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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended March 31, 2017

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

For the transition period from _____ to _____
Commission File Number 1-6659

AQUA AMERICA, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania

(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)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 24, 2017: 177,601,658

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AQUA AMERICA, INC. AND SUBSIDIARIES

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AQUA AMERICA, INC. AND SUBSIDIARIES

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

		March 31, 2017	December 31, 2016
Assets			
Property, plant and equipment, at cost		\$ 6,590,830	\$ 6,509,117
Less: accumulated depreciation		1,533,004	1,507,502
Net property, plant and equipment		<u>5,057,826</u>	<u>5,001,615</u>
Current assets:			
Cash and cash equivalents		4,425	3,763
Accounts receivable and unbilled revenues, net		89,409	97,394
Inventory, materials and supplies		13,977	12,961
Prepayments and other current assets		12,727	12,804
Assets held for sale		1,925	1,728
Total current assets		<u>122,463</u>	<u>128,650</u>
Regulatory assets		974,853	948,647
Deferred charges and other assets, net		31,192	30,845
Investment in joint venture		6,995	7,026
Goodwill		42,266	42,208
Total assets		<u>\$ 6,235,595</u>	<u>\$ 6,158,991</u>
Liabilities and Equity			
Stockholders' equity:			
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 180,566,113 and 180,311,345 as of March 31, 2017 and December 31, 2016		\$ 90,283	\$ 90,155
Capital in excess of par value		800,420	797,513
Retained earnings		1,048,963	1,032,844
Treasury stock, at cost, 2,983,005 and 2,916,969 shares as of March 31, 2017 and December 31, 2016		(73,166)	(71,113)
Accumulated other comprehensive income		727	669
Total stockholders' equity		<u>1,867,227</u>	<u>1,850,068</u>
Long-term debt, excluding current portion		1,819,568	1,759,962
Less: debt issuance costs		22,057	22,357
Long-term debt, excluding current portion, net of debt issuance costs		<u>1,797,511</u>	<u>1,737,605</u>
Commitments and contingencies (See Note 13)		-	-
Current liabilities:			
Current portion of long-term debt		119,296	150,671
Loans payable		27,732	6,535
Accounts payable		50,185	59,872
Accrued interest		20,624	18,367
Accrued taxes		24,092	25,607
Other accrued liabilities		35,671	40,484
Total current liabilities		<u>277,600</u>	<u>301,536</u>
Deferred credits and other liabilities:			
Deferred income taxes and investment tax credits		1,301,189	1,269,253
Customers' advances for construction		90,391	91,843
Regulatory liabilities		245,294	250,635
Other		110,097	115,583
Total deferred credits and other liabilities		<u>1,746,971</u>	<u>1,727,314</u>
Contributions in aid of construction		546,286	542,468
Total liabilities and equity		<u>\$ 6,235,595</u>	<u>\$ 6,158,991</u>

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

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AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF NET INCOME
 (In thousands, except per share amounts)
 (UNAUDITED)

	Three Months Ended March 31,	
	2017	2016
Operating revenues	\$ 187,787	\$ 192,607
Operating expenses:		
Operations and maintenance	69,128	73,541
Depreciation	33,837	32,145
Amortization	189	450
Taxes other than income taxes	14,737	14,140
Total operating expenses	<u>117,891</u>	<u>120,276</u>
Operating income	69,896	72,331
Other expense (income):		
Interest expense, net	21,326	19,853
Allowance for funds used during construction	(3,193)	(2,308)
Gain on sale of other assets	(269)	(207)
Equity loss in joint venture	30	249
Income before income taxes	<u>52,002</u>	<u>54,744</u>
Provision for income taxes	2,930	3,007
Net income	<u>\$ 49,072</u>	<u>\$ 51,737</u>
Net income per common share:		
Basic	<u>\$ 0.28</u>	<u>\$ 0.29</u>
Diluted	<u>\$ 0.28</u>	<u>\$ 0.29</u>
Average common shares outstanding during the period:		
Basic	<u>177,479</u>	<u>177,104</u>
Diluted	<u>177,969</u>	<u>177,819</u>
Cash dividends declared per common share	\$ 0.1913	\$ 0.178

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

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AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands of dollars)
(UNAUDITED)

	Three Months Ended March 31,	
	2017	2016
Net income	\$ 49,072	\$ 51,737
Other comprehensive income, net of tax:		
Unrealized holding gain (loss) on investments, net of tax expense (benefit) of \$31 and \$(4) for the three months ended March 31, 2017 and 2016, respectively	58	(6)
Reclassification of gain on sale of investment to net income, net of tax of \$30 for the three months ended March 31, 2016 (1)	-	(57)
Comprehensive income	<u>\$ 49,130</u>	<u>\$ 51,674</u>

(1) Amount of pre-tax gain of \$87 reclassified from accumulated other comprehensive income to gain on sale of other assets on the consolidated statements of net income for the three months ended March 31, 2016.

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

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AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)
(UNAUDITED)

	March 31, 2017	December 31, 2016
Stockholders' equity:		
Common stock, \$.50 par value	\$ 90,283	\$ 90,155
Capital in excess of par value	800,420	797,513
Retained earnings	1,048,963	1,032,844
Treasury stock, at cost	(73,166)	(71,113)
Accumulated other comprehensive income	727	669
Total stockholders' equity	<u>1,867,227</u>	<u>1,850,068</u>
Long-term debt of subsidiaries (substantially secured by utility plant):		
<u>Interest Rate Range</u>	<u>Maturity Date Range</u>	
0.00% to 0.99%	2023 to 2033	4,612
1.00% to 1.99%	2019 to 2035	14,679
2.00% to 2.99%	2024 to 2031	19,813
3.00% to 3.99%	2019 to 2056	431,260
4.00% to 4.99%	2020 to 2054	439,408
5.00% to 5.99%	2017 to 2043	212,953
6.00% to 6.99%	2017 to 2036	52,990
7.00% to 7.99%	2022 to 2027	32,887
8.00% to 8.99%	2021 to 2025	6,453
9.00% to 9.99%	2018 to 2026	26,400
10.00% to 10.99%	2018	6,000
	<u>1,247,455</u>	<u>1,247,224</u>
Notes payable to bank under revolving credit agreement, variable rate, due 2021	53,000	25,000
Unsecured notes payable:		
Bank notes at 1.921% and 1.975% due 2017 and 2018	100,000	100,000
Notes ranging from 3.01% to 3.59% due 2027 through 2041	245,000	245,000
Notes ranging from 4.62% to 4.87%, due 2017 through 2024	133,600	133,600
Notes ranging from 5.20% to 5.95%, due 2017 through 2037	159,809	159,809
Total long-term debt	<u>1,938,864</u>	<u>1,910,633</u>
Current portion of long-term debt	119,296	150,671
Long-term debt, excluding current portion	1,819,568	1,759,962
Less: debt issuance costs	22,057	22,357
Long-term debt, excluding current portion, net of debt issuance costs	<u>1,797,511</u>	<u>1,737,605</u>
Total capitalization	<u>\$ 3,664,738</u>	<u>\$ 3,587,673</u>

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

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AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EQUITY
(In thousands of dollars)
(UNAUDITED)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2016	\$ 90,155	\$ 797,513	\$ 1,032,844	\$ (71,113)	\$ 669	\$ 1,850,068
Net income	-	-	49,072	-	-	49,072
Other comprehensive loss, net of income tax benefit of \$31	-	-	-	-	58	58
Dividends	-	-	(33,945)	-	-	(33,945)
Sale of stock (11,898 shares)	6	354	-	-	-	360
Repurchase of stock (66,036 shares)	-	-	-	(2,053)	-	(2,053)
Equity compensation plan (156,359 shares)	79	(79)	-	-	-	-
Exercise of stock options (86,511 shares)	43	1,493	-	-	-	1,536
Stock-based compensation	-	1,345	10	-	-	1,355
Cumulative effect of change in accounting principle - windfall tax benefit	-	-	982	-	-	982
Other	-	(206)	-	-	-	(206)
Balance at March 31, 2017	<u>\$ 90,283</u>	<u>\$ 800,420</u>	<u>\$ 1,048,963</u>	<u>\$ (73,166)</u>	<u>\$ 727</u>	<u>\$ 1,867,227</u>

Refer to Note 15 - Recent Accounting Pronouncements for a discussion of the cumulative effect of change in accounting principle - windfall tax benefit

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

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AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands of dollars)
(UNAUDITED)

	Three Months Ended March 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 49,072	\$ 51,737
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	34,026	32,595
Deferred income taxes	2,681	1,436
Provision for doubtful accounts	1,111	817
Stock-based compensation	1,312	806
Loss (gain) on sale of utility system and market-based business unit	278	(1,215)
Gain on sale of other assets	(269)	(207)
Net change in receivables, inventory and prepayments	5,729	5,680
Net change in payables, accrued interest, accrued taxes and other accrued liabilities	(4,519)	4,880
Pension and other postretirement benefits contributions	(7,711)	(2,714)
Other	(507)	1,023
Net cash flows from operating activities	<u>81,203</u>	<u>94,838</u>
Cash flows from investing activities:		
Property, plant and equipment additions, including the debt component of allowance for funds used during construction of \$721 and \$580	(94,562)	(72,984)
Acquisitions of utility systems and other, net	(220)	(4,461)
Net proceeds from the sale of utility system and other assets	639	2,853
Other	(171)	(40)
Net cash flows used in investing activities	<u>(94,314)</u>	<u>(74,632)</u>
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	1,585	1,273
Repayments of customers' advances	(511)	(349)
Net proceeds of short-term debt	21,197	11,320
Proceeds from long-term debt	117,879	96,314
Repayments of long-term debt	(89,666)	(80,341)
Change in cash overdraft position	(2,403)	(17,250)
Proceeds from issuing common stock	360	332
Proceeds from exercised stock options	1,536	2,816
Stock-based compensation windfall tax benefits	-	979
Repurchase of common stock	(2,053)	(2,827)
Dividends paid on common stock	(33,945)	(31,513)
Other	(206)	(208)
Net cash flows from (used in) financing activities	<u>13,773</u>	<u>(19,454)</u>
Net change in cash and cash equivalents	662	752
Cash and cash equivalents at beginning of period	3,763	3,229
Cash and cash equivalents at end of period	<u>\$ 4,425</u>	<u>\$ 3,981</u>
Non-cash investing activities:		
Property, plant and equipment additions purchased at the period end, but not yet paid for	\$ 27,084	\$ 19,052
Non-cash customer advances and contributions in aid of construction	4,282	5,425

Refer to Note 3 - Acquisitions for a description of non-cash activities

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

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

Note 1 – Basis of Presentation

The accompanying consolidated balance sheets and statements of capitalization of Aqua America, Inc. and subsidiaries (the “Company”) at March 31, 2017, the consolidated statements of net income and comprehensive income for the three months ended March 31, 2017 and 2016 the consolidated statements of cash flow for the three months ended March 31, 2017 and 2016, and the consolidated statement of equity for the three months ended March 31, 2017 are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present a fair statement of our consolidated financial position, consolidated changes in equity, consolidated results of operations, and consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year. The December 31, 2016 consolidated balance sheet data presented herein was derived from the Company’s December 31, 2016 audited consolidated financial statements, but does not include all disclosures and notes normally provided in annual financial statements.

The preparation of financial statements often requires the selection of specific accounting methods and policies. Further, significant estimates and judgments may be required in selecting and applying those methods and policies in the recognition of the assets and liabilities in our consolidated balance sheets, the revenues and expenses in our consolidated statements of net income, and the information that is contained in our summary of significant accounting policies and notes to consolidated financial statements. Making these estimates and judgments requires the analysis of information concerning events that may not yet be complete and of facts and circumstances that may change over time. Accordingly, actual amounts or future results can differ materially from those estimates that we include currently in our consolidated financial statements, summary of significant accounting policies, and notes.

There have been no changes to the summary of significant accounting policies previously identified in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

Note 2 – Goodwill

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

	Regulated Segment	Other	Consolidated
Balance at December 31, 2016	\$ 37,367	\$ 4,841	\$ 42,208
Goodwill acquired	72	-	72
Reclassification to utility plant acquisition adjustment	(14)	-	(14)
Balance at March 31, 2017	<u>\$ 37,425</u>	<u>\$ 4,841</u>	<u>\$ 42,266</u>

The reclassification of goodwill to utility plant acquisition adjustment results from a mechanism approved by the applicable utility commission. The mechanism provides for the transfer over time, and the recovery through customer rates, of goodwill associated with some acquisitions upon achieving specific objectives.

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

Note 3 – Acquisitions

Pursuant to our strategy to grow through acquisitions, in January 2016, the Company acquired Superior Water Company, Inc., which provides public water service to approximately 3,900 customers in portions of Berks, Chester, and Montgomery counties in Pennsylvania. The total purchase price for the utility system was \$16,750, which consisted of the issuance of 439,943 shares of the Company's common stock and \$3,905 in cash. The purchase price allocation for this acquisition consisted primarily of acquired property, plant and equipment of \$25,167, contributions in aid of construction of \$16,565, and goodwill of \$8,622. Additionally, during 2016, the Company completed nine acquisitions of water and wastewater utility systems in various states. The total purchase price of these utility systems consisted of \$1,721 in cash, and there was no goodwill recorded. The pro forma effect of the businesses acquired is not material either individually or collectively to the Company's results of operations.

Note 4 – Assets Held for Sale

In the first quarter of 2017, the Company decided to market for sale a water system that serves approximately 265 customers in one of the states where we operate. As of March 31, 2017, this water system is reported as assets held for sale in the Company's consolidated balance sheet.

In the second quarter of 2016, the Company decided to market for sale two business units that are reported within the Company's market-based subsidiary, Aqua Resources. One business unit installed and tested devices that prevent the contamination of potable water and repaired water and wastewater systems, for which the sale was completed in January 2017. The other business unit repairs and performs maintenance on water and wastewater systems and as of March 31, 2017, this business unit is reported as assets held for sale in the Company's consolidated balance sheet.

Note 5 – Capitalization

In January 2017, Aqua Pennsylvania issued \$50,000 of first mortgage bonds, of which \$10,000 is due in 2042 and \$40,000 is due in 2044 with interest rates of 3.65% and 3.69%, respectively. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes.

