvania and Virginia could require treatment, and the total cost of compliance could approximate \$5,000,000 over a five year period, or less than 1% of our planned capital program over this five year period. The likelihood of other scenarios developing in the near term is remote, and it is not possible at this time to estimate the costs of compliance.

The Safe Drinking Water Act provides for the regulation of radionuclides other than radon, such as radium and uranium. The Radionuclides Rule that became effective in 2003 left unchanged the existing standards for gross alpha and radium, but changed the monitoring protocol. The rule also added a maximum contaminant level for uranium. Under the new testing protocols, some of our smaller groundwater facilities have exceeded one or more of the radionuclide standards and required treatment by January 2008. Treatment has been installed at 42 wells and 55 other wells have been replaced, modified or abandoned in 37 systems. Twelve wells remain to be treated and eight wells are to be replaced, modified or abandoned in 15 systems in four states. Most of the remaining work will be performed in 2008. In most cases where remedies are yet to be implemented, other sources supplying the systems are in compliance, and the wells that exceed a maximum contaminant level have either been temporarily taken out of service or their use has been minimized. The future capital cost of compliance is expected to approximate \$5,000,000, or approximately 2% of our planned capital program for 2008. The impact of the rulemaking is not expected to have a material impact on our results of operations or financial condition.

In order to remove or inactivate microbial organisms, rules were issued by the EPA to improve disinfection and filtration of potable water and reduce consumers' exposure to disinfectants and by-products of the disinfection process. In the future, we may be required to install filtration or other treatment, for one currently unfiltered surface water supply. The cost of this treatment is not expected to exceed \$7,000,000 and has been budgeted for 2009 and 2010. Certain small groundwater systems could be reclassified as being influenced by surface water. This may require additional treatment or the development of replacement sources of supply over time at a total cost not expected to exceed a total of \$1,000,000. In addition, two systems in Florida, one in Texas, seven in North Carolina and one in Virginia have levels of disinfection by-products above the current maximum contaminant level requiring a compliance response which possibly will change the type of treatment. Five of the systems in North Carolina and one system in Virginia purchase water from an adjacent supplier, and the resolution of the problem may depend upon supplier co-operation. Treatment modifications are underway for the two Florida systems. The total remaining capital costs to address all systems is estimated to be approximately \$500,000 over the next two years.

The EPA promulgated the Long Term 2 Enhanced Surface Water Treatment Rule and a Stage 2 Disinfection/Disinfection By-product Rule in January 2006. These rules are resulting in additional one-time special monitoring costs of approximately \$600,000 over a four-year period from 2007 to 2011. Monitoring began for our larger systems in 2006. The results of the monitoring might require modification of treatment, including capital improvements, in future years. It is not possible at this time to reasonably project the potential impact on the capital budget, if any, from these rules, but the effect is not expected to have a material impact on our results of operations or financial condition.

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A rule lowering the limit on arsenic was promulgated in 2001 by the EPA and became effective in January 2006, with a provision for further time extensions for small systems. One well system in Pennsylvania was equipped with treatment in 2004, one small system in Maine was equipped with treatment in 2005, and an existing treatment system was replaced at one system in Ohio. Treatment was installed in 2007 at one very small system in Texas, and an operating permit is expected in early 2008. One system in North Carolina will require treatment for a back-up well that is currently unused. The cost of the remaining capital improvements to fully achieve compliance with this regulation is not expected to exceed \$100,000.

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

Recent changes in wastewater regulations in the state of Missouri will require improvements at certain of the 52 small wastewater systems we operate in that state. We presently estimate the cost of these improvements to be approximately \$1,500,000 over the next three years.

Solid Waste Disposal — The handling and disposal of residuals and solid waste generated from water and wastewater treatment facilities is governed by federal and state laws and regulations. A program is in place to monitor our facilities for compliance with regulatory requirements, and we are not aware of any significant environmental remediation costs necessary from our handling and disposal of waste material from our water and wastewater operations. However, we do anticipate capital expenditures of less than \$2,000,000, that have been included within our five-year capital budget, related to the expansion and/or replacement of some of our current waste disposal facilities in Pennsylvania and Ohio, to support our large surface water treatment facilities in these states.

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

We performed studies of our dams that identified two dams in Pennsylvania and three dams in Ohio requiring capital improvements resulting from the adoption by the Department of Environmental Protection in Pennsylvania, and by the Department of Natural Resources in Ohio, of revised formulas for determining the magnitude of a probable maximum flood. Capital improvements totaling \$3,100,000 were completed in 2007 to two of the dams as required by the studies. Capital improvements remain to be performed on one dam in Pennsylvania and two dams in Ohio of approximately \$16,700,000 in the aggregate during the five year period 2008 to 2012, or approximately 1% of our planned capital program over this same five year period. We continue to study alternatives for these remaining dams which may change the cost estimates of these capital improvements.

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

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Security

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

Employee Relations

As of December 31, 2007, we employed a total of 1,585 full-time employees. Our subsidiaries are parties to 13 agreements with labor unions covering 516 employees. The agreements expire at various times between March 2008 and April 2011, except for one contract that expired in December 2007 representing 23 employees for which negotiations are continuing.

Available Information

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

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

Our Board of Directors has various committees including an audit committee, an executive compensation and employee benefits committee and a corporate governance committee. Each of these committees has a formal charter. We also have Corporate Governance Guidelines and a Code of Ethical Business Conduct. Copies of these charters, guidelines and codes, and any waivers or amendments to such codes which are applicable to our executive officers, senior financial officers or directors, can be obtained free of charge from our Web site, www.aquaamerica.com.

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In addition, you may request a copy of the foregoing filings, charters, guidelines and codes, and any waivers or amendments to such codes which are applicable to our executive officers, senior financial officers or directors, at no cost by writing or telephoning us at the following address or telephone number:

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

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

Item 1A. Risk Factors

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

The rates we charge our customers are subject to regulation. If we are unable to obtain government approval of our requests for rate increases, or if approved rate increases are untimely or inadequate to cover our capital investments and to recover expenses, our profitability may suffer.

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

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

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

Our business is capital intensive. In addition to the capital required to fund our growth through acquisition strategy, on an annual basis, we spend significant sums for additions to or replacement of property, plant and equipment. We obtain funds for our capital expenditures from operations, contributions and advances by developers and others, equity issuances and debt issuances. Our ability to maintain and meet our financial objectives is dependent upon the availability of adequate capital. In the event we are not able to obtain sufficient capital, we may need to reduce our capital expenditures. The reduction in capital expenditures may result in reduced earnings growth, affect our ability to meet environmental laws and regulations, and may limit our ability to improve or expand our utility systems to the level we believe appropriate. There is no guarantee that we will be able to obtain sufficient capital in the future on reasonable terms and conditions for expansion, construction and maintenance. In addition, delays in completing major capital projects could delay the recovery of the capital expenditures associated with such projects through rates. If the cost of borrowing increases, we might not be able to recover increases in our cost of capital through rates. The inability to recover higher borrowing costs through rates, or the regulatory lag associated with the time that it takes to begin recovery, may adversely affect our financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

- dilutive issuances of our equity securities;
- incurrence of debt and contingent liabilities;
- failure to have effective internal control over financial reporting;
- fluctuations in quarterly results;
- other acquisition-related expenses; and
- exposure to unknown or unexpected risks and liabilities.

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

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

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

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

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

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

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

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

Wastewater operations may entail significant risks.

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

Dams and reservoirs present unique risks.

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

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

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

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

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

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

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

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

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

Settlement provisions contained in the forward equity sale agreement between us and the forward purchaser subject us to certain risks.

In August 2006, we entered into a forward stock agreement for 3,525,000 shares of common stock with a third party (the “forward purchaser”). In connection with the forward equity sale agreement, the forward purchaser borrowed 3,525,000 shares of common stock from stock lenders and sold the borrowed shares to the public to meet its obligations under the forward equity sale agreement. The forward purchaser has the right to require us to physically settle the forward sale agreement on a date specified by the forward purchaser in certain events, including (a) if the average of the closing bid and offer price or, if available, the closing sale price of our common stock is less than or equal to \$10.00 per share on any trading day, (b) if our board of directors votes to approve, or there is a public announcement of, in either case, an action that, if consummated, would result in a merger or other takeover event of our company, (c) if we declare any cash dividend or distribution above a specified threshold, or any non-cash dividend or distribution (other than a dividend or distribution of shares of our common stock), in either case, on shares of our common stock and set a record date for payment for such dividend or distribution on or prior to the final settlement date, (d) if the forward purchaser is unable to continue to borrow a number of shares of our common stock equal to the number of shares underlying the forward sale agreement, (e) if the cost of borrowing the common stock has increased above a specified amount, (f) if a nationalization, delisting or change in law occurs, each as defined in the forward sale agreement or (g) in connection with certain events of default and termination events under the deemed master agreement governing such forward sale agreement. In the event that early settlement of the forward sale agreement occurs as a result of any of the foregoing events, we will be required to physically settle the forward sale agreement by delivering shares of our common stock and receiving applicable proceeds. The forward purchaser’s decision to exercise its right to require us to settle the forward sale agreement will be made irrespective of our need for capital. In the event that we elect, or are required, to settle the forward sale agreement with shares of our common stock, delivery of such shares would likely result in dilution to our earnings per share and return on equity.

In addition, upon certain events of bankruptcy, insolvency or reorganization relating to us, the forward sale agreement will terminate without further liability of either party. Following any such termination, we would not issue any shares, and we would not receive any proceeds pursuant to the forward sale agreement.

Except under the circumstances described above, we have the right to elect physical, cash or net stock settlement under the forward sale agreement. If we elect cash or net stock settlement, we would expect the forward purchaser to purchase in the open market the applicable number of shares necessary, based upon the portion of the forward sale agreement that we have elected to so settle, to return to stock lenders the shares of our common stock that the forward purchaser has borrowed in connection with the sale of our common stock under the prospectus supplement and, if applicable in connection with net stock settlement, to deliver shares to us. If the market value of our common stock at the time of these purchases is above the forward price at that time, we would pay, or deliver, as the case may be, to the forward purchaser under the forward sale agreement an amount of cash, or common stock with a value, equal to this difference. Any such difference could be significant. If the market value of our common stock at the time of these purchases is below the forward price at that time, we would be paid this difference in cash by, or we would receive the value of this difference in common stock from, the forward purchaser under the forward sale agreement, as the case may be.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

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

The following table indicates our net property, plant and equipment, in thousands of dollars, as of December 31, 2007 in the principal states where we operate:

	Net Property, Plant and Equipment	
Pennsylvania	\$ 1,555,155	55.7%
North Carolina	214,024	7.7%
Illinois	210,270	7.5%
Ohio	202,798	7.3%
Texas	172,556	6.2%
New Jersey	137,510	4.9%
Indiana	114,994	4.1%
Florida	69,964	2.5%
New York	53,247	1.9%
Virginia	52,895	1.9%
Maine	42,204	1.5%
Inter-company eliminations and other states	(32,823)	(1.2)%
	<u>\$ 2,792,794</u>	<u>100.0%</u>

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

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

Item 3. Legal Proceedings

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

In 2004, our subsidiaries in Texas filed an application with the Texas Commission on Environmental Quality to increase rates over a multi-year period. In accordance with authorization from the Texas Commission on Environmental Quality, our subsidiaries commenced billing for the requested rates and deferred recognition of certain expenses for financial statement purposes. Several parties have joined the proceeding to challenge the rate request. In the event our request is denied completely or in part, we could be required to refund some or all of the revenue billed to-date, and write-off some or all of the regulatory asset for the expense deferral. For more information, see the description under the section captioned "Management's Discussion and Analysis" and refer to Note 17 – Water and Wastewater Rates in the "Notes to Consolidated Financial Statements" from the portions of our 2007 Annual Report to Shareholders filed as Exhibit 13.1 to this 10-K.

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The City of Fort Wayne, Indiana has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the operating subsidiaries in Indiana. We had challenged whether the City was following the correct legal procedures in connection with the City's attempted condemnation, but the State Supreme Court, in an opinion issued in June 2007, supported the City's position. In October 2007, the City's Board of Public Works approved proceeding with its process to condemn the northern portion of our utility system at a preliminary price based on the City's valuation. We filed an appeal with the Allen County Circuit Court challenging the Board of Public Works' valuation on several bases. In November 2007, the City Council authorized the taking of 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 stated that the final valuation of the system will be determined through a continuation of the legal proceedings that were filed challenging the City's valuation. On February 12, 2008, we turned over the system to the City upon receipt of the initial valuation proceeds. The proceeds received are in excess of the book value of the assets relinquished, and the proceeds were used to pay-down short-term debt. We continue to operate this system for the City under an operating contract for 90 days, with a possible 90 day extension. The northern portion of the system relinquished represents approximately 0.5% of Aqua America's total assets, and approximately 1% of our total customer base.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

PART II

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

Our common stock is traded on the New York Stock Exchange and the Philadelphia Stock Exchange, under the ticker symbol WTR. As of February 11, 2008, there were approximately 28,361 holders of record of our common stock.

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2007					
Dividend paid per common share	\$ 0.115	\$ 0.115	\$ 0.125	\$ 0.125	\$ 0.4800
Dividend declared per common share	0.115	0.115	0.125	0.125	0.4800
Price range of common stock					
- high	24.03	23.50	26.62	24.39	26.62
- low	20.50	21.40	21.40	18.86	18.86
2006					
Dividend paid per common share	\$ 0.1069	\$ 0.1069	\$ 0.115	\$ 0.115	\$ 0.4438
Dividend declared per common share	0.1069	0.1069	0.230	—	0.4438
Price range of common stock					
- high	29.79	27.82	23.93	24.94	29.79
- low	26.50	20.13	21.13	21.54	20.13

We have paid common dividends consecutively for 63 years. Effective September 1, 2007, our Board of Directors authorized an increase of 8.7% in the dividend rate over the amount Aqua America, Inc. paid in the previous quarter. As a result of this authorization, beginning with the dividend payment in September 2007, the annualized dividend rate increased to \$0.50 per share. This is the 17th dividend increase in the past 16 years and the ninth consecutive year that we have increased our dividend in excess of five percent. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1 and December 1, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, our common dividends paid have averaged 60.3% of net income.

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The following table summarizes the Company's purchases of its common stock for the quarter ending December 31, 2007:

Period	Issuer Purchases of Equity Securities			Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs (2)
	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	
October 1-31, 2007	926	\$ 23.12	—	548,278
November 1-30, 2007	—	\$ —	—	548,278
December 1-31, 2007	—	\$ —	—	548,278
Total	<u>926</u>	<u>\$ 23.12</u>	<u>—</u>	<u>548,278</u>

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

Item 6. Selected Financial Data

The information appearing in the section captioned "Summary of Selected Financial Data" from the portions of our 2007 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

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

The information appearing in the section captioned "Management's Discussion and Analysis" from the portions of our 2007 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed-rate, long-term debt. Such exposure is typically related to financings between utility rate increases, since generally our rate increases include a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2007, the debt maturities by period, in thousands of dollars, and the weighted average interest rate for long-term debt are as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value</u>
Long-term debt:								
Fixed rate	\$23,927	\$ 7,057	\$54,278	\$27,083	\$ 38,611	\$1,023,024	\$1,173,980	\$1,164,857
Variable rate	—	—	—	—	65,000	—	65,000	65,910
Total	<u>\$23,927</u>	<u>\$ 7,057</u>	<u>\$54,278</u>	<u>\$27,083</u>	<u>\$103,611</u>	<u>\$1,023,024</u>	<u>\$1,238,980</u>	<u>\$1,230,767</u>
Weighted average interest rate	6.51%	4.39%	6.37%	6.30%	5.27%	5.12%	5.58%	

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for the “available-for-sale” marketable equity securities. As of December 31, 2006, our carrying value of certain investments, in thousands of dollars, was \$499, which reflects the market value of such investments and is in excess of our original cost. During 2007, we sold these investments and as of December 31, 2007 the balance of our marketable equity securities is judged to be de minimis.

Item 8. Financial Statements and Supplementary Data

Information appearing under the captions “Consolidated Statements of Income and Comprehensive Income,” “Consolidated Balance Sheets,” “Consolidated Statements of Cash Flows,” “Consolidated Statements of Capitalization,” “Consolidated Statements of Common Stockholders’ Equity” and “Notes to Consolidated Financial Statements” from the portions of our 2007 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein. Also, the information appearing in the sections captioned “Management’s Report on Internal Control Over Financial Reporting” and “Report of Independent Registered Public Accounting Firm” from the portions of our 2007 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

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

None.

Item 9A. Controls and Procedures

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

(b) Management’s Report on Internal Control Over Financial Reporting – The information appearing in the section captioned “Management’s Report on Internal Control Over Financial Reporting” from the portions of our 2007 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

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

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

We make available free of charge within the “Investor Relations / Corporate Governance” section of our Internet Web site, at www.aquaamerica.com, and in print to any shareholder who requests, our Corporate Governance Guidelines, the Charters of each Committee of our Board of Directors, and our Code of Ethical Business Conduct. Requests for copies may be directed to Investor Relations Department, Aqua America, Inc., 762 W. Lancaster Avenue, Bryn Mawr, PA 19010-3489. Amendments to the Code, and any grant of a waiver from a provision of the Code requiring disclosure under applicable SEC rules will be disclosed on our Web site. The reference to our Web site is intended to be an inactive textual reference only, and the contents of such Web site are not incorporated by reference herein and should not be considered part of this or any other report that we file with or furnish to the SEC.

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

The information appearing in the sections captioned “Information Regarding Nominees and Directors,” “Corporate Governance – Code of Ethics, – Board Committees, and – Audit Committee” and “Section 16(a) Beneficial Ownership Reporting Compliance” of the definitive Proxy Statement relating to our May 15, 2008, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

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Our Executive Officers

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

<u>Name</u>	<u>Age</u>	<u>Position with Aqua America, Inc. (1)</u>
Nicholas DeBenedictis	62	Chairman, President and Chief Executive Officer (May 1993 to present); President and Chief Executive Officer (July 1992 to May 1993); Chairman and Chief Executive Officer, Aqua Pennsylvania, Inc. (July 1992 to present); President, Philadelphia Suburban Water Company (February 1995 to January 1999) (2)
Roy H. Stahl	55	Chief Administrative Officer and General Counsel (February 2007 to present); Executive Vice President and General Counsel (May 2000 to February 2007); Secretary (June 2001 to present); Senior Vice President and General Counsel (April 1991 to May 2000) (3)
David P. Smeltzer	49	Chief Financial Officer (February 2007 to present); Senior Vice President — Finance and Chief Financial Officer (December 1999 to February 2007); Vice President - Finance and Chief Financial Officer (May 1999 to December 1999); Vice President – Rates and Regulatory Relations, Philadelphia Suburban Water Company (March 1991 to May 1999) (4)
Christopher H. Franklin	43	Regional President, Aqua America – Southern Operations and Senior Vice President, Public Affairs and Customer Operations (January 2007 to present); Vice President, Public Affairs and Customer Operations (July 2002 to January 2007) (5)
Karl M. Kyriss	57	President, Aqua Mid-Atlantic Operations (February 2007 to present); President — Aqua Pennsylvania (March 2003 to present) and President, Mid-Atlantic Operations (May 2005 to February 2007) (6)
Robert G. Liptak, Jr.	60	President, Northern Operations (March 1999 to present); (7)
Mark J. Kropilak	51	Senior Vice President – Corporate Development (April 2007 to present); Corporate Counsel (October 2002 to present) and Vice President, Corporate Development (July 2002 to April 2007) (8)
Richard R. Riegler	61	Vice President — Engineering and Environmental Affairs (May 2006 to present); Senior Vice President - Engineering and Environmental Affairs (January 1999 to May 2006) (9)
Robert A. Rubin	45	Vice President, Controller and Chief Accounting Officer (May 2005 to present); Controller and Chief Accounting Officer (March 2004 to May 2005); Controller (March 1999 to March 2004) (10)

- (1) In addition to the capacities indicated, the individuals named in the above table hold other offices or directorships with subsidiaries of the Company. Officers serve at the discretion of the Board of Directors.
- (2) Mr. DeBenedictis was Secretary of the Pennsylvania Department of Environmental Resources from 1983 to 1986. From December 1986 to April 1989, he was President of the Greater Philadelphia Chamber of Commerce. Mr. DeBenedictis was Senior Vice President for Corporate and Public Affairs of Philadelphia Electric Company from April 1989 to June 1992.

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- (3) From January 1984 to August 1985, Mr. Stahl was Corporate Counsel, from August 1985 to May 1988 he was Vice President — Administration and Corporate Counsel of Aqua America, Inc., and from May 1988 to April 1991 he was Vice President and General Counsel of Aqua America, Inc..
- (4) Mr. Smeltzer was Vice President — Controller of Philadelphia Suburban Water Company from March, 1986 to March 1991.
- (5) Mr. Franklin was Director of Public Affairs from January 1993 to February 1997.
- (6) Mr. Kyriss was Vice President — Northeast Region of American Water Works Services Company from 1997 to 2003.
- (7) Mr. Liptak was President of Consumers Pennsylvania Water Company from 1980 to March 1999.
- (8) Mr. Kropilak was Assistant Corporate Counsel from April 1985 to January 1990. He then served from January 1990 to February 1996 as Corporate Counsel. Mr. Kropilak was Vice President and General Counsel from February 1996 to October 2002.
- (9) Mr. Riegler was Senior Vice President – Operations, Philadelphia Suburban Water Company (April 1989 to January 1999), and from 1982 to 1984 he was Chief Engineer of Philadelphia Suburban Water Company. He then served as Vice President and Chief Engineer from 1984 to 1986 and Vice President of Operations from 1986 to 1989.
- (10) Mr. Rubin was Accounting Manager with Aqua America, Inc. from June 1989 to June 1994. He then served from June 1994 to March 1999 as Assistant Controller of Philadelphia Suburban Water Company.

Item 11. Executive Compensation

The information appearing in the sections captioned “Executive Compensation” and “Director Compensation” of the definitive Proxy Statement relating to our May 15, 2008, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

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

Ownership of Common Stock — The information appearing in the section captioned “Ownership of Common Stock” of the Proxy Statement relating to our May 15, 2008, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

Securities Authorized for Issuance under Equity Compensation Plans — The following table provides information for our equity compensation plans as of December 31, 2007:

Equity Compensation Plan Information

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u> (a)	<u>Weighted-average exercise price of outstanding options, warrants and rights</u> (b)	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u> (c)
Equity compensation plans approved by security holders	3,271,788	\$ 18.36	2,979,855
Equity compensation plans not approved by security holders	0	0	0
Total	3,271,788	\$ 18.36	2,979,855

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

The information appearing in the sections captioned “Corporate Governance – Director Independence” and “ – Policies and Procedures of Related Person Transactions” of the definitive Proxy Statement relating to our May 15, 2008, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

Item 14. Principal Accountant Fees and Services

The information appearing in the section captioned “Proposal No. 2 – Services and Fees” of the definitive Proxy Statement relating to our May 15, 2008, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

Management’s Report on Internal Control Over Financial Reporting
Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets — December 31, 2007 and 2006
Consolidated Statements of Income and Comprehensive Income — 2007, 2006 and 2005
Consolidated Statements of Cash Flows — 2007, 2006 and 2005
Consolidated Statements of Capitalization — December 31, 2007 and 2006
Consolidated Statements of Common Stockholders’ Equity – December 31, 2007, 2006 and 2005
Notes to Consolidated Financial Statements

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

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

SIGNATURES

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

AQUA AMERICA, INC.

By NICHOLAS DEBENEDICTIS
Nicholas DeBenedictis
Chairman, President and Chief Executive Officer

Date: February 26, 2008

POWER OF ATTORNEY

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

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

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NICHOLAS DEBENEDICTIS

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

ROBERT A. RUBIN

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

RICHARD H. GLANTON

Richard H. Glanton
Director

WILLIAM P. HANKOWSKY

William P. Hankowsky
Director

ELLEN T. RUFF

Ellen T. Ruff
Director

ANDREW J. SORDONI III

Andrew J. Sordoni III
Director

DAVID P. SMELTZER

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

MARY C. CARROLL

Mary C. Carroll
Director

LON R. GREENBERG

Lon R. Greenberg
Director

DR. CONSTANTINE PAPADAKIS

Dr. Constantine Papadakis
Director

RICHARD L. SMOOT

Richard L. Smoot
Director

EXHIBIT INDEX

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

EXHIBIT INDEX

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

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
4.36	Forty-second Supplemental Indenture, dated as of December 1, 2007.
10.1	Excess Benefit Plan for Salaried Employees, effective December 1, 1989* (4) (Exhibit 10.4)
10.2	Supplemental Executive Retirement Plan, effective December 1, 1989* (4) (Exhibit 10.5)
10.3	Supplemental Executive Retirement Plan, effective March 15, 1992* (1) (Exhibit 10.6)
10.4	Employment letter agreement with Mr. Nicholas DeBenedictis, dated May 20, 1992* (1) (Exhibit 10.8)
10.5	1994 Equity Compensation Plan, as amended by Amendment effective August 5, 2003* (22) (Exhibit 10.5)
10.6	Placement Agency Agreement between Philadelphia Suburban Water Company and PaineWebber Incorporated dated as of March 30, 1995 (7) (Exhibit 10.12)
10.7	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and Legg Mason Wood Walker, Incorporated dated August 24, 1995 (8) (Exhibit 10.13)
10.8	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of August 15, 1995 (8) (Exhibit 10.14)
10.9	Philadelphia Suburban Corporation Amended and Restated Executive Deferral Plan* (22) (Exhibit 10.9)
10.10	Philadelphia Suburban Corporation Deferred Compensation Plan Master Trust Agreement with PNC Bank, National Association, dated as of December 31, 1996* (9) (Exhibit 10.24)
10.11	First Amendment to Supplemental Executive Retirement Plan* (9) (Exhibit 10.25)
10.12	Placement Agency Agreement between Philadelphia Suburban Water Company and A.G. Edwards and Sons, Inc., Janney Montgomery Scott Inc., HSBC Securities, Inc., and PaineWebber Incorporated (10) (Exhibit 10.26)
10.13	The Director Deferral Plan* (22) (Exhibit 10.13)
10.14	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and Commerce Capital Markets dated September 29, 1999 (12) (Exhibit 10.37)
10.15	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of October 1, 1999 (12) (Exhibit 10.38)
10.16	Placement Agency Agreement between Philadelphia Suburban Water Company and Merrill Lynch & Co., PaineWebber Incorporated, A.G. Edwards & Sons, Inc., First Union Securities, Inc., PNC Capital Markets, Inc. and Janney Montgomery Scott, Inc., dated as of November 15, 1999 (13) (Exhibit 10.41)
10.17	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and The GMS Group, L.L.C., dated October 23, 2001 (15) (Exhibit 10.35)

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
10.18	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of October 15, 2001 (15) (Exhibit 10.36)
10.19	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Nicholas DeBenedictis, dated August 7, 2001* (15) (Exhibit 10.37)
10.20	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Roy H. Stahl, dated August 7, 2001* (15) (Exhibit 10.38)
10.21	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Richard R. Riegler, dated August 7, 2001* (15) (Exhibit 10.39)
10.22	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and David P. Smeltzer, dated August 7, 2001* (15) (Exhibit 10.40)
10.23	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Richard D. Hugus, dated August 7, 2001* (22) (Exhibit 10.23)
10.24	Agreement among Aqua America, Inc. and Karl M. Kyriss* (30) (Exhibit 10.1)
10.25	Bond Purchase Agreement among the Bucks County Industrial Development Authority, Pennsylvania Suburban Water Company and Janney Montgomery Scott LLC, dated May 21, 2002 (17) (Exhibit 10.42)
10.26	Construction and Financing Agreement between the Bucks County Industrial Development Authority and Pennsylvania Suburban Water Company dated as of June 1, 2002 (17) (Exhibit 10.43)
10.27	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Pennsylvania Suburban Water Company, and The GMS Group, L.L.C., dated December 19, 2002 (18) (Exhibit 10.44)
10.28	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Pennsylvania Suburban Water Company dated as of December 15, 2002 (18) (Exhibit 10.45)
10.29	Aqua America, Inc. 2004 Equity Compensation Plan as amended by Amendment effective February 22, 2007* (26) (Exhibit 10.29)
10.30	2007 Annual Cash Incentive Compensation Plan* (26) (Exhibit 10.24)
10.31	Bond Purchase Agreement among the Northumberland County Industrial Development Authority, Aqua Pennsylvania, Inc., and Sovereign Securities Corporation, LLC, dated November 16, 2004. (25) (Exhibit 10.31)
10.32	Aqua America, Inc. 2004 Equity Compensation Plan* (23)
10.33	2005 Executive Deferral Plan* (25) (Exhibit 10.33)
10.34	Bond Purchase Agreement among the Montgomery County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 12, 2007.
10.35	2008 Annual Cash Incentive Compensation Plan*
10.36	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated May 10, 2005. (24) (Exhibit 10.36)
10.37	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 21, 2005. (16) (Exhibit 10.37)

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
10.38	Aqua America, Inc. Dividend Reinvestment and Direct Stock Purchase Plan* (29)
10.39	Aqua America, Inc. Amended and Restated Employee Stock Purchase Plan* (16) (Exhibit 10.39)
10.40	Form of Stock Option Agreement* (16) (Exhibit 10.40)
10.41	Acceleration of Payout of 2004 and 2005 Dividend Equivalent Awards; Grants of 2006 Dividend Equivalent Awards; Performance Criteria for Acceleration of Payout of Dividend Equivalent Awards* (28) (Exhibit 10.2)
10.42	Vesting of Restricted Stock Granted in 2005; Grants of Restricted Stock* (28) (Exhibit 10.3)
10.43	Non-Employee Directors' Compensation for 2008*
10.44	Non-Employee Directors' Compensation for 2007* (26) (Exhibit 10.44)
10.45	Bond Purchase Agreement among the Chester County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 21, 2006. (30) (Exhibit 10.2)
10.46	Agreement among Aqua America, Inc. and Mark J. Kropilak*
13.1	Selected portions of Annual Report to Shareholders for the year ended December 31, 2007 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 2007.
21.1	Subsidiaries of Aqua America, Inc.
23.1	Consent of Independent Registered Public Accounting Firm - PricewaterhouseCoopers LLP
24.1	Power of Attorney (included on signature page)
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350

Notes -
Documents Incorporated by Reference

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

BYLAWS
OF
AQUA AMERICA, INC.
(a Pennsylvania Corporation)

ARTICLE I

Offices and Fiscal Year

Section 1.01. Registered Office. The registered office of the corporation in the Commonwealth of Pennsylvania, which is in Montgomery County, shall be at 762 Lancaster Avenue, Bryn Mawr, Pennsylvania 19010 until otherwise established by an amendment of the articles of incorporation (the “articles”) or by the board of directors, and a statement of such change is filed with the Department of State in the manner provided by law.

Section 1.02. Other Offices. The corporation may also have offices at such other places within or without the Commonwealth of Pennsylvania as the board of directors may from time to time appoint or the business of the corporation may require.

Section 1.03. Fiscal Year. The fiscal year of the corporation shall begin on the first day of January in each year.

ARTICLE II

Notice — Waivers — Meetings Generally

Section 2.01. Manner of Giving Notice.

(a) General rule. Whenever written notice is required to be given to any person under the provisions of the Business Corporation Law or by the articles or these bylaws, it may be given to the person either personally or by sending a copy thereof by first class mail or express mail, postage prepaid, or by telegram (with messenger service specified), telex or TWX (with answerback received) or courier service, charges prepaid, by internet or other means of electronic transmission consented to by the person whom the notice is given or by facsimile transmission, to the address (or to the telex, TWX or facsimile number) of the person appearing on the books of the corporation or, in the case of directors, supplied by the director to the corporation for the purpose of notice. If the notice is sent by mail, telegraph or courier service, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or with a telegraph office or courier service for delivery to that person or, in the case of telex or TWX, or internet or other means of electronic transmission, when dispatched or, in the case of facsimile transmission, when received. A notice of a meeting shall specify the place, day and hour of the meeting and any other information required by any other provision of the Business Corporation Law, the articles or these bylaws.

(b) Bulk mail. If the corporation has more than 30 shareholders, notice of any regular or special meeting of the shareholders, or any other notice required by the Business Corporation Law or by the articles or these bylaws to be given to all shareholders or to all holders of a class or series of shares, deposited in the United States mail at least 20 days prior to the day named for the meeting or any corporate or shareholder action specified in the notice.

(c) Adjourned shareholder meetings. When a meeting of shareholders is adjourned, it shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted at an adjourned meeting, other than by announcement at the meeting at which the adjournment is taken, unless the board fixes a new record date for the adjourned meeting in which event notice shall be given in accordance with Section 2.03.

Section 2.02. Notice of Meetings of Board of Directors. Notice of a regular meeting of the board of directors need not be given. Notice of every special meeting of the board of directors shall be given to each director by telephone or in writing or with the prior consent of the director by internet or other means of electronic transmission at least 24 hours (in the case of notice by telephone, telex, TWX, internet or other means of electronic transmission or facsimile transmission) or 48 hours (in the case of notice by telegraph, courier service or express mail) or five days (in the case of notice by first class mail) before the time at which the meeting is to be held. Every such notice shall state the time and place of the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board need be specified in a notice of the meeting.

Section 2.03. Notice of Meetings of Shareholders.

(a) General rule. Written notice of every meeting of the shareholders shall be given by, or at the direction of, the secretary or other authorized person to each shareholder of record entitled to vote at the meeting, at least 20 days prior to the day named for the meeting. If the secretary neglects or refuses to give notice of a meeting, the person or persons calling the meeting may do so. In the case of a special meeting of shareholders, the notice shall specify the general nature of the business to be transacted.

(b) Notice of action by shareholders on bylaws. In the case of a meeting of shareholders that has as one of its purposes action on the bylaws, written notice shall be given to each shareholder that the purpose, or one of the purposes, of the meeting is to consider the adoption, amendment or repeal of the bylaws. There shall be included in, or enclosed with, the notice of a copy of the proposed amendment or a summary of the changes to be effected thereby.

(c) Notice of action by shareholders on fundamental change. In the case of a meeting of the shareholders that has as one of its purposes action with respect to any fundamental change under 15 Pa.C.S. Chapter 19, each shareholder shall be given, together with written notice of the meeting, a copy or summary of the amendment or plan to be considered at the meeting in compliance with the provisions of Chapter 19.

(d) Notice of action by shareholders giving rise to dissenters' rights. In the case of a meeting of the shareholders that has as one of its purposes action that would give rise to dissenters' rights under the provisions of 15 Pa.C.S. Subchapter 15D, each shareholder shall be given, together with written notice of the meeting:

(1) a statement that the shareholders have a right to dissent and obtain payment of the fair value of their shares by complying with the provisions of Subchapter 15D (relating to dissenters rights); and

(2) a copy of Subchapter 15D.

Section 2.04. Waiver of Notice.

(a) Written waiver. Whenever any written notice is required to be given under the provisions of the Business Corporation Law, the articles or these bylaws, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at, nor the purpose of, the meeting need be specified in the waiver of notice of such meeting.

(b) Waiver by attendance. Attendance of a person at any meeting shall constitute a waiver of notice of the meeting, except where a person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting was not lawfully called or convened.

Section 2.05. Modification of Proposal Contained in Notice. Whenever the language of a proposed resolution is included in a written notice of a meeting required to be given under the provisions of the Business Corporation Law or the articles or these bylaws, the meeting considering the resolution may without further notice adopt it with such clarifying language or other amendments as do not enlarge its original meaning.

Section 2.06. Exception to Requirement of Notice.

(a) General rule. Whenever any notice or communication is required to be given to any person under the provisions of the Business Corporation Law or by the articles or these bylaws or by the terms of any agreement or other instrument or as a condition precedent to taking any corporate action and communication with that person is then unlawful, the giving of the notice or communication to that person shall not be required.

(b) Shareholders without forwarding addresses. Notice or other communications shall not be sent to any shareholder with whom the corporation has been unable to communicate for more than 24 consecutive months because communications to the shareholder are returned unclaimed or the shareholder has otherwise failed to provide the corporation with a current address. Whenever the shareholder provides the corporation with a current address, the corporation shall commence sending notices and other communications to the shareholder in the same manner as to other shareholders.

