

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

Or

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

Commission File number 1-6659

**AQUA AMERICA, INC.**

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

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

Large accelerated filer

Accelerated filer

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

Small reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2015: \$4,320,725,320

The number of shares outstanding of the registrant's common stock as of February 10, 2016: 177,042,334

**DOCUMENTS INCORPORATED BY REFERENCE**

- (1) Portions of registrant's 2015 Annual Report to Shareholders for fiscal year ended December 31, 2015 have been incorporated by reference into Parts I and II of this Form 10-K.
- (2) Portions of the definitive Proxy Statement, relative to the May 6, 2016 annual meeting of shareholders of registrant, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, have been incorporated by reference into Part III of this Form 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- recovery of capital expenditures and expense in rates;
- projected capital expenditures and related funding requirements;
- the availability and cost of capital financing;
- developments, trends and consolidation in the water and wastewater utility and infrastructure industries;
- dividend payment projections;
- opportunities for future acquisitions, the success of pending acquisitions and the impact of future acquisitions;
- the capacity of our water supplies, water facilities and wastewater facilities;
- the impact of geographic diversity on our exposure to unusual weather;
- the impact of conservation awareness of customers and more efficient plumbing fixtures and appliances on water usage per customer;
- our capability to pursue timely rate increase requests;
- our authority to carry on our business without unduly burdensome restrictions;
- the continuation of investments in strategic ventures;
- our ability to obtain fair market value for condemned assets;
- the impact of fines and penalties;
- the impact of changes in and compliance with governmental laws, regulations and policies, including those dealing with taxation, the environment, health and water quality, and public utility regulation;
- the impact of decisions of governmental and regulatory bodies, including decisions to raise or lower rates;
- the development of new services and technologies by us or our competitors;
- the availability of qualified personnel;
- the condition of our assets;
- the impact of legal proceedings;
- general economic conditions;
- acquisition-related costs and synergies;

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- the sale of water and wastewater divisions;
- the impact of federal and/or state tax policies and the regulatory treatment of the effects of those policies;
- the amount of income tax deductions for qualifying utility asset improvements and the Internal Revenue Service's ultimate acceptance of the deduction methodology; and
- the forward-looking statements contained under the heading *Forward-Looking Statements* in the section entitled *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and contained within such section, from the portion of our 2015 Annual Report to Shareholders incorporated by reference herein and made a part hereof.

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

- changes in general economic, business, credit and financial market conditions;
- changes in governmental laws, regulations and policies, including those dealing with taxation, the environment, health and water quality, and public utility regulation;
- changes to the rules or our assumptions underlying our determination of what qualifies for an income tax deduction for qualifying utility asset improvements;
- the decisions of governmental and regulatory bodies, including decisions on rate increase requests;
- our ability to file rate cases on a timely basis to minimize regulatory lag;
- abnormal weather conditions, including those that result in water use restrictions;
- changes in, or unanticipated, capital requirements;
- changes in our credit rating or the market price of our common stock;
- changes in valuation of strategic ventures;
- our ability to integrate businesses, technologies or services which we may acquire;
- our ability to manage the expansion of our business;
- our ability to treat and supply water or collect and treat wastewater;
- the extent to which we are able to develop and market new and improved services;
- the effect of the loss of major customers;
- our ability to retain the services of key personnel and to hire qualified personnel as we expand;
- labor disputes;
- increasing difficulties in obtaining insurance and increased cost of insurance;
- cost overruns relating to improvements to, or the expansion of, our operations;
- increases in the costs of goods and services;
- civil disturbance or terroristic threats or acts;
- the continuous and reliable operation of our information technology systems, including the impact of cyber security attacks or other cyber-related events;
- changes in accounting pronouncements;
- litigation and claims; and

- changes in environmental conditions, including the effects of climate change.

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

## PART I

### Item 1. *Business*

#### *The Company*

Aqua America, Inc. (referred to as “Aqua America”, the “Company”, “we”, “us”, or “our”), 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 is Aqua Pennsylvania, Inc., which accounted for approximately 52% of our operating revenues and approximately 76% of our Regulated segment’s income from continuing operations for 2015. As of December 31, 2015, Aqua Pennsylvania provided water or wastewater services to approximately one-half of the total number of people we serve. Aqua Pennsylvania’s service territory is 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 in close proximity to our utility companies’ service territories; offers, through a third party, water and wastewater line repair service and protection solutions to households; inspects, cleans and repairs storm and sanitary wastewater lines; installs and tests devices that prevent the contamination of potable water; designs and builds water and wastewater systems; and provides other market-based water and wastewater services. In addition, Aqua Resources provides liquid waste hauling and disposal services in a business unit that the Company has decided to sell, which as of December 31, 2015 is reported as assets held for sale in the Company’s Consolidated Balance Sheets. Aqua Infrastructure provides non-utility raw water supply services for firms in the natural gas drilling industry.

Aqua America, which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, 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 water and wastewater 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 have extended our regulated operations from southeastern Pennsylvania to include our current regulated utility operations throughout Pennsylvania and in seven other states. During 2010 through 2013, we sold our utility operations in six states, pursuant to a portfolio rationalization strategy to focus our operations in areas where we have critical mass and economic growth potential.

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In December 2014, we completed the sale of our water utility system in southwest Allen County, Indiana to the City of Fort Wayne, Indiana. The completion of this sale settled the dispute concerning the February 2008 acquisition, by eminent domain, by the City of Fort Wayne, of the northern portion of our water and wastewater utility systems.

The following table reports our operating revenues, by principal state, for the Regulated segment and Other and eliminations for the year ended December 31, 2015:

	Operating Revenues (000's)	Operating Revenues (%)
Pennsylvania	\$ 420,315	51.7%
Ohio	98,191	12.1%
Texas	69,362	8.5%
Illinois	58,043	7.1%
North Carolina	51,968	6.4%
Other states (1)	81,734	10.0%
Regulated segment total	779,613	95.8%
Other and eliminations	34,591	4.2%
Consolidated	\$ 814,204	100.0%

(1) Includes our operating subsidiaries in the following states: New Jersey, Indiana, and Virginia.

Information concerning revenues, net income, identifiable assets and related financial information for the Regulated segment and Other and eliminations for 2015, 2014, and 2013 is set forth in *Management's Discussion and Analysis of Financial Condition and Results of Operations* and in Note 17 – *Segment Information* in the *Notes to Consolidated Financial Statements* from the portions of our 2015 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K, which is incorporated by reference herein.

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The following table summarizes our operating revenues, by utility customer class, for the Regulated segment and Other and eliminations for the year ended December 31, 2015:

	Operating Revenues (000's)	Operating Revenues (%)
Residential water	\$ 477,773	58.7%
Commercial water	126,677	15.6%
Fire protection	29,735	3.7%
Industrial water	28,021	3.4%
Other water	27,262	3.3%
Water	689,468	84.7%
Wastewater	79,399	9.8%
Other utility	10,746	1.3%
Regulated segment total	779,613	95.8%
Other and eliminations	34,591	4.2%
Consolidated	\$ 814,204	100.0%

Our utility customer base is diversified among residential water, commercial water, fire protection, industrial water, other water, wastewater customers, and other utility customers (consisting of operating contracts that are closely associated with the utility operations). Residential water and wastewater customers make up the largest component of our utility customer base, with these customers representing approximately 70% of our water and wastewater revenues. Substantially all of our water customers are metered, which allows us to measure and bill for our customers' water consumption. Water consumption per customer is affected by local weather conditions during the year, especially during late spring, summer, and early fall. In general, during these seasons, an extended period of dry weather increases consumption, while above average rainfall decreases consumption. Also, an increase in the average temperature generally causes an increase in water consumption. On occasion, abnormally dry weather in our service areas can result in governmental authorities declaring drought warnings and imposing water use restrictions in the affected areas, which could reduce water consumption. See *Water Utility Supplies, and Facilities and Wastewater Utility Facilities* for a discussion of water use restrictions that may impact water consumption during abnormally dry weather. The geographic diversity of our utility customer base reduces the effect of our exposure to extreme or unusual weather conditions in any one area of our service territory. Water usage is also affected by changing consumption patterns by our customers, resulting from such causes as increased water conservation and the installation of water saving devices and appliances that can result in decreased water usage. It is estimated that in the event we experience a 0.50% decrease in residential water consumption it would result in a decrease in annual residential water revenue of approximately \$2,000,000, and would likely be partially offset by a reduction in incremental water production expenses such as chemicals and power.

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Our growth in revenues over the past five years is primarily a result of increases in water and wastewater rates and customer growth through our acquisition strategy. See *Economic Regulation* for a discussion of water and wastewater rates. The majority of the increase in our utility customer base has been due to customers added through acquisitions and other growth ventures (excluding dispositions) as shown below:

Year	Utility Customer Growth Rate
2015	1.9%
2014	1.3%
2013	1.3%
2012	7.2%
2011	1.0%

In 2015, our customer count increased by 17,747 customers, primarily due to utility systems that we acquired and natural growth. Overall, for the five-year period of 2011 through 2015, our utility customer base, adjusted to exclude customers associated with utility system dispositions, increased at an annual compound rate of 2.4%. During the five-year period ended December 31, 2015, our utility customer base including customers associated with utility system acquisitions and dispositions decreased from 966,136 at December 31, 2011 to 957,866 at December 31, 2015.

### *Acquisitions and Other Growth Ventures*

According to the U.S. Environmental Protection Agency (“EPA”), approximately 85% of the U.S. population obtains its water from community water systems, and 15% of the U.S. population obtains its water from private wells. With approximately 53,000 community water systems in the U.S. (82% of which serve less than 3,300 customers), the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). The majority of these community water systems are government-owned, and the balance of the systems are privately-owned (or investor-owned). The nation’s water systems range in size from large government-owned systems, such as the New York City water system which serves approximately 8.5 million people, to small systems, where a few customers share a common well. In the states where we operate regulated utilities, we believe there are approximately 14,500 community water systems of widely-varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the EPA’s most recent survey of wastewater treatment facilities (which includes both government-owned and privately-owned facilities) in 2012, there are approximately 15,000 such facilities in the nation serving approximately 76% of the U.S. population. The remaining population represents individual homeowners with their own treatment facilities; for example, community on-lot disposal systems and septic tank systems. The vast majority of wastewater facilities are government-owned rather than privately-owned. The EPA’s survey also indicated that there are approximately 4,000 wastewater facilities in operation in the states where we operate regulated utilities.

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

- the benefits of economies of scale;
- the increasing cost and complexity of environmental regulations;
- the need for substantial capital investment;
- the need for technological and managerial expertise;
- the desire to improve water quality and service;
- limited access to cost-effective financing;



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- the monetizing of public assets to support, in some cases, the declining financial condition of municipalities; and
- the use of system sale proceeds by a municipality to accomplish other public purposes.

We are actively exploring opportunities to expand our utility operations through acquisitions or other growth ventures. During the five-year period ended December 31, 2015, we expanded our utility operations by completing 75 acquisitions or other growth ventures.

We believe that acquisitions will continue to be an important source of customer growth for us. We intend to continue to pursue acquisitions of government-owned and privately-owned water and wastewater systems that provide services in areas near our existing service territories or in new service areas. We engage in continuing activities with respect to potential acquisitions, including calling on prospective sellers, performing analyses and investigations of acquisition candidates, making preliminary acquisition proposals, and negotiating the terms of potential acquisitions. Further, we are also seeking other potential business opportunities, including but not limited to partnering with public and private utilities to invest in infrastructure improvements, and growing our market-based activities by acquiring businesses that provide water and wastewater management services, and investing in infrastructure projects.

### *Water Utility Supplies and Facilities and Wastewater Utility Facilities*

Our water utility operations obtain their water supplies from surface water sources, underground aquifers, and water purchased from other water suppliers. Our water supplies are primarily self-supplied and processed at twenty surface water treatment plants located in four states, and numerous well stations located in all of the states in which we conduct business. Approximately 8% of our water supplies are provided through water purchased from other water suppliers. It is our policy to obtain and maintain the permits necessary to obtain the water we distribute.

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

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

We believe that our wastewater treatment facilities are generally adequate to meet the present requirements of our customers under normal conditions. Additionally, we own several wastewater collection systems that convey the wastewater to a municipally-owned facility for treatment. Changes in regulatory requirements can be reflected in revised permit limits and conditions when permits are renewed, typically on a five-year cycle, or when treatment capacity is expanded. Capital improvements are planned and budgeted to meet normal replacement and renewal needs, anticipated changes in regulations, needs for increased capacity related to projected growth, and to reduce inflow and infiltration to collection systems. The various state utility commissions have generally recognized the operating and capital costs associated with these improvements in setting wastewater rates for current and new customers. It is our policy to obtain and maintain the permits necessary for the treatment of the wastewater that we return to the environment.

*Economic Regulation*

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

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

<u>State</u>	<u>Utility Commission</u>
Pennsylvania	Pennsylvania Public Utility Commission
Ohio	The Public Utilities Commission of Ohio
Texas	Texas Public Utility Commission
Illinois	Illinois Commerce Commission
North Carolina	North Carolina Utilities Commission
New Jersey	New Jersey Board of Public Utilities
Indiana	Indiana Utility Regulatory Commission
Virginia	Virginia State Corporation Commission

Our water and wastewater operations are comprised of 52 rate divisions, each of which requires a separate rate filing for the evaluation of the cost of service, including the recovery of investments, in connection with the establishment of rates for that rate division. When feasible and beneficial to our utility customers, we will seek approval from the applicable state regulatory commission to consolidate rate divisions to achieve a more even distribution of costs over a larger customer base. All of the states in which we operate permit us to file a revenue requirement for some form of consolidated rates for the rate divisions in that state.

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

Six states in which we operate water utilities, and five states in which we operate wastewater utilities, permit us to add a surcharge to water or wastewater bills to offset the additional depreciation and capital costs associated with capital expenditures related to replacing and rehabilitating infrastructure systems. Without this surcharge, a water and wastewater utility absorbs all of the depreciation and capital costs of these projects between base rate increases. The gap between the time that a capital project is completed and the recovery of its costs in rates is known as regulatory lag. This surcharge is intended to substantially reduce regulatory lag, which often acted as a disincentive to water and wastewater utilities to rehabilitate their infrastructure. In

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addition, our subsidiaries in some states use a surcharge or credit on their bills to reflect changes in costs, such as changes in state tax rates, other taxes and purchased water costs, until such time as the new cost levels are incorporated into base rates.

Currently, Pennsylvania, Illinois, Ohio, Indiana, New Jersey, and North Carolina allow for the use of an infrastructure rehabilitation surcharge. On December 22, 2014, the North Carolina Utilities Commission granted the first infrastructure rehabilitation surcharge for Aqua North Carolina. The Attorney General filed an appeal to the State Supreme Court challenging the approval and on August 21, 2015, the State Supreme Court upheld the Commission's decision granting this surcharge. The infrastructure rehabilitation surcharge typically adjusts periodically based on additional qualified capital expenditures completed or anticipated in a future period, and is capped at a percentage of base rates, generally at 5% to 12.75%, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. This surcharge provided revenues of \$3,261,000 in 2015, \$4,598,000 in 2014, and \$3,205,000 in 2013.

In December 2012, Aqua Pennsylvania adopted an income tax accounting change, implemented on Aqua America's 2012 federal income tax return, which was filed in September 2013. This accounting change allows a tax deduction for qualifying utility asset improvements that were formerly capitalized for tax purposes, and was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission. The Pennsylvania rate order provides for a reduction in current income tax expense as a result of the recognition of income tax benefits resulting from the accounting change. This tax accounting change and its treatment under the Pennsylvania rate order financially offset the impact of the water infrastructure rehabilitation surcharge suspension. During 2013, our Ohio and North Carolina operating divisions implemented this change. These divisions currently do not employ a method of accounting that provides for a reduction in current income tax expense, and as such this change had no impact on our effective income tax rate.

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

- economic value;
- economies of scale;
- our ability to provide quality water and wastewater service;
- our existing infrastructure network;
- our ability to perform infrastructure improvements;
- our ability to comply with environmental, health, and safety regulations, our technical, regulatory, and operational expertise;
- our ability to access capital markets; and
- our cost of capital.

The addition of new service territories and the acquisition of other utilities by regulated utilities such as us are generally subject to review and approval by the applicable state utility commissions.

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

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

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

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

Despite the condemnation of our water utility systems in Fort Wayne, Indiana, which concluded with the sale of the system in December 2014, and the sales of selected systems, one of our primary strategies continues to be to acquire additional water and wastewater systems, to maintain our existing systems where there is a business or a strategic benefit, and to actively oppose unilateral efforts by municipal governments to acquire any of our operations, particularly for less than the fair market value of our operations or where the municipal government seeks to acquire more than it is entitled to under the applicable law or agreement. On occasion, we may voluntarily agree to sell systems or portions of systems in order to help focus our efforts in areas where we have more critical mass and economies of scale or for other strategic reasons.

### *Environmental, Health and Safety Regulation*

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

From time to time, Aqua America has acquired, and may acquire, systems that have environmental compliance issues. Environmental compliance issues also arise in the course of normal operations or as a result of regulatory changes. Aqua America attempts to align capital budgeting and expenditures to address these issues in due course. We believe that the capital expenditures required to address outstanding compliance issues have been budgeted in our capital program and represent approximately \$25,500,000 or less than 2% of our expected total capital expenditures over the next five years. We are parties to agreements with regulatory agencies in Pennsylvania, Texas, Indiana, and Virginia under which we have committed to make improvements for environmental compliance. These agreements are intended to provide the regulators with assurance that problems covered by these agreements will be addressed, and the agreements generally provide protection from fines, penalties and other actions while corrective measures are being implemented. The capital improvements associated with the agreements in

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Indiana and Virginia have been completed. We are actively working directly with state environmental officials in Pennsylvania and Texas to implement or amend these agreements as necessary.

Safe Drinking Water Act - The Safe Drinking Water Act establishes criteria and procedures for the EPA to develop national quality standards for drinking water. Regulations issued pursuant to the Safe Drinking Water Act set standards regarding the amount of microbial and chemical contaminants and radionuclides in drinking water. Current requirements under the Safe Drinking Water Act are not expected to have a material impact on our business, financial condition, or results of operations as we have made and are making investments to meet existing water quality standards. We may, in the future, be required to change our method of treating drinking water at some sources of supply and make additional capital investments if additional regulations become effective.

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

Solid Waste Disposal - The handling and disposal of waste generated from water and wastewater treatment facilities is governed by federal and state laws and regulations. A program is in place to monitor our facilities for compliance with regulatory requirements, and we are not aware of any significant environmental remediation costs necessary from our handling and disposal of waste material from our water and wastewater operations.

Dam Safety - Our subsidiaries own fifteen dams that are subject to the requirements of the federal and state regulations related to dam safety, which undergo regular inspections and an annual engineering inspection. We believe that all fifteen dams are structurally sound and well-maintained.

We performed studies of our dams that identified three dams in Pennsylvania and two dams in Ohio requiring capital improvements resulting from the adoption by state regulatory agencies of revised formulas for calculating the magnitude of a possible maximum flood event. The most significant capital improvement remaining to be performed is on one dam in Pennsylvania at a total estimated cost of \$15,000,000. Design for this dam commenced in 2013 and construction is expected to be completed in 2021.

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

### *Security*

We maintain security measures at our facilities, and collaborate with federal, state and local authorities and industry trade associations regarding information on possible threats and security measures for water and wastewater utility operations. The costs incurred are expected to be recoverable in water and wastewater rates and are not expected to have a material impact on our business, financial condition, or results of operations.

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### *Employee Relations*

As of December 31, 2015, we employed a total of 1,617 full-time employees. Our subsidiaries are parties to 15 labor agreements with labor unions covering 555 employees. The labor agreements expire at various times between March 2016 and May 2019.

### *Available Information*

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

Our internet web site address is [www.aquaamerica.com](http://www.aquaamerica.com). We make available free of charge through our web site’s *Investor Relations* page all of our filings with the SEC, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other information. These reports and information are available as soon as reasonably practicable after such material is electronically filed with the SEC.

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

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

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

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

### Item 1A. *Risk Factors*

In addition to the other information included or incorporated by reference in this Form 10-K, the following factors should be considered in evaluating our business and future prospects. Any of the following risks, either alone or taken together, could materially harm our business, financial condition, and results of operations. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our business, financial condition, and results of operations could be materially harmed.



***Contamination of our water supply, including water provided to our customers, may result in disruption in our services, additional costs and litigation which could harm our business, financial condition, and results of operations.***

Our water supplies, including water provided to our customers, are subject to possible contamination, including from:

- naturally occurring compounds or man-made substances;
- chemicals and other hazardous materials;
- lead and other materials;
- pharmaceuticals and personal care products; and
- possible deliberate or terrorist attacks.

Depending on the nature of the water contamination, we may have to interrupt the use of that water supply until we are able to substitute, where feasible, the flow of water from an uncontaminated water source, including if practicable, the purchase of water from other suppliers, or continue the water supply under restrictions on use for drinking or broader restrictions against all use except for basic sanitation and essential fire protection. We may incur significant costs, including, but not limited to, costs for water quality testing and monitoring, treatment of the contaminated source through modification of our current treatment facilities or development of new treatment methods, or the purchase of alternative water supplies. In addition, the costs we could incur to decontaminate a water source or our water distribution system and dispose of waste could also be significant. The costs resulting from the contamination may not be recoverable in rates we charge our customer, or may not be recoverable in a timely manner. If we are unable to adequately treat the contaminated water supply or substitute a water supply from an uncontaminated water source in a timely or cost-effective manner, there may be an adverse effect on our business, financial condition, and results of operations. We could also be subject to:

- claims for consequences arising out of human exposure to contamination and/or hazardous substances in our water supplies, including toxic torts;
- claims for other environmental damage;
- claims for customers' business interruption as a result of an interruption in water service;
- claims for breach of contract;
- criminal enforcement actions; or
- other claims.

We may incur costs to defend our position and/or incur reputational damage even if we are not liable for consequences arising out of human exposure to contamination and/or hazardous substances in our water supplies or other environmental damage. Our insurance policies may not be sufficient to cover the costs of these claims, and losses incurred may make it difficult for us to secure insurance in the future at acceptable rates. Such claims or actions could harm our business, financial condition, and results of operations.

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

The rates we charge our customers are subject to approval by utility commissions in the states in which we operate. We file rate increase requests, from time to time, to recover our investments in utility plant and expenses. Our ability to maintain and meet our financial objectives is dependent upon the recovery of, and return on, our capital investments and expenses through the rates we charge our customers. Once a rate increase petition is filed with a utility commission, the ensuing administrative and hearing process may be lengthy and costly, and our costs may not always be fully recoverable. The timing of our rate increase requests are therefore partially dependent upon the estimated cost of the administrative process in relation to the investments and expenses that we hope to recover through the rate increase. In addition, the amount or frequency of rate increases may be decreased or lengthened as a result of many factors including changes in





regulatory oversight in the states in which we operate water and wastewater utilities and income tax laws regarding tax-basis depreciation as it applies to our capital expenditures or qualifying utility asset improvements. We can provide no assurances that any future rate increase request will be approved by the appropriate utility commission; and, if approved, we cannot guarantee that these rate increases will be granted in a timely or sufficient manner.

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

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

Our business is capital intensive. In addition to the capital required to fund customer growth through our acquisition strategy, on an annual basis, we spend significant sums for additions to or replacement of property, plant and equipment. We obtain funds for our capital expenditures from operations, contributions and advances by developers and others, debt issuances, and equity issuances. We have paid dividends consecutively for 71 years and our Board of Directors recognizes the value that our common shareholders place on both our historical payment record and on our future dividend payments. Our ability to maintain and meet our financial objectives is dependent upon the availability of adequate capital, and we may not be able to access the capital markets on favorable terms or at all. If in the future, our credit facilities are not renewed or our short-term borrowings are called for repayment, we would need to seek alternative financing sources; however, there can be no assurance that these alternative financing sources would be available on terms acceptable to us. In the event we are unable to obtain sufficient capital, we may need to take steps to conserve cash by reducing our capital expenditures or dividend payments and our ability to pursue acquisitions may be limited. The reduction in capital expenditures may result in reduced potential earnings growth, affect our ability to meet environmental laws and regulations, and limit our ability to improve or expand our utility systems to the level we believe appropriate. There is no guarantee that we will be able to obtain sufficient capital in the future on reasonable terms and conditions for expansion, construction and maintenance. In addition, delays in completing major capital projects could delay the recovery of the capital expenditures associated with such projects through rates. If the cost of borrowing increases, we might not be able to recover increases in our cost of capital through rates. The inability to recover higher borrowing costs through rates, or the regulatory lag associated with the time that it takes to begin recovery, may harm our business, financial condition, and results of operations.

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

We are obligated to comply with debt covenants under some of our loan and debt agreements. Failure to comply with covenants under our credit facilities could result in an event of default, which if not cured or waived, could result in us being required to repay or finance these borrowings before their due date, limit future borrowings, cause us to default on other obligations, and increase borrowing costs. If we are forced to repay or refinance (on less favorable terms) these borrowings, our business, financial condition, and results of operations could be harmed by reduced access to capital and increased costs and rates.

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

A general economic downturn may lead to a number of impacts on our business and may affect our financial condition and results of operations. Such impacts may include:

- a reduction in discretionary and recreational water use by our residential water customers, particularly during the summer months when such discretionary usage is normally at its highest;
- a decline in usage by industrial and commercial customers as a result of decreased business activity;
- an increased incidence of customers' inability to pay or delays in paying their utility bills, or an increase in customer bankruptcies, which may lead to higher bad debt expense and reduced cash flow;
- a lower natural customer growth rate due to a decline in new housing starts; and
- a decline in the number of active customers due to housing vacancies.

General economic turmoil may also lead to an investment market downturn, which may result in our pension and other post-retirement plans' asset market values suffering a decline and significant volatility. A decline in our plans' asset market values could increase our required cash contributions to the plans and expense in subsequent years.

***Our facilities could be the target of a possible terrorist or other deliberate attack which could harm our business, financial condition and results of operations.***

In addition to the potential contamination of our water supply as described in a separate risk factor herein, we maintain security measures at our facilities and have heightened employee and public safety official awareness of potential threats to our water systems. We have and will continue to bear increases in costs for security precautions to protect our facilities, operations, and supplies, most of which have been recoverable under state regulatory policies. While the costs of increases in security, including capital expenditures, may be significant, we expect these costs to continue to be recoverable in water and wastewater rates. Despite our security measures, we may not be in a position to control the outcome of terrorist events, or other attacks on our water systems, should they occur. Such an event could harm our business, financial condition, and results of operations.

***The failure of, or the requirement to repair, upgrade or dismantle any of our dams or reservoirs may harm our business, financial condition, and results of operations.***

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

***Any failure of our water and wastewater treatment plants, network of water and wastewater pipes, or water reservoirs could result in damages that may harm our business, financial condition, and results of operations.***

Our operating subsidiaries treat water and wastewater, distribute water and collect wastewater through an extensive network of pipes, and store water in reservoirs. A failure of a major treatment plant, pipe, or reservoir could result in claims for injuries or property damage. The failure of a major treatment plant, pipe, or reservoir may also result in the need to shut down some facilities or parts of our network in order to conduct repairs. Such failures and shutdowns may limit our ability to supply water in sufficient quality and quantities to our customers or collect and treat wastewater in accordance with standards prescribed by governmental regulators, including state utility commissions, and may harm our business, financial condition, and results of operations. Any business interruption or other losses might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance in the future at acceptable rates.

***We are increasingly dependent on the continuous and reliable operation of our information technology systems, and a disruption of these systems, resulting from cyber security attacks or other cyber-related events, could harm our business.***

We rely on our information technology systems in connection with the operation of our business, especially with respect to customer service and billing, accounting and, in some cases, the monitoring and operation of our treatment, storage and pumping facilities. In addition, we rely on our systems to track our utility assets and to manage maintenance and construction projects, materials and supplies, and our human resource functions. A loss of these systems, or major problems with the operation of these systems, could harm our business, financial condition, and results of operations. Our information technology systems may be vulnerable to damage or interruption from the following types of cyber security attacks or other cyber-related events:

- power loss, computer systems failures, and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of data;
- computer viruses, cyber security attacks, intentional security breaches, hacking, denial of service actions, misappropriation of data and similar events;
- difficulties in the implementation of upgrades or modification to our information technology systems; and
- hurricanes, fires, floods, earthquakes and other natural disasters.

Although we do not believe that our systems are at a materially greater risk of cyber security attacks than other similar organizations, our information technology systems may be vulnerable to damage or interruption from the types of cyber security attacks or other events listed above or other similar actions, and such incidents may go undetected for a period of time. Such cyber security attacks or other events may result in:

- the loss or compromise of customer, financial, employee, or operational data;
- disruption of billing, collections or normal field service activities;
- disruption of electronic monitoring and control of operational systems; and
- delays in financial reporting and other normal management functions.

Possible impacts associated with a cyber security attack or other events may include: remediation costs related to lost, stolen, or compromised data; repairs to data processing systems; increased cyber security protection costs; adverse effects on our compliance with regulatory and environmental laws and regulation, including standards for drinking water; litigation; and reputational damage. We maintain insurance to help defray costs associated with cyber security attacks or other events, but we cannot provide assurance that such insurance will provide coverage for any particular type of incident or event or that such insurance will be adequate, and losses incurred may make it difficult for us to secure insurance in the future at acceptable rates.