Note 6 – Fair Value of Financial Instruments

The Company follows the Financial Accounting Standards Board's ("FASB") accounting guidance for fair value measurements and disclosures, which defines fair value and establishes a framework for using fair value to measure assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access;

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

- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted market prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in non-active markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3: inputs that are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation techniques used to measure fair value, or asset or liability transfers between the levels of the fair value hierarchy for the quarter ended March 31, 2017.

Financial instruments are recorded at carrying value in the financial statements and approximate fair value as of the dates presented. The fair value of these instruments is disclosed below in accordance with current accounting guidance related to financial instruments.

The fair value of loans payable is determined based on its carrying amount and utilizing Level 1 methods and assumptions. As of March 31, 2017 and December 31, 2016, the carrying amount of the Company's loans payable was \$27,732 and \$6,535, respectively, which equates to their estimated fair value. The fair value of cash and cash equivalents, which is comprised of a money market fund, is determined based on the net asset value per unit utilizing Level 2 methods and assumptions. As of March 31, 2017 and December 31, 2016, the carrying amounts of the Company's cash and cash equivalents was \$4,425 and \$3,763, respectively, which equates to their fair value.

The carrying amounts and estimated fair values of the Company's long-term debt is as follows:

	March 31, 2017	December 31, 2016
Carrying Amount	\$ 1,938,864	\$ 1,910,633
Estimated Fair Value	2,009,788	2,018,933

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 utilizing Level 2 methods and assumptions. The Company's customers' advances for construction have a carrying value of \$90,391 as of March 31, 2017, and \$91,843 as of December 31, 2016. 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 2027 and amounts not paid by the respective 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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AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
(UNAUDITED)

Note 7 – Net Income per Common Share

Basic net income per common share is based on the weighted average number of common shares outstanding. Diluted net income per common share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock-based compensation is included in the computation of diluted net income per common share. The dilutive effect of stock-based compensation is calculated using the treasury stock method and expected proceeds upon exercise or issuance of the stock-based compensation. The treasury stock method assumes that the proceeds from stock-based compensation are used to purchase the Company's common stock at the average market price during the period. The following table summarizes the shares, in thousands, used in computing basic and diluted net income per common share:

	Three Months Ended March 31,	
	2017	2016
Average common shares outstanding during the period for basic computation	177,479	177,104
Dilutive effect of employee stock-based compensation	490	715
Average common shares outstanding during the period for diluted computation	<u>177,969</u>	<u>177,819</u>

For the three months ended March 31, 2017 and 2016, all of the Company's employee stock options were included in the calculations of diluted net income per share as the calculated cost to exercise the stock options was less than the average market price of the Company's common stock during these periods.

Note 8 – Stock-based Compensation

Under the Company's 2009 Omnibus Equity Compensation Plan, as amended as of February 27, 2014 (the "2009 Plan"), as approved by the Company's shareholders to replace the 2004 Equity Compensation Plan (the "2004 Plan"), stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to employees, non-employee directors, and consultants and advisors. The 2009 Plan authorizes 6,250,000 shares for issuance under the plan. A maximum of 3,125,000 shares under the 2009 Plan may be issued pursuant to stock awards, stock units and other stock-based awards, subject to adjustment as provided in the 2009 Plan. During any calendar year, no individual may be granted (i) stock options and stock appreciation rights under the 2009 Plan for more than 500,000 shares of Company stock in the aggregate or (ii) stock awards, stock units or other stock-based awards under the 2009 Plan for more than 500,000 shares of Company stock in the aggregate, subject to adjustment as provided in the 2009 Plan. Awards to employees and consultants under the 2009 Plan are made by a committee of the Board of Directors of the Company, except that with respect to awards to the Chief Executive Officer, the committee recommends those awards for approval by the non-employee directors of the Board of Directors. In the case of awards to non-employee directors, the Board of Directors makes such awards. At March 31, 2017, 3,734,084 shares were still available for issuance under the 2009 Plan. No further grants may be made under the 2004 Plan.

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

Performance Share Units – A performance share unit (“PSU”) represents the right to receive a share of the Company’s common stock if specified performance goals are met over the three-year performance period specified in the grant, subject to exceptions through the respective vesting period, generally three years. Each grantee is granted a target award of PSUs, and may earn between 0% and 200% of the target amount depending on the Company’s performance against the performance goals. The following table provides compensation costs for stock-based compensation related to PSUs:

	Three Months Ended			
	March 31,			
	2017	2016		
Stock-based compensation within operations and maintenance expenses	\$ 870	\$ 525		
Income tax benefit	353	209		

The following table summarizes the PSU transactions for the three months ended March 31, 2017:

	Number of Share Units	Weighted Average Fair Value
Nonvested share units at beginning of period	476,896	\$ 27.96
Granted	125,679	30.79
Performance criteria adjustment	(58,533)	27.78
Forfeited	(10,046)	27.68
Share units vested in prior period and issued in current period	32,400	25.31
Share units issued	(125,999)	36.37
Nonvested share units at end of period	<u>440,397</u>	<u>\$ 26.20</u>

A portion of the fair value of PSUs was estimated at the grant date based on the probability of satisfying the market-based conditions using the Monte Carlo valuation method, which assesses probabilities of various outcomes of market conditions. The other portion of the fair value of the PSUs is based on the fair market value of the Company’s stock at the grant date, regardless of whether the market-based condition is satisfied. The per unit weighted-average fair value at the date of grant for PSUs granted during the three months ended March 31, 2017 and 2016 was \$30.79 and \$28.89, respectively. The fair value of each PSU grant is amortized monthly into compensation expense on a straight-line basis over their respective vesting periods, generally 36 months. The accrual of compensation costs is based on our estimate of the final expected value of the award, and is adjusted as required for the portion based on the performance-based condition. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the PSUs includes dividend equivalents, no separate dividend yield assumption is required in calculating the fair value of the PSUs. The recording of compensation expense for PSUs has no impact on net cash flows.

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

Restricted Stock Units – A restricted stock unit (“RSU”) represents the right to receive a share of the Company’s common stock. RSUs are eligible to be earned at the end of a specified restricted period, generally three years, beginning on the date of grant. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the RSUs includes dividend equivalents, no separate dividend yield assumption is required in calculating the fair value of the RSUs. The following table provides the compensation cost and income tax benefit for stock-based compensation related to RSUs:

	Three Months Ended March 31,			
	2017	2016		
Stock-based compensation within operations and maintenance expenses	\$ 281	\$ 168		
Income tax benefit	116	69		

The following table summarizes the RSU transactions for the three months ended March 31, 2017:

	Number of Stock Units	Weighted Average Fair Value
Nonvested stock units at beginning of period	109,273	\$ 28.48
Granted	41,293	30.37
Stock units vested and issued	(26,279)	26.12
Forfeited	(1,541)	30.57
Nonvested stock units at end of period	<u>122,746</u>	<u>\$ 29.59</u>

The per unit weighted-average fair value at the date of grant for RSUs granted during the three months ended March 31, 2017 and 2016 was \$30.37 and \$32.04, respectively.

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Stock Options – A stock option represents the option to purchase a number of shares of common stock of the Company as specified in the stock option grant agreement at the exercise price per share as determined by the closing market price of our common stock on the grant date. Stock options are exercisable in installments of 33% annually, starting one year from the grant date and expire 10 years from the grant date. The fair value of each stock option is amortized into compensation expense using the graded-vesting method, which results in the recognition of compensation costs over the requisite service period for each separately vesting tranche of the stock options as though the stock options were, in substance, multiple stock option grants. The following table provides the compensation cost and income tax benefit for stock-based compensation related to stock options:

	Three Months Ended March 31,	
	2017	2016
Stock-based compensation within operations and maintenance expenses	30	-
Income tax benefit	\$ 92	\$ 216

The fair value of options was estimated at the grant date using the Black-Scholes option-pricing model. The following assumptions were used in the application of this valuation model:

	2017
Expected term (years)	5.45
Risk-free interest rate	2.01%
Expected volatility	17.7%
Dividend yield	2.51%
Grant date fair value per option	\$ 4.07

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.

For the three months ended March 31, 2016, there were no compensation costs for stock-based compensation related to stock options, as the previous stock option grant that occurred in 2010 became fully amortized in 2013. Additionally, there were no stock options granted during the three months ended March 31, 2016.

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AQUA AMERICA, INC. AND SUBSIDIARIES
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The following table summarizes stock option transactions for the three months ended March 31, 2017:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Weighted Aggregate Intrinsic Value
Outstanding at beginning of period	427,335	\$ 15.55		
Granted	120,473	30.47		
Forfeited	(121)	30.47		
Expired / Cancelled	(2,812)	14.26		
Exercised	(86,511)	17.76		
Outstanding and exercisable at end of period	<u>458,364</u>	<u>\$ 19.06</u>	<u>4.0</u>	<u>\$ 5,999</u>

Stock Awards – Stock awards represent the issuance of our common stock, without restriction. The issuance of stock awards results in compensation expense which is equal to the fair market value of the stock on the grant date, and is expensed immediately upon grant. The following table provides the compensation cost and income tax benefit for stock-based compensation related to stock awards:

	Three Months Ended March 31,	
	2017	2016
Stock-based compensation within operations and maintenance expenses	\$ 131	\$ 112
Income tax benefit	54	47

The following table summarizes stock award transactions for the three months ended March 31, 2017:

	Number of Stock Awards	Weighted Average Fair Value
Nonvested stock awards at beginning of period	-	\$ -
Granted	4,081	32.15
Vested	<u>(4,081)</u>	<u>32.15</u>
Nonvested stock awards at end of period	<u>-</u>	<u>\$ -</u>

The per unit weighted-average fair value at the date of grant for stock awards granted during the three months ended March 31, 2017 and 2016 was \$32.15 and \$31.94, respectively.

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AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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Note 9 – Pension Plans and Other Postretirement Benefits

The Company maintains a qualified defined benefit pension plan (the “Pension Plan”), a nonqualified pension plan and other postretirement benefit plans for certain of its employees. The net periodic benefit cost is based on estimated values and an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company’s employees, mortality, turnover, and medical costs. The following tables provide the components of net periodic benefit cost:

	Pension Benefits	
	Three Months Ended March 31,	
	2017	2016
Service cost	\$ 794	\$ 826
Interest cost	3,108	3,285
Expected return on plan assets	(4,270)	(4,266)
Amortization of prior service cost	145	145
Amortization of actuarial loss	2,001	1,760
Settlement charge	-	3,028
Special termination benefit charge	-	302
Net periodic benefit cost	<u>\$ 1,778</u>	<u>\$ 5,080</u>

	Other Postretirement Benefits	
	Three Months Ended March 31,	
	2017	2016
Service cost	\$ 255	\$ 255
Interest cost	737	750
Expected return on plan assets	(647)	(711)
Amortization of prior service cost	(127)	(137)
Amortization of actuarial loss	291	267
Net periodic benefit cost	<u>\$ 509</u>	<u>\$ 424</u>

Effective July 1, 2015, the Company added a permanent lump sum option to the form of benefit payments offered to participants of the qualified defined benefit pension plan and non-qualified retirement plans upon retirement or termination. During the first quarter of 2016, the lump sum payments paid to participants who elected this option for payments from the non-qualified retirement plans resulted in a settlement charge.

The Company made cash contributions of \$7,711 to its Pension Plan during the first three months of 2017, and intends to make additional cash contributions of \$7,711 to the Pension Plan during the remainder of 2017.

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AQUA AMERICA, INC. AND SUBSIDIARIES
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Note 10 – Water and Wastewater Rates

During the first three months of 2017, the Company's operating divisions in Indiana and Ohio were granted base rate increases designed to increase total operating revenues on an annual basis by \$7,403. Further, during the first three months of 2017, the Company's operating divisions in Illinois and North Carolina received approval to bill infrastructure rehabilitation surcharges designed to increase total operating revenues on an annual basis by \$2,031.

Note 11 – Taxes Other than Income Taxes

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

	Three Months Ended March 31,	
	2017	2016
Property	\$ 6,785	\$ 6,185
Gross receipts, excise and franchise	2,683	2,519
Payroll	3,124	3,337
Regulatory assessments	629	672
Pumping fees	944	918
Other	572	509
Total taxes other than income	<u>\$ 14,737</u>	<u>\$ 14,140</u>

Note 12 – Segment Information

The Company has ten operating segments and one reportable segment. The Regulated segment, the Company's single reportable segment, is comprised of eight 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 because 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.

Two operating segments are included within the Other category below. These segments are not quantitatively significant and are comprised of Aqua Resources and Aqua Infrastructure. Aqua Resources provides water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our utility companies' service territories; and offers, through a third party, water and sewer line repair service and protection solutions to households. Aqua Infrastructure provides non-utility raw water supply services for firms in the natural gas drilling industry. In addition to these segments, 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 general and administrative expenses, and interest expense.

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AQUA AMERICA, INC. AND SUBSIDIARIES
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(In thousands of dollars, except per share amounts)
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The following table presents information about the Company's reportable segment:

	Three Months Ended			Three Months Ended		
	March 31, 2017			March 31, 2016		
	Regulated	Other	Consolidated	Regulated	Other	Consolidated
Operating revenues	\$ 186,349	\$ 1,438	\$ 187,787	\$ 186,006	\$ 6,601	\$ 192,607
Operations and maintenance expense	67,510	1,618	69,128	67,325	6,216	73,541
Depreciation	33,666	171	33,837	32,206	(61)	32,145
Operating income (loss)	71,067	(1,171)	69,896	72,850	(519)	72,331
Interest expense, net	19,777	1,549	21,326	18,801	1,052	19,853
Allowance for funds used during construction	3,193	-	3,193	2,308	-	2,308
Income tax expense (benefit)	3,856	(926)	2,930	3,673	(666)	3,007
Net income (loss)	50,896	(1,824)	49,072	52,894	(1,157)	51,737
Capital expenditures	94,409	153	94,562	72,389	595	72,984
		March 31, 2017		December 31, 2016		
Total assets:						
Regulated		\$ 6,024,765		\$ 5,953,702		
Other		210,830		205,289		
Consolidated		<u>\$ 6,235,595</u>		<u>\$ 6,158,991</u>		

Note 13 – Commitments and Contingencies

The Company is routinely involved in various disputes, claims, lawsuits and other regulatory and legal matters, including both asserted and unasserted legal claims, in the ordinary course of business. The status of each such matter, referred to herein as a loss contingency, is reviewed and assessed in accordance with applicable accounting rules regarding the nature of the matter, the likelihood that a loss will be incurred, and the amounts involved. As of March 31, 2017, the aggregate amount of \$15,243 is accrued for loss contingencies and is reported in the Company's consolidated balance sheet as other accrued liabilities and other liabilities. These accruals represent management's best estimate of probable loss (as defined in the accounting guidance) for loss contingencies or the low end of a range of losses if no single probable loss can be estimated. For some loss contingencies, the Company is unable to estimate the amount of the probable loss or range of probable losses. While the final outcome of these loss contingencies cannot be predicted with certainty, and unfavorable outcomes could negatively impact the Company, at this time in the opinion of management, the final resolution of these matters are not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows. Further, the Company has insurance coverage for certain of these loss contingencies, and as of March 31, 2017, estimates that approximately \$1,676 of the amount accrued for these matters are probable of recovery through insurance, which amount is also reported in the Company's consolidated balance sheet as deferred charges and other assets, net.