Section 2.07. Use of Conference Telephone and Similar Equipment. Any director may participate in any meeting of the board of directors, and the board of directors may provide by resolution with respect to a specific meeting or with respect to a class of meetings that one or more persons may participate in a meeting of the shareholders of the corporation by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this section shall constitute presence in person at such meeting.

ARTICLE III

Shareholders

Section 3.01. Place of Meeting. All meetings of the shareholders of the corporation shall be held at the registered office of the corporation unless another place is designated by the board of directors in the notice of such meeting.

Section 3.02. Annual Meeting. The board of directors may fix the date and time of the annual meeting of the shareholders, but if no such date and time is fixed by the board the meeting for any calendar year shall be held on the Second Thursday of May in such year, if not a legal holiday under the laws of Pennsylvania, and, if a legal holiday, then on the next succeeding business day, not a Saturday, at 10:00 o'clock A.M., and at said meeting the shareholders entitled to vote shall elect directors and shall transact such other business as may properly be brought before the meeting. If the annual meeting shall not have been called and held within six months after the designated time, any shareholder may call such meeting at any time thereafter.

Section 3.03. Special Meetings. Special meetings of the shareholders may be called at any time by the chairman, the president, or shareholders entitled to cast a majority of the votes which all shareholders are entitled to cast at the particular meeting, or by resolution of the board of directors. Any authorized person who has called a special meeting may fix the date, time and place of the meeting. If the person who has called the meeting does not fix the date, time or place of the meeting, it shall be the duty of the secretary to do so. A date fixed by the secretary shall not be more than 60 days after receipt of the request.

Section 3.04. Quorum and Adjournment.

(a) General rule. A meeting of shareholders of the corporation duly called shall not be organized for the transaction of business unless a quorum is present. The presence of shareholders entitled to cast a majority of the votes which all shareholders are entitled to cast on the particular matter to be acted upon at the meeting shall constitute a quorum for the purposes of consideration and action on the matter. Shares of the corporation owned, directly or indirectly, by it and controlled, directly or indirectly, by the board of directors of this corporation, as such, shall not be counted in determining the total number of outstanding shares for quorum purposes at any given time.

(b) Withdrawal of a quorum. The shareholders present at a duly organized meeting can continue to do business until adjournment, notwithstanding withdrawal of enough shareholders to leave less than a quorum.

(c) Adjournments generally. Any regular or special meeting of the shareholders, including one at which directors are to be elected and one which cannot be organized because a quorum has not attended, may be adjourned for such period and to such place as the shareholders present and entitled to vote shall direct. At any such adjourned meeting at which a quorum may be present such business may be transacted as might have been transacted at the meeting as originally called. No notice of any adjourned meeting of the shareholders of the corporation shall be required to be given except by announcement at the meeting at which the adjournment took place. In case of any meeting called for the election of directors, those who attend the second of such adjourned meetings, although less than a quorum, shall nevertheless constitute a quorum for the purpose of electing directors. Any meeting at which directors are to be elected shall be adjourned only from day to day, or for such longer periods not exceeding 15 days each, as may be directed by shareholders who are present in person or by proxy and who are entitled to cast at least a majority of the votes which all such shareholders would be entitled to cast at an election of directors, until such directors are elected.

Section 3.05. Action by Shareholders. Except as otherwise provided in the Business Corporation Law or the articles or these bylaws, the acts, at a duly organized meeting, of the shareholders present, in person or by proxy, entitled to cast at least a majority of the votes which all shareholders present in person or by proxy are entitled to cast shall be the acts of the shareholders.

Section 3.06. Organization. At every meeting of the shareholders, the chairman of the board, if there be one, or in the case of vacancy in office or absence of the chairman of the board, one of the following officers present in the order stated: the vice chairman of the board, if there be one, the president, the vice presidents in their order of rank and seniority, or a person chosen by vote of the shareholders present shall act as chairman of the meeting. The secretary, or, in the absence of the secretary, an assistant secretary, or in the absence of both the secretary and assistant secretaries, a person appointed by the chairman of the meeting, shall act as secretary of the meeting.

Section 3.07. Voting Rights of Shareholders. Unless otherwise provided in the articles, every shareholder of the corporation shall be entitled to one vote for every share standing in the name of the shareholder on the books of the corporation.

Section 3.08. Voting and Other Action by Proxy.

(a) General rule.

(1) Every shareholder entitled to vote at a meeting of shareholders may authorize another person to act for the shareholder by proxy.

(2) The presence of, or vote or other action at a meeting of shareholders by a proxy of a shareholder shall constitute the presence of, or vote or other action by the shareholder.

(3) When two or more proxies of a shareholder are present, the corporation shall, unless otherwise expressly provided in the proxy, accept as the vote of all shares represented thereby the vote cast by a majority of them and, if a majority of the proxies cannot agree whether the shares represented shall be voted or upon the manner of voting the shares, the voting of the shares shall be divided equally among those persons.

(b) Minimum requirements. Every proxy shall be executed in writing by the shareholder or by the duly authorized attorney-in-fact of the shareholder and filed with the secretary of the corporation. A telegram, telex, cablegram, datagram or similar transmission from a shareholder or attorney-in-fact, or a photographic, facsimile or similar reproduction of a writing executed by a shareholder or attorney-in-fact, or other proxy transmitted as permitted by law, including without limitation, by internet, interactive voice response system or other means of electronic transmission executed by a shareholder or attorney-in-fact:

(1) may be treated as properly executed for purposes of this subsection; and

(2) shall be so treated if it sets forth a confidential and unique identification number or other mark furnished by the corporation to the shareholder for the purposes of a particular meeting or transaction.

(c) Revocation. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until written notice thereof has been given to the secretary of the corporation. An unrevoked proxy shall not be valid after three years from the date of its execution, unless a longer time is expressly provided therein. A proxy shall not be revoked by the death or incapacity of the maker unless, before the vote is counted or the authority is exercised, written notice of the death or incapacity is given to the secretary of the corporation.

(d) Expenses. The corporation shall pay the reasonable expenses of solicitation of votes, proxies or consents of shareholders by or on behalf of the board of directors or its nominees for election to the board, including solicitation by professional proxy solicitors and otherwise.

Section 3.09. Voting by Fiduciaries and Pledges. Shares of the corporation standing in the name of a trustee or other fiduciary and shares held by an assignee for the benefit of creditors or by a receiver may be voted by the trustee, fiduciary, assignee or receiver. A shareholder whose shares are pledged shall be entitled to vote the shares until the shares have been transferred into the name of the pledgee, or a nominee of the pledgee, but nothing in this section shall affect the validity of a proxy given to a pledgee or nominee.

Section 3.10. Voting by Joint Holders of Shares.

(a) General rule. Where shares of the corporation are held jointly or as tenants in common by two or more persons, as fiduciaries or otherwise:

(1) if only one or more of such persons is present in person or by proxy, all of the shares standing in the names of such persons shall be deemed to be represented for the purpose of determining a quorum and the corporation shall accept as the vote of all the shares the vote cast by a joint owner or a majority of them; and

(2) if the persons are equally divided upon whether the shares held by them shall be voted or upon the manner of voting the shares, the voting of the shares shall be divided equally among the persons without prejudice to the rights of the joint owners or the beneficial owners thereof among themselves.

(b) Exception. If there has been filed with the secretary of the corporation a copy, certified by an attorney at law to be correct, of the relevant portions of the agreement under which the shares are held or the instrument by which the trust or estate was created or the order of court appointing them or of an order of court directing the voting of the shares, the persons specified as having such voting power in the document latest in date of operative effect so filed, and only those persons, shall be entitled to vote the shares but only in accordance therewith.

Section 3.11. Voting by Corporations.

(a) Voting by corporate shareholders. Any corporation that is a shareholder of this corporation may vote at the meetings of shareholders of this corporation by any of its officers or agents, or by proxy appointed by any officer or agent, unless some other person, by resolution of the board of directors of the other corporation or a provision of its articles or bylaws, a copy of which resolution or provision certified to be correct by one of its officers has been filed with the secretary of this corporation, is appointed its general or special proxy in which case that person shall be entitled to vote the shares.

(b) Controlled shares. Shares of the corporation owned, directly or indirectly, by it and controlled, directly or indirectly, by the board of directors of this corporation, as such, shall not be voted at any meeting and shall not be counted in determining the total number of outstanding shares for voting purposes at any given time.

Section 3.12. Determination of Shareholders of Record.

(a) Fixing record date. The board of directors may fix a time prior to the date of any meeting of shareholders as a record date for the determination of the shareholders entitled to notice of, or to vote at, any such meeting, which time, except in the case of an adjourned meeting, shall be not more than 90 days prior to the date of the meeting of shareholders. Only shareholders of record on the date so fixed shall be so entitled notwithstanding any transfer of any shares on the books of the corporation after any such record date fixed as provided in this subsection. The board of directors may similarly fix a record date for the determination of shareholders of record for any other purpose. When a determination of shareholders of record has been made as provided in this section for purposes of a meeting, the determination shall apply to any adjournment thereof unless the board fixes a new record date for the adjourned meeting.

(b) Determination when a record date is not fixed. If a record date is not fixed:

(1) The record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the day on which notice is given.

(2) The record date for determining shareholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

(c) Certification by nominee. The board of directors may adopt a procedure whereby a shareholder of the corporation may certify in writing to the corporation that all or a portion of the shares registered in the name of the shareholder are held for the account of a specified person or persons. Upon receipt by the corporation of a certification complying with the procedure, the persons specified in the certification shall be deemed, for the purposes set forth in the certification, to be the holders of record of the number of shares specified in the place of the shareholder making the certification.

Section 3.13. Voting Lists.

(a) General rule. The officer or agent having charge of the transfer books for shares of the corporation shall make a complete list of the shareholders entitled to vote at any meeting of shareholders, arranged in alphabetical order, with the address of and the number of shares held by each. The list shall be produced and kept open at the time and place of the meeting, and shall be subject to the inspection of any shareholder during the whole time of the meeting for the purposes thereof except that, if the corporation has 5,000 or more shareholders, in lieu of the making of the list of the corporation may make the information therein available at the meeting by any other means.

(b) Effect of list. Failure to comply with the requirements of this section shall not affect the validity of any action taken at a meeting prior to a demand at the meeting by any shareholder entitled to vote thereat to examine the list. The original transfer book, or a duplicate thereof kept in Pennsylvania, shall be prima facie evidence as to who are the shareholders entitled to examine the list or transfer records or to vote at any meeting of shareholders.

Section 3.14. Judges of Election.

(a) Appointment. In advance of any meeting of shareholders of the corporation, the board of directors may appoint judges of election, who need not be shareholders, to act at such meeting or any adjournment thereof. If judges of election are not so appointed, the presiding officer of any such meeting may, and upon the demand of any shareholder shall, appoint judges of election at the meeting. The number of judges shall be either one or three, as determined, in the case of judges appointed upon demand of a shareholder, by shareholders present entitled to cast a majority of the votes which all shareholders present are entitled to cast thereon. No person who is a candidate for office to be filled at the meeting shall act as a judge.

(b) Vacancies. In case any person appointed as judge fails to appear or fails or refuses to act, the vacancy may be filled by appointment made by the board of directors in advance of the convening of the meeting, or at the meeting by the presiding officer thereof.

(c) Duties. The judges of election shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the authenticity, validity and effect of proxies, receive votes or ballots, hear and determine all challenges and questions in any way arising in connection with the nominations by shareholders or the right to vote, count and tabulate all votes, determine the result, and do such acts as may be proper to conduct the election or vote with fairness to all shareholders. The judges of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical. If there are three judges of election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all.

(d) Report. On request of the presiding officer of the meeting, the judges shall make a report in writing of any challenge or question or matter determined by them, and execute a certificate of any fact found by them. Any report or certificate made by them shall be prima facie evidence of the facts stated therein.

Section 3.15. Consent of Shareholders in Lieu of Meeting. Any action required or permitted to be taken at a meeting of the shareholders or of a class of shareholders of the corporation may be taken without a meeting only upon the unanimous written consent of all the shareholders who would be entitled to vote thereon at a meeting of the shareholders called to consider the matter.

Section 3.16. Minors as Security Holders. The corporation may treat a minor who holds shares or obligations of the corporation as having capacity to receive and to empower others to receive dividends, interest, principal and other payments or distributions, to vote or express consent or dissent and to make elections and exercise rights relating to such shares or obligations unless, in the case of payments or distributions on shares, the corporate officer responsible for maintaining the list of shareholders or the transfer agent of the corporation or, in the case of payments or distributions on obligations, the treasurer or paying officer or agent has received written notice that the holder is a minor.

Section 3.17. Business to be Transacted at Shareholder Meetings. No business may be transacted at an annual meeting of shareholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors (or any duly authorized committee thereof), (b) otherwise properly brought before the annual meeting by or at the direction of the board of directors (or any duly authorized committee thereof) or (c) otherwise properly brought before the annual meeting by any shareholder of the corporation (i) who is a shareholder of record on the date of the giving of notice provided for in Section 3.17 and on the record date for the determination of shareholders entitled to vote at such annual meeting and (ii) who complies with the notice procedures set forth in this Section 3.17. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, such shareholder must have given timely notice thereof in proper written form to the secretary of the corporation.

To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not less than 90 days nor more than 120 days prior to the anniversary date of the immediately preceding annual meeting of shareholders; provided, however, that in the event that the annual meeting is called for a date that is not within 30 days before or after such anniversary date, notice by the shareholder, in order to be timely, must be so received not later than the close of business on the tenth day following the day on which such notice of the date of the annual meeting was first mailed.

To be in proper written form, a shareholder's notice to the secretary must set forth as to each matter such shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of such shareholder, (iii) the class or series and number of shares of capital stock of the corporation which are owned beneficially or of record by such shareholder, (iv) a description of all arrangements or understandings between such shareholder and any other person or persons (including their names) in connection with the proposal of such business by such shareholder and any material interest of such shareholder in such business and (v) a representation that such shareholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

No business shall be conducted at the annual meeting of shareholders except business brought before the annual meeting in accordance with the procedures set forth in this Section 3.17; provided, however, that once business has been properly brought before the annual meeting in accordance with such procedures, nothing in this Section 3.17 shall be deemed to preclude discussion by any shareholder of any such business. If the chairman of an annual meeting determines that business was not properly brought before the annual meeting in accordance with the foregoing procedures, the chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

At a special meeting of shareholders, only such business shall be conducted as shall have been set forth in the notice relating to the meeting. At any meeting, matters incident to the conduct of this meeting may be voted upon or otherwise disposed of as the presiding officer of the meeting shall determine to be appropriate.

ARTICLE IV

Board of Directors

Section 4.01. Powers; Personal Liability.

(a) **General rule.** Unless otherwise provided by statute, all powers vested by law in the corporation shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the board of directors.

(b) **Personal liability of directors.** A director of the corporation shall not be personally liable for monetary damages, as such, for any action taken, or any failure to take any action, unless the director has breached or failed to perform the duties of his or her office under 42 Pa.C.S. Section 8363 [now a reference to 15 Pa.C.S. Subch. 17B] and the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness. The provisions of this subsection shall not apply to the responsibility or liability of a director pursuant to any criminal statute, or the liability of a director for the payment of taxes pursuant to local, state or Federal law. The provisions of this subsection shall be effective January 27, 1987, but shall not apply to any action filed prior to that date nor any breach of performance of duty or failure of performance of duty by a director occurring prior to that date.

(c) **Notation of dissent.** A director of the corporation who is present at a meeting of the board of directors, or of a committee of the board, at which action on any corporate matter is taken shall be presumed to have assented to the action taken on which the director is generally competent to act unless his or her dissent is entered in the minutes of the meeting or unless the director files his or her written dissent to the action with the secretary of the meeting before the adjournment thereof or transmits the dissent in writing to the secretary of the corporation immediately after the adjournment of the meeting. The right to dissent shall not apply to a director who voted in favor of the action. Nothing in this section shall bar a director from asserting that minutes of the meeting incorrectly omitted his or her dissent if, promptly upon receipt of a copy of such minutes, the director notifies the secretary, in writing, of the asserted omission or inaccuracy.

Section 4.02. Qualification and Election of Directors.

(a) **Qualifications.** Each director of the corporation shall be a natural person of full age, who need not be a resident of Pennsylvania or a shareholder of the corporation. No person shall be appointed or elected as a director unless:

(1) such person is elected to fill a vacancy in the board of directors (including any vacancy resulting from any accordance with section 4.04(a)); or

(2) the name of such person, together with such consents and information as may be required by the board of directors or by the provisions of section 4.13(b) shall have been filed with the secretary of the corporation.

(b) Election of directors. Except as otherwise provided in the articles or these bylaws, directors of the corporation shall be elected by the shareholders. In elections for directors, voting need not be by ballot, except upon demand made by a shareholder entitled to vote at the election and before the voting begins. The candidates receiving the highest number of votes from each class or group of classes, if any, entitled to elect directors separately up to the number of directors to be elected by the class or group of classes shall be elected. If at any meeting of shareholders, directors of more than one class are to be elected, each class of directors shall be elected in a separate election.

Section 4.03. Number and Term of Office.

(a) Number. The board of directors shall consist of such number of directors as may be determined from time to time by resolution of the board adopted by a vote of three quarters of the entire board of directors.

(b) Term of office. Each director shall hold office until the expiration of the term for which he or she was selected and until a successor shall have been elected and qualified, or until his or her death, resignation or removal. A decrease in the number of directors shall not have the effect of shortening the term of any incumbent director.

(c) Resignations. Any director may resign at any time by giving written notice to the corporation. Such resignation shall take effect on the date of the receipt by the corporation of such notice or at any later time specified therein.

(d) Classified board of directors. The directors shall be classified in respect of the time for which they shall severally hold office as follows:

- (1) Each class shall be as nearly equal in number as possible.
- (2) The term of office of at least one class shall expire in each year.
- (3) The members of each class shall be elected for a period of three years.

Section 4.04. Vacancies.

(a) General rule. Vacancies in the board of directors, including vacancies resulting from an increase in the number of directors, may be filled by a vote of a majority of the entire board of directors, or by sole remaining director, and such person so elected shall hold office until the election of the class for which such directors shall have been elected and until a successor shall have been elected and qualified, or until their death, resignation or removal.

(b) Action by resigned directors. When one or more directors resign from the board effective at a future date, the directors then in office, including those who have so resigned, shall have power by the applicable vote to fill the vacancies, the vote thereon to take effect when the resignations become effective.

Section 4.05. Removal of Directors.

(a) **Removal by the directors.** At any special meeting called for the purpose of removing or electing directors, the entire board of directors, or any class of the board, where the board is classified with respect to the power to elect directors, or any individual director may be removed from office without assigning any cause, as provided in the articles. In case the board or such class of the board or any one or more directors be so removed, new directors may be elected at the same meeting.

(b) **Removal by the board.** The board of directors may declare vacant the office of a director who has been judicially declared of unsound mind or who has been convicted of an offense punishable by imprisonment for a term of more than one year or if within 60 days after notice of his or her selection, the director does not accept the office either in writing or by attending a meeting of the board of directors.

Section 4.06. Place of Meeting. The board of directors may hold its meetings at such place or places within the Commonwealth of Pennsylvania, or elsewhere as the board of directors may from time to time appoint, or as may be designated in the notice calling the meeting.

Section 4.07. Organization Meeting. At every meeting of the board of directors, the chairman of the board, if there be one, or, in the case of a vacancy in the office or absence of the chairman of the board, one of the following officers present in the order stated: the vice chairman of the board, if there be one, the president, the vice presidents in their order of rank and seniority, or a person chosen by a majority of the directors present, shall act as chairman of the meeting. The secretary, or, in the absence of the secretary, an assistant secretary, or in the absence of the secretary and assistant secretaries, any person appointed by the chairman of the meeting, shall act as secretary of the meeting.

Section 4.08. Regular Meetings. Regular meetings of the board of directors shall be held at such time and place as shall be designated from time to time by resolution of the board of directors.

Section 4.09. Special Meetings. Special meetings of the board of directors shall be held whenever called by the chairman or by two or more of the directors.

Section 4.10. Quorum of and Action by Directors.

(a) **General rule.** A majority of the directors in office shall be necessary to constitute a quorum for the transaction of business and, except as otherwise provided in the articles or these bylaws, the acts of a majority of the directors present and voting at a meeting at which a quorum is present shall be the acts of the board of directors.

(b) **Action by written consent.** Any action required or permitted to be taken at a meeting of the directors may be taken without a meeting if, prior or subsequent to the action, a consent or consents thereto by all of the directors in office is filed with the secretary of the corporation.

Section 4.11. Executive and Other Committees.

(a) Establishment and powers. The board of directors may, by resolution adopted by a majority of the directors in office, establish one or more committees, to consist of one or more directors of the corporation. Any committee, to the extent provided in the resolution of the board of directors, shall have and may exercise all of the powers and authority of the board of directors except that a committee shall not have the power or authority as to the following:

- (1) The submission to shareholders of any action requiring approval of shareholders under the Business Corporation Law.
- (2) The creation or filling of vacancies in the board of directors.
- (3) The adoption, amendment or repeal of these bylaws.
- (4) The amendment or repeal of any resolution of the board that by its terms is amendable or repealable only by the board.
- (5) Action on matters committed by a resolution of the board of directors to another committee of the board.

(b) Alternate committee members. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee or for the purpose of any written action by the committee. In the absence or disqualification of a member and the alternate member or members of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another director to act at the meeting in the place of the absent or disqualified member.

(c) Term. Each committee of the board shall serve at the pleasure of the board.

(d) Committee procedures. The term “board of directors” or “board,” when used in any provision of these bylaws relating to the organization or procedures of or the manner of taking action by the board of directors, shall be construed to include and refer to any executive or other committee of the board.

Section 4.12. Compensation. The board of directors shall have the authority to fix the compensation of directors for their services as directors and a director may be a salaried officer of the corporation.

Section 4.13. Nomination of Directors.

(a) Notice required. Nominations for election of directors may be made by any shareholder entitled to vote for the election of directors, provided that written notice (the "Notice") of such shareholder's intent to nominate a director at the meeting is given by the shareholder and received by the secretary of the corporation in the manner and within the time specified herein. The Notice shall be delivered to the secretary of the corporation not less than 14 days nor more than 50 days prior to any meeting of the shareholders called for the election of directors; provided, however, that if less than 21 days' notice of the meeting is given to shareholders, the Notice shall be delivered to the secretary of the corporation not later than the earlier of the seventh day following the day on which notice of the meeting was first mailed to shareholders or the fourth day prior to the meeting. In lieu of delivery to the secretary of the corporation, the Notice may be mailed to the secretary of the corporation by certified mail, return receipt requested, but shall be deemed to have been given only upon actual receipt by the secretary of the corporation.

(b) Contents of notice. The notice shall be in writing and shall contain or be accompanied by:

- (1) the name and residence of such shareholder;
- (2) a representation that the shareholder is a holder of record of the corporation's voting stock and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the Notice;
- (3) such information regarding each nominee as would have been required to be included in a proxy statement filed pursuant to Regulation 14A of the rules and regulations established by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (or pursuant to any successor act or regulation) had proxies been solicited with respect to such nominee by the management or board of directors of the corporation;
- (4) a description of all arrangements or understandings among the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which such nomination or nominations are to be made by the shareholder; and
- (5) the consent of each nominee to serve as director of the corporation if so elected.

(c) Determination of compliance. If a judge or judges of election shall not have been appointed pursuant to these bylaws, the chairman of the meeting may, if the facts warrant, determine and declare to the meeting that any nomination made at the meeting was not made in accordance with the foregoing procedures and, in such event, the nomination shall be disregarded. Any decision by the chairman of the meeting shall be conclusive and binding upon all shareholders of the corporation for any purpose.

(d) Exception. The above procedures of this section shall not apply to nominations with respect to which proxies shall have been solicited pursuant to a proxy statement filed pursuant to Regulation 14A of the rules and regulations adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, or pursuant to any successor act or regulation.

ARTICLE V

Officers

Section 5.01. Officers Generally.

(a) Number, qualifications and designation. The officers of the corporation shall be a president, one or more vice presidents, a secretary, a treasurer, and such other officers as may be elected in accordance with the provisions of Section 5.03. Officers may, but need not be, directors or shareholders of the corporation. The president and secretary shall be natural persons of full age. The treasurer may be a corporation, but if a natural person shall be of full age. The board of directors may elect from among the members of the board a chairman of the board and a vice chairman of the board who shall be officers of the corporation. Any number of offices may be held by the same person.

(b) Resignations. Any officer may resign at any time by giving written notice to the corporation. Any such resignation shall be effective at the date of the receipt thereof by the corporation or at any later time specified therein.

(c) Bonding. The corporation may secure the fidelity of any or all of its officers by bond or otherwise.

(d) Standard of care. In lieu of the standards of conduct otherwise provided by law, officers of the corporation shall be subject to the same standards of conduct, including standards of care and loyalty and rights of justifiable reliance, as shall at the time be applicable to directors of the corporation. An officer of the corporation shall not be personally liable, as such, to the corporation or its shareholders for monetary damages (including, without limitation, any judgment, amount paid in settlement, penalty, punitive damages or expense of any nature (including, without limitation, attorneys' fees and disbursements) for any action taken, or any failure to take any action, unless the officer has breached or failed to perform the duties of his or her office under the articles, these bylaws, or the applicable provisions of law and the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness. The provisions of this subsection shall not apply to the responsibility or liability of an officer pursuant to any criminal statute or for the payment of taxes pursuant to local, state or federal law.

Section 5.02. Election and Term of Office. The officers of the corporation, except those elected by delegated authority pursuant to Section 5.03, shall be elected annually by the board of directors, and each such officer shall hold office for a term of one year and until a successor shall have been duly chosen and qualified, or until his or her death, resignation, or removal.

Section 5.03. Subordinate Officers, Committees and Agents. The board of directors may from time to time elect such other officers and appoint such committees, employees or other agents as the business of the corporation may require, including one or more assistant secretaries, and one or more assistant treasurers, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws, or as the board of directors may from time to time determine. The board of directors may delegate to any officer or committee the power to elect subordinate officers and to retain or appoint employees or other agents, or committees thereof, and to prescribe the authority and duties of such subordinate officers, committees, employees or other agents. Any delegation by the board of directors of the power to elect, retain or appoint subordinate officers, committees, employees or other agents, shall be deemed to include the power to remove such subordinate.

Section 5.04. Removal of Officers and Agents. Any officer or agent of the corporation may be removed by the board with or without cause. The removal shall be without prejudice to the contract rights, if any, of any person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

Section 5.05. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification, or any other cause, may be filled by the board of directors or by the officer or committee to which the power to fill such office has been delegated pursuant to Section 5.03, as the case may be, and if the office is one for which these bylaws prescribe a term, shall be filled for the unexpired portion of the term.

Section 5.06. Authority. All officers of the corporation as between themselves and the corporation, shall have such authority and perform such duties in the management of the corporation as may be provided by or pursuant to resolutions or orders of the board of directors, or, in the absence of controlling provisions in the resolutions or orders of the board of directors, as may be determined by or pursuant to these bylaws.

Section 5.07. The Chairman and Vice Chairman of the Board. The chairman of the board, or, in the absence of the chairman, the vice chairman of the board, shall preside at all meetings of shareholders and of the board of directors, and shall perform such other duties as may from time to time be requested by the board of directors.

Section 5.08. The President. The president shall be the chief executive officer of the corporation and shall have general supervision over the business and operations of the corporation, subject, however, to the control of the board of directors. The president shall sign, execute, and acknowledge, in the name of the corporation, deeds, mortgages, bonds, contracts or other instruments authorized by the board of directors, except in cases where the signing and execution thereof shall be expressly delegated by the board of directors or these bylaws, to some other officer or agent of the corporation; and, in general, shall perform all duties incident to the office of president and such other duties as from time to time may be assigned by the board of directors.

Section 5.09. The Vice Presidents. The vice presidents shall perform the duties of the president in the absence of the president and such other duties as may from time to time be assigned to them by the board of directors or the president.

Section 5.10. The Secretary. The secretary or an assistant secretary shall attend all meetings of the shareholders and of the board of directors and all committees thereof and shall record all the votes of the shareholders and of the directors and the minutes of the meetings of the shareholders and of the board of directors and of committees of the board in a book or books to be kept for that purpose; shall see that notices are given and records and reports properly kept and filed by the corporation as required by law; shall be the custodian of the seal of the corporation and see that it is affixed to all documents to be executed on behalf of the corporation under its seal; and, in general, shall perform all duties incident to the office of secretary, and such other duties as may from time to time be assigned by the board of directors, the chairman or the president.

Section 5.11. The Treasurer. The treasurer or an assistant treasurer shall have or provide for the custody of the funds or other property of the corporation; shall collect and receive or provide for the collection and receipt of moneys earned by or in any manner due to or received by the corporation; shall deposit all funds in his or her custody as treasurer in such banks or other places of deposit as the board of directors may from time to time designate; shall, whenever so required by the board of directors, render an account showing all transactions as treasurer, and the financial condition of the corporation; and, in general, shall discharge such other duties as may from time to time be assigned by the board of directors or the president.

Section 5.12. Salaries. The salaries of the officers elected by the board of directors shall be fixed from time to time by the board of directors or by such officer as may be designated by resolution of the board. The salaries or other compensation of any other officers, employees and other agents shall be fixed from time to time by the officer or committee to which the power to elect such officers or to retain or appoint such employees or other agents has been delegated pursuant to Section 5.03. No officer shall be prevented from receiving such salary or other compensation by reason of the fact that the officer is also a director of the corporation.

ARTICLE VI

Certificates of Stock, Transfer, Etc.

Section 6.01. Share Certificates. Certificates for shares of the corporation shall be in such form as approved by the board of directors, and shall state that the corporation is incorporated under the laws of the Commonwealth of Pennsylvania, the name of the person to whom issued, and the number and class of shares and the designation of the series (if any) that the certificate represents. The share transfer records and the blank share certificates shall be kept by the secretary or by any transfer agency or registrar designated by the board of directors for that purpose.

Section 6.02. Issuance. The share certificates of the corporation shall be numbered and registered in the share register or transfer books of the corporation as they are issued. They shall be signed by the president or a vice president and by the secretary or an assistant secretary or the treasurer or an assistant treasurer, and shall bear the corporate seal, which may be a facsimile, engraved or printed; but where such certificate is signed by a transfer agent or a registrar the signature of any corporate officer upon such certificate may be a facsimile, engraved or printed. In case any officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon any share certificate shall have ceased to be such officer, transfer agent or registrar because of death, resignation or otherwise, before the certificate is issued, it may be issued with the same effect as if the officer, transfer agent or registrar had not ceased to be such at the date of its issue. The provisions of this Section 6.02 shall be subject to any inconsistent or contrary agreement in effect at the time between the corporation and any transfer agent or registrar.

Section 6.03. Transfer. Transfers of shares shall be made on the share register or transfer books of the corporation upon surrender of the certificate therefor, endorsed by the person named in the certificate or by an attorney lawfully constituted in writing. No transfer shall be made inconsistent with the provisions of the Uniform Commercial Code, 13 Pa.C.S. 8101 et seq., and its amendments and supplements.

Section 6.04. Record Holder of Shares. The corporation shall be entitled to treat the person in whose name any share or shares of the corporation stand on the books of the corporation as the absolute owner thereof, and shall not be bound to recognize any equitable or other claim to, or interest in, such share or shares on the part of any other person.

Section 6.05. Lost, Destroyed or Mutilated Certificates. The holder of any shares of the corporation shall immediately notify the corporation of any loss, destruction or mutilation of the certificate therefor, and the board of directors may, in its discretion, cause a new certificate or certificates to be issued to such holder, in case of mutilation of the certificate, upon the surrender of the mutilated certificate, or, in case of loss or destruction of the certificate, upon satisfactory proof of such loss or destruction, and, if the board of directors shall so determine, the deposit of a bond in such form and in such sum, and with such surety or sureties, as it may direct.

Section 6.06. Rights Agreement. Rights issued pursuant to the Rights Agreement, dated February 19, 1988, between the corporation and Mellon Bank (East) N.A. (the "Rights Agreement") may be transferred by an Acquiring Person or an Associate or Affiliate of an Acquiring Person (as such terms are defined in the Rights Agreement) only in accordance with the terms of, and subject to the restrictions contained in, the Rights Agreement.

ARTICLE VII

Indemnification of Directors, Officers, Etc.

Section 7.01. Scope of Indemnification.

(a) The corporation shall indemnify an indemnified representative against any liability incurred in connection with any proceeding in which the indemnified representative may be involved as a party or otherwise, by reason of the fact that such person is or was serving in an indemnified capacity, including without limitation liabilities resulting from any actual or alleged breach or neglect of duty, error, misstatement or misleading statement, negligence, gross negligence or act giving rise to strict or products liability, except where such indemnification is expressly prohibited by applicable law or where the conduct of the indemnified representative has been determined pursuant to Section 7.06 to constitute willful misconduct or recklessness within the meaning of 42 Pa. C.S. Section 8365(b) [now a reference to 15 Pa.C.S. Section 1746(b)] or any superseding provision of the law, sufficient in the circumstances to bar indemnification against liabilities arising from the conduct.

(b) If an indemnified representative is entitled to indemnification in respect of a portion, but not all, of any liabilities to which such person may be subject, the corporation shall indemnify such indemnified representative to the maximum extent for such portion of the liabilities.

(c) The termination of a proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the indemnified representative is not entitled to indemnification.

(d) For purposes of this Article:

(1) “indemnified capacity” shall mean any and all past, present and future service by an indemnified representative in one or more capacities as a director, officer, employee or agent of the corporation, or, at the request of the corporation, as a director, officer, employee, agent, fiduciary or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other entity or enterprise;

(2) “indemnified representative” shall mean any and all directors and officers of the corporation and any other person specifically designated as an indemnified representative by the board of directors of the corporation under these bylaws (which may, but need not, include any person serving at the request of the corporation, as a director, officer, employee, agent, fiduciary or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other entity or enterprise);

(3) “liability” means any damage, judgment, amount paid in settlement, fine, penalty, punitive damages, excise tax assessed with respect to an employee benefit plan, or cost or expense of any nature (including, without limitation, attorney’s fees and disbursements); and

(4) “proceeding” means any threatened, pending or completed action, suit, appeal or other proceeding of any nature, whether civil, criminal, administrative or investigative, whether formal or informal, and whether brought by or in the right of the corporation, a class of its security holders or otherwise.

Section 7.02. Proceedings Initiated by Indemnified Representatives. Notwithstanding any other provisions of this Article, the corporation shall not indemnify under this Article an indemnified representative for any liability incurred in a proceeding initiated (which shall not be deemed to include counter-claims or affirmative defenses) or participated in as an intervener or amicus curiae by the person seeking indemnification unless such initiation of or participation in the proceedings is authorized, either before or after its commencement, by the affirmative vote of a majority of the directors in office. This section does not apply to reimbursement of expenses incurred in successfully prosecuting or defending an arbitration under Section 7.06 of this Article or otherwise successfully prosecuting or defending the rights of an indemnified representative granted by or pursuant to this Article.

Section 7.03. Advancing Expenses. The corporation shall pay the expenses (including attorney's fees and disbursements) incurred in good faith by an indemnified representative in advance of the final disposition of a proceeding described in Section 7.01 or 7.02 of this Article upon receipt of an undertaking by or on behalf of the indemnified representative to repay such amount if it shall ultimately be determined pursuant to Section 7.06 of this Article that such person is not entitled to be indemnified by the corporation pursuant to this Article. The financial ability of an indemnified representative to repay in advance shall not be a prerequisite to the making of such advance.

Section 7.04. Securing of Indemnification Obligations. To further effect, satisfy or secure the indemnification obligations provided herein or otherwise, the corporation may maintain insurance, obtain a letter of credit, act as self-insurer, create a reserve, trust, escrow, cash collateral or other fund or account, enter into indemnification agreements, pledge or grant a security interest in any assets or properties of the corporation, or use any other mechanism or arrangement whatsoever in such amounts, at such costs, and upon such other terms and conditions as the board of directors shall deem appropriate. Absent fraud, the determination of the board of directors with respect to such amounts, costs, terms and conditions shall be conclusive against all security holders, officers and directors and shall not be subject to violability.