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

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

***Decreased residential customer water consumption as a result of water conservation efforts may harm demand for our water service and may reduce our revenues and earnings.***

We believe there has been a general decline in water usage per residential customer as a result of an increase in conservation awareness, and the impact of an increased use of more efficient plumbing fixtures and appliances. These gradual, long-term changes are normally taken into account by the utility commissions in setting rates, whereas short-term changes in water usage, if significant, may not be fully reflected in the rates we charge. We are dependent upon the revenue generated from rates charged to our residential customers for the volume of water used. If we are unable to obtain future rate increases to offset decreased residential customer water consumption to cover our investments, expenses, and return for which we initially sought the rate increase, our business, financial condition, and results of operations may be harmed.

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

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

***One of the important elements of our growth strategy is the acquisition of water and wastewater utility systems. Any future acquisitions we decide to undertake may involve risks. Further, competition for acquisition opportunities from other regulated utilities, governmental entities, and strategic and financial buyers may hinder our ability to grow our business.***

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

- dilutive issuances of our equity securities;
- incurrence of debt, contingent liabilities, and environmental liabilities;
- unanticipated capital expenditures;
- failure to maintain effective internal control over financial reporting;
- recording goodwill and other intangible assets for which we may never realize their full value and may result in an asset impairment that may negatively affect our results of operations;
- fluctuations in quarterly results;

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- other acquisition related expenses; and
- exposure to unknown or unexpected risks and liabilities.

Some or all of these items could harm our business and our ability to finance our business and to comply with regulatory requirements. The businesses we acquire in the future may not achieve sales and profitability that would justify our investment, and any difficulties we encounter in the integration process, including in the integration of processes necessary for internal control and financial reporting, could interfere with our operations, reduce our operating margins and harm our internal controls.

We compete with governmental entities, other regulated utilities, and strategic and financial buyers, for acquisition opportunities. As consolidation becomes more prevalent in the utility industry and competition for acquisitions increases, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to grow through acquisitions. In addition, our competitors may impede our growth by purchasing utilities near our existing operations, thereby preventing us from acquiring them. Competing governmental entities, utilities, environmental or social activist groups, and strategic and financial buyers have challenged, and may in the future challenge, our efforts to acquire new companies and/or service territories. Our growth could be hindered if we are not able to compete effectively for new companies and/or service territories with other companies or strategic and financial buyers that have lower costs of operations or capital, or that submit more attractive bids. Any of these risks may harm our business, financial condition, and results of operations.

***We employ a portfolio rationalization strategy to focus our operations in areas where we have critical mass and economic growth potential and to divest operations where limited customer growth opportunities exist or where we are unable to achieve favorable operating results or a return on equity that we consider acceptable. Dispositions we decide to undertake may involve risks which could harm our business, operating results, and financial condition.***

In the event we determine a division, utility system or business should be sold, we may be unable to reach terms that are agreeable to us or find a suitable buyer. If the business is part of our regulated operations, we may face additional challenges in obtaining regulatory approval for the disposition, and the regulatory approval obtained may include restrictive conditions. We may be required to continue to hold or assume residual liabilities with respect to the business sold. The negotiation of potential dispositions as well as the efforts to divest the acquired business could require us to incur significant costs and cause diversion of our management's time and resources. Any of these risks may harm our business, financial condition, and results of operations.

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

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

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

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

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

***The final determination of our income tax liability may be materially different from our income tax provision.***

Significant judgment is required in determining our provision for income taxes. Our calculation of the provision for income taxes is subject to our interpretation of applicable business tax laws in the jurisdictions in which we file. In addition, our income tax returns are subject to periodic examination by the Internal Revenue Service and other taxing authorities. In December 2012, Aqua Pennsylvania changed its tax method of accounting to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for tax purposes. Subsequently, the Company's other regulated subsidiaries similarly changed their tax method of accounting. Our determination of what qualifies as a capital cost versus a tax deduction for utility asset improvements is subject to subsequent adjustment and may impact the income tax benefits that have been recognized. Although we believe our income tax estimates, including any tax reserves for uncertain tax positions or valuation allowances on deferred tax assets are appropriate, there is no assurance that the final determination of our income tax liability will not be materially different; either higher or lower, from what is reflected in our income tax provision. In the event we are assessed additional income taxes, our business, financial condition, and results of operations could be harmed.

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

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

***Federal and state environmental laws, regulatory initiatives relating to hydraulic fracturing, changes in technology or hydraulic fracturing processes, and volatility in natural gas prices, could result in reduced demand for raw water utilized in hydraulic fracturing and harm our joint venture business, financial condition, or results of operations.***

We have invested in a joint venture for the construction and operation of a private pipeline system to supply raw water to natural gas drilling operations for hydraulic fracturing. Hydraulic fracturing involves the



injection under pressure of water, along with other materials such as sand, into rock formations to stimulate natural gas production. In general, the environmental community has taken an interest in monitoring and understanding the potential environmental impact of hydraulic fracturing. Although hydraulic fracturing is currently regulated, in the event the use of hydraulic fracturing is further limited through regulation, our investment in the raw water pipeline may be harmed in the event that demand for raw water is reduced.

Changes in technology or hydraulic fracturing processes may occur which allows drillers to reuse injected water on a limited basis, or apply treatment processes to allow further reuse of water for drilling. These changes may reduce demand for raw water.

Furthermore, natural gas prices have historically been volatile, and are likely to continue to be volatile. A decrease in demand for natural gas, due to price volatility, could result in reduced demand for raw water utilized in hydraulic fracturing. In the fourth quarter of 2015, the joint venture recognized an impairment charge on its long-lived assets, which reduced the carrying value of our investment in the joint venture. The impairment resulted from a marked decline in natural gas prices in 2015, a further reduction in the volume of water sales by the joint venture, which led to a lowered forecast on future sales volumes, as well as changes in the natural gas industry activities in the Marcellus Shale region and general market conditions. In the event hydraulic fracturing is limited, due to a further reduction in demand for natural gas or other factors affecting the industry, our investment in the raw water pipeline may be harmed in the event that demand for raw water is reduced.

***Wastewater operations entail significant risks and may impose significant costs.***

Wastewater collection and treatment and septage pumping and sludge hauling involve various unique risks. If collection or treatment systems fail or do not operate properly, or if there is a spill, untreated or partially treated wastewater could discharge onto property or into nearby streams and rivers, causing various damages and injuries, including environmental damage. These risks are most acute during periods of substantial rainfall or flooding, which are the main causes of wastewater overflow and system failure. Liabilities resulting from such damages and injuries could harm our business, financial condition, and results of operations.

***Work stoppages and other labor relations matters could harm our operating results.***

Approximately 34% of our workforce is unionized under 15 labor contracts with labor unions, which expire over several years. In light of rising costs for healthcare and retirement benefits, contract negotiations in the future may be difficult. We are subject to a risk of work stoppages and other labor actions as we negotiate with the unions to address these issues, which could harm our business, financial condition, and results of operations. We cannot assure you that issues with our labor forces will be resolved favorably to us in the future or that we will not experience work stoppages.

***Significant or prolonged disruptions in the supply of important goods or services from third parties could harm our business, financial condition, and results of operations.***

We are dependent on a continuing flow of important goods and services from suppliers for our water and wastewater businesses. A disruption or prolonged delays in obtaining important supplies or services, such as maintenance services, purchased water, chemicals, water pipe, valves, hydrants, electricity, or other materials, could harm our water or wastewater services and our ability to operate in compliance with all regulatory requirements, which could harm our business, financial condition, and results of operations. In some circumstances, we rely on third parties to provide important services (such as customer bill print and mail activities or utility service operations in some of our divisions) and a disruption in these services could harm our business, financial condition, and results of operations. Some possible reasons for a delay or disruption in the supply of important goods and services include:

- our suppliers may not provide materials that meet our specifications in sufficient quantities;

- our suppliers may provide us with water that does not meet applicable quality standards or is contaminated;
- our suppliers may face production delays due to natural disasters, strikes, lock-outs, or other such actions;
- one or more suppliers could make strategic changes in the lines of products and services they offer; and
- some of our suppliers, such as small companies, may be more likely to experience financial and operational difficulties than larger, well-established companies, because of their limited financial and other resources.

As a result of any of these factors, we may be required to find alternative suppliers for the materials and services on which we rely. Accordingly, we may experience delays in obtaining appropriate materials and services on a timely basis and in sufficient quantities from such alternative suppliers at a reasonable price, which could interrupt services to our customers and harm our business, financial condition, and results of operations.

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

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

***Climate change laws and regulations have been passed and are being proposed that require compliance with greenhouse gas emissions standards, as well as other climate change initiatives.***

Climate change is receiving ever increasing attention worldwide. Many scientists, legislators, and others attribute global warming to increased levels of greenhouse gases (“GHG”), including carbon dioxide. Climate change laws and regulations enacted and proposed limit GHG emissions from covered entities, and require additional monitoring/reporting. At this time, the existing GHG laws and regulations are not expected to materially harm the Company’s operations or capital expenditures. However, because of the uncertainty of future climate change regulatory requirements, we cannot predict the potential impact of future laws and regulations on our business, financial condition, or results of operations. Although these future expenditures and costs for regulatory compliance may be recovered in the form of higher rates, there can be no assurance that the various state utility commissions that govern our business would approve rate increases to enable us to recover such expenditures and costs.

***Some scientific experts are predicting a worsening of weather volatility in the future, possibly created by the climate change greenhouse gases. Changing severe weather patterns could require additional expenditures to reduce the risk associated with any increasing storm, flood and drought occurrences.***

The issue of climate change is receiving ever increasing attention worldwide. Many climate change predictions, if true, present several potential challenges to water and wastewater utilities, such as: increased frequency and duration of droughts, increased precipitation and flooding, potential degradation of water quality, and changes in demand for services. We maintain an ongoing facility planning process, and this planning or the enactment of new standards may result in the need for additional capital expenditures or raise our operating costs. Because of the uncertainty of weather volatility related to climate change, we cannot predict its potential impact on our business, financial condition, or results of operations. Although any potential expenditures and costs may be recovered in the form of higher rates, there can be no assurance that the various state utility commissions that govern our business would approve rate increases to enable us to recover such expenditures and costs. We cannot assure you that our costs of complying with any climate change weather related measures will not harm our business, financial condition, or results of operations.



Item 1B *Unresolved Staff Comments*

None

Item 2. *Properties*

Our properties consist of water transmission and distribution mains and wastewater collection pipelines, water and wastewater treatment plants, pumping facilities, wells, tanks, meters, pipes, dams, reservoirs, buildings, vehicles, land, easements, rights-of-way, and other facilities and equipment used for the operation of our systems, including the collection, treatment, storage, and distribution of water and the collection and treatment of wastewater. Substantially all of our treatment, storage, and distribution properties are owned by our subsidiaries, and a substantial portion of our property is subject to liens of mortgage or indentures. These liens secure bonds, notes and other evidences of long-term indebtedness of our subsidiaries. For some properties that we acquired through the exercise of the power of eminent domain and other properties we purchased, we hold title for water supply purposes only. We own, operate and maintain over twelve thousand miles of transmission and distribution mains, 20 surface water treatment plants, many well treatment stations, and 183 wastewater treatment plants. A small portion of the properties are leased under long-term leases.

The following table indicates our net property, plant and equipment, in thousands of dollars, as of December 31, 2015 in the principal states where we operate:

	Net Property, Plant and Equipment	
Pennsylvania	\$ 2,977,427	63.5%
Ohio	409,420	8.7%
Illinois	333,208	7.1%
North Carolina	293,476	6.3%
Texas	262,040	5.6%
Other (1)	413,354	8.8%
Consolidated	<u>\$ 4,688,925</u>	<u>100.0%</u>

(1) Consists primarily of our operating subsidiaries in the following states: New Jersey, Indiana, and Virginia.

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

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

Item 3. *Legal Proceedings*

There are various legal proceedings in which we are involved. Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings, other than as set forth below, to which we or any of our subsidiaries is a party or to which any of our properties is the subject that we believe are material or are expected to materially harm our business, operating results or financial condition.

For any legal proceedings which were concluded during the first nine months of 2015, refer to our respective 2015 Form 10-Q filings for disclosure of the conclusion of these legal proceedings.

Item 4. *Mine Safety Disclosures*

Not applicable.

## PART II

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

Our common stock is traded on the New York Stock Exchange under the ticker symbol WTR. As of February 10, 2016, there were approximately 25,247 holders of record of our common stock.

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
<b>2015</b>					
Dividend paid per common share	\$ 0.165	\$ 0.165	\$ 0.178	\$ 0.178	\$ 0.686
Dividend declared per common share	0.165	0.165	0.178	0.178	0.686
Price range of common stock					
- high	28.13	27.53	27.10	31.09	31.09
- low	25.42	24.40	24.45	26.20	24.40
<b>2014</b>					
Dividend paid per common share	\$ 0.152	\$ 0.152	\$ 0.165	\$ 0.165	\$ 0.634
Dividend declared per common share	0.152	0.152	0.165	0.165	0.634
Price range of common stock					
- high	25.56	26.27	26.29	28.22	28.22
- low	22.40	24.25	23.12	23.26	22.40

We have paid dividends consecutively for 71 years. On August 4, 2015, our Board of Directors authorized an increase of 7.9% in the September 1, 2015 quarterly dividend over the dividend Aqua America paid in the previous quarter. As a result of this authorization, beginning with the dividend payment in September 2015, the annualized dividend rate increased to \$0.712 per share. This is the 25<sup>th</sup> dividend increase in the past 24 years and the 17<sup>th</sup> consecutive year that we have increased our dividend in excess of five percent. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1, and December 1, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, our dividends paid have averaged 51.9% of net income attributable to common shareholders.

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The following table summarizes the Company's purchases of its common stock for the quarter ending December 31, 2015:

Issuer Purchases of Equity Securities

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs (2)</u>
October 1-31, 2015	174,374	\$ 26.56	161,000	320,348
November 1-30, 2015	10,508	\$ 28.89	-	320,348
December 1-31, 2015	1,257	\$ 29.31	-	720,348
Total	186,139	\$ 26.71	161,000	720,348

- (1) These amounts include the following: (a) 473 shares we acquired from employees associated with the withholding of shares to pay certain withholding taxes upon the vesting of restricted stock units; and (b) 24,666 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 was 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 of vesting of the restricted stock unit or on the day prior to the option exercise.
- (2) In December 2014, our Board of Directors authorized a share buyback program of up to 1,000,000 shares to minimize share dilution through timely and orderly share repurchases. In December 2015, our Board of Directors added 400,000 shares to this program. This program expires on the earliest of December 31, 2016 or when all authorized repurchases have been made.

Item 6. *Selected Financial Data*

The information appearing in the section captioned *Summary of Selected Financial Data* from the portions of our 2015 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

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

The information appearing in the section captioned *Management's Discussion and Analysis of Financial Condition and Results of Operations* from the portions of our 2015 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed rate long-term debt. Such exposure is typically related to financings between utility rate increases, since generally our rate increases include a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates, and short-term debt, which is at floating interest rates. As of December 31, 2015, the debt maturities by period, in thousands of dollars, and the weighted average interest rate for long-term debt are as follows:

	2016	2017	2018	2019	2020	Thereafter	Total	Fair Value
Long-term debt:								
Fixed rate	\$ 35,593	\$ 103,007	\$ 103,878	\$ 89,636	\$ 49,419	\$ 1,337,672	\$ 1,719,205	\$ 1,845,393
Variable rate	-	60,000	-	-	-	-	60,000	60,000
Total	\$ 35,593	\$ 163,007	\$ 103,878	\$ 89,636	\$ 49,419	\$ 1,337,672	\$ 1,779,205	\$ 1,905,393
Weighted average interest rate*	4.85%	2.63%	4.25%	4.93%	5.06%	4.62%		

\*Weighted average interest rate of 2017 long-term debt maturity is as follows: fixed rate debt of 4.57% and variable rate debt of 0.99%.

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for the “available-for-sale” marketable equity securities. As of December 31, 2015, the carrying value of these investments, which reflects market value, in thousands of dollars, was \$196.

Item 8. *Financial Statements and Supplementary Data*

Information appearing under the captions *Consolidated Statements of Net Income, Consolidated Statements of Comprehensive Income, Consolidated Balance Sheets, Consolidated Statements of Cash Flows, Consolidated Statements of Capitalization, Consolidated Statements of Equity and Notes to Consolidated Financial Statements* from the portions of our 2015 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein. Also, the information appearing in the sections captioned *Management’s Report on Internal Control Over Financial Reporting* and *Report of Independent Registered Public Accounting Firm* from the portions of our 2015 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

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

None.

Item 9A. *Controls and Procedures*

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

(b) Management’s Report on Internal Control Over Financial Reporting – The information appearing in the section captioned *Management’s Report on Internal Control Over Financial Reporting* from the



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portions of our 2015 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

(c) Attestation Report of the Registered Public Accounting Firm – The Attestation Report of our Independent Registered Public Accounting Firm as to our internal control over financial reporting, contained in our 2015 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K, is incorporated by reference herein. With the exception of the aforementioned information and the information incorporated by reference in Items 6, 7, and 8, the 2015 Annual Report to Shareholders is not to be deemed filed as part of the Annual Report on Form 10-K.

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

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information appearing in the sections captioned *Information Regarding Nominees and Directors*, *Corporate Governance – Code of Ethics*, *– Board and Board Committees*, and *Section 16(a) Beneficial Ownership Reporting Compliance* of the definitive Proxy Statement relating to our May 6, 2016, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

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

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Our Executive Officers

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

<u>Name</u>	<u>Age</u>	<u>Position with Aqua America (1)</u>
Christopher H. Franklin	51	President and Chief Executive Officer (July 2015 to present); Executive Vice President and President and Chief Operating Officer, Regulated Operations (January 2012 to July 2015); Regional President – Midwest and Southern Operations and Senior Vice President, Corporate and Public Affairs (January 2010 to January 2012); Regional President, Aqua America – Southern Operations and Senior Vice President, Public Affairs and Customer Operations (January 2007 to January 2010); Vice President, Public Affairs and Customer Operations (July 2002 to January 2007); Vice President, Corporate and Public Affairs (February 1997 to July 2002); Director of Public Affairs (January 1993 to February 1997)
David P. Smeltzer	57	Executive Vice President and Chief Financial Officer (January 2012 to present); Chief Financial Officer (February 2007 to January 2012); Senior Vice President - Finance and Chief Financial Officer (December 1999 to February 2007); Vice President - Finance and Chief Financial Officer (May 1999 to December 1999); Vice President - Rates and Regulatory Relations, Philadelphia Suburban Water Company (March 1991 to May 1999); Vice President - Controller of Philadelphia Suburban Water Company (March 1986 to March 1991)
Richard S. Fox	54	Chief Operating Officer (July 2015 to present); Regional President, Regulated Utilities (January 2012 to July 2015); President Aqua Utilities, Florida, Inc. (August 2011 to January 2012); Vice President, Customer Service (June 2002 to August 2011)
Christopher P. Luning	48	Senior Vice President, General Counsel, and Secretary (April 2012 to present); Vice President Corporate Development and Corporate Counsel (June 2008 to April 2012); Vice President and Deputy General Counsel (May 2005 to June 2008); Assistant General Counsel (March 2003 to May 2005)
William C. Ross	70	Senior Vice President, Engineering and Environmental Affairs (January 2012 to present); Vice President, Engineering and Environmental Affairs (February 2001 to January 2012); Senior Manager Planning and Engineering Philadelphia Suburban Water Company (February 1998 to February 2001)
Robert A. Rubin	53	Senior Vice President, Controller and Chief Accounting Officer (January 2012 to present); Vice President, Controller and Chief Accounting Officer (May 2005 to January 2012); Controller and Chief Accounting Officer (March 2004 to May 2005); Controller (March 1999 to March 2004); Assistant Controller (June 1994 to March 1999); Accounting Manager (June 1989 to June 1994)
Daniel J. Schuller	46	Executive Vice President, Strategy and Corporate Development (July 2015 to present); Investment Principal – J.P. Morgan Asset Management – Infrastructure Investments Group (2007 to 2015)

Prior to January 16, 2004, Aqua Pennsylvania was known as Philadelphia Suburban Water Company.

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(1) In addition to the capacities indicated, the individuals named in the above table hold other offices or directorships with subsidiaries of the Company. Officers serve at the discretion of the Board of Directors.

Item 11. *Executive Compensation*

The information appearing in the sections captioned *Executive Compensation* and *Director Compensation* of the definitive Proxy Statement relating to our May 6, 2016, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

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

Ownership of Common Stock - The information appearing in the section captioned Ownership of Common Stock of the Proxy Statement relating to our May 6, 2016, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

Securities Authorized for Issuance under Equity Compensation Plans - The following table provides information for our equity compensation plans as of December 31, 2015:

Plan Category	Equity Compensation Plan Information		
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,259,169 (1)	\$16.62 (2)	4,212,079
Equity compensation plans not approved by security holders	0	0	0
<b>Total</b>	<b>1,259,169</b>	<b>\$16.62</b>	<b>4,212,079</b>

(1) Consists of 659,533 shares issuable upon exercise of outstanding options, 511,283 shares issuable upon conversion of outstanding performance share units, and 88,353 shares issuable upon conversion of outstanding restricted share units.

(2) Calculated based upon outstanding options of 659,533 shares of our common stock.

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

The information appearing in the sections captioned *Corporate Governance – Director Independence* and *– Policies and Procedures For Approval of Related Person Transactions* of the definitive Proxy Statement relating to our May 6, 2016, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

Item 14. *Principal Accountant Fees and Services*

The information appearing in the section captioned *Proposal No. 2 – Services and Fees* of the definitive Proxy Statement relating to our May 6, 2016, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.



PART IV

Item 15. *Exhibits and Financial Statement Schedules*

Financial Statements. The following is a list of our consolidated financial statements and supplementary data included in Exhibit 13.1 and incorporated by reference in Item 8 hereof:

Management's Report on Internal Control Over Financial Reporting  
Report of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets – December 31, 2015 and 2014  
Consolidated Statements of Net Income – 2015, 2014, and 2013  
Consolidated Statements of Comprehensive Income – 2015, 2014, and 2013  
Consolidated Statements of Cash Flows – 2015, 2014, and 2013  
Consolidated Statements of Capitalization – December 31, 2015 and 2014  
Consolidated Statements of Equity – 2015, 2014, and 2013  
Notes to Consolidated Financial Statements

Financial Statement Schedules.

Schedule 1. – Condensed Parent Company Financial Statements. All other schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes thereto.

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

SIGNATURES

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

AQUA AMERICA, INC.

/s/ Christopher H. Franklin

Christopher H. Franklin

President and Chief Executive Officer

Date: February 26, 2016

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Pursuant to the requirements of the Securities and Exchange Act of 1934, this report on Form 10-K has been signed below by the following persons on behalf of the Registrant on February 26, 2016 in the capacities indicated below.

<u>Signature</u>	<u>Title</u>
<u>/s/ Christopher H. Franklin</u> Christopher H. Franklin	President and Chief Executive Officer, Director (Principal Executive Officer)
<u>/s/ David P. Smeltzer</u> David P. Smeltzer	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
<u>/s/ Robert A. Rubin</u> Robert A. Rubin	Senior Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)
<u>/s/ Michael L. Browne</u> Michael L. Browne	Director
<u>/s/ Nicholas DeBenedictis</u> Nicholas DeBenedictis	Chairman and Director
<u>/s/ Richard H. Glanton</u> Richard H. Glanton	Director
<u>/s/ Lon R. Greenberg</u> Lon R. Greenberg	Director
<u>/s/ William P. Hankowsky</u> William P. Hankowsky	Director
<u>/s/ Wendell F. Holland</u> Wendell F. Holland	Director
<u>/s/ Ellen T. Ruff</u> Ellen T. Ruff	Director

Aqua America, Inc.  
Schedule 1 – Condensed Parent Company Financial Statements

Condensed Balance Sheets  
(In thousands of dollars)  
December 31, 2015 and 2014

	2015	2014
<b>Assets</b>		
Current assets:		
Accounts receivable, net	\$ 382	\$ 346
Accounts receivable - affiliates	28,423	19,852
Income tax receivable	219	581
Deferred income taxes	-	22,456
Prepayments and other current assets	3,545	3,366
Total current assets	32,569	46,601
Deferred charges and other assets, net	21,313	19,180
Notes receivable - affiliates	331,604	300,932
Accounts receivable - affiliates	103,891	98,647
Deferred income tax asset	85,089	72,407
Investment in subsidiaries	1,745,634	1,664,768
Total assets	<u>\$ 2,320,100</u>	<u>\$ 2,202,535</u>
<b>Liabilities and Equity</b>		
Stockholders' equity	\$ 1,725,927	\$ 1,655,343
Long-term debt, excluding current portion	420,350	378,400
Current liabilities:		
Current portion of long-term debt	16,050	18,000
Accrued interest	2,495	2,603
Accounts payable - affiliates	21,465	22,003
Other accrued liabilities	16,169	10,986
Total current liabilities	56,179	53,592
Other liabilities	117,644	115,200
Total liabilities and equity	<u>\$ 2,320,100</u>	<u>\$ 2,202,535</u>

The accompanying condensed notes are an integral part of these condensed financial statements.

Aqua America, Inc.  
Schedule 1 – Condensed Parent Company Financial Statements

Condensed Statements of Income and Comprehensive Income  
(In thousands, except per share amounts)  
Years ended December 31, 2015, 2014, and 2013

	2015	2014	2013
Other income	\$ 3,034	\$ 4,228	\$ 6,936
Operating expense and other expenses	1,440	627	2,941
Gain on sale of utility systems	-	-	(400)
Operating income	1,594	3,601	4,395
Interest expense, net	1,833	2,160	4,208
Other expense	-	443	139
Income (loss) before equity in earnings of subsidiaries and income taxes	(239)	998	48
Equity in earnings of subsidiaries	201,003	230,209	220,675
Income before income taxes	200,764	231,207	220,723
Provision for income taxes	(1,026)	(2,032)	(577)
Net income attributable to common shareholders	<u>\$ 201,790</u>	<u>\$ 233,239</u>	<u>\$ 221,300</u>
Comprehensive income	<u>\$ 201,689</u>	<u>\$ 233,681</u>	<u>\$ 221,531</u>
Net income per common share:			
Basic	\$ 1.14	\$ 1.32	\$ 1.26
Diluted	<u>\$ 1.14</u>	<u>\$ 1.31</u>	<u>\$ 1.25</u>
Average common shares outstanding during the period:			
Basic	176,788	176,864	176,140
Diluted	<u>177,517</u>	<u>177,763</u>	<u>176,814</u>

The accompanying condensed notes are an integral part of these condensed financial statements.

Aqua America, Inc.  
Schedule 1 – Condensed Parent Company Financial Statements

Condensed Statements of Cash Flows  
(In thousands of dollars)  
Years ended December 31, 2015, 2014, and 2013

	2015	2014	2013
Net cash flows from operating activities	\$ 152,916	\$ 114,465	\$ 159,144
Cash flows from investing activities:			
Acquisitions of utility systems and other, net	(26,722)	(9,329)	(266)
Decrease (increase) in investment of subsidiary	(27,596)	744	50,337
Other	(1,031)	(733)	(267)
Net cash flows (used in) from investing activities	(55,349)	(9,318)	49,804
Cash flows from financing activities:			
Proceeds from long-term debt	298,879	170,790	98,956
Repayments of long-term debt	(259,158)	(156,000)	(230,600)
Proceeds from issuing common stock	677	-	10,290
Proceeds from exercised stock options	7,540	7,296	25,698
Share-based compensation windfall tax benefits	1,843	1,422	2,420
Repurchase of common stock	(25,247)	(15,756)	(12,823)
Dividends paid on common stock	(121,248)	(112,106)	(102,889)
Other	(853)	(793)	-
Net cash flows used in financing activities	(97,567)	(105,147)	(208,948)
Net change in cash and cash equivalents	-	-	-
Cash and cash equivalents at beginning of year	-	-	-
Cash and cash equivalents at end of year	\$ -	\$ -	\$ -

See Note 1 - *Basis of Presentation*

The accompanying condensed notes are an integral part of these condensed financial statements.

Aqua America, Inc.

Notes to Condensed Parent Company Financial Statements  
(In thousands of dollars)

**Note 1 – Basis of Presentation** – The accompanying condensed financial statements of Aqua America, Inc. (the “Parent”) should be read in conjunction with the consolidated financial statements and notes thereto of Aqua America, Inc. and subsidiaries (collectively, the “Registrant”) incorporated by reference into Part II, Item 8 of the Form 10-K. The Parent’s significant accounting policies are consistent with those of the Registrant.

The Parent borrows from third parties and provides funds to its subsidiaries, in support of their operations. Amounts owed to the Parent for borrowings under this facility are reflected as inter-company receivables on the condensed balance sheets. The interest rate charged to the subsidiaries is sufficient to cover the Parent’s interest costs under its associated borrowings.