In addition to the aforementioned loss contingencies, the Company self-insures its employee medical benefit program, and maintains stop-loss coverage to limit the exposure arising from these claims. The Company's reserve for these claims totaled \$1,770 at March 31, 2017 and represents a reserve for unpaid claim costs, including an estimate for the cost of incurred but not reported claims.

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AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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Note 14 – Income Taxes

During the three months ended March 31, 2017, the Company’s Federal net operating loss (“NOL”) carryforward increased by \$437. In addition, during the three months ended March 31, 2017, the Company’s state NOL carryforward increased by \$9,443. As of March 31, 2017, the balance of the Company’s Federal NOL was \$113,580. The Company believes its Federal NOL carryforward is more likely than not to be recovered and requires no valuation allowance. As of March 31, 2017, the balance of the Company’s gross state NOL was \$584,688, a portion of which is offset by a valuation allowance because the Company does not believe the state NOLs are more likely than not to be realized. The Company’s Federal and state NOL carryforwards begin to expire in 2032 and 2023, respectively. The Company’s Federal and state NOL carryforwards are reduced by an unrecognized tax position, on a gross basis, of \$63,140 and \$85,128, respectively. The amounts of the Company’s Federal and state NOL carryforwards prior to being reduced by the unrecognized tax positions were \$176,720 and \$669,816 respectively. The Company records its unrecognized tax benefit as a reduction to its deferred income tax liability.

In accordance with a 2012 settlement agreement with the Pennsylvania Public Utility Commission, Aqua Pennsylvania expenses, for tax purposes, qualifying utility asset improvement costs, which results in a substantial reduction in income tax expense and greater net income and cash flows. The Company’s effective income tax rate for the first quarter of 2017 and 2016 was 5.6% and 5.5%, respectively.

As of March 31, 2017, the total gross unrecognized tax benefit was \$28,261, of which \$21,431, if recognized, would affect the Company’s effective tax rate as a result of the regulatory treatment afforded for qualifying infrastructure improvements in Pennsylvania. At December 31, 2016, the Company had unrecognized tax benefits of \$28,099.

Accounting rules for uncertain tax positions specify that tax positions for which the timing of resolution is uncertain should be classified as long-term liabilities. Judgment is required in evaluating the Company’s uncertain tax positions and determining the provision for income taxes. Management believes that an adequate provision has been made for any adjustments that may result from tax examinations. Although the timing of income tax audit resolutions and negotiations with taxing authorities is highly uncertain, the Company does not anticipate a significant change to the total amount of unrecognized income tax benefits within the next 12 months.

Note 15 – Recent Accounting Pronouncements

In March 2017, the FASB issued updated accounting guidance on the presentation of net periodic pension and postretirement benefit cost (net benefit cost). Historically, net benefit cost is reported as an employee cost within operating income, net of amounts capitalized. The guidance requires the bifurcation of net benefit cost. The service cost component will be presented with other employee compensation costs in operating income and the other components of net benefit cost will be reported separately outside of operating income, and will not be eligible for capitalization. The guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

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In January 2017, the FASB issued updated accounting guidance that eliminates step 2 of the current goodwill impairment test, which requires a hypothetical purchase price allocation to measure goodwill impairment. A goodwill impairment loss will instead be measured at the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance will be effective for annual reporting periods beginning after December 15, 2019, and interim periods within that reporting period, with early adoption permitted for any impairment test performed on testing dates after January 1, 2017. The Company does not expect the provisions of the updated guidance to have an impact on its results of operations or financial position.

In August 2016, the FASB issued updated accounting guidance on the classification of certain cash receipts and cash payments in the statement of cash flows, which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated cash flow statement, but does not expect there to be a significant impact.

In March 2016, the FASB issued updated accounting guidance on simplifying the accounting for share-based payments, which includes several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The updated guidance was effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption available. On January 1, 2017, the Company adopted the updated guidance, prospectively, and recognized a previously unrecognized windfall tax benefit for stock-based compensation of \$982 associated with the Company's 2012 Federal net operating loss, which was recorded as an adjustment to deferred income taxes and retained earnings (refer to the presentation of "cumulative effect of change in accounting principle - windfall tax benefit" on our Consolidated Statement of Equity).

Additionally, income tax benefits in excess of compensation costs or tax deficiencies for share-based compensation are now recorded to our income tax provision, instead of historically to stockholder's equity, which impacts our effective tax rate. Lastly, all tax-related cash flows resulting from share-based payments are reported prospectively as operating activities on the statement of cash flows, a change from the historical requirement to present tax benefits as an inflow from financing activities and an outflow from operating activities.

In February 2016, the FASB issued updated accounting guidance on accounting for leases, which requires lessees to establish a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. For income statement purposes, leases will be classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. The updated accounting guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption available. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

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In May 2014, the FASB issued updated accounting guidance on recognizing revenue from contracts with customers, which outlines a single comprehensive model that an entity will apply to determine the measurement of revenue and timing of recognition. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The updated guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Additionally, the accounting for contributions in aid of construction may be impacted by the updated accounting guidance if the contributions are determined to be in scope. In July 2015, the FASB approved a one year deferral to the original effective date of this guidance. The updated guidance is effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the updated guidance in each prior reporting period, or (ii) a modified retrospective approach with the cumulative effect of initially adopting the updated guidance recognized through retained earnings at the date of adoption. In 2016, the Company performed an evaluation of the requirements of the updated guidance and based on current interpretations of the updated guidance believes that the impact of adoption may not result in a material change in our measurement of revenue and timing of recognition if contributions in aid of construction are determined to not be in scope. The Company continues to evaluate the impact of adoption if contributions in aid of construction are determined to be in scope. Additionally, we plan to implement the updated guidance using the modified retrospective approach.

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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)

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report contain, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address, among other things: the projected impact of various legal proceedings; the projected effects of recent accounting pronouncements; prospects, plans, objectives, expectations and beliefs of management, as well as information contained in this report where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans," "future," "potential," "probably," "predictions," "intends," "will," "continue," "in the event" or the negative of such terms or similar expressions. Forward-looking statements are based on a number of assumptions concerning future events, and are subject to a number of risks, uncertainties and other factors, many of which are outside our control, which could cause actual results to differ materially from those expressed or implied by such statements. These risks and uncertainties include, among others: the effects of regulation, abnormal weather, changes in capital requirements and funding, acquisitions, changes to the capital markets, and our ability to assimilate acquired operations, as well as those risks, uncertainties and other factors discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in such report. As a result, readers are cautioned not to place undue reliance on any forward-looking statements. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

General Information

Aqua America, Inc. (“we”, “us”, “our” or the “Company”), a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to what we estimate to be almost three million people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. Our largest operating subsidiary, Aqua Pennsylvania, provides water or wastewater services to approximately one-half of the total number of people we serve, who are located in the suburban areas in counties north and west of the City of Philadelphia and in 27 other counties in Pennsylvania. Our other regulated utility subsidiaries provide similar services in seven other states. In addition, the Company’s market-based activities are conducted through Aqua Resources, Inc. and Aqua Infrastructure, LLC. Aqua Resources provides water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our utility companies’ service territories; and offers, through a third party, water and wastewater line repair service and protection solutions to households.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

During 2016, we completed the sale of business units within Aqua Resources which provided liquid waste hauling and disposal services, and inspection, cleaning and repair of storm and sanitary wastewater lines. Additionally, in 2016, we decided to market for sale two business units that are reported within the Company's market-based subsidiary, Aqua Resources. One business unit installed and tested devices that prevent the contamination of potable water and repaired water and wastewater systems, for which the sale was completed in January 2017. The other business unit repairs and performs maintenance on water and wastewater systems and as of March 31, 2017, this business unit is reported as assets held for sale in the Company's consolidated balance sheet. Aqua Infrastructure provides non-utility raw water supply services for firms in the natural gas drilling industry.

Aqua America, Inc., which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, formerly known as Philadelphia Suburban Water Company. In the early 1990s, we embarked on a growth-through-acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of American Water Works Company, Inc.'s regulated operations in Ohio in 2012. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry, where we have more than quadrupled the number of regulated customers we serve, and has extended our regulated operations from southeastern Pennsylvania to include operations in seven other states. Currently, the Company seeks to acquire businesses in the U.S. regulated sector, which includes water and wastewater utilities and other regulated utilities, and to pursue growth ventures in market-based activities, such as infrastructure opportunities that are supplementary and complementary to our regulated businesses.

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes.

Financial Condition

During the first three months of 2017, we had \$94,562 of capital expenditures, expended \$220 for the acquisition of water and wastewater utility systems, issued \$117,879 of long-term debt, and repaid debt and made sinking fund contributions and other loan repayments of \$89,666. The capital expenditures were related to new and replacement water mains, improvements to treatment plants, tanks, hydrants, and service lines, well and booster improvements, and other enhancements and improvements. The issuance of long-term debt was comprised principally of the funds borrowed under our revolving credit facility and the issuance of \$50,000 of first mortgage bonds by Aqua Pennsylvania in January 2017.

At March 31, 2017, we had \$4,425 of cash and cash equivalents compared to \$3,763 at December 31, 2016. During the first three months of 2017, we used the proceeds from the issuance of long-term debt and internally generated funds to fund the cash requirements discussed above and to pay dividends.

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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)

At March 31, 2017, our \$250,000 unsecured revolving credit facility, which expires in February 2021, had \$179,439 available for borrowing. At March 31, 2017, we had short-term lines of credit of \$135,500, of which \$107,768 was available for borrowing. One of our short-term lines of credit is an Aqua Pennsylvania \$100,000 364-day unsecured revolving credit facility with four banks, which is used to provide working capital, and as of March 31, 2017, \$73,258 was available for borrowing.

Our short-term lines of credit of \$135,500 are subject to renewal on an annual basis. Although we believe we will be able to renew these facilities, there is no assurance that they will be renewed, or what the terms of any such renewal will be.

The Company's consolidated balance sheet historically has had a negative working capital position whereby routinely our current liabilities exceed our current assets. Management believes that internally generated funds along with existing credit facilities and the proceeds from the issuance of long-term debt will be adequate to provide sufficient working capital to maintain normal operations and to meet our financing requirements for at least the next twelve months.

Results of Operations

Analysis of First Quarter of 2017 Compared to First Quarter of 2016

Revenues decreased by \$4,820 or 2.5%, primarily due to a decrease in market-based activities revenue of \$5,163 associated with the dispositions of business units, and a decrease in customer water consumption, offset by additional revenues from organic growth of \$765, and an increase in water and wastewater rates of \$434.

Operations and maintenance expenses decreased by \$4,413 or 6.0%, primarily due to a reduction in operating expenses for Aqua Resources of \$4,558 associated with the disposition of business units, offset by the prior year effect of a gain on sale of a utility system of \$1,215. The gain on sale of a utility system is reported in the consolidated statement of net income as a component of operations and maintenance expense.

Depreciation expense increased by \$1,692 or 5.3%, primarily due to the utility plant placed in service since March 31, 2016.

Taxes other than income taxes increased by \$597 or 4.2% primarily due to an increase in property taxes of \$600 primarily due to the effect of a benefit recorded in 2016 for Ohio based on the final settlement of a property tax bill.

Interest expense increased by \$1,473 or 7.4%, primarily due to an increase in average borrowings.

Allowance for funds used during construction ("AFUDC") increased by \$885, due to an increase in the average balance of utility plant construction work in progress, to which AFUDC is applied, and an increase in the AFUDC rate due to an increase in short-term interest rates.

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AQUA AMERICA, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Our effective income tax rate was 5.6% in the first quarter of 2017 and 5.5% in the first quarter of 2016. The effective income tax rate increased due to the effect of less tax deductions recognized in the first quarter of 2017 for certain qualifying infrastructure improvements for Aqua Pennsylvania.

Net income decreased by \$2,665 or 5.2%, primarily as a result of the factors described above.

Impact of Recent Accounting Pronouncements

We describe the impact of recent accounting pronouncements in Note 15, *Recent Accounting Pronouncements*, to the consolidated financial statements in this report.

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Item 3 – Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. There have been no significant changes in our exposure to market risks since December 31, 2016. Refer to Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2016 for additional information.

Item 4 – Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective such that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

(b) Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1 – Legal Proceedings

We are party to various legal proceedings. Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings 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.

Item 1A – Risk Factors

There have been no material changes to the risks disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016 under "Part 1, Item 1A – Risk Factors."

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Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the Company's purchases of its common stock for the quarter ended March 31, 2017:

Period	Issuer Purchases of Equity Securities			Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May yet be Purchased Under the Plan or Programs
	Total Number of Shares Purchased (1)	Average Price Paid per Share	Announced Plans or Programs		
January 1 - 31, 2017	4,027	\$ 30.40	-	-	-
February 1 - 28, 2017	61,740	31.12	-	-	-
March 1 - 31, 2017	269	31.77	-	-	-
Total	66,036	\$ 31.08	-	-	-

- (1) These amounts include the following: (a) 60,078 shares we acquired from employees associated with the withholding of shares to pay certain withholding taxes upon the vesting of stock-based compensation; and (b) 5,958 shares we acquired 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 shares of our common stock in accordance with the terms of our equity compensation plan that were previously approved by our shareholders and disclosed in our proxy statements. These features of our equity compensation plan are available to all employees who receive stock-based compensation 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.

Item 6 – Exhibits

The information required by this Item is set forth in the Exhibit Index hereto which is incorporated herein by reference.

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SIGNATURES

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

May 4, 2017

Aqua America, Inc.