Section 7.05. Payment of Indemnification. An indemnified representative shall be entitled to indemnification within 30 days after a written request for indemnification has been delivered to the secretary of the corporation.

Section 7.06. Arbitration. Any dispute related to the right of indemnification, contribution or advancement of expenses as provided under this Article, except with respect to indemnification for liabilities arising under the Securities Act of 1933 that the corporation has undertaken to submit to a court for adjudication, shall be decided only by arbitration in the metropolitan area in which the corporation's executive offices are located, in accordance with the commercial arbitration rules then in effect of the American Arbitration Association before a panel of three arbitrators, one of whom shall be selected by the corporation, the second of whom shall be selected by the indemnified representative and the third of whom shall be selected by the other two arbitrators. In the absence of the American Arbitration Association or if for any reason arbitration under the arbitration rules of the American Arbitration Association cannot be initiated, or if the arbitrators selected by the corporation and the indemnified representative cannot agree on the selection of a third arbitrator within 30 days after such time as the corporation and the indemnified representative have each been notified of the selection of the others' arbitrator, the necessary arbitrator or arbitrators shall be selected by the presiding judge of the court of general jurisdiction in such metropolitan area. Each arbitrator selected as provided herein is required to be or have been a director or executive officer or a corporation whose shares of common stock were listed during at least one year of such service on the New York Stock Exchange or the American Stock Exchange or quoted on the National Association of Securities Dealers Automated Quotation System. The party or parties challenging the right of an indemnified representative to the benefits of this Article shall have the burden of proof. The corporation shall reimburse an indemnified representative for the expenses (including attorney's fees and disbursements) incurred in successfully prosecuting or defending such arbitration. Any award entered by the arbitrators shall be final, binding and non-appealable and judgment may be entered thereon by any party in accordance with applicable law in any court of competent jurisdiction. This arbitration provision shall be specifically enforceable.

Section 7.07. Contribution. If the indemnification provided for in this Article or otherwise is unavailable for any reason, the corporation shall contribute to the liabilities to which the indemnified representative may be subject in such proportion as is appropriate to reflect the intent of this Article or otherwise.

Section 7.08. Discharge of Duty. An indemnified representative shall be deemed to have discharged such person's duty to the corporation if he or she has relied in good faith on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by any of the following:

(1) one or more officers or employees of the corporation whom the indemnified representative reasonably believes to be reliable and competent with respect to the matter presented;

(2) legal counsel, public accountants or other persons as to matters that the indemnified representative reasonably believes are within the person's professional or expert competence; or

(3) a committee of the board of directors on which he or she does not serve as to matters within its area of designated authority, which committee he or she reasonably believes to merit confidence.

Section 7.09. Contract Rights; Amendment or Repeal. All rights to indemnification, contribution and advancement of expense under this Article shall be deemed a contract between the corporation and the indemnified representative pursuant to which the corporation and each indemnified representative intend to be legally bound. Any repeal, amendment or modification hereof shall be prospective only and shall not affect any rights or obligations then existing.

Section 7.10. Scope of Articles. The rights granted by this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expense may be entitled under any statute, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in an indemnified capacity and as to action in any other capacity. The indemnification and advancement of expenses provided by or granted pursuant to this Article shall continue as to a person who has ceased to be an indemnified representative in respect to matters arising prior to such time, and shall inure to the benefit of the heirs, executors, administrators and personal representatives of such a person.

Section 7.11. Reliance of Provisions. Each person who shall act as an indemnified representative of the corporation shall be deemed to be doing so in reliance upon the rights provided by this Article.

Section 7.12. Interpretation. The provisions of this Article have been approved and ratified by the shareholders of this corporation and are intended to constitute bylaws authorized by Section 410F of the Pennsylvania Business Corporation Law and 42 Pa. C.S. Section 8365 [now references to 15 Pa.C.S. Section 1746 and 1750].

ARTICLE VIII

Miscellaneous

Section 8.01. Corporate Seal. The corporation shall have a corporate seal in the form of a circle containing the name of the corporation, the year of incorporation and such other details as may be approved by the board of directors.

Section 8.02. Checks. All checks, notes, bills of exchange or other orders in writing shall be signed by such person or persons as the board of directors or any person authorized by resolution of the board of directors may from time to time designate.

Section 8.03. Contracts.

(a) General rule. Except as otherwise provided in the Business Corporation Law in the case of transactions that require action by the shareholders, the board of directors may authorize any officer or officers, agent or agents, to enter into any contract or to execute or deliver any instrument on behalf of the corporation, and such authority may be general or confined to specific instances.

(b) Statutory form of execution of instruments. Any note, mortgage, evidence of indebtedness, contract or other document, or any assignment or endorsement thereof, executed or entered into between the corporation and any other person, when signed by the chairman, the president or vice president and secretary or assistant secretary or treasurer or assistant treasurer of the corporation, shall be held to have been properly executed for and in behalf of the corporation, without prejudice to the rights of the corporation against any person who shall have executed the instrument in excess of his or her actual authority.

Section 8.04. Interested Directors or Officers; Quorum.

(a) General rule. A contract or transaction between the corporation and one or more of its directors or officers or between the corporation and any other corporation, partnership, joint venture, trust, or other enterprise in which one or more of its directors or officers are directors or officers, or have a financial or other interest, shall not be void or voidable solely for that reason, or solely because the director or officer is present at or participates in the meeting of the board of directors which authorizes the contract or transaction, or solely because his, her or their votes are counted for such purpose, if:

(1) The material facts as to the relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors and the board authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors even though the disinterested directors are less than a quorum; or

(2) The material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the shareholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of those shareholders; or

(3) The contract or transaction is fair as to the corporation as of the time it is authorized, approved or ratified, by the board of directors or the shareholders.

(b) Quorum. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors which authorizes a contract or transaction specified in subsection (a).

Section 8.05. Deposits. All funds of the corporation shall be deposited from time to time to the credit of the corporation in such banks, trust companies, or other depositories as the board of directors may approve or designate, and all such funds shall be withdrawn only upon checks signed by such one or more officers or employees as the board of directors shall from time to time designate.

Section 8.06. Corporate Records.

(a) Required records. The corporation shall keep complete and accurate books and records of accounts, minutes of the proceedings of the incorporators, shareholders and directors and a share register giving the names and addresses of all shareholders and the number and class of shares held by each. The share register shall be kept at the registered office of the corporation in the Commonwealth of Pennsylvania or at its principal place of business wherever situated or at the office of its registrar or transfer agent. Any books, minutes or other records may be in written form or any other form capable of being converted into written form within a reasonable time.

(b) Right of inspection. Every shareholder shall, upon written verified demand stating the purpose thereof, have a right to examine, in person or by agent or attorney, during the usual hours for business, for any proper purpose, the share register, books and records of account, and records of the proceedings of the incorporators, shareholders and directors and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to the interest of the person as a shareholder. In every instance where an attorney or other agent is the person who seeks the right of inspection, the demand shall be accompanied by a verified power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the shareholder. The demand shall be directed to the corporation at its registered office in the Commonwealth of Pennsylvania or at its principal place of business, wherever situated.

Section 8.07. Amendment of Bylaws. These bylaws may be amended or repealed, or new bylaws may be adopted, either (i) by vote of the shareholders in accordance with the articles at any duly organized annual or special meeting of shareholders, or (ii), with respect to those matters that are not by statute committed expressly to the shareholders and regardless of whether the shareholders have previously adopted or approved the bylaw being amended or repealed, by vote of majority of the board of directors of the corporation in office at any regular or special meeting of directors. Any change in these bylaws shall take effect when adopted unless otherwise provided in the resolution effecting the change. See Section 2.03(b) (relating to notice of action by shareholders on bylaws).

NINTH AMENDMENT TO CREDIT AGREEMENT

THIS NINTH AMENDMENT TO CREDIT AGREEMENT is made as of this 28th day of February, 2007, by and among AQUA PENNSYLVANIA, INC., a Pennsylvania corporation (formerly known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company) (“Borrower”), the several banks which are parties to this Agreement (each a “Bank” and collectively, “Banks”) and PNC BANK, NATIONAL ASSOCIATION in its capacity as agent for Banks (in such capacity, “Agent”).

BACKGROUND

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

B. Borrower, Agent and Banks desire to modify certain covenants in the Credit Agreement, all on the terms and subject to the conditions herein set forth.

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

AGREEMENT

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

2. **Amendments to Credit Agreement.** The Credit Agreement is hereby amended as follows:

(a) The reference to “45 days” in Section 5.1(i) is hereby deleted and “60 days” is substituted therefor.

(b) The reference to “90 days” in Section 5.1(ii) is hereby deleted and “120 days” is substituted therefor.

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

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

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

- (a) Except as otherwise previously disclosed to Agent and Banks, the representations and warranties made in the Credit Agreement, as amended by this Agreement, are true and correct as of the date hereof;
- (b) No Default or Event of Default under the Credit Agreement exists on the date hereof; and
- (c) This Agreement has been duly authorized, executed and delivered so as to constitute the legal, valid and binding obligation of Borrower, enforceable in accordance with its terms.

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

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

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

- (i) This Agreement; and
- (ii) Such additional documents, certificates and information as Agent or Banks may require pursuant to the terms hereof or otherwise reasonably request.

(b) The representations and warranties set forth in the Credit Agreement shall be true and correct on and as of the date hereof.

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

7. Miscellaneous.

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

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

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

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

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

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

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

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

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

AQUA PENNSYLVANIA, INC.

By: /s/ Kathy L. Pape
Title: Vice President and Treasurer

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

By: /s/ Forrest B. Patterson, Jr.
Title: Senior Vice President

CITIZENS BANK OF PENNSYLVANIA

By: /s/ Leslie D. Broderick
Title: Senior Vice President

BANK OF AMERICA, N.A. (formerly Fleet National
Bank)

By: /s/ Katherine Osele
Title: Assistant Vice President

NATIONAL CITY BANK

By: /s/ David P. Dobstaff
Title: Senior Vice President

TENTH AMENDMENT TO CREDIT AGREEMENT

THIS TENTH AMENDMENT TO CREDIT AGREEMENT is made as of this 6th day of December, 2007, by and among AQUA PENNSYLVANIA, INC., a Pennsylvania corporation (formerly known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company) (“Borrower”), the several banks which are parties to this Agreement (each a “Bank” and collectively, “Banks”) and PNC BANK, NATIONAL ASSOCIATION in its capacity as agent for Banks (in such capacity, “Agent”).

BACKGROUND

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

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

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

AGREEMENT

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

2. Amendments to Credit Agreement. Effective on December 6, 2007 (the “Effective Date”) the Credit Agreement is hereby amended as follows:

(a) The definition of Termination Date in Section 1.1 is hereby amended and restated to read in full as follows:

““Termination Date”: the earlier of (a) December 4, 2008 or any later date to which the Termination Date shall have been extended pursuant to subsection 2.8(d) hereof and

(b) the date the Commitments are terminated as provided herein.”

(b) Section 2.6(b) is hereby amended by deleting “twenty-five basis points (.25%)” and substituting therefor “twenty basis points (.20%).”

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

“(b) The aggregate present value of accrued benefit liabilities under the retirement income Plans maintained by the Borrower and other Commonly Controlled Entities using the long-term assumptions under the FAS 35 calculations prepared for plan audit purposes do not exceed the asset values for these Plans as of the latest valuation date of January 1, 2007.”

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

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

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

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

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

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

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

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

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

- (i) This Agreement;
- (ii) Copies, certified by the Secretary or an Assistant Secretary of Borrower of resolutions of the board of directors of Borrower in effect on the date hereof authorizing the execution, delivery and performance of this Agreement and the other documents and transactions contemplated hereby;
- (iii) Copies, certified by its corporate secretary of the articles of incorporation, certificate of formation, and by-laws of Borrower as in effect, or a certificate stating that there have been no changes to any such documents since the most recent date, true and correct copies thereof were delivered to Agent; and
- (iv) Such additional documents, certificates and information as Agent or Banks may require pursuant to the terms hereof or otherwise reasonably request.

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

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

(d) Borrower shall have paid to Agent for the benefit of Banks an additional fee of \$35,000 to be distributed to Banks pro rata in accordance with their Commitments.

7. Miscellaneous.

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

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

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

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

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

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

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

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

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

AQUA PENNSYLVANIA, INC.

By: /s/ Stephen Anzaldo
Title: Treasurer

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

By: /s/ Meredith Jermann
Title: Vice President

CITIZENS BANK OF PENNSYLVANIA

By: /s/ Leslie D. Broderick
Title: Senior Vice President

BANK OF AMERICA, N.A. (formerly Fleet National
Bank)

By: /s/ Katherine Osele
Title: Assistant Vice President

NATIONAL CITY BANK

By: /s/ David P. Dobstaff
Title: Senior Vice President

**FORTY-SECOND SUPPLEMENTAL
INDENTURE**

DATED AS OF DECEMBER 1, 2007

TO

INDENTURE OF MORTGAGE

DATED AS OF JANUARY 1, 1941

AQUA PENNSYLVANIA, INC.

TO

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

THIS FORTY-SECOND SUPPLEMENTAL INDENTURE dated as of December 1, 2007, 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 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 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 seven 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 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:

Designation	Indenture	Amount
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

Designation	Indenture	Amount
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

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-one supplemental indentures supplemental to the Original Indenture were duly recorded in the Commonwealth of Pennsylvania on the dates and in the office for the Recording of Deeds for the counties and in the Mortgage Books at the pages indicated in Exhibit B hereto; and

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

WHEREAS, the Company proposes to create under the Original Indenture, as supplemented by this Forty-second Supplemental Indenture, two series of bonds to be designated “First Mortgage Bonds, 5.25% Series due 2042” (herein referred to as the “5.25% Series due 2042”) to be limited in aggregate principal amount to \$24,830,000, to bear interest at the rate of 5.25% per annum, and to mature on July 1, 2042, and “First Mortgage Bonds, 5.25% Series due 2043” (herein referred to as the “5.25% Series due 2043”) to be limited in aggregate principal amount to \$24,830,000, to bear interest at the rate of 5.25% per annum, and to mature on July 1, 2043, each 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 December 1, 2007 (the “Financing Agreement”) between the Company and the Montgomery County Industrial Development 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 2007 the aggregate principal amount of \$49,660,000 (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 December 1, 2007 (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 5.25% Series due 2042 and the 5.25% Series due 2043 (to be issued in accordance with the terms and provisions of the Original Indenture and indentures supplemental thereto, including this Forty-second Supplemental Indenture, and to be secured by said Original Indenture and indentures supplemental thereto, including this Forty-second Supplemental Indenture) and has further duly authorized the execution, delivery and recording of this Forty-second Supplemental Indenture setting forth the terms and provisions of the 5.25% Series due 2042 and the 5.25% Series due 2043 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 5.25% Series due 2042]

No. R-1

\$24,830,000

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth of Pennsylvania)

First Mortgage Bond, 5.25% Series due 2042

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 Montgomery County

Industrial Development Authority or its registered assigns, on the 1st day of July 2042, at the designated office of The Bank of New York Trust Company, N. A. (hereinafter called the "Trustee") in Philadelphia, Pennsylvania, the sum of Twenty-four Million Eight Hundred Thirty Thousand Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by draft or check of the Trustee mailed to such registered owner from the interest payment date next preceding the date of the authentication of this Bond (or if this Bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this Bond is authenticated on or prior to July 1, 2008, from the date hereof) until the principal hereof shall become due and payable, at the rate of 5.25% per annum, payable semiannually in like coin or currency on the first day of January and the first day of July in each year, commencing July 1, 2008 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 5.25% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Forty-second 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 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-second Supplemental Indenture" dated as of December 1, 2007, and designated therein as "First Mortgage Bonds, 5.25% Series due 2042" (the "Bonds").

Concurrently herewith the Company is issuing is “First Mortgage Bonds, 5.25% Series due 2043” in the aggregate principal amount of \$24,830,000 (the “5.25% Series due 2043”) and, together with the 5.25% Series due 2042, the “2007 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 December 1, 2007 between the Montgomery County Industrial Development 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 2007, in the aggregate principal amount of \$49,660,000 (the “Authority Bonds”).

The Authority Bonds are to be issued under a Trust Indenture, dated as of December 1, 2007 (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 July 1, 2018, 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 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 December 20, 2007.

Attest:

AQUA PENNSYLVANIA, INC.

(Assistant) Secretary

By: _____
Vice President

(Form of Trustee's Certificate)

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

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

By: _____
Authorized Signer

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 5.25% Series due 2043

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 Montgomery County Industrial Development Authority or its registered assigns, on the 1st day of July 2043, at the designated office of The Bank of New York Trust Company, N. A. (hereinafter called the "Trustee") in Philadelphia, Pennsylvania, the sum of Twenty-four Million Eight Hundred Thirty Thousand Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by draft or check of the Trustee mailed to such registered owner from the interest payment date next preceding the date of the authentication of this Bond (or if this Bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this Bond is authenticated on or prior to July 1, 2008, from the date hereof) until the principal hereof shall become due and payable, at the rate of 5.25% per annum, payable semiannually in like coin or currency on the first day of January and the first day of July in each year, commencing July 1, 2008 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 5.25% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Forty-second 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 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-second Supplemental Indenture" dated as of December 1, 2007, and designated therein as "First Mortgage Bonds, 5.25% Series due 2043" (the "Bonds").

Concurrently herewith the Company is issuing is “First Mortgage Bonds, 5.25% Series due 2043” in the aggregate principal amount of \$24,830,000 (the “5.25% Series due 2043”) and, together with the 5.25% Series due 2042, the “2007 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 December 1, 2007 between the Montgomery County Industrial Development 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 2007, in the aggregate principal amount of \$49,660,000 (the “Authority Bonds”).

The Authority Bonds are to be issued under a Trust Indenture, dated as of December 1, 2007 (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:

(e) The Bonds are subject to redemption prior to maturity, at the option of the Company, on or after July 1, 2018, in whole or in part, at a redemption price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption.

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

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

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

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

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

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

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

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

This Bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until The Bank of New York 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 December 20, 2007.

Attest:

AQUA PENNSYLVANIA, INC.

(Assistant) Secretary

By: _____
Vice President

(Form of Trustee's Certificate)

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

THE BANK OF NEW YORK
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-second Supplemental Indenture provided and issued by the Company, valid, binding and legal obligations of the Company, and this Forty-second Supplemental Indenture a valid and enforceable supplement to said Original Indenture, have been done, performed and fulfilled, and the execution of this Forty-second Supplemental Indenture has been in all respects duly authorized; and

NOW, THEREFORE, THIS FORTY-SECOND 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-second 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 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-first 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-first series of bonds, limited in aggregate principal amount to \$24,830,000 designated as "Aqua Pennsylvania, Inc., First Mortgage Bonds, 5.25% Series due 2042" and a fifty-second series of bonds, limited in aggregate principal amount to \$24,830,000 designated as "Aqua Pennsylvania, Inc., First Mortgage Bonds, 5.25% Series due 2043".

Interest on the Bonds shall be payable semiannually on January 1 and July 1 of each year (each an “interest payment date”), commencing July 1, 2008. 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 5.25% Series due 2042 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 July 1, 2042 and shall bear interest at the rate of 5.25%. The 5.25% Series due 2043 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 July 1, 2043 and shall bear interest at the rate of 5.25%. In any case where the date of payment of the principal or interest on the Bonds, or the date fixed for redemption of any Bond, is not a Business Day, then payment of the principal or Redemption Price of and interest on such Bond need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the due date of such payment or the date fixed for redemption, and no interest shall accrue for the period after such date.

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

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

The person in whose name any Bond is registered at the close of business on any Record Date (as hereinafter defined) with respect to any interest payment date shall be entitled to receive the interest payable on such interest payment date notwithstanding the cancellation of such Bond upon any transfer or exchange subsequent to the Record Date and prior to such interest payment date; provided, however, that if and to the extent the Company shall default in the payment of the interest due on such interest payment date, such defaulted interest shall be paid to the persons in whose names outstanding Bonds are registered at the close of business on a subsequent Record Date established by notice given by mail by or on behalf of the Company to the holders of Bonds not less than fifteen days preceding such subsequent Record Date, such Record Date to be not less than ten days preceding the date of payment of such defaulted interest. The term “Record Date” with respect to any regular interest payment date shall mean the 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 5.25% Series due 2042 are subject to redemption prior to maturity on or after July 1, 2018 by the Company, to the extent that the Authority Bonds are called for redemption under Section 7.01(a)(i) of the Authority Indenture, and then out of moneys deposited with or held by the Trustee for such purpose, as a whole or in part, at any time in the manner described below, at the redemption price of one hundred percent (100%) of the principal amount to be redeemed, plus interest accrued thereon to the date fixed for redemption;

(b) The 5.25% Series due 2043 are subject to redemption prior to maturity on or after July 1, 2018 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;

(c) The 5.25% Series due 2042 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 July 1, 2042 are subject to extraordinary optional redemption pursuant to Section 7.01(a)(ii) of the Authority Indenture;

(d) The 5.25% Series due 2043 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 July 1, 2043 are subject to extraordinary optional redemption pursuant to Section 7.01(a)(ii) of the Authority Indenture;

(e) The 5.25% Series due 2042 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 July 1, 2042 are subject to special mandatory redemption pursuant to Section 7.01(a)(iii) of the Authority Indenture.

(f) The 5.25% Series due 2043 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 July 1, 2043 are subject to special mandatory redemption pursuant to Section 7.01(a)(iii) of the Authority Indenture.

(g) The 5.25% Series due 2042 and the 5.25% Series due 2043 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-second 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 5.25% Series due 2042 in the aggregate principal amount of \$24,830,000 and the 5.25% Series due 2043 in the aggregate principal amount of \$24,830,000 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 9.89% Series due 2008 cease to be outstanding, or on or before the March 1 next occurring after 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 the 7.15% Series due 2008 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 the March 1 next occurring after the bonds of any of the Subseries of the 1997 Medium Term Note Series issued under the Thirty-First Supplemental Indenture (consisting of the 6.14% Subseries C due 2008) 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, 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-second 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, 2006, 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-second 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 and Forty-first Supplemental Indentures are hereby confirmed. All references in this Forty-second 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-second Supplemental Indenture shall be delivered to the Trustee by registered or certified mail, hand delivery or other courier or express delivery service (with receipt confirmed) or by telecopy (with receipt confirmed) at the following address:

The Bank of New York Trust Company, N. A.
Global Corporate Trust
1600 Market Street, Suite 1500
Philadelphia, PA 19103
Attention: Michael Shelton
Phone: 215-640-8461
Fax: 215-9981-0316/0352

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

SECTION 3. All recitals in this Forty-second 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-second Supplemental Indenture is dated as of December 1, 2007 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-second 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-second 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 5.25% Series due 2042 and the 5.25% Series due 2043 on December 20, 2007.

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: /s/ Maria Gordiany

By: /s/ Stephen Anzaldo
Treasurer

[CORPORATE SEAL]

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

Attest: /s/ Judith A. Wisniewski
Authorized Officer

By: /s/ Michael L. Shelton
Name: Michael L. Shelton
Title: Vice President

EXHIBIT A
AQUA PENNSYLVANIA, INC.
SCHEDULE OF FIRST MORTGAGE BONDS AS OF NOVEMBER 1, 2007

Division	Structure	Interest Rate	Issue Date	Maturity Date	Original Amount	Balance (incl. CP) @ 11/1/07
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	1,200,000
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
					284,375,000	282,375,000
Aqua Pa	Taxable	5.93%	06/26/02	07/01/12	25,000,000	25,000,000
Aqua Pa	Taxable	6.14%	01/15/98	02/01/08	10,000,000	10,000,000
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	7.15%	04/23/93	04/01/08	22,000,000	2,000,000
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	5,600,000
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	9.89%	06/01/88	06/01/08	5,000,000	5,000,000
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
					242,000,000	219,600,000
					526,375,000	501,975,000

**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

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Seventeenth Supplemental	12/18/77	2072	683	L-51	1	3072	43	5002	436
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

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
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
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	03487	0939 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

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

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

Indenture	BRADFORD		COLUMBIA		LAWRENCE			MERCER	
	Date of Recording	Instrument No.	Date of Recording	Instrument No.	Date of Recording	Book	Page	Date of Recording	Instrument No.
Thirty-Fifth Supplemental	12/21/01	200115497				1688	744		
Thirty-Sixth Supplemental	07/04/02	200207151							
Thirty-Seventh Supplemental	12/30/02	200216472							
Thirty-Eighth Supplemental	11/22/04	200415112	11/30/04	200413567	11/24/04	1992	0291	11/24/04	2004020435
Thirty-Ninth Supplemental	5/16/05	200504827	5/18/05	200505042	5/16/2005	2032	200 #005488	5/13/05	2005-7340
Fortieth Supplemental	12/23/05	200594992	12/23/05	200513981	12/27/05	2088	0934 #015325	12/27/05	2005-00020320
Forty-first Supplemental	1/12/07	200700440	1/17/07	200700636	1/11/07	2007	000466	1/12/07	2007-00000583

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	5/18/05	1761	50 #200509076	5/17/05	2109	2201 #200500008491	5/18/05	2150	1871-1919 #200500010263	5/16/05	Vol. 2769	1 #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	1/11/07	1933	634 #200700696	1/12/07	2214	472-515 #200700000749	1/11/07	2238	798-840 #200700000686	1/16/07	3216	229-272 #200700000492

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

Indenture	ADAMS			CARBON			CUMBERLAND			FOREST		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Thirty-Eighth Supplemental	11/23/04	3781	1	11/30/04	200416309		11/22/04	2004047145		11/29/04	231	306
Thirty-Ninth Supplemental	5/19/05	3970	54	5/18/05	1330	689 #200505926	5/13/05	1907	0247	5/16/05	234	345 #478
Fortieth Supplemental	12/28/05	4261	162	12/27/05	1408	576	12/27/05	1935	3233	12/27/05	0238	0304
Forty-first Supplemental	1/11/07	4707	2081 #2007000007	1/12/07	1540	548 #200700596	1/11/07	1979	0482	1/09/07	0244	0362 #2007000022

Indenture	JUNIATA			LACKAWANNA			LUZERNE			MONROE		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Recording	Book	Page
Thirty-Eighth Supplemental	11/22/04	345	1047	11/29/04	#200441665		11/23/04	3004	294775	11/24/04	2208	7674
Thirty-Ninth Supplemental	5/13/05	354	0049 #2005-1512	5/16/05	#200512642		5/17/05	3005	117727 #5637329	5/18/05	2225	8444 #200521128
Fortieth Supplemental	12/22/05	0365	1028	12/23/05	#20536270		12/28/05	3005	349088 #5677739	12/27/05	2252	9105 #200560314
Forty-first Supplemental	1/09/07	385	0188	1/12/07	#200701277		1/16/07	3007	13425	11/06/07	2320	4708

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 182906	11/24/04	631	0001	11/24/04	200411624		11/24/04	0513	0774
Thirty-Ninth Supplemental	5/17/05	2005-1	#2005026917	5/17/05	650	#2005028880	5/16/05	#200504384		5/18/05	0522	1289
Fortieth Supplemental	12/23/05	2005-1	521563	12/27/05	677	684	12/22/05	Instrument #200512620	n/a	12/22/05	0536 #2005004922	0748
Forty-first Supplemental	1/19/07	2007-1	25009 #2007003204	1/11/07	724	734 #200700240	1/10/07	#200700387		1/10/07	0558	0959

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 #200700000444

EXHIBIT C

<u>County and Grantor</u>	<u>Company's Real Estate Index No.</u>	<u>Date of Deed</u>	<u>Book</u>	<u>Recorded Page</u>	<u>Tax Parcel I.D. Number</u>
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NONE

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

The Bank of New York Trust Company, N. A.
Global Corporate Trust
1600 Market Street, Suite 1500
Philadelphia, PA 19103
Attention: Michael Shelton
Telephone: 215-640-8461
Fax: 215-981-0316/0352

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

By: /s/ Michael L. Shelton
Name: Michael L. Shelton
Title: Vice President

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF MONTGOMERY

On the 6th day of December, 2007, 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-second 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]

/s/ Maria Gordiany

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF PHILADELPHIA

On the 6th day of December, 2007 before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared Michael L. Shelton, who acknowledged himself to be a Vice President of The Bank of New York Trust Company, N.A., a national banking association, and that he as such Vice President, being authorized to do so, executed the foregoing Forty-second 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]

/s/ Catherine E. Wagner

BOND PURCHASE AGREEMENT**\$49,660,000****MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY****Water Facilities Revenue Bonds
(Aqua Pennsylvania, Inc. Project)
Series A of 2007**

Bond Purchase Agreement dated December 12, 2007, among the MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY (the "Authority"), AQUA PENNSYLVANIA, INC., a Pennsylvania corporation (the "Company"), and SOVEREIGN SECURITIES CORPORATION, LLC, a Pennsylvania limited liability company (the "Underwriter").

Section 1. Background.

(a) The Authority proposes to enter into a Financing Agreement (the "Financing Agreement") dated as of December 1, 2007 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 \$49,660,000 aggregate principal amount of Montgomery County Industrial Development Authority Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series A of 2007 (the "Bonds") to the Underwriter, 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 November 8, 2007 (the "Authority Resolution") and under a Trust Indenture dated as of December 1, 2007 (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, 5.25% Series due 2042 in the principal amount of \$24,830,000 (the "2042 First Mortgage Bond"), and its First Mortgage Bond, 5.25% Series due 2043 in the principal amount of \$24,830,000 (the "2043 First Mortgage Bond" and, along with the 2042 First Mortgage Bond, the "First Mortgage Bonds") issued with respect to the Bonds. The First Mortgage Bonds will be issued under and secured by the Company's Indenture of Mortgage dated as of January 1, 1941 (the "Indenture of Mortgage"), from the Company to The Bank of New York Trust Company, N.A., 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-second Supplemental Indenture of Mortgage to be dated as of December 1, 2007 (the "Forty-second Supplemental Mortgage," which together with the Indenture of Mortgage, as amended and supplemented, is referred to hereinafter as the "Mortgage"). Each 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 same maturity of Bonds that it secures. All of the Authority's rights under the Financing Agreement to receive and enforce repayment of its loan to the Company and to enforce payment of the Bonds, including all of the Authority's rights to the First Mortgage Bonds, and all of the Authority's rights to moneys and securities in the Project 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 Underwriter 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 December 3, 2007, 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 Underwriter 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 Underwriter will buy from the Authority, and the Authority will sell to the Underwriter, all (but not less than all) of the Bonds at a purchase price equal to \$49,253,532.90, which is equal to the \$49,660,000.00, aggregate principal amount of the Bonds, plus original issue premium of \$338,432.90, less the underwriting discount of \$744,900.00. Payment for the Bonds shall be made in immediately available funds to the Trustee for the account of the Authority. Closing (the "Closing") will be at the offices of Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania ("Bond Counsel"), at 10:00 a.m., Eastern Standard Time, on December 20, 2007 or at such other date, time or place or in such other manner as may be agreed on by the parties hereto. The Bonds will be delivered as fully registered bonds in the aggregate principal amount of \$49,660,000 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 Underwriter so requests, the Bonds shall be made available to the Underwriter (prior to their delivery to DTC) in Philadelphia, Pennsylvania at least three full business days before the Closing for purposes of inspection.

The Underwriter agrees 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 Underwriter reserves 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 Underwriter 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"), 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 Underwriter 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 Underwriter 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 fording 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 Underwriter shall be deemed a representation and warranty by the Authority to the Underwriter 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, 2006 any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree; and since the respective dates as of which information is given in the Official Statement, there have not been any material changes in the outstanding capital stock or the long-term debt of the Company or any material adverse change, or a development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, stockholder's equity or results of operations of the Company, otherwise than as set forth or contemplated in the Official Statement.

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

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

(d) The Indenture of Mortgage has been duly authorized, executed and delivered by the Company, and the Forty-second Supplemental Mortgage has been duly authorized by the Company. When the Forty-second Supplemental Mortgage, in substantially the form approved by the Underwriter 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-second 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-second Supplemental Mortgage will be duly filed, recorded or registered in each place in the Commonwealth in which such filing, recording or registration was or is required to protect and preserve the lien of the Mortgage; and all necessary approvals of regulatory authorities, commissions and other governmental bodies having jurisdiction over the Company required to subject the mortgaged properties and assets or trust estate (as defined in the Mortgage) to the lien of the Mortgage have been duly obtained.

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

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

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

(h) The Company has applied to the Pennsylvania Public Utility Commission for an order to authorize the issuance and delivery of the First Mortgage Bonds 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 Underwriter with respect to the exclusion from gross income pursuant to Section 103 of the Code of the interest on the Bonds is correct and complete.

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

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

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

(a) Furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter 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 Underwriter 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 Underwriter and the Company and will advise the Underwriter 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 Underwriter, its officers, directors, officials, agents, attorneys, employees, and each person, if any, who controls the Underwriter 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 Underwriter, or either of them, or any of their respective members, directors, officers, agents, attorneys, and employees and each person, if any, who controls the Underwriter within the meaning of the 1933 Act or 1934 Act as aforesaid may become subject, under federal laws or regulations, or otherwise, insofar as such losses, claims, damages, liabilities and expenses (or actions in respect thereof) arise out of or are based upon: (i) a breach of the Company's representations included in this Agreement; (ii) any untrue statement or alleged untrue statement of any material fact pertaining to the Project or the Company set forth in the Official Statement, the Preliminary Official Statement or any amendment to either; (iii) the willful or negligent omission of (or the alleged omission to state) a material fact in the Official Statement, the Preliminary Official Statement, or any amendment or supplement to either, as such fact is required to be stated therein or necessary to make the statements therein that pertain to the Company or the Project not misleading in the light of the circumstances under which they were made; (iv) or arising by virtue of the failure to register the Bonds under the 1933 Act or the failure to qualify the 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 December 1, 2007 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 Underwriter, and will advise the Underwriter 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 November 29, 2007, registering the Securities Certificate for the issuance of the First Mortgage Bonds in support of the Bonds.

Section 7. Underwriter's Covenant and Compensation.

(a) By acceptance hereof the Underwriter agrees to indemnify and hold harmless the Authority, its members, directors, officers, agents, attorneys, and employees and the Company, its officers, directors, agents, attorneys, and employees and each person if any, who controls the Company within the meaning of Section 15 of the 1933 Act against all or several claims, losses, damages, liabilities and expenses asserted against them, or any of them, at law or in equity, in connection with the offering and sale of the Bonds on the grounds that the information under the caption "UNDERWRITING" in the Preliminary Official Statement or the Official Statement (or any supplement or amendment to said information) contains an untrue or allegedly untrue statement of a material fact or omits or allegedly omits to state any material fact necessary to make the statements therein not misleading in the light of the circumstances under which they were made (it being understood that the Underwriter furnished only the information under such "UNDERWRITING" heading), or failure on the part of the Underwriter to deliver an Official Statement to any purchaser. The Underwriter 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 Underwriter may otherwise have. The Underwriter shall not be liable for any settlement of, any such action effected without its consent.

(b) The Underwriter will be paid an underwriting discount of \$744,900.00 with respect to the Bonds.

(c) The Underwriter acknowledges 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 an Underwriter, 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 the Underwriter (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 the Underwriter, contribute to the amount paid or payable by the Underwriter as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect the relative benefits received by the Company and the Underwriter, 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 Underwriter in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company and the Underwriter, 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 Underwriter shall be deemed to be in the same proportion as the total proceeds from the offering (before deducting issuance costs and expenses other than underwriting fees and commissions) received by the Company, on the one hand, bear to the total underwriting fees and commissions received by the Underwriter, 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 the Underwriter and the parties’ relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriter 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 the Underwriter 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 the Underwriter in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 9, the Underwriter shall not be required to contribute any amount in excess of the amount of the discount allowed to the Underwriter as set forth in Section 7(b) hereof.

Section 10. Official Statement; Public Offering.