As of December 31, 2015 and 2014, the Parent had a current accounts receivable – affiliates balance of \$28,423 and \$19,852. As of December 31, 2015 and 2014, the Parent had a notes receivable – affiliates balance of \$331,604 and \$300,932. The changes in these balances represent non-cash adjustments that are recorded through the Parent’s investment in subsidiaries.

In the ordinary course of business, the Parent indemnifies a third-party for surety bonds issued on behalf of subsidiary companies, guarantees the performance of one of its regulated utilities in a jurisdiction that requires such guarantees, and guarantees several projects associated with the treatment of water in a jurisdiction.

**Note 2 – Dividends from subsidiaries** – Dividends in the amount of \$74,866, \$30,972, and \$18,075 were paid to the Parent by its wholly-owned subsidiaries during the years ended December 31, 2015, 2014, and 2013, respectively.

**Note 3 – Long-term debt** – the Parent has long-term debt under unsecured note purchase agreements with investors in addition to its \$200,000 revolving credit agreement. Excluding amounts due under the revolving credit agreement, the debt maturities of the Parent’s long-term debt are as follows:

Year	Debt Maturity
2016	\$ 16,050
2017	26,050
2018	20,800
2019	50,000
2020	28,200
Thereafter	235,300

The Parent had a short-term line of credit of \$15,000, which expired on December 31, 2015. Funds borrowed under this line are classified as loans payable and is used to provide working capital. The short-term borrowing activity for the last three years is as follows:

	2015	2014	2013
Balance outstanding at December 31,	\$ -	\$ -	\$ -
Interest rate at December 31,	-	-	-
Average borrowings outstanding	\$ -	\$ 583	\$ -
Weighted-average interest rate	-	0.78%	-
Maximum amount outstanding	\$ -	\$ 7,000	\$ -

## EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference to			
		Form	File No.	Exhibit(s)	Filing Date
2.1	Stock Purchase Agreement, dated as of July 26, 2011, by and between Aqua America, Inc. and Connecticut Water Service, Inc.	10-Q	001-06659	2.1	November 4, 2011
2.2	Stock Purchase Agreement, dated as of July 8, 2011, by and among American Water Works Company, Inc., Ohio-American Water Company and Aqua Ohio, Inc.	10-Q	001-06659	2.2	November 4, 2011
2.3	Stock Purchase Agreement, dated as of July 8, 2011, by and among Aqua Utilities, Inc., Aqua New York, Inc. and American Water Works Company, Inc.	10-Q	001-06659	2.3	May 8, 2014
2.4	Utility System Asset Acquisition Agreement as of December 28, 2012 by and among Florida Governmental Utility Authority, as buyer and Aqua Utilities Florida, Inc., and Crystal River Utilities, Inc., as sellers	10-K	001-06659	2.4	February 28, 2013
3.1	Amended and Restated Articles of Incorporation of Aqua America, Inc., dated as of May 10, 2012	8-K	001-06659	3.1	May 11, 2012
3.2	Amended and Restated Bylaws of Aqua America, Inc. (as amended effective as of May 10, 2012)	8-K	001-06659	3.2	May 11, 2012
4.1.1	Indenture of Mortgage dated as of January 1, 1941 between Aqua Pennsylvania, Inc. (f/k/a Philadelphia Suburban Water Company) and The Bank of New York Mellon Trust Company, as successor trustee to First Pennsylvania Bank, N.A. (f/k/a The Pennsylvania Company for Insurance on Lives and Granting Annuities)	^	^	^	^
4.1.2	Twenty-fourth Supplemental Indenture dated as of June 1, 1988	^	^	^	^
4.1.3	Twenty-sixth Supplemental Indenture dated as of November 1, 1991	^	^	^	^
4.1.4	Twenty-ninth Supplemental Indenture dated as of March 30, 1995	10-Q	001-06659	4.17	May 10, 1995
4.1.5	Thirty-third Supplemental Indenture, dated as of November 15, 1999	10-K	001-06659	4.27	March 29, 2000
4.1.6	Thirty-fifth Supplemental Indenture, dated as of January 1, 2002	10-K	001-06659	4.22	March 20, 2002
4.1.7	Forty-first Supplemental Indenture, dated as of January 1, 2007	10-Q	001-06659	4.1	May 8, 2007
4.1.8	Forty-second Supplemental Indenture, dated as of December 1, 2007	10-K	001-06659	4.36	February 27, 2008
4.1.9	Forty-third Supplemental Indenture, dated as of December 1, 2008	10-K	001-06659	4.37	February 27, 2009
4.1.10	Forty-fourth Supplemental Indenture, dated as of July 1, 2009	10-Q	001-06659	4.38	August 6, 2009
4.1.11	Forty-fifth Supplemental Indenture, dated as of October 15, 2009	10-K	001-06659	4.39	February 26, 2010
4.1.12	Forty-sixth Supplemental Indenture, dated as of October 15, 2010	10-K	001-06659	4.35	February 25, 2011
4.1.13	Forty-seventh Supplemental Indenture, dated as of October 15, 2012	10-K	001-06659	4.24	February 28, 2013
4.1.14	Forty-eighth Supplemental Indenture, dated as of October 1, 2013	10-K	001-06659	4.1.17	March 3, 2014
4.1.15	Form of Supplemental Indenture during and after 2014	^	^	^	^



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4.1.15.1	Schedule of Outstanding Supplemental Indentures during and after 2014	^	^	^	^
4.2	Note Purchase Agreement, dated July 31, 2003, by and among the Aqua America, Inc. and the note purchasers thereto	10-Q	001-06659	4.27	November 13, 2003
4.3	Bond Purchase Agreement, dated December 21, 2006, by and among the Chester County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC	10-Q	001-06659	10.2	May 8, 2007
4.4	Bond Purchase Agreement, dated December 12, 2007, by and among the Montgomery County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC	10-K	001-06659	10.34	February 27, 2008
4.5	Bond Purchase Agreement, dated December 4, 2008, by and among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC	10-K	001-06659	10.35	February 27, 2009
4.6	Bond Purchase Agreement, dated June 30, 2009, by and among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jeffries and Company, Inc., and Janney Montgomery Scott LLC	10-Q	001-06659	10.52	August 6, 2009
4.7	Bond Purchase Agreement, dated October 20, 2009, by and among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jeffries and Company, Inc., Janney Montgomery Scott LLC, and PNC Capital Markets LLC	10-K	001-06659	10.59	February 26, 2010
4.8	Bond Purchase Agreement, dated October 27, 2010, by and among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jeffries and Company, Inc., PNC Capital Markets LLC, and TD Securities (USA) LLC	10-K	001-06659	10.51	February 25, 2011
4.9	Bond Purchase Agreement, dated November 8, 2012, by and among Aqua Pennsylvania, Inc., Teachers Insurance and Annuity Association, John Hancock Life Insurance Company, John Hancock Life Insurance Company of New York, John Hancock Life & Health Insurance Company, The Lincoln National Life Insurance Company, Lincoln Life & Annuity Company of New York, New York Life Insurance Company, New York Life Insurance and Annuity Corporation, Minnesota Life Insurance Company, United Health Care Insurance Company, American Republic Insurance Company, Western Fraternal Life Association	10-K	001-06659	10.54	February 28, 2013

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4.10	Bond Purchase Agreement, dated October 24, 2013, by and among Aqua Pennsylvania, Inc., John Hancock Life Insurance Company (U.S.A), John Hancock Life Insurance Company of New York, John Hancock Life & Health Insurance Company, The Lincoln National Life Insurance Company, Thrivent Financial for Lutherans, United Insurance Company of America, Equitable Life & Casualty Insurance Company, Catholic United Financial, and Great Western Insurance Company	10-K	001-06659	10.45	March 3, 2014
4.11	Bond Purchase Agreement, dated December 29, 2014, by and among Aqua Pennsylvania, Inc., Thrivent Financial for Lutherans, State Farm Life Insurance Company, John Hancock Life Insurance Company (U.S.A), Phoenix Life Insurance Company, PHL Variable Insurance Company, United of Omaha Life Insurance Company, Mutual of Omaha Insurance Company, and Companion Life Insurance Company	10-K	001-06659	10.58	February 27, 2015
4.12	Bond Purchase Agreement, dated December 3, 2015 by and among Aqua Pennsylvania, Inc., Thrivent Financial for Lutherans, State Farm Life Insurance Company, John Hancock Life Insurance Company (U.S.A), The Lincoln National Life Insurance Company, Teachers Insurance And Annuity Association Of America, CMFG Life Insurance Company, Genworth Life Insurance Company, Phoenix Life Insurance Company, PHL Variable Insurance Company, United Of Omaha Life Insurance Company, The State Life Insurance Company, Pioneer Mutual Life Insurance Company, MONY Life Insurance Company	^	^	^	^
10.1	Revolving Credit Agreement, dated as of November 30, 2010, between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., and Citizens Bank of Pennsylvania	10-K	001-06659	4.34	February 25, 2011
10.1.1	First Amendment to Revolving Credit Agreement, dated as of November 28, 2011, between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., Citizens Bank of Pennsylvania, and Huntington National Bank	10-K	001-06659	4.25	February 27, 2012
10.1.2	Second Amendment to Revolving Credit Agreement, dated as of November 26, 2012, between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., Citizens Bank of Pennsylvania, and Huntington National Bank	10-K	001-06659	10.53	February 28, 2013

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10.1.3	Third Amendment to Revolving Credit Agreement, dated as of November 25, 2013, between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., Citizens Bank of Pennsylvania, and Huntington National Bank	10-K	001-06659	10.34	March 3, 2014
10.1.4	Fourth Amendment to Revolving Credit Agreement dated as of September 29, 2014, between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., Citizens Bank of Pennsylvania, and Huntington National Bank	10-K	001-06659	10.57	February 27, 2015
10.2	Revolving Credit Agreement, dated as of March 23, 2012, between Aqua America, Inc. and PNC Bank, National Association, CoBank, ACB, and Huntington National Bank	10-Q	001-06659	10.60	May 7, 2012
10.2.1	First Amendment to Revolving Credit Agreement, dated as of January 31, 2013, between Aqua America, Inc. and PNC Bank, National Association, CoBank, ACB, and Huntington National Bank	10-Q	001-06659	10.53	November 6, 2014
10.2.2	Second Amendment to Revolving Credit Agreement, dated as of August 20, 2014, between Aqua America, Inc. and PNC Bank, National Association, CoBank, ACB, and Huntington National Bank	10-Q	001-06659	10.54	November 6, 2014
10.3	Aqua America, Inc. Deferred Compensation Plan Master Trust Agreement with PNC Bank, National Association, dated as of December 31, 1996*	10-K	001-06659	10.24	March 25, 1997
10.3.1	Amendment 2008-1 to the Aqua America, Inc. Deferred Compensation Plan Master Trust Agreement, dated as of December 15, 2008*	10-K	001-06659	10.50	February 27, 2009
10.4	Aqua America, Inc. 2009 Executive Deferral Plan (as amended and restated effective January 1, 2009)*	S-8	333-156047	4.1	December 10, 2008
10.5	Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis (as amended and restated effective January 1, 2011)*	10-K	001-06659	10.59	February 27, 2012
10.6	Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (as amended and restated effective January 1, 2011)*	10-K	001-06659	10.58	February 27, 2012
10.7	Aqua America, Inc. Dividend Reinvestment and Direct Stock Purchase Plan*	S-3	333-197805	N/A	August 1, 2014
10.8	Aqua America, Inc. 2004 Equity Compensation Plan (as amended and restated as of January 1, 2009)*	10-K	001-06659	10.36	February 27, 2009
10.8.1	Form of Incentive Stock Option and Dividend Equivalent Grant Agreement*	10-K	001-06659	10.49	February 27, 2009
10.8.2	Form of Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements for executive officers *	^	^	^	^
10.9	Aqua America, Inc. 2009 Omnibus Equity Compensation Plan (as amended effective February 27, 2014) *	8-K	001-06659	10.1	May 12, 2014

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10.9.1	Form of Performance-Based Share Unit Grant for Chief Executive Officer*	^	^	^	^
10.9.2	Performance-Based Share Unit Grant Terms and Conditions for Chief Executive Officer*	10-Q	001-06659	10.51(B)	May 8, 2014
10.9.3	Form of Performance-Based Share Unit Grant for all other executive officers*	10-Q	001-06659	10.36	May 6, 2015
10.9.4	Performance-Based Share Unit Grant Terms and Conditions for all other executive officers*	10-Q	001-06659	10.37	May 6, 2015
10.9.5	Form of Restricted Stock Unit Grant for Chief Executive Officer*	^	^	^	^
10.9.6	Restricted Stock Unit Grant Terms and Conditions for Chief Executive Officer*	10-Q	001-06659	10.52(B)	May 8, 2014
10.9.7	Form of Restricted Stock Unit Grant for all other executive officers*	10-Q	001-06659	10.40	May 6, 2015
10.9.8	Restricted Stock Unit Grant Terms and Conditions for all other executive officers*	10-Q	001-06659	10.41	May 6, 2015
10.10	Aqua America, Inc. 2012 Employee Stock Purchase Plan*	^	^	^	^
10.11	Aqua America, Inc. and Subsidiaries Annual Cash Incentive Compensation Plan (adopted February 26, 2013)*	10-K	001-06659	10.56	February 28, 2013
10.12	Form of Change in Control Agreement between the Company and executive officers*	10-Q	001-06659	10.1	November 6, 2015
10.12.1	Schedule of Change in Control Agreement between the Company and executive officers*	^	^	^	^
10.13	Change in Control Agreement, dated December 31, 2008, between Aqua America, Inc. and Christopher H. Franklin*	10-K	001-06659	10.46	February 27, 2009
10.14	Change in Control and Severance Agreement, dated December 31, 2008, between Aqua America, Inc. and Nicholas DeBenedictis*	10-K	001-06659	10.42	February 27, 2009
10.15	Non-Employee Directors' Compensation for 2015*	10-K	001-06659	10.8	February 27, 2015
10.16	Non-Employee Directors' Compensation for 2016*	^	^	^	^
10.17	Employment Agreement, dated June 2, 2015, between Aqua America, Inc. and Christopher Franklin*	8-K	001-06659	10.1	June 3, 2015
10.18	Employment Agreement dated January 31, 2010, between Aqua America, Inc. and Nicholas DeBenedictis *	8-K	001-06659	10.1	February 4, 2010
10.18.1	Amendment to Employment Agreement dated December 6, 2011, between Aqua America, Inc. and Nicholas DeBenedictis*	10-K	001-06659	10.56	February 27, 2012
10.18.2	Amendment to Employment Agreement, dated June 30, 2015, between Aqua America, Inc. and Nicholas DeBenedictis*	8-K	001-06659	10.1	July 7, 2015
13.1	Selected portions of Annual Report to Shareholders for the year ended December 31, 2015 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 2015	^	^	^	^
21.1	Subsidiaries of Aqua America, Inc.	^	^	^	^
23.1	Consent of Independent Registered Public Accounting Firm – PricewaterhouseCoopers LLP	^	^	^	^

EXHIBIT INDEX

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	^	^	^	^

In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, copies of specific instruments defining the rights of holders of long-term debt of the Company or its subsidiaries are not filed herewith. Pursuant to this regulation, we hereby agree to furnish a copy of any such instrument to the SEC upon request.

\*Indicates management contract or compensatory plan or arrangement

^ Filed herewith

^^Furnished herewith

**INDENTURE OF MORTGAGE**

**DATED AS OF JANUARY 1, 1941**

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**PHILADELPHIA SUBURBAN WATER COMPANY**

**TO**

**THE PENNSYLVANIA COMPANY FOR INSURANCES  
ON LIVES AND GRANTING ANNUITIES, as Trustee**

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**FIRST MORTGAGE BONDS**

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TESTIMONIUM

EXECUTION

CERTIFICATE OF RESIDENCE

COMPANY'S ACKNOWLEDGMENT

TRUSTEE'S ACKNOWLEDGMENT



INDENTURE, dated as of the first day of January, 1941, but actually executed and delivered on the 19th day of February, 1941, made by and between PHILADELPHIA SUBURBAN WATER COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter sometimes called the "Company"), party of the first part, and THE PENNSYLVANIA COMPANY FOR INSURANCES ON LIVES AND GRANTING ANNUITIES, also a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter sometimes called the "Trustee"), party of the second part.

WHEREAS, the Company has power under the laws of the Commonwealth of Pennsylvania to borrow money and to issue its bonds and to mortgage its franchises and property as hereinafter provided, to secure the payment of the principal and interest of said bonds;

WHEREAS, the Company in order from time to time to provide funds for its general corporate purposes has by proper corporate action authorized the issue of its bonds and the execution and delivery of this indenture of mortgage and deed of trust of the property of the Company, now owned or hereafter acquired, as hereinafter set forth, to secure the same; said bonds to be issued from time to time in one or more series, the initial series to be designated "3¼% Series due 1971" (hereinafter sometimes referred to for convenience as "first series") without limitation as to the aggregate principal amount of bonds of any or all series that may be authenticated, issued and outstanding hereunder but subject to the restrictions and provisions contained in this Indenture with respect thereto;

WHEREAS, the coupon bonds of the 3¼% Series due 1971, the coupons appertaining thereto, the registered bonds without coupons of said Series and the Trustee's certificate upon said bonds are to be substantially in the forms following, respectively—the proper amount and numbers to be inserted therein, and such appropriate insertions, omissions and changes to be made therein as may be required or permitted by this Indenture to conform to any pertinent law or usage:

(Form of Coupon Bond of the 3¼% Series Due 1971)

No.

\$

PHILADELPHIA SUBURBAN WATER COMPANY

(Incorporated under the Laws of the Commonwealth of Pennsylvania)

First Mortgage Bond, 3¼% Series due 1971.

Philadelphia Suburban Water Company, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called "Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to bearer, or in case this bond be registered as to principal, then to the registered owner hereof, on the first day of January, 1971, at the office of The Pennsylvania Company for Insurances on Lives and Granting Annuities in the City of Philadelphia, Pennsylvania, the sum of one thousand dollars in such coin or currency of the United States of America, as at the time of payment is legal tender for the payment of public and

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private debts, and to pay interest thereon at said office from the first day of January, 1941, until the principal hereof shall become due and payable, at the rate of three and one-quarter per cent. (3¼%) per annum, payable semi-annually in like coin or currency on the first day of January and the first day of July in each year, upon presentation and surrender of the coupons hereto attached as they severally mature.

This bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by an Indenture of Mortgage (herein called the "Indenture") dated as of January 1, 1941, executed by the Company to The Pennsylvania Company for Insurances on Lives and Granting Annuities as Trustee (hereinafter called the "Trustee") to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect to such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and the interest on this bond as herein provided. As provided in the Indenture the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. The bonds of the 3¼% Series due 1971, of which this is one, are known as "Philadelphia Suburban Water Company First Mortgage Bonds, 3¼% Series due 1971" (hereinafter referred to as the "bonds of the 3¼% Series due 1971").

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

The bonds of the 3¼% Series due 1971 are entitled to the benefit of a Sinking or Improvement Fund as provided in the Indenture.

The bonds of the 3¼% Series due 1971 are subject to redemption, either at the option of the Company or pursuant to certain requirements of the Indenture, either as a whole, or in part from time to time, at any time prior to maturity, upon notice published in one daily newspaper printed in the English language and published and of general circulation in the City of Philadelphia, Pennsylvania, and in one such daily newspaper published and of general circulation in the Borough of Manhattan, The City of New York, New York, at least once in each of four successive calendar weeks (the first publication to be at least thirty (30) days before the redemption date), or, if all the bonds of such series which are to be redeemed are registered bonds without coupons or coupon bonds registered as to principal, upon notice mailed, by registered mail, to the registered owners thereof, as provided in the Indenture, at least thirty (30) days before the redemption date; all on the conditions and in the manner provided in the Indenture. If redeemed by the application of moneys in the Sinking or Improvement Fund provided for in Article VI of the Indenture, or by the application of moneys from the Maintenance or Improvement Deposit provided for in Article VII of the Indenture, or by the application of moneys received by the Trustee in connection with any release of property upon any acquisition thereof by any municipal corporation or other governmental body, agency or authority, or by the application of moneys received by the Trustee in connection with any release of property and required by any provision of the Indenture to be applied to the redemption of bonds, the bonds of the 3¼% Series due 1971 are redeemable in such coin or currency of the United States of America, as at the time of payment is legal tender for the payment of public and private debts, at the redemption price at the time applicable, as set forth in Column A of the following schedule, and if redeemed otherwise than by the application of such moneys, the bonds of the 3¼% Series due 1971 are redeemable in like coin or currency, at the redemption price at the time applicable as set forth in Column B of the following schedule, together with, in each case, interest accrued to the date fixed for redemption:

Period	Redemption Price	
	Column A (Percentage of Principal Amount)	Column B
January 2, 1941—December 31, 1942	105½	108½
January 1, 1943—December 31, 1943	105¾	108¾
January 1, 1944—December 31, 1944	105¼	108¼
January 1, 1945—December 31, 1945	105⅛	108⅛
January 1, 1946—December 31, 1946	105	108
January 1, 1947—December 31, 1947	104⅞	107⅞
January 1, 1948—December 31, 1948	104¾	107¾
January 1, 1949—December 31, 1949	104⅝	107⅝
January 1, 1950—December 31, 1950	104⅜	107⅜
January 1, 1951—December 31, 1951	104¼	106¼
January 1, 1952—December 31, 1952	104⅛	106⅛
January 1, 1953—December 31, 1953	103⅞	105⅞
January 1, 1954—December 31, 1954	103¾	105¾
January 1, 1955—December 31, 1955	103½	105½
January 1, 1956—December 31, 1956	103⅜	105⅜

January 1, 1957—December 31, 1957	103 $\frac{1}{8}$	105 $\frac{1}{8}$
January 1, 1958—December 31, 1958	103	105
January 1, 1959—December 31, 1959	102 $\frac{3}{4}$	104 $\frac{3}{4}$
January 1, 1960—December 31, 1960	102 $\frac{1}{2}$	104 $\frac{1}{2}$
January 1, 1961—December 31, 1961	102 $\frac{3}{8}$	103 $\frac{3}{8}$
January 1, 1962—December 31, 1962	102 $\frac{1}{8}$	103 $\frac{1}{8}$
January 1, 1963—December 31, 1963	101 $\frac{7}{8}$	102 $\frac{7}{8}$
January 1, 1964—December 31, 1964	101 $\frac{5}{8}$	102 $\frac{5}{8}$
January 1, 1965—December 31, 1965	101 $\frac{1}{2}$	102 $\frac{1}{2}$
January 1, 1966—December 31, 1966	101 $\frac{1}{8}$	102 $\frac{1}{8}$
January 1, 1967—December 31, 1967	100 $\frac{7}{8}$	101 $\frac{7}{8}$
January 1, 1968—December 31, 1968	100 $\frac{5}{8}$	101 $\frac{5}{8}$
January 1, 1969—December 31, 1969	100 $\frac{3}{8}$	101 $\frac{3}{8}$
January 1, 1970 and thereafter	100	100

If this bond is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

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

This bond, until registered, shall be transferable by delivery, but may at any time be registered as to principal on books to be kept for that purpose at the principal office of the Trustee in the City of Philadelphia, and such registry shall be noted hereon, and if so registered shall then be transferable upon said books at said office by the registered owner in person or by attorney duly authorized in writing, unless the last preceding registration shall have been to bearer in which case it shall again be transferable by delivery, and this bond shall continue to be subject to such successive registrations and transfers to bearer at the option of the holder or registered owner, but such registration shall not affect the negotiability of the annexed coupons, which shall always remain payable to bearer and transferable by delivery.

The holder or registered owner of any coupon bonds or bonds of the 3 $\frac{1}{4}$ % Series due 1971 may, at his option, surrender the same, with all unmatured coupons attached, at the principal office of the Trustee in the City of Philadelphia, Pennsylvania, in exchange for a registered bond or bonds without coupons of the 3 $\frac{1}{4}$ % Series due 1971, in authorized denominations of an equal aggregate principal amount; all upon payment of the charges and subject to the terms and conditions specified in the Indenture.

The Company and the Trustee may deem and treat the bearer of this bond, or if this bond be registered as to principal as herein authorized, the person in whose name this bond is registered, as the absolute owner hereof for the purpose of receiving payment of or on account of the principal hereof, and for all other purposes except to receive payment of interest represented by outstanding coupons, and shall not be affected by any notice to the contrary.

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

Neither this bond nor any coupon hereto attached shall be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until The Pennsylvania Company for Insurances on Lives and Granting Annuities, as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

In Witness Whereof, Philadelphia Suburban Water Company has caused this bond to be signed by its President or a Vice President, and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and interest coupons bearing the facsimile signature of its Treasurer to be attached hereto, and this bond to be dated as of January 1, 1941.

PHILADELPHIA SUBURBAN WATER COMPANY,  
By  
President.

Attest:  
Secretary.

(Form of Coupon for Bonds of 3¼% Series Due 1971)

No. \_\_\_\_\_ \$

On the first day of \_\_\_\_\_ 19\_\_ Philadelphia Suburban Water Company, a Pennsylvania corporation, will, unless the bond hereinafter mentioned shall have been called for previous redemption and payment thereof duly provided for, pay to the bearer at the office of The Pennsylvania Company for Insurances on Lives and Granting Annuities in the City of Philadelphia, Pennsylvania, upon surrender of this coupon \_\_\_\_\_ Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts, being six months' interest due on its First Mortgage Bond, 3% Series due 1971, No. \_\_\_\_\_.

PHILADELPHIA SUBURBAN WATER COMPANY,  
By  
Treasurer.

(Form of Registered Bond Without Coupons of the 3¼% Series Due 1971)

No.

\$

PHILADELPHIA SUBURBAN WATER COMPANY

(Incorporated under the Laws of the Commonwealth of Pennsylvania)

First Mortgage Bond, 3¼% Series Due 1971

Philadelphia Suburban Water Company, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called "Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to \_\_\_\_\_, or registered assigns, on the first day of January, 1971, at the office of The Pennsylvania Company for Insurances on Lives and Granting Annuities in the City of Philadelphia, Pennsylvania, the sum of \_\_\_\_\_ in such coin or currency of the United States of America, as at the time of payment is legal tender for the payment of public and private debts, and to pay interest thereon at said office to the registered owner hereof from the interest payment date next preceding the date of this bond (or if this bond be dated prior to July 1, 1941, from January 1, 1941) until the principal hereof shall become due and payable, at the rate of three and one-quarter per cent. (3¼%) per annum, payable semi-annually in like coin or currency on the first day of January and the first day of July in each year.

This bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by an Indenture of Mortgage (herein called the "Indenture") dated as of January 1, 1941, executed by the Company to The Pennsylvania Company for Insurances on Lives and Granting Annuities, as Trustee (hereinafter called the "Trustee") to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect to such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and the interest on this bond as herein provided. As provided in the Indenture the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. The bonds of the 3¼% Series due 1971, of which this is one, are known as "Philadelphia Suburban Water Company First Mortgage Bonds, 3¼% Series due 1971" (hereinafter referred to as the "bonds of the 3¼% Series due 1971").