Registrant

/s/ Christopher H. Franklin

Christopher H. Franklin
President and
Chief Executive Officer

/s/ David P. Smeltzer

David P. Smeltzer
Executive Vice President and
Chief Financial Officer

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EXHIBIT INDEX

Exhibit No.	Description
10.1	Performance-Based Share Unit Grant Terms and Conditions*
10.2	Restricted Stock Unit Grant Terms and Conditions for Chief Executive Officer*
10.3	Restricted Stock Unit Grant Terms and Conditions for all other executive officers*
10.4	Stock Option Grant Terms and Conditions*
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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRES	XBRL Taxonomy Extension Presentation Linkbase Document

*Indicates management contract or compensatory plan or arrangement

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

**PERFORMANCE-BASED SHARE UNIT GRANT
TERMS AND CONDITIONS**

1. Grant of Performance Units.

These Performance-Based Share Unit Grant Terms and Conditions (the “Grant Conditions”) shall apply and be part of the grant made by Aqua America, Inc., a Pennsylvania corporation (the “Company”), to the Grantee named in the Performance-Based Share Unit Grant (the “Performance-Based Unit Grant”) to which these Grant Conditions are attached (the “Grantee”), under the terms and provisions of the Aqua America, Inc. 2009 Omnibus Equity Compensation Plan, as amended and restated (the “Plan”). The applicable provisions of the Plan are incorporated into the Grant Conditions by reference, including the definitions of terms contained in the Plan (unless such terms are otherwise defined herein). The Grantee is an employee of the Company, its subsidiaries or its Affiliates (collectively, the “Employer”).

Subject to the terms and vesting conditions hereinafter set forth, the Company, with the approval and at the direction of the Executive Compensation Committee (the “Committee”) of the Company’s Board of Directors (the “Board”), has granted to the Grantee a target award (the “Target Award”) of performance-based share units as specified in the Performance-Based Share Unit Grant (the “Performance Units”). The Performance Units are contingently awarded and shall be earned, vested and payable if and to the extent that the performance goals described on Schedule A (the “Performance Goals”), employment conditions and other conditions of these Grant Conditions are met. The Performance Units are granted with Dividend Equivalents (as defined in Section 6).

2. Vesting.

(a) Except as otherwise set forth in these Grant Conditions, the Grantee shall earn and vest in a number of Performance Units based on the attainment of the Performance Goals as of the end of the Performance Period, provided that the Grantee continues to be employed by the Employer through the Vesting Date stated on the Performance-Based Share Unit Grant (the “Vesting Date”). The “Performance Period” is the performance period beginning and ending on the applicable dates stated on the Performance-Based Share Unit Grant. The “Vesting Period” is the period beginning on the Grant Date and ending on the Vesting Date.

(b) Except as otherwise set forth in these Grant Conditions, at the end of the Performance Period, the Committee will determine whether and to what extent the Performance Goals have been met and the amount earned with respect to the Performance Units. The Grantee can earn up to two hundred percent (200%) of the Target Award based on the attainment of the Performance Goals.

(c) Except as described in Section 3 below, the Grantee must continue to be employed by the Employer throughout the Vesting Period in order for the Grantee to vest and receive payment with respect to the earned Performance Units.

(d) Except as specifically provided below, no Performance Units shall vest prior to the Vesting Date, and if the Performance Goals are not attained at the end of the Performance Period, the Performance Units shall be immediately forfeited and shall cease to be outstanding.

3. Termination of Employment on Account of Retirement, Death, or Disability.

(a) Except as described below, if the Grantee ceases to be employed by the Employer prior to the Vesting Date, the Performance Units shall be forfeited as of the termination date and shall cease to be outstanding.

(b) If the Grantee ceases to be employed by the Employer during the Vesting Period on account of the Grantee's death or Disability, the Grantee's outstanding Performance Units shall remain outstanding through the Vesting Period and the Grantee shall earn Performance Units based on the attainment of the Performance Goals, as determined following the end of the Performance Period (or as described in Section 4, if applicable). The earned Performance Units shall be paid as described in Section 5.

(c) If the Grantee ceases to be employed by the Employer during the Vesting Period on account of Retirement (defined below), the Grantee shall earn a pro-rata portion of the outstanding Performance Units based on attainment of the Performance Goals, as determined following the end of the Performance Period (or as described in Section 4, if applicable). The pro-rated portion shall be determined based on the number of Performance Units earned based on the attainment of the Performance Goals during the Performance Period, multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date and prior to the Retirement Date in which the Grantee was employed by the Employer and the denominator of which is thirty-six (36). The pro-rated earned Performance Units shall be paid as described in Section 5.

(d) For purposes of these Grant Conditions, "Retirement" shall mean the Grantee's voluntary termination of employment after the Grantee has attained age fifty-five (55) and has a combination of age and full years of service with the Employer that is equal to or greater than seventy (70).

4. Change in Control.

(a) If a Change in Control occurs during the Vesting Period, the Grantee shall earn outstanding Performance Units as of the date of the Change in Control (the "Change in Control Date") as follows:

(i) If the Change in Control occurs before the end of the Performance Period, the Grantee shall earn the greater of (x) the number of Performance Units earned based on the attainment of the Performance Goals from the beginning of the Performance Period to the Change in Control Date, or (y) the Target Award.

(ii) If a Change in Control occurs after the end of the Performance Period but before the Vesting Date, the Grantee shall earn Performance Units based on the attainment of the Performance Goals as of the end of the Performance Period.

Performance Units earned as of the Change in Control Date, as described above in subsection (a)(i) or (ii), are referred to as the “CIC Earned Units.” All reference in this Agreement to “Performance Units” includes CIC Earned Units on and after a Change in Control.

(b) The Grantee shall vest in the CIC Earned Units on the Vesting Date if the Grantee continues to be employed by the Employer through the Vesting Date. Except as described below, the CIC Earned Units shall only vest if the Grantee continues to be employed by the Employer through the Vesting Date.

(c) If prior to the Vesting Date, a Change in Control occurs and the Grantee ceases to be employed by the Employer upon or following a Change in Control on account of (i) the Grantee’s Retirement, (ii) the Grantee’s termination by the Company without Cause, or (iii) the Grantee’s Disability or death, the CIC Earned Units shall vest as of the termination date.

(d) If the Grantee ceases to be employed by the Employer for any other reason before the Vesting Date, the Grantee shall forfeit the CIC Earned Units as of the date of termination.

5. Payment with Respect to Performance Units.

(a) Except as otherwise set forth in Section 4, if the Committee certifies that the Performance Goals and other conditions to payment of the Performance Units have been met, shares of Company Stock equal to the vested earned Performance Units shall be issued to the Grantee on the Vesting Date, subject to applicable tax withholding and Section 16 below.

(b) If, prior to the Vesting Date, a Change in Control occurs and the Grantee continues to be employed by the Employer through the Vesting Date, shares of Company Stock (or other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee on the Vesting Date, subject to applicable tax withholding and Section 16 below.

(c) If, prior to the Vesting Date, a Change in Control occurs and the Grantee ceases to be employed by the Employer on or after the Change in Control on account of (i) the Grantee’s Retirement, (ii) the Grantee’s termination by the Employer without Cause, or (iii) the Grantee’s Disability or death, shares of Company Stock (or other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee within sixty (60) days following the Grantee’s date of termination, subject to applicable tax withholding and Section 16 below.

(d) If the Grantee terminates employment on account of the Grantee’s Disability, death or Retirement before a Change in Control, any outstanding Performance Units under Section 3(b) or 3(c) may be earned as CIC Earned Units pursuant to Section 4(a), but in the event such termination is on account of Retirement, such outstanding Performance Units shall be prorated by applying the fraction in Section 3(c), and such CIC Earned Units shall vest on the date of the Change in Control. Shares of Company Stock (or such other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee within sixty (60) days after the Change in Control, subject to applicable tax withholding and Section 16 below.

(e) If, in connection with a Change in Control, shares of Company Stock are converted into the right to receive a cash payment or other form of consideration, the vested CIC Earned Units shall be payable in such form of consideration, as determined by the Committee.

(f) Any fractional shares with respect to vested earned Performance Units shall be paid to the Grantee in cash.

6. Dividend Equivalents with Respect to Performance Units.

(a) Dividend Equivalents shall accrue with respect to Performance Units and shall be payable subject to the same vesting terms and other conditions as the Performance Units to which they relate. Dividend Equivalents shall be credited when dividends are declared on shares of Company Stock from the Grant Date until payment date for the vested earned Performance Units. If and to the extent that the underlying Performance Units are forfeited, all related Dividend Equivalents shall also be forfeited.

(b) While the Performance Units are outstanding, the Company will keep records in a bookkeeping account for the Grantee. On each date on which a dividend is declared by the Company on Company Stock, the Company shall credit to the Grantee's account an amount equal to the Dividend Equivalents associated with the Performance Units held by the Grantee on the record date for the dividend. No interest will be credited to any such account.

(c) Dividend Equivalents shall be paid in cash at the same time as the underlying vested earned Performance Units are paid.

(d) Notwithstanding the foregoing, if shares of Company Stock are converted to cash as described in Section 5(e) above in connection with a Change in Control, Dividend Equivalents shall cease to be credited with respect to the Performance Units.

7. Certain Corporate Changes.

If any change is made to the Company Stock (whether by reason of merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, or exchange of shares or any other change in capital structure made without receipt of consideration), then unless such event or change results in the termination of all the Performance Units, the Committee shall adjust, in an equitable manner and as provided in the Plan, the number and class of shares underlying the Performance Units to reflect the effect of such event or change in the Company's capital structure in such a way as to preserve the value of the Performance Units, and the Committee shall adjust the Performance Goals as necessary to reflect the effect of such event or change in the Company's capital structure. Any adjustment that occurs under the terms of this Section 7 or the Plan will not change the timing or form of payment with respect to any Performance Units and will be consistent with Section 162(m) of the Code, to the extent applicable.

8. No Stockholder Rights.

No shares of Company Stock shall be issued to the Grantee at the time the grant is made, and the Grantee shall not be, nor have any of the rights or privileges of, a shareholder of the Company with respect to any Performance Units recorded in the account, including no voting rights and no rights to receive dividends (other than Dividend Equivalents).

9. No Right to Continued Employment.

Neither the award of Performance Units, nor any other action taken with respect to the Performance Units, shall confer upon the Grantee any right to continue to be employed by the Employer or shall interfere in any way with the right of the Employer to terminate the Grantee's employment at any time.

10. Termination or Amendment.

These Grant Conditions and the award made hereunder may be terminated or amended by the Committee, in whole or in part, in accordance with the applicable terms of the Plan.

11. Notice.

Any notice to the Company provided for in these Grant Conditions shall be addressed to it in care of the Company's Vice President for Human Resources, and any notice to the Grantee shall be addressed to the Grantee at the current address shown on the payroll system of the Company, or to such other address as the Grantee may designate to the Company in writing. Any notice provided for hereunder shall be delivered by hand, sent by telecopy or electronic mail or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage and registry fee prepaid in the United States mail or other mail delivery service. Notice to the Company shall be deemed effective upon receipt. By receipt of these Grant Conditions, the Grantee hereby consents to the delivery of information (including without limitation, information required to be delivered to the Grantee pursuant to the applicable securities laws) regarding the Company, the Plan, and the Performance Units via the Company's electronic mail system or other electronic delivery system.

12. Incorporation of Plan by Reference.

The Performance-Based Share Unit Grant and these Grant Conditions are made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Grantee's receipt of the Performance Units constitutes such the Grantee's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, these Grant Conditions, and/or the Performance Units shall be final and binding on the Grantee, his or her beneficiaries and any other person having or claiming an interest in the Performance Units. The settlement of any award with respect to the Performance Units is subject to the provisions of the Plan and to interpretations, regulations and determinations concerning the Plan as established from time to time by the Committee in accordance with the provisions of the Plan. A copy of the Plan will be furnished to each Grantee upon request.

13. Income Taxes; Withholding Taxes.

The Grantee is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the award or settlement of Performance Units pursuant to these Grant Conditions. At the time of taxation, the Employer shall have the right to deduct from other compensation, or to withhold shares of Company Stock, in an amount equal to the federal (including FICA), state, local and foreign taxes and other amounts as may be required by law to be withheld with respect to the Performance Units, as approved in advance by the Committee.

14. Governing Law.

The validity, construction, interpretation and effect of the Performance-Based Share Unit Grant and these Grant Conditions shall exclusively be governed by, and determined in accordance with, the applicable laws of the Commonwealth of Pennsylvania, excluding any conflicts or choice of law rule or principle.

15. Assignment.

The Performance-Based Share Unit Grant and these Grant Conditions shall bind and inure to the benefit of the successors and assignees of the Company. The Grantee may not sell, assign, transfer, pledge or otherwise dispose of the Performance Units, except to a successor grantee in the event of the Grantee's death.

16. Section 409A.

The Performance-Based Share Unit Grant and these Grant Conditions are intended to comply with Code Section 409A or an exemption, and payments may only be made under these Grant Conditions upon an event and in a manner permitted by Code Section 409A, to the extent applicable. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, if the Grantee is considered a "specified employee" for purposes of Code Section 409A and if any payment under these Grant Conditions is required to be delayed for a period of six (6) months after separation from service pursuant to Code Section 409A, such payment shall be delayed as required by Code Section 409A, and the accumulated payment amounts shall be paid in a lump sum payment within ten (10) days after the end of the six (6)-month period. If the Grantee dies during the postponement period prior to payment, the amounts withheld on account of Code Section 409A shall be paid to the personal representative of the Grantee's estate within sixty (60) days after the date of the Grantee's death. Notwithstanding anything in these Grant Conditions to the contrary, if the Performance Units are subject to Code Section 409A and if required by Code Section 409A, any payments to be made upon a termination of employment under these Grant Conditions may only be made upon a "separation from service" under Code Section 409A. In no event may the Grantee, directly or indirectly, designate the calendar year of a payment, except in accordance with Code Section 409A. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, if CIC Earned Units are subject to Code Section 409A, and if a Change in Control is not a "change in control event" under Code Section 409A or the payment event does not occur upon or within two years following a "change in control event" under Code Section 409A, any vested CIC Earned Units shall be paid to the Grantee upon the Vesting Date and not on account of an earlier termination of employment.

17. Company Policies.

This Performance-Based Unit Grant and all shares issued pursuant to this grant shall be subject to any applicable recoupment or clawback policies and other policies implemented by the Board, as in effect from time to time.