(a) In order to enable the Underwriter 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 Underwriter 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 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 Underwriter written notice thereof. The Authority and the Company hereby authorize the use of the Preliminary Official Statement and the Official Statement by the Underwriter 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 Underwriter. If from the date hereof until the earlier of (i) ninety (90) days after the end of the underwriting period (as defined in Rule 15c-2-12) 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 Underwriter, 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 Underwriter, 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 Underwriter shall promptly provide a Nationally Recognized Municipal Securities Information Repository and the Municipal Securities Rulemaking Board 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 Underwriter's and Authority's Obligations. The Underwriter's 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 Underwriter 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 Underwriter.

(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 Underwriter.

(iii) An opinion of McGrory Wentz, LLP, counsel for the Authority, dated the date of Closing, substantially in the form attached as Exhibit C hereto, addressed to the Underwriter, the Trustee, the Authority 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 Underwriter, 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 Underwriter 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 Underwriter.

(vi) A certificate dated the date of Closing executed by the Chairman and the Executive Director of the Authority and addressed to the Underwriter to the effect that, to the best of their 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 Underwriter 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-second Supplemental Mortgage and the Continuing Disclosure Agreement and specimen copies of the First Mortgage Bonds.

(ix) Two copies of the Articles of Incorporation and Bylaws of the Company, as amended to the date of Closing, and of the resolutions of the Board of Directors of the Company authorizing and approving the execution and delivery of this Bond Purchase Agreement, the Financing Agreement, the First Mortgage Bonds, the Forty-second 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 Underwriter, 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 Underwriter 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 Underwriter 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 Bonds and the Bonds with the Pennsylvania Public Utility Commission.

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

(d) At Closing there shall not have been any material adverse change in the financial condition of the Company or any adverse development concerning the business or assets of the Company that would result in a material adverse change in the prospective financial condition or results of operations of the Company from that described in the Official Statement, which, in the judgment of the Underwriter, makes it inadvisable to proceed with the sale of the Bonds; and the Underwriter 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 Underwriter shall deliver at Closing a certificate in form acceptable to Bond Counsel to the effect that the Underwriter has 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 Underwriter to Terminate. The Underwriter may terminate its 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 Underwriter casts sufficient doubt on the legality of, or the exclusion from gross income for federal income tax purposes of interest on, obligations such as the Bonds so as to materially impair the marketability or materially lower the market price of the Bonds.

(b) Any action by the Securities and Exchange Commission or a court that would require registration of the Bonds or the First Mortgage Bonds under the 1933 Act or qualification of the 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 Underwriter 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 Underwriter will use their best efforts to amend or supplement the Official Statement to reflect, to the reasonable satisfaction of the Underwriter, 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 Underwriter, 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 Underwriter in a timely manner as required by Section 10 hereof.

(g) The Pennsylvania Public Utility Commission fails to issue and register a Securities Certificate with respect to the First Mortgage Bonds.

If the Underwriter terminates its 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 Underwriter 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. Event Permitting the Company to Terminate. The Company may terminate its obligations hereunder (except for its obligations under Sections 6(b), 8, 9 and 14) in the event prior to Closing, notwithstanding its exercise of diligent efforts it is unable to obtain from the Commonwealth Public Utility Commission the issuance and registration of a Securities Certificate with respect to the First Mortgage Bonds.

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 Underwriter of the Preliminary Official Statement and the Official Statement, the preparation and execution of the Bonds, the Financing Agreement, the Trust Indenture, the First Mortgage Bonds, the Forty-second Supplemental Mortgage, the Continuing Disclosure Agreement and this Bond Purchase Agreement, the Insurance Policy premium, 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 Underwriter 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. The Underwriter will pay all other expenses of the Underwriter 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 Underwriter:

Sovereign Securities Corporation, LLC
Mail Code: 20-210-CPC LLC
1500 Market Street
Centre Square-Concourse
Philadelphia, Pennsylvania 19102
Attention: George C. Werner, III Managing Director
Fax #: (267) 675-0643
Email: gwerner@sovereignbank.com

The Company:

Aqua Pennsylvania, Inc.
762 Lancaster Avenue
Bryn Mawr, Pennsylvania 19010
Attention: Stephen F. Anzaldo, Treasurer
Fax #: (610) 519-0989
Email: sfanzaldo@aquaamerica.com

The Authority:

Montgomery County Industrial Development Authority
Human Services Center
1430 DeKalb Street, 5th Floor
P.O. Box 311
Norristown, PA 19404-0311
Attention: Gerald J. Birkelbach, Executive Director
Fax: (610) 278-5944
Email: gbirkelb@montcopa.org

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 Underwriter.

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 Underwriter have caused their duly authorized officers to execute and deliver this Bond Purchase Agreement as of the date first written above.

**MONTGOMERY COUNTY INDUSTRIAL
DEVELOPMENT AUTHORITY**

By: /s/ Sherry Horowitz
SHERRY HOROWITZ, Chairperson

AQUA PENNSYLVANIA, INC.

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

SOVEREIGN SECURITIES CORPORATION, LLC

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

SCHEDULE I

Terms of Bonds

Dated Date: December 20, 2007

<u>Series</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>	<u>Price (to Call Date)</u>	<u>Yield</u>
2007A	July 1, 2042	\$24,830,000	5.25%	100.722	5.16%
2007A	July 1, 2043	\$24,830,000	5.25%	100.641	5.17%

Interest Payment Dates: January 1 and July 1, commencing July 1, 2008

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 July 1, 2018, as a whole at any time or in part from time to time, at a redemption price equal to one hundred percent (100%) of the principal amount thereof, plus interest accrued 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 Indenture.

EXHIBIT "A"

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

*Upon delivery of the Bonds, Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania,
Bond Counsel, will issue its approving opinion in substantially the following form*

December 20, 2007

Re: \$49,660,000 aggregate principal amount of Montgomery County Industrial
Development Authority Water Facilities Revenue Bonds
(Aqua Pennsylvania, Inc. Project) Series A of 2007

Ladies and Gentlemen:

We have acted as Bond Counsel to the Montgomery County Industrial Development Authority (the "Authority") in connection with the issuance and sale of its \$49,660,000 aggregate principal amount of Montgomery County Industrial Development Authority Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project) Series A of 2007 (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 issuable in fully registered form, and are being issued under the Trust Indenture dated as of December 1, 2007 (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 December 1, 2007 (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 5.25% Due 2042 (the "2042 First Mortgage Bond") and its First Mortgage Bond 5.25% Due 2043 (the "2043 First Mortgage Bond" and, together with the 2042 First Mortgage Bond, the "First Mortgage Bonds") in the aggregate principal amount equal to the aggregate 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 Bonds 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 Bonds, 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 2007 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 Bonds 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. Under existing laws as enacted and construed on the date of initial delivery of the Bonds, interest on the Bonds is excludable from gross income for purposes of federal income tax, 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 Project Facilities or a related person as provided in the Code. Interest on the Bonds is a tax preference item that is subject to individual and corporate federal alternative minimum tax. Interest on Bonds held by foreign corporations may be subject to the branch profits tax imposed by the Code.

The Bonds are offered at a premium (“original issue premium”) over their respective principal amounts. For federal income tax purposes, original issue premium is amortizable periodically over the term of the Bond through reductions in the holder’s tax basis for the Bond for determining taxable gain or loss from the sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the Bond rather than creating a deductible expense or loss.

Ownership of the Bonds may result in other federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of social security or railroad retirement benefits, certain S corporations and taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Bonds. We express no opinion as to these matters.

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 Bonds and as provided in the Indenture and that the Bonds do not pledge the credit or taxing power of the County of Montgomery or the Commonwealth of Pennsylvania or any political subdivision thereof. The Authority has no taxing power.

Very truly yours,

EXHIBIT B
FORM OF SUPPLEMENTAL OPINION OF
BALLARD SPAHR ANDREWS & INGERSOLL, LLP

December 20, 2007

Re: \$49,660,000 aggregate principal amount of Montgomery County Industrial
Development Authority Water Facilities Revenue Bonds,
(Aqua Pennsylvania, Inc. Project) Series A of 2007

Ladies and Gentlemen:

Reference is made to our opinion as bond counsel 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 December 12, 2007 (the "Official Statement") prepared in connection with the public offering of the Bonds.

Based on the review described in our approving opinion of even date herewith, it is our opinion that:

1. The Bond Purchase Agreement dated December 12, 2007 (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 "- 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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EXHIBIT C

FORM OF OPINION OF COUNSEL FOR THE AUTHORITY

December 20, 2007

Montgomery County Industrial Development Authority
1430 DeKalb Street, 5th Floor
P.O. Box 311
Norristown, PA 19404-0311

U.S. Bank National Association, as Trustee
2 Liberty Place, Suite 2000
50 So. 16th Street
Philadelphia, Pennsylvania 19102

Sovereign Securities Corporation, LLC
1500 Market Street
Centre Square — Concourse
Philadelphia, Pennsylvania 19102

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

Re: \$49,660,000 aggregate principal amount of Montgomery County Industrial
Development Authority Water Facilities Revenue Bonds,
(Aqua Pennsylvania, Inc. Project) Series A of 2007

Ladies and Gentlemen:

I have acted as counsel to the Montgomery County Industrial Development Authority (“Authority”) in connection with the authorization, execution and issuance by the Authority of the captioned Bonds (“Bonds”). This opinion is being rendered pursuant to Section 11(c)(iii) of the Bond Purchase Agreement, dated December 12, 2007 (the “Bond Purchase Agreement”) by and among Sovereign Securities Corporation, LLC (“Underwriter”), Aqua Pennsylvania, Inc. (“Borrower”) and the Authority. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Bond Purchase Agreement.

As the basis for this opinion, I have examined the Pennsylvania Economic Development Financing Law, 73 P.S. §§ 371 et seq., as amended (“Act”); the Resolution of the Authority relating to the Bonds adopted on October 11, 2007 (the “Resolution”), and such other documents, certificates and records of the Authority and other instruments and matters of law as I have deemed necessary to enable me to express the opinion set forth below, including, without limitation, original counterparts or certified copies of the Trust Indenture, dated as of December 1, 2007 (“Indenture”), between the Authority and U.S. Bank National Association, as trustee (“Trustee”), the Financing Agreement, dated as of December 1, 2007 (“Financing Agreement”), between the Authority and the Borrower and the Bond Purchase Agreement. The Indenture, the Financing Agreement and the Bond Purchase Agreement are collectively referred to herein as the “Authority Documents”.

I have 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.

I have 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, I have 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, I have relied upon certificates and representations of officers and representatives of the Authority or of other public officials, without independent investigation.

I have not made any independent investigation in rendering this opinion other than the examination described above. My opinion is therefore qualified in all respects by the scope of that examination.

My opinions are specifically limited to the present internal laws of the Commonwealth of Pennsylvania ("Commonwealth") and present federal law 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, I am of the opinion that:

1. The Authority is a body corporate and politic constituting an instrumentality of the Commonwealth and is duly created and presently existing pursuant to the Act.

2. 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.

3. 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 my 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 me, or, to my 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.

4. To my 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.

5. 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 Authority has obtained the approval of the Commonwealth Department of Community and Economic Development for the issuance of the Bonds, and to my actual knowledge, such approval is in full force and effect.

6. The Authority has approved the distribution of the Preliminary Official Statement dated December 3, 2007 and the Official Statement dated December 12, 2007 (“Official Statement”) by the Underwriter in connection with the offering of the Bonds.

7. 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 by me and nothing has come to my attention which would lead me 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.

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.

i 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 the County of Montgomery, Pennsylvania or any other political subdivision thereof nor do the Bonds pledge the credit of the Commonwealth or the County of Montgomery, Pennsylvania or any other 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. I make no undertaking to supplement this opinion if facts or circumstances hereafter come to my 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 my prior written consent in each instance.

Very truly yours,

FREDERIC M. WENTZ

EXHIBIT D

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

December 20, 2007

Montgomery County Industrial Development Authority
1430 DeKalb Street, 5th Floor
P.O. Box 311
Norristown, PA 19404-0311

Sovereign Securities Corporation, LLC
1500 Market Street
Philadelphia, PA 19102

Ballard Spahr Andrews & Ingersoll
Mellon Bank Center, 32nd Floor
1735 Market Street
Philadelphia, PA 19103

Re: \$49,660,000 aggregate principal amount of Montgomery County Industrial
Development Authority Water Facilities Revenue Bonds
(Aqua Pennsylvania, Inc. Project) Series A of 2007

Ladies and Gentlemen:

We have acted as counsel to Aqua Pennsylvania, Inc. (the "Company") in connection with (i) the issuance by Montgomery County Industrial Development Authority (the "Authority"), and the sale to Sovereign Securities Corporation, LLC pursuant to that certain Bond Purchase Agreement dated December 12, 2007 (the "Purchase Agreement"), of \$49,660,000 aggregate principal amount of Montgomery County Industrial Development Authority Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc.), Series A of 2007 (the "Authority Bonds"), and (ii) the issuance and delivery of the Company's First Mortgage Bond, 5.25% Series due 2042 in the principal amount of \$24,830,000 (the "2042 First Mortgage Bond"); and its First Mortgage Bond, 5.25% Series due 2043 in the principal amount of \$24,830,000 (the "2043 First Mortgage Bond" and along with the 2042 First Mortgage Bond collectively, the "First Mortgage Bonds"), 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-second Supplemental Indenture dated as of December 1, 2007 (the "Forty-second Supplemental Indenture") under which The Bank of New York 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.

We have examined and reviewed, among other things:

- (a) a copy of the Articles of Incorporation of the Company, as amended and restated and now in effect;
- (b) a copy of the bylaws of the Company as now in effect;
- (c) resolutions of the Board of Directors of the Company authorizing the execution and delivery of the Purchase Agreement, the Financing Agreement, the Forty-second 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 December 1, 2007 (the "Financing Agreement") between the Authority and the Company;
- (f) the Continuing Disclosure Agreement dated as of December 1, 2007 (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 December 12, 2007 (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 Forty-second Supplemental Indenture supplemental thereto 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 Bonds pursuant to the provisions of Sections 2(B) and 3 of Article IV of the Original Mortgage;
- (l) the First Mortgage Bonds 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;

(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 Forty-second Supplemental Indenture, the Financing Agreement, the First Mortgage Bonds 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:

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 Purchase Agreement, the Financing Agreement, the First Mortgage Bonds, the Forty-second Supplemental Indenture and the Continuing Disclosure Agreement. The execution, delivery and performance by the Company of the Financing Agreement, the Bond Purchase Agreement, the First Mortgage Bonds, the Forty-second Supplemental Indenture and the Continuing Disclosure Agreement 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 Bonds have 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 Bonds are not subject to the registration requirements of the 1933 Act.

6. The Mortgage constitutes a direct, valid and enforceable mortgage lien (except as enforceability of such lien may be limited by bankruptcy, insolvency, reorganization or other laws affecting the enforcement of creditors' rights) upon all of the properties and assets of the Company (not heretofore released as provided for in the Mortgage) specifically or generally described or referred to in the Mortgage as being subject to the lien thereof, [except for permitted liens under the Mortgage]; the Original Mortgage, either separately or as an exhibit to (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 the Forty-second Supplemental Indenture dated as of December 1, 2007, 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.

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 Bonds 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 Bonds 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 Bonds 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.

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

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

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

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

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

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

Very truly yours,

[Letterhead of Aqua Pennsylvania]

December 20, 2007

Montgomery County Industrial Development Authority
1430 DeKalb Street, 5th Floor
P.O. Box 311
Norristown, PA 19404-0311

Sovereign Securities Corporation, LLC
1500 Market Street
Philadelphia, PA 19102

Ballard Spahr Andrews & Ingersoll
Mellon Bank Center, 32nd Floor
1735 Market Street
Philadelphia, PA 19103

Re: \$49,660,000 aggregate principal amount of
Montgomery County Industrial Development Authority Water Facilities Revenue Bonds
(Aqua Pennsylvania, Inc. Project) Series A of 2007

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 December 12, 2007 (the "Purchase Agreement") among the Authority, the Underwriter and the Company (fka 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-second 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;

(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 Bonds and the compliance by the Company with all of the applicable provisions of the First Mortgage Bonds and the Mortgage; and the execution, delivery and performance by the Company of the Forty-second 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 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 Bonds, the execution, delivery and performance of the Purchase Agreement, the Financing Agreement, the Forty-second Supplemental Mortgage, the First Mortgage Bonds, 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 Trust Company, N.A., as successor in interest), as trustee (the "Trustee") and the forty-one indentures supplemental thereto, including the Forty-second Supplemental Indenture dated as of December 1, 2007 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,

(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,

Roy H. Stahl

**AQUA AMERICA, INC.
and SUBSIDIARIES
2008 ANNUAL CASH INCENTIVE COMPENSATION PLAN**

BACKGROUND

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

MANAGEMENT INCENTIVE PROGRAM

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

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

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

- **Participation**

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

Compliance

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

- **Company Factor**

- Company performance will be measured on the following schedule:

	<u>Percent of Target</u>	<u>Company Factor</u>
Threshold	<90%	0%
	90	50
	92	65
	95	80
	96	85
	97	90
	98	94
	99	97
Plan	100	100
	105	110
	≥110	125

- The actual Company Factor should be calculated by interpolation between the points shown in the table above.
- Regardless of the Company rating resulting from this Schedule, the Executive Compensation and Employee Benefits Committee retains the authority to determine the final Company Factor for purposes of this Plan.

- **Individual Factor**

- Individual performance will be measured on the following scale:

<u>Performance Measure Points</u>	<u>Individual Factor</u>
0 - 69	0%
70	70%
80	80%
90	90%
100	100%
110	110%

- In addition, up to 40 additional points and additional percentage points may be awarded to a participant at the discretion of the Chairman for exemplary performance, subject to approval by the Executive Compensation and Employee Benefits Committee for the executive officers. Individual performance points for the Chief Executive Officer are determined by the Executive Compensation and Employee Benefits Committee.
-

Sample Calculations

- Example 1

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

Calculation:

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

- Example 2

- Using the same salary and target bonus, but assuming Company performance was less than 90 percent of Target EBITD, there would be no bonus earned.

Calculation:

$$\$ 7,000 \quad \times \quad 0 \quad \times \quad 90\% \quad = \quad 0$$

- Example 3

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

Calculation:

$$\$ 7,000 \quad \times \quad 100\% \quad \times \quad 0 \quad = \quad 0$$

- Example 4

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

Calculation:

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

- Example 5

- It is also possible that one portion of the applicable Company Rating Factor is zero, for which there would be no bonus, regardless of the participant's Individual Rating Factor.

Calculation:

<u>Target Bonus</u>	x	<u>Company Factory</u>	x	<u>Company Allocation</u>	x	<u>Individual Factor</u>	=	<u>Bonus Earned</u>	
\$ 7,000	x	0%	x	20%	x	90%	=	\$ 0	
\$ 7,000	x	110%	x	80%	x	90%	=	\$ 5,544	
Total Bonus								=	\$ 5,544

EMPLOYEE RECOGNITION (“CHAIRMAN’S AWARD”) PROGRAM

1. In addition to the Management Incentive Program, the Company maintains an Employee Recognition Program known as the Chairman’s Award program to reward non-union employees who are not eligible for the management bonus plan for superior performance that contains costs, improves efficiency and productivity of the workforce and better serves our customers. Awards may also be made for a special action or heroic deed, or for a project that positively impacts the performance or image of the Company.
2. Awards will be made from an annual pool designated by the Chairman of Aqua America with the approval of the Executive Compensation and Employee Benefits Committee. Unused funds will not be carried over to the next year. If financial performance warrants, management may request special awards under the program.
3. In general, Chairman’s Awards will not be made to employees of a company that does not achieve at least 90% of its EBITD objective for the year.
4. Awards may be made throughout the year, however, no more than one-third of a company’s Chairman’s Award pool may be awarded until the company’s final EBITD for the year is determined.
5. Nominations for employees to receive Chairman’s Awards will be made to the applicable officer and should include documentation on the reasons for the recommendations. The applicable officer will review the nominations and forward their recommendations to the Chairman of Aqua America.
6. The Chairman will determine the individuals to actually receive a bonus and the amount. The maximum award to any one employee is \$5,000.
7. Employees who would otherwise be eligible to participate in the Chairman’s Award program, but who leave employment with the company, either voluntarily, involuntarily or as a result of retirement, prior to the end of the Company’s fiscal year will not receive a Chairman’s Award for the year in which their employment terminates.
8. All Chairman’s Awards under the Employee Recognition Program shall be paid by March 15 of the calendar year following the calendar year in which such awards are earned.
9. The Employee Recognition Program is intended to comply with the short-term deferral rule set forth in the regulations under section 409A of the Code, in order to avoid application of section 409A to the Plan. If and to the extent that any payment under this Employee Recognition Program is deemed to be deferred compensation subject to the requirements of section 409A, this Employee Recognition Program shall be administered so that such payments are made in accordance with the requirements of section 409A.

Non-Employee Directors' Compensation for 2008

At its regularly scheduled meeting on December 12, 2007, the Board of Directors of Aqua America, Inc., upon the recommendation of its Executive Compensation and Employee Benefits Committee, approved the following directors' compensation for 2008 for the non-employee directors of Aqua America, Inc.: (1) an annual cash retainer of \$20,000; (2) an annual cash retainer for the Chair of the Executive Compensation and Employee Benefits Committee and Corporate Governance Committee of \$5,000; (3) an annual cash retainer for the Chair of the Audit Committee of \$7,500; (4) a meeting fee of \$1,500 for each meeting of the Board of Directors; (5) a meeting fee of \$1,500 per meeting for meetings of the Board Committees; and (6) an annual stock grant to directors of 1,500 shares payable on the first of the month following the Annual Meeting of Shareholders. All directors are reimbursed for reasonable expenses incurred in connection with attendance at Board or Committee meetings.

AGREEMENT

THIS Agreement made as of the 26th day of February, 2008, by and between, Aqua America, Inc., a Pennsylvania corporation ("Aqua America"), and Mark J. Kropilak (the "Executive").

WHEREAS, the Executive is presently employed as an executive of Aqua America or one of its Subsidiaries; and

WHEREAS, Aqua America considers it essential to foster the employment of well-qualified, key management personnel, and, in this regard, the board of directors of Aqua America recognize that, as is the case with many publicly-held corporations such as Aqua America, the possibility of a change of control of Aqua America may exist and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of key management personnel to the detriment of Aqua America;

WHEREAS, the board of directors of Aqua America have determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of key members of management of Aqua America and its Subsidiaries to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change of control of Aqua America, although no such change is now contemplated; and

WHEREAS, in order to induce the Executive to remain in the employ of Aqua America or its Subsidiaries, for which the Executive provides key executive services, Aqua America is entering into this Agreement to provide that the Executive with certain compensation in the event Executive's employment is terminated subsequent to a "Change of Control" (as defined in Section 1 hereof) of Aqua America as a cushion against the financial and career impact on the Executive of any such Change of Control; and

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto agree as follows:

1. Definitions. For all purposes of this Agreement, the following terms shall have the meanings specified in this Section unless the context clearly otherwise requires:

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

(b) "Base Compensation" shall mean the average of the total of cash base salary and annual bonus paid to, and dividend equivalents under the Equity Compensation Plan accrued for, the Executive in each calendar year in all capacities with Aqua America, and its Subsidiaries or Affiliates, as would be reported for Federal income tax purposes on Form W-2 if currently subject to tax, together with (i) any amounts the payment of which has been deferred by the Executive under any deferred compensation plan of Aqua America, and its Subsidiaries or Affiliates, or otherwise, (ii) any and all salary reduction authorized amounts under any of the benefit plans or programs of Aqua America, and its Subsidiaries or Affiliates, (iii) the value, calculated on the same basis as the value of stock option grants shown in Aqua America's Proxy, for each calendar year in which a grant was made, of the stock option grants made to the Executive under the Equity Compensation Plan, but excluding any amounts attributable to the exercise of stock options, and (iv) the value, based on the average value of shares vesting in each year, of any grants of Restricted Stock made to the Executive under the Equity Compensation Plan, for the three calendar years (or such number of actual full calendar years of employment, if less than three) immediately preceding the calendar year in which occurs a Change of Control or the Executive's Termination Date, whichever period produces the higher amount.

(c) A Person shall be deemed the "Beneficial Owner" of any securities: (i) that such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the "Beneficial Owner" of securities tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for payment, purchase or exchange; (ii) that such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to vote or dispose of or has "beneficial ownership" of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act), including without limitation pursuant to any agreement, arrangement or understanding, whether or not in writing; provided, however, that a Person shall not be deemed the "Beneficial Owner" of any security under this clause (ii) as a result of an oral or written agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding (A) arises solely from a revocable proxy given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the General Rules and Regulations under the Exchange Act, and (B) is not then reportable by such

Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or (iii) that are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person (or any of such Person's Affiliates or Associates) has any agreement, arrangement or understanding (whether or not in writing) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to clause (ii) above) or disposing of any voting securities of Aqua America; provided, however, that nothing in this Section 1(c) shall cause a Person engaged in business as an underwriter of securities to be the "Beneficial Owner" of any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

(d) "Board" shall mean the board of directors of Aqua America.

(e) "Change of Control" shall mean:

(i) any Person (including any individual, firm, corporation, partnership or other entity except Aqua America or any employee benefit plan of Aqua America or of any Affiliate or Associate, any Person or entity organized, appointed or established by Aqua America for or pursuant to the terms of any such employee benefit plan), together with all Affiliates and Associates of such Person, shall become the Beneficial Owner in the aggregate of 20% or more of the Common Stock of Aqua America then outstanding;

(ii) during any twenty-four month period, individuals who at the beginning of such period constitute the Board cease for any reason to constitute a majority thereof, unless the election, or the nomination for election by Aqua America's shareholders, of at least seventy-five percent of the directors who were not directors at the beginning of such period was approved by a vote of at least seventy-five percent of the directors in office at the time of such election or nomination who were directors at the beginning of such period; or

(iii) there occurs a sale of substantially all of the assets of Aqua America or its liquidation is approved by a majority of its shareholders or Aqua America is merged into or is merged with an unrelated entity such that following the merger the shareholders of Aqua America no longer own more than 51% of the resultant entity.

Notwithstanding anything in this subsection 1(e) to the contrary, a Change of Control shall not be deemed to have taken place under clause (e)(i) above if (i) such Person becomes the beneficial owner in the aggregate of 20% or more of the Common Stock of Aqua America then outstanding as a result, in the determination of a majority of those members of the Board of Directors of Aqua America in office prior to the acquisition, of an inadvertent acquisition by such Person if such Person, as soon as practicable, divests itself of a sufficient amount of its Common Stock so that it no longer owns 20% or more of the Common Stock then outstanding, or (ii) such Person becomes the beneficial owner in the aggregate of 20% or more of the Common Stock of Aqua America outstanding as a result of an acquisition of common stock by Aqua America which, by reducing the number of common stock outstanding, increases the proportionate number of shares of common stock beneficially owned by such Person to 20% or more of the shares of common stock then outstanding; provided, however that if a Person shall become the beneficial owner of 20% or more of the shares of common stock then outstanding by reason of common stock purchased by Aqua America and shall, after such share purchases by Aqua America become the beneficial owner of any additional shares of common stock, then the exemption set forth in this clause shall be inapplicable.

(f) "Cause" shall mean 1) misappropriation of funds, 2) habitual insobriety or substance abuse, 3) conviction of a crime involving moral turpitude, or 4) gross negligence in the performance of duties, which gross negligence has had a material adverse effect on the business, operations, assets, properties or financial condition of Aqua America or its Subsidiaries and Affiliates.

(g) "Equity Compensation Plan" shall mean Aqua America's 1994 and 2004 Equity Compensation Plan, and its predecessors and successors.

(h) "Good Reason Termination" shall mean a Termination of Employment initiated by the Executive upon one or more of the following occurrences:

(i) any failure of Aqua America or its successor(s) to comply with and satisfy any of the terms of this the Agreement;

(ii) any significant involuntary reduction of the authority, duties, responsibilities or reporting relationships held by the Executive immediately prior to the Change of Control;

(iii) any involuntary removal of the Executive from the employment grade, compensation level or officer positions which the Executive holds with Aqua America or, if the Executive is employed by a Subsidiary, with a Subsidiary, immediately prior to the Change of Control, except in connection with promotions to higher office;

(iv) any involuntary reduction in the Executive's target level of annual and long-term compensation as in effect immediately prior to the Change of Control;

(v) any transfer of the Executive, without Executive's express written consent, to a location which is outside the Bryn Mawr, Pennsylvania area by more than 50 miles, other than on a temporary basis (less than 6 months); or

(vi) the Executive being required to undertake business travel to an extent substantially greater than the Executive's business travel obligations immediately prior to the Change of Control.

(i) "Normal Retirement Date" shall mean the first day of the calendar month coincident with or next following the Executive's 65th birthday.

(j) "Subsidiary" shall mean any corporation in which Aqua America, directly or indirectly, owns at least a 50% interest or an unincorporated entity of which Aqua America, directly or indirectly, owns at least 50% of the profits or capital interests.

(k) "Termination Date" shall mean the date of receipt of the Notice of Termination described in Section 2 hereof or any later date specified therein, as the case may be.

(l) "Termination of Employment" shall mean the termination of the Executive's actual employment relationship with Aqua America and any of its Subsidiaries that actually employs the Executive.

2. Notice of Termination. Any Termination of Employment following a Change of Control shall be communicated by a Notice of Termination to the other party hereto given in accordance with Section 14 hereof. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific provision in this Agreement relied upon, (ii) briefly summarizes the facts and circumstances deemed to provide a basis for the Executive's Termination of Employment under the provision so indicated, and (iii) if the Termination Date is other than the date of receipt of such notice, specifies the Termination Date (which date shall not be more than 15 days after the giving of such notice).

3. Severance Compensation upon Termination.

(a) Subject to the provisions of Section 11 hereof, in the event of the Executive's involuntary Termination of Employment for any reason other than Cause or in the event of a Good Reason Termination, in either event within two years after a Change of Control, Aqua America shall pay to the Executive, upon the execution of a release in the form required by Aqua America of its terminating executives prior to the Change of Control, within 15 days after the Termination Date (or as soon as possible thereafter in the event that the procedures set forth in Section 11(b) hereof cannot be completed within 15 days), an amount in cash equal to **two (2) times** the Executive's Base Compensation, subject to required employment taxes and deductions.

(b) In the event the Executive's Normal Retirement Date would occur prior to 24 months after the Termination Date, the aggregate cash amount determined as set forth in (a) above shall be reduced by multiplying it by a fraction, the numerator of which shall be the number of days from the Termination Date to the Executive's Normal Retirement Date and the denominator of which shall be 730 days. In the event the Termination Date occurs after the Executive's Normal Retirement Date, no payments shall be made under this Section 3.

4. Other Payments and Benefits. The payment due under Section 3 hereof shall be in addition to and not in lieu of any payments or benefits due to the Executive under any other plan, policy or program of Aqua America, and its Subsidiaries or Affiliates. In addition, the Executive shall be entitled to (i) a continuation of health, dental, life and welfare benefits, excluding disability benefits, otherwise provided to senior level executives or employees generally, as the same may be amended for all such individuals from time to time, for the period of **two years**, (ii) continued use of the automobile furnished to the Executive, if any, for the lesser of (1) **two years** after the Termination Date or (2) the balance of the applicable lease term, if any, in either case to the same extent as was provided to the Executive, if any, in the calendar year immediately preceding the Change of Control and the ability to purchase such automobile at its book value at the completion of such period and (iii) fully-paid executive level outplacement services from the provider or the Executive's choice for **six (6) months** following the Termination Date.

5. Trust Fund. Aqua America sponsors an irrevocable trust fund pursuant to a trust agreement to hold assets to satisfy its obligations to the Executive under this Agreement. Funding of such trust fund shall be subject to the discretion of Aqua America's President, as set forth in the agreement pursuant to which the fund has been established.

6. Enforcement.

(a) In the event that Aqua America shall fail or refuse to make payment of any amounts due the Executive under Sections 3 and 4 hereof within the respective time periods provided therein, Aqua America shall pay to the Executive, in addition to the payment of any other sums provided in this Agreement, interest, compounded daily, on any amount remaining unpaid from the date payment is required under Section 3 or 4, as appropriate, until paid to the Executive, at the rate from time to time announced by PNC Bank as its "prime rate" plus 1%, each change in such rate to take effect on the effective date of the change in such prime rate.

(b) It is the intent of the parties that the Executive not be required to incur any expenses associated with the enforcement of his rights under this Agreement by arbitration, litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, Aqua America shall pay the Executive on demand the amount necessary to reimburse the Executive in full for all reasonable expenses (including all attorneys' fees and legal expenses) incurred by the Executive in enforcing any of the obligations of Aqua America under this Agreement.

7. No Mitigation. The Executive shall not be required to mitigate the amount of any payment or benefit provided for in this Agreement by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for herein be reduced by any compensation earned by other employment or otherwise.

8. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in or rights under any benefit, bonus, incentive or other plan or program provided by Aqua America, or any of its Subsidiaries or Affiliates, and for which the Executive may qualify.

9. No Set-Off. Aqua America's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which Aqua America, or any of its Subsidiaries or Affiliates may have against the Executive or others.

10. Taxes. Any payment required under this Agreement shall be subject to all requirements of the law with regard to the withholding of taxes, filing, making of reports and the like, and Aqua America shall use its best efforts to satisfy promptly all such requirements.

11. Certain Reduction of Payments.

(a) Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined that any payment or distribution by Aqua America to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), the aggregate present value of amounts payable or distributable to or for the benefit of the Executive pursuant to this Agreement (such payments or distributions pursuant to this Agreement are hereinafter referred to as "Agreement Payments") shall be reduced (but not below zero) to the Reduced Amount. The "Reduced Amount" shall be an amount expressed in present value, which maximizes the aggregate present value of Agreement Payments without causing any Payment to be subject to the loss of deduction under Section 280G of the Code. For purposes of this Section 11, present value shall be determined in accordance with Section 280G(d)(4) of the Code.

(b) All determinations to be made under this Section 11 shall be made by Aqua America's independent public accountant immediately prior to the Change of Control (the "Accounting Firm"), which firm shall provide its determinations and any supporting calculations both to Aqua America and the Executive within 10 days of the Termination Date. Any such determination by the Accounting Firm shall be binding upon Aqua America and the Executive. The Executive shall then have the right to determine which of the Agreement Payments shall be eliminated or reduced in order to produce the Reduced Amount in accordance with the requirements of this Section. Within five days after this determination, Aqua America shall pay (or cause to be paid) or distribute (or cause to be distributed) to or for the benefit of the Executive such amounts as are then due to the Executive under this Agreement.

(c) As a result of the uncertainty in the application of Section 280G of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Agreement Payments, as the case may be, will have been made by Aqua America which should not have been made ("Overpayment") or that additional Agreement Payments which have not been made by Aqua America could have been made ("Underpayment"), in each case, consistent with the calculations required to be made hereunder. Within two years after the Termination of Employment, the Accounting Firm shall review the determination made by it pursuant to the preceding paragraph and Aqua America shall cooperate and provide all information necessary for such review. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to the Executive which the Executive shall repay to Aqua America together with interest from the date of payment under this Agreement at the applicable Federal rate provided for in Section 7872(f)(2) of the Code (the "Federal Rate"); provided, however, that no amount shall be payable by the Executive to Aqua America if and to the extent such payment would not reduce the limit on the amount that is deductible under Section 280G of the Code. In the event that the Accounting Firm determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by Aqua America to or for the benefit of the Executive together with interest from the date of payment under this Agreement at the Federal Rate.

(d) All of the fees and expenses of the Accounting Firm in performing the determinations referred to in subsections (b) and (c) above shall be borne solely by Aqua America. Aqua America agrees to indemnify and hold harmless the Accounting Firm of and from any and all claims, damages and expenses resulting from or relating to its determinations pursuant to subsections (b) and (c) above, except for claims, damages or expenses resulting from the gross negligence or willful misconduct of the Accounting Firm.