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

The bonds of the 3¼% Series due 1971 are subject to redemption either at the option of the Company or pursuant to certain requirements of the Indenture, either as a whole, or in part from time to time, at any time prior to maturity, upon notice published in one daily newspaper printed in the English language and published and of general circulation in the City of Philadelphia, Pennsylvania, and in one such daily newspaper published and of general circulation in the Borough of Manhattan, The City of New York, New York, at least once in each of four successive calendar weeks (the first publication to be at least thirty (30) days before the redemption date), or, if all the bonds of such series which are to be redeemed are registered bonds without coupons or coupon bonds registered as to principal, upon notice mailed, by registered mail, to the registered owners thereof as provided in the Indenture, at least thirty (30) days before the redemption date; all on the conditions and in the manner provided in the Indenture. If redeemed by the application of moneys in the Sinking or Improvement Fund provided for in Article VI of the Indenture, or by the application of moneys from the Maintenance or Improvement Deposit provided for in Article VII of the Indenture, or by the application of moneys received by the Trustee in connection with any release of property upon any acquisition thereof by any municipal corporation or other governmental body, agency or authority, or by the application of moneys received by the Trustee in connection with any release of property and required by any provision of the Indenture to be applied to the redemption of bonds, the bonds of the 3¼% Series due 1971 are redeemable in such coin or currency of the United States of America, as at the time of payment is legal tender for the payment of public and private debts, at the redemption price at the time applicable, as set forth in Column A of the following schedule, and if redeemed otherwise than by the application of such moneys, the bonds of the 3¼% Series due 1971 are redeemable in like coin or currency, at the redemption price at the time applicable as set forth in Column B of the following schedule, together with, in each case, interest accrued to the date fixed for redemption:

Period	Redemption Price	
	Column A	Column B
	(Percentage of Principal Amount)	
January 2, 1941—December 31, 1942	105½	108½
January 1, 1943—December 31, 1943	105¾	108¾
January 1, 1944—December 31, 1944	105¼	108¼
January 1, 1945—December 31, 1945	105⅝	108⅝
January 1, 1946—December 31, 1946	105	108
January 1, 1947—December 31, 1947	104⅞	107⅞
January 1, 1948—December 31, 1948	104¾	107¾
January 1, 1949—December 31, 1949	104⅞	107⅞
January 1, 1950—December 31, 1950	104¾	107¾
January 1, 1951—December 31, 1951	104¼	106¼
January 1, 1952—December 31, 1952	104⅞	106⅞
January 1, 1953—December 31, 1953	103⅞	105⅞
January 1, 1954—December 31, 1954	103¾	105¾
January 1, 1955—December 31, 1955	103½	105½
January 1, 1956—December 31, 1956	103⅞	105⅞
January 1, 1957—December 31, 1957	103⅞	105⅞
January 1, 1958—December 31, 1958	103	105
January 1, 1959—December 31, 1959	102¾	104¾
January 1, 1960—December 31, 1960	102½	104½
January 1, 1961—December 31, 1961	102⅞	103⅞
January 1, 1962—December 31, 1962	102⅞	103⅞
January 1, 1963—December 31, 1963	101⅞	102⅞
January 1, 1964—December 31, 1964	101⅞	102⅞
January 1, 1965—December 31, 1965	101½	102½
January 1, 1966—December 31, 1966	101⅞	102⅞
January 1, 1967—December 31, 1967	100⅞	101⅞
January 1, 1968—December 31, 1968	100⅞	101⅞
January 1, 1969—December 31, 1969	100⅞	101⅞
January 1, 1970 and thereafter	100	100

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

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

This bond is transferable by the registered owner hereof in person or by attorney duly authorized in writing, on books of the Company to be kept for that purpose at the principal office of the Trustee in the City of Philadelphia, Pennsylvania, upon surrender hereof for cancellation at such office and upon presentation of a written instrument of transfer duly executed, and



thereupon the Company shall issue in the name of the transferee or transferees, and the Trustee shall authenticate and deliver, a new registered bond or bonds without coupons of the 3¼% Series due 1971, in authorized denominations, of equal aggregate principal amount. This bond upon surrender hereof at said office may be exchanged for an equal aggregate principal amount of registered bonds without coupons of the 3¼% Series due 1971, in authorized denominations, or of coupon bonds of the 3¼% Series due 1971, in the denomination of \$1000 each, bearing coupons representing interest from the last interest payment date, to which interest has been paid on this bond, or of both such registered bonds without coupons and coupon bonds. Any such transfer or exchange shall be subject to the terms and conditions and to the payment of the charges specified in the Indenture.

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

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

This bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until The Pennsylvania Company for Insurances on Lives and Granting Annuities, as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

In Witness Whereof, Philadelphia Suburban Water Company has caused this bond to be signed by its President or a Vice President, and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this bond to be dated \_\_\_\_\_.

PHILADELPHIA SUBURBAN WATER COMPANY,  
By

President.

Attest:

Secretary.

(Form of Trustee's Certificate)

This bond is one of the bonds, of the series designated therein, referred to in the within-mentioned Indenture.

THE PENNSYLVANIA COMPANY FOR INSURANCES  
ON LIVES AND GRANTING ANNUITIES, TRUSTEE,

By

Authorized Officer.

WHEREAS, the bonds of each series other than the first series shall be coupon bonds and registered bonds without coupons, and shall be designated, be dated, mature, bear such rate or rates of interest and contain and be issued upon such other terms and conditions permitted by or not inconsistent with the provisions of this Indenture, and shall be in substantially such form, as may from time to time be determined by the Board of Directors of the Company and set forth in substance in an indenture supplemental hereto;

WHEREAS, all acts and things necessary to make said bonds of the 3¼% Series due 1971 when executed by the Company and authenticated and delivered by the Trustee as in this Indenture provided and issued by the Company, valid, binding and legal obligations of the Company, and this Indenture a valid mortgage and deed of trust to secure the payment of said bonds and coupons, have been performed, and the execution of this Indenture has been in all respects duly authorized;

Now, Therefore, This Indenture Further Witnesseth: That Philadelphia Suburban Water Company, in order to secure the payment of the principal and interest of all bonds issued hereunder, according to their tenor and effect, and in consideration of the acceptance by the Trustee of the trusts hereby created, and the purchase and acceptance of the said bonds by the holders thereof, and of one dollar (\$1) in hand paid by the Trustee to the Company upon the execution and delivery of this Indenture, receipt whereof is hereby acknowledged, has granted, bargained, sold, conveyed, released, confirmed, pledged, assigned, transferred and set over and by these presents does grant, bargain, sell, convey, release, confirm, pledge, assign, transfer and set over unto The Pennsylvania Company for Insurances on Lives and Granting Annuities as Trustee, and to its successors in said trust and its and their assigns forever:

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

**I.**  
**REAL ESTATE AND WATER RIGHTS.**

NOTE: The specific descriptions of Real Estate and Water Rights on pages 20 through 252 of this Indenture as executed are omitted in this printing.

**II.**  
**BUILDINGS AND EQUIPMENT.**

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

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

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

**III.**  
**FRANCHISES AND RIGHTS OF WAY.**

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

**IV.**  
**FURTHER PROPERTY CONVEYED TO TRUSTEE.**

Any and all property which may from time to time after the date of this Indenture be delivered or which may by writing of any kind be conveyed, pledged, assigned or transferred to the Trustee by the Company or by any person or corporation to be held as part of the trust estate; and the Trustee is hereby authorized to receive any such property, and any such conveyance,

pledge, assignment or transfer, as and for additional security hereunder, and to hold and apply any and all such property subject to and in accordance with the terms of this Indenture.

**V.  
AFTER ACQUIRED PROPERTY.**

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

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

EXCEPTING AND RESERVING, HOWEVER, certain premises, not used or useful in the supplying of water by the Company, which are not conveyed or mortgaged by this Indenture and are not subject to the terms hereof, as follows:

NOTE: The specific descriptions of certain minor parcels of Real Estate expressly excepted from the lien of this Indenture on pages 254 through 259 of this Indenture as executed are omitted in this printing.

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

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

To HAVE AND TO HOLD, all and singular the property, rights, privileges and franchises hereby conveyed, transferred or pledged or intended so to be (said property rights and franchises being herein sometimes called the "trust estate" or "mortgaged property" or "mortgaged and pledged property" or "mortgaged premises"), unto the Trustee and its successors in the trust hereby created, and its and their assigns forever.

In Trust, Nevertheless, for the equal pro rata benefit and security of each and every the persons or corporations who may be or become the holders of the bonds and coupons secured by this Indenture and/or by any indenture supplemental hereto without preference, priority or distinction as to lien or otherwise of any bond or coupon over or from any other bond or coupon, so that each and every of said bonds and coupons issued or to be issued, of whatsoever series, shall have the same right, lien and privilege under this Indenture and all indentures supplemental hereto and shall be equally secured hereby and thereby, with the same effect as if said bonds and coupons had all been made, issued and negotiated simultaneously on the date hereof; subject, however, to the provisions with reference to extended, transferred or pledged coupons and claims for interest hereinafter contained and subject to any sinking or improvement fund provisions for the benefit of any particular series of bonds.

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

## **ARTICLE I.**

### **Definitions.**

**Section 1.** The terms specified in the next succeeding Sections of this Article shall for all purposes of this Indenture (unless the context otherwise requires) have the meanings specified in such Sections.

**Section 2.** The term “the Company” shall mean the party of the first part hereto, Philadelphia Suburban Water Company, and shall also include its successors and assigns. The term “the Trustee” shall mean the party of the second part hereto, The Pennsylvania Company for Insurances on Lives and Granting Annuities, and shall also include its successors in the trust.

**Section 3.** The terms “this Indenture” or “this mortgage” shall mean this indenture and all indentures supplemental hereto, unless otherwise indicated expressly or by the context. The term “the lien hereof” and “the lien of this Indenture” shall mean the lien created by this Indenture (including the after-acquired property clauses hereof) and the lien created by any subsequent conveyance or transfer to the Trustee hereunder (whether made by the Company or any other corporation or any individual or copartnership) effectively constituting any property a part of the security held by the Trustee upon the terms and trusts and subject to the conditions specified in this Indenture or in any indenture supplemental hereto.

**Section 4.** The term “Resolution” shall mean a resolution or copy thereof certified by the Secretary or an Assistant Secretary of the Company under its corporate seal to have been duly adopted by the Board of Directors of the Company. The term “Engineer” shall mean an individual or a copartnership or a corporation engaged in engineering work. The term “Engineer’s Certificate” shall mean a certificate signed and verified by an Engineer (who may be an employee of the Company, or an affiliated company, or an employee of an affiliated company) selected by the Company and not objected to by the Trustee and conforming to the requirements of Section 22 of this Article in addition to the other applicable requirements of this Indenture. The term “Independent Engineer’s Certificate” shall mean a certificate signed and verified by an Engineer (who shall not be an employee of the Company, or an affiliated company, or an employee of an affiliated company and who shall in fact be independent) appointed by the Company and selected or approved by the Trustee in the exercise of reasonable care, and conforming to the requirements of Section 22 of this Article in addition to other applicable requirements of this Indenture. The term “Independent Accountant’s Certificate” shall mean a certificate signed by an independent public accountant (who shall not be an employee of the Company, or an affiliated company, or an employee of an affiliated company) appointed by the Company and selected or approved by the Trustee in the exercise of reasonable care and conforming to the requirements of Section 22 of this Article in addition to other applicable requirements of this Indenture.

**Section 5.** The term “Officers’ Certificate” shall mean a certificate signed and verified by the President or a Vice President and by the Treasurer or an Assistant Treasurer of the Company and conforming to the requirements of Section 22 of this Article in addition to other applicable requirements of this Indenture.

**Section 6.** The term “Opinion of Counsel” shall mean an opinion in writing signed by legal counsel (who may be of counsel to the Company) appointed by the Company and approved by the Trustee in the exercise of reasonable care and conforming to the requirements of Section 22 of this Article in addition to other applicable requirements of this Indenture. Any Opinion of Counsel given as to title to property may be based, in whole or in part, upon any guaranty or title policy, certified abstract, certificate or opinion issued or rendered by any person, firm or corporation while engaged in the business of insuring or guaranteeing titles to property, or upon the opinion of their counsel; provided that in each such case such Opinion of Counsel

shall state that the signer believes the person, firm, corporation or their counsel issuing, rendering or giving such guaranty of title policy, certified abstract, certificate or opinion is reputable and one upon whom he may properly rely.

**Section 7.** The term “Permanent Additions” shall mean additional plants and property for the supply of water located in territory in the Commonwealth of Pennsylvania served by the Company directly, and which the Company shall at the time have corporate power to operate, and permanent improvements, extensions, betterments or additions to the property of the Company (including equipment and appliances) used or useful in the business of the Company as a water company in the Commonwealth of Pennsylvania, all of which shall have been acquired or constructed by the Company subsequent to December 31, 1940, and which shall be owned by the Company. Plants, properties, permanent improvements, extensions, betterments or additions in process of construction or erection in so far as actually constructed or erected and subject to the direct lien of this Indenture, shall be deemed “Permanent Additions.” The term “Permanent Additions” shall not include any shares of stock, bonds or other securities, any property not subject to the direct lien of this Indenture, or any property subject to any lien, other than Permitted Liens, prior to or on a parity with a lien hereof, or any property acquired or constructed by the Company not properly chargeable to capital account.

**Section 8.** The term “Available Permanent Additions” as of any particular date shall mean Permanent Additions which are in use at such time or intended for use at a future time in the conduct of the business of the Company as a water company exclusive of

(a) Permanent Additions which have been made the basis for the authentication and delivery of bonds under this Indenture; and

(b) Permanent Additions which have been made the basis for the release of property from the lien of this Indenture (other than property released, which property at the time of such release constituted Available Permanent Additions); and

(c) Permanent Additions which have been made the basis for the withdrawal of cash deposited under any provision of this Indenture or which have been acquired through the application of the proceeds of insurance moneys as provided in Section 8 of Article VIII hereof (other than cash constituting the proceeds, including insurance moneys, of property which at the time constituted Available Permanent Additions); and

(d) Permanent Additions which have been used as a credit against any Sinking or Improvement Fund payment of the Company provided for in Article VI hereof.

For all purposes of this Indenture all Permanent Additions which shall have been specified or described in any Engineer’s Certificate or Independent Engineer’s Certificate in connection with an application for the authentication and delivery of bonds, or for the withdrawal of cash, or for the release of property under any provision of this Indenture, or for the purpose of taking a credit against any Sinking or Improvement Fund payment (which application shall not have been withdrawn prior to being acted upon by the Trustee) shall be deemed to have been used as a basis for the authentication and delivery of bonds, or for the withdrawal of cash, or for the release of property, or used for the purpose of taking a credit against any Sinking or

Improvement Fund payment, as the case may be, unless it shall be specified in such Engineer's Certificate or Independent Engineer's Certificate that such Permanent Additions are to be used only in part for the purpose or purposes designated, specifying the part so to be used and the Cost or Fair Value (whichever shall be less) thereof, in which event only the part so specified shall be deemed to be excluded from the term Available Permanent Additions pursuant to the provisions of this Section.

**Section 9.** The term "Net Amount of Available Permanent Additions" as applied to any Available Permanent Additions described in any certificate delivered to the Trustee under any provision of this Indenture requiring the certification to the Trustee of Available Permanent Additions for the purpose of obtaining the authentication and delivery of bonds, or the withdrawal of cash, or a credit against any Sinking or Improvement Fund payment, shall mean the Cost or Fair Value (whichever shall be the less) of Available Permanent Additions described or included in such certificate, after deducting therefrom the sum of

(a) the aggregate amounts set forth in accordance with the requirements of subparagraph (xi) of paragraph (A) of Section 2 of Article VII hereof in all Officers' Certificates previously delivered to the Trustee pursuant to the provisions of said Section 2 of Article VII, and

(b) the amount by which the aggregate Cost of all property of the Company subject to the lien of this Indenture (other than property retired which at the time constituted Available Permanent Additions) which has been renewed, replaced, or abandoned subsequent to December 31, 1940, and charged on the books of the Company against any reserve for retirements or depreciation, exceeds the aggregate amount of the proceeds of the sale of any such property so retired which have been paid to the Trustee pursuant to the provisions of Article IX hereof;

provided, however, that any amount so deducted in any such certificate stating a Net Amount of Available Permanent Additions shall not be deducted in any succeeding such certificate.

**Section 10.** The term "Permitted Liens" shall mean and include (a) mortgage or other liens subject to which easements or rights-of-way may be possessed by the Company, if the indebtedness secured thereby has not been assumed by the Company and if the Company does not customarily pay interest charges on such indebtedness, (b) undetermined liens and charges incidental to construction, except such as may result from any delinquent obligation of the Company for the payment of money on account of such construction, (c) the lien of taxes, assessments or governmental charges not delinquent, (d) the lien of taxes, assessments or governmental charges due, or to become due, the validity of which is being contested at the time by the Company in good faith, and if necessary by appropriate legal proceedings, provided that the Company shall have made such provision as may be required by the Trustee for the payment of any amount or the giving of such security which shall be required to prevent the loss or forfeiture of any of the mortgaged and pledged property, and for the payment of the amount of any such taxes, assessments or governmental charges as shall ultimately be determined to be due and payable, (e) easements, restrictions, or minor defects of title, which (as stated in an Officers' Certificate delivered to the Trustee) do not materially affect the use of the property subject thereto in the conduct of the business of the Company as a water company, and do not materially



affect the security afforded by this Indenture for the bonds issued hereunder, and (f) Prepaid Liens.

The term “Prepaid Liens” shall mean and include any lien upon any of the mortgaged property prior to or on a parity with the lien of this Indenture, securing indebtedness, moneys for the payment, satisfaction or redemption of which have been deposited as provided in this paragraph. In case at any time there should be outstanding any indebtedness which is secured by a lien on any of the mortgaged property prior to or on a parity with the lien of this Indenture, the Company may deposit in trust with the Trustee, to be held, until used or applied as hereinafter provided, or in trust with such other banking institution and in such manner as shall be satisfactory to the Trustee, a sum of money sufficient either (i) to pay the principal of said indebtedness and the interest thereon to its maturity, or (ii) to effect the redemption of such indebtedness before maturity, if the same is subject to redemption, with interest to such redemption date. Upon any such deposit being made, said indebtedness shall, for all purposes of this Indenture except the application of said deposit as hereinafter provided in this paragraph, be deemed to have been paid and shall not be deemed to be outstanding; provided, that in case of deposit to effect a redemption a sufficient call for such redemption, or provision satisfactory to the Trustee for making such call, shall first be made. Any such money so deposited shall be applied by the depositor with whom it shall have been deposited from time to time to the payment of the principal and interest or to the redemption of such indebtedness, or be repaid to the Company proportionately as such indebtedness shall be paid or reduced or ascertained by judicial determination or otherwise to be in whole or in part invalid, upon the filing with the depositor of an Officers’ Certificate, as herein defined, to the effect that such Prepaid Lien has been paid or reduced or ascertained by judicial determination or otherwise to be in whole or in part invalid and specifying the amount of payment or reduction or the extent of the invalidity, as the case may be, accompanied by a concurring Opinion of Counsel.

**Section 11.** The term “Cost” with reference to “Permanent Additions” or renewed, replaced, or abandoned property shall mean actual cost, or if the actual cost can not be ascertained, the estimated cost thereof as shown by an Engineer’s Certificate or Independent Engineer’s Certificate, as the case may be. The term “Cost” with reference to “Permanent Additions” shall include all expenses regarded by approved accounting practice as incidental thereto and properly chargeable to capital account.

**Section 12.** The “Fair Value” of Permanent Additions specified or described in any Engineer’s Certificate or Independent Engineer’s Certificate delivered to the Trustee in connection with an application for the authentication and delivery of bonds, or for the withdrawal of cash or for the release of property, under any provision of this Indenture, or for the purpose of taking a credit against any Sinking or Improvement Fund payment, or against any Maintenance or Improvement Deposit, shall be determined in all cases as of a date not more than two months prior to the application therefor hereunder, unless the Cost or Fair Value of such property shall have been determined in any Engineer’s Certificate or Independent Engineer’s Certificate previously delivered to and accepted by the Trustee, in which event the Cost or Fair Value, whichever is less, of such property, as set forth in such certificate, shall be deemed to be the Fair Value thereof for all purposes of this Indenture.

**Section 13.** The term “Gross Operating Revenues” shall mean and include all revenues derived by the Company from the furnishing of water for public and private use, and shall not include revenues derived from any other sources.

**Section 14.** The term “Net Earnings Certificate” shall mean a certificate signed and verified by the President or a Vice President of the Company and by an accountant (who may be in the employ of the Company) selected by the Company and satisfactory to the Trustee conforming to the requirements of Section 22 of this Article in addition to other applicable requirements of this Indenture, stating the “Net Earnings” of the Company for a specified period, and specifying separately the principal subdivisions of the operating and non-operating revenues and expenses of the Company.

**Section 15.** The term “Net Earnings” shall mean the amount remaining after deducting from the gross revenues of the Company from all sources all expenses incurred in maintaining the corporate property in good and business-like working order and condition not properly chargeable to capital account, insurance, and taxes (except as hereinafter provided) and all other operating expenses and also expenses properly chargeable against non-operating revenues. Capital gains and losses shall be excluded. Operating expenses shall not include income, excess or other profit taxes, state taxes refunded to security holders, reserves for renewals or replacements, amortization of debt discount, interest charges, or payments to any sinking, improvement or other analogous fund. Not more than fifteen per centum (15%) of the “Net Earnings” of the Company ascertained as above shall in the aggregate be derived from non-operating revenues. If any of the property owned by the Company at the time of any application for the authentication and delivery of bonds shall have been so owned during only a part of, or shall have been so acquired after the close of any period for which “Net Earnings” are to be computed, the “Net Earnings” of such property (ascertained in the same manner as above provided) during the whole of such period to the extent that the same shall not have been so treated and might have been so treated if such property had been owned by the Company during the whole of such period shall be treated as part of the “Net Earnings of the Company” for such purpose.

**Section 16.** The words “bond,” “bondholder” and “holder” include the plural as well as the singular number and shall denote any bond or bonds issued and outstanding hereunder and the holder or holders and registered owner or owners thereof unless otherwise indicated expressly or by the context.

**Section 17.** A demand, request, notice, certificate, appointment, approval, consent, waiver, designation, direction, nomination or other similar act of the Company, under any of the provisions hereof, shall mean an instrument in writing signed by the President or by a Vice President of the Company under the corporate seal of the Company attested by its Secretary or an Assistant Secretary, and delivered to the Trustee, except as otherwise provided herein.

**Section 18.** An “Order” of “the Company” shall mean an instrument in writing, signed by the President or a Vice President, or the Treasurer or an Assistant Treasurer of the Company, and delivered to the Trustee.

**Section 19.** The term “authorized newspaper,” when used in connection with the name of a particular city shall mean a newspaper customarily published on at least six business days of each calendar week, printed in the English language and published and of general circulation in the city in connection with which the term is so used.

**Section 20.** The term “outstanding” used with reference to bonds issued under this Indenture shall mean as of any particular time all bonds which have been theretofore authenticated and delivered hereunder and which have not been cancelled or cremated by the Trustee or surrendered to the Trustee for cancellation or cremation, except coupon bonds which are held uncanceled by the Trustee for exchange for outstanding registered bonds without coupons, and except that in determining the bonds outstanding there shall not be included (a) bonds to the credit whereof sums have been placed as provided in Section 4 of Article XIX hereof, (b) bonds which have been called for redemption and to the credit whereof sums have been placed, as provided in Article V hereof, or (c) bonds in lieu of or in exchange and substitution for which any new bonds have been authenticated and delivered as provided in Section 11 of Article II of this Indenture.

**Section 21.** The term “outstanding” as used in this Indenture with reference to any indebtedness which is secured by any lien for the payment of money or its equivalent prior to or on a parity with the lien of this Indenture shall not include indebtedness or the evidence thereof then held alive in any sinking fund established for the retirement thereof or pledged as security for other indebtedness so secured for the redemption or payment of which funds have been deposited in trust, provided that in case any such indebtedness shall be pledged as aforesaid there shall be included as “outstanding” the indebtedness as security for which said indebtedness shall be so pledged.

**Section 22.** Each Engineer’s Certificate, Independent Engineer’s Certificate, Opinion of Counsel, Officer’s Certificate, Independent Accountant’s Certificate and Net Earnings Certificate and each other certificate and opinion delivered to the Trustee under any of the provisions of this Indenture for the purpose of furnishing to the Trustee evidence with respect to compliance with a condition (including a condition precedent) or a covenant provided for herein shall include:

(1) A statement by each person signing such certificate or opinion that he has read the pertinent condition or covenant of the Indenture pursuant to which, or to furnish evidence with respect to compliance with which, such certificate or opinion is so furnished, specifying such pertinent covenant or condition by appropriate reference to the Indenture;

(2) A statement that in the opinion of such person he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with and a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based or a statement to the effect that no examination or investigation was necessary as a basis for such statement or opinion;

(3) A statement as to whether or not in the opinion of such person such condition or covenant has been complied with.

Any such Engineer's Certificate, Independent Engineer's Certificate, Officers' Certificate, Independent Accountant's Certificate and Net Earnings Certificate may be based, insofar as it relates to legal matters, upon a certificate or opinion of counsel. Any such Net Earnings Certificate may be based upon the books and records of the Company and upon a certificate or opinion of an accountant or accountants or the Treasurer or an Assistant Treasurer, unless any person signing such certificate knows that the books and records of the Company or the certificate or opinion with respect to the matters upon which the certificate or opinion may be based as aforesaid are erroneous or, in the exercise of reasonable care, should have known that the same are erroneous. Any Opinion of Counsel may be based, insofar as it relates to factual matters, information with respect to which is in the possession of the Company, upon a certificate or opinion of an officer or officers of the Company, and, insofar as it relates to compliance by the Company with the net earnings requirement specified in Section 3 of Article IV of this Indenture, upon a certificate or opinion of an accountant or accountants or the Treasurer or an Assistant Treasurer of the Company, unless the signer of such opinion knows that the certificate or opinion with respect to the matters upon which the certificate or opinion may be based as aforesaid are erroneous or, in the exercise of reasonable care, should have known that the same are erroneous.

## ARTICLE II.

### Form, Execution, Registry and Exchange of Bonds.

**Section 1.** Bonds may be issued hereunder from time to time in one or more series without limitation as to the aggregate principal amount of any or all series (but subject to the restrictions and provisions contained in this Indenture and any supplemental indenture), and may be executed, authenticated and delivered originally either as coupon bonds or as registered bonds without coupons, or both, as the Board of Directors of the Company shall determine.

**Section 2.** The title of any and all bonds at any time issued hereunder shall include the words "First Mortgage Bonds."

**Section 3.** There shall be a first series of bonds, unlimited in aggregate principal amount, designated as "Philadelphia Suburban Water Company First Mortgage Bonds, 3¼% Series due 1971," sometimes herein referred to as the "bonds of the 3¼% Series due 1971."

The bonds of the 3¼% Series due 1971 shall be dated January 1, 1941, except as provided in Section 5 of this Article with respect to registered bonds without coupons, and shall mature January 1, 1971; and shall bear interest at the rate of three and one-quarter per cent. (3¼%) per annum payable semi-annually on the first day of January and the first day of July in each year.

The bonds of the 3¼% Series due 1971 shall be coupon bonds registerable as to principal, in the denomination of One Thousand Dollars (\$1,000) each, to be lettered "M," and numbered consecutively from 1 upwards, and also registered bonds without coupons in the denomination of

One Thousand Dollars (\$1,000) each and any multiple thereof, to be lettered “R,” and numbered consecutively from 1 upwards.

The principal of, and premium, if any, and the interest on the bonds of the 3¼% Series due 1971 shall be payable at the office of The Pennsylvania Company for Insurances on Lives and Granting Annuities in the City of Philadelphia, Pennsylvania, in such coin or currency of the United States of America, as at the time of payment is legal tender for the payment of public and private debts.

The bonds of the 3¼% Series due 1971 shall be entitled to the benefit of a Sinking or Improvement Fund as provided in Article VI hereof.

The bonds of the 3¼% Series due 1971 shall be redeemable, either at the option of the Company or pursuant to any provision of this Indenture requiring such redemption, either as a whole, or in part from time to time, at any time prior to maturity. If redeemed by the application of moneys in the Sinking or Improvement Fund provided for in Article VI of the Indenture, or by the application of moneys from the Maintenance or Improvement Deposit provided for in Article VII of the Indenture, or by the application of moneys received by the Trustee in connection with any release of property upon any acquisition thereof by any municipal corporation or other governmental body, agency or authority, or by the application of moneys received by the Trustee in connection with any release of property and required by any provision of the Indenture to be applied to the redemption of bonds, the bonds of the 3¼% Series due 1971 are redeemable in such coin or currency of the United States of America, as at the time of payment is legal tender for the payment of public and private debts, at the redemption price at the time applicable, as set forth in Column A of the following schedule, and if redeemed otherwise than by the application of such moneys, the bonds of the 3¼% Series due 1971 are redeemable in like coin or currency, at the redemption price at the time applicable as set forth in Column B of the following schedule, together with, in each case, interest accrued to the date fixed for redemption:

Period	Redemption Price	
	Column A (Percentage of Principal Amount)	Column B (Percentage of Principal Amount)
January 2, 1941—December 31, 1942	105½	108½
January 1, 1943—December 31, 1943	105¾	108¾
January 1, 1944—December 31, 1944	105¼	108¼
January 1, 1945—December 31, 1945	105⅝	108⅝
January 1, 1946—December 31, 1946	105	108
January 1, 1947—December 31, 1947	104⅞	107⅞
January 1, 1948—December 31, 1948	104¾	107¾
January 1, 1949—December 31, 1949	104⅝	107⅝
January 1, 1950—December 31, 1950	104⅜	107⅜
January 1, 1951—December 31, 1951	104¼	106¼
January 1, 1952—December 31, 1952	104⅝	106⅝
January 1, 1953—December 31, 1953	103⅞	105⅞
January 1, 1954—December 31, 1954	103¾	105¾
January 1, 1955—December 31, 1955	103½	105½

January 1, 1956—December 31, 1956	103 <sup>3</sup> / <sub>8</sub>	105 <sup>3</sup> / <sub>8</sub>
January 1, 1957—December 31, 1957	103 <sup>1</sup> / <sub>8</sub>	105 <sup>1</sup> / <sub>8</sub>
January 1, 1958—December 31, 1958	103	105
January 1, 1959—December 31, 1959	102 <sup>3</sup> / <sub>4</sub>	104 <sup>3</sup> / <sub>4</sub>
January 1, 1960—December 31, 1960	102 <sup>1</sup> / <sub>2</sub>	104 <sup>1</sup> / <sub>2</sub>
January 1, 1961—December 31, 1961	102 <sup>3</sup> / <sub>8</sub>	103 <sup>3</sup> / <sub>8</sub>
January 1, 1962—December 31, 1962	102 <sup>1</sup> / <sub>8</sub>	103 <sup>1</sup> / <sub>8</sub>
January 1, 1963—December 31, 1963	101 <sup>7</sup> / <sub>8</sub>	102 <sup>7</sup> / <sub>8</sub>
January 1, 1964—December 31, 1964	101 <sup>5</sup> / <sub>8</sub>	102 <sup>5</sup> / <sub>8</sub>
January 1, 1965—December 31, 1965	101 <sup>1</sup> / <sub>2</sub>	102 <sup>1</sup> / <sub>2</sub>
January 1, 1966—December 31, 1966	101 <sup>1</sup> / <sub>8</sub>	102 <sup>1</sup> / <sub>8</sub>
January 1, 1967—December 31, 1967	100 <sup>7</sup> / <sub>8</sub>	101 <sup>7</sup> / <sub>8</sub>
January 1, 1968—December 31, 1968	100 <sup>5</sup> / <sub>8</sub>	101 <sup>5</sup> / <sub>8</sub>
January 1, 1969—December 31, 1969	100 <sup>3</sup> / <sub>8</sub>	101 <sup>3</sup> / <sub>8</sub>
January 1, 1970 and thereafter	100	100

Any such redemption of the bonds of the 3<sup>1</sup>/<sub>4</sub>% Series due 1971 shall be effected in accordance with the provisions of Article V of this Indenture.