* * *

Schedule A

Performance Goals for 2017 Performance Units

1. Performance Goals.

The Performance Units shall be earned based on Aqua America's (the Company's) achievement of four Performance Goals, as follows:

- 26.47% of the Target Award (22.5% of the Grantee's total 2017 performance-based grants) shall be earned based on the Company's TSR (as defined below) as compared to the TSR of the companies in the peer group described in Section 3 below.
- 26.47% of the Target Award (22.5% of the Grantee's total 2017 performance-based grants) shall be earned based on the Company's TSR as compared to the TSR of the reference companies in described in Section 4 below.
- 23.53% of the Target Award (20% of the Grantee's total 2017 performance-based grants) shall be earned based on the achievement of a targeted cumulative level of rate base growth as a result of acquisitions ("Rate Base Growth") during the Performance Period, as described in Section 5 below.
- 23.53% of the Target Award (20% of the Grantee's total 2017 performance-based grants) will be earned based on the achievement of maintaining Operating and Maintenance expenses ("Regulated O&M") over the Performance Period, as described in Section 6 below.

2. Calculation of TSR.

(a) Relative total shareholder return ("TSR") means the Company's TSR relative to the TSR of each Peer Company in the Peer Group (as defined below) or each Reference Company (as defined below), as applicable. At the end of the Performance Period, the TSR for the Company, each Peer Company in the Peer Group and each Reference Company shall be calculated by dividing the Closing Average Share Value (as defined below) by the Opening Average Share Value (as defined below).

(b) The term "Closing Average Share Value" means the average value of the common stock for the trading days during the two calendar months ending on the last trading day of the Performance Period, which shall be calculated as follows: (i) determine the closing price of the common stock on each trading date during the two-month period, (ii) multiply each closing price as of that trading date by the applicable share number described below, and (iii) average the amounts so determined for the two-month period. The Closing Average Share Value shall take into account any dividends on the common stock for which the ex-dividend date occurred during the Performance Period, as if the dividend amount had been reinvested in common stock at the closing price on the ex-dividend date. The share number in clause (ii) above, for a given trading day, is the sum of one share plus the cumulative number of shares

deemed purchased with such dividends. Notwithstanding the foregoing, if the Closing Average Share Value is calculated as of a Change in Control, then the Closing Average Share Value shall be based on the two-month period ending immediately prior to the Change in Control.

(c) The term “Opening Average Share Value” means the average value of the common stock for the trading days during the two calendar months ending on the last trading day prior to the beginning of the Performance Period, which shall be calculated as follows: (i) determine the closing price of the common stock on each trading date during the two-month period, (ii) multiply each closing price as of that trading date by the applicable share number described below, and (iii) average the amounts so determined for the two-month period. The Opening Average Share Value shall take into account any dividends on the common stock for which the ex-dividend date occurred during the two-month period, as if the dividend amount had been reinvested in common stock at the closing price on the ex-dividend date. The share number in clause (ii) above, for a given trading day, is the sum of one share plus the cumulative number of shares deemed purchased with such dividends.

3. Performance Units Earned Based on Comparative TSR to the Peer Group. 26.47% of the Target Award of Performance Units (the “Peer Group Portion”) shall be earned based on the Company’s TSR as compared to the TSR of the companies in the Peer Group for the Performance Period, in accordance with the following:

(a) The Peer Group for this purpose consists of American Water Works Company (AWK), American States Water Company (AWR), Aqua America, Inc. (WTR), Connecticut Water Service, Inc. (CTWS), California Water Service Group (CWT), Middlesex Water Company (MSEX) and SJW Corporation (SJW) (each a “Peer Company” and collectively, the “Peer Group”).

(b) The Peer Group shall be subject to change as follows:

(i) In the event of a merger, acquisition or business combination transaction of a Peer Company in which the Peer Company is the surviving entity and remains publicly traded, the surviving entity shall remain a Peer Company.

(ii) In the event of a merger, acquisition or business combination transaction of a Peer Company, a “going private” transaction or similar event involving a Peer Company or the liquidation of a Peer Company, in each case where the Peer Company is not the surviving entity or is no longer publicly traded, the company shall no longer be a Peer Company.

(iii) In the event of an announced merger, acquisition or business combination transaction of a Peer Company, a “going private” transaction or similar event involving a Peer Company or the liquidation of a Peer Company, or the announcement of an intention to enter into a merger, acquisition or business combination of a Peer Company, a “going private” transaction or similar event, in each case where the Peer Company is not the surviving entity or is no longer publicly traded, the company shall no longer be a Peer Company.

(c) The Peer Group Portion shall be earned based on how the Company’s TSR ranks in comparison to the TSRs of the Peer Group in accordance with the following schedule,

depending on how many companies remain in the Peer Group at the end of the Performance Period:

<u>Ordinal Ranking of the Company (including the Company) Versus Peer Group</u>	<u>Payout as a % of Target Award (7 Peer Companies)</u>	<u>Payout as a % of Target Award (6 Peer Companies)</u>	<u>Payout as a % of Target Award (5 Peer Companies)</u>	<u>Payout as a % of Target Award (4 Peer Companies)</u>	<u>Payout as a % of Target Award (3 Peer Companies)</u>
1st	200%	200%	200%	200%	200%
2nd	170%	160%	150%	125%	100%
3rd	130%	125%	100%	50%	0%
4th	100%	75%	50%	0%	N/A
5th	50%	25%	0%	N/A	N/A
6th	0%	0%	N/A	N/A	N/A
7th	0%	N/A	N/A	N/A	N/A

4. Performance Units Earned Based on Comparative TSR to the S&P MidCap Utilities Index.

26.47% of the Target Award of the Performance Units (the “S&P Index Portion”) shall be earned based on the Company’s TSR as compared to the TSR of the companies in the S&P MidCap Utilities Index, in accordance with the following:

<u>Ordinal Ranking of the Company (including the Company) Versus Peer Group</u>	<u>Pmt as a % of Target Award (18 Peer Co's)</u>	<u>Pmt as a % of Target Award (17 Peer Co's)</u>	<u>Pmt as a % of Target Award (16 Peer Co's)</u>	<u>Pmt as a % of Target Award (15 Peer Co's)</u>	<u>Pmt as a % of Target Award (14 Peer Co's)</u>
Rank	Payout	Payout	Payout	Payout	Payout
1	200.00%	200.00%	200.00%	200.00%	200.00%
2	197.22%	195.59%	193.75%	191.67%	189.29%
3	183.33%	180.88%	178.13%	175.00%	171.43%
4	169.44%	166.18%	162.50%	158.33%	153.57%
5	155.56%	151.47%	146.88%	141.67%	135.71%
6	141.67%	136.76%	131.25%	125.00%	117.86%
7	127.78%	122.06%	115.63%	108.33%	100.00%
8	113.89%	107.35%	100.00%	91.67%	82.14%
9	100.00%	92.65%	84.38%	75.00%	64.29%
10	86.11%	77.94%	68.75%	58.33%	0.00%
11	72.22%	63.24%	53.13%	0.00%	0.00%
12	58.33%	0.00%	0.00%	0.00%	0.00%
13	0.00%	0.00%	0.00%	0.00%	0.00%
14	0.00%	0.00%	0.00%	0.00%	0.00%
15	0.00%	0.00%	0.00%	0.00%	0.00%
16	0.00%	0.00%	0.00%	0.00%	0.00%
17	0.00%	0.00%	0.00%	0.00%	0.00%
18	0.00%	0.00%	0.00%	0.00%	0.00%

(a) The companies in the S&P MidCap Utilities Index will be determined on the first day of the Performance Period for purposes of the TSR calculation and will be changed only in

accordance with Section 4(b) below. No company shall be added to the S&P MidCap Utilities Index during the Performance Period for purposes of the TSR calculation.

(b) The term “Reference Company” means a company in the S&P MidCap Utilities Index as of the first day of the Performance Period and will be subject to change as follows:

(i) In the event of a merger, acquisition or business combination transaction of a Reference Company in which the Reference Company is the surviving entity and remains publicly traded, the surviving entity shall remain a Reference Company.

(ii) In the event of a merger, acquisition or business combination transaction of a Reference Company, a “going private” transaction or similar event involving a Reference Company or the liquidation of a Reference Company, in each case where the Reference Company is not the surviving entity or is no longer publicly traded, the company shall no longer be a Reference Company.

(iii) In the event of an announced merger, acquisition or business combination transaction of a Reference Company, a “going private” transaction or similar event involving a Reference Company or the liquidation of a Reference Company, or the announcement of an intention to enter into a merger, acquisition or business combination of a Reference Company, a “going private” transaction or similar event, in each case where the Reference Company is not the surviving entity or is no longer publicly traded, the company shall no longer be a Reference Company.

5. Performance Units Earned Based on Rate Base Growth. 23.53% of the Target Award of the Performance Units (the “Rate Base Growth Portion”) shall be earned based on the Company’s growth in rate base from the acquisition of and subsequent capital investment in regulated utility operations. The Rate Base Growth Portion shall be calculated measured from the first day of the Performance Period through the last day of the Performance Period according to the following schedule:

Rate Base Growth from Acquisition		
Acq RB Growth in 3 Yrs (000's Omitted)	RATING (% of 23.53% PSU's Earned)	
\$ 50,000	50%	
\$ 70,000	60%	
\$ 90,000	70%	
\$ 110,000	80%	
\$ 130,000	90%	
\$ 150,000	100%	
\$ 160,000	110%	
\$ 170,000	120%	
\$ 180,000	130%	
\$ 190,000	140%	
\$ 200,000	150%	
\$ 210,000	160%	
\$ 220,000	170%	
\$ 230,000	180%	
\$ 240,000	190%	
\$ 250,000	200%	

If the Rate Base Growth falls between the measuring points on the foregoing schedule, the percentage earned will be based on linear interpolation between the applicable measuring points.

6. Performance Units Earned Based on the Achievement of Targeted Operating and Maintenance Expenses. 23.53% of the Target Award of the Performance Units shall be earned based on the Company's achieving targets for the consolidated operations and maintenance expenses of the Company and its subsidiaries, but excluding operations and maintenance expenses from all market based activities (e.g., Aqua Resources and Aqua Infrastructure) from the first day of the Performance Period through the last day of the Performance Period. The Regulated O&M shall be calculated according to the following schedule:

Three year OM Expense	Payout Scale
\$ 904,388	25%
\$ 903,388	30%
\$ 901,388	40%
\$ 899,388	50%
\$ 897,388	60%
\$ 895,388	70%
\$ 893,388	80%
\$ 891,388	90%
\$ 889,388	100%
\$ 887,388	110%
\$ 885,388	120%
\$ 883,388	130%
\$ 881,388	140%
\$ 879,388	150%
\$ 877,388	160%
\$ 875,388	170%
\$ 873,388	180%
\$ 871,388	190%
\$ 869,388	200%

If the Company's Regulated O&M falls between the measuring points on the foregoing schedule, the percentage earned will be based on linear interpolation between the applicable measuring points.

7. General Terms. Any portion of the Performance Units that is not earned as of the end of the Performance Period shall be forfeited as of the end of the Performance Period (or as provided above upon an earlier Change in Control). In no event shall the maximum number of Performance Units that may be payable pursuant to these Grant Conditions exceed 200% of the Target Award.

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

**RESTRICTED STOCK UNIT GRANT
TERMS AND CONDITIONS**

1. Grant of Restricted Units.

These Restricted Stock Unit Grant Terms and Conditions (the “Grant Conditions”) shall apply and be part of the grant made by Aqua America, Inc., a Pennsylvania corporation (the “Company”), to the Grantee named in the Restricted Stock Unit Grant (the “Restricted Stock Unit Grant”) to which these Grant Conditions are attached (the “Grantee”), under the terms and provisions of the Aqua America, Inc. 2009 Equity Omnibus Compensation Plan, as amended and restated (the “Plan”). The applicable provisions of the Plan are incorporated into these Grant Conditions by reference, including the definitions of terms contained in the Plan (unless such terms are otherwise defined herein). The Grantee is an employee of the Company, its subsidiaries or its Affiliates (collectively, the “Employer”).

Subject to the terms and vesting conditions hereinafter set forth, the Company, with the approval and at the direction of the Executive Compensation Committee (the “Committee”) of the Company’s Board of Directors (the “Board”), has granted to the Grantee the number of restricted stock units specified in the Restricted Stock Unit Grant (the “Restricted Units”). The Restricted Units shall become vested as set forth in these Grant Conditions. The Restricted Units are granted with Dividend Equivalents (as defined in Section 8).

2. Restricted Unit Account.

Restricted Units represent hypothetical shares of common stock of the Company (“Company Stock”), and not actual shares of Company Stock. The Company shall establish and maintain a Restricted Unit account, as a bookkeeping account on its records, for the Grantee and shall record in such account the number of Restricted Units granted to the Grantee. No shares of Company Stock shall be issued to the Grantee at the time the grant is made, and the Grantee shall not be, nor have any of the rights or privileges of, a shareholder of the Company with respect to any Restricted Units recorded in the account, including no voting rights and no rights to receive dividends (other than Dividend Equivalents). The Grantee shall not have any interest in any fund or specific assets of the Company by reason of this award or the Restricted Unit account established for the Grantee.

3. Vesting.

(a) Except as provided in Sections 4 and 5 below, vesting of the Restricted Units is contingent upon (i) the Company’s achievement of the Performance Goal (as defined below) as of the end of the Performance Period (as defined below) and (ii) the Grantee’s continued

employment by the Employer through the Vesting Date specified in the Restricted Stock Unit Grant (the “Vesting Date”). The “Performance Period” is the performance period beginning on January 1, 2017 and ending on December 31, 2019. The “Vesting Period” is the period beginning on the Grant Date and ending on the Vesting Date.

(b) Provided the Grantee has remained in the continuous employment of the Employer through the Vesting Date (except as otherwise provided in Sections 4 and 5 below), the Restricted Units shall vest on the Vesting Date if the Performance Goal described on the attached Schedule A is achieved for the Performance Period.

4. Termination of Employment on Account of Retirement, Death, or Disability.

(a) Except as described below in this Section 4, or in Section 5, if the Grantee ceases to be employed by the Employer prior to the Vesting Date, the Restricted Units shall be forfeited as of the termination date.

(b) If the Grantee ceases to be employed by the Employer during the Vesting Period on account of the Grantee’s death or Disability, the Grantee’s outstanding Restricted Units shall remain outstanding through the Vesting Period, and the Grantee shall earn and vest in Restricted Units based on the attainment of the Performance Goal as determined following the end of the Performance Period (or as described in Section 5, if applicable). The vested Restricted Units shall be paid as described in Section 7.