12. Term of Agreement. The term of this Agreement shall be indefinite until Aqua America notifies the Executive in writing that this Agreement will not be renewed at least sixty days prior to the proposed termination; provided, however, that (i) after a Change of Control during the term of this Agreement, this Agreement shall remain in effect until all of the obligations of the parties hereunder are satisfied or have expired, and (ii) this Agreement shall terminate if, prior to a Change of Control, the employment of the Executive with Aqua America and its Subsidiaries, as the case may be, shall terminate for any reason; provided, however, that if a Change of Control occurs within 18 months after (a) the Executive's termination incurred for any reason other than a voluntary resignation or retirement (a Good Reason Termination shall not be deemed voluntary) or termination for Cause or (b) the termination of this Agreement, the Executive shall be entitled to all of the terms and conditions of this Agreement as if the Executive's termination had occurred on the date of the Change of Control.

13. Successor Company. Aqua America shall require any successor or successors (whether direct or indirect, by purchase, merger or otherwise) to all or substantially all of the business and/or assets of Aqua America, by agreement in form and substance satisfactory to the Executive, to acknowledge expressly that this Agreement is binding upon and enforceable against the successor or successors, in accordance with the terms hereof, and to become jointly and severally obligated with Aqua America to perform this Agreement in the same manner and to the same extent that Aqua America would be required to perform if no such succession or successions had taken place. Failure of Aqua America to notify the Executive in writing as to such successorship, to provide the Executive the opportunity to review and agree to the successor's assumption of this Agreement or to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used in this Agreement, Aqua America Aqua America and any successor or successors to its business and/or assets, jointly and severally.

14. Notice. All notices and other communications required or permitted hereunder or necessary or convenient in connection herewith shall be in writing and shall be delivered personally or mailed by registered or certified mail, return receipt requested, or by overnight express courier service, as follows:

If to Aqua America, to:

Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489
Attention: Chairman, Executive Compensation Committee

If to the Executive, to:

Mark J. Kropilak

or to such other names or addresses as Aqua America or the Executive, as the case may be, shall designate by notice to the other party hereto in the manner specified in this Section; provided, however, that if no such notice is given by Aqua America following a Change of Control, notice at the last address of Aqua America or to any successor pursuant to Section 13 hereof shall be deemed sufficient for the purposes hereof. Any such notice shall be deemed delivered and effective when received in the case of personal delivery, five days after deposit, postage prepaid, with the U.S. Postal Service in the case of registered or certified mail, or on the next business day in the case of overnight express courier service.

15. Governing Law. This Agreement shall be governed by and interpreted under the laws of the Commonwealth of Pennsylvania without giving effect to any conflict of laws provisions.

16. Contents of Agreement, Amendment and Assignment. This Agreement supersedes all prior agreements, sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and cannot be changed, modified, extended or terminated except upon written amendment executed by the Executive and Aqua America. The provisions of this Agreement may require a variance from the terms and conditions of certain compensation or bonus plans under circumstances where such plans would not provide for payment thereof in order to obtain the maximum benefits for the Executive. It is the specific intention of the parties that the provisions of this Agreement shall supersede any provisions to the contrary in such plans, and such plans shall be deemed to have been amended to correspond with this Agreement without further action by Aqua America.

17. No Right to Continued Employment. Nothing in this Agreement shall be construed as giving the Executive any right to be retained in the employ of Aqua America or any of its Subsidiaries.

18. Successors and Assigns. All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, representatives, successors and assigns of the parties hereto, except that the duties and responsibilities of Aqua America hereunder shall not be assignable in whole or in part.

19. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances shall be determined to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions or applications of this Agreement which can be given effect without the invalid or unenforceable provision or application.

20. Remedies Cumulative; No Waiver. No right conferred upon the Executive by this Agreement is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and shall be in addition to any other right or remedy given hereunder or now or hereafter existing at law or in equity. No delay or omission by the Executive in exercising any right, remedy or power hereunder or existing at law or in equity shall be construed as a waiver thereof.

21. Miscellaneous. All section headings are for convenience only. This Agreement may be executed in several counterparts, each of which is an original. It shall not be necessary in making proof of this Agreement or any counterpart hereof to produce or account for any of the other counterparts.

22. Arbitration. In the event of any dispute under the provisions of this Agreement other than a dispute in which the sole relief sought is an equitable remedy such as an injunction, the parties shall be required to have the dispute, controversy or claim settled by arbitration in Bryn Mawr, Pennsylvania, in accordance with the National Rules for the Settlement of Employment Disputes of the American Arbitration Association, before one arbitrator who shall be an executive officer or former executive officer of a publicly traded corporation, selected by the parties. Any award entered by the arbitrator shall be final, binding and nonappealable and judgment may be entered thereon by either party in accordance with applicable law in any court of competent jurisdiction. This arbitration provision shall be specifically enforceable. The arbitrator shall have no authority to modify any provision of this Agreement or to award a remedy for a dispute involving this Agreement other than a benefit specifically provided under or by virtue of the Agreement. Aqua America shall be responsible for all of the fees of the American Arbitration Association and the arbitrator and any expenses relating to the conduct of the arbitration (including reasonable attorneys' fees and expenses).

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

ATTEST:

AQUA AMERICA, INC.

/s/ Roy H. Stahl
Secretary

By /s/ Nicholas DeBenedictis

EXECUTIVE

/s/ Maria Gordiany
Witness

/s/ Mark J. Kropilak

SELECTED PORTIONS OF ANNUAL REPORT TO SHAREHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

OVERVIEW

The Company

Aqua America, Inc. is the holding company for regulated utilities providing water or wastewater services to what we estimate to be approximately 3.0 million people in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, New York, Florida, Indiana, Virginia, Maine, Missouri and South Carolina. Our largest operating subsidiary, Aqua Pennsylvania, Inc., accounted for approximately 52% of our operating revenues for 2007 and, as of December 31, 2007, provided water or wastewater services to approximately one-half of the total number of people we serve, is located in the suburban areas north and west of the City of Philadelphia and in 23 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 hauling services, close to our utility companies' service territories.

Industry Mission

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

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

Economic Regulation

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

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

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Our water and wastewater operations are comprised of approximately 200 rate divisions, each of which requires a separate rate filing for the evaluation of the cost of service and recovery of investments in connection with the establishment of tariff rates for that rate division. Seven of the states in which we operate permit some form of consolidated rates in varying degrees for the rate divisions in that state, and two states currently permit us to fully consolidate rate filings state-wide. Due to the length of time since the last rate increase for some of our systems and the large amount of capital improvements relative to the number of customers in some smaller systems, the proposed rate increase in some of these systems may be substantial. Also, as a result of the condition of some of the systems acquired and the time needed to make the capital investments required to maintain compliance prior to requesting rates, some divisions have experienced or are experiencing longer periods of regulatory lag. We can provide no assurance that the rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which we initially sought the rate increases. We are currently in active rate proceedings in 9 of our 13 states.

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

Effects of Inflation – Recovery of the effects of inflation through higher water rates is dependent upon receiving adequate and timely rate increases. However, rate increases are not retroactive and often lag increases in costs caused by inflation. During periods of moderate inflation, as has been experienced in 2007 and 2006, the effects of inflation on our operating results are noticeable and partly responsible for lower than expected earnings growth. Two states allow annual inflationary index filings to help offset the effects of inflation on our operating costs.

Growth-Through-Acquisition Strategy

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

During 2007, we completed 26 acquisitions which, along with the organic growth in our existing systems, represent 23,909 new customers. In December 2007, we sold a water utility system representing 1,304 customers under our plan to evaluate and dispose of non-performing utility systems. In addition on January 1, 2007, we completed the acquisition of the capital stock of New York Water Service Corporation for \$26,664 in cash, as adjusted pursuant to the purchase agreement primarily based on working capital at closing, and the assumption of \$23,000 of long-term debt. The operating results of New York Water Service Corporation have been included in our consolidated financial statements beginning January 1, 2007. The acquired operation provides water service to 44,792 customers in several water systems located in Nassau County, Long Island, New York and these customers are included in our customer count as of December 31, 2006. The acquisition was funded through the issuance of long-term debt that was issued in 2006.

During 2005 and 2006, we completed six acquisitions of non-regulated companies that provide on-site septic tank pumping, sludge hauling and other wastewater-related services to customers in eastern Pennsylvania, New Jersey, Delaware, New York and Maryland. The operating revenues of these businesses for the years ended December 31, 2007 and 2006 were \$10,216 and \$5,424, respectively, and are excluded from our Regulated segment. In total during 2006, \$7,897 in cash was invested in these non-regulated wastewater and septage acquisitions on which we believe we will earn an appropriate return. Please refer to the section captioned "Acquisitions" for an additional discussion of acquisitions.

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We believe that utility acquisitions will continue to be the primary source of growth for us. With approximately 53,000 community water systems in the U.S., 83% of which serve less than 3,300 customers, the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). In the states where we operate, we believe there are approximately 22,000 public water systems of widely varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the U.S. Environmental Protection Agency's (EPA) most recent survey of publicly-owned wastewater treatment facilities in 2004, there are approximately 16,600 such facilities in the nation serving approximately 75% of the U.S. population. The remaining population represents individual homeowners with their own treatment facilities; for example, community on-lot disposal systems and septic tank systems. The vast majority of wastewater facilities are government-owned rather than privately-owned. The EPA survey also indicated that there are approximately 9,800 wastewater facilities in operation or planned in the 13 states where we operate. We also intend to explore opportunities in the non-regulated wastewater and septage businesses when they complement our utility companies.

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

- the benefits of economies of scale;
- increasingly stringent environmental regulations;
- the need for substantial capital investment; and
- the need for technological and managerial expertise.

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

Sendout

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

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

The geographic diversity of our utility customer base reduces the effect on Aqua America of our exposure to extreme or unusual weather conditions in any one area of our service territory. During the year ended December 31, 2007, our operating revenues were derived principally from the following states: 52% in Pennsylvania, 8% in Texas, 7% in Ohio, 7% in Illinois, and 6% in North Carolina.

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Consolidated Selected Financial and Operating Statistics

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

Years ended December 31,	2007	2006 (a)	2005	2004 (b)	2003 (c)
Utility customers:					
Residential water	797,899	780,828	724,954	702,367	624,355
Commercial water	37,056	36,280	33,975	33,720	33,015
Industrial water	1,322	1,337	1,356	1,365	1,397
Other water	16,683	15,587	15,584	15,700	20,483
Wastewater	97,772	92,791	89,025	82,360	70,241
Total	950,732	926,823	864,894	835,512	749,491
Operating revenues:					
Residential water	\$ 360,542	\$ 317,770	\$ 295,473	\$ 264,910	\$ 218,487
Commercial water	85,553	76,076	73,455	65,605	61,343
Industrial water	19,548	18,752	18,364	17,377	17,675
Other water	58,274	51,263	50,827	44,593	40,048
Wastewater	52,891	48,907	42,176	35,931	17,874
Other	12,935	13,525	13,161	11,556	9,821
Regulated segment total	589,743	526,293	493,456	439,972	365,248
Other	12,756	7,198	3,323	2,067	1,985
Consolidated	\$ 602,499	\$ 533,491	\$ 496,779	\$ 442,039	\$ 367,233
Operations and maintenance expense	\$ 253,092	\$ 219,560	\$ 203,088	\$ 178,345	\$ 140,602
Net income available to common stock	\$ 95,014	\$ 92,004	\$ 91,156	\$ 80,007	\$ 70,785
Capital expenditures	\$ 238,140	\$ 271,706	\$ 237,462	\$ 195,736	\$ 163,320

Operating Statistics

Selected operating results as a percentage of operating revenues:

Operations and maintenance	42.0%	41.2%	40.9%	40.3%	38.3%
Depreciation and amortization	14.6%	14.1%	13.2%	13.3%	14.0%
Taxes other than income taxes	7.5%	6.2%	6.4%	6.2%	5.9%
Interest expense, net	11.1%	10.9%	10.4%	11.0%	12.2%
Net income available to common stock	<u>15.8%</u>	<u>17.2%</u>	<u>18.3%</u>	<u>18.1%</u>	<u>19.3%</u>
Return on average stockholders' equity	<u>10.0%</u>	<u>10.6%</u>	<u>11.7%</u>	<u>11.4%</u>	<u>12.3%</u>
Effective tax rates	<u>38.9%</u>	<u>39.6%</u>	<u>38.4%</u>	<u>39.4%</u>	<u>39.3%</u>

- (a) 2006 includes 44,792 customers associated with the New York Water Service Corporation acquisition which was completed on January 1, 2007. The operating results of this acquisition have been reported in our consolidated financial statements beginning January 1, 2007.
- (b) Net income available to common stock includes the gain of \$1,522 (\$2,342 pre-tax) realized on the sale of a water system. The gain is reported in the 2004 consolidated statement of income as a reduction to operations and maintenance expense. 2004 includes a partial year of financial results for the mid-year acquisition of Heater Utilities, Inc. and certain utility assets of Florida Water Services Corporation.
- (c) 2003 includes five months of financial results for the AquaSource operations acquired in July 2003.

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Performance Measures Considered by Management

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

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

- **Acquisitions** – The AquaSource, Heater Utilities, Inc. and Florida Water Services acquisitions (generally referred to as our Aqua South operations) increased our operating expense ratio due to the operating revenues generated by these operations being accompanied by a higher ratio of operations and maintenance expenses as compared to the rest of the pre-existing, more densely-populated and integrated Aqua America operations. The Aqua South operations can be characterized as having relatively higher operating costs to fixed capital costs, in contrast to the rest of the Aqua America operations which generally consist of larger, interconnected systems, with higher fixed capital costs (utility plant investment) and lower operating costs per customer. In addition, we completed several acquisitions of companies that provide on-site septic tank pumping and sludge hauling services during 2006. The cost-structure of these businesses differs from our utility companies in that these businesses have a much higher ratio of operations and maintenance expenses to operating revenues and a lower-degree of capital investment and consequently a lower ratio of fixed capital costs (plant investment requirements are lower) versus operating revenues. As a result, the ratio of operating income compared to operating revenues is not comparable between the businesses. The non-regulated wastewater and septage hauling service business is not a component of our Regulated segment.
- **Regulatory lag** – The efficiency ratio is influenced by regulatory lag (increases in operations and maintenance expenses not yet recovered in rates or a gap between the time that a capital project is completed and the start of its cost recovery in rates), or decreases in operating revenues without a commensurate decrease in operations and maintenance expense, such as changes in water consumption as impacted by adverse weather conditions or conservation trends.
- **New accounting pronouncements** – Beginning in 2006, our results reflect the effects of the adoption of SFAS No. 123R, "Share-Based Payment" as we began to record compensation expense for the fair value of stock options granted. The effect of recording compensation expense for stock options increased our operations and maintenance expense by \$3,223 in 2007 and \$2,894 in 2006. Prior to 2006, no compensation expense related to granting of stock options had been recognized in the financial statements.

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

RESULTS OF OPERATIONS

Our net income has grown at an annual compound rate of approximately 7.2% during the five-year period ended December 31, 2007. During the past five years, operating revenues grew at a compound rate of 13.3% and total expenses, exclusive of income taxes, grew at a compound rate of 16.0%.

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Operating Segments

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

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

Unless specifically noted, the following discussion and analysis provides information on our consolidated result of operations. The following table provides the Regulated segment and Consolidated information for the years ended December 31, 2007, 2006 and 2005:

	2007			2006		
	Regulated	Other	Consolidated	Regulated	Other	Consolidated
Operating revenues	\$ 589,743	\$ 12,756	\$ 602,499	\$ 526,293	\$ 7,198	\$ 533,491
Operations and maintenance expense	243,755	9,337	253,092	216,919	2,641	219,560
Taxes other than income taxes	44,011	1,369	45,380	32,273	1,070	33,343
Earnings before interest, taxes, depreciation and amortization	\$ 301,977	\$ 2,050	304,027	\$ 277,101	\$ 3,487	280,588
Depreciation and amortization			88,011			75,041
Operating income			216,016			205,547
Interest expense, net of AFUDC			63,968			54,491
Gain on sale of other assets			(3,494)			(1,194)
Provision for income taxes			60,528			60,246
Net income			\$ 95,014			\$ 92,004

	2005		
	Regulated	Other	Consolidated
Operating revenues	\$ 493,456	\$ 3,323	\$ 496,779
Operations and maintenance expense	202,662	426	203,088
Taxes other than income taxes	30,820	876	31,696
Earnings before interest, taxes, depreciation and amortization	\$ 259,974	\$ 2,021	261,995
Depreciation and amortization			65,488
Operating income			196,507
Interest expense, net of AFUDC			49,615
Gain on sale of other assets			(1,177)
Provision for income taxes			56,913
Net income			\$ 91,156

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Consolidated Results

Operating Revenues – The growth in revenues over the past five years is a result of increases in the customer base, water rates and the acquisition of non-regulated operations. The number of customers increased at an annual compound rate of 9.4% in the past five years primarily as a result of acquisitions of water and wastewater systems, including the January 1, 2007 acquisition of New York Water Service Corporation, the mid-year 2004 Heater and Florida Water Services acquisitions, and the AquaSource acquisition completed July 2003. The operating revenues and financial results of New York Water Service Corporation have been included in our consolidated financial statements beginning January 1, 2007. Acquisitions in our Regulated segment have provided additional water and wastewater revenues of approximately \$28,578 in 2007, \$4,715 in 2006 and \$12,630 in 2005. Excluding the effect of acquisitions, our customer base increased at a five-year annual compound rate of 1.9%. Rate increases implemented during the past three years have provided additional operating revenues of approximately \$25,658 in 2007, \$32,000 in 2006 and \$26,800 in 2005.

In November 2007, our Pennsylvania operating subsidiary, Aqua Pennsylvania, Inc., filed an application with the Pennsylvania Public Utility Commission ("PAPUC") requesting a \$41,694 or 13.6% increase in annual revenues. The application is currently pending before the PAPUC and a final determination is anticipated by August 2008. On June 22, 2006, the PAPUC granted our Pennsylvania operating subsidiary a \$24,900 base water rate increase, on an annualized basis. The rates in effect at the time of the filing of this rate case included \$12,397 in Distribution System Improvement Charges ("DSIC") or 5% above the prior base rates. Consequently, the total base rates increased by \$37,297 and the DSIC was reset to zero.

In December 2006, our operating subsidiary in Florida filed an application with the Florida Public Service Commission ("FPSC") designed to increase water and wastewater rates by \$7,298 on an annual basis. In April 2007, we commenced billing for a portion of the requested rates, in accordance with authorization from the FPSC. On August 28, 2007, we reached a settlement agreement with Florida's Office of Public Counsel and the Attorney General of the State of Florida. The settlement agreement was approved by the FPSC, and among other stipulations, resulted in us voluntarily withdrawing our application, and agreeing to refund the additional revenue billed that was associated with this rate application. As a result of this agreement, during the third quarter of 2007, we recorded a revenue refund which reduced operating revenues by \$571 for the amount of revenue recognized prior to the third quarter of 2007. Additionally the Company wrote-off rate case expenses of \$2,385 in 2007.

In 2004, our operating subsidiary in Texas filed an application with the Texas Commission on Environmental Quality (TCEQ) to increase rates, on an annualized basis, by \$11,920 over a multi-year period. The application seeks to increase annual revenues in phases and is accompanied by a plan to defer and amortize a portion of our depreciation, operating and other tax expense over a similar multi-year period, such that the impact on operating income approximates the requested amount during the first years that the new rates are in effect. The application is currently pending before the TCEQ and several parties have joined the proceeding to challenge our rate request. We commenced billing for the requested rates and implemented the deferral plan in 2004, in accordance with authorization from the TCEQ in 2004. The additional revenue billed and collected prior to the final ruling is subject to refund based on the outcome of the ruling. The revenue recognized and the expenses deferred by us reflect an estimate of the final outcome of the ruling. In the event our request is denied completely or in part, we could be required to refund some or all of the revenue billed to date, and write-off some or all of the regulatory asset for the expense deferral. In December 2006, the TCEQ held hearings and issued a rate schedule that provided further clarification and an indication of the expected outcome of the rate proceeding. As a result of the December 2006 hearings, we revised our estimate of the final outcome of the TCEQ proceeding. During the fourth quarter of 2006, the revenue reserve was adjusted and additional revenues were recognized of \$1,487 and the regulatory asset was increased resulting in lower expenses recognized of \$1,199. As of December 31, 2007, we have deferred \$12,382 of operating costs and \$3,343 of rate case expenses; and recognized \$25,635 of revenue that is subject to refund depending on the outcome of the final commission order. Based on our review of the present circumstances, no reserve is considered necessary for the revenue recognized to date or for the deferred operating costs and rate case expense.

Our operating subsidiaries located in other states received rate increases representing estimated annualized revenues of \$5,596 in 2007 resulting from 23 rate decisions, \$7,366 in 2006 resulting from 32 rate decisions, and \$5,142 in 2005 resulting from 23 decisions. Revenues from these increases realized in the year of grant were approximately \$4,636 in 2007, \$3,580 in 2006 and \$3,144 in 2005. These operating subsidiaries, including certain Florida operating subsidiaries, currently have filed 15 rate requests which are being reviewed by the state regulatory commissions, proposing an aggregate increase of \$22,885 in annual revenues. During 2008, we intend to file 21 additional rate requests proposing an aggregate of approximately \$18,750 of increased annual revenues; however we can provide no assurance that the full amount of the requested rate increases will be granted.

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Currently, Pennsylvania, Illinois, Ohio, New York, Indiana and Missouri allow for the use of infrastructure rehabilitation surcharges. In Pennsylvania, this mechanism is referred to as a DSIC. These surcharge mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped as a percentage of base rates, generally at 5% to 9% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. Infrastructure rehabilitation surcharges provided revenues of \$11,507 in 2007, \$7,873 in 2006 and \$10,186 in 2005.

Our Regulated segment also includes certain non-regulated operating revenues of \$12,935 in 2007, \$13,525 in 2006 and \$13,161 in 2005. These operating revenues are associated with contract operations that are integral to the utility business and operations. These amounts vary over time according to the level of activity associated with the utility contract operations.

In addition to the Regulated segment operating revenues, we had other non-regulated revenues that were primarily associated with non-regulated wastewater, septage, operating and maintenance contracts, and data processing service fees of \$12,756 in 2007, \$7,198 in 2006 and \$3,323 in 2005. The increase in 2007 over 2006 resulted primarily from a full year of operations in 2007 from several septage businesses acquired in 2006. The increase in 2006 over 2005 was primarily due to the acquisition of several septage businesses during 2006. Acquisitions outside our Regulated segment have provided additional operating revenues of approximately \$4,765 in 2007, \$3,935 in 2006 and \$1,082 in 2005.

Operations and Maintenance Expenses – Operations and maintenance expenses totaled \$253,092 in 2007, \$219,560 in 2006 and \$203,088 in 2005. Most elements of operating costs are subject to the effects of inflation, and changes in the number of customers served. Several elements are subject to the effects of changes in water consumption, weather and the degree of water treatment required due to variations in the quality of the raw water. The principal elements of operating costs are labor and employee benefits, electricity, chemicals, maintenance expenses and insurance costs. Electricity and chemical expenses vary in relationship to water consumption, raw water quality, and price increases. Maintenance expenses are sensitive to extremely cold weather, which can cause water mains to rupture. Operations and maintenance expenses increased in 2007 as compared to 2006 by \$33,532 or 15.3% primarily due to the additional operating costs associated with acquisitions of \$15,400, increased water production costs of \$3,068, additional expenses resulting from the preparation and administration of rate filings in Florida of \$2,385, additional bad debt expense of \$1,731, the receipt in 2006 of \$1,500 as an offset to expense relating to a waiver of certain contractual rights without a corresponding amount in the current year, and normal increases in other operating costs, offset partially by the gain on sale of utility system of \$1,095. In the consolidated statement of income for 2007, the gain on sale of utility systems is reported as a component of operations and maintenance expense. During certain periods in 2007, we temporarily discontinued collection efforts in some of our divisions in connection with the installation of a new billing system which resulted in increased accounts written off and higher bad debt expense. The additional operating costs associated with acquisitions noted above includes \$4,356 associated with the businesses that provide on-site septic tank pumping, sludge hauling services and other non-regulated water and wastewater services which are not a component of the Regulated segment.

Operations and maintenance expenses increased in 2006 as compared to 2005 by \$16,472 or 8.1% primarily due to the additional operating costs associated with acquisitions of \$6,316, increased water production expenses of \$3,576, increased insurance expense, driven by higher claims of \$1,945, stock-based compensation expense of \$2,894, a reduction in the deferral of expenses related to the Texas rate case filing of \$1,989, and normal increases in other operating costs, offset partially by receipt of \$1,500 relating to a waiver of certain contractual rights reported outside of the Regulated segment. The additional operating costs associated with acquisitions noted above includes \$3,760 associated with the businesses that provide on-site septic tank pumping, sludge hauling services and other non-regulated water and wastewater services which are not a component of the Regulated segment.

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Depreciation and Amortization Expenses – Depreciation expense was \$83,178 in 2007, \$70,895 in 2006 and \$60,747 in 2005, and has increased principally as a result of our acquisitions of new utility systems and the significant capital expenditures made to expand and improve our existing utility facilities.

Amortization expense was \$4,833 in 2007, \$4,146 in 2006 and \$4,741 in 2005. The increase in 2007 and the decrease in 2006 is due to the amortization of the costs associated with, and other costs being recovered in, various rate filings. Expenses associated with filing rate cases are deferred and amortized over periods that generally range from one to three years.

Taxes Other than Income Taxes – Taxes other than income taxes increased by \$12,037 or 36.1% in 2007 as compared to 2006 and \$1,647 or 5.2% in 2006 as compared to 2005. The increase in 2007 is due to additional property taxes associated with the acquired operations of New York Water Service of \$7,084 and additional state taxes. The increase in 2006 is due to additional state and local taxes, primarily property taxes.

Interest Expense, net – Net interest expense was \$66,921 in 2007, \$58,432 in 2006 and \$52,062 in 2005. Interest income of \$3,569 in 2007, \$3,241 in 2006 and \$3,040 in 2005 was netted against interest expense. Interest expense increased in 2007 and 2006 primarily due to additional borrowings to finance capital projects and acquisitions, and increased interest rates on short-term borrowings. Interest income increased in 2007 and 2006 due to additional investment income earned on the proceeds from the issuance of tax-exempt bonds while being held by trustees pending completion of projects financed with the issues. Such interest income is capitalized through our allowance for funds used during construction. Interest expense on long-term debt during 2007 and 2006 was favorably impacted by a reduction in the weighted cost of long-term debt from 5.74% at December 31, 2005, to 5.72% at December 31, 2006, and to 5.58% at December 31, 2007.

Allowance for Funds Used During Construction – The allowance for funds used during construction (AFUDC) was \$2,953 in 2007, \$3,941 in 2006 and \$2,447 in 2005 and has varied over the years as a result of changes in the average balance of utility plant construction work in progress (CWIP), to which AFUDC is applied, and to changes in the AFUDC rate which is based on short-term interest rates. The decrease in 2007 is due to a decrease in the average balance of utility plant construction work in progress; offset partially by an increase in the AFUDC rate. The increase in 2006 is due to an increase in the average balance of CWIP to which AFUDC is applied and an increase in the AFUDC rate.

Gain on Sale of Other Assets – Gain on sale of other assets totaled \$3,494 in 2007, \$1,194 in 2006 and \$1,177 in 2005 and consisted of gains on land and marketable securities sales. Gain on sale of land totaled \$1,831 in 2007, \$1,194 in 2006 and \$1,177 in 2005. Gain on sale of marketable securities totaled \$1,663 in 2007. The gain realized on the December 2007 sale of a utility system of \$1,095 is reported in the consolidated statement of income as a component of the line titled operations and maintenance expense.

Income Taxes – Our effective income tax rate was 38.9% in 2007, 39.6% in 2006 and 38.4% in 2005. The change in the effective tax rates in 2007 is due to differences between tax deductible expenses and book expenses, and an increase in the tax deduction for qualified domestic production activities, as a result of a change in the deduction calculation, that reduced our tax provision by approximately \$793 in 2007 as compared to 2006. The change in the effective tax rate in 2006 was due to an increase in our expenses that are not tax-deductible, including a portion of the stock-based compensation expense.

Summary – Operating income was \$216,016 in 2007, \$205,547 in 2006 and \$196,507 in 2005 and net income was \$95,014 in 2007, \$92,004 in 2006 and \$91,156 in 2005. Diluted income per share was \$0.71 in 2007, \$0.70 in 2006 and \$0.71 in 2005. The changes in the per share income in 2007 and 2006 over the previous years were due to the aforementioned changes in income and impacted by a 1.4% increase in the average number of common shares outstanding during 2007 and a 2.0% increase in the average number of common shares outstanding during 2006, respectively. The increase in the number of shares outstanding in 2007 is primarily a result of the additional shares sold or issued through the employee stock and incentive plan, dividend reinvestment plan and the 2,250,000 additional shares issued by us in public offerings in June and August 2006. The increase in the number of shares outstanding in 2006 is primarily a result of the additional shares issued in common share offerings and additional shares issued through our dividend reinvestment plan.

Although we have experienced increased income in the recent past, continued adequate rate increases reflecting increased operating costs and new capital investments are important to the future realization of improved profitability.

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(In thousands of dollars, except per share amounts)

Fourth Quarter Results – The following table provides our fourth quarter results:

	Three Months Ended December 31,	
	2007	2006
Operating revenues	\$ 149,083	\$ 136,843
Operations and maintenance	62,394	53,684
Depreciation and amortization	22,751	19,494
Taxes other than income taxes	11,784	8,352
	<u>96,929</u>	<u>81,530</u>
Operating income	52,154	55,313
Interest expense, net	16,828	14,764
Allowance for funds used during construction	(835)	(1,040)
Gain on sale of other assets	(2,846)	(360)
Income before income taxes	39,007	41,949
Provision for income taxes	14,096	16,226
Net income	<u>\$ 24,911</u>	<u>\$ 25,723</u>

The increase in operating revenues was a result of additional revenues of \$7,234 associated with acquisitions, additional infrastructure rehabilitation surcharge revenue of \$3,024, \$1,941 of revenue resulting from an increase in water and wastewater rates implemented in various operating subsidiaries, and increased water consumption, offset partially by \$1,487 of additional revenue recognized in the fourth quarter 2006 as a result of the revised estimate of the Texas rate proceeding. The higher operations and maintenance expense is due primarily to \$2,982 of additional operating costs associated with acquisitions, increased insurance expense of \$1,829 due to a higher claims reserve requirement, higher water production costs of \$1,077 and increased labor and benefits, offset partially by the gain on the sale of a utility system of \$1,095 in the fourth quarter of 2007. The increased depreciation expense reflects the utility plant placed in service since the fourth quarter of 2006. Other taxes increased due to additional property taxes associated with the acquired operations of New York Water Service of \$1,891 and additional state taxes incurred in the fourth quarter of 2007. The increased interest expense is due to additional borrowings to finance capital projects and increased interest rates on short-term borrowings. The increased gain on sale of other assets is due to additional gains on the sales of land of \$823 over the fourth quarter of 2006, and a gain on the sale of investments in the fourth quarter of 2007 of \$1,663.

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FINANCIAL CONDITION

Consolidated Cash Flow and Capital Expenditures

Net operating cash flow, dividends paid on common stock, capital expenditures, including allowances for funds used during construction, and expenditures for acquiring water and wastewater systems for the five years ended December 31, 2007 were as follows:

	Net Operating Cash Flow	Common Dividends	Capital Expenditures	Acquisitions
2003	\$ 143,373	\$ 39,917	\$ 163,320	\$ 192,331
2004	173,603	45,807	195,736	54,300
2005	199,674	51,139	237,462	11,633
2006	170,726	58,023	271,706	11,848
2007	194,168	63,763	238,140	51,226
	<u>\$ 881,544</u>	<u>\$ 258,649</u>	<u>\$ 1,106,364</u>	<u>\$ 321,338</u>

Included in capital expenditures for the five-year period are: expenditures for the modernization and replacement of existing treatment plants, new water mains and customer service lines, rehabilitation of existing water mains and hydrants, water meters and an office building expansion. During this five-year period, we received \$58,814 of customer advances and contributions in aid of construction to finance new water mains and related facilities which are not included in the capital expenditures presented in the above table. In addition, during this period, we have made sinking fund contributions and repaid debt in the amount of \$245,796, and have refunded \$24,707 of customer advances for construction. Common dividends increased during the past five years as a result of an annual increase in the common dividends declared and paid and an increase in the number of shares outstanding during the period.

Our planned 2008 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to be \$261,800 of which \$74,168 is for infrastructure rehabilitation surcharge-qualified projects. Our planned capital program includes spending for infrastructure rehabilitation in response to the infrastructure rehabilitation surcharge mechanisms, and should these mechanisms be discontinued for any reason, which is not anticipated, we would re-evaluate the magnitude of our capital program. Our 2008 capital program, along with \$23,927 of sinking fund obligations and debt maturities, and \$121,213 of other contractual cash obligations, as reported in the section captioned "Contractual Obligations", has been or is expected to be financed through internally-generated funds, our revolving credit facilities, the issuance of equity through public offerings or through settlement in common shares of the forward equity sale agreement, and the issuance of long-term debt.

Future utility construction in the period 2009 through 2012, including recurring programs, such as the ongoing replacement of water meters, water treatment plant upgrades, storage facility renovations, the rehabilitation of water mains and additional transmission mains to meet customer demands, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to require aggregate expenditures of approximately \$1,000,000. We anticipate that approximately one-half of these expenditures will require external financing with debt and the additional issuance of common stock through our dividend reinvestment and stock purchase plans and the issuance of equity through public offerings. We expect to refinance \$192,029 of sinking fund obligations and debt maturities during this period as they become due with new issues of long-term debt. The estimates discussed above do not include any amounts for possible future acquisitions of water systems or the financing necessary to support them.

Our primary source of liquidity is cash flows from operations, borrowings under various short-term lines of credit and other credit facilities, and customer advances and contributions in aid of construction. Our cash flow from operations, or internally-generated funds, is impacted by the timing of rate relief and water consumption. We fund our capital and acquisition programs through internally-generated funds, supplemented by short-term borrowings. Over time, we refinance our short-term borrowings with long-term debt and proceeds from the issuance of common stock. The ability to finance our future construction programs, as well as our acquisition activities, depends on our ability to attract the necessary external financing and maintain internally-generated funds. Rate orders permitting compensatory rates of return on invested capital and timely rate adjustments will be required by our operating subsidiaries to achieve an adequate level of earnings and cash flow to enable them to secure the capital they will need to operate and to maintain satisfactory debt coverage ratios.

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(In thousands of dollars, except per share amounts)

Acquisitions

During the past five years, we have expended cash of \$321,338 and issued 24,684 shares of common stock, valued at \$675 at the time of the acquisition, related to the acquisition of utility systems, both water and wastewater utilities, and non-regulated businesses that provide wastewater and septage hauling services. We included the operating results of these acquisitions in our consolidated financial statements beginning on the respective acquisition date.

On January 1, 2007 we completed the acquisition of the capital stock of New York Water Service Corporation for \$26,664 in cash, as adjusted pursuant to the purchase agreement primarily based on working capital at closing, and the assumption of \$23,000 of long-term debt. The operating results of New York Water Service Corporation have been included in our consolidated financial statements beginning January 1, 2007. The acquired operation provides water service to 44,792 customers in several water systems located in Nassau County, Long Island, New York. The acquisition was accounted for as a purchase and was funded through the issuance of long-term debt that was issued in December 2006. In addition to New York Water Service, during 2007, we completed 26 acquisitions for \$24,562 in cash. The acquisitions completed in 2007 included both water and wastewater systems in ten of the states in which we operate.

During 2006, we completed 27 acquisitions for \$11,848 in cash. The acquisitions completed in 2006 included both water and wastewater systems in seven of the states in which we operate, and the acquisition of several non-regulated companies that provide on-site septic tank pumping, sludge hauling services and other wastewater services to customers in eastern Pennsylvania, New Jersey, Delaware, New York and Maryland.