The holder or registered owners of any coupon bond or bonds of the 3<sup>1</sup>/<sub>4</sub>% Series due 1971 may, at his option, surrender the same, with all unmatured coupons attached, in exchange for a registered bond or bonds without coupons of the 3<sup>1</sup>/<sub>4</sub>% Series due 1971, of an equal aggregate principal amount.

The owner of any registered bond or bonds without coupons of the 3<sup>1</sup>/<sub>4</sub>% Series due 1971 may, at his option surrender the same in exchange for an equal aggregate principal amount of registered bonds without coupons of the 3<sup>1</sup>/<sub>4</sub>% Series due 1971, in authorized denominations, or of coupon bonds of the 3<sup>1</sup>/<sub>4</sub>% Series due 1971, in the denomination of \$1000 each, with all coupons attached maturing after the last interest payment date to which interest has been paid on the registered bond or bonds so surrendered, or of both such registered bonds without coupons and coupon bonds.

Every such exchange of bonds shall be effected in accordance with the applicable provisions of Sections 7, 8 and 9 of this Article.

The text of the coupon bonds of the 3<sup>1</sup>/<sub>4</sub>% Series due 1971 and the coupons appertaining thereto and of the registered bonds without coupons of said series and of the certificate of the Trustee upon such bonds shall be, respectively, substantially of the tenor and effect hereinbefore recited with respect thereto.

**Section 4.** The bonds and coupons of series other than the 3<sup>1</sup>/<sub>4</sub>% Series due 1971, and the Trustee's certificate thereon, shall be substantially in the forms hereinbefore recited, with such modifications, omissions, or additions permitted by or not inconsistent with the provisions of this Indenture as may be determined by Resolution and embodied in an indenture or indentures supplemental hereto. The bonds of each series shall be distinguished from the bonds of each other series in such manner as may be determined by such resolution. All bonds of the same

series shall be identical in tenor except as to the denominations thereof and except variations appropriate for registered bonds without coupons.

The bonds of each series other than the first shall be dated and mature on such dates; shall bear interest at such rate or rates, payable in such installments and on such dates; shall be payable as to principal, premium and interest at such place or places, and in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts; shall be of such denominations; shall have such tax free and tax refund provisions; sinking, improvement, amortization or other analogous fund requirements; redemption provisions; conversion privileges; provisions for exchange, registry and transfer; limitations upon the maximum amount issuable; and such other terms and provisions permitted by or not inconsistent with this Indenture as may be determined by Resolution and expressed in the bonds and in an indenture or indentures supplemental hereto.

The bonds and coupons of series other than the first may have inscribed thereon such descriptive words, numbers, marks of identification, designations, legends and endorsements as may be required to comply with the rules of any exchange or to conform to usage in respect thereof, or as consistently with the provisions hereof, may be determined by Resolution.

Before any bonds of any series other than the first, shall be authenticated and delivered by the Trustee under this Indenture, the Company and the Trustee shall execute and deliver and the Company shall cause to be recorded an indenture supplemental hereto, authorized by Resolution, creating or authorizing such series.

**Section 5.** All coupon bonds of any one series shall bear the same date. Except as provided in Section 11 of this Article, every registered bond without coupons shall be dated as of the date of its issue (except that if any such registered bond shall be issued on any interest payment date it shall be dated as of the day next following such interest payment date). Every registered bond without coupons shall bear interest from the interest payment date next preceding the date of such bond (or, if the date of such bond is prior to the first interest payment date for the bonds of such series, then from the date of the coupon bonds of such series); provided, however, that, upon any transfer or exchange of registered bonds without coupons, if the Company at the time shall be in default in the payment of interest on the registered bond or bonds surrendered on such transfer or exchange, the Trustee shall endorse upon any registered bond or bonds issued upon such transfer or exchange a legend to the effect that the same bear interest from a specified date, which date shall be the last interest payment date to which interest has been paid on the registered bond or bonds so surrendered.

**Section 6.** All bonds issued hereunder shall, from time to time, be executed on behalf of the Company by its President or a Vice President; and its corporate seal (which may be in facsimile if permitted by law) shall be thereunto affixed (or impressed or engraved, if in facsimile) and attested by its Secretary or an Assistant Secretary. The coupons shall bear the facsimile signature of the present or any future Treasurer of the Company. In case any of the officers who shall have signed any bonds or attested the seal thereon or whose facsimile signature appears on any coupon shall cease to be such officers of the Company before the bonds so signed and sealed shall have been actually authenticated and delivered by the Trustee and issued by the Company, such bonds nevertheless may be authenticated, delivered and issued with

the same force and effect as though the person or persons who signed such bonds and attested the seal thereon or whose facsimile signature appears on any coupon had not ceased to be such officer or officers of the Company. Before authenticating and delivering any coupon bonds the Trustee shall cut off, cancel and deliver to the Company all matured coupons thereto attached, except as otherwise provided in Section 11 of this Article.

**Section 7.** Whenever any coupon or registered bond or bonds of any series exchangeable by the terms thereof or of this Indenture or of an indenture supplemental hereto, together with all unmatured coupons thereto appertaining, shall be surrendered for exchange for a bond or bonds secured hereby (either coupon or registered) for which such surrendered bond or bonds shall be exchangeable as aforesaid, the Company shall execute, and the Trustee authenticate, and it or the Company shall deliver in exchange therefor a bond or bonds secured hereby (either coupon or registered) for the same aggregate principal amount in accordance with the request of the holder thereof.

Any registered bond and any coupon bond registered as to principal surrendered for exchange under the provisions of this paragraph, shall be accompanied by a written instrument of transfer in form approved by the Trustee, duly executed by the registered owner or his attorney duly authorized in writing.

No holder of any bond shall be entitled to require the exchange thereof for a bond or bonds secured hereby, except as expressly provided by the terms of the bonds to be so exchanged or by the terms of this Indenture, or of an indenture supplemental hereto. All bonds so surrendered for exchange and the coupons appertaining thereto shall be cancelled by the Trustee and delivered to the Company.

**Section 8.** The Company shall keep or cause to be kept at the principal office of the Trustee in the City of Philadelphia books for the registration and transfer of bonds of all series and books for the registration and transfer of bonds of series other than bonds of the 3¼% Series due 1971 at such office or offices, if any, in addition to the principal office of the Trustee as may be determined by Resolution and expressed in the bonds and in an indenture supplemental hereto. Upon presentation of any bond for registration or transfer at the office or one of the offices designated therefor, the Company shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred therein any bond entitled to be so registered or transferred.

Any coupon bond may be registered as to principal only on the said books of the Company at the proper office or offices, and such registry noted upon the bond, and after such registration no transfer shall be valid unless made on said books by the registered owner in person or by his attorney, duly authorized, and similarly noted on the bond. Upon presentation to the Company at the proper office or offices of any such bond registered as to principal, accompanied by a written instrument of transfer, in a form approved by the Trustee, duly executed by the registered owner in person or by his attorney duly authorized in writing, such bond shall be transferred upon such books. The registered owner of any such bond registered as to principal shall also have the right to cause the same to be registered as payable to bearer, in which case transferability by delivery shall be restored, but any such bond registered as payable to bearer may be registered again in the name of the holder with the same effect as the first



registration thereof. Successive registrations and transfers as aforesaid may be made from time to time as desired. Each registration of a coupon bond shall be noted thereon by one of the Company's agents. Registration of any of the coupon bonds as to principal shall not affect the negotiability of the coupons appertaining to such bonds, but every such coupon shall continue to pass by delivery and shall remain payable to bearer.

All registered bonds without coupons shall be registered on the books of the Company kept at the office or offices designated for the registration and transfer thereof. Whenever the registered owner of any registered bond without coupons shall surrender the same to the Company at an office designated for transfer thereof, together with a written instrument of transfer in form approved by the Trustee, duly executed by said registered owner in person or by his attorney duly authorized in writing, the Company shall execute and the Trustee shall authenticate, and the Trustee or the Company shall deliver in exchange therefor a new registered bond or bonds without coupons of the same series and of the same aggregate principal amount, and no transfer of a registered bond without coupons shall be valid unless made as above provided. All bonds so surrendered shall be cancelled by the Trustee and delivered to the Company.

**Section 9.** For any transfer or exchange of bonds whatsoever under any of the foregoing provisions of this Article, the Company at its option may require the payment to it of a sum sufficient to reimburse it for any stamp tax or other governmental charge, and in addition thereto of a further sum not exceeding Two Dollars (\$2.00) for each new bond, if any, issued upon such transfer or exchange. The Company shall not be required to make exchange or transfer of any bond under the provisions of this Article after the first notice of redemption of such bond, or to transfer or exchange registered bonds without coupons as provided in this Article for a period of ten (10) days next preceding any interest date, anything in such bond to the contrary notwithstanding.

**Section 10.** Until definitive bonds of any series shall be prepared, the Company may execute and upon the request of the Company, the Trustee shall authenticate and deliver in lieu of such definitive bonds and subject to the same provisions, limitations and conditions, one or more printed or typewritten temporary bonds of any denomination or denominations substantially of the tenor of the definitive bonds, with or without coupons, and with appropriate omissions, modifications or additions, as may be necessary. Pending the preparation of the definitive bonds, such temporary bonds may, at the option of the Company, be exchangeable for other temporary bonds of the same aggregate principal amount, whether of the same or different denominations. Temporary bonds surrendered for exchange shall be accompanied by all unmatured coupons appertaining thereto and if registered shall be accompanied by written instruments of transfer in form approved by the Trustee, duly executed by the registered owner in person or by his attorney duly authorized in writing.

The Company shall, without unnecessary delay and at its own expense, prepare, execute and deliver to the Trustee, and thereupon, upon the presentation and surrender of any such temporary bond or bonds, with all unmatured coupons, if any, appertaining thereto, the Trustee shall authenticate and deliver in exchange therefor, definitive bonds of the same series and maturity, for the same aggregate principal amount as, and in the authorized denominations indicated by, the holders or registered owners of the temporary bond or bonds so surrendered.

Until so exchanged, the temporary bonds shall be entitled to the lien and benefit of this Indenture, and interest, when and as payable, shall be paid, and such payment noted thereon, if such temporary bonds shall have been issued without coupons; if such temporary bonds shall have been issued with coupons, interest shall be paid on presentation and surrender of such coupons as they mature.

All temporary bonds so surrendered, whether in exchange for definitive bonds or for other temporary bonds, shall be cancelled and cremated by the Trustee.

**Section 11.** Upon receipt by the Company and the Trustee of evidence satisfactory to them of the loss, theft, destruction or mutilation of any bond outstanding hereunder, and upon receipt of indemnity satisfactory to them, and upon surrender and cancellation of such bond if mutilated, the Company may execute, and the Trustee may, upon request of the Company, authenticate and deliver a new bond of like tenor and series, and bearing the same coupons, if any, in lieu of such lost, destroyed or mutilated bond. The applicant for such substitute bond shall pay all expenses incident to the issue of a new bond and shall comply with such other reasonable regulations as the Company or the Trustee may prescribe.

**Section 12.** No bond shall be secured hereby or entitled to the benefit hereof, or shall be or become valid or obligatory for any purpose, unless there shall be endorsed thereon a certificate, substantially in such form, duly executed by the Trustee; and such certificate of the Trustee upon any bond shall be conclusive evidence and the only competent evidence that such bond has been duly issued hereunder and that the holder or registered owner thereof is entitled to the benefit of the trust and lien hereby created.

### **ARTICLE III.**

#### **Initial Authentication and Delivery of Bonds.**

**Section 1.** The initial issue of bonds under this Indenture shall be Fifteen million, nine hundred thousand dollars (\$15,900,000) principal amount of bonds of the 3¼% Series due 1971. At any time after the execution and delivery of this Indenture, and upon delivery to the Trustee of an Opinion of Counsel stating in substance that this Indenture has been recorded, registered and filed in such manner and in such places as may be required by law in order to establish, preserve and protect the lien hereof, said bonds of the 3¼% Series due 1971 may be executed by the Company and delivered to the Trustee, and the Trustee shall thereupon authenticate and deliver said bonds to or upon the written order of the President or any Vice President of the Company.

### **ARTICLE IV.**

#### **Authentication and Delivery of Additional Bonds.**

**Section 1.** This Indenture creates a continuing lien to secure the full and final payment of the principal of and any premium which may be due and payable on and the interest on all bonds which may, from time to time, be executed, authenticated and delivered hereunder. The aggregate principal amount of bonds which may be so executed, authenticated and delivered

hereunder is not limited except as herein specifically set forth and except that no bonds shall at any time be issued hereunder to an amount in excess of the amount permitted by law.

**Section 2.** (A) No bonds in addition to those provided for in Sections 3, 7, 8, 10 and 11 of Article II, in Article III, in Section 3 of Article XII, and in Section 8 of Article XV, shall be authenticated and delivered hereunder by the Trustee except in accordance with the provisions of Sections 3, 4 and 5 of this Article, nor shall any bonds (except bonds authenticated and delivered pursuant to the provisions of Sections 3, 7, 8, 10 and 11 of Article II, or the provisions of Section 3 of Article XII, or the provisions of Section 8 of Article XV) be authenticated and delivered hereunder at any time when the Trustee has knowledge that a default of the character specified in Article XI hereof has occurred and has not been rescinded and annulled as provided in said Article or has been otherwise cured or made good to the satisfaction of the Trustee.

(B) No bonds shall be authenticated and delivered by the Trustee under the provisions of Sections 3, 4 or 5 of this Article unless the Trustee shall have received prior to or at the time of the authentication and delivery thereof:

(1) A request dated not more than ninety (90) days preceding the date of the authentication and delivery of bonds then applied for, executed in the name of the Company by the President or a Vice President of the Company, stating the principal amount, denomination and form (whether coupon or registered) of the bonds requested to be authenticated and delivered, the series thereof, and the person or persons to whom or upon whose order such bonds are to be delivered;

(2) A Resolution authorizing such request;

(3) An Opinion of Counsel that no consent of any governmental authorities is requisite to the legal issue of the bonds, the authentication and delivery of which have been applied for, or that the issue of such bonds has been duly authorized by any and all governmental authorities, the consent of which is requisite to the legal issue of such bonds, specifying any officially authenticated certificates or other documents by which such consent is or may be evidenced; that all mortgage, registration and other like taxes in respect of the bonds applied for have been paid, or that provision for the payment thereof has been made, or that no such payment is required by law; that the amount of indebtedness or bonded indebtedness which may be incurred by the Company is not then limited by law or by any corporate action limiting the total authorized indebtedness or bonded indebtedness of the Company, or that the total amount of outstanding indebtedness or bonded indebtedness of the Company, as stated in the accompanying Certificate provided for in paragraph 4 of this subdivision (B), plus the aggregate principal amount of the bonds applied for in the accompanying application of the Company, does not exceed the amount of indebtedness or bonded indebtedness of the Company as then limited by law or by such corporate action; and that all corporate action necessary to be taken by the Company to permit the legal and valid issue and authentication and delivery of the bonds which have been applied for has been duly had and taken;

(4) An Officers' Certificate, as herein defined, stating the aggregate principal amount of all bonds at the time outstanding under this Indenture, and, unless the Opinion of Counsel provided for in paragraph 3 of this subdivision (B) shall state that the amount of indebtedness or bonded indebtedness which may be incurred by the Company is not then limited by law or by corporate action, also stating that the total amount of indebtedness or bonded indebtedness of the Company outstanding, including the aggregate principal amount of bonds issued and outstanding, as herein defined, under this Indenture plus the aggregate principal amount of bonds applied for in the accompanying application, does not exceed an amount which shall be specified in the Certificate;

(5) The officially authenticated certificates or other documents, if any, specified in the Opinion of Counsel provided for in paragraph 3 of this subdivision (B), including evidence satisfactory to the Trustee of the payment or provision for payment of any taxes therein referred to;

(6) If the bonds, the authentication and delivery of which are then applied for, are not a part of any series then existing, a Resolution or Resolutions and an indenture supplemental hereto, creating the series of which such bonds are a part.

**Section 3.** (A) Subject to the provisions of Section 2 of this Article bonds in addition to those provided for in any other Section hereof may from time to time be executed by the Company and delivered to the Trustee and shall be authenticated and delivered by the Trustee upon the basis of Available Permanent Additions, subject to the conditions, provisions and limitations set forth in this Section. The aggregate principal amount of bonds that may be authenticated and delivered from time to time under the provisions of this Section is limited to seventy per cent. (70%) of the Net Amount of Available Permanent Additions, made the basis of the authentication and delivery thereof certified or provided in subdivision (B) of this Section.

No bonds shall be authenticated and delivered under this Section unless the Net Earnings of the Company as shown by a Net Earnings Certificate for a period of twelve (12) consecutive calendar months within the fifteen (15) calendar months next preceding the application for authentication and delivery of bonds, shall have been not less than one and three-quarters (1 $\frac{3}{4}$ %) times the interest requirements for a period of one year upon (a) the bonds applied for, (b) all bonds outstanding, as herein defined, on the date of such application, and (c) all indebtedness outstanding on the date of such application which is secured by any lien for the payment of money or its equivalent prior to or on a parity with the lien of this indenture other than Permitted Liens, as herein defined.

(B) No application by the Company to the Trustee for the authentication and delivery of bonds under this Section shall be granted by the Trustee, until the Trustee shall have received:

(1) The documents provided for in Section 2 of this Article;

(2) An Engineer's Certificate, as herein defined, dated not more than thirty (30) days preceding the date of the authentication and delivery of bonds applied for in the accompanying application,

(a) Stating the amount, if any, of the unapplied balance of the Net Amount of Available Permanent Additions included in any Engineer's Certificate or Independent Engineer's Certificate theretofore delivered to the Trustee, and presently available to the Company for the purpose of obtaining the authentication and delivery of bonds; and

(b) Stating the amount, if any, of the unapplied balance of the Cost or Fair Value, whichever shall be the less, of Available Permanent Additions included in any Officers' Certificate previously delivered to the Trustee pursuant to the provisions of Section 2 of Article VII hereof (and as to which an Engineer's Certificate or Independent Engineer's Certificate has been delivered to the Trustee pursuant to the provisions of paragraph (B) of Section 2 of Article VII), and presently available to the Company for the purpose of obtaining the authentication and delivery of bonds;

(c) Specifying the Available Permanent Additions purchased, constructed or otherwise acquired by the Company subsequent to December 31, 1940, and between dates to be specified in the Certificate, which have not been included in any Engineer's Certificate or Independent Engineer's Certificate previously delivered to the Trustee, and which are proposed as a basis for the authentication and delivery of bonds then applied for, describing such Available Permanent Additions in such manner and detail as to show conformity thereof with the definition of Permanent Additions as set forth in Section 7 of Article I; and

(d) Stating that the signers, either personally or through one or more competent assistants, have examined the Available Permanent Additions specified pursuant to the provisions of the foregoing sub-paragraph (c); that the Available Permanent Additions so specified are Permanent Additions as defined in Section 7 of Article I and do not consist of Permanent Additions excluded from the definition of Available Permanent Additions under the provisions of Section 8 of Article I; and that such Available Permanent Additions are desirable for use and are in use or are intended for use in the conduct of the business of the Company as a water company; and

(e) Stating the Cost and the Fair Value of the Available Permanent Additions specified pursuant to the provisions of the foregoing sub-paragraph (c); and

(f) Stating (i) whether any of the Available Permanent Additions specified pursuant to the provisions of the foregoing sub-paragraph (c) consist of property which prior to the date of acquisition thereof by the Company was used or operated by a person or persons other than the Company in a business similar to that in which such property has been or is to be used or operated by the Company, and if any such Available Permanent Additions are stated to have been so used or operated; (ii) briefly describing such Available Permanent Additions; and (iii) stating the Fair Value thereof, and in case such Fair Value is equal to or

exceeds the greater of (a) Twenty-five thousand dollars (\$25,000) or (b) one per cent. (1%) of the aggregate principal amount of all bonds issued under this Indenture at the time outstanding, as stated in the accompanying Net Warnings Certificate provided for in paragraph 4 of this subdivision (f), then (iv) describing all other property, if any, which, prior to the acquisition thereof by the Company, was used or operated by a person or persons other than the Company in a business similar to that in which such property has been or is to be used or operated by the Company and which has been subjected to the lien of this Indenture since the commencement of the current calendar year, and as to which an Independent Engineer's Certificate has not previously been furnished to the Trustee; and

(g) Stating the amount of the deductions required to be made pursuant to the provisions of Section 9 of Article I in order to determine a Net Amount of Available Permanent Additions, and setting forth in reasonable detail the basis for such deductions; and

(h) Stating (i) the Cost or Fair Value, whichever is less, of the Available Permanent Additions specified pursuant to the foregoing subparagraph (e); (ii) the unapplied balance, if any, of the Net Amount of Available Permanent Additions shown under the foregoing sub-paragraph (a); (iii) the unapplied balance, if any, of the Cost or Fair Value of Available Permanent Additions shown under the foregoing sub-paragraph (b); (iv) the aggregate of the amounts stated under the foregoing clauses (i), (ii) and (iii) of this sub-paragraph (h); and (v) stating as the Net Amount of Available Permanent Additions the balance remaining after deducting from such aggregate the balance of the amount as stated in the foregoing sub-paragraph (g).

(3) In case the Fair Value of any Available Permanent Additions which have been used or operated by a person or persons other than the Company in a business similar to that in which such property has been or is to be used or operated by the Company, as stated in the accompanying Engineer's Certificate pursuant to the requirements of clause (iii) of subparagraph (f) of paragraph 2 of this subdivision (B), is equal to or exceeds the greater of (a) Twenty-five thousand dollars (\$25,000) or (b) one per cent. (1%) of the aggregate principal amount of all bonds issued under this Indenture at the time outstanding, as stated in the accompanying Net Earnings Certificate provided for in paragraph 4 of this subdivision (B), then an Independent Engineer's Certificate stating the Fair Value of such Available Permanent Additions and also the Fair Value of all other property described pursuant to clause (iv) of said subparagraph (f) in said Engineer's Certificate.

(4) A Net Earnings Certificate

(i) stating the Net Earnings of the Company for a period of twelve (12) consecutive calendar months within the fifteen (15) calendar months immediately preceding such application for the authentication and delivery of bonds;

(ii) stating separately the aggregate principal amount of the bonds and indebtedness mentioned in clauses (a), (b) and (c), of the second paragraph of subdivision (A) of this Section;

(iii) stating the interest requirements on such bonds and indebtedness for a period of one year; and

(iv) stating the aggregate principal amount of bonds authenticated and delivered under the provisions of Sections 4 and 5 of this Article since the commencement of the current calendar year exclusive of bonds in connection with the authentication and delivery of which no Net Earnings Certificate was required and bonds in connection with the authentication and delivery of which an Independent Accountant's Certificate was previously delivered to the Trustee.

In the event that, (1) the aggregate principal amount of (a), the bonds so stated to have been authenticated and delivered since the commencement of the current calendar year pursuant to the foregoing clause (iv) of this paragraph 4 and (b), the bonds applied for, is equal to or exceeds ten per cent. (10%) of the aggregate principal amount of all bonds issued under this Indenture at the time outstanding, as stated in the Net Earnings Certificate, and (2) the twelve months' period in respect of which the Net Earnings are computed in the Net Earnings Certificate is a period with respect to which an annual report is required to be filed by the Company pursuant to the provisions of Section 12 of Article VIII, then there shall also be delivered to the Trustee an Independent Accountant's Certificate confirming the facts stated in the Net Earnings Certificate.

(5) An Opinion of Counsel stating that in the opinion of the signer: (a) the Company has title to the Available Permanent Additions described in the accompanying Engineer's Certificate; (b) that all of the Available Permanent Additions of the Company so described are subject to the lien of this Indenture, and that none of such Available Permanent Additions is subject to any lien prior to or on a parity with the lien of this Indenture, except Permitted Liens, as herein defined; (c) that the Company has corporate authority and all necessary permission from governmental authorities to own and to operate the Available Permanent Additions so described; and (d) all conditions precedent to the authentication and delivery of the bonds applied for have been complied with.

(6) The instruments of conveyance, assignment and transfer, if any, specified in such Opinion of Counsel, or evidence satisfactory to the Trustee of the delivery and recording or filing thereof.

(7) An Officers' Certificate, as herein defined, stating that all conditions precedent to the authentication and delivery of its bonds applied for have been complied with.

**Section 4.** (A) The Company may from time to time execute and the Trustee shall authenticate and deliver, subject to the provisions of Section 2 of this Article, bonds hereby secured in addition to those provided for in any other Section hereof, in an aggregate principal amount not exceeding the aggregate principal amount of any bonds previously issued hereunder



which shall have been retired (not including bonds in exchange for or in lieu of or substitution for which other bonds shall have been authenticated and delivered, as provided in Sections 3, 7, 9, 10, and 11 of Article II, in Article III, in Section 3 of Article XII, and in Section 8 of Article XV, of this Indenture); provided that no bond shall be issued in respect of any such retired bond which shall have been (a) retired through the use of cash deposited with the Trustee pursuant to the provisions of Section 5 of this Article, or (b) retired through the use of cash or used in lieu of the deposit of cash or used as the basis for the withdrawal of cash under any provision of this Indenture (unless such cash shall be the proceeds, including insurance monies, of, or shall have been deposited by the Company to obtain the release of, property not owned by the Company on December 31, 1940, and not used subsequent to December 31, 1940, in such manner as to be excluded from the definition of Available Permanent Additions, pursuant to Section 8 of Article I hereof), or (c) retired through the operation of the provisions of (i) Article VI, relating to the Sinking or Improvement Fund for the benefit of the bonds of 3¼% Series due 1971 or (ii) Article VII relating to the Maintenance of Improvement Deposit for the benefit of the bonds of the 3¼% Series due 1971, or (iii) retired through the operation of any other sinking, purchase or analogous fund applicable to its retirement if the provisions establishing such fund prohibit such issuance.

No application by the Company to the Trustee for the authentication and delivery of bonds under this Section shall be granted by the Trustee unless the Trustee shall have received, in addition to the other documents required,

(1) a Officers' Certificate stating the aggregate principal amount of the bonds with respect to the retirement of which the bonds applied for in the accompanying application are to be authenticated and delivered; that such bonds do not include bonds retired as specified in the foregoing clauses (a), (b) or (c) of the first paragraph of this subdivision (A); and that all conditions precedent to the authentication and delivery of the bonds applied for have been complied with; and

(2) An Opinion of Counsel stating that in the opinion of the signer all conditions precedent to the authentication and delivery of the bonds applied for have been complied with.

(B) No bond shall be issued in respect of any retired bond more than two years prior to the regular maturing (by lapse of time and not by call for redemption) of such retired bond, unless the bond so issued bears no greater rate of interest than such retired bond, or, if the bond so issued bears a greater rate of interest than such retired bond, unless the Trustee shall have received a Net Earnings Certificate, as herein defined, showing that the Net Earnings, as herein defined, for a period of twelve consecutive calendar months within the fifteen calendar months immediately preceding delivery to the Trustee of the application for the authentication and delivery of bonds shall have been in the aggregate at least equal to one and three-quarters (1½) times the interest requirements for a period of one year upon (a) the bonds applied for and (b) all bonds outstanding, as herein defined, hereunder on the date of such application and (c) all indebtedness outstanding, as herein defined, on the date of such application, which is secured by any lien for the payment of money or its equivalent prior to or on a parity with the lien of this Indenture other than Permitted Liens, as herein defined, and also stating the aggregate principal amount of bonds authenticated and delivered under the provisions of Article III and Sections 3, 4



and 5 of this Article since the commencement of the current calendar year, exclusive of bonds in connection with the authentication and delivery of which no Net Earnings Certificate was required and bonds in connection with the authentication and delivery of which an Independent Accountant's Certificate was previously delivered to the Trustee.