(c) If the Grantee ceases to be employed by the Employer prior to the Vesting Date on account of the Grantee’s Retirement (defined below), a pro-rata portion of the Grantee’s outstanding Restricted Units shall remain outstanding through the Vesting Period, and the Grantee shall earn and vest in the pro-rata portion of the Restricted Units based on the attainment of the Performance Goal as determined following the end of the Performance Period (or as described in Section 5, if applicable). The pro-rated portion shall be determined based the number of Restricted Units, multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date and prior to the Retirement Date in which the Grantee was employed by the Employer and the denominator of which is thirty-six (36). The vested Restricted Units shall be paid as described in Section 7.

5. Change in Control.

(a) If a Change in Control occurs before the end of the Performance Period, vesting of the Restricted Units shall cease to be subject to achievement of the Performance Goal as of the date of the Change in Control, and the Grantee’s Restricted Units shall vest on the Vesting Date if the Grantee continues to be employed by the Employer through the Vesting Date. The vested Restricted Units shall be paid as described in Section 7.

(b) If a Change in Control occurs after the end of the Performance Period but before the Vesting Date, the Grantee shall earn Restricted Units based on the attainment of the Performance Goal as of the end of the Performance Period, and the Grantee’s Restricted Units shall vest on the Vesting Date if the Grantee continues to be employed by the Employer through the Vesting Date. The vested Restricted Units shall be paid as described in Section 7.

(c) If the Grantee ceases to be employed by the Employer upon or following a Change in Control on account of (i) the Grantee's Retirement, (ii) termination by the Employer without Cause, (iii) termination by the Grantee for Good Reason (defined below), or (iv) the Grantee's Disability or death, the Grantee's earned Restricted Units (calculated as described in Section 5(a) or 5(b), as applicable) shall fully vest on such termination date. The vested Restricted Units shall be paid as described in Section 7.

(d) If, in connection with the Change in Control, shares of Company Stock are converted into the right to receive a cash payment or other form of consideration, the vested Restricted Units shall be payable in such form of consideration, as determined by the Committee.

6. Definitions.

(a) For purposes of these Grant Conditions, "Good Reason" shall have the meaning given that term in the Grantee's existing Change in Control Agreement with the Company as in effect on the Grant Date.

(b) For purposes of these Grant Conditions, "Retirement" shall mean the Grantee's voluntary termination of employment after the Grantee has attained age fifty-five (55) and has a combination of age and full years of service with the Employer that is equal to or greater than seventy (70).

7. Payment with Respect to Restricted Units.

(a) Except as described below, if the Committee certifies that the Performance Goals and other conditions to payment of the Performance Units have been met, shares of Company Stock equal to the vested Restricted Units (or, in the event of a Change in Control, other consideration, as described above) shall be issued to the Grantee on the Vesting Date, subject to applicable tax withholding and subject to Section 19 below. Any fractional Restricted Units shall be paid to the Grantee in cash.

(b) If a Change in Control occurs prior to the Vesting Date and the Grantee ceases to be employed by the Employer on or after the Change in Control on account of (i) the Grantee's Retirement, (ii) the Grantee's termination by the Employer without Cause, (iii) the Grantee's termination for Good Reason, or (iv) the Grantee's Disability or death, shares of Company Stock (or other consideration, as described above) equal to the vested Restricted Units shall be issued to the Grantee within sixty (60) days following the Grantee's date of termination, subject to applicable tax withholding and Section 19 below.

(c) If the Grantee terminates employment on account of the Grantee's Disability, death or Retirement and a Change in Control subsequently occurs, shares of Company Stock (or such other consideration, as described above) equal to the vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Change in Control, subject to applicable tax withholding and Section 19 below.

(d) Any fractional shares with respect to vested Restricted Units shall be paid to the Grantee in cash.

8. Dividend Equivalents with Respect to Restricted Units.

(a) Dividend Equivalents shall accrue with respect to Restricted Units and shall be payable subject to the same vesting terms and other conditions as the Restricted Units to which they relate. Dividend Equivalents shall be credited when dividends are declared on shares of Company Stock from the Grant Date until the payment date for the vested Restricted Units. If and to the extent that the underlying Restricted Units are forfeited, all related Dividend Equivalents shall also be forfeited.

(b) While the Restricted Units are outstanding, the Company will keep records in a bookkeeping account for the Grantee. On each date on which a dividend is declared by the Company on Company Stock, the Company shall credit to the Grantee's account an amount equal to the Dividend Equivalents associated with the Restricted Units held by the Grantee on the record date for the dividend. No interest will be credited to any such account.

(c) Dividend Equivalents will be paid in cash at the same time as the underlying vested Restricted Units are paid.

(d) Notwithstanding the foregoing, if shares of Company Stock are converted to cash as described in Section 5(d) above in connection with a Change in Control, Dividend Equivalents shall cease to be credited with respect to Restricted Units.

9. Non-Competition.

(a) In consideration for the grant of Restricted Units made to the Grantee under the terms of these Grant Conditions, the Grantee agrees that while the Grantee is employed by the Employer and for a twelve (12) month period beginning on the date that the Grantee ceases to be employed by the Employer for any reason (the "Restriction Period"), the Grantee shall not, directly or indirectly, (i) accept employment with, (ii) own, manage, operate, acquire, join, control, solicit, finance, or participate in the ownership, management, operation, acquisition, control or financing of, (iii) be connected as a partner, principal, agent, representative, consultant or otherwise with, or (iv) use or permit the Grantee's name to be used in connection with, any business or enterprise engaged, in a geographic area within fifty (50) miles of any location from which the Employer is operating on the termination date (the "Geographic Area"), in any business that is competitive to a business from which the Employer, taken as a whole from all geographic areas, derived at least ten percent (10%) of its respective annual gross revenues for the twelve (12) months preceding the termination date.

(b) In consideration for the grant of Restricted Units made to the Grantee under the terms of these Grant Conditions, the Grantee agrees that during the Restriction Period, the Grantee shall not:

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

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

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

(d) The parties to these Grant Conditions acknowledge and agree that any breach by the Grantee of any of the covenants or agreements contained in this Section 9 will result in irreparable injury to the Employer for which money damages could not adequately compensate the Employer and therefore, in the event of any such breach, the Employer shall be entitled (in addition to any other rights and remedies which it may have at law or in equity) to have an injunction issued by any competent court enjoining and restraining the Grantee and any other person involved therein from continuing such breach without posting a bond. The existence of any claim or cause of action which the Grantee may have against the Employer or any other person shall not constitute a defense or bar to the enforcement of such covenants. If any portion of the covenants or agreements contained in this Section 9 is construed to be invalid or unenforceable, the other portions of such covenants or agreements shall not be affected and shall be given full force and effect without regard to the invalid or unenforceable portion to the fullest extent possible. If any covenant or agreement in this Section 9 is held to be unenforceable because of the duration or scope thereof, then the court making such determination shall have the power to reduce the duration and limit the scope thereof, and the covenant or agreement shall then be enforceable in its reduced form. If the Grantee breaches any covenant or agreement in this Section 9 within 12 months following receipt of any shares of Company Stock upon settlement of the Restricted Units, (i) the Committee may in its discretion require the Grantee to return to the Company any such shares of Company Stock and (ii) if the Grantee has disposed of any such shares of Company Stock received upon settlement of the Restricted Units, then the Committee may require the Grantee to pay to the Company, in cash, the Fair Market Value of such shares of Company Stock as of the date of disposition. In addition to other actions that may be taken by the Employer (whether pursuant to these Grant Conditions or otherwise), if the Grantee breaches any of the covenants or agreements contained in this Section 9, the Grantee

will forfeit all outstanding Restricted Units, and all outstanding Restricted Units (whether or not vested), shall immediately terminate.

10. Certain Corporate Changes.

If any change is made to the Company Stock (whether by reason of merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, or exchange of shares or any other change in capital structure made without receipt of consideration), then unless such event or change results in the termination of all the Restricted Units, the Committee shall adjust, in an equitable manner and as provided in the Plan, the number and class of shares underlying the Restricted Units to reflect the effect of such event or change in the Company's capital structure in such a way as to preserve the value of the Restricted Units, and the Committee shall adjust the Performance Goal as necessary to reflect the effect of such event or change in the Company's capital structure. Any adjustment that occurs under the terms of this Section 10 or the Plan will not change the timing or form of payment with respect to any Restricted Units and will be consistent with Section 162(m) of the Code, to the extent applicable.

11. No Right to Continued Employment.

Neither the award of Restricted Units, nor any other action taken with respect to the Restricted Units, shall confer upon the Grantee any right to continue to be employed by the Employer or shall interfere in any way with the right of the Employer to terminate the Grantee's employment at any time.

12. Termination or Amendment.

These Grant Conditions and the award made hereunder may be terminated or amended by the Committee, in whole or in part, in accordance with the applicable terms of the Plan.

13. Notice.

Any notice to the Company provided for in these Grant Conditions shall be addressed to it in care of the Company's Vice President for Human Resources, and any notice to the Grantee shall be addressed to the Grantee at the current address shown on the payroll system of the Company, or to such other address as the Grantee may designate to the Company in writing. Any notice provided for hereunder shall be delivered by hand, sent by telecopy or electronic mail or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage and registry fee prepaid in the United States mail or other mail delivery service. Notice to the Company shall be deemed effective upon receipt. By receipt of these Grant Conditions, the Grantee hereby consents to the delivery of information (including without limitation, information required to be delivered to the Grantee pursuant to the applicable securities laws) regarding the Company, the Plan, and the Restricted Units via the Company's electronic mail system or other electronic delivery system.

14. Incorporation of Plan by Reference.

The Restricted Stock Unit Grant and these Grant Conditions are made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Grantee's receipt of the Restricted Units constitutes the Grantee's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, these Grant Conditions, and/or the Restricted Units shall be final and binding on the Grantee, his or her beneficiaries and any other person having or claiming an interest in the Restricted Units. The settlement of any award with respect to the Restricted Units is subject to the provisions of the Plan and to interpretations, regulations and determinations concerning the Plan as established from time to time by the Committee in accordance with the provisions of the Plan. A copy of the Plan will be furnished to each Grantee upon request.

15. Income Taxes; Withholding Taxes.

The Grantee is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the award or settlement of Restricted Units pursuant to these Grant Conditions. At the time of taxation, the Employer shall have the right to deduct from other compensation, or to withhold shares of Company Stock, in an amount equal to the federal (including FICA), state, local and foreign taxes and other amounts as may be required by law to be withheld with respect to the Restricted Units, as approved in advance by the Committee.

16. Company Policies.

This Restricted Unit Grant and all shares issued pursuant to this grant shall be subject to any applicable recoupment or clawback policies and other policies implemented by the Board, as in effect from time to time.

17. Governing Law.

The validity, construction, interpretation and effect of the Restricted Stock Unit Grant and these Grant Conditions shall exclusively be governed by, and determined in accordance with, the applicable laws of the Commonwealth of Pennsylvania, excluding any conflicts or choice of law rule or principle.

18. Assignment.

The Restricted Stock Unit Grant and these Grant Conditions shall bind and inure to the benefit of the successors and assignees of the Company. The Grantee may not sell, assign, transfer, pledge or otherwise dispose of the Restricted Units, except to a successor grantee in the event of the Grantee's death.

19. Code Section 409A.

The Restricted Stock Unit Grant and these Grant Conditions are intended to comply with Code Section 409A or an exemption, and payments may only be made under these Grant Conditions upon an event and in a manner permitted by Code Section 409A, to the extent applicable. Notwithstanding anything in these Grant Conditions to the contrary, if required by

Code Section 409A, if the Grantee is considered a “specified employee” for purposes of Code Section 409A and if any payment under these Grant Conditions is required to be delayed for a period of six (6) months after separation from service pursuant to Code Section 409A, such payment shall be delayed as required by Code Section 409A, and the accumulated payment amounts shall be paid in a lump sum payment within ten (10) days after the end of the six (6)-month period. If the Grantee dies during the postponement period prior to payment, the amounts withheld on account of Code Section 409A shall be paid to the personal representative of the Grantee’s estate within sixty (60) days after the date of the Grantee’s death. Notwithstanding anything in these Grant Conditions to the contrary, if the Restricted Units are subject to Code Section 409A and if required by Code Section 409A, (i) any payments to be made upon a termination of employment under these Grant Conditions may only be made upon a “separation from service” under Code Section 409A, (ii) in no event may the Grantee, directly or indirectly, designate the calendar year of a payment, except in accordance with Code Section 409A, and (iii) if a Change in Control is not a “change in control event” under Code Section 409A or the payment event does not occur upon or within two years following a “change in control event” under Code Section 409A, any Restricted Units that are payable pursuant to Section 7(b) or (c) shall be paid to the Grantee upon the Vesting Date and not on account of an earlier termination of employment or Change in Control.

* * *

Schedule A

Performance Goal

Provided the Grantee has remained in the continuous employment of the Employer through the Vesting Date (except as otherwise provided in Sections 4 and 5), the Restricted Units shall vest on the Vesting Date if the Company's Average Adjusted Return on Equity for the Performance Period equals or exceeds the Adjusted Return on Equity Target (the "Performance Goal"). For purposes of this Restricted Unit award, achievement of the Performance Goal shall be determined as follows:

- (i) *[Adjusted Return on Equity]* means, for each calendar quarter, (A) the Company's net income for the calendar quarter (excluding net income or loss from acquisitions which have not been incorporated in the Company's Most Recent Rate Application), divided by (B) the Company's shareholders' equity as of the end of the calendar quarter (excluding equity applicable to acquisitions that were not incorporated in the Company's Most Recent Rate Application).]¹
- (ii) *Annual Adjusted Return on Equity* means the sum of the Adjusted Return on Equity for each completed calendar quarter during a calendar year.
- (iii) *Average Adjusted Return on Equity* means (A) the Annual Adjusted Return on Equity for each completed calendar year during the Performance Period, divided by (B) three (3).
- (iv) *Most Recent Rate Application* means the Company's most recent rate application with the Pennsylvania Public Utility Commission as of the end of the applicable calendar quarter.
- (v) *Adjusted Return on Equity Target* means an Average Adjusted Return on Equity for the Performance Period that is equal to or greater than 150 basis points below the return on equity granted by the Pennsylvania Public Utility Commission during the last rate proceeding of the Company's Pennsylvania subsidiary that occurs prior to the end of the Performance Period. However, if there has not been a rate proceeding for the Company's Pennsylvania subsidiary within 18 months prior to the end of the Performance Period, then the reference to "return on equity" in this section (v) means the last Pennsylvania Public Utility Distribution System Improvement Charge return on equity prior to the end of the Performance Period.