During 2005, we completed 30 acquisitions for \$11,633 in cash and the issuance of 24,684 shares of common stock. The acquisitions completed in 2005 included both water and wastewater systems in seven of the states in which we operate. On June 1, 2004, we acquired the capital stock of Heater Utilities, Inc. for \$48,000 in cash and the assumption of long-term debt of \$19,219 and short-term debt of \$8,500. At the date of the acquisition, Heater provided water and wastewater service to over 50,000 water and wastewater customers primarily in the areas of suburban Raleigh, Charlotte, Gastonia and Fayetteville, North Carolina. The acquisition was accounted for as a purchase and accordingly, we recorded goodwill of \$18,842. As part of the North Carolina Utilities Commission approval process for this acquisition, the Commission approved a mechanism through which we could recover up to two-thirds of the goodwill through customer rates in the future upon achieving certain objectives. We are pursuing these objectives to facilitate recognition of this premium in customer rates. However, there can be no assurance that we will be able to achieve these objectives and recover such amount of goodwill.

On June 30, 2004, we acquired certain utility assets of Florida Water Services Corporation, comprised of 63 water and wastewater systems located in central Florida for \$13,090 in cash, the final purchase price as adjusted pursuant to the purchase agreement. In accordance with Florida Public Service Commission procedures, the acquisition was approved by the Commission and rate base was determined on December 20, 2005. Under the terms of the purchase agreement, the Commission's rate base determination resulted in the final purchase price which did not result in the recognition of goodwill.

The acquisitions of Heater and the Florida Water Systems were initially funded by a portion of the proceeds from the issuance by Aqua America of an unsecured short-term note which was subsequently repaid by Aqua America with the proceeds from the February 2005 issuance of \$30,000 of unsecured notes and the issuance of 2,606,667 shares of common stock in a secondary equity offering for proceeds of \$42,600, net of expenses.

In 2003, we completed the acquisition of four operating water and wastewater subsidiaries of AquaSource, Inc., a subsidiary of DQE, Inc., including selected, integrated operating and maintenance contracts and related assets (individually and collectively the acquisition is referred to as "AquaSource") for \$190,717 in cash, as adjusted pursuant to the purchase agreement based on working capital at closing. In 2004, we were awarded and received \$12,289 plus interest in an arbitration related to the calculation of the final purchase price under the terms of the purchase agreement, which resulted in a final purchase price of \$178,428. In the consolidated statement of cash flow for 2004, the \$12,289 award has been reported as proceeds on the line titled acquisitions of utility systems and other, net. The acquisition was funded by a portion of the proceeds from the 2003 issuance of \$135,000 of unsecured notes due in 2023, with an interest rate of 4.87%, and the issuance of 6,666,667 shares of common stock through a shelf registration. The acquired operations of AquaSource serve over 130,000 water and wastewater customer accounts in 11 states (including the Connecticut and Kentucky operations which were subsequently sold to other parties). The acquisition provides an expanded platform from which to extend our growth-through-acquisition strategy of acquiring water and wastewater systems that are near or adjacent to our existing service territories. The AquaSource operations are comprised of approximately 600 small systems, which are generally clustered in regions to achieve some level of operating efficiency.

AQUA AMERICA, INC. AND SUBSIDIARIES
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We continue to hold acquisition discussions with several water and wastewater systems. Generally acquisitions are expected to be financed through the issuance of equity (for the acquisition of some investor-owned systems) or funded initially with short-term debt with subsequent repayment from the proceeds of long-term debt or proceeds from equity offerings.

Dispositions

We routinely review and evaluate areas of our business and operating divisions and over time may sell certain utility systems or portions of systems. In December 2007, we sold a water utility system for net proceeds of \$1,498, which was in excess of the book value for these assets. The proceeds were used to pay-down short-term debt and the sale resulted in the recognition in 2007 of a gain on the sale of these assets, net of expenses, of \$1,095. The gain is reported in the 2007 consolidated statement of income as a reduction to operations and maintenance expense. This water system represented less than 0.1% of Aqua America's total assets.

The City of Fort Wayne, Indiana has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the operating subsidiaries that we acquired in connection with the AquaSource acquisition. We had challenged whether the City was following the correct legal procedures in connection with the City's attempted condemnation, but the State Supreme Court, in an opinion issued in June 2007, supported the City's position. In October 2007, the City's Board of Public Works approved proceeding with its process to condemn the northern portion of our utility system at a preliminary price based on the City's valuation. We filed an appeal with the Allen County Circuit Court challenging the Board of Public Works' valuation on several bases. In November 2007, the City Council authorized the taking of the northern portion of our system and the payment of \$16,911 based on the City's valuation of this portion of our system. In January 2008, we reached a settlement agreement with the City to transition the northern portion of the system in February 2008 upon receipt of the City's initial valuation payment of \$16,911. The settlement agreement specifically stated that the final valuation of the portion of our system will be determined through a continuation of the legal proceedings that were filed challenging the City's valuation. On February 12, 2008, we turned over the system to the City upon receipt of the initial valuation proceeds. The proceeds received are in excess of the book value of the assets relinquished, and the proceeds were used to pay-down short-term debt. We continue to operate this system for the City under an operating contract for 90 days, with a possible 90 day extension. The northern portion of the system relinquished represents approximately 1% of our total utility customer base.

A sanitary district and a city in two of our operating divisions have also indicated interest in acquisition, by eminent domain or otherwise, of all or a portion of the utility assets of two of our operations. The systems represent approximately 3,000 customers or less than 0.5% of our total utility customer base. We believe that we will be entitled to fair market value for our assets if they are condemned, and that the fair market value will be in excess of the book value for such assets.

In 2004, as a result of the settlement of a condemnation action, one of our operating subsidiaries sold its water utility assets within the municipal boundaries of a city in one of our service territories for net proceeds of approximately \$4,716, which was in excess of the book value for these assets. The proceeds were used to pay-down short-term debt and the sale resulted in the recognition in 2004 of a gain on the sale of these assets, net of expenses, of \$2,342. The gain is reported in the 2004 consolidated statement of income as a reduction to operations and maintenance expense. We continue to operate this water system for the city under a multi-year operating contract that expires in December 2008. These water utility assets represented less than 1% of Aqua America's total assets, and the total number of customers included in the water system sold represented less than 1% of our total utility customer base.

Despite these transactions, our primary strategy continues to be to acquire additional water and wastewater systems, to maintain our existing systems where there is a business or a strategic benefit, and to actively oppose unilateral efforts by municipal governments to acquire any of our operations.

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Sources of Capital

Since net operating cash flow plus advances and contributions in aid of construction have not been sufficient to fully fund cash requirements, we issued approximately \$822,980 of long-term debt and obtained other short-term borrowings during the past five years. At December 31, 2007, we had short-term lines of credit of \$154,000, of which \$97,082 was available. Our short-term lines of credit and other credit facilities are either payable on demand or have a 364-day term. In addition, at December 31, 2007 we have a \$95,000 long-term revolving credit facility that expires in May 2012, of which \$13,152 was designated for letter of credit usage, \$16,848 was available for borrowing and \$65,000 of borrowings was outstanding at December 31, 2007.

In December 2005, we filed a universal shelf registration with the SEC to allow for the potential future sale by us, from time to time, in one or more public offerings, of an indeterminate amount of our common stock, preferred stock, debt securities and other securities specified therein at indeterminate prices.

In August 2006, we entered into a forward equity sale agreement for 3,525,000 shares of common stock with a third party ("forward purchaser") that expires August 1, 2008. In connection with the forward equity sale agreement, the forward purchaser borrowed an equal number of shares of our common stock from stock lenders and sold the borrowed shares to the public. We will not receive any proceeds from the sale of our common stock by the forward purchaser until settlement of all or a portion of the forward equity sale agreement. The actual proceeds to be received by us will vary depending upon the settlement date, the number of shares designated for settlement on that settlement date and the method of settlement. We intend to use any proceeds received by us upon settlement of the forward equity sale agreement to fund our future capital expenditure program and acquisitions, and for working capital and other general corporate purposes. During the last three years, we completed the following offerings of equity:

- In June 2006, we sold 1,750,000 shares of common stock in a public offering for proceeds of \$37,400, net of expenses.
- In August 2006, we sold 500,000 shares of common stock in a public offering for proceeds of \$10,700, net of expenses.

The net proceeds from these offerings were used to fund our capital expenditure program and acquisitions, and for working capital and other general corporate purposes. In addition, we have a shelf registration statement filed with the SEC to permit the offering from time to time of shares of common stock and shares of preferred stock in connection with acquisitions. During 2007, 2006, 2004 and 2003, we did not issue any shares under the acquisition shelf registration. During 2005, we issued 24,684 shares of common stock totaling \$675 to acquire a water system. The balance remaining available for use under the acquisition shelf registration as of December 31, 2007 is 2,194,262 shares. We will determine the form and terms of any securities issued under these shelf registrations at the time of issuance.

We offer a Dividend Reinvestment and Direct Stock Purchase Plan (Plan) that provides a convenient and economical way to purchase shares of Aqua America, Inc. Under the direct stock purchase portion of the Plan, shares are sold throughout the year. The dividend reinvestment portion of the Plan offers a 5% discount on the purchase of shares of common stock with reinvested dividends. As of the December 2007 dividend payment, holders of 15.1% of the common shares outstanding participated in the dividend reinvestment portion of the Plan. The shares issued under the Plan are either original issue shares or shares purchased by the Company's transfer agent in the open-market. During the past five years, we have sold 2,301,335 original issue shares of common stock for net proceeds of \$42,474 through the dividend reinvestment portion of the Plan and we used the proceeds to invest in our operating subsidiaries, to repay short-term debt, and for general corporate purposes.

The Board of Directors has authorized us to purchase our common stock, from time to time, in the open market or through privately negotiated transactions. We have not purchased any shares under this authorization since 2000. As of December 31, 2007, 548,278 shares remain available for repurchase. Funding for future stock purchases, if any, is not expected to have a material impact on our financial position.

Off-Balance Sheet Financing Arrangements

We do not engage in any off-balance sheet financing arrangements. We do not have any interest in entities referred to as variable interest entities, which includes special purpose entities and other structured finance entities.

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Contractual Obligations

The following table summarizes our contractual cash obligations as of December 31, 2007:

	Payments Due By Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt (a)	\$ 1,238,980	\$ 23,927	\$ 61,335	\$ 130,694	\$ 1,023,024
Interest on fixed-rate, long-term debt (b)	1,065,108	69,000	129,402	118,270	748,436
Operating leases (c)	29,015	4,180	5,998	1,904	16,933
Unconditional purchase obligations (d)	98,067	10,457	20,229	16,131	51,250
Other purchase obligations (e)	21,552	21,552	—	—	—
Postretirement benefit plans' obligations (f)	15,145	15,145	—	—	—
Other obligations (g)	16,038	879	1,450	4,260	9,449
Total	\$ 2,483,905	\$ 145,140	\$ 218,414	\$ 271,259	\$ 1,849,092

- (a) Represents sinking fund obligations and debt maturities.
- (b) Represents interest payable on fixed-rate, long-term debt. Amounts reported may differ from actual due to future refinancing of debt.
- (c) Represents operating leases that are noncancelable, before expiration, for the lease of motor vehicles, buildings, land and other equipment.
- (d) Represents our commitment to purchase minimum quantities of water as stipulated in agreements with other water purveyors. We use purchased water to supplement our water supply, particularly during periods of peak customer demand. Our actual purchases may exceed the minimum required levels.
- (e) Represents an approximation of the open purchase orders as of the period end for goods and services purchased in the ordinary course of business.
- (f) Represents contributions expected to be made to postretirement benefit plans.
- (g) Represents capital expenditures estimated to be required under legal and binding contractual obligations.

In addition to these obligations, we pay refunds on Customers' Advances for Construction over a specific period of time based on operating revenues related to developer-installed water mains or as new customers are connected to and take service from such mains. After all refunds are paid, any remaining balance is transferred to Contributions in Aid of Construction. The refund amounts are not included in the above table because the refund amounts and timing are dependent upon several variables, including new customer connections, customer consumption levels and future rate increases, which cannot be accurately estimated. Portions of these refund amounts are payable annually through 2022 and amounts not paid by the contract expiration dates become non-refundable.

We will fund these contractual obligations with cash flows from operations and liquidity sources held by or available to us.

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Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed-rate, long-term debt. Such exposure is typically related to financings between utility rate increases, because generally our rate increases provide a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2007, the debt maturities by period and the weighted average interest rate for long-term debt are as follows:

	2008	2009	2010	2011	2012	Thereafter	Total	Fair Value
Long-term debt:								
Fixed rate	\$23,927	\$ 7,057	\$54,278	\$27,083	\$ 38,611	\$1,023,024	\$1,173,980	\$1,164,857
Variable rate	—	—	—	—	65,000	—	65,000	65,910
Total	<u>\$23,927</u>	<u>\$ 7,057</u>	<u>\$54,278</u>	<u>\$27,083</u>	<u>\$103,611</u>	<u>\$1,023,024</u>	<u>\$1,238,980</u>	<u>\$1,230,767</u>
Weighted average interest rate	6.51%	4.39%	6.37%	6.30%	5.27%	5.12%	5.58%	

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for the "available for sale" marketable equity securities. As of December 31, 2006, our carrying value of certain investments was \$499, which reflects the market value of such investments and is in excess of our original cost. During 2007, we sold these investments and as of December 31, 2007 the balance of our marketable equity securities is judged to be de minimis.

Capitalization

The following table summarizes our capitalization during the past five years:

December 31,	2007	2006	2005	2004	2003
Long-term debt*	55.9%	51.6%	52.7%	52.8%	52.8%
Common stockholders' equity	44.1%	48.4%	47.3%	47.2%	47.2%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

* Includes current portion, as well as for the first time in 2007, our borrowings under a variable rate revolving credit agreement of \$65,000.

Over the past five years, the changes in the capitalization ratios primarily resulted from the issuance of common stock, and the issuance of debt to finance our acquisitions and capital program. It is our goal to maintain an equity ratio adequate to support the current Standard and Poors corporate credit rating of "A+" and its senior secured debt rating of "AA-" for Aqua Pennsylvania, our largest operating subsidiary.

Dividends on Common Stock

We have paid common dividends consecutively for 63 years. Effective September 1, 2007, our Board of Directors authorized an increase of 8.7% in the dividend rate over the amount we paid in the previous quarter. As a result of this authorization, beginning with the dividend payment in September 2007, the annualized dividend rate increased to \$0.50 per share from \$0.46 per share. This is the 17th dividend increase in the past 16 years and the ninth consecutive year that we have increased our dividend in excess of five percent. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1 and December 1, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, our common dividends paid have averaged 60.3% of net income.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial condition and results of operations are impacted by the methods, assumptions, and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to our financial condition or results of operations, and require estimates or other judgments of matters of uncertainty. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the financial statements. We believe our most critical accounting policies include revenue recognition, the use of regulatory assets and liabilities as permitted by Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation," the valuation of our long-lived assets which consist primarily of Utility Plant in Service, regulatory assets and goodwill, our accounting for postretirement benefits and our accounting for income taxes. We have discussed the selection and development of our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

Revenue Recognition - Our utility revenues recognized in an accounting period include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the last billing to the end of the accounting period. The estimated usage is based on our judgment and assumptions; our actual results could differ from these estimates which would result in operating revenues being adjusted in the period that the revision to our estimates are determined.

In some operating divisions, we commence the billing of our utility customers, under new rates, upon authorization from the respective regulatory commission and before the final commission rate order is issued. The revenue recognized reflects an estimate based on our judgment of the final outcome of the ruling. We monitor the facts and circumstances regularly, and revise the estimate as required. The revenue billed and collected prior to the final ruling is subject to refund based on the final ruling. Please refer to the section named "Operating Revenues" for a discussion of revenue currently being recognized under rate filings that are not final.

Regulatory Assets and Liabilities - SFAS No. 71 stipulates generally accepted accounting principles for companies whose rates are established by or are subject to approval by an independent third-party regulator. In accordance with SFAS No. 71, we defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in our rates charged for water and wastewater service. In the event that our assessment as to the probability of the inclusion in the rate-making process is incorrect, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

Valuation of Long-Lived Assets, Goodwill and Intangible Assets - In accordance with the requirements of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", we review for impairment of our long-lived assets, including Utility Plant in Service. We also review regulatory assets for the continued application of SFAS No. 71. Our review determines whether there have been changes in circumstances or events that have occurred that require adjustments to the carrying value of these assets. In accordance with SFAS No. 71, adjustments to the carrying value of these assets would be made in instances where the inclusion in the rate-making process is unlikely.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," we test the goodwill attributable to each of our reporting units for impairment at least annually on July 31, or more often, if certain circumstances indicate a possible impairment may exist. We evaluate goodwill for impairment using the discounted cash flow methodologies, transaction values for other comparable companies, and other valuation techniques for all of our reporting units with goodwill balances. The evaluation requires significant management judgment and estimates that are based on budgets, general strategic business plans, historical trends and other data and relevant factors. If changes in circumstances or events occur, or estimates and assumptions which were used in our impairment test change, we may be required to record an impairment charge for goodwill. Based on our comparison of the estimated fair value of each reporting unit to their respective carrying amounts, the impairment test performed in 2007 concluded that none of our goodwill was impaired.

Accounting for Postretirement Benefits - We maintain a qualified defined benefit pension plan and plans that provide for certain postretirement benefits other than pensions. We follow SFAS No. 87, "Employers' Accounting for Pensions," SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," when accounting for these benefits. Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by our employees, mortality, turnover and medical costs.

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)

Each assumption is reviewed annually with assistance from our actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that we recognize.

Our discount rate assumption was determined using a yield curve that was produced from a universe containing over 500 U.S.-issued Aa-graded corporate bonds, all of which were noncallable (or callable with make-whole provisions), and excluding the 10% of the bonds with the highest yields and the 10% with the lowest yields. The discount rate was then developed as the single rate that would produce the same present value as if we used spot rates, for various time periods, to discount the projected pension benefit payments. Our pension expense and liability (benefit obligations) increases as the discount rate is reduced. A 25 basis-point reduction in this assumption would have increased 2007 pension expense by \$764 and the pension liabilities by \$7,500. The present values of Aqua America's future pension and other postretirement obligations were determined using discount rates of 6.25% at December 31, 2007 and 5.90% at December 31, 2006. Our expense under these plans is determined using the discount rate as of the beginning of the year, which was 5.90% for 2007, and will be 6.25% for 2008.

Our expected return on assets is determined by evaluating the asset class return expectations with our advisors as well as actual, long-term, historical results of our asset returns. The Company's market related value of plan assets is equal to the fair value of the plan assets as of the last day of its fiscal year, and is a determinant for the expected return on assets which is a component of net pension expense. Our pension expense increases as the expected return on assets decreases. A 25 basis-point reduction in this assumption would have increased 2007 pension expense by \$350. For 2007, we used an 8.0% expected return on assets assumption which will remain unchanged for 2008. The expected return on assets is based on a targeted allocation of 50% to 75% equities and 25% to 50% fixed income. We believe that our actual long-term asset allocation on average will approximate the targeted allocation. Our targeted allocation is driven by the investment strategy to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories.

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and our funding policy, during 2008 our pension contribution is expected to be approximately \$12,186. In establishing the contribution amount, we have considered the potential impact of funding rule changes under the Pension Protection Act of 2006 and at this time do not anticipate the need to revise this amount based on the new rules. Future years' contributions will be subject to economic conditions, plan participant data and the funding rules in effect at such time as the funding calculations are performed, though we expect future changes in the amount of contributions and expense recognized to be generally included in customer rates. During 2008, our funding of other postretirement benefit plans are expected to approximate \$2,959.

Accounting for Income taxes - We estimate the amount of income tax payable or refundable for the current year and the deferred income tax liabilities and assets that results from estimating temporary differences resulting from the treatment of certain items, such as depreciation, for tax and financial statement reporting. These differences result in the recognition of a deferred tax asset or liability on our consolidated balance sheet and require us to make judgments regarding the probability of the ultimate tax impact of the various transactions we enter into. Based on these judgments we may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realization of future tax benefits. Actual income taxes could vary from these estimates and changes in these estimates can increase income tax expense in the period that these changes in estimates occur. On January 1, 2007, we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109," which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. See the section titled "Impact of Recent Accounting Pronouncements" for additional information.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141(R), "Business Combinations," which replaces 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 our fiscal year beginning January 1, 2009. We are currently evaluating the requirements of SFAS No. 141R to determine the impact of adoption.

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. SFAS No. 160 is effective for our fiscal year beginning January 1, 2009. We believe this statement will not have a material impact on our results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedging accounting provisions. SFAS No. 159 is effective for our fiscal year beginning January 1, 2008. We believe this statement will not have a material impact on our results of operations or 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. SFAS No. 157 is effective for our fiscal year beginning January 1, 2008. We believe this statement will not have a material impact on our results of operations or financial position.

In June 2006, the FASB issued FASB Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109," which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We adopted the provisions of FIN 48 as of January 1, 2007 and have analyzed filing positions in our federal and state jurisdictions where we are required to file income tax returns, as well as for all open tax years in these jurisdictions. Our reserve for uncertain tax positions was insignificant upon adoption of FIN 48 and we did not record a cumulative effect adjustment related to the adoption of FIN 48. We believe our income tax filing positions and deductions will be sustained under audit and believe we do not have significant uncertain tax positions that, in the event of adjustment, will result in a material effect on our results of operations or financial position. We have elected to recognize accrued interest and penalties related to uncertain tax positions as income tax expense.

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Report On Internal Control Over Financial Reporting

Management of Aqua America, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In assessing the effectiveness of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. As a result of management's assessment and based on the criteria in the framework, management has concluded that, as of December 31, 2007, the Company's internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ Nicholas DeBenedictis

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer

February 26, 2008

/s/ David P. Smeltzer

David P. Smeltzer
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Aqua America, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of capitalization, of common stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Aqua America, Inc. and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

As discussed in Note 15 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006.

Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we consider necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 26, 2008

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)
Years ended December 31, 2007, 2006 and 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 602,499	\$ 533,491	\$ 496,779
Operating costs and expenses:			
Operations and maintenance	253,092	219,560	203,088
Depreciation	83,178	70,895	60,747
Amortization	4,833	4,146	4,741
Taxes other than income taxes	45,380	33,343	31,696
	<u>386,483</u>	<u>327,944</u>	<u>300,272</u>
Operating income	216,016	205,547	196,507
Other expense (income):			
Interest expense, net	66,921	58,432	52,062
Allowance for funds used during construction	(2,953)	(3,941)	(2,447)
Gain on sale of other assets	(3,494)	(1,194)	(1,177)
Income before income taxes	155,542	152,250	148,069
Provision for income taxes	60,528	60,246	56,913
Net income	<u>\$ 95,014</u>	<u>\$ 92,004</u>	<u>\$ 91,156</u>
Net income	\$ 95,014	\$ 92,004	\$ 91,156
Other comprehensive income (loss), net of tax:			
Minimum pension liability adjustment	—	3,082	(1,340)
Unrealized holding gains on investments	1,121	194	—
Reclassification adjustment for gains reported in net income	(1,315)	—	—
	<u>(194)</u>	<u>3,276</u>	<u>(1,340)</u>
Comprehensive income	<u>\$ 94,820</u>	<u>\$ 95,280</u>	<u>\$ 89,816</u>
Net income per common share:			
Basic	<u>\$ 0.72</u>	<u>\$ 0.70</u>	<u>\$ 0.72</u>
Diluted	<u>\$ 0.71</u>	<u>\$ 0.70</u>	<u>\$ 0.71</u>
Average common shares outstanding during the period:			
Basic	<u>132,814</u>	<u>130,725</u>	<u>127,364</u>
Diluted	<u>133,602</u>	<u>131,774</u>	<u>129,206</u>

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)
December 31, 2007 and 2006

	2007	2006
Assets		
Property, plant and equipment, at cost	\$ 3,573,996	\$ 3,185,111
Less: accumulated depreciation	<u>781,202</u>	<u>679,116</u>
Net property, plant and equipment	<u>2,792,794</u>	<u>2,505,995</u>
Current assets:		
Cash and cash equivalents	14,540	44,039
Accounts receivable and unbilled revenues, net	82,921	72,149
Inventory, materials and supplies	8,803	8,359
Prepayments and other current assets	<u>9,247</u>	<u>10,153</u>
Total current assets	<u>115,511</u>	<u>134,700</u>
Regulatory assets	164,034	165,063
Deferred charges and other assets, net	41,321	38,075
Funds restricted for construction activity	76,621	11,490
Goodwill	<u>36,631</u>	<u>22,580</u>
	<u>\$ 3,226,912</u>	<u>\$ 2,877,903</u>
Liabilities and Stockholders' Equity		
Common stockholders' equity:		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 134,099,240 and 133,017,325 in 2007 and 2006	\$ 67,050	\$ 66,509
Capital in excess of par value	572,050	548,806
Retained earnings	350,364	319,113
Treasury stock, at cost, 699,090 and 691,746 shares in 2007 and 2006	(13,166)	(12,992)
Accumulated other comprehensive income	<u>—</u>	<u>194</u>
Total common stockholders' equity	<u>976,298</u>	<u>921,630</u>
Minority interest	1,979	1,814
Long-term debt, excluding current portion	1,215,053	951,660
Commitments and contingencies (See Note 9)	<u>—</u>	<u>—</u>
Current liabilities:		
Current portion of long-term debt	23,927	31,155
Loans payable	56,918	119,150
Accounts payable	45,801	49,406
Accrued interest	15,741	14,050
Accrued taxes	16,686	19,350
Other accrued liabilities	<u>24,139</u>	<u>22,500</u>
Total current liabilities	<u>183,212</u>	<u>255,611</u>
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	307,651	273,199
Customers' advances for construction	85,773	76,820
Regulatory liabilities	12,460	11,592
Other	<u>68,797</u>	<u>64,879</u>
Total deferred credits and other liabilities	<u>474,681</u>	<u>426,490</u>
Contributions in aid of construction	<u>375,689</u>	<u>320,698</u>
	<u>\$ 3,226,912</u>	<u>\$ 2,877,903</u>

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)
December 31, 2007 and 2006

	2007	2006
Common stockholders' equity:		
Common stock, \$.50 par value	\$ 67,050	\$ 66,509
Capital in excess of par value	572,050	548,806
Retained earnings	350,364	319,113
Treasury stock, at cost	(13,166)	(12,992)
Accumulated other comprehensive income	—	194
Total common stockholders' equity	976,298	921,630
Long-term debt:		
Long-term debt of subsidiaries (substantially secured by utility plant):		
Interest Rate Range	Maturity Date Range	
0.00% to 0.99%	2024 to 2034	
1.00% to 1.99%	2011 to 2035	2,719
2.00% to 2.99%	2019 to 2027	21,368
3.00% to 3.99%	2010 to 2023	26,376
4.00% to 4.99%	2020 to 2041	18,013
5.00% to 5.99%	2012 to 2043	30,807
6.00% to 6.99%	2020 to 2041	196,707
7.00% to 7.99%	2012 to 2043	317,913
8.00% to 8.99%	2008 to 2036	109,730
9.00% to 9.99%	2008 to 2025	116,360
10.00% to 10.99%	2008 to 2025	35,186
	2021 to 2025	35,055
	2008 to 2026	77,609
	2018 to 2018	6,000
		846,676
		726,999
Notes payable to bank under revolving credit agreement, variable rate, due May 2012		
	65,000	-
Unsecured notes payable:		
Notes of 4.87%, due 2010 through 2023	135,000	135,000
Notes ranging from 5.00% to 5.99%, due 2014 through 2037	192,132	120,000
Notes of 6.05%, due in 2007 and 2008	172	816
	1,238,980	982,815
Current portion of long-term debt	23,927	31,155
Long-term debt, excluding current portion	1,215,053	951,660
Total capitalization	\$ 2,191,351	\$ 1,873,290

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY
(In thousands of dollars, except per share amounts)

	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Accumulated Other Comprehensive Income	Unearned Compensation on Restricted Stock	Total
Balance at December 31, 2004	\$ 48,036	\$ 468,524	\$245,115	\$(12,702)	\$ (1,742)	\$ —	\$747,231
Net income	—	—	91,156	—	—	—	91,156
Other comprehensive loss:							
minimum pension liability adjustment, net of income tax of \$722	—	—	—	—	(1,340)	—	(1,340)
Dividends	—	—	(51,139)	—	—	—	(51,139)
Stock issued for acquisitions (24,684 shares)	12	663	—	—	—	—	675
Stock split	16,095	(16,095)	—	—	—	—	—
Sale of stock (471,682 shares)	161	7,943	—	1,537	—	—	9,641
Repurchase of stock (56,930 shares)	—	—	—	(1,749)	—	—	(1,749)
Equity Compensation Plan (37,751 shares)	14	708	—	—	—	(722)	—
Exercise of stock options (1,327,717 shares)	511	11,264	—	—	—	—	11,775
Employee stock plan tax benefits	—	5,501	—	—	—	—	5,501
Amortization of unearned compensation	—	—	—	—	—	172	172
Balance at December 31, 2005	64,829	478,508	285,132	(12,914)	(3,082)	(550)	811,923
Net income	—	—	92,004	—	—	—	92,004
Other comprehensive income:							
Unrealized holding gain on investments, net of income tax of \$105	—	—	—	—	194	—	194
Minimum pension liability adjustment, net of income tax of \$1,660	—	—	—	—	3,082	—	3,082
Dividends	—	—	(58,023)	—	—	—	(58,023)
Sale of stock (2,688,332 shares)	1,328	55,866	—	894	—	—	58,088
Repurchase of stock (36,346 shares)	—	—	—	(972)	—	—	(972)
Equity Compensation Plan (37,200 shares)	19	(19)	—	—	—	—	—
Reclassification of unearned compensation	—	(550)	—	—	—	550	—
Exercise of stock options (666,212 shares)	333	7,629	—	—	—	—	7,962
Stock-based compensation	—	4,235	—	—	—	—	4,235
Employee stock plan tax benefits	—	3,137	—	—	—	—	3,137
Balance at December 31, 2006	66,509	548,806	319,113	(12,992)	194	—	921,630
Net income	—	—	95,014	—	—	—	95,014
Other comprehensive income:							
Unrealized holding gain on investments, net of income tax of \$603	—	—	—	—	1,121	—	1,121
Reclassification adjustment for gains reported in net income, net of income tax of \$708	—	—	—	—	(1,315)	—	(1,315)
Dividends	—	—	(63,763)	—	—	—	(63,763)
Sale of stock (482,785 shares)	227	9,483	—	689	—	—	10,399
Repurchase of stock (35,486 shares)	—	—	—	(863)	—	—	(863)
Equity Compensation Plan (50,000 shares)	25	(25)	—	—	—	—	—
Exercise of stock options (577,272 shares)	289	7,036	—	—	—	—	7,325
Stock-based compensation	—	4,871	—	—	—	—	4,871
Employee stock plan tax benefits	—	1,879	—	—	—	—	1,879
Balance at December 31, 2007	\$ 67,050	\$ 572,050	\$350,364	\$(13,166)	\$ —	\$ —	\$976,298

See accompanying notes to consolidated financial statements.



AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)
Years ended December 31, 2007, 2006 and 2005

	2007	2006	2005
Cash flows from operating activities:			
Net income	\$ 95,014	\$ 92,004	\$ 91,156
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	88,011	75,041	64,993
Deferred income taxes	21,993	10,794	26,027
Stock-based compensation	4,320	3,604	495
Gain on sale of utility system	(1,095)	—	—
Gain on sale of other assets	(3,494)	(1,194)	(1,177)
Net decrease (increase) in receivables, inventory and prepayments	(7,235)	(8,769)	7,572
Net increase (decrease) in payables, accrued interest, accrued taxes and other accrued liabilities	(7,382)	(5,609)	12,933
Other	4,036	4,855	(2,325)
Net cash flows from operating activities	<u>194,168</u>	<u>170,726</u>	<u>199,674</u>
Cash flows from investing activities:			
Property, plant and equipment additions, including allowance for funds used during construction of \$2,953, \$3,941 and \$2,447	(238,140)	(271,706)	(237,462)
Acquisitions of utility systems and other, net	(51,226)	(11,848)	(11,633)
Release of funds previously restricted for construction activity	53,988	59,467	56,137
Additions to funds restricted for construction activity	(117,442)	(2,332)	(107,566)
Net proceeds from the sale of other assets	6,981	1,283	1,300
Other	1,795	(213)	102
Net cash flows used in investing activities	<u>(344,044)</u>	<u>(225,349)</u>	<u>(299,122)</u>
Cash flows from financing activities:			
Customers' advances and contributions in aid of construction	9,605	12,031	14,728
Repayments of customers' advances	(5,560)	(5,168)	(4,792)
Net proceeds (repayments) of short-term debt	(62,232)	(19,355)	63,695
Proceeds from long-term debt	275,757	103,360	147,012
Repayments of long-term debt	(46,987)	(24,606)	(83,235)
Change in cash overdraft position	(4,691)	11,166	(8,808)
Proceeds from issuing common stock	10,399	58,088	9,641
Proceeds from exercised stock options	7,325	7,962	11,775
Stock-based compensation windfall tax benefits	1,387	2,307	—
Repurchase of common stock	(863)	(972)	(1,749)
Dividends paid on common stock	(63,763)	(58,023)	(51,139)
Net cash flows from financing activities	<u>120,377</u>	<u>86,790</u>	<u>97,128</u>
Net increase (decrease) in cash and cash equivalents	(29,499)	32,167	(2,320)
Cash and cash equivalents at beginning of year	44,039	11,872	14,192
Cash and cash equivalents at end of year	<u>\$ 14,540</u>	<u>\$ 44,039</u>	<u>\$ 11,872</u>
Cash paid during the year for:			
Interest, net of amounts capitalized	<u>\$ 62,113</u>	<u>\$ 53,222</u>	<u>\$ 48,278</u>
Income taxes	<u>\$ 41,472</u>	<u>\$ 28,700</u>	<u>\$ 30,734</u>

See Note 1 — Summary of Significant Accounting Policies-Customers' Advances for Construction, Acquisitions and Note 15 — Employee Stock and Incentive Plan for description of non-cash activities.

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(In thousands of dollars, except per share amounts)

Note 1 — Summary of Significant Accounting Policies

Nature of Operations - Aqua America, Inc. ("Aqua America" or the "Company") is the holding company for regulated utilities providing water or wastewater services in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, New York, Florida, Indiana, Virginia, Maine, Missouri and South Carolina. Our largest operating subsidiary, Aqua Pennsylvania, Inc., accounted for approximately 52% of our operating revenues for 2007 and provided water or wastewater services to customers in the suburban areas north and west of the City of Philadelphia and in 23 other counties in Pennsylvania. The Company's other subsidiaries provide similar services in 12 other states. In addition, the Company provides water and wastewater service through operating and maintenance contracts with municipal authorities and other parties, and septage hauling services, close to our utility companies' service territories.

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 our water and wastewater regulated utility companies which are organized by the states where we provide these services. These operating segments are aggregated into one reportable segment since each of the Company's operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment. In addition, one segment is not quantitatively significant to be reportable and is comprised of the businesses that provide on-site septic tank pumping, sludge hauling services and certain other non-regulated water and wastewater services. This segment is included as a component of "other," in addition to corporate costs that have not been allocated to the Regulated segment and intersegment eliminations.

Regulation - Most of the operating companies that are regulated public utilities are subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters. Some of the operating companies that are regulated public utilities are subject to rate regulation by county or city government. Regulated public utilities follow Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 provides for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. The regulatory assets or liabilities are then relieved as the cost or credit is reflected in rates.

Consolidation - The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated.

Recognition of Revenues - Revenues include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the latest billing to the end of the accounting period. Non-regulated revenues are recognized when services are performed and are primarily associated with septage hauling services, operating and maintenance contracts and data processing service fees. The Company's Regulated segment includes non-regulated revenues that totaled \$12,935 in 2007, \$13,525 in 2006 and \$13,161 in 2005. In addition to the Regulated segment operating revenues, the Company has other non-regulated revenues of \$12,756 in 2007, \$7,198 in 2006 and \$3,323 in 2005.