In the event that (a) the aggregate principal amount of (i) such bonds so stated in said Net Earnings Certificate to have been authenticated and delivered since the commencement of the current calendar year and (ii) the bonds applied for, is equal to or exceeds ten per cent. (10%) of the aggregate principal amount of all bonds issued under this Indenture at the time outstanding, as stated in the accompanying Officers' Certificate required by the provisions of paragraph 4 of subdivision (B) of Section 2 of this Article, and (b) the twelve months' period in respect of which Net Earnings are computed in the Net Earnings Certificate is a period with respect to which an annual report is required to be filed by the Company pursuant to the provisions of Section 12 of Article VIII hereof, then there shall also be delivered to the Trustee an Independent Accountant's Certificate confirming the facts stated in the Net Earnings Certificate.

**Section 5.** (A) Subject to the provisions of Section 2 of this Article, the Trustee shall, from time to time, authenticate and deliver bonds upon deposit with the Trustee by the Company of cash equal to the principal amount of the bonds requested to be authenticated and delivered but only after the Trustee shall have received

(1) a Net Earnings Certificate, as herein defined, meeting the requirements of the second paragraph of subdivision (A) and paragraph 4 of subdivision (B) of Section 3 of this Article and, in a proper case, the Independent Accountant's Certificate required by said paragraph 4 of subdivision (B) of said Section 3;

(2) an Officers' Certificate that all conditions precedent to the authentication and delivery of the bonds applied for have been complied with; and

(3) an Opinion of Counsel stating that in his opinion of the signers all conditions precedent to the authentication and delivery of the bonds applied for have been complied with.

(B) All cash deposited with the Trustee with respect to which bonds have been authenticated and delivered under the provisions of subdivision (A) of this Section shall be held by the Trustee as a part of the mortgaged property but, whenever the Company shall become entitled to the authentication and delivery of a bond or bonds under any of the provisions of this Indenture other than those contained in subdivision (A) of this Section and, for the purposes of this Section, without regard to the Net Earnings, as herein defined, the Trustee, upon the application of the Company, evidenced by a Resolution, as herein defined, shall pay over to the Company or upon its order, in lieu of the bond or bonds to the delivery of which the Company may then be so entitled, a sum in cash equal to the aggregate principal amount of such bond or bonds; provided, however, that the certificates and other documents delivered to the Trustee for the purpose of withdrawing cash under this subdivision (B) may contain such variations, omissions and insertions from or in the certificates or other documents required to be delivered to the Trustee for the purpose of obtaining the authentication and delivery of bonds as may be appropriate in the light of the purpose for which they are used and in no case shall it be necessary

for the Company to deliver to the Trustee any Net Earnings Certificate or any of the documents provided for in subdivision (B) of Section 2 of this Article and the provisions of the second paragraph of subdivision (A) of Section 3 of this Article shall be inapplicable to the withdrawal of cash under this Section.

## **ARTICLE V.**

### **Redemption of Bonds.**

**Section 1.** Bonds of the first series are redeemable at the option of the Company as provided therein and in Section 3 of Article II, and in accordance with the provisions of this Article. Such of the bonds of other series issued hereunder as are, by their terms, redeemable before maturity, may, at the option of the Company, be redeemed at such times, in such amounts and at such prices as may be specified therein and in an indenture supplemental hereto, and in accordance with the provisions of this Article, except as the same may be modified by such supplemental indenture.

**Section 2.** Notice of the intention of the Company to redeem any or all of the bonds (including, in case a part only of the bonds of any particular series are to be redeemed, the numbers of such bonds) shall be given, by or on behalf of the Company, by publication in four successive calendar weeks, the first publication to be at least thirty (30) days and not more than forty-five (45) days prior to the date fixed for redemption, in one authorized newspaper in the City of Philadelphia and one authorized newspaper in the Borough of Manhattan, City of New York. A copy of such notice shall also be mailed by or on behalf of the Company, not less than thirty (30) days before the redemption date, addressed to the registered owners of any registered bonds which are to be redeemed, at their last addresses appearing upon the registry books; but such mailing shall not be a condition precedent to such redemption, and failure so to mail any notice or defect therein shall not affect the validity of the proceedings for the redemption of such bonds. If all the bonds of any series which are to be redeemed are registered bonds without coupons or coupon bonds registered as to principal, publication of such notice of redemption with respect to the bonds of such series shall be omitted, but in such event notice of redemption shall be mailed, by registered mail with return receipt requested, at least thirty (30) days prior to such redemption date, to the registered owners of the bonds of such series which are to be redeemed, at their addresses as hereinabove specified, and such mailing (but not the receipt thereof or the return of the receipt so requested) shall be a condition precedent to the redemption of the bonds of such series.

In case the Company shall have elected to redeem less than all of the outstanding bonds of any series, it shall in each such instance, at least fifteen (15) days before the first date upon which the notice of redemption hereinbefore mentioned is required to be given, notify the Trustee in writing of such election and of the aggregate principal amount of bonds of such series to be redeemed, and thereupon the Trustee shall draw by lot, in any manner deemed by it proper, the bonds to be redeemed, and shall notify the Company in writing of the numbers of the bonds so drawn in ample time to permit the notice of redemption to be given as herein provided.

In case any registered bond without coupons shall be redeemed in part only, such notice shall specify the principal amount thereof to be redeemed and shall state that, at the option of the

registered owner, such bond may be presented to the Trustee for notation thereon of the principal amount thereof to be redeemed, or upon surrender thereof for such partial redemption, a new bond or new bonds of the same series of an aggregate principal amount equal to the unredeemed portion of such registered bond shall be issued in lieu thereof at the expense of the Company.

**Section 3.** In the event that the Company shall give notice of its intention to redeem any of the bonds, the Company covenants that it will on or before the redemption date specified in such notice, deposit with the Trustee a sum of money sufficient to redeem the same. No such call for redemption shall be effective as against the holders of any bonds so called for redemption, or of any coupon appertaining thereto, unless before such redemption date moneys sufficient for the purpose of such redemption shall be so held on deposit by the Trustee.

**Section 4.** All moneys deposited by the Company with the Trustee under the provisions of this Article shall be held in trust for account of the holders of the bonds called for redemption, and shall be paid to them respectively, upon presentation and surrender of said bonds, with all unmatured coupons appertaining thereto; and after such redemption date if the moneys for the redemption of said bonds shall have been deposited as aforesaid such bonds shall cease to bear interest, and shall cease to be entitled to the lien of this Indenture and of all indentures supplemental hereto and the coupons for interest maturing subsequent to that date shall be void.

**Section 5.** All bonds redeemed under the provisions of this Article shall forthwith be cancelled, and the Trustee shall thereafter deliver the bonds, so cancelled, to or upon the order of the Company.

## ARTICLE VI.

### Sinking or Improvement Fund.

**Section 1.** The Company covenants that as and for a Sinking or Improvement Fund for the benefit and security of the bonds of the 3¼% Series due 1971 it will pay to the Trustee on or before the first day of March, 1942, and on or before the first day of March in each year thereafter to and including March 1, 1970, and on or before December 1, 1970, a sum in cash equal to ½ of 1% of the maximum principal amount of bonds of said Series at any one time outstanding under this Indenture, less, to the extent that the Company desires to take such credit, an amount equal to 70% of the Net Amount of Available Permanent Additions, upon delivering to the Trustee, on or before the date when any such annual payment may be due, an Officers' Certificate requesting credit as specified therein on account of a Net Amount of Available Permanent Additions, together with the documents specified in paragraphs 2, 3, 5, 6 and 7 of subdivision (B) of Section 3 of Article IV with such modifications, additions and omissions as may be appropriate to make such instruments applicable to the provisions of this Section.

**Section 2.** All cash remaining with the Trustee as part of the Sinking or Improvement Fund may be at any time upon the request of Company (a) applied by the Trustee to the purchase of bonds of the 3¼% Series due 1971 under the provisions of Section 2 of Article XI at the applicable redemption prices provided in Section 3 of Article II, or (b) withdrawn by the Company on the basis of Available Permanent Additions to the extent of 70% of the Net Amount of Available Permanent Additions as set forth in the Engineer's Certificate delivered to the

Trustee pursuant to the provisions of this Section. The Trustee shall pay to or upon the written order of the Company all or any part of such cash upon the receipt by the Trustee of a Resolution requesting such payment and the documents specified in paragraphs 2, 3, 5, 6 and 7 of subdivision B of Section 3 of Article IV, with such modifications, additions and omissions as may be appropriate to make such documents applicable to the provisions of this Section.

**Section 3.** Any sum remaining in said Sinking or Improvement Fund after the payment in full of the principal and interest of the bonds of the 3¼% Series due 1971, shall be returned to the Company.

## ARTICLE VII.

### Maintenance or Improvement Deposit.

**Section 1.** The Company covenants that it will deposit with the Trustee on or before March 1, 1942, and on or before March 1 in each year thereafter, as long as any of the bonds of the 3¼% Series due 1971 are outstanding, an amount in cash (hereinafter referred to as the "Maintenance or Improvement Deposit") equal to 9% of the Gross Operating Revenues of the Company during the preceding calendar year less, to the extent that the Company desires to take such credits, the following:

- (a) the amount actually expended for maintenance during such calendar year; and
- (b) the Cost or Fair Value, whichever is less, of Permanent Additions acquired during such calendar year which at the time of taking such credit constitute Available Permanent Additions; and
- (c) the unapplied balance or any part thereof, of the Cost or Fair Value, whichever is less, of Available Permanent Additions acquired by the Company during the five (5) calendar years preceding such calendar year and specified in the Officers' Certificates delivered to the Trustee pursuant to Section 2 of this Article, but only to the extent that the Permanent Additions with respect to which such Cost or Fair Value was determined shall at the time of taking such credit constitute Available Permanent Additions.

**Section 2.** The Company covenants that it will on or before March 1 in each year, beginning with the year 1942, as long as any of the bonds of the 3¼% Series due 1971 are outstanding, deliver to the Trustee the following:

- (A) An Officers' Certificate, which shall state:
  - (i) the amount of the Gross Operating Revenues for the preceding calendar year;
  - (ii) 9% of such Gross Operating Revenues;

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

(iv) The amount set forth in subparagraph (xii) of each Officers' Certificate delivered to the Trustee pursuant to the provisions of this Section during the preceding five (5) calendar years (specifying each such Officers' Certificate), after deducting from each such amount the aggregate of (a) the Cost or Fair Value, whichever is less, of all Permanent Additions represented by such amount which have ceased to be Available Permanent Additions; and (b) any part of such amount for which the Company has previously taken credit against any Maintenance or Improvement Deposit (specifying the Officers' Certificate in which such credit was taken); and (c) any part of such amount for which the Company then desires to take credit against the Maintenance or Improvement Deposit;

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

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

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

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

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

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

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

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

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

(B) In the event that the Officers' Certificate delivered to the Trustee pursuant to the provisions of paragraph (A) of this Section shall state, pursuant to the requirements of subparagraph (vi), the Cost or Fair Value of Available Permanent Additions acquired by the Company during the preceding calendar year, the documents specified in paragraphs 2, 3, 5, 6 and 7 of subdivision (f) of Section 3 of Article IV hereof, with such modifications, additions and omissions as may be appropriate in the light of the purpose for which they are used.

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

**Section 3.** All cash deposited with the Trustee as part of any Maintenance or Improvement Deposit provided for in Section 1 of this Article VII, may, at the option of the Company, be applied to the purchase of bonds of the 3¼% Series due 1971 under the provisions of Section 2 of Article X or to the redemption of bonds of the 3¼% Series due 1971 pursuant to the provisions of Section 3 of Article X at the applicable redemption prices provided in Section 3 of Article II, or may be withdrawn by the Company at any time to reimburse the Company for the cost of a Net Amount of Available Permanent Additions (excluding, however, from any such Available Permanent Additions all Permanent Additions included in any certificate delivered to the Trustee for the purpose of obtaining a credit against any Maintenance or Improvement Deposit provided for in Section 1 of this Article to the extent that such Permanent Additions have been used for any such credit). The Trustee shall pay to or upon the written order of the Company all or any part of such cash upon the receipt by the Trustee of

(a) a Resolution, as herein defined, requesting such payment; and

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

## **ARTICLE VIII.**

### **Particular Covenants of the Company.**

The Company hereby covenants as follows:

**Section 1.** That it will duly and punctually pay or cause to be paid the principal of, and any premium which may be due and payable on, and the interest on all the bonds outstanding hereunder, according to the terms thereof, and of the coupons thereto appertaining; and that it will not directly or indirectly extend or assent to the extension of the time for payment of any coupon or claim for interest on any bonds secured hereby, and will not directly or indirectly be a party to any arrangement therefor by purchasing or funding said coupons or claims for interest, or in any other manner.

**Section 2.** That it will maintain an office or agency in the City of Philadelphia, Pennsylvania, while any bonds are outstanding hereunder, where notices, presentations and demands to or upon it in respect of this Indenture or said bonds or the coupons appertaining thereto, may be given or made; that it will maintain an office or agency for the payment of the

principal of and interest on any bonds at the time outstanding in any place or places where such principal or interest shall be payable; that it will keep books for the registration and transfer of bonds at an office or agency in such place or places as are specified in said bonds, or in any indenture supplemental hereto with respect thereto, as the place or places where said bonds are registerable or transferable; that such books shall be open to inspection by the Trustee at all reasonable times; and that it will lodge from time to time with the Trustee notice of designation and of any change of any such office or agency. In the event that the Company shall at any time fail to designate and maintain an office or agency for any such purpose required to be maintained in the City of Philadelphia, Pennsylvania, the principal office of the Trustee shall be conclusively deemed to be the agency of the Company in said City for such purposes.

**Section 3.** Whenever requested by the Trustee, the Company will grant, convey, assign and set over unto the Trustee the estate, right, title and interest of the Company in and to any or all property real and personal (including corporate rights and franchises) intended to be subject to the lien of this Indenture, which in any way or manner it shall acquire, and the Company will do, execute, acknowledge and deliver all and every such further acts, deeds, transfers and assurances for the better assuring, conveying and confirming unto the Trustee all and singular the estates, property and franchises hereby conveyed or intended so to be as the Trustee shall reasonably require for better accomplishing the provisions and purposes of this Indenture and for securing the payment of the principal and interest of the bonds secured hereby.

That promptly after the acquisition by the Company hereafter of any parcel of real estate or other item of property of the character described in the granting clauses hereof as subject to the lien hereof and having a cost to the Company of Five thousand Dollars (\$5,000) or more, it will execute and deliver to the Trustee and cause to be recorded, registered or filed, in such manner and in such places as may be required by law in order fully to preserve and protect the security of the bondholders and all rights of the Trustee hereunder, a supplemental indenture appropriately describing and conveying to the Trustee such parcel of real estate or other item of property; and that if hereafter and prior to December 31, 1941, or any December 31 thereafter the Company shall have acquired properties of the character mortgaged or intended to be mortgaged hereby, not theretofore included in any such supplemental indenture and having an aggregate cost to the Company of Ten thousand Dollars (\$10,000) or more, it will promptly after such December 31 execute and deliver to the Trustee and cause to be so recorded, registered or filed a supplemental indenture appropriately describing and conveying to the Trustee such properties; provided, however that in lieu of executing and delivering any supplemental indenture pursuant to the provisions of this paragraph, the Company may deliver to the Trustee an Opinion of Counsel that no such supplemental indenture or conveyance is required in order to preserve and protect the security of the bondholders and all rights of the Trustee hereunder in respect of any such parcel of real estate or other properties.

Whenever any agreement of lease (under which the Company is lessee) at any time in force shall contain a provision to the effect that such lease shall not be assigned without the written consent of the lessor first had and obtained, the Company shall make diligent endeavor to obtain the lessor's consent to the assignment thereof to the Trustee in such manner that the Lessee's interest therein shall become subject to the lien of this Indenture.



**Section 4.** That it has good title to, and is lawfully seized and possessed of, the trust estate, free and clear of liens or encumbrances (except as set forth in the granting clauses hereof and except for Permitted Liens); that it has the right, power and authority to mortgage and pledge the trust estate as herein provided; and that it will warrant and defend unto the Trustee, for the benefit of the holders of the bonds, the trust estate, whether heretofore or hereafter acquired, and the lien and interest of the Trustee thereon and therein under this Indenture, against all claims and demands of any persons whomsoever, subject only, in so far as affected thereby, to the liens and encumbrances, if any, on after acquired property at the time of the acquisition thereof.

**Section 5.** That it will pay all taxes and assessments lawfully levied or assessed upon the mortgaged and pledged property, or upon any part thereof, or upon any income therefrom, or upon the interest of the Trustee in the mortgaged and pledged property, when the same shall become due, and will duly observe and conform to all valid requirements of any governmental authority relative to any of the mortgaged and pledged property, and all covenants, terms and conditions upon or under which any of the mortgaged and pledged property is held; that, except as herein otherwise provided, it will not suffer any lien to be hereafter created or to exist upon the mortgaged and pledged property whether now owned or hereafter acquired, or any part thereof, or the income therefrom, prior to or on a parity with the lien of this Indenture, except (a) Permitted liens, as herein defined, and (b) any other lien, existing immediately prior to the acquisition or created simultaneously with the acquisition, upon any property acquired by the Company subsequent to December 31, 1940; provided, however, that unless there shall be delivered to the Trustee, at the time of the acquisition of such property subject to such prior lien, an Opinion of Counsel stating that, in the opinion of the signer, the Company is not liable for the payment of the indebtedness secured by such prior lien, and is not obligated to pay the interest on such indebtedness, the indebtedness secured by such prior lien shall not exceed sixty-six and two thirds per cent. ( $66\frac{2}{3}\%$ ) of the Cost, as herein defined, or the Fair Value, as herein defined, whichever shall be less, of the property so acquired subject to such prior lien. The Company further covenants and agrees that within three (3) months after the accruing of any lawful claims or demands for labor, materials, supplies or other objects, which if unpaid might by law be given precedence over this Indenture as a lien or charge upon the mortgaged or pledged property, whether now owned or hereafter acquired, or income thereof, it will pay or cause to be discharged or make adequate provision to satisfy or discharge the same; provided, however, that nothing contained in this Indenture shall require the Company to observe or conform to any requirement of any governmental authority or to cause to be paid or discharged, or make provision for, any such lien or charge, as long as the validity thereof shall be contested in good faith and if necessary by appropriate legal proceedings and provided that such security for the payment of such lien or charge shall be given as the Trustee may require, and provided further, that nothing herein contained shall prohibit the Company from acquiring or holding property subject to easements, conditions or restrictions, not materially impairing its usefulness in the business of the Company; and that, save as aforesaid, or as otherwise herein expressly provided, it will not suffer any matter or thing whereby the lien hereof might or could be impaired.

**Section 6.** Whenever necessary to avoid or fill a vacancy in the office of Trustee, the Company will, in the manner provided in Section 20 of Article XIII hereof, appoint a Trustee.

**Section 7.** That it will at all times maintain and preserve the mortgaged property and every part thereof in thorough repair, working order and condition, and supplied with all



necessary machinery and equipment and that it will from time to time make all needful and proper repairs, renewals, replacements, substitutions and alterations, so that the efficiency of the mortgaged property and every part thereof shall at no time become or be impaired, and so that the business may at all times be conducted in a good and businesslike manner; and that subject to the provisions of Article XII, it will at all times maintain its corporate existence and right to carry on business and duly procure all renewals and extensions thereof, and, subject to the provisions hereof, will diligently maintain, preserve and renew or obtain all rights, powers, privileges and franchises now or hereafter necessary or desirable for the proper conduct of its business.

**Section 8.** That it will cause the property subject to the lien of this Indenture to be insured and kept insured in good and solvent companies against loss or damage by fire or other casualty to the extent that such property is usually insured by companies similarly situated and operating like properties, any loss (except as to property specifically excepted from the lien hereof and except as to any particular loss not exceeding \$10,000 in amount) to be made payable to the Trustee as its interest may appear; or that it will, in lieu of or supplementing such insurance in whole or in part, establish and maintain an adequate insurance reserve fund in an amount customary in the practice of other companies similarly situated and maintaining similar funds, to consist of deposited cash and investments to be specifically set apart and maintained out of the Company's earnings or surplus and to be invested, reinvested, held and applied only for making good losses by fire or other casualty to the extent that such losses are insured by means of such fund. Before such fund shall be deemed to be a substitute for an equivalent amount of insurance in good and solvent companies, the Company shall furnish to the Trustee an Engineer's Certificate stating that the fund so established is adequate and in an amount customary in the practice of other companies similarly situated and maintaining similar funds, for the amount of insurance for which the same is to be substituted. The amount chargeable against such insurance reserve fund upon the happening of any loss shall be paid over at once to the Trustee in cash.

In case of any loss covered by any policy of insurance, any appraisal or adjustment of such loss which may be agreed upon between the Company and any insuring company shall be accepted by the Trustee and the Trustee shall in no way be liable for the adjustment of such loss or for the collection of any insurance monies.

That it will furnish to the Trustee on or before March 1 in each year a statement of the President or a Vice President of the Company as to the amount and character of the insurance in force listing the companies issuing policies of insurance on the said property, setting forth the character and amount of each policy, and in case an insurance reserve fund has been established, setting forth the amount of insurance for which the same is substituted, and the amount of such fund with a detailed statement of the cash on deposit and investments held therein; and all resolutions authorizing the establishment and maintenance of such insurance reserve fund shall be furnished the Trustee. The Trustee shall be under no duty with reference to such statements other than to retain the same in its file for inspection only by bondholders or their duly authorized representatives.

That it will furnish upon request of the Trustee from time to time an "Engineer's Certificate" stating that he has examined the property of the Company of the character usually insured as aforesaid, and stating what, in his opinion, would be a usual amount of insurance

thereon, and whether any insurance reserve fund established as above permitted is adequate, and in an amount customary in the practice of other companies similarly situated and maintaining similar funds, for the amount of insurance for which the same is substituted. The Trustee shall be under no duty to demand any such certificate except upon the request in writing of the holders of at least twenty-five per cent. (25%) in principal amount of the outstanding bonds.

The Company further covenants and agrees that all insurance moneys received by the Company on account of any loss not exceeding Ten Thousand Dollars (\$10,000) in amount, and not required to be paid to the Trustee, shall be applied forthwith to the rebuilding, renewal or replacement of the property destroyed or damaged or for other Permanent Additions.

**Section 9.** That it will cause this Indenture and all indentures and instruments supplemental hereto to be kept recorded, registered and filed in such manner and to such extent as may be required or permitted by law and in such places as may be required by law in order fully to preserve and protect the security of the bondholders and all rights of the Trustee hereunder; and that it will furnish to the Trustee (a) promptly after the execution and delivery of this Indenture and of each indenture supplemental hereto, an Opinion of Counsel stating either that in the opinion of the signer this Indenture and all indentures supplemental hereto have been properly recorded, registered and filed so as to make effective the lien to be created thereby, and reciting the details of such action, or stating that in the opinion of the signer no such action is necessary to make such lien effective; and (b) on or before March 1 in each year after the execution and delivery of this Indenture, an Opinion of Counsel either stating that in the opinion of the signer such action has been taken with respect to the recording, registration, filing, re-recording, re-registration and re-filing of this Indenture and of each indenture supplemental hereto as is necessary to maintain the lien thereof, and reciting the details of such action or stating that in the opinion of the signer no such action is necessary to maintain such lien.

**Section 10.** That if it shall fail to perform any of the covenants contained in Sections 7, 8, and 9 of this Article, the Trustee may make advances to perform the same in its behalf, and all sums so advanced shall be at once repayable by the Company and shall bear interest at the legal rate of interest then in effect in the Commonwealth of Pennsylvania from the date of advance until paid, and shall have a lien upon the trust estate prior to the lien of the indebtedness evidenced by the bonds and coupons and claims for interest secured hereby; but no such advance shall relieve the Company of any default hereunder.

The Trustee shall not be required to make any such advances except upon the written request of holders of not less than twenty-five per cent. (25%) in principal amount of the bonds then outstanding hereunder, and upon being furnished with the necessary funds for that purpose.

**Section 11.** That it will furnish or cause to be furnished to the Trustee between August 15 and September 15 in each year, beginning with the year 1941, and between February 15 and March 15 in each year, beginning with the year 1942, and at such other times as the Trustee may request in writing, a statement in such form as the Trustee may reasonably require, containing all the information in the possession or control of the Company or any of its paying agents as to the names and addresses of the holders of bonds as of the date of the statement. Each such statement shall be dated as of a date not earlier than the tenth day next preceding the month during which said statement is furnished, and need not include information received after such date.

**Section 12.** That it will, within one hundred twenty (120) days after the end of each calendar year beginning with the year 1941, deliver to the Trustee an annual report, containing a balance sheet of the Company and each of its subsidiaries as at the end of such calendar year and a detailed statement of the earnings the expenses of the Company and each of its subsidiaries for and during the period of such calendar year, certified by an independent public accountant, a copy of the Company's report to the Pennsylvania Public Utility Commission for such calendar year, an Officers' Certificate showing compliance with the provisions of Section 5 of this Article, and an Officers' Certificate stating that the Company is not in default under any of the provisions of this Indenture, or if in default, specifying the nature thereof.

**Section 13.** That it will duly and punctually perform all the conditions and obligations on it imposed by the terms of any mortgage or trust indenture existing immediately prior to the time of acquisition, or created simultaneously with such acquisition, upon property acquired subsequent to December 31, 1940, and will duly and punctually pay the principal of and interest on all bonds or other obligations secured by any such mortgage or trust indenture within the period of grace, if any, specified therein, to such an extent as shall be necessary to keep the security afforded by this Indenture substantially unimpaired and that it will not permit any default under any such mortgage or trust indenture to occur and continue for the period of grace, if any, specified therein, if thereby the security afforded by this Indenture be materially impaired or endangered.

Upon the release, satisfaction, or discharge of any such prior mortgage or trust indenture, all moneys or obligations or other personal property then held by the trustee under such mortgage or trust indenture so released, satisfied or discharged, which shall have been derived from any insurance upon, or shall be the proceeds of the release of any property from the lien of this Indenture, and to which the Company is entitled, shall forthwith be delivered to the Trustee under this Indenture and shall be held and disposed of by the Trustee in the manner provided in Article X hereof with reference to moneys, obligations or other personal property received in consideration for property released under the provisions of Section 4 of Article IX hereof.

**Section 14.** That the tangible personal property described or referred to in the granting clauses hereof and hereby or hereafter conveyed or intended so to be, shall be real estate for all the purposes of this Indenture, and shall be held and taken to be fixtures and appurtenances of the mortgaged plants and systems and as a part thereof, and is to be used and sold therewith and not separate therefrom, except as herein otherwise provided.

**Section 15.** That in case it shall hereafter create any mortgage upon the property subject to the lien of this Indenture or any part thereof, such mortgage shall be expressly subject to the prior lien of this Indenture, with respect to the property then subject or thereafter to become subject to the lien of this Indenture, in accordance with the terms hereof, for the security of all bonds then issued or thereafter to be issued hereunder.

**Section 16.** That it will not issue, or permit to be issued, any bonds hereunder in any manner other than in accordance with the provisions of this Indenture.

**Section 17.** That it will in the calendar year ending December 31, 1941, and in each calendar year thereafter, as long as any of the bonds of the 3¼% Series due 1971 are outstanding,

expend for maintenance of its properties and credit to a reserve for depreciation or retirements, an amount or amounts aggregating not less than nine per cent. (9%) of the Gross Operating Revenues of the Company, as herein defined; provided, however, that nothing contained in this Section shall be deemed to require the Company to expend or reserve any amount for such purposes in violation of any applicable law, regulation or order of any governmental authority having jurisdiction in the premises.

**Section 18.** (A) That if a paying agent other than the Trustee shall be appointed, it will cause such paying agent to execute and deliver to the Trustee an instrument in which such paying agent shall agree with the Trustee, subject to the provisions of subdivision (C) of this Section, (1) that such paying agent shall hold in trust for the benefit of the bondholders or the Trustee all sums held by such paying agent for the payment of the principal of or interest or premium, if any, on bonds issued hereunder; and (2) that such paying agent shall give the Trustee notice of any default by the Company in the making of any such payment.

(B) That if the Company acts as its own paying agent, it will, on or before each due date of each installment of principal of, or interest or premium on, the bonds, set aside and segregate and hold in trust for the benefit of the bondholders or the Trustee a sum sufficient to pay such principal or interest or premium so becoming due on the bonds, and will notify the Trustee of such action, and of any failure to take such action.

(C) Anything in this Section to the contrary notwithstanding, the Company may at any time for the purpose of obtaining a release or satisfaction of this Indenture or for any other reason, pay or cause to be paid to the Trustee all sums held in trust as required by this Section, subject to the provisions and limitations in this Indenture contained.

(D) Anything in this Section to the contrary notwithstanding, the agreement to hold sums in trust as provided in this Section is subject to the provisions of Section 4 of Article XIX hereof.

## **ARTICLE IX.**

### **Possession, Use and Release of Mortgaged Property.**

**Section 1.** Unless an event of default of the character described in Section 1 of Article XI hereof has occurred, and has not been rescinded and annulled as therein provided, or otherwise cured or made good to the satisfaction of the Trustee, the Company shall be suffered and permitted to possess, use and enjoy the mortgaged property (except money and securities which are expressly required to be deposited with the Trustee) and to collect, receive, take, use and enjoy all income, revenues, tolls, rents, issues and profits therefrom, with unrestricted power, in the ordinary course of business, freely and without let or hindrance on the part of the Trustee or of the bondholders, to use and consume supplies, materials and stores, and, except as herein otherwise expressly provided to the contrary, to exercise any and all rights under contracts, accounts, notes receivable and choses in action embraced in the mortgaged property.