Except as otherwise provided in Section 5, in the event the Company's Average Adjusted Return on Equity for the Performance Period is less than the Adjusted Return on Equity Target, the Restricted Units shall be forfeited and shall cease to be outstanding.

¹ Note to draft: Please confirm the formula, including the descriptions of the Most Recent Rate Application and the exclusion for acquisitions.

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

**RESTRICTED STOCK UNIT GRANT
TERMS AND CONDITIONS**

1. Grant of Restricted Units.

These Restricted Stock Unit Grant Terms and Conditions (the “Grant Conditions”) shall apply and be part of the grant made by Aqua America, Inc., a Pennsylvania corporation (the “Company”), to the Grantee named in the Restricted Stock Unit Grant (the “Restricted Stock Unit Grant”) to which these Grant Conditions are attached (the “Grantee”), under the terms and provisions of the Aqua America, Inc. 2009 Equity Omnibus Compensation Plan, as amended and restated (the “Plan”). The applicable provisions of the Plan are incorporated into these Grant Conditions by reference, including the definitions of terms contained in the Plan (unless such terms are otherwise defined herein). The Grantee is an employee of the Company, its subsidiaries or its Affiliates (collectively, the “Employer”).

Subject to the terms and vesting conditions hereinafter set forth, the Company, with the approval and at the direction of the Executive Compensation Committee (the “Committee”) of the Company’s Board of Directors (the “Board”), has granted to the Grantee the number of restricted stock units specified in the Restricted Stock Unit Grant (the “Restricted Units”). The Restricted Units shall become vested as set forth in these Grant Conditions. The Restricted Units are granted with Dividend Equivalents (as defined in Section 8).

2. Restricted Unit Account.

Restricted Units represent hypothetical shares of common stock of the Company (“Company Stock”), and not actual shares of Company Stock. The Company shall establish and maintain a Restricted Unit account, as a bookkeeping account on its records, for the Grantee and shall record in such account the number of Restricted Units granted to the Grantee. No shares of Company Stock shall be issued to the Grantee at the time the grant is made, and the Grantee shall not be, nor have any of the rights or privileges of, a shareholder of the Company with respect to any Restricted Units recorded in the account, including no voting rights and no rights to receive dividends (other than Dividend Equivalents). The Grantee shall not have any interest in any fund or specific assets of the Company by reason of this award or the Restricted Unit account established for the Grantee.

3. Vesting.

(a) Except as otherwise set forth in these Grant Conditions, the Grantee shall vest in the Restricted Units on the Vesting Dates specified in the Restricted Stock Unit Grant (the

“Vesting Date”), provided that the Grantee continues to be employed by the Employer through the Vesting Date.

(b) Except as described in Sections 4 and 5 below, the Grantee must continue to be employed by the Employer on the Vesting Date in order for the Grantee to vest and receive payment with respect to Restricted Units.

4. Termination of Employment on Account of Retirement, Death, or Disability.

(a) Except as described below, if the Grantee ceases to be employed by the Employer prior to the Vesting Date, the Restricted Units shall be forfeited as of the termination date.

(b) If the Grantee ceases to be employed by the Employer prior to the Vesting Date on account of the Grantee’s Retirement (defined below), the Grantee shall earn a pro-rata portion of the unvested Restricted Units. The pro-rated portion shall be determined based the number of unvested Restricted Units, multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date and prior to the Retirement Date in which the Grantee was employed by the Employer and the denominator of which is thirty-six (36). Shares of Company Stock equal to the pro-rata portion of the Restricted Units shall be issued to the Grantee within sixty (60) days following the Grantee’s Retirement date, subject to applicable tax withholding and subject to Section 19 below.

(c) If the Grantee ceases to be employed by the Employer prior to the Vesting Date on account of the Grantee’s death or Disability, the Grantee’s Restricted Units shall fully vest and shares of Company Stock equal to the vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Grantee’s date of termination, subject to applicable tax withholding and subject to Section 19 below.

5. Change in Control.

(a) Except as described below, if a Change in Control occurs prior to the Vesting Date, the Grantee’s Restricted Units shall remain outstanding and shall vest on the Vesting Date if the Grantee continues to be employed by the Employer through the Vesting Date. Shares of Company Stock (or other consideration, as described below) equal to the vested Restricted Units shall be issued to the Grantee on the Vesting Date, subject to applicable tax withholding and Section 19 below.

(b) If the Grantee ceases to be employed by the Employer upon or following a Change in Control on account of (i) the Grantee’s Retirement, (ii) termination by the Employer without Cause, (iii) termination by the Grantee for Good Reason (defined below), or (iv) the Grantee’s Disability or death, the Grantee’s outstanding unvested Restricted Units shall fully vest. Shares of Company Stock (or such other consideration, as described below) equal to the Grantee’s vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Grantee’s date of termination, subject to applicable tax withholding and Section 19 below.

(c) If the Grantee terminates employment for any other reason prior to the Vesting Date, the Restricted Units shall be forfeited as of the date of termination.

(d) If, in connection with the Change in Control, shares of Company Stock are converted into the right to receive a cash payment or other form of consideration, the vested Restricted Units shall be payable in such form of consideration, as determined by the Committee.

6. Definitions.

(a) For purposes of these Grant Conditions, “Good Reason” shall have the meaning given that term in the Grantee’s existing Change in Control Agreement with the Company as in effect on the Grant Date.¹

(b) For purposes of these Grant Conditions, “Retirement” shall mean the Grantee’s voluntary termination of employment after the Grantee has attained age fifty-five (55) and has a combination of age and full years of service with the Employer that is equal to or greater than seventy (70).

7. Payment with Respect to Restricted Units.

Except as otherwise set forth in Section 4 and 5 above, shares of Company Stock equal to the vested Restricted Units shall be issued to the Grantee on the Vesting Date, subject to applicable tax withholding and subject to Section 19. Any fractional Restricted Units shall be paid to the Grantee in cash.

8. Dividend Equivalents with Respect to Restricted Units.

(a) Dividend Equivalents shall accrue with respect to Restricted Units and shall be payable subject to the same vesting terms and other conditions as the Restricted Units to which they relate. Dividend Equivalents shall be credited when dividends are declared on shares of Company Stock from the Grant Date until the payment date for the vested Restricted Units. If and to the extent that the underlying Restricted Units are forfeited, all related Dividend Equivalents shall also be forfeited.

(b) While the Restricted Units are outstanding, the Company will keep records in a bookkeeping account for the Grantee. On each date on which a dividend is declared by the Company on Company Stock, the Company shall credit to the Grantee’s account an amount equal to the Dividend Equivalents associated with the Restricted Units held by the Grantee on the record date for the dividend. No interest will be credited to any such account.

(c) Dividend Equivalents will be paid in cash at the same time as the underlying vested Restricted Units are paid.

(d) Notwithstanding the foregoing, if shares of Company Stock are converted to cash as described in Section 5(d) above in connection with a Change in Control, Dividend Equivalents shall cease to be credited with respect to Restricted Units.

9. Non-Competition.

¹ Note to draft: Please confirm that all RSU Grantees are party to Change in Control Agreements.

(a) In consideration for the grant of Restricted Units made to the Grantee under the terms of these Grant Conditions, the Grantee agrees that while the Grantee is employed by the Employer and for a twelve (12) month period beginning on the date that the Grantee ceases to be employed by the Employer for any reason (the "Restriction Period"), the Grantee shall not, directly or indirectly, (i) accept employment with, (ii) own, manage, operate, acquire, join, control, solicit, finance, or participate in the ownership, management, operation, acquisition, control or financing of, (iii) be connected as a partner, principal, agent, representative, consultant or otherwise with, or (iv) use or permit the Grantee's name to be used in connection with, any business or enterprise engaged, in a geographic area within fifty (50) miles of any location from which the Employer is operating on the termination date (the "Geographic Area"), in any business that is competitive to a business from which the Employer, taken as a whole from all geographic areas, derived at least ten percent (10%) of its respective annual gross revenues for the twelve (12) months preceding the termination date.

(b) In consideration for the grant of Restricted Units made to the Grantee under the terms of these Grant Conditions, the Grantee agrees that during the Restriction Period, the Grantee shall not:

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

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

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

(d) The parties to these Grant Conditions acknowledge and agree that any breach by the Grantee of any of the covenants or agreements contained in this Section 9 will result in irreparable injury to the Employer for which money damages could not adequately compensate the Employer and therefore, in the event of any such breach, the Employer shall be entitled (in addition to any other rights and remedies which it may have at law or in equity) to have an injunction issued by any competent court enjoining and restraining the Grantee and any other person involved therein from continuing such breach without posting a bond. The existence of any claim or cause of action which the Grantee may have against the Employer or any other person shall not constitute a defense or bar to the enforcement of such covenants. If any portion of the covenants or agreements contained in this Section 9 is construed to be invalid or unenforceable, the other portions of such covenants or agreements shall not be affected and shall be given full force and effect without regard to the invalid or unenforceable portion to the fullest extent possible. If any covenant or agreement in this Section 9 is held to be unenforceable because of the duration or scope thereof, then the court making such determination shall have the power to reduce the duration and limit the scope thereof, and the covenant or agreement shall then be enforceable in its reduced form. If the Grantee breaches any covenant or agreement in this Section 9 within 12 months following receipt of any shares of Company Stock upon settlement of the Restricted Units, (i) the Committee may in its discretion require the Grantee to return to the Company any such shares of Company Stock and (ii) if the Grantee has disposed of any such shares of Company Stock received upon settlement of the Restricted Units, then the Committee may require the Grantee to pay to the Company, in cash, the Fair Market Value of such shares of Company Stock as of the date of disposition. In addition to other actions that may be taken by the Employer (whether pursuant to these Grant Conditions or otherwise), if the Grantee breaches any of the covenants or agreements contained in this Section 9, the Grantee will forfeit all outstanding Restricted Units, and all outstanding Restricted Units (whether or not vested), shall immediately terminate.

10. Certain Corporate Changes.

If any change is made to the Company Stock (whether by reason of merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, or exchange of shares or any other change in capital structure made without receipt of consideration), then unless such event or change results in the termination of all the Restricted Units, the Committee shall adjust, in an equitable manner and as provided in the Plan, the number and class of shares underlying the Restricted Units. Any adjustment that occurs under the terms of this Section 10 or the Plan will not change the timing or form of payment with respect to any Restricted Units.

11. No Right to Continued Employment.

Neither the award of Restricted Units, nor any other action taken with respect to the Restricted Units, shall confer upon the Grantee any right to continue to be employed by the Employer or shall interfere in any way with the right of the Employer to terminate the Grantee's employment at any time.

12. Termination or Amendment.

These Grant Conditions and the award made hereunder may be terminated or amended by the Committee, in whole or in part, in accordance with the applicable terms of the Plan.

13. Notice.

Any notice to the Company provided for in these Grant Conditions shall be addressed to it in care of the Company's Vice President for Human Resources, and any notice to the Grantee shall be addressed to the Grantee at the current address shown on the payroll system of the Company, or to such other address as the Grantee may designate to the Company in writing. Any notice provided for hereunder shall be delivered by hand, sent by telecopy or electronic mail or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage and registry fee prepaid in the United States mail or other mail delivery service. Notice to the Company shall be deemed effective upon receipt. By receipt of these Grant Conditions, the Grantee hereby consents to the delivery of information (including without limitation, information required to be delivered to the Grantee pursuant to the applicable securities laws) regarding the Company, the Plan, and the Restricted Units via the Company's electronic mail system or other electronic delivery system.

14. Incorporation of Plan by Reference.

The Restricted Stock Unit Grant and these Grant Conditions are made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Grantee's receipt of the Restricted Units constitutes the Grantee's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, these Grant Conditions, and/or the Restricted Units shall be final and binding on the Grantee, his or her beneficiaries and any other person having or claiming an interest in the Restricted Units. The settlement of any award with respect to the Restricted Units is subject to the provisions of the Plan and to interpretations, regulations and determinations concerning the Plan as established from time to time by the Committee in accordance with the provisions of the Plan. A copy of the Plan will be furnished to each Grantee upon request.

15. Income Taxes; Withholding Taxes.

The Grantee is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the award or settlement of Restricted Units pursuant to these Grant Conditions. At the time of taxation, the Employer shall have the right to deduct from other compensation, or to withhold shares of Company Stock, in an amount equal to the federal (including FICA), state, local and foreign taxes and other amounts as may be required by law to be withheld with respect to the Restricted Units, as approved in advance by the Committee.

16. Company Policies.

This Restricted Unit Grant and all shares issued pursuant to this grant shall be subject to any applicable recoupment or clawback policies and other policies implemented by the Board, as in effect from time to time.

17. Governing Law.

The validity, construction, interpretation and effect of the Restricted Stock Unit Grant and these Grant Conditions shall exclusively be governed by, and determined in accordance with, the applicable laws of the Commonwealth of Pennsylvania, excluding any conflicts or choice of law rule or principle.

18. Assignment.

The Restricted Stock Unit Grant and these Grant Conditions shall bind and inure to the benefit of the successors and assignees of the Company. The Grantee may not sell, assign, transfer, pledge or otherwise dispose of the Restricted Units, except to a successor grantee in the event of the Grantee's death.

19. Code Section 409A.

The Restricted Stock Unit Grant and these Grant Conditions are intended to comply with Code Section 409A or an exemption, and payments may only be made under these Grant Conditions upon an event and in a manner permitted by Code Section 409A, to the extent applicable. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, if the Grantee is considered a "specified employee" for purposes of Code Section 409A and if any payment under these Grant Conditions is required to be delayed for a period of six (6) months after separation from service pursuant to Code Section 409A, such payment shall be delayed as required by Code Section 409A, and the accumulated payment amounts shall be paid in a lump sum payment within ten (10) days after the end of the six (6)-month period. If the Grantee dies during the postponement period prior to payment, the amounts withheld on account of Code Section 409A shall be paid to the personal representative of the Grantee's estate within sixty (60) days after the date of the Grantee's death. Any payments to be made upon a termination of employment under these Grant Conditions may only be made upon a "separation from service" under Code Section 409A. In no event may the Grantee, directly or indirectly, designate the calendar year of a payment, except in accordance with Code Section 409A.