Property, Plant and Equipment and Depreciation - Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads and, for certain utility plant, allowance for funds used during construction. Water systems acquired are recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost, less applicable accumulated depreciation, and the purchase price is recorded as an acquisition adjustment within utility plant. At December 31, 2007, utility plant includes a net credit acquisition adjustment of \$49,994, which is generally being amortized from 4 to 20 years, except when regulation does not permit amortization. Amortization of the acquisition adjustments totaled \$3,732 in 2007, \$4,239 in 2006 and \$3,674 in 2005.

Utility expenditures for maintenance and repairs, including major maintenance projects and minor renewals and betterments, are charged to operating expenses when incurred in accordance with the system of accounts prescribed by the public utility commissions of the states in which the company operates. The cost of new units of property and betterments are capitalized. Utility expenditures for water main cleaning and relining of pipes are deferred and recorded in net property, plant and equipment in accordance with SFAS No. 71. As of December 31, 2007, \$15,501 of costs has been incurred since the last rate proceeding and the Company expects to recover these costs in future rates.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The cost of software upgrades and enhancements are capitalized if they result in added functionality which enable the software to perform tasks it was previously incapable of performing. Certain information technology costs associated with major system installations, conversions and improvements, such as software training, data conversion and business process reengineering costs, are deferred as a regulatory asset if the Company expects to recover these costs in future rates. If these costs are not deferred in accordance with SFAS No. 71, then these costs are charged to operating expenses when incurred. As of December 31, 2007, \$8,260 of costs have been deferred, since the last rate proceeding, as a regulatory asset, and the deferral is reported as a component of net property, plant and equipment.

When units of utility property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates.

The straight-line remaining life method is used to compute depreciation on utility plant. Generally, the straight-line method is used with respect to transportation and mechanical equipment, office equipment and laboratory equipment.

In accordance with the requirements of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the long-lived assets of the Company, which consist primarily of Utility Plant in Service and regulatory assets, are reviewed for impairment when changes in circumstances or events occur. There has been no change in circumstances or events that have occurred that require adjustments to the carrying values of these assets.

Allowance for Funds Used During Construction - The allowance for funds used during construction ("AFUDC") is a non-cash credit which represents the estimated cost of funds used to finance the construction of utility plant. In general, AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction or contributions in aid of construction. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. The amount of AFUDC related to equity funds in 2007 was \$22, in 2006 was \$6 and in 2005 was \$1. No interest was capitalized by our non-regulated businesses.

Cash and Cash Equivalents - The Company considers all highly liquid investments with an original maturity of three months or less, which are not restricted for construction activity, to be cash equivalents.

The Company had a book overdraft for certain of its disbursement cash accounts of \$9,048 and \$13,739 at December 31, 2007 and 2006, respectively. A book overdraft represents transactions that have not cleared the bank accounts at the end of the period. The Company transfers cash on an as-needed basis to fund these items as they clear the bank in subsequent periods. The balance of the book overdraft is reported as accounts payable and the change in the book overdraft balance is reported as cash flows from financing activities.

Accounts Receivable - Accounts receivable are recorded at the invoiced amounts. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in our existing accounts receivable, and is determined based on historical write-off experience and the aging of account balances. The Company reviews the allowance for doubtful accounts quarterly. Account balances are written off against the allowance when it is probable the receivable will not be recovered. When utility customers request extended payment terms, credit is extended based on regulatory guidelines, and collateral is not required.

Regulatory Assets, Deferred Charges and Other Assets - Deferred charges and other assets consist of financing expenses, other costs and marketable securities. Deferred bond issuance expenses are amortized over the life of the related issues. Call premiums related to the early redemption of long-term debt, along with the unamortized balance of the related issuance expense, are deferred and amortized over the life of the long-term debt used to fund the redemption. Other costs, for which the Company has received or expects to receive prospective rate recovery, are deferred as a regulatory asset and amortized over the period of rate recovery in accordance with SFAS No. 71.

Marketable securities are considered "available-for-sale" and accordingly, are carried on the balance sheet at fair market value. Unrecognized gains are included in other comprehensive income.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Goodwill - Goodwill represents the excess cost over the fair value of net tangible and identifiable intangible assets acquired through acquisitions. Goodwill is not amortized but is tested for impairment annually, or more often, if circumstances indicate a possible impairment may exist. The Company tested the goodwill attributable to each of our reporting units for impairment as of July 31, 2007, in conjunction with the timing of our annual strategic business plan. Based on the Company's comparison of the estimated fair value of each reporting unit to their respective carrying amounts, the impairment test concluded that none of its goodwill was impaired. The following table summarizes the changes in the Company's goodwill:

	Regulated Segment	Other	Consolidated
Balance at December 31, 2005	\$ 20,078	\$ 102	\$ 20,180
Goodwill acquired during year	226	3,941	4,167
Reclassifications to utility plant acquisition adjustment	(1,767)	—	(1,767)
Balance at December 31, 2006	18,537	4,043	22,580
Goodwill acquired during year	13,988	—	13,988
Reclassifications to utility plant acquisition adjustment	(12)	—	(12)
Other	(3)	78	75
Balance at December 31, 2007	<u>\$ 32,510</u>	<u>\$ 4,121</u>	<u>\$ 36,631</u>

Income Taxes - The Company accounts for certain income and expense items in different time periods for financial reporting than for tax reporting purposes. Deferred income taxes are provided on the temporary differences between the tax basis of the assets and liabilities, and the amounts at which they are carried in the consolidated financial statements. The income tax effect of temporary differences not allowed currently in rates is recorded as deferred taxes with an offsetting regulatory asset or liability. These deferred income taxes are based on the enacted tax rates expected to be in effect when such temporary differences are projected to reverse. Investment tax credits are deferred and amortized over the estimated useful lives of the related properties. Judgment is required in evaluating the Company's federal and state tax positions. Despite management's belief that the Company's tax return positions are fully supportable, the Company may establish reserves when it believes that certain tax positions are likely to be challenged and it may not fully prevail in these challenges. The Company's provision for income taxes includes interest, penalties and reserves for uncertain tax positions.

Customers' Advances for Construction and Contributions in Aid of Construction - Water mains, other utility property or, in some instances, cash advances to reimburse the Company for its costs to construct water mains or other utility property, are contributed to the Company by customers, real estate developers and builders in order to extend utility service to their properties. The value of these contributions is recorded as Customers' Advances for Construction. Non-cash property, in the form of water mains and wastewater systems, has been received, generally from developers, as advances or contributions of \$56,210, \$16,852 and \$15,729 in 2007, 2006 and 2005, respectively. The increase in non-cash property contributions in 2007 is due to the receipt of mains, wastewater systems and wastewater treatment plants. The Company makes refunds on these advances over a specific period of time based on operating revenues related to the property, or as new customers are connected to and take service from the main. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction. Contributions in aid of construction include direct non-refundable contributions and the portion of customers' advances for construction that become non-refundable.

Contributed property is generally not depreciated for rate-making purposes as certain states' regulatory guidelines provide that contributions in aid of construction received must remain on the Company's consolidated balances sheet indefinitely. Based on regulatory conventions in other states where the Company operates, certain of the subsidiaries do depreciate contributed property and amortize contributions in aid of construction at the composite rate of the related property. Contributions in Aid of Construction are deducted from the Company's rate base for rate-making purposes, and therefore, no return is earned on contributed property.

Inventories, Materials and Supplies - Inventories are stated at cost. Cost is principally determined using the first-in, first-out method.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Stock-Based Compensation - Effective January 1, 2006, the Company accounts for stock-based compensation using the fair value recognition provisions of SFAS No. 123R, "Share-Based Payment". Prior to January 1, 2006, the Company accounted for stock-based compensation using the intrinsic value method in accordance with APB Opinion No. 25. Accordingly, no compensation expense related to granting of stock options had been recognized in the financial statements prior to adoption of SFAS No. 123R for stock options that were granted. The following table provides the pro forma net income and earnings per share for the year ended December 31, 2005 as if compensation cost for stock-based employee compensation was determined as of the grant date under the fair value method of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148 "Accounting for Stock-Based Compensation — Transition and Disclosure."

Net income, as reported	\$ 91,156
Add: stock-based employee compensation expense included in reported net income, net of tax	290
Less: pro forma expense related to stock options granted, net of tax effects	<u>(2,054)</u>
Pro forma	<u>\$ 89,392</u>
Basic net income per share:	
As reported	\$ 0.72
Pro forma	0.70
Diluted net income per share:	
As reported	\$ 0.71
Pro forma	0.69

For the purposes of this pro forma disclosure, the fair value of the options at the date of the grant was estimated using the Black-Scholes option-pricing model.

Use of Estimates in Preparation of Consolidated Financial Statements - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain prior year amounts have been changed to conform with current year's presentation.

Recent Accounting Pronouncements - In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141(R), "Business Combinations," which replaces 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. The Company is currently evaluating the requirements of SFAS No. 141R to determine the impact of adoption.

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. SFAS No. 160 is effective for the Company's fiscal year beginning January 1, 2009. The Company believes this statement will not have a material impact on its results of operations or financial position.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedging accounting provisions. SFAS No. 159 is effective for the Company's fiscal year beginning January 1, 2008. The Company believes this statement will not have a material impact on its results of operations or 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. SFAS No. 157 is effective for the Company's fiscal year beginning January 1, 2008. The Company believes this statement will not have a material impact on its results of operations or financial position.

In June 2006, the FASB issued FASB Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109," which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company adopted the provisions of FIN 48 as of January 1, 2007 and has analyzed filing positions in its federal and state jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. The Company's reserve for uncertain tax positions was insignificant upon adoption of FIN 48 and the Company did not record a cumulative effect adjustment related to the adoption of FIN 48. The Company believes its income tax filing positions and deductions will be sustained under audit and it believes it does not have significant uncertain tax positions that, in the event of adjustment, will result in a material effect on its results of operations or financial position. The Company has elected to recognize accrued interest and penalties related to uncertain tax positions as income tax expense.

Note 2 — Acquisitions

New York Water Service Corporation - Pursuant to our strategy to grow through acquisitions, on January 1, 2007 the Company completed the acquisition of the capital stock of New York Water Service Corporation ("New York Water") for \$26,664 in cash (net of cash acquired of \$2,288), as adjusted pursuant to the purchase agreement primarily based on working capital at closing, and the assumption of \$23,000 of long-term debt. The acquired operation provides water service to 44,792 customers in several water systems located in Nassau County, Long Island, New York. The acquired operation provides water service to 44,792 customers in several water systems located in Nassau County, Long Island, New York. The operating results of New York Water have been included in our consolidated financial statements beginning January 1, 2007. For the year ended December 31, 2007, New York Water had operating revenues of \$23,420. Under the purchase method of accounting, the purchase price is allocated to the net tangible and intangible assets based upon their estimated fair values at the date of the acquisition. The purchase price allocation as of January 1, 2007 is as follows:

Property, plant and equipment, net	\$ 42,057
Current assets	6,919
Other long-term assets	14,384
Goodwill	10,894
Total assets acquired	74,254
Current liabilities	1,852
Long-term debt	23,000
Other long-term liabilities	22,738
Total liabilities assumed	47,590
 Net assets acquired	 <u>\$ 26,664</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Other Acquisitions - During 2007, in addition to New York Water Service Corporation, the Company completed 26 acquisitions or other growth ventures in various states for an aggregate purchase price of \$24,562 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were \$4,434. The proforma effect of the businesses acquired in 2007 is not material to the Company's results of operations.

During 2006, the Company completed 27 acquisitions or other growth ventures in various states for an aggregate purchase price of \$11,848 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were \$9,632 in 2007 and \$4,511 in 2006.

During 2005, the Company completed 30 acquisitions or other growth ventures in various states. The total purchase price of \$12,308 for the systems acquired in 2005 consisted of \$11,633 in cash and the issuance of 24,684 shares of the Company's common stock. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were \$6,971 in 2007, \$6,203 in 2006 and \$2,145 in 2005.

Note 3 — Dispositions

In December 2007, the Company sold a water utility system for net proceeds of \$1,498, which was in excess of the book value for these assets. The proceeds were used to pay-down short-term debt and the sale resulted in the recognition in 2007 of a gain on the sale of these assets, net of expenses, of \$1,095. The gain is reported in the 2007 consolidated statement of income as a reduction to operations and maintenance expense. This water system represented less than 0.1% of Aqua America's total assets.

The City of Fort Wayne, Indiana has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the operating subsidiaries that the Company acquired in connection with the AquaSource acquisition in 2003. The Company had challenged whether the City was following the correct legal procedures in connection with the City's attempted condemnation, but the State Supreme Court, in an opinion issued in June 2007, supported the City's position. In October 2007, the City's Board of Public Works approved proceeding with its process to condemn the northern portion of the Company's utility system at a preliminary price based on the City's valuation. The Company has filed an appeal with the Allen County Circuit Court challenging the Board of Public Works' valuation on several bases. In November 2007, the City Council authorized the taking of the northern portion of the Company's system and the payment of \$16,911 based on the City's valuation of this portion of the system. In January 2008, the Company reached a settlement with the City to transition the northern portion of the system in February 2008 upon receipt of the City's initial valuation payment of \$16,911. The settlement agreement specifically stated that the final valuation of the 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 system to the City upon receipt of the initial valuation proceeds. The proceeds received are in excess of the book value of the assets relinquished, and the proceeds were used to pay-down short-term debt. The Company continues to operate this system for the City under an operating contract for 90 days, with a possible 90 day extension. The northern portion of the system relinquished represents approximately 0.5% of the Company's total assets.

A sanitary district and a city in two of our operating divisions have also indicated interest in acquisition, by eminent domain or otherwise, of all or a portion of the utility assets of two of the Company's operations. The systems represent approximately 3,000 customers or less than 0.5% of our total utility customer base. The Company believes that it will be entitled to fair market value for its assets if they are condemned, and it is believed that the fair market value will be in excess of the book value for such assets.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Note 4 — Property, Plant and Equipment

	December 31,		Approximate range of remaining lives
	2007	2006	
Utility plant and equipment:			
Mains and accessories	\$ 1,430,317	\$ 1,287,142	15 to 82 years
Services, hydrants, treatment plants and reservoirs	917,358	801,755	5 to 85 years
Operations structures and water tanks	172,484	172,850	18 to 77 years
Miscellaneous pumping and purification equipment	423,088	381,149	5 to 50 years
Meters, data processing, transportation and operating equipment	487,439	428,326	5 to 50 years
Land and other non-depreciable assets	103,208	80,479	—
Utility Plant and equipment	3,533,894	3,151,701	
Utility construction work in progress	81,876	76,653	—
Net utility plant acquisition adjustment	(49,994)	(51,434)	4 to 20 years
Non-utility plant and equipment	8,220	8,191	0 to 25 years
Total property, plant and equipment	<u>\$ 3,573,996</u>	<u>\$ 3,185,111</u>	

Note 5 — Accounts Receivable

	December 31,	
	2007	2006
Billed utility revenue	\$ 54,447	\$ 49,129
Unbilled utility revenue	28,308	23,842
Other	5,732	4,147
	88,487	77,118
Less allowance for doubtful accounts	5,566	4,969
Net accounts receivable	<u>\$ 82,921</u>	<u>\$ 72,149</u>

The Company's utility customers are located principally in the following states: 44% in Pennsylvania, 9% in Ohio, 9% in North Carolina, 8% in Illinois, 6% in Texas, 5% in New Jersey, 5% in New York, 4% in Indiana and 4% in Florida. No single customer accounted for more than one percent of the Company's operating revenues during the years ended December 31, 2007, 2006 or 2005. The following table summarizes the changes in the Company's allowance for doubtful accounts:

	2007	2006	2005
Balance at January 1,	\$ 4,969	\$ 4,406	\$ 4,849
Amounts charged to expense	5,407	3,716	3,116
Accounts written off	(5,297)	(3,607)	(4,113)
Recoveries of accounts written off	487	454	554
Balance at December 31,	<u>\$ 5,566</u>	<u>\$ 4,969</u>	<u>\$ 4,406</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Note 6 — Regulatory Assets and Liabilities

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts recovered from customers in advance of incurring the costs. Except for income taxes and the competitive transition charge payment, regulatory assets and regulatory liabilities are excluded from the Company's rate base and do not earn a return. The components of regulatory assets and regulatory liabilities are as follows:

	December 31, 2007		December 31, 2006	
	Regulatory Assets	Regulatory Liabilities	Regulatory Assets	Regulatory Liabilities
Income taxes	\$ 73,037	\$ 2,112	\$ 70,146	\$ 2,104
Utility plant retirement costs	23,617	9,748	20,060	8,960
Postretirement benefits	31,114	—	36,469	—
Texas rate filing expense deferral	12,382	—	12,382	—
Competitive Transition Charge payment	3,440	—	4,586	—
Water tank painting	5,639	—	4,822	32
Fair value adjustment of long-term debt assumed in acquisition	2,383	460	2,594	—
Merger costs	582	—	1,111	—
Rate case filing expenses & other	11,840	140	12,893	496
	<u>\$ 164,034</u>	<u>\$ 12,460</u>	<u>\$ 165,063</u>	<u>\$ 11,592</u>

Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to certain differences between tax and book depreciation expense, are recognized in the rate setting process on a cash or flow-through basis and will be recovered as they reverse.

The regulatory asset for utility plant retirement costs, including cost of removal, represents costs already incurred that are expected to be recovered in future rates over a five year recovery period. The regulatory liability for utility plant retirement costs represents amounts recovered through rates during the life of the associated asset and before the costs are incurred.

Postretirement benefits include pension and other postretirement benefits. The pension costs include deferred net pension expense in excess of amounts funded which the Company believes will be recoverable in future years as pension funding is required. In addition, a regulatory asset has been recorded for the costs that would otherwise be charged to common stockholders' equity in accordance with SFAS No. 158, for the underfunded status of our pension and other postretirement benefit plans. The regulatory asset related to postretirement benefits other than pensions represents costs that were deferred between the time that the accrual method of accounting for these benefits was adopted in 1993 and the recognition of the accrual method in the Company's rates as prescribed in subsequent rate filings. Amortization of the amount deferred for postretirement benefits other than pensions began in 1994 and is currently being recovered in rates.

The regulatory asset for the Texas rate filing of 2004 results from a multi-year plan to increase annual revenues in phases, and to defer and amortize a portion of the Company's depreciation, operating and other tax expense over a similar multi-year period. These costs will be amortized over a period of time, expected to approximate four years, as determined by the final rate order.

The regulatory asset associated with the Competitive Transition Charge ("CTC") payment represents the full payoff in 2001, net of amortization, of the allocable share of a CTC as negotiated by Aqua Pennsylvania, Inc. from an electric distribution company. The Pennsylvania Electricity Generation Customer Choice and Competition Act permitted electric distribution utilities to recover their stranded costs from its customers in the form of a CTC. Rate recovery of the \$11,465 CTC payment began in 2000 and is expected to conclude in 2010.

Expenses associated with water tank painting are deferred and amortized over a period of time as approved in the regulatory process. Water tank painting costs are generally being amortized over a period ranging from 5 to 17 years.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

As a requirement of purchase accounting, the Company recorded a fair value adjustment for fixed-rate, long-term debt assumed in acquisitions that matures in various years ranging from 2012 to 2035. The regulatory asset or liability results from the rate setting process continuing to recognize the historical interest cost of the assumed debt.

The regulatory asset related to the recovery of merger costs represents the portion of the Consumers Water Company merger costs that will be recovered in rates as a result of a rate settlement in 2000 and is being amortized over the ten-year recovery period.

The regulatory asset related to rate case filing expenses represents the costs associated with filing for rate increases that are deferred and amortized over periods that generally range from one to five years. Other represents costs incurred by the Company for which it has received or expects to receive rate recovery.

The regulatory asset related to the costs incurred for information technology software projects and water main cleaning and relining projects are described in Note 1 — Summary of Significant Accounting Policies — Property Plant and Equipment and Depreciation.

Note 7 — Income Taxes

The provision for income taxes consists of:

	Years Ended December 31,		
	2007	2006	2005
Current:			
Federal	\$ 30,197	\$ 39,956	\$ 24,417
State	9,054	9,502	6,586
	<u>39,251</u>	<u>49,458</u>	<u>31,003</u>
Deferred:			
Federal	19,664	9,531	22,294
State	1,613	1,257	3,616
	<u>21,277</u>	<u>10,788</u>	<u>25,910</u>
Total tax expense	<u>\$ 60,528</u>	<u>\$ 60,246</u>	<u>\$ 56,913</u>

The statutory Federal tax rate is 35% and for states with a corporate net income tax, the state corporate net income tax rates range from 5% to 9.99% for all years presented.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The reasons for the differences between amounts computed by applying the statutory Federal income tax rate to income before income tax expense are as follows:

	Years Ended December 31,		
	2007	2006	2005
Computed Federal tax expense at statutory rate	\$ 54,440	\$ 53,287	\$ 51,824
Increase in tax expense for depreciation expense to be recovered in future rates	458	716	806
Domestic Production Credit	(1,303)	(602)	(656)
Stock-based compensation	694	715	—
Deduction for Aqua America common dividends paid under employee benefit plan	(380)	(307)	(321)
Amortization of deferred investment tax credits	(277)	(274)	(359)
Prior year rate reductions	(131)	(154)	(437)
State income taxes, net of federal tax benefit	6,934	6,999	6,631
Other, net	93	(134)	(575)
Actual income tax expense	<u>\$ 60,528</u>	<u>\$ 60,246</u>	<u>\$ 56,913</u>

The tax effects of temporary differences between book and tax accounting that give rise to the deferred tax assets and deferred tax liabilities are as follows:

	December 31,	
	2007	2006
Deferred tax assets:		
Customers' advances for construction	\$ 17,062	\$ 17,786
Costs expensed for book not deducted for tax, principally accrued expenses	3,915	2,787
Utility plant acquisition adjustment basis differences	14,907	18,673
Postretirement benefits	12,520	12,530
Other	708	295
Total gross deferred tax assets	<u>49,112</u>	<u>52,071</u>
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	310,059	278,917
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	28,661	26,276
Tax effect of regulatory asset for postretirement benefits	12,520	12,530
Deferred investment tax credit	5,523	5,801
Other	—	1,746
Total gross deferred tax liabilities	<u>356,763</u>	<u>325,270</u>
Net deferred tax liability	<u>\$ 307,651</u>	<u>\$ 273,199</u>

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Notes to Consolidated Financial Statements (continued)
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The Company adopted the provisions of FASB Interpretation No. (“FIN”) 48, “Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109” on January 1, 2007. The Company has analyzed filing positions in its federal and state jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. The Company’s reserve for uncertain tax positions was insignificant upon adoption of FIN 48 and the Company did not record a cumulative effect adjustment related to the adoption of FIN 48. The Company believes its income tax filing positions and deductions will be sustained under audit and it believes it does not have significant uncertain tax positions that, in the event of adjustment, will result in a material effect on its results of operations or financial position. The Company has elected to recognize accrued interest and penalties related to uncertain tax positions as income tax expense. As of December 31, 2007, the Company’s Federal income tax returns for all years through 2003 have been closed. Tax years 2004 through 2007 remain open to examination by the major taxing jurisdictions to which we are subject, however, the 2004 and 2005 Federal income tax returns have been settled through examination.

Note 8 — Taxes Other than Income Taxes

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

	Years Ended December 31,		
	2007	2006	2005
Property	\$ 24,920	\$ 14,953	\$ 13,247
Capital Stock	3,352	3,675	3,706
Gross receipts, excise and franchise	7,890	6,750	6,483
Payroll	6,650	5,701	5,648
Other	2,568	2,264	2,612
Total taxes other than income	<u>\$ 45,380</u>	<u>\$ 33,343</u>	<u>\$ 31,696</u>

Property taxes increased during the year ended December 31, 2007 primarily as a result of the acquisition of New York Water and the associated property taxes of \$7,084.

Note 9 — Commitments and Contingencies

Commitments — The Company maintains agreements with other water purveyors for the purchase of water to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2026. The estimated annual commitments related to such purchases through 2012 are expected to approximate \$9,363 and the aggregate of the years remaining approximates \$51,250. The Company purchased approximately \$11,096, \$10,497 and \$10,603 of water under these agreements during the years ended December 31, 2007, 2006 and 2005, respectively.

The Company leases motor vehicles, buildings and other equipment under operating leases that are noncancelable. The future annual minimum lease payments due are: \$3,592 in 2008, \$2,901 in 2009, \$1,933 in 2010, \$551 in 2011, \$198 in 2012 and \$119 thereafter. The Company leases parcels of land on which treatment plants and other facilities are situated and adjacent parcels that are used for watershed protection. The operating leases are noncancelable, expire between 2010 and 2052 and contain certain renewal provisions. Certain leases are subject to an adjustment every five years based on changes in the Consumer Price Index. Subject to the aforesaid adjustment, during each of the next five years, approximately \$581 of annual lease payments for land are due, and the aggregate of the years remaining approximates \$16,814. The Company leases treatment plants to other parties under lease agreements that require payments to the Company of \$374 in 2008, \$374 in 2009, \$374 in 2010, \$374 in 2011, \$374 in 2012 and the aggregate of the years remaining approximates \$5,284. Rent expense was \$4,621, \$4,478 and \$3,390 for the years ended December 31, 2007, 2006 and 2005, respectively.

Contingencies — The Company is routinely involved in condemnation proceedings and legal matters during the ordinary course of business. See Note 17 — Water and Wastewater Rates for a discussion of the rate proceeding process involving our subsidiaries in Texas. See Note 3 — Dispositions for a discussion of the Company’s challenge to the valuation of the northern portion of its Fort Wayne, Indiana utility system that was turned over to the City of Fort Wayne, Indiana in February 2008. Although the results of legal proceedings cannot be predicted with certainty, there are no other pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of its properties is the subject that are material or are expected to have a material effect on the Company’s financial position, results of operations or cash flows.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Note 10 — Long-term Debt and Loans Payable

The Consolidated Statements of Capitalization provide a summary of long-term debt as of December 31, 2007 and 2006. The supplemental indentures with respect to certain issues of the First Mortgage Bonds restrict the ability of Aqua Pennsylvania, Inc. and certain other operating subsidiaries of the Company to declare dividends, in cash or property, or repurchase or otherwise acquire the stock of these companies. As of December 31, 2007, approximately \$357,000 of Aqua Pennsylvania's retained earnings of approximately \$377,000 and \$105,000 of the retained earnings of \$115,000 of certain other subsidiaries were free of these restrictions. Certain supplemental indentures also prohibit Aqua Pennsylvania and certain other subsidiaries of the Company from making loans to, or purchasing the stock of, the Company.

Sinking fund payments are required by the terms of certain issues of long-term debt. Excluding amounts due under the Company's revolving credit agreement, the future sinking fund payments and debt maturities of the Company's long-term debt are as follows:

Interest Rate Range	2008	2009	2010	2011	2012	Thereafter
0.00% to 0.99%	\$ 107	\$ 109	\$ 108	\$ 107	\$ 109	\$ 2,179
1.00% to 1.99%	1,469	1,483	1,497	1,511	1,351	14,057
2.00% to 2.99%	1,311	1,452	1,517	1,554	1,588	18,954
3.00% to 3.99%	1,401	1,442	1,478	1,116	1,156	11,420
4.00% to 4.99%	180	190	27,196	202	213	303,726
5.00% to 5.99%	—	—	—	—	31,000	479,045
6.00% to 6.99%	10,172	—	—	15,000	—	84,730
7.00% to 7.99%	2,812	879	951	1,030	1,596	27,918
8.00% to 8.99%	167	184	202	222	244	34,036
9.00% to 9.99%	6,308	1,318	21,329	6,341	1,354	40,959
10.00% to 10.99%	—	—	—	—	—	6,000
Total	<u>\$ 23,927</u>	<u>\$ 7,057</u>	<u>\$ 54,278</u>	<u>\$ 27,083</u>	<u>\$ 38,611</u>	<u>\$ 1,023,024</u>

In January 2007, Aqua Pennsylvania issued \$50,000 of tax-exempt bonds secured by a supplement to its first mortgage indenture at the following terms: \$25,000 at 4.43% due 2040 and \$25,000 at 4.44% due 2041. The proceeds are restricted to funding certain capital projects during the period 2007 through 2009. In March 2007, the Company issued \$30,000 of unsecured notes of which \$15,000 are due in 2022 with an interest rate of 5.63% and \$15,000 are due in 2037 with an interest rate of 5.83%. Proceeds from the sales of these notes were used to repay short-term borrowings. In December 2007, Aqua Pennsylvania issued \$50,000 of tax-exempt bonds secured by a supplement to its first mortgage indenture at the following terms: \$25,000 at 5.16% due 2042 and \$25,000 at 5.17% due 2043. The proceeds are restricted to funding certain capital projects during the period 2008 through 2010. Also in December 2007, Aqua Pennsylvania issued \$40,000 of unsecured notes with an interest rate of 5.66% which are due in 2014. Proceeds from the sale of these notes were used to repay short-term borrowings. In connection with the acquisition of New York Water Service Corporation in 2007, the Company assumed \$23,000 of long-term debt at interest rates ranging from 5.00% to 6.00% due 2015 to 2035, which includes the purchase accounting fair value adjustment of \$460, decreasing the carrying-value of long-term debt. At various times during 2007, Aqua Pennsylvania and other operating subsidiaries issued other notes payable and first mortgage bonds in aggregate of \$35,602 at a weighted average interest rate of 4.05% due at various times ranging from 2017 to 2037. The proceeds from these issuances were used to reduce a portion of the balance of the short-term debt at each of the respective operating subsidiaries and to redeem \$5,932 of first mortgage bonds of two operating subsidiaries with a weighted average interest rate of 9.55%. As of December 31, 2007, the trustees for six issues held \$76,621 pending construction of the projects to be financed with the issues and are reported in the consolidated balance sheet as funds restricted for construction activity.

In March 2006, Aqua Pennsylvania issued \$40,000 of unsecured notes at 5.95% of which \$10,000 are due in 2023, 2024, 2033 and 2034. In September 2006, Aqua Pennsylvania issued \$20,000 of unsecured notes at 5.64% with amounts due in 2014, 2016, 2020 and 2021. Proceeds from the sales of these notes were used to repay short-term borrowings. In December 2006, the Company issued \$30,000 of unsecured notes with an interest rate of 5.54% of which \$10,000 are due in 2013, 2017 and 2018. The proceeds of this financing were used to fund acquisitions. At various times during 2006, Aqua Pennsylvania and other operating subsidiaries issued other notes payable and first mortgage bonds in aggregate of \$14,728 at a weighted average interest rate of 3.64% due at various times ranging from 2016 to 2036. The proceeds from these issuances were used to reduce a portion of the balance of the short-term debt at each of the respective operating subsidiaries. The weighted average cost of long-term debt at December 31, 2007 and 2006 was 5.58% and 5.72%, respectively.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
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In May 2007, the Company entered into a five-year \$95,000 unsecured revolving credit facility with five banks that expires in May 2012. Included within this facility is a swing-line commitment of \$15,000 that is used to fund bank overdraft positions. Except for swing-line borrowings, funds borrowed under this agreement are classified as long-term debt and are used to provide working capital. As of December 31, 2007, the Company has the following sublimits and available capacity under the credit facility: \$20,000 letter of credit sublimit, \$6,846 of letters of credit available capacity, \$0 borrowed under the swing-line commitment, and \$65,000 of funds borrowed under the agreement. This facility had replaced the Company's expiring unsecured revolving credit facility and as of December 31, 2006 funds borrowed under the former agreement was \$20,000. Interest under this facility is based at the Company's option, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. A facility fee is charged on the total commitment amount of the agreement. Under this facility and the former facility that was replaced, the average cost of borrowings was 5.36% and 5.29%, and the average borrowing was \$52,577 and \$18,846, during 2007 and 2006, respectively.

Aqua Pennsylvania has a \$70,000 364-day unsecured revolving credit facility with four banks and the funds borrowed under this agreement is classified as loans payable and is used to provide working capital. As of December 31, 2007 and 2006, funds borrowed under the Aqua Pennsylvania revolving credit agreement was \$18,988 and \$3,000, respectively. Interest under this facility is based, at the borrower's option, on the prime rate, an adjusted federal funds rate, an adjusted London Interbank Offered Rate corresponding to the interest period selected, an adjusted Euro-Rate corresponding to the interest period selected or at rates offered by the banks. This agreement restricts short-term borrowings of Aqua Pennsylvania. A commitment fee of 1/10 of 1% is charged on the total commitment amount of Aqua Pennsylvania's revolving credit agreement. The average cost of borrowing under this facility was 6.41% and 5.42%, and the average borrowing was \$35,462 and \$47,437, during 2007 and 2006, respectively. The maximum amount outstanding at the end of any one month was \$68,332 and \$65,679 in 2007 and 2006, respectively.

At December 31, 2007 and 2006, the Company had combined short-term lines of credit of \$84,000 and \$148,000, respectively. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. As of December 31, 2007 and 2006, funds borrowed under the short-term lines of credit were \$37,930 and \$96,150, respectively. The average borrowing under the lines was \$63,635 and \$77,528 during 2007 and 2006, respectively. The maximum amount outstanding at the end of any one month was \$105,400 in 2007 and \$96,150 in 2006. Interest under the lines is based at the Company's option, depending on the line, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. The average cost of borrowings under all lines during 2007 and 2006 was 5.9% and 5.5%, respectively.

Interest income of \$3,569, \$3,241 and \$3,040 was netted against interest expense on the consolidated statements of income for the years ended December 31, 2007, 2006 and 2005, respectively. The total interest cost was \$70,490, \$61,673 and \$55,102 in 2007, 2006 and 2005, including amounts capitalized of \$2,953, \$3,941 and \$2,447, respectively.

Note 11 — Fair Value of Financial Instruments

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair value as of the dates presented. The carrying amount and estimated fair value of the Company's long-term debt are as follows:

	December 31,	
	2007	2006
Carrying amount	\$ 1,238,980	\$ 982,815
Estimated fair value	1,230,767	986,487

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 \$85,773 and \$76,820 at December 31, 2007 and 2006, respectively. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2022 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.

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Notes to Consolidated Financial Statements (continued)
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Note 12 — Stockholders' Equity

At December 31, 2007, the Company had 300,000,000 shares of common stock authorized; par value \$0.50. Shares outstanding at December 31, 2007, 2006 and 2005 were 133,400,150, 132,325,579 and 128,970,181, respectively. Treasury shares held at December 31, 2007, 2006 and 2005 were 699,090, 691,746 and 688,625, respectively. At December 31, 2007, the Company had 1,738,619 shares of authorized but unissued Series Preferred Stock, \$1.00 par value.

In December 2005, the Company filed a universal shelf registration with the Securities and Exchange Commission to allow for the potential future sale by the Company, from time to time, in one or more public offerings, of an indeterminate amount of our common stock, preferred stock, debt securities and other securities specified therein at indeterminate prices.

In August 2006, the Company entered into a forward equity sale agreement for 3,525,000 shares of common stock with a third-party (the "forward purchaser"). In connection with the forward equity sale agreement, the forward purchaser borrowed an equal number of shares of the Company's common stock from stock lenders and sold the borrowed shares to the public. The Company will not receive any proceeds from the sale of its common stock by the forward purchaser until settlement of the forward equity sale agreement. The actual proceeds to be received by the Company will vary depending upon the settlement date, the number of shares designated for settlement on that settlement date and the method of settlement. Aqua America intends to use any proceeds received upon settlement of the forward equity sale agreement to fund the Company's future capital expenditure program and acquisitions, and for working capital and other general corporate purposes. The forward equity sale agreement is accounted for as an equity instrument and was recorded at a fair value of \$0 at inception. It will not be adjusted so long as the Company continues to meet the accounting requirements for equity instruments.

The Company may elect to settle the forward equity sale agreement by means of a physical share settlement, net cash settlement, or net share settlement, on a settlement date or dates, no later than August 1, 2008. The forward equity sale agreement provides that the forward sale price will be computed based upon the initial forward sale price of \$21.857 per share. Under limited circumstances or certain unanticipated events, the forward purchaser also has the ability to require the Company to physically settle the forward equity sale agreement in shares prior to the maturity date. The maximum number of shares that could be required to be issued by the Company to settle the forward equity sale agreement is 3,525,000 shares. As of December 31, 2007, a net cash settlement under the forward equity sale agreement would have resulted in a payment by the forward purchaser to the Company of \$4,167 or a net share settlement would have resulted in the delivery of 196,535 shares by the forward purchaser to the Company. For each increase or decrease of one dollar in the average market price of Aqua America common stock above or below the forward sale price on December 31, 2007, the cash settlement option from the Company's perspective would decrease or increase by \$3,525 and the net share settlement option would decrease by 158,784 shares or increase by 174,505 shares, respectively.