**Section 2.** Unless an event of default of the character described in Section 1 of Article XI hereof has occurred, and has not been rescinded and annulled as therein provided, or

otherwise cured or made good to the satisfaction of the Trustee, the Company may at any time and from time to time without the Trustee's release or consent or accountability to the Trustee for any consideration received,

(1) sell or dispose of, free from the lien of this indenture, (a) any machinery, apparatus, fixtures, appliances, tools, equipment, implements and moveable property which may have become worn or damaged or otherwise unsuitable for its purposes, provided that there be substituted therefor, subject to the lien and provisions of this Indenture, and free and clear of all prior liens other property at least equal in value to the property disposed of; and (b) any materials, supplies, stores, by-products and residual products and any merchandise, equipment and apparatus acquired for the purpose of resale, in the ordinary course of business:

(2) cancel, abandon, release, make changes or alterations in or substitutions of any and all rights of way, water rights, riparian rights, easements, leases or contracts, provided that such cancellation, abandonment, release, changes, alterations or substitutions are, in the opinion of the Board of Directors of the Company, in the interest of the Company and will not impair the security of the bonds outstanding hereunder and provided that any modified, altered or substituted rights of way, water rights, riparian rights, easements, leases or contracts shall forthwith become bound by and be subject to the lien and provisions of this Indenture to the same extent and in the same manner as those previously existing; and

(3) surrender or assent to or procure any substitution or modification, amendment, alteration or extension of any franchise, consent, ordinance, license, right, power or privilege, on such terms as the Board of Directors of the Company may deem advisable, provided that any such amended, altered, modified, extended or substituted franchise, consent, ordinance, license, right, power or privilege shall be subject to the lien and provisions of this Indenture, and free and clear of all prior liens except Permitted Liens.

**Section 3.** Unless an event of default of the character specified in Section 1 of Article XI has occurred and has not been rescinded and annulled as therein provided or otherwise cured or made good to the satisfaction of the Trustee, the Company may, in any calendar year, sell, exchange or otherwise dispose of any of its property (in addition to the property referred to in any other Section of this Article VIII) of an aggregate value not exceeding fifteen thousand dollars (\$15,000) at any time subject to the lien hereof, except cash or securities required by some other provision hereof, to be deposited with the Trustee hereunder and except franchises, licenses or permits, and the Trustee shall release the same from the lien hereof upon receipt by it of:

- (a) A written request for such release signed by the President or a Vice President;
- (b) An Engineer's Certificate stating

(1) the Fair Value of the property, the release of which is requested, and that such release is desirable in the conduct of the business of the Company;

(2) that the Company has sold or exchanged, or otherwise disposed of, or has contracted to sell or exchange or otherwise dispose of, the property so to be released for a consideration representing, in the opinion of the signers, its Fair Value, and stating the nature of such consideration;

(3) that the Fair Value of the property so to be released, together with the Fair Value of all property theretofore released by the Trustee pursuant to the provisions of this Section during the calendar year in which the request for such release is made, does not exceed fifteen thousand dollars (\$15,000);

(4) the aggregate principal amount of all bonds outstanding hereunder at the time of such request; and

(5) that, to the best of the knowledge and belief of the signers, no default exists on the part of the Company in the performance of any of the terms or covenants of this Indenture:

provided, however, that if the Fair Value of the property, the release of which is so requested pursuant to the provisions of this Section, shall be equal to or greater than one per cent. (1%) of the aggregate principal amount of bonds outstanding hereunder at the date of the request for such release, the Trustee shall release such property only upon compliance with the provisions of Section 4.

Any money or other consideration received by the Company as consideration for the property, the release of which is requested, shall be delivered to the Trustee pursuant to the provisions of this Article.

**Section 4.** Unless an event of default of the character specified in Section 1 of Article XI of this Indenture has occurred and has not been rescinded and annulled as therein provided or otherwise cured or made good to the satisfaction of the Trustee, the Company may sell, exchange or otherwise dispose of any other of the mortgaged and pledged property, and the Trustee shall release the same from the lien hereof upon the application and delivery to the Trustee of:

(1) A Resolution, as herein defined, requesting such release;

(2) An Engineer's Certificate, as herein defined, made and dated not more than ninety (90) days prior to the delivery to the Trustee of the application for such release:

(a) Stating that, in the opinion of the signers, such release is desirable in the conduct of the business of the Company, and that the security hereby afforded, taking into consideration the amount of cash, if any, required to be deposited with the Trustee as hereinafter in this Section provided, will not be impaired by such release;

(b) Containing a brief description of the property or securities, the release of which is requested, and stating (i) the Fair Value thereof determined as of the date of the Certificate; and (ii) the Fair Value of all other property released

since the commencement of the current calendar year as set forth in certificates previously delivered to the Trustee; (iii) the aggregate of the amounts stated pursuant to clauses (i) and (ii) above; and (iv) the aggregate principal amount of bonds issued under this Indenture outstanding at the date of the certificate;

(c) Stating that the Company has sold or exchanged, or contracted to sell or exchange, the property so to be released, for a consideration described in reasonable detail in the certificate, which consideration, in case all or substantially all of the property of the Company at the time subject to the lien of this Indenture as a first mortgage lien thereon is to be released, shall consist solely of cash, but in any other case may consist, in whole or in part, of one or more of the following: (i) cash, (ii) obligations secured by purchase money first mortgage upon the property so to be released not exceeding in principal amount Sixty-six and two-thirds per cent. ( $66\frac{2}{3}\%$ ) of the Fair Value, as stated in the certificate, of such property, and (iii) any other property, provided that if the property to be released is of a character which would be included in the definition of Permanent Additions contained in Section 7 of Article I of this Indenture (without the restriction as to date of acquisition, construction or erection), then such property to be received in exchange therefor shall consist of Permanent Additions, as herein defined; and provided further that, in no case shall the consideration for property released consist of obligations secured by purchase money mortgage on such property if the aggregate principal amount of such obligations, together with unpaid balances of all other obligations secured by purchase money mortgage received in connection with previous releases of property and remaining in the possession of the Trustee, is equal to or exceeds five per cent. (5%) of the aggregate principal amount of all bonds issued under this Indenture at the time outstanding, as stated in the certificate;

(d) Stating (i) the Fair Value of obligations secured by purchase money mortgage, if any, constituting any part of the consideration received or to be received for the property released, determined as of the date of the certificate, and (ii) the aggregate Fair Value of all such obligations made the basis for the release of property subject to the lien of this Indenture since the commencement of the current calendar year as set forth in certificates previously delivered to the Trustee, and (iii) the aggregate of the amounts stated pursuant to clauses (i) and (ii) above;

(e) Stating the Fair Value, determined as of the date of the certificate, of the property, if any, (other than obligations secured by purchase money mortgage on the property released) constituting any part of the consideration received or to be received for the property, the release of which is requested, and whether any of such property consists of property which prior to the date of acquisition thereof by the Company was used or operated by any person or persons other than the Company and, if any such property is stated to have been so used or operated, (i) briefly describing such property and (ii) stating the Fair Value of such property, determined as of the date of the certificate;



(3) In case the aggregate Fair Value of property as stated in the Engineer's Certificate pursuant to the requirements of clause (iii) of subparagraph (b) of paragraph 2 of this Section is equal to or exceeds ten per cent. (10%) of the aggregate principal amount of all bonds issued under this Indenture at the time outstanding, as stated in the Engineer's Certificate, then an Independent Engineer's Certificate stating the Fair Value of the property and securities the release of which is requested, determined as of a date not more than ninety (90) days prior to the delivery to the Trustee of the application for such release; provided that such Independent Engineer's Certificate shall not be required if the Fair Value of the property, the release of which is requested, as stated in the Engineer's Certificate pursuant to the requirements of clause (i) of subparagraph (b) of paragraph 2 of this Section, is less than the greater of (i) \$25,000 or (ii) one per cent. (1%) of such aggregate principal amount of bonds.

(4) In case the Fair Value of any property constituting any part of the consideration received or to be received for property released which prior to its acquisition was used or operated by a person or persons other than the Company, as stated in the Engineer's Certificate pursuant to the requirements of clause (ii) of subparagraph (e) of paragraph 2 of this Section, is equal to or exceeds the greater of (i) \$25,000 or (ii) one per cent. (1%) of the aggregate principal amount of bonds issued under this Indenture at the time outstanding, as stated in the Engineer's Certificate, then an Independent Engineer's Certificate stating the Fair Value of such property, determined as of a date not more than ninety (90) days prior to the delivery to the Trustee of the application for such release;

(5) Any money or obligations or other personal property capable of manual delivery not otherwise subjected to the lien of this Indenture stated in the Engineer's Certificate provided for in Paragraph 2 of this Section, to be the consideration for the property, the release of which is requested; provided that in case such money or obligations or other personal property are received in consideration of released property, which property has been purchased, constructed, or otherwise acquired by the Company subsequent to December 31, 1940, and does not consist of Permanent Additions and which property is released from the lien of any mortgage or trust indenture prior to the lien hereof, then such money, obligations or other personal property may be delivered to or deposited with the Trustee of such prior mortgage or trust indenture;

(6) An Opinion of Counsel, as herein defined, to the effect that (a) any obligations included in the consideration for the property, the release of which is requested are, in his or their opinion, valid obligations, (b) that any purchase money mortgage securing the same is a first lien upon the property to be released subject only to Permitted Liens, (c) that such purchase money mortgage does not by its terms provide for or permit to be issued thereunder or secured thereby any obligations other than the obligations included in the consideration for such release, (d) stating also, in case the Trustee is requested to release any franchise, that such release will not impair the right of the Company to operate any of its remaining properties and (e) that all conditions precedent to the release of such property have been complied with.



(7) In case the property, the release of which is requested is of a character which would be included in the definition of Permanent Additions contained in Section 7 of Article I of this Indenture (without the restriction as to date of acquisition, construction or erection) and the consideration for such property to be released consists of Permanent Additions, the Engineer's Certificate required by paragraph 2 of this Section shall also (a) describe such Permanent Additions in such manner and detail so as to show conformity thereof with the definition of Permanent Additions set forth in Section 7 of Article I of this Indenture and (b) state that the signers either personally or through one or more competent assistants have examined the Permanent Additions so described, that such Permanent Additions are, or, upon the vesting of title thereto in the Company, will be, Permanent Additions as defined herein and that they are desirable for use and are in use or are intended for use in the conduct of the business of the Company as a water company; and there shall also be delivered to the Trustee documents conforming to the requirements of paragraphs 5 and 6 of subdivision (B) of Section 3 of Article IV of this Indenture, with such variations or omissions from or insertions in the Opinion of Counsel required by paragraph 5 of said subdivision (B) of Section 3 of said Article IV, as may be appropriate in the light of the purpose for which it is used, and

(8) An Officers' Certificate stating that all conditions precedent to the release of such property have been complied with.

In the event that the Fair Value of the property including obligations secured by purchase money mortgage, the release of which is requested, shall exceed the amount of cash plus the Fair Value of other property including obligations secured by purchase money mortgage, received as consideration therefor as shown by the certificates hereinabove in this Section provided for, the difference shall be deposited with the Trustee in cash and held or disposed of by the Trustee in the same manner as other moneys or cash received by the Trustee in connection with the release of property under the provisions of this Section.

**Section 5.** Any new property acquired by exchange or purchase to take the place of any property released or otherwise disposed of under any provision of this Article shall forthwith and without further conveyance become subject to the lien of and be covered by this Indenture as a part of the mortgaged property; but the Company covenants that if so requested by the Trustee it will convey the same, or cause the same to be conveyed, to the Trustee by appropriate instruments of conveyance upon the trusts and for the purposes of this Indenture.

**Section 6.** In the event that any governmental body or governmental agency shall at any time acquire all or any part of the property of the Company which is subject to the lien of this Indenture, by the exercise of the power of eminent domain or in the exercise of any right reserved to purchase the same, the Trustee shall release the property so taken or purchased, upon being furnished with an Opinion of Counsel, as herein defined, to the effect that such property has been taken by exercise of the power of eminent domain or in the exercise of any right reserved to purchase such property. The award or consideration received for such property shall be deposited with the Trustee; provided that in case any of the mortgaged and pledged property so taken or purchased consists of property which has been purchased, constructed or otherwise acquired by the Company subsequent to December 31, 1940, and does not consist of Permanent Additions and is released from the lien of any mortgage or trust indenture prior to the lien hereof,

other than Permitted Liens, then the award or consideration for such property may be delivered to or deposited with the Trustee of such prior mortgage or trust indenture, and in that event there shall be delivered to the Trustee the certificate of the Trustee of such prior mortgage or trust indenture to the effect that it has received such award or consideration, or a part thereof, as the case may be, and has been irrevocably authorized by the Company to pay over to the Trustee any balance of such award or consideration remaining after the discharge of such prior mortgage or trust indenture.

**Section 7.** In case the mortgaged property shall be in the possession of a receiver, lawfully appointed in any action or judicial proceeding for the foreclosure hereof or for the enforcement of the rights of the Trustee or of the bondholders under this Indenture, the powers hereinbefore conferred upon the Company with respect to the sale or other disposition of the mortgaged and pledged property may be exercised by such receiver, and any request, certificate or appointment made or assigned by such receiver for such purpose shall be as effective as if made by the Company or its Board of Directors or any of its officers in the manner here provided; and if the Trustee shall be in possession of the mortgaged property under any provision of this Indenture, then such powers may be exercised by the Trustee in its discretion. The powers conferred by this Section upon a receiver or any trustee may be exercised by such receiver or trustee notwithstanding that any one or more of the events of defaults specified in Section 1 of Article XI hereof shall have happened and be continuing.

**Section 8.** No purchaser in good faith of property purporting to have been released hereunder shall be bound to ascertain the authority of the Trustee to execute the release, or to inquire as to any facts required by the provisions hereof for the exercise of such authority; nor shall any purchaser or grantee of any property or rights sold, granted, exchanged or otherwise disposed of by the Company and released by the Trustee, if such release is required by the provisions hereof, be under obligation to ascertain or inquire into the authority of the Company to make any such sale, grant, exchange or other disposition, or to see to the application of the purchase money.

**Section 9.** All moneys deposited with or received by the Trustee pursuant to the provisions of any Section of this Article or in payment of or in exchange for any of the obligations deposited with or received by the Trustee pursuant to the provisions of Section 4 hereof (except, however, interest on said obligations), shall be held by the Trustee as part of the mortgaged and pledged property until withdrawn or paid out as provided in Article X of this Indenture, subject to the following limitations so long as any bonds of the 3¼% Series due 1971 shall remain outstanding:

(a) In the event that all or substantially all of the property of the Company subject to the lien of this Indenture shall be taken under the power of eminent domain or acquired by any governmental body in the exercise of a right reserved to purchase the same, or sold and released from the lien hereof, the award or consideration therefor, which shall consist solely of cash, shall within six months be used for the redemption of bonds at the applicable redemption prices (which in the case of bonds of the 3¼% Series due 1971 shall be the applicable redemption prices specified in Article II hereof);

(b) Upon any specific release of property where the total consideration is in excess of \$1,000,000, such part of the consideration which shall be in excess of \$1,000,000 shall to the extent of any cash constituting part of such consideration, be applied within six months to the purchase of bonds of the 3¼% Series due 1971 pursuant to Section 2 of Article X hereof, or to the redemption of bonds of the 3¼% Series due 1971 pursuant to Section 3 of Article X hereof at the applicable redemption prices specified in Section 3 of Article II hereof;

(c) All cash constituting part of the consideration received on the release of property and held by the Trustee for four years shall be applied to the purchase of bonds of the 3¼% Series due 1971 pursuant to Section 2 of Article X hereof, or to the redemption of bonds of the 3¼% Series due 1971 pursuant to Section 3 of Article X hereof at the applicable redemption prices specified in Section 3 of Article II hereof;

Provided however, that nothing contained in this Section shall be deemed to require the Company or the Trustee to apply any of such moneys to the purchase or redemption of Bonds unless the amount of moneys in the hands of the Trustee directed by any provision of this Section to be so applied shall equal or exceed the sum of \$50,000.

## **ARTICLE X.**

### **Concerning the Application of Moneys Received by the Trustee.**

**Section 1.** (A) Unless an event of default of the character specified in Section 1 of Article XI has occurred and has not been rescinded and annulled as therein provided or been otherwise cured or made good to the satisfaction of the Trustee, any moneys received by the Trustee (a) on account of the principal of any obligations received by the Trustee under the provisions of Section 4 of Article IX of this Indenture, or (b) subject to the limitations prescribed in Sections 6 and 9 of Article IX, as proceeds of released property or of property taken by the power of eminent domain, or (c) as proceeds of any insurance against loss or damage by fire, or (d) upon the satisfaction, discharge or other release of any mortgage or other lien prior to the lien of this Indenture, shall be held by the Trustee as part of the mortgaged and pledged property and shall be paid out by the Trustee to or upon the written order of the Company from time to time:

(1) To reimburse the Company for expenditures made for the replacement, restoration or repair of property destroyed or damaged by fire (to the extent that insurance moneys arising from such loss or damage are in the hands of the Trustee), upon receipt by the Trustee of (a) an Officers' Certificate describing in reasonable detail such replacement, restoration or repair and stating the amount expended therefor and that such amount is, in the opinion of the signers, reasonable, and stating that all conditions precedent to the withdrawal of such moneys have been complied with, and (b) an Opinion of Counsel conforming to the requirements of paragraph 5 of subdivision (B) of Section 3 of Article IV with respect to such property as replaced, restored or repaired with such additions, omissions and modifications as may be appropriate in the light of the purposes for which it is used; or

(2) In an amount equal to the Cost or Fair Value, whichever shall be less, of Available Permanent Additions, upon receipt by the Trustee of the instruments and opinions specified in paragraphs 2, 3, 5, 6 and 7 of subdivision (B) of Section 3 of Article IV with such additions, omissions and modifications as may be appropriate in the light of the purposes for which they are used.

(B) Notwithstanding the fact that an event of default of the character specified in Section 1 of Article XI hereof has occurred, in case the mortgaged and pledged property or any part thereof shall be in the possession of a receiver of the Company or of the mortgaged and pledged property or if a trustee in bankruptcy or in reorganization proceedings (including reorganization proceedings under any Federal bankruptcy law or similar statutory provisions), lawfully appointed, or of an assignee for the benefit of creditors, the powers conferred upon the Company in and by this Section may, with the consent of the Trustee, be exercised by such receiver, trustee or assignee with respect to such part of the mortgaged or pledged property as may then be in his or its possession, and, if the Trustee shall be in possession of the mortgaged and pledged property or any part thereof under any provision of this Indenture, then the powers conferred upon this Company in and by this Section may be exercised by the Trustee in its discretion with respect to such part of the mortgaged and pledged property as may then be in its possession. Any certificate required by the provisions of this Section to be signed by any officer of the Company may be signed by such receiver, trustee, or assignee instead of such officer.

Notwithstanding the fact that an event of default of the character specified in Section 1 of Article XI hereof has occurred, the Company, as long as it shall be in possession of the mortgaged and pledged property, may, with the consent of the Trustee, exercise the powers conferred upon it in and by this Section.

**Section 2.** Unless an event of default of the character specified in Section 1 of Article XI of this Indenture has occurred and has not been rescinded and annulled as therein provided or been otherwise cured or made good to the satisfaction of the Trustee, any moneys constituting all or any part of the moneys received by the Trustee as specified in Section 1 of this Article and not theretofore paid over or requested to be paid over to the Company pursuant to the provisions of Section 1 of this Article, and all or any part of any moneys deposited with the Trustee under the provisions of Section 5 of Article IV, Section 2 of Article VI, or Section 3 of Article VII, or Section 9 of Article IX, and not theretofore applied as therein authorized, shall, upon the request of the Company, expressed by a Resolution, as herein defined, be applied by the Trustee to the purchase of bonds outstanding hereunder of such series (one or more) as the Company (subject to the limitations contained in Section 2 of Article VI, Section 3 of Article VII, and Section 9 of Article IX) may designate at a price not exceeding the maximum price specified by the Company in its request to the Trustee, which maximum price shall not exceed the highest current redemption price of such bonds as shall be by their terms redeemable before maturity, and no more than the principal amount of bonds not so redeemable, or, if the Company shall not have specified any such maximum price, at a price not in excess of such redemption price of such bonds as shall be by their terms redeemable before maturity, and not exceeding the principal amount of bonds not so redeemable.

Before making any purchase of bonds of any series pursuant to the provisions of this Section, the Trustee shall, by notice published once in each of two (2) successive calendar weeks

in one authorized newspaper in the City of Philadelphia, Pennsylvania, advertise for written proposals to sell to it on or before a specified date bonds outstanding hereunder of the series (one or more) designated by the Company; and the Trustee, to the extent, as nearly as is possible, of such funds then in its hands and requested by the Company to be so applied, shall purchase the bonds so offered at the lowest price or prices asked therefor, subject to the limitations as to the price to be paid hereinabove in this Section set forth, and reasonable notice shall be given by the Trustee to the owner or owners of the bonds whose proposals may be accepted. If all bonds of the series (one or more), offers of which are invited, are registered bonds, including coupon bonds registered as to principal, no publication by notice of invitation of offers shall be necessary and notice given by mail to the owners of such bonds at their last addresses appearing on the registry books shall be sufficient.

Upon the request by Resolution hereinabove in this Section provided for, the Trustee may also, in its discretion, and upon request of the Company so to do, shall, invite offers of bonds for sale to the Trustee in any other usual manner.

Should there be two or more proposals at the same price aggregating more than the amount which the Trustee has available for the purchase of bonds, after having accepted all proposals at lower prices, the Trustee shall, in accepting proposals, give preference to such proposals as are subject to acceptance of a portion thereof as against proposals not subject to such acceptance, and shall as between proposals subject to acceptance of a portion thereof accept the same pro rata as nearly as may be to avoid the purchase of fractions of bonds, and shall as between proposals not subject to such acceptance, select by lot, according to such method as to the Trustee shall deem proper in its discretion, the proposals to be accepted. The Trustee shall have the right to reject any or all proposals in whole or in part if it can at the time of opening said proposals purchase the requisite amount of such bonds or any part thereof at a lower price than it could by accepting said proposals. All offers by holders of bonds shall be subject to acceptance of a portion thereof unless otherwise expressed in the offers and all notices inviting written proposals shall so state. Upon the purchase of or upon the election (as provided in this Section) of the Trustee to purchase any bond, as hereinabove provided, the Trustee shall notify the Company in writing thereof, specifying the principal amount of the bonds purchased or to be purchased and the amount of the accrued interest, if any, thereon paid or to be paid by the Trustee on such purchase and the aggregate purchase price of such bonds, and the Company covenants that it will, from time to time, upon receipt by it of any such notice, immediately pay to the Trustee, as an additional payment to the Trustee, an amount in cash equal to such accrued interest on the bonds so purchased, or to be purchased, and the cost of all advertising and publishing.

**Section 3.** All or any part of any moneys received by the Trustee as specified in Section 1 of this Article and not theretofore paid out or requested to be paid out by the Trustee pursuant to Section 1 of this Article, and all or any part of any moneys deposited with the Trustee under the provisions of Section 5 of Article IV, Section 2 of Article VI, or Section 3 of Article VII, or Section 9 of Article IX, and not theretofore applied or requested to be applied as therein authorized shall,

(a) at any time, upon the request of the Company expressed by a Resolution, as herein defined, be applied by the Trustee to the redemption of bonds issued hereunder,

which are by their terms redeemable before maturity, of such series (one or more) as may (subject to the limitations contained in Section 2 of Article VI, Section 3 of Article VII and Section 9 of Article IX) be designated by the Company, in the manner and as provided for the redemption of bonds in Article V hereof, and in the event of each such redemption the Trustee shall notify the Company in writing forthwith of the bonds selected for redemption, specifying the amount of accrued interest payable in respect of the bonds to be redeemed upon such redemption, and the Company covenants that it will give or cause to be given the notice required in respect of the redemption of such bonds and will, at least three (3) days prior to the date fixed for such redemption, deposit with the Trustee an additional amount of cash equal to such accrued interest, and the cost of all advertising and publishing; or

(b) at any time upon the order of the Company be invested by the Trustee in securities of the United States of America having a maturity of not more than five years from the date of such investment. Any investment so made shall be sold by the Trustee upon the order of the Company and the Company covenants that in the event of any loss sustained on any sale of such securities it will pay to the Trustee an amount in cash equal to the amount of such loss. Unless an event of default of the character specified in Section 1 of Article XI has occurred and has not been rescinded and annulled as therein provided, or been otherwise cured or made good to the satisfaction of the Trustee, the Trustee shall pay over to the Company any interest received on such securities.

**Section 4.** All bonds issued hereunder which shall be purchased or otherwise acquired by or delivered to the Trustee pursuant to the provisions of this Article X shall forthwith be cancelled and, upon the written request of the Company, delivered to the Company.

**Section 5.** If the mortgaged property shall be sold, either under the power of sale herein provided in Article XI hereof, or under decree of court in proceedings for the foreclosure of this Indenture, then any moneys remaining in the hands of the Trustee to be applied pursuant to the provisions of this Article X shall be added to and dealt with as if such moneys were part of the proceeds of such sale.

## ARTICLE XI.

### Remedies of Trustee and Bondholders Upon Default.

**Section 1.** In case one or more of the following events, herein called events of default, shall happen, that is to say:

(a) default in the payment of the principal of and any premium which may be due and payable on any bond hereby secured when the same shall have become due and payable, whether at maturity as therein expressed or by declaration, or otherwise; or

(b) default continued for sixty (60) days in any Sinking or Improvement Fund or Maintenance or Improvement Deposit requirement hereunder or under any indenture supplemental hereto or for sixty (60) days in the payment of any interest on any bond secured hereby; or

(c) default continued for sixty (60) days after notice to the Company from the Trustee in the performance of any other covenant or agreement on the part of the Company herein or in any indenture supplemental hereto contained;

(d) By decree of a court of competent jurisdiction the Company shall be adjudicated a bankrupt, or an order shall be made approving a petition seeking reorganization or readjustment of the Company under the federal bankruptcy laws or other law or statute of the United States of America or of the Commonwealth of Pennsylvania, or, by order of such a court, a trustee or trustees, or a receiver or receivers, shall be appointed of all or substantially all of the property of the Company or of all or any part of the property of the Company subject to the lien hereof, and any such decree or order shall have continued unstayed, on appeal or otherwise, and in effect for a period of sixty (60) days; or

(e) The Company shall file a petition in voluntary bankruptcy or shall make an assignment for the benefit of creditors or shall consent to the appointment of a receiver or trustee of all or any part of its property, or shall file a petition or answer seeking reorganization or readjustment under the federal bankruptcy laws or other law or statute of the United States of America or of the Commonwealth of Pennsylvania, or shall file a petition to take advantage of any debtors' act;

either the Trustee or the holders or registered owners of twenty-five per cent. (25%) or more in principal amount of (1) the bonds then outstanding hereunder or (2) the bonds then outstanding hereunder primarily affected by the default, may declare the principal of all bonds hereby secured then outstanding, and the interest accrued thereon, immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable. Any such declaration by the Trustee may be made by notice in writing delivered by the Trustee to the Company, and any such declaration by the holders or registered owners of twenty-five per cent. (25%) or more in principal amount of (1) the bonds then outstanding hereunder or (2) the bonds then outstanding hereunder primarily affected by the default, may be made by notice in writing signed by such holders or registered owners of bonds and delivered to the Company and to the Trustee. The right to make any such declaration as aforesaid is subject, however, to the right of the holders or registered owners of a majority in principal amount of the bonds then outstanding hereunder by written notice to the Company and to this Trustee, to rescind and annul such declaration and destroy its effect at any time before any sale hereunder, if before any such sale all agreements with respect to which default shall have been made shall be fully performed, and all arrears of interest upon all bonds outstanding hereunder (with interest on overdue installments of interest at the legal rate of interest then in effect in the Commonwealth of Pennsylvania) and reasonable expenses and charges of the Trustee, its agents and attorneys, and all other indebtedness secured hereby, except the principal of any bonds not then due by their terms, and interest accrued on such bonds since the last interest day, shall be paid, or the amount thereof shall be paid to the Trustee, for the benefit of those entitled thereto; but no such rescission or annulment and no waiver of default hereunder shall extend to or affect any subsequent default or impair any rights subsequently accruing thereon.