* * *

2017 Stock Option Agreement

AQUA AMERICA, INC.
2009 OMNIBUS EQUITY COMPENSATION PLAN

**STOCK OPTION
TERMS AND CONDITIONS**

1. Grant of Option.

These Stock Option Terms and Conditions (the “Grant Conditions”) shall apply and be part of the grant made by Aqua America, Inc., a Pennsylvania corporation (the “Company”), to the Grantee named in the Stock Option Grant (the “Option”) to which these Grant Conditions are attached (the “Grantee”), under the terms and provisions of the Aqua America, Inc. 2009 Omnibus Equity Compensation Plan, as amended and restated (the “Plan”). The applicable provisions of the Plan are incorporated into the Grant Conditions by reference, including the definitions of terms contained in the Plan (unless such terms are otherwise defined herein). The Grantee is an employee of the Company, its subsidiaries or its Affiliates (collectively, the “Employer”).

Subject to the terms and vesting conditions hereinafter set forth, the Company, with the approval and at the direction of the Executive Compensation Committee (the “Committee”) of the Company’s Board of Directors (the “Board”), has granted to the Grantee a nonqualified stock option (the “Option”) to purchase the number of shares of common stock of the Company (the “Shares”) as specified in the Stock Option Grant at the exercise price per Share set forth in the Stock Option Grant (the “Exercise Price”). The Option shall vest according to Section 2 below.

2. Vesting of Option.

The Option shall vest on the following dates (each date, a “Vesting Date”) if (i) the Grantee continues to be employed by the Employer through the Vesting Date and (ii) the Performance Goal described on the attached Schedule A is achieved for the calendar year ending on December 31 immediately preceding the Vesting Date (each such calendar year, a “Performance Year”), except as otherwise provided in Sections 3 and 5 below.

<u>Vesting Date</u>	<u>Shares for Which the Option is Vested</u>
First Anniversary of the Grant Date	33⅓% of the Shares
Second Anniversary of the Grant Date	33⅓% of the Shares
Third Anniversary of the Grant Date	33⅓% of the Shares

The vesting of the Option is cumulative, but shall not exceed 100% of the Shares subject to the Option. If the foregoing schedule would produce fractional Shares, the number of Shares for which the Option becomes vested shall be rounded down to the nearest whole Share; provided

that, the portion of the Option subject to vesting on the Third Anniversary of the Grant Date shall include the Shares subject the Option that did not previously vest as a result of such rounding.

3. Term of Option.

(a) The Option shall have a term of ten (10) years from the Grant Date specified in the Stock Option Grant (the “Grant Date”) and shall terminate at the expiration of that period, unless it is terminated at an earlier date pursuant to the provisions of these Grant Conditions or the Plan.

(b) If the Grantee ceases to be employed by the Employer for any reason, the unvested portion of the Option will terminate on the date the Grantee ceases to be employed by the Employer (the “Termination Date”), unless otherwise provided in this Section 3. Any vested portion of the Option as of the Termination Date may be exercised for the period described in this Section 3.

(c) If the Grantee ceases to be employed by the Employer for the following reasons, the Option will be treated as follows:

(i) *General Rule.* If the Grantee ceases to be employed by the Employer, except as provided below, the Option will thereafter be exercisable only with respect to that number of Shares with respect to which the Option has vested as of the Termination Date. The vested portion of the Option will terminate upon the earlier of the expiration of the term of the Option or the expiration of the ninety (90) day period commencing on the Termination Date.

(ii) *Retirement.* If the Grantee ceases to be employed by the Employer on account of the Grantee’s Retirement, except as otherwise provided in subsection (iv) below, a pro-rated portion of the unvested Option will vest on the Vesting Date coincident with or immediately following the Termination Date (the “Retirement Vesting Date”) if the Performance Goal is achieved for the Performance Year that relates to the Retirement Vesting Date. Such pro-rated portion (the “Pro-Rated Portion”) shall be equal to the product of (A) the number of Shares with respect to which the Option would have vested on the Retirement Vesting Date if the Grantee had remained employed through the Retirement Vesting Date, multiplied by (B) a fraction, the numerator of which is the number of days that the Grantee was employed during the period beginning on the date following the immediately preceding Vesting Date and ending on the Termination Date, and the denominator of which is 365. Any portion of the Option, other than the Pro-Rated Portion, that has not vested as of the Grantee’s Termination Date shall be forfeited and cease to be outstanding as of the Termination Date. If the Grantee ceases to be employed by the Employer on account of Retirement, the vested portion of the Option shall remain outstanding until the expiration of the term of the Option. For purposes of these Grant Conditions, “Retirement” shall mean the Grantee’s voluntary termination of employment after the Grantee has attained age fifty-five (55) and has a combination of age and full years of service with the Employer that is equal to or greater than seventy (70).

(iii) *Death or Disability.* If the Grantee ceases to be employed by the Employer on account of the Grantee’s death or Disability, any unvested portion of the outstanding Option will become immediately vested on the Termination Date. The Option will

terminate upon the earlier of the expiration of the term of the Option or the date that is 12 months following the Termination Date.

(iv) *Termination Upon or Following a Change in Control.* Notwithstanding the foregoing, if the Grantee ceases to be employed by the Employer upon or following a Change in Control on account of (i) the Grantee's Retirement, (ii) Involuntary Termination by the Employer without Cause, or (iii) the Grantee's Disability or death, any unvested portion of the outstanding Option shall become fully vested on the Termination Date. The vested Option shall be exercisable for the applicable period described in subsections (i) through (iii) above.

(v) *Termination for Cause.* If the Committee determines that the Grantee has engaged in conduct that constitutes Cause at any time while the Grantee is employed by the Employer or after the Grantee's termination of employment (A) the vested and unvested Option shall immediately terminate and (B) the Grantee shall automatically forfeit all Shares underlying any exercised portion of the Option for which the Company has not yet delivered the share certificates, upon refund by the Company of the Exercise Price paid by the Grantee for such shares.

4. Exercise of the Option.

(a) Subject to the provisions of Section 2 and 3 above, the Grantee may exercise any vested portion of the Option, in whole or in part, by delivering a notice of exercise to the Company. Payment of the Exercise Price and any applicable withholding taxes must be paid prior to issuance of the Shares and must be received by the Company by the time specified by the Company, depending on the type of payment being made, but in all cases prior to the issuance or transfer of such Shares.

(b) The Grantee may pay the Exercise Price (i) in cash, (ii) by delivering shares of Company Stock owned by the Grantee and having a Fair Market Value on the date of exercise at least equal to the Exercise Price or by attestation (on a form prescribed by the Committee) to ownership of shares of Company Stock having a Fair Market Value on the date of exercise at least equal to the Exercise Price, (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board, or (iv) by such other method as the Committee may approve. The Committee may impose such limitations as it deems appropriate on the use of shares of Company Stock to exercise the Option, and shares of Company Stock used to exercise the Option shall have been held by the Grantee for the requisite period of time necessary to avoid adverse accounting consequences to the Company with respect to the Option.

(c) The obligation of the Company to deliver Shares upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as the Company's counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations. The Company may require that the Grantee (or other person exercising the Option after the Grantee's death) represent that the Grantee is purchasing Shares for the Grantee's own account and not with a view to or for sale in connection with any distribution of the Shares, or such other representation as the Company deems appropriate.

5. Change in Control.

(a) If a Change in Control before the end of the third Performance Year, vesting of the Option shall cease to subject to achievement of the Performance Goal and the Option shall vest on each Vesting Date that occurs following the Change in Control if the Grantee continues to be employed by the Employer through the applicable Vesting Date.

(b) If a Change in Control occurs following the Grantee's termination of employment on account of Retirement and during the Performance Year in which the Termination Date occurs, the Pro-Rated Portion of the Option that would have otherwise vested on the Retirement Vesting Date pursuant to Section 3(c)(ii) shall become immediately vested upon the Change in Control, without regard to whether the Performance Goal is met.

6. Certain Corporate Changes.

If any change is made to the Company Stock (whether by reason of merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, or exchange of shares or any other change in capital structure made without receipt of consideration), then unless such event or change results in the termination of the Option, the Committee shall adjust, in an equitable manner and as provided in the Plan, the number and class of shares underlying the Option and the Exercise Price to reflect the effect of such event or change in the Company's capital structure, and the Committee shall adjust the Performance Goal as necessary to reflect the effect of such event or change in the Company's capital structure.

7. Restrictions on Exercise.

Except as the Committee may otherwise permit pursuant to the Plan, only the Grantee may exercise the Option during the Grantee's lifetime and, after the Grantee's death, the Option shall be exercisable by the Grantee's estate, to the extent that the Option is exercisable pursuant to these Grant Conditions.

8. No Right to Continued Employment.

Neither the award of the Option, nor any other action taken with respect to the Option, shall confer upon the Grantee any right to continue to be employed by the Employer or shall interfere in any way with the right of the Employer to terminate the Grantee's employment at any time.

9. No Shareholder Rights.

Neither the Grantee, nor any person entitled to exercise the Grantee's rights in the event of the Grantee's death, shall have any of the rights and privileges of a shareholder with respect to the Shares subject to the Option until certificates for Shares have been issued upon exercise of the Option.

10. Termination or Amendment.

These Grant Conditions and the award made hereunder may be terminated or amended by the Committee, in whole or in part, in accordance with the applicable terms of the Plan.

11. Notice.

Any notice to the Company provided for in these Grant Conditions shall be addressed to it in care of the Company's Vice President for Human Resources, and any notice to the Grantee shall be addressed to the Grantee at the current address shown on the payroll system of the Company, or to such other address as the Grantee may designate to the Company in writing. Any notice provided for hereunder shall be delivered by hand, sent by telecopy or electronic mail or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage and registry fee prepaid in the United States mail or other mail delivery service. Notice to the Company shall be deemed effective upon receipt. By receipt of these Grant Conditions, the Grantee hereby consents to the delivery of information (including without limitation, information required to be delivered to the Grantee pursuant to the applicable securities laws) regarding the Company, the Plan, and the Option via the Company's electronic mail system or other electronic delivery system.

12. Incorporation of Plan by Reference.

The Stock Option Grant and these Grant Conditions are made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Grantee's receipt of the Option constitutes the Grantee's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, these Grant Conditions, and/or the Option shall be final and binding on the Grantee, his or her beneficiaries and any other person having or claiming an interest in the Option. The settlement of any award with respect to the Option is subject to the provisions of the Plan and to interpretations, regulations and determinations concerning the Plan as established from time to time by the Committee in accordance with the provisions of the Plan. A copy of the Plan will be furnished to each Grantee upon request.

13. Income Taxes; Withholding Taxes.

The Grantee is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the Option or the exercise of the Option pursuant to these Grant Conditions, and all obligations of the Company under these Grant Conditions shall be subject to the rights of the Employer as set forth in the Plan to withhold amounts required to be withheld for any taxes, if applicable. At the time of taxation, the Employer shall have the right to deduct from other compensation, or to withhold shares of Company Stock, in an amount equal to the federal (including FICA), state, local and foreign taxes and other amounts as may be required by law to be withheld with respect to the Option, as approved in advance by the Committee.

14. Company Policies.

This Option and all shares issued pursuant to this grant shall be subject to any applicable

recoupment or clawback policies and other policies implemented by the Board, as in effect from time to time.

15. Governing Law.

The validity, construction, interpretation and effect of the Stock Option Grant and these Grant Conditions shall exclusively be governed by, and determined in accordance with, the applicable laws of the Commonwealth of Pennsylvania, excluding any conflicts or choice of law rule or principle.

16. Assignment.

The Stock Option Grant and these Grant Conditions shall bind and inure to the benefit of the successors and assignees of the Company. The Grantee may not sell, assign, transfer, pledge or otherwise dispose of the Option, except to a successor grantee in the event of the Grantee's death.

Schedule A

Performance Goal

Provided the Grantee has remained in the continuous employment of the Employer through the applicable Vesting Date (except as otherwise provided in Section 3, the applicable portion of the Option shall become vested on the Vesting Date if the Company's Annual Adjusted Return on Equity for the Performance Year equals or exceeds the Adjusted Return on Equity Target (the "Performance Goal"). For purposes of this Option award, achievement of the Performance Goal shall be determined as follows:

(i) *Annual Adjusted Return on Equity* means, for each calendar year, (A) the Company's net income for the calendar quarter (excluding net income or loss from acquisitions which have not been incorporated in the Company's Most Recent Rate Application), divided by (B) the Company's shareholders' equity as of the end of the calendar year (excluding equity applicable to acquisitions that were not incorporated in the Company's Most Recent Rate Application).

(ii) *Most Recent Rate Application* means the Company's most recent rate application with the Pennsylvania Public Utility Commission as of the end of the applicable calendar quarter.

(iii) *Adjusted Return on Equity Target* means an Annual Adjusted Return on Equity for the Performance Year that is equal to or greater than 150 basis points below the return on equity granted by the Pennsylvania Public Utility Commission during the last rate proceeding of the Company's Pennsylvania subsidiary that occurs prior to the end of the Performance Year. However, if there has not been a rate proceeding for the Company's Pennsylvania subsidiary within 18 months prior to the end of the Performance Year, then the reference to "return on equity" in this section (iv) means the last Pennsylvania Public Utility Distribution System Improvement Charge return on equity prior to the end of the Performance Year.

Except as otherwise provided in Section 5, in the event the Company's Annual Adjusted Return on Equity for the Performance Year is less than the Adjusted Return on Equity Target, the portion of the Option that would vest for the Performance Year shall cease to be outstanding.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER, PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES
AND EXCHANGE ACT OF 1934

I, Christopher H. Franklin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aqua America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Christopher H. Franklin
Christopher H. Franklin
President and Chief Executive Officer
May 4, 2017

CERTIFICATION OF CHIEF FINANCIAL OFFICER, PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES
AND EXCHANGE ACT OF 1934

I, David P. Smeltzer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aqua America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ David P. Smeltzer
David P. Smeltzer
Executive Vice President and Chief Financial Officer
May 4, 2017

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2017 of Aqua America, Inc. (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Christopher H. Franklin, 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 or Section 78o); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Christopher H. Franklin
Christopher H. Franklin
President and Chief Executive Officer
May 4, 2017

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2017 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 or Section 78o); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David P. Smeltzer
David P. Smeltzer
Executive Vice President and Chief Financial Officer
May 4, 2017