During the last three years, the Company completed the following offerings of equity:

- In June 2006, the Company sold 1,750,000 shares of common stock in a public offering for proceeds of \$37,400, net of expenses.
- In August 2006, the Company sold 500,000 shares of common stock in a public offering for proceeds of \$10,700, net of expenses.

The net proceeds from these offerings were used to fund the Company's capital expenditure program and acquisitions, and for working capital and other general corporate purposes.

In addition, the Company has a shelf registration statement filed with the Securities and Exchange Commission to permit the offering from time to time of shares of common stock and shares of preferred stock in connection with acquisitions. During 2005, 24,684 shares of common stock totaling \$675 were issued by the Company to acquire water and wastewater systems. The balance remaining available for use under the acquisition shelf registration as of December 31, 2007 is 2,194,262 shares. The form and terms of any securities issued under these shelf registrations will be determined at the time of issuance.

The Company has a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that allows reinvested dividends to be used to purchase shares of common stock at a five percent discount from the current market value. Under the direct stock purchase program, shares are purchased by investors at market price. The shares issued under the Plan are either original issue shares or shares purchased by the Company's transfer agent in the open-market. During 2007, 2006 and 2005, under the dividend reinvestment portion of the Plan, 454,643, 405,107 and 401,503 original issue shares of common stock were sold providing the Company with proceeds of \$9,809, \$9,341 and \$8,516, respectively.

AQUA AMERICA, INC. AND SUBSIDIARIES

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The Board of Directors has authorized the Company to purchase its common stock, from time to time, in the open market or through privately negotiated transactions. The Company has not repurchased any shares under this authorization since 2000. As of December 31, 2007, 548,278 shares remain available for repurchase.

The Company reports comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income." Accordingly, the Company's accumulated other comprehensive income is reported in the Common Stockholders' Equity section of the Consolidated Balance Sheets, the Consolidated Statements of Common Stockholders' Equity and the related other comprehensive income is reported in the Consolidated Statements of Income and Comprehensive Income. The Company reports its unrealized gains on investments as other comprehensive income and accumulated other comprehensive income. Prior to the fourth quarter of 2006, a portion of the Company's minimum pension liability had been charged to accumulated other comprehensive income or loss. During the fourth quarter of 2006, the Company recorded a regulatory asset for its minimum pension liability as it anticipates recovery of its future pension expense through customer rates. Concurrent with this adjustment in the fourth quarter of 2006, the minimum pension liability was adjusted through other comprehensive income and removed from accumulated other comprehensive income.

Note 13 — Net Income per Common Share and Equity per Common Share

Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock options and shares issuable under the forward equity sale agreement (from the date the company entered into the forward equity sale agreement to the settlement date) is included in the computation of diluted net income per share. The dilutive effect of stock options and shares issuable under the forward equity sale agreement is calculated using the treasury stock method and expected proceeds upon exercise of the stock options and settlement of the forward equity sale agreement. The following table summarizes the shares, in thousands, used in computing basic and diluted net income per share:

	Years ended December 31,		
	2007	2006	2005
Average common shares outstanding during the period for basic computation	132,814	130,725	127,364
Effect of dilutive securities:			
Employee stock options	715	978	1,842
Forward equity shares	73	71	—
Average common shares outstanding during the period for diluted computation	<u>133,602</u>	<u>131,774</u>	<u>129,206</u>

For the years ended December 31, 2007 and 2006, employee stock options to purchase 1,101,581 and 581,850 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 year ended December 31, 2005, there were no outstanding employee stock options excluded from the calculation of diluted net income per share as the average market price of the Company's common stock was greater than the options' exercise price.

Equity per common share was \$7.32 and \$6.96 at December 31, 2007 and 2006, respectively. These amounts were computed by dividing common stockholders' equity by the number of shares of common stock outstanding at the end of each year.

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Note 14 — Shareholder Rights Plan

The Company has elected not to renew or extend the Shareholder Rights Plan that expires on March 1, 2008.

Note 15 — Employee Stock and Incentive Plan

Under the 2004 Equity Compensation Plan (the “2004 Plan”), as approved by the shareholders to replace the 1994 Equity Compensation Plan (the “1994 Plan”), qualified and non-qualified stock options may be granted to officers, key employees and consultants at prices equal to the market price of the stock on the day of the grant. Officers and key employees may also be granted dividend equivalents and restricted stock. Restricted stock may also be granted to non-employee members of the Board of Directors. The 2004 Plan authorizes 4,900,000 shares for issuance under the plan. A maximum of 50% of the shares available for issuance under the 2004 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 2004 Plan are made by a committee of the Board of Directors. At December 31, 2007, 2,979,855 options underlying stock option and restricted stock awards were still available for grant under the 2004 Plan, although under the terms of the 2004 Plan, terminated, expired or forfeited grants under the 1994 Plan and shares withheld to satisfy tax withholding requirements under the 1994 Plan may be re-issued under the plan.

Stock Options — Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 123R, “Share-Based Payment,” which revised SFAS No. 123, “Accounting for Stock-based Compensation,” and superseded APB No. 25, “Accounting for Stock Issued to Employees.” Prior to January 1, 2006, the Company accounted for stock-based compensation using the intrinsic value method in accordance with APB Opinion No. 25. Accordingly, no compensation expense related to granting of stock options had been recognized in the financial statements prior to adoption of SFAS No. 123R for stock options that were granted, as the grant price equaled the market price on the date of grant.

The Company adopted this standard using the modified prospective method, and accordingly the financial statement amounts for the prior periods presented in this report have not been restated to reflect the fair value method of expensing share-based compensation. Under this transition method, compensation cost recognized in the years ended December 31, 2007 and December 31, 2006 includes compensation cost for share-based payments granted prior to, but not vested as of January 1, 2006, and share-based payments granted after January 1, 2006. For the year ended December 31, 2007, the impact of SFAS No. 123R on the Company’s share-based compensation resulted in the following: operations and maintenance expense of \$3,223, capitalized compensation costs within property, plant and equipment of \$551, a reduction in income tax expense by \$477, lowered net income by \$2,746, lowered diluted net income per share by \$0.021, and lowered basic net income per share by \$0.021. For the year ended December 31, 2006, the impact of the adoption of SFAS No. 123R as compared to if the Company had continued to account for share-based compensation under APB Opinion No. 25: increased operations and maintenance expense by \$2,894, increased capitalized compensation costs within property, plant and equipment by \$631, lowered income tax expense by \$326, lowered net income by \$2,568, lowered diluted net income per share by \$0.019, and lowered basic net income per share by \$0.02. SFAS 123R requires the Company to estimate forfeitures in calculating the compensation expense instead of recognizing these forfeitures and the resulting reduction in compensation expense as they occur. As of January 1, 2006, the cumulative after-tax effect of this change in accounting for forfeitures, if this adjustment was recorded, would have been to reduce stock-based compensation by \$12. The estimate of forfeitures will be adjusted over the vesting period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. The adoption of this standard had no impact on net cash flows and results in the reclassification on the consolidated cash flow statements of related tax benefits from cash flows from operating activities to cash flows from financing activities to the extent these tax benefits exceeded the associated compensation cost as determined under SFAS 123R. As of the date of adoption, the Company has calculated its pool of windfall tax benefits in accordance with the method outlined in SFAS 123R.

Options under the plans were issued at the market price of the stock on the day of the grant. Options are exercisable in installments of 33% annually, starting one year from the date of the grant and expire 10 years from the date of the grant. The fair value of each option is amortized into compensation expense on a straight-line basis over their respective 36 month vesting period, net of estimated forfeitures. The fair value of options was estimated at the grant date using the Black-Scholes option-pricing model. The per share weighted average fair value at the date of grant for stock options granted during the years ended December 31, 2007, 2006 and 2005 was \$5.52, \$7.82 and \$4.54 per option, respectively. The application of this valuation model relies on the following assumptions that are judgmental and sensitive in the determination of the compensation expense for the periods reported:

	2007	2006	2005
Expected term (years)	5.2	5.2	5.2
Risk-free interest rate	4.7%	4.7%	4.0%
Expected volatility	22.5%	25.8%	27.8%
Dividend yield	1.95%	1.76%	2.40%

Historical information was the principal basis for the selection of the expected term and dividend yield. The expected volatility is based on a weighted average combination of historical and implied volatilities over a time period that approximates the expected term of the option. The risk-free interest rate was selected based upon the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option.

The following table summarizes stock option transactions for the year ended December 31, 2007:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Options:				
Outstanding, beginning of year	3,364,778	\$ 16.72		
Granted	613,850	23.26		
Forfeited	(89,431)	24.49		
Expired	(40,137)	24.27		
Exercised	(577,272)	12.69		
Outstanding, end of year	<u>3,271,788</u>	<u>\$ 18.36</u>	<u>6.5</u>	<u>\$ 14,849</u>
Exercisable, end of year	<u>2,121,029</u>	<u>\$ 15.20</u>	<u>5.3</u>	<u>\$ 14,195</u>

The intrinsic value of stock options is the amount by which the market price of the stock on a given date, such as at the end of the period or on the day of exercise, exceeded the market price of stock on the date of grant. The following table summarizes the aggregate intrinsic value of stock options exercised and the fair value of stock options which became vested:

	Years ended December 31,		
	2007	2006	2005
Intrinsic value of options exercised	\$ 6,030	\$ 9,779	\$ 18,473
Fair value of options vested	3,967	3,794	3,532

The following table summarizes information about the options outstanding and options exercisable as of December 31, 2007:

	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Range of prices:					
\$5.81 - 9.99	241,191	1.5	\$ 7.76	241,191	\$ 7.76
\$10.00 - 12.99	765,807	4.5	12.23	765,807	12.23
\$13.00 - 15.99	90,779	5.4	13.76	90,779	13.76
\$16.00 - 16.99	451,227	6.3	16.15	451,227	16.15
\$17.00 - 22.99	621,203	7.2	18.33	393,019	18.33
\$23.00 - 29.99	1,101,581	8.7	26.23	179,006	29.46
	<u>3,271,788</u>	<u>6.5</u>	<u>\$ 18.36</u>	<u>2,121,029</u>	<u>\$ 15.20</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

As of December 31, 2007, there was \$4,184 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans. The cost is expected to be recognized over a weighted average period of 1.1 years.

Restricted Stock — Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. Restricted stock awards result in compensation expense which is equal to the fair market value of the stock on the date of the grant and is amortized ratably over the restriction period. The adoption of SFAS No. 123R had no impact on the Company's recognition of stock-based compensation expense associated with restricted stock awards. The Company expects forfeitures of restricted stock to be de minimis. There were no forfeitures prior to the adoption of SFAS 123R for the grants that were under restriction as of January 1, 2006. During the years ended December 31, 2007, 2006 and 2005, the company recorded stock-based compensation related to restricted stock awards as operations and maintenance expense in the amounts of \$1,097, \$710 and \$495, respectively. The following table summarizes nonvested restricted stock transactions for the year ended December 31, 2007:

	Number of Shares	Weighted Average Fair Value
Nonvested shares at beginning of period	56,888	\$ 23.98
Granted	55,000	23.27
Vested	(37,443)	21.85
Forfeited	(5,000)	29.46
Nonvested shares at end of period	<u>69,445</u>	<u>\$ 24.17</u>

The following table summarizes the value of restricted stock awards at the date the restriction lapsed:

	Years ended December 31,		
	2007	2006	2005
Intrinsic value of restricted stock awards vested	\$ 835	\$ 660	\$ 614
Fair value of restricted stock awards vested	818	465	500

As of December 31, 2007, \$925 of unrecognized compensation costs related to restricted stock is expected to be recognized over a weighted average period of 1.1 years. The aggregate intrinsic value of restricted stock as of December 31, 2007 was \$1,472. The aggregate intrinsic value of restricted stock is based on the number of shares of restricted stock and the market value of the Company's common stock as of the period end date.

Note 16 — Pension Plans and Other Postretirement Benefits

The Company maintains qualified, defined benefit pension plans that cover a substantial portion of its full-time employees who were hired prior to April 1, 2003. Retirement benefits under the plans are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund the plans annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations. To offset certain limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Excess Benefit Plan for Salaried Employees in order to prevent certain employees from being penalized by these limitations. The Company also has non-qualified Supplemental Executive Retirement Plans for certain current and retired employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow. Employees hired after April 1, 2003 may participate in a defined contribution plan that provides a Company matching contribution on amounts contributed by participants and an annual profit-sharing contribution based upon a percentage of the eligible participants' compensation.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

In addition to providing pension benefits, the Company offers certain Postretirement Benefits other than Pensions (“PBOPs”) to employees hired before April 1, 2003 and retiring with a minimum level of service. These PBOPs include continuation of medical and prescription drug benefits for eligible retirees and life insurance benefits for certain eligible retirees. The Company funds its gross PBOP cost through various trust accounts. The benefits of retired officers and certain other retirees are paid by the Company and not from plan assets due to limitations imposed by the Internal Revenue Code.

Under SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R),” the Company records the underfunded status of its pension and other postretirement benefit plans on its consolidated balance sheets and records a regulatory asset for these costs that would otherwise be charged to common stockholders’ equity, as the Company anticipates recoverability of the costs through customer rates. As a result of adopting SFAS No. 158 on December 31, 2006, the additional minimum liability associated with the Company’s defined benefit pension plan was eliminated as it is no longer required to be recorded under SFAS No. 158. Prior to the adoption of SFAS No. 158 on December 31, 2006, the Company’s additional minimum liability was \$3,498 and resulted from the accumulated benefit obligation exceeding the fair value of plan assets.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

	Pension Benefits	Other Postretirement Benefits
Years:		
2008	\$ 8,030	\$ 1,332
2009	8,529	1,498
2010	9,077	1,708
2011	9,752	1,898
2012	10,488	2,011
2013 - 2017	64,552	12,854

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The changes in the benefit obligation and fair value of plan assets, the funded status of the plans and the assumptions used in the measurement of the company's benefit obligation are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Change in benefit obligation:				
Benefit obligation at January 1,	\$ 178,284	\$ 179,741	\$ 28,210	\$ 29,161
Service cost	4,905	4,784	1,141	1,002
Interest cost	11,534	10,094	2,014	1,581
Plan amendments	—	406	—	—
Actuarial (gain)	(14,720)	(10,469)	(438)	(2,941)
Plan participants' contributions	—	—	181	249
Benefits paid	(7,877)	(6,483)	(1,205)	(877)
Acquisition	21,983	—	4,428	—
Special termination benefits	389	211	51	35
Benefit obligation at December 31,	<u>194,498</u>	<u>178,284</u>	<u>34,382</u>	<u>28,210</u>
Change in plan assets:				
Fair value of plan assets at January 1,	126,466	117,671	20,614	18,942
Actual return on plan assets	7,974	8,757	1,558	933
Employer contributions	8,572	6,521	2,316	1,367
Benefits paid	(7,877)	(6,483)	(1,024)	(628)
Acquisition	12,648	—	971	—
Fair value of plan assets at December 31,	<u>147,783</u>	<u>126,466</u>	<u>24,435</u>	<u>20,614</u>
Funded status of plan:				
Net amount recognized at December 31,	<u>\$ 46,715</u>	<u>\$ 51,818</u>	<u>\$ 9,947</u>	<u>\$ 7,596</u>

The Company's pension plans had an accumulated benefit obligation of \$167,120 and \$150,999 at December 31, 2007 and 2006, respectively. The following table provides the net liability recognized on the Consolidated Balance Sheets at December 31,:

	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Current liability	\$ (187)	\$ (131)	\$ —	\$ —
Noncurrent liability	(46,528)	(51,687)	(9,947)	(7,596)
Net liability recognized	<u>\$ (46,715)</u>	<u>\$ (51,818)</u>	<u>\$ (9,947)</u>	<u>\$ (7,596)</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

At December 31, 2007 and 2006, the Company's pension plans had benefit obligations in excess of its plan assets. The following tables provide the projected benefit obligation, the accumulated benefit obligation and fair market value of the plan assets as of December 31,:

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2007	2006
Projected benefit obligation	\$ 194,498	\$ 178,284
Fair value of plan assets	147,783	126,466
	Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2007	2006
Accumulated benefit obligation	\$ 167,120	\$ 150,999
Fair value of plan assets	147,783	126,466

The following table provides the components of net periodic benefit costs for the years ended December 31,:

	Pension Benefits			Other Postretirement Benefits		
	2007	2006	2005	2007	2006	2005
Service cost	\$ 4,905	\$ 4,783	\$ 4,847	\$ 1,141	\$ 1,003	\$ 1,223
Interest cost	11,534	10,094	9,805	2,014	1,582	1,882
Expected return on plan assets	(11,205)	(9,397)	(9,536)	(1,503)	(1,299)	(1,261)
Amortization of transition obligation (asset)	(209)	(209)	(209)	104	104	803
Amortization of prior service cost	270	216	403	(281)	(281)	(57)
Amortization of actuarial (gain) loss	739	1,756	1,606	307	300	219
Amortization of regulatory asset	—	—	—	152	152	136
Special termination benefits	389	211	—	51	35	—
Capitalized costs	(2,548)	(2,037)	(1,847)	(895)	(792)	(739)
Net periodic benefit cost	<u>\$ 3,875</u>	<u>\$ 5,417</u>	<u>\$ 5,069</u>	<u>\$ 1,090</u>	<u>\$ 804</u>	<u>\$ 2,206</u>

The estimated net actuarial loss, prior service cost and transition asset for the Company's pension plans that will be amortized in 2008 from the regulatory assets into net periodic benefit cost are \$254, \$259 and \$209, respectively. The estimated net actuarial loss, prior service credit and transition obligation for the Company's other postretirement benefit plans that will be amortized in 2008 from regulatory assets into net periodic benefit cost are \$233, \$281 and \$104, respectively.

Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from the Company's actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The significant assumptions related to the Company's pension and other postretirement benefit plans are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Weighted average Assumptions Used to Determine Benefit Obligations as of December 31,				
Discount rate	6.25%	5.90%	6.25%	5.90%
Rate of compensation increase	4.0-5.0%	4.0-5.0%	4.0%	4.0%

Assumed Health Care Cost Trend Rates Used to Determine Benefit Obligations as of December 31,				
Health care cost trend rate	n/a	n/a	8%	9%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5%	5%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2014	2011

Weighted average Assumptions Used to Determine Net Periodic Benefit Costs for Years Ended December 31,				
Discount rate	5.90%	5.65%	5.90%	5.65%
Expected return on plan assets	8.0%	8.0%	5.33-8.0%	5.33-8.0%
Rate of compensation increase	4.0-5.0%	4.0-5.0%	4.0%	4.0%

Assumed Health Care Cost Trend Rates Used to Determine Net Periodic Benefit Costs for Years Ended December 31,				
Health care cost trend rate	n/a	n/a	9%	10%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5%	5%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2011	2011

n/a — Assumption is not applicable to pension benefits.

Assumed health-care trend rates have a significant effect on the expense and liabilities for other postretirement benefit plans. The health care trend rate is based on historical rates and expected market conditions. A one-percentage point change in the expected health-care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on the health-care component of the accrued other postretirement benefit obligation	\$ 2,334	\$ (2,195)
Effect on total service and interest cost components of net periodic postretirement health-care benefit cost	\$ 235	\$ (224)

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The Company's discount rate assumption was determined using a yield curve that was produced from a universe containing over 500 U.S.-issued Aa-graded corporate bonds, all of which were noncallable (or callable with make-whole provisions), and excluding the 10% of the bonds with the highest yields and the 10% with the lowest yields. The discount rate was then developed as the single rate that would produce the same present value as if the Company used spot rates, for various time periods, to discount the projected pension benefit payments. The Company's pension expense and liability (benefit obligations) increases as the discount rate is reduced. A 25 basis-point reduction in this assumption would have increased 2007 pension expense by \$764 and the pension liabilities by \$7,500.

The Company's expected return on assets is determined by evaluating the asset class return expectations with its advisors as well as actual, long-term, historical results of our asset returns. The Company's market related value of plan assets is equal to the fair value of the plan assets as of the last day of its fiscal year, and is a determinant for the expected return on assets which is a component of net pension expense. The Company's pension expense increases as the expected return on assets decreases. A 25 basis-point reduction in this assumption would have increased 2007 pension expense by \$350. For 2007, the Company used an 8.0% expected return on assets assumption which will remain unchanged for 2008. The Company believes its actual long-term asset allocation on average will approximate the targeted allocation. The Company's investment strategy is to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories. Investment returns are compared to benchmarks that include the S&P 500 Index, the Lehman Brothers Intermediate Government/Credit Index, and a combination of the two indices. The Pension Committee meets semi-annually to review plan investments and management monitors investment performance quarterly through a performance report prepared by an external consulting firm.

The Company's pension plan asset allocation and the target allocation by asset category are as follows:

Asset Category:	2008 Target Allocation	Percentage of Plan Assets at December 31,	
		2007	2006
Equity securities	50 to 75%	64%	63%
Debt securities	25 to 50%	27%	28%
Cash	0%	6%	7%
Other	0%	3%	2%
Total	100%	100%	100%

Equity securities include Aqua America, Inc. common stock in the amounts of \$9,001 or 6.1% of total plan assets and \$9,460 or 7.5% of total plan assets as of December 31, 2007 and 2006, respectively.

The asset allocation for the Company's other postretirement benefit plans and the target allocation by asset category are as follows:

Asset Category:	2008 Target Allocation	Percentage of Plan Assets at December 31,	
		2007	2006
Cash and Other	65%	66%	66%
Equity securities	35%	34%	34%
Total	100%	100%	100%

Minimum funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and the Company's funding policy, during 2008 our pension contribution is expected to be approximately \$12,186. In establishing the contribution amount, the Company has considered the potential impact of funding rule changes under the Pension Protection Act of 2006 and at this time does not anticipate the need to revise this amount based on the new rules. The Company's funding of its PBOP cost during 2008 is expected to approximate \$2,959.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) (In thousands of dollars, except per share amounts)

The Company has 401(k) savings plans that cover substantially all employees. The Company makes matching contributions that are invested in Aqua America, Inc. common stock based on a percentage of an employee's contribution, subject to certain limitations. The Company's matching contribution, recorded as compensation expense, was \$1,316, \$1,289 and \$1,236 for the years ended December 31, 2007, 2006 and 2005, respectively.

Note 17 — Water and Wastewater Rates

In November 2007, the Company's Pennsylvania operating subsidiary, Aqua Pennsylvania, Inc., filed an application with the Pennsylvania Public Utility Commission ("PAPUC") requesting a \$41,694 or 13.6% increase in annual revenues. The application is currently pending before the PAPUC and a final determination is anticipated by August 2008. On June 22, 2006, the PAPUC granted Aqua Pennsylvania, Inc. a \$24,900 base water rate increase, on an annualized basis. The rates in effect at the time of the filing of this rate case included \$12,397 in Distribution System Improvement Charges ("DSIC") or 5.0% above the prior base rates. Consequently, the total base rates increased by \$37,297 and the DSIC was reset to zero.

In December 2006, the Company's operating subsidiary in Florida filed an application with the Florida Public Service Commission ("FPSC") designed to increase water and wastewater rates by \$7,298 on an annual basis. In April 2007, the Company commenced billing for a portion of the requested rates, in accordance with authorization from the FPSC. On August 28, 2007, the Company reached a settlement agreement with Florida's Office of Public Counsel and the Attorney General of the State of Florida. The settlement agreement was approved by the FPSC, and among other stipulations, resulted in the Company voluntarily withdrawing its application, and agreeing to refund the additional revenue billed that was associated with this rate application. As a result of this agreement, during the third quarter of 2007, the Company recorded a revenue refund which reduced operating revenues by \$571 for the amount of revenue recognized prior to the third quarter of 2007. Additionally, the Company wrote-off rate case expenses of \$2,385 in 2007.

In 2004, the Company's operating subsidiaries in Texas filed an application with the Texas Commission on Environmental Quality ("TCEQ") to increase rates, on an annualized basis, by \$11,920 over a multi-year period. The application seeks to increase annual revenues in phases and is 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 approximates the requested amount during the first years that the new rates are in effect. The application is currently pending before the TCEQ and several parties have joined the proceeding to challenge the rate request. The Company commenced billing for the requested rates and implemented the deferral plan in 2004, in accordance with authorization from the TCEQ in 2004. The additional revenue billed and collected prior to the final ruling is subject to refund based on the outcome of the ruling. The revenue recognized and the expenses deferred by the Company reflect an estimate of the final outcome of the ruling. In the event the Company's request is denied completely or in part, the Company could be required to refund some or all of the revenues billed to date, and write-off some or all of the regulatory asset for the expense deferral. In December 2006, the TCEQ held hearings and issued a rate schedule that provided further clarification and an indication of the expected outcome of the rate proceeding. As a result of the December 2006 hearings, the Company revised its estimates of the final outcome of the TCEQ proceeding. During the fourth quarter of 2006, the revenue reserve was adjusted and additional revenues were recognized of \$1,487 and the regulatory asset was increased resulting in lower expenses recognized of \$1,199. As of December 31, 2007, we have deferred \$12,382 of operating costs and \$3,343 of rate case expenses and recognized \$25,635 of revenue that is subject to refund based on the outcome of the final commission order. Based on the Company's review of the present circumstances, no reserve is considered necessary for the revenue recognized to date or for the deferred operating costs and rate case expense.

The Company's other operating subsidiaries were allowed annual rate increases of \$5,596 in 2007, \$7,366 in 2006 and \$5,142 in 2005, represented by twenty-three, thirty-two and twenty-three rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately \$4,636, \$3,580 and \$3,144 in 2007, 2006 and 2005, respectively.

Six states in which the Company operates permit water utilities, and in two states wastewater utilities, to add a surcharge to their water or wastewater bills to offset the additional depreciation and capital costs related to infrastructure system replacement and rehabilitation projects completed and placed into service between base rate filings. Currently, Pennsylvania, Illinois, Ohio, New York, Indiana and Missouri allow for the use of infrastructure rehabilitation surcharges. These mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped as a percentage of base rates, generally at 5% to 9% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. Infrastructure rehabilitation surcharges provided revenues in 2007, 2006 and 2005 of \$11,507, \$7,873 and \$10,186, respectively.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Note 18 — Segment Information

The Company has identified fourteen operating segments and one reportable segment. Prior to the acquisition in 2006 of companies that provide on-site septic tank pumping and sludge hauling services, the Company's non-regulated operations were limited in scope and impact on its financial results and assets, and as a result the Company previously operated them as part of its regulated operating segments. The Company made this determination based on an evaluation of its operating segments during 2006.

The Regulated segment, the Company's single reportable segment, is comprised of thirteen operating segments representing our water and wastewater regulated utility companies which are organized by the states where we provide water and wastewater services. These operating segments are aggregated into one reportable segment since each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment.

One segment is included within the other category below. This segment is not quantitatively significant and is comprised of the Company's businesses that provide on-site septic tank pumping, sludge hauling services and other water and wastewater services. In addition to this segment, other is comprised of other business activities not included in the reportable segment, including corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include certain general and administrative expenses, and interest expense.

The following table presents information about the Company's reportable segment:

	As of or For the Year Ended December 31, 2007			As of or For the Year Ended December 31, 2006		
	Regulated	Other	Consolidated	Regulated	Other	Consolidated
Operating revenues	\$ 589,743	\$ 12,756	\$ 602,499	\$ 526,293	\$ 7,198	\$ 533,491
Operations and maintenance expense	243,755	9,337	253,092	216,919	2,641	219,560
Depreciation	84,998	(1,820)	83,178	73,380	(2,485)	70,895
Operating income	211,899	4,117	216,016	199,224	6,323	205,547
Interest expense, net of AFUDC	59,689	4,279	63,968	43,348	11,143	54,491
Income tax	60,224	304	60,528	62,134	(1,888)	60,246
Net income	93,769	1,245	95,014	94,941	(2,937)	92,004
Capital expenditures	236,230	1,910	238,140	271,777	(71)	271,706
Total assets	3,223,681	3,231	3,226,912	2,819,385	58,518	2,877,903
Goodwill	32,510	4,121	36,631	18,537	4,043	22,580

	As of or For the Year Ended December 31, 2005		
	Regulated	Other	Consolidated
Operating revenues	\$ 493,456	\$ 3,323	\$ 496,779
Operations and maintenance expense	202,662	426	203,088
Depreciation	63,756	(3,009)	60,747
Operating income	191,419	5,088	196,507
Interest expense, net of AFUDC	41,857	7,758	49,615
Income tax	58,647	(1,734)	56,913
Net income	92,092	(936)	91,156
Capital expenditures	236,637	825	237,462
Total assets	2,699,941	(64,895)	2,635,046
Goodwill	20,078	102	20,180

Selected Quarterly Financial Data (Unaudited)
(In thousands of dollars, except per share amounts)

Aqua America, Inc. and Subsidiaries

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2007					
Operating revenues	\$ 137,301	\$ 150,624	\$ 165,491	\$ 149,083	\$ 602,499
Operations and maintenance expense	60,295	63,334	67,069	62,394	253,092
Operating income	43,745	54,770	65,347	52,154	216,016
Net income	16,858	23,727	29,518	24,911	95,014
Basic net income per common share	0.13	0.18	0.22	0.19	0.72
Diluted net income per common share	0.13	0.18	0.22	0.19	0.71
Dividend paid per common share	0.1150	0.1150	0.1250	0.1250	0.4800
Dividend declared per common share	0.1150	0.1150	0.1250	0.1250	0.4800
Price range of common stock					
- high	24.03	23.50	26.62	24.39	26.62
- low	20.50	21.40	21.40	18.86	18.86
2006					
Operating revenues	\$ 117,949	\$ 131,749	\$ 146,950	\$ 136,843	\$ 533,491
Operations and maintenance expense	51,316	55,433	59,127	53,684	219,560
Operating income	40,622	50,089	59,523	55,313	205,547
Net income	16,564	22,386	27,331	25,723	92,004
Basic net income per common share	0.13	0.17	0.21	0.19	0.70
Diluted net income per common share	0.13	0.17	0.21	0.19	0.70
Dividend paid per common share	0.1069	0.1069	0.1150	0.1150	0.4438
Dividend declared per common share	0.1069	0.1069	0.2300	—	0.4438
Price range of common stock					
- high	29.79	27.82	23.93	24.94	29.79
- low	26.50	20.13	21.13	21.54	20.13

High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape. The cash dividend paid in December 2006 of \$0.115 was declared in September 2006.

Summary of Selected Financial Data
(in thousands of dollars, except per share amounts)

Aqua America, Inc. and Subsidiaries

Years ended December 31,	2007	2006	2005	2004 (a)	2003 (b)
PER COMMON SHARE:					
Net income					
Basic	\$ 0.72	\$ 0.70	\$ 0.72	\$ 0.64	\$ 0.60
Diluted	0.71	0.70	0.71	0.64	0.59
Cash dividends declared and paid	0.48	0.44	0.40	0.37	0.34
Return on average stockholders' equity					
	10.0%	10.6%	11.7%	11.4%	12.3%
Book value at year end	\$ 7.32	\$ 6.96	\$ 6.30	\$ 5.88	\$ 5.33
Market value at year end	21.20	22.78	27.30	18.44	16.58
INCOME STATEMENT HIGHLIGHTS:					
Operating revenues	\$ 602,499	\$ 533,491	\$ 496,779	\$ 442,039	\$ 367,233
Depreciation and amortization	88,011	75,041	65,488	58,864	51,463
Interest expense, net (c)	63,968	54,491	49,615	46,375	42,535
Income before income taxes	155,542	152,250	148,069	132,131	116,718
Provision for income taxes	60,528	60,246	56,913	52,124	45,923
Net income available to common stock	95,014	92,004	91,156	80,007	70,785
BALANCE SHEET HIGHLIGHTS:					
Total assets	\$ 3,226,912	\$ 2,877,903	\$ 2,635,046	\$ 2,355,374	\$ 2,071,252
Property, plant and equipment, net	2,792,794	2,505,995	2,279,950	2,069,812	1,824,291
Common stockholders' equity	976,298	921,630	811,923	747,231	658,118
Long-term debt, including current portion	1,238,980	982,815	903,083	834,656	736,052
Total debt	1,295,898	1,101,965	1,041,588	909,466	832,511
ADDITIONAL INFORMATION:					
Net cash flows from operating activities	\$ 194,168	\$ 170,726	\$ 199,674	\$ 173,603	\$ 143,373
Capital additions	238,140	271,706	237,462	195,736	163,320
Net cash expended for acquisitions of utility systems and other	51,226	11,848	11,633	54,300	192,331
Dividends on common stock	63,763	58,023	51,139	45,807	39,917
Number of utility customers served (d)	950,732	926,823	864,894	835,512	749,491
Number of shareholders of common stock	28,286	28,348	27,054	24,082	22,726
Common shares outstanding (000)	133,400	132,326	128,970	127,180	123,452
Employees (full-time)	1,585	1,540	1,489	1,442	1,260

- (a) 2004 includes a partial year of financial results for the mid-year acquisition of Heater Utilities, Inc. and certain utility assets of Florida Water Services Corporation.
- (b) 2003 includes five months of financial results for the AquaSource operations acquired in July 2003.
- (c) Net of allowance for funds used during construction and interest income.
- (d) 2006 includes 44,792 customers associated with the New York Water Service Corporation which closed on January 1, 2007. The operating results of this acquisition will be reported in our consolidated financial statements beginning January 1, 2007.

AQUA AMERICA, INC. AND SUBSIDIARIES

The following table lists the significant subsidiaries and other active subsidiaries of Aqua America, Inc. at December 31, 2007:

Aqua Pennsylvania, Inc. (Pennsylvania)
Aqua Resources, Inc. (Delaware)
Aqua Services, Inc. (Pennsylvania)
Aqua Ohio, Inc. (Ohio)
Aqua Illinois, Inc. (Illinois)
Aqua New Jersey, Inc. (New Jersey)
Aqua Maine, Inc. (Maine)
Aqua North Carolina, Inc. (North Carolina)
Aqua Texas, Inc. (Texas)
Aqua Indiana, Inc. (Indiana)
Aqua Utilities, Inc. (Texas)
Aqua Virginia, Inc. (Virginia)
Aqua Utilities Florida, Inc. (Florida)
Aqua Missouri, Inc. (Missouri)
Aqua South Carolina, Inc. (South Carolina)
Heater Utilities, Inc. (South Carolina)
Aqua New York, Inc. (New York)
New York Water Service Corporation (New York)
Aqua Wastewater Management, Inc. (Pennsylvania)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-61772, 333-42275, 333-104290, 333-122900 and 333-130400), on Form S-4 (No. 333-93243), and on Form S-8 (Nos. 333-148206, 333-61768, 333-70859, 033-52557, 033-53689, 333-26613, 333-81085, 333-107673, 333-113502, 333-116776 and 333-126042) of Aqua America, Inc. of our report dated February 26, 2008 relating to the consolidated financial statements, and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

/S/ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP
Philadelphia, Pennsylvania
February 26, 2008

CERTIFICATION

I, Nicholas DeBenedictis, certify that:

1. I have reviewed this annual report on Form 10-K of Aqua America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual 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 annual 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 we 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 function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2008

NICHOLAS DEBENEDICTIS

Nicholas DeBenedictis

Chairman, President and Chief Executive Officer

CERTIFICATION

I, David P. Smeltzer, certify that:

1. I have reviewed this annual report on Form 10-K of Aqua America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual 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 annual 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 we 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 function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2008

DAVID P. SMELTZER
David P. Smeltzer
Chief Financial Officer

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2007 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nicholas DeBenedictis, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

NICHOLAS DEBENEDICTIS

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer
February 26, 2008

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2007 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Smeltzer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

DAVID P. SMELTZER

David P. Smeltzer
Chief Financial Officer
February 26, 2008