**Section 2.** Upon the occurrence of an event of default as defined in Section 1 of this Article, the Trustee may by its attorneys or agents enter into and upon all and singular the



mortgaged property; and may exclude the Company, its agents and servants, wholly therefrom; and having and holding the same may use, operate, manage and control said property, and conduct the business, either personally or by its superintendents, managers, receivers, agents and servants or attorneys, to the best advantage of the holders of the bonds hereby secured, and upon every such entry, the Trustee, at the expense of the trust estate, from time to time, either by purchase, repairs or construction, may maintain and restore, and insure, or keep insured the mortgaged property, whereof it shall become possessed as aforesaid, in the manner and to the same extent as is usual with similar businesses, and, likewise, from time to time, at the expense of the trust estate, may make all necessary or proper repairs, renewals and replacements and useful alterations, additions, extensions, betterments and improvements thereto and thereon, as to it may seem judicious. In every such case, the Trustee shall have the right to manage the mortgaged property and to carry on the business and exercise all rights and powers of the Company either in the name of the Company or otherwise, as the Trustee shall deem best; and it shall be entitled to collect and receive all tolls, earnings, income, rents, issues and profits of the same and every part thereof; and after deducting the expenses of operating said mortgaged property and of conducting the business thereof and of all repairs, maintenance, renewals, replacements, alterations, additions, extensions, betterments, and improvements, and all payments which may be made for taxes, assessments, insurance and prior or other charges upon the mortgaged property or any part thereof, as well as just and reasonable compensation for its own services and for all counsel, agents, clerks, servants and other employees by it properly engaged and employed, it shall apply the moneys arising as aforesaid, as follows:

(a) In case the principal of none of the bonds hereby secured shall be due by declaration, at maturity, or otherwise, to the payment of the interest remaining in default, or as the same becomes due, in order of the maturity of the installments of such interest and with interest on the overdue installments of interest at the same rate or rates respectively as may be payable upon the respective bonds; such payments to be made ratably to the person or persons entitled thereto, without discrimination or preference;

(b) In case the principal of any bonds hereby secured shall be due by declaration, at maturity, or otherwise, to the payment of the principal and interest which shall then be owing or unpaid in accordance with the provisions of paragraph "Second" of Section 9 of this Article.

When and if all the said payments shall have been made in full, and all sinking or improvement fund requirements have been complied with, and no suit to foreclose this Indenture shall have been begun or sale made as hereinafter provided, or in the event of any waiver as in Section 16 of this Article provided, the Trustee shall restore the possession of the property hereby conveyed to the Company; provided that if any of the defaults herein specified be subsequently made, neither such restoration to the Company nor any previous entry by the Trustee shall exhaust or in any manner impair the powers of entry or sale or any powers hereby granted to or conferred upon said Trustee.

**Section 3.** Upon the occurrence of an event of default as defined in Section 1 of this Article the Trustee may, by such officer or agent as it may appoint, with or without entry sell all the mortgaged property as an entirety, or in such parcels as the holders of a majority in principal amount of the bonds outstanding hereunder shall in writing request, or in the absence of such



request, as the Trustee may determine, at public auction, at some convenient, place in Philadelphia, or such other place as may be required by law, having first given notice of such sale by publication in at least one authorized newspaper in Philadelphia for four consecutive weeks next preceding such sale, and any other notice which may be required by law, and from time to time may adjourn such sale in its discretion by announcement at the time and place fixed for such sale without further notice, and upon such sale may make and deliver to the purchaser or purchasers a good and sufficient deed or deeds for the same.

**Section 4.** In case of the breach of any of the covenants or conditions of this Indenture, the Trustee may take appropriate judicial proceedings for the enforcement of its rights and the rights of the bondholders hereunder. Upon the occurrence of an event of default as defined in Section 1 of this Article, the Trustee may either after entry, or without entry, proceed by suit or suits at law or in equity to enforce payment of the bonds then outstanding hereunder and to foreclose this mortgage and to sell the mortgaged and pledged property under the judgment or decree of a court of competent jurisdiction.

The Trustee may institute and maintain such suits and proceedings as it may deem necessary or expedient, (1) to prevent any impairment of the security hereunder by any unlawful acts of the Company, or of others, or by any acts of the Company or of others, in violation of the provisions of this Indenture or the rights of the bondholders hereunder, or (2) to preserve and to protect the interest of the Trustee and the security and interest of the bondholders in respect of the property subject to the lien of this Indenture, or in respect of the income, earnings, rents, issues and profits thereof.

The Trustee shall take action as aforesaid at the request of, and in the manner requested by, the holders or registered owners of a majority in principal amount of the bonds then outstanding hereunder and upon being indemnified as hereinafter provided.

No remedy by the terms of this Indenture conferred upon or reserved to the Trustee or to the bondholders, is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default, shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

**Section 5.** Anything in this Indenture to the contrary notwithstanding, the holders of a majority in principal amount of the bonds then outstanding hereunder shall have the right, at any time, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken for any foreclosure sale of the trust estate, or for the foreclosure of this Indenture, or for the appointment of a receiver.

**Section 6.** In case of the occurrence of an event of default under Section 1 of this Article, the Trustee shall be entitled as a matter of right, to the appointment of a receiver or receivers of

the mortgaged property, and of the income, rents, issues and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

**Section 7.** Upon any sale being made either under the power of sale hereby given or under judgment or decree in any judicial proceedings for the foreclosure or otherwise for the enforcement of this Indenture:

(a) The principal of all bonds then outstanding hereunder, if not previously due, shall at once become and be immediately due and payable.

(b) Any bondholder or bondholders or the Trustee, may bid for and purchase the mortgaged and pledged property and upon compliance with the terms of sale may hold, retain and possess and dispose of such property in their or its own absolute right without further accountability, and any purchaser at any such sale may, in paying purchase money, turn in any of the bonds and coupons outstanding hereunder in lieu of cash to the amount which shall, upon distribution of the net proceeds of such sale, be payable thereon. Said bonds and coupons, in case the amounts so payable thereon shall be less than the amount due thereon, shall be returned to the holders thereof after being properly stamped to show partial payment.

(c) The receipt of the Trustee or of the officer making such sale shall be a sufficient discharge to the purchaser or purchasers at any sale for his or their purchase money and such purchaser or purchasers, his or their assigns or personal representatives, shall not, after paying such purchase money and receiving such receipt, be obliged to see to the application of such purchase money, or be in anywise answerable for any loss, misapplication or nonapplication thereof.

(d) Such sale shall operate to divest all right, title, interest, claim and demand whatsoever, either at law or in equity, of the Company, of, in and to the property sold, and shall be a perpetual bar both at law and in equity against the Company, its successors and assigns and against any and all persons claiming or who may claim the property sold or any part thereof, from, through or under the Company, its successors or assigns.

**Section 8.** Upon the completion of any sale or sales under this Indenture, the Trustee shall execute and deliver to the accepted purchaser or purchasers, a good and sufficient deed or good and sufficient deeds or other instruments conveying, assigning and transferring the property and franchises sold. And the Trustee hereby is appointed the true and lawful attorney irrevocable of the Company, in its name and stead to make all necessary deeds, conveyances and instruments of transfer of property thus sold; and for that purpose, it may execute all necessary deeds, conveyances or instruments of transfer and may substitute one or more persons, with like power; the Company hereby ratifying and confirming all that its said attorney or attorneys, or such substitute or substitutes, shall lawfully do by virtue hereof.

**Section 9.** The proceeds of any sale or sales, whether made under the power of sale hereby granted or conferred, or under or by virtue of judicial proceedings, together with any other sums which then may be held by the Trustee under any of the provisions of this Indenture, as part of the trust estate or the proceeds thereof, shall be applied as follows:

First.—To the payment of the costs and expenses of such sale, including a reasonable compensation to the Trustee, its agents, attorneys and counsel, and all expenses, liabilities and advances made or incurred by the Trustee under this Indenture, and to the payment of all taxes, assessments or liens prior to the lien of these presents, except any taxes, assessments or other superior liens, subject to which such sale shall have been made.

Second.—To the payment of the whole amount of the principal and interest which shall then be unpaid upon any or all bonds hereby secured, with interest on the overdue principal and on the overdue instalments of interest at the same rate or rates respectively as may be payable upon the respective bonds, and in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid upon the said bonds, then to the payment of such principal and interest ratably without preference or priority of one series over another series, or of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest. Provided, however, that if any coupon or claim for interest upon any bond outstanding hereunder shall have been funded or extended, with or without the consent of the Company, or at, or after maturity, shall have been transferred or pledged separate from the bond to which it relates, such coupon or claim for interest shall not be entitled, in case of default hereunder, to the benefit or security of this Indenture except subject to the prior payment in full of the principal of all bonds outstanding hereunder and of all coupons and claims for interest that shall not have been so funded or extended or transferred or pledged, and provided, further, that if any such coupons or claims for interest on any of said bonds shall be owned by the Company at or after maturity, then such matured coupons or claims for interest shall not be entitled to the benefit or security of this Indenture and the Company covenants that all such coupons and claims for interest so owned by it at or after maturity shall promptly be cancelled.

Third.—To the payment of the surplus, if any, to the Company, its successors or assigns, or to whomsoever may be lawfully entitled to receive the same.

**Section 10.** In case of a default on its part, as aforesaid, neither the Company nor any one claiming through or under it shall or will set up, claim or seek to take advantage of any appraisalment, valuation, stay, exemption, extension or redemption laws now or hereafter in force in any locality where any of the mortgaged property may be situated. And the Company, for itself and all who may claim through or under it, waives any and all right to have the estates comprised in the security intended to be created hereby marshalled upon any foreclosure of the lien hereof, and agrees that any court having jurisdiction to foreclose such lien may sell the mortgaged property as an entirety. The Company hereby covenants that it will not hinder, delay nor impede the execution of any power herein granted and delegated to the Trustee, but that it will suffer and permit the execution of every such power as though no such law or laws had been made or enacted.

**Section 11.** The Company covenants that in case default shall be made and shall continue for sixty (60) days in the payment of any interest on any bond or bonds outstanding under this Indenture, when the same becomes payable or in case default shall be made in the payment of the principal of any bond or bonds when the same becomes payable whether at maturity, or by declaration, or upon a sale of the mortgaged property, or otherwise, then, upon demand of the Trustee, the Company will pay to the Trustee, for the benefit of the holders of all bonds and coupons hereby secured then outstanding, the whole amount which then shall have

become due and payable on all such bonds then outstanding, for interest or principal or both, as the case may be, with interest on the overdue principal and on the overdue installments of interest at the same rate or rates respectively as may be payable upon the respective bonds; and in case the Company shall fail to pay the same forthwith upon such demand, the Trustee in its own name and as trustee of an express trust shall be entitled, with or without possession or presentation of said bonds or coupons, to sue and recover judgment for the whole amount so due and unpaid.

The Trustee shall be entitled to sue and recover judgment as aforesaid either before, after, or during the pendency of any proceedings for the enforcement of this Indenture upon the mortgaged property, and the right of the Trustee to recover such judgment shall not be affected by any entry or sale hereunder or by the exercise of any other right, power or remedy for the enforcement of the provisions of this Indenture or for the foreclosure of the lien hereof; and in case of a sale of the mortgaged property and of the application of the proceeds of sale as in this Article provided, the Trustee, in its own name and as trustee of an express trust, shall be entitled to enforce payment of and to receive all amounts then remaining due and unpaid upon all bonds of whatever series issued hereunder and then outstanding, for the benefit of the holders thereof, and shall be entitled to recover judgment for any portion of the mortgaged debt and interest remaining unpaid as aforesaid. No recovery of any such judgment by the Trustee and no levy of any execution upon any such judgment, upon property subject to the lien of this Indenture or upon any other property, shall in any manner or to any extent, affect the lien of this Indenture upon the mortgaged property or any part thereof, or any rights, powers or remedies of the Trustee hereunder, or any lien, rights, powers or remedies of the holders of any bonds of any series hereby secured, but such lien, rights, powers and remedies of the Trustee and of the bondholders shall continue unimpaired as before.

Any moneys thus collected by the Trustee under this Section 11 shall be applied by it, first, to the payment of the expenses, disbursements and compensation of the Trustee, its agents and attorneys; and, second, toward payment of the amounts then due and payable upon such bonds and coupons ratably and without any preference or priority of any kind, upon presentation of the several bonds and coupons and upon stamping such payment thereon, if partly paid, or upon surrender thereof, if fully paid, subject, however, to the proviso contained in Section 9 of this Article.

**Section 12.** Any rights of action under this Indenture may be enforced by the Trustee without the possession of any of the bonds or coupons hereby secured or the production thereof on the trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name, and any recovery of judgment shall be for the ratable benefit of the holders of all bonds and coupons secured hereby, without preference or priority of one series over any other series.

**Section 13.** No holder of any bond or coupon hereby secured shall have the right to institute any suit, action or proceeding at law or in equity upon or in respect of this Indenture, or for the execution of any trust or power hereof, or for any other remedy under or upon this Indenture, unless such holder shall previously have given to the Trustee written notice of any existing default and of the continuance thereof as hereinbefore provided, nor unless also the holders of not less than twenty-five per cent. (25%) in principal amount of the bonds outstanding

hereunder shall have made written request upon the Trustee and shall have afforded to it reasonable opportunity either to proceed itself to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding in its own name, nor unless also such holder or holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred in or by reason of such action, suit or proceeding, and the Trustee shall have omitted to comply with such request within a reasonable time thereafter; and such notification, request and offer of indemnity are hereby declared, in every such case, at the option of the Trustee, to be conditions precedent to the execution of the trusts and powers of this Indenture, and to any action or cause of action for foreclosure or for any other remedy hereunder; it being understood and intended that no one or more holders of bonds or coupons shall have any right in any manner whatever to affect, disturb or prejudice the lien of this Indenture by his or their action, or to enforce any right hereunder, except in the manner herein provided, and that all proceedings hereunder shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all holders of outstanding bonds and coupons of whatsoever series secured hereby.

Nothing in this Indenture contained shall, however, affect or impair the right of the holder of any bond, which is absolute and unconditional, to receive the payment of the principal of and interest on such bond at and after the maturity thereof as therein expressed, or to institute suit for the enforcement of any such payment on or after maturity thereof, or affect the obligation of the Company, which is also absolute and unconditional, to pay the principal of and interest on each of the bonds to the respective holders thereof at the time and place in said bonds and the appurtenant coupons expressed.

No bondholder or bondholders may, however, institute any such suit, action or proceeding if and to the extent that the institution or prosecution thereof or the entry of a judgment or a decree therein would, under applicable law, result in the surrender, impairment, waiver or loss of the lien of this Indenture upon any property subject thereto.

**Section 14.** The Company may, if permitted by law, waive any period of grace provided for in this Article.

**Section 15.** In case the Trustee shall have proceeded to enforce any right under this Indenture, of foreclosure, entry, sale or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then and in every such case, the Company and the Trustee shall be restored to their former positions and rights hereunder, in respect of the mortgaged property, and all rights, remedies and powers of the Trustee shall continue as though no such proceeding had been taken.

## **ARTICLE XII.**

### **Leases, Consolidations, etc.**

**Section 1.** All the covenants, conditions and provisions in this Indenture and any supplemental indenture binding upon or enuring to the benefit of the Company shall bind and enure to the benefit of its successors and assigns whether so expressed or not.

**Section 2.** Nothing contained in this Indenture or in any bonds issued hereunder shall prevent any lease, subject to the continuing prior lien of this Indenture and to all the provisions thereof, of all or substantially all the mortgaged property as an entirety to a corporation empowered to lease and operate the same, provided, however, that such lease shall by its terms expressly require the lessee therein to assume due and punctual payment of the principal and interest on all bonds issued hereunder from time to time outstanding under this Indenture becoming due and payable during the continuance of said lease or any extension or renewal thereof, and the due and punctual performance and observance during such time of all covenants and conditions to be performed and observed by the Company, and shall be made expressly subject to termination by the Trustee in case of the happening of an event of default, or by the purchaser at any sale of said mortgaged property made in enforcement of this Indenture.

**Section 3.** Nothing contained in this Indenture or in any bonds issued hereunder shall prevent any consolidation or merger of the Company with any other corporation or any transfer or conveyance, subject to the continuing lien of this Indenture and to all the provisions hereof, of all or substantially all the mortgaged property as an entirety to a corporation empowered to acquire and operate the same, provided that such consolidation, merger, conveyance or transfer shall be upon such terms as to preserve and not to impair the lien and security of this Indenture and the rights and powers of the Trustee and of the holders of the bonds issued hereunder; and that the corporation formed by such consolidation or merger, or the corporation to which such conveyance or transfer shall be made, (hereinafter referred to as successor corporation), shall execute and cause to be recorded a supplemental indenture satisfactory to the Trustee and to which the Trustee shall be a party, whereby it shall expressly assume due and punctual payment of the principal and interest of all bonds issued hereunder according to their tenor, and the due and punctual performance and observance of all covenants and conditions of this Indenture and of all supplemental indentures to be performed and observed by the Company, and shall covenant that all additional plants and properties and permanent improvements, extensions, betterments, or additions (including equipment and appliances), which shall be acquired or constructed by it to the extent to which the same or any undivided portion thereof shall from time to time constitute in whole or in part appurtenances to the mortgaged property or additions or accessions thereto reasonably necessary to the maintenance or operation thereof, shall forthwith become subject to the lien of this Indenture and subject to no mortgage liens prior hereto except the lien of any mortgage subject to which the successor corporation shall acquire or construct such property.

Such successor corporation upon executing and recording a supplemental indenture as aforesaid shall thereupon succeed to and be substituted for the Company, with the same effect as if it had been named herein as the mortgagor company; and such successor corporation thereupon may execute and cause to be authenticated and delivered by the Trustee, and may issue, either in its own name or in the name of the Company, in accordance with the provisions of this Indenture any and all bonds previously authorized by the Company which theretofore shall not have been issued; and may authorize and issue additional bonds hereunder either in its own name or in the name of the Company; and upon the order of the successor corporation, in lieu of the Company and subject to all the conditions and restrictions prescribed in Article IV hereof, the Trustee shall authenticate and deliver all such bonds upon the request of such successor corporation in accordance with the provisions of this Indenture. All bonds so issued in every respect shall have the same legal rank and security as the bonds theretofore issued in

accordance with the terms of this Indenture. The Trustee may receive an Opinion of Counsel as conclusive evidence that any such indenture complies with the foregoing conditions and provisions in this Section.

**Section 4.** Nothing in this Indenture contained shall require the lien hereof or of any indenture supplemental hereto to be extended in consequence of any such consolidation, merger, transfer or conveyance to any property of the successor corporation, except as required by the provisions of Section 3 of this Article.

### **ARTICLE XIII.**

#### **Concerning the Trustee.**

**Section 1.** The Trustee shall at all times be a bank or trust company organized and doing business under the laws of the Commonwealth of Pennsylvania or organized under the laws of the United States of America and doing business in the Commonwealth of Pennsylvania, authorized under such laws to exercise corporate trust powers and subject to supervision or examination by federal or state authority, and shall have a combined capital and surplus of not less than \$5,000,000.

If the Trustee publishes reports of condition at least annually, pursuant to law or other requirements of any supervising or examining authority referred to in the next preceding paragraph, then for the purposes of this Section the combined capital and surplus of the Trustee shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

**Section 2.** The Trustee accepts the trust hereby created, but only upon the terms and conditions set forth in this Article.

The Trustee undertakes, prior to an event of default hereunder (as defined in Section 1 of Article XI hereof) to perform such duties and only such duties as are specifically set forth in this Indenture, and during the continuance of an event of default hereunder, to exercise such of the rights and powers vested in it by this Indenture, and to use the same degree of care and skill in its exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs; provided, however, that none of the provisions contained in this Indenture shall require the Trustee to advance or expend or risk its own funds, or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers if there is reasonable ground to believe that the repayment of such advances or expenditures or liabilities is not reasonably assured to it by the security afforded to it by the terms of this Indenture.

**Section 3.** No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own wilful misconduct, except that:



(a) Prior to an event of default hereunder and after the curing of all defaults that may have occurred, the Trustee shall not be liable except for the performance of such duties as are specifically set forth in this Indenture; and

(b) Prior to an event of default hereunder and after the curing of all defaults that may have occurred, and in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely (subject to the requirements of Section 7 of this Article hereof) as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions conforming to the applicable requirements, if any, of this Indenture; and

(c) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer or officers of the Trustee (if reasonable care shall have been exercised in the selection and retention thereof) unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(d) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of not less than a majority in principal amount of the bonds at the time outstanding (determined as provided in Section 5 of Article XI hereof) relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture.

**Section 4.** The recitals of fact contained herein and in the bonds issued hereunder, except in the certificate of authentication of the Trustee, shall be taken as statements of the Company and shall not be construed as made by the Trustee. The Trustee makes no representations as to the value of any of the property subject to the lien of this Indenture or any part thereof, or as to the title of the Company thereto, or as to the security afforded thereby and hereby, or as to the validity of this Indenture or of the bonds or coupons issued hereunder.

**Section 5.** Except as herein otherwise provided, any notice or demand which by any provision of this Indenture is required or permitted to be given or served by the Trustee on the Company shall be deemed to have been sufficiently given and served, for all purposes, upon being deposited, postage prepaid, addressed (until another address is filed by the Company with the Trustee) as follows: Philadelphia Suburban Water Company, 762 Lancaster Avenue, Bryn Mawr, Pennsylvania; and after another address shall have been filed by the Company with the Trustee as aforesaid, at the last address so filed.

**Section 6.** The Trustee shall not be bound to recognize any person as the holder of a bond outstanding hereunder unless and until the bond is submitted to the Trustee for inspection, if required, and his title thereto satisfactorily established, if disputed.

**Section 7.** The Trustee shall exercise reasonable care in the selection or approval of any Engineer or counsel required by the provisions hereof to be selected or approved by the Trustee.

The Trustee, upon receipt of evidence furnished to it by or on behalf of the Company, pursuant to any provision of this Indenture, shall examine the same to determine whether or not such evidence conforms to the requirements of this Indenture.



**Section 8.** The Trustee shall (i) within ninety (90) days after the occurrence of a default, known to the Trustee within such period, or (ii) if a default be not known to the Trustee within such period, within forty (40) days after such default shall be known to the Trustee, give to the bondholders, in the manner and to the extent provided in subdivision (C) of Section 10 of this Article, notice of all defaults known to the Trustee, unless such defaults shall have been cured before the giving of such notice; provided that, except in the case of default in the payment of the principal of or interest on any of the bonds, or in the payment of any Sinking or Improvement Fund instalment, the Trustee shall be protected in withholding such notice if and as long as the Board of Directors, the Executive Committee or a Trust Committee of directors or responsible officers, of the Trustee in good faith determines that the withholding of such notice is in the interests of the bondholders.

**Section 9.** The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the holders of bonds furnished to it as provided in Section 11 of Article VIII, or received by it in the capacity of paying agent or filed with it by bondholders pursuant to paragraph 2 of subdivision (C) of Section 10 of this Article; provided that the Trustee may (1) destroy any statement furnished to it as provided in Section 11 of Article VIII upon receipt of a new statement so furnished; (2) destroy any information received by it as paying agent in connection with an interest payment, after such information has been furnished to the Company; and (3) destroy any information filed with it by bondholders pursuant to Paragraph 2 of subdivision (C) of Section 10 of this Article, but not until two (2) years after such filing.

**Section 10.** (A) The Trustee shall, as long as any bonds are outstanding hereunder, transmit to the bondholders specified in subdivision (C) of this Section, within sixty (60) days after December 31st in each year beginning with the year 1941, a brief report with respect to:

(1) The eligibility and qualifications of the Trustee under Section 1 of this Article, or in lieu thereof, if to the best of its knowledge it has continued to be eligible and qualified under that Section, a written statement to such effect;

(2) The character and amount of any advances (and, if the Trustee elects so to state, the circumstances surrounding the making thereof) made by it as Trustee which remain unpaid on the date of such report, and for the reimbursement of which it claims or may claim a lien or charge, prior to that of the bonds, on the trust estate, including property or funds held or collected by it as Trustee, if such advances so remaining unpaid aggregate more than one-half of one per cent. ( $\frac{1}{2}$  of 1%) of the principal amount of the bonds outstanding on the date of such report;

(3) The amount, interest rate and maturity date of all other indebtedness owing by the Company to the Trustee in its individual capacity on the date of such report, with a brief description of any property held as collateral security therefor, except an indebtedness based upon a creditor relationship arising in any manner described in Paragraphs (2), (3), (4), or (6) of subdivision (F) of Section 17 of this Article;

(4) The property and funds physically in the possession of the Trustee, in such capacity, or of a depository for it, on the date of such report;

(5) Any release of property subject to the lien of this Indenture (and the consideration therefor, if any) which it has not previously reported;

(6) Any additional issue of bonds hereunder which the Trustee has not previously reported; and

(7) Any action taken by the Trustee, in the performance of its duties under this Indenture which it has not previously reported and which in its opinion materially affects the bonds or the trust estate, except action in respect of a default, notice of which has been or is to be withheld by it in accordance with the provisions of Section 9 of this Article.

(B) The Trustee shall, as long as any bonds are outstanding hereunder, transmit to the bondholders specified in subdivision (C) of Section 10 of this Article within the times hereinafter specified, a brief report with respect to

(1) Any release of property subject to the lien of this Indenture (and, the consideration therefor, if any) unless the Fair Value of such property, as defined in this Indenture or in any indenture supplemental hereto, is less than ten per cent. (10%) of the principal amount of bonds outstanding hereunder at the time of such release, such report to be so transmitted within ninety (90) days after such release; and

(2) The character and amount of any advances (and, if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee, in its capacity as such, since the date of the last report transmitted pursuant to the provisions of subdivision (A) of this Section (or if no such report has yet been so transmitted, since December 31, 1940), for the reimbursement of which it claims or may claim a lien or charge prior to that of the bonds in the trust estate, including property or funds held or collected by it as Trustee, and which it had not previously reported pursuant to this paragraph (2), if such advances remaining unpaid at any time aggregate more than ten per cent. (10%) of the principal amount of bonds outstanding at such time, such report to be transmitted within ninety (90) days after such time.

(C) All reports pursuant to subdivisions (A) and (B) of this Section shall be transmitted by mail:

(1) To all registered owners of bonds, as the names and addresses of such owners appear upon the registration books of the Company;

(2) To such holders of bonds as have, within two (2) years preceding such transmission, filed their names and addresses with the Trustee for that purpose; and

(3) Except in the case of reports pursuant to subdivision (B) of this Section, to each bondholder whose name and address, preserved at the time by the Trustee pursuant to Section 9 of this Article.

**Section 11.** Pending the application thereof, as herein provided, the Trustee, subject to the provisions of Section 4 of Article V hereof, shall hold or deposit as a special trust fund in its

own banking department or in other banks, qualified by law to accept Federal Funds for deposit, all moneys received by it hereunder. The Trustee is authorized to deposit, in trust for the payment of the principal of and any premium on and interest on any bonds issued under this Indenture, with any co-paying agent appointed in accordance with the provisions of this Indenture, provided such co-paying agent shall be a bank or trust company having a capital and surplus of not less than Five million dollars (\$5,000,000), subject to recall by the Trustee, such part of such moneys as shall, in the opinion of the Trustee, be necessary or desirable to provide for the payment, by any such co-paying agent of the principal of or the premium or the interest on any of the bonds issued hereunder and the Trustee shall be relieved of responsibility for the safety and application of such moneys while in the possession of the co-paying agent. In the event that part of such moneys shall be recalled by the Trustee, it shall thereafter be held by the Trustee in trust as hereinbefore in this Section provided. The Trustee shall be chargeable with knowledge of any default in the payment of the principal of or interest on any bond issued, and outstanding hereunder resulting from the failure of the Company or the Trustee to have and keep on deposit with each co-paying agent and in each place where such principal or interest shall be payable, funds necessary for the payment thereof on presentation thereof for such payment. The Trustee shall allow or credit to the Company such interest, if any, upon the main so held or deposited as may from time to time be agreed upon by the Trustee and the Company.

**Section 12.** The Company shall pay to the Trustee from time to time a reasonable compensation for all services rendered hereunder, and also all its reasonable expenses, charges, counsel fees and other disbursements and those of its attorneys, agents and employees, incurred in or about the administration and execution of the trusts hereby created, and the performance of their powers and duties hereunder, and agrees to indemnify and save the Trustee harmless against any liabilities except liabilities arising from the negligent action or negligent failure to act or the wilful misconduct of the Trustee or from its undertaking set forth in Section 2 of this Article which it may incur in the exercise and performance of its powers and duties hereunder. In default of such payments by the Company, and as security for such indemnification, the Trustee shall have the benefit of the lien hereby created in priority to the indebtedness evidenced by the bonds and coupons issued hereunder.

**Section 13.** Unless an event of default of the character specified in Section 1 of this Article has occurred and has not been rescinded or annulled as provided in said Section 1 hereof, or been otherwise cured or made good to the satisfaction of the Trustee, in the event that the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by the President or a Vice-President and the Treasurer or an Assistant Treasurer of the Company conforming to the applicable requirements of this Indenture, if any, and delivered to the Trustee, and such certificate shall be full warrant to the Trustee for any action taken or suffered by it under the provisions of this Indenture upon the faith thereof; but in its discretion the Trustee may require such further evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable.

**Section 14.** The Trustee acting for itself or as a banker may become a purchaser, seller or pledgee of bonds and coupons hereby secured with the same rights that it would have if it were not Trustee and without liability or accountability to the Company or the bondholders or

otherwise in respect of any such purchase, sale or pledge by or to it of any such bonds and coupons. It may act as depository for, and may permit any of its officers or directors to act as a member of any committee formed to protect the rights of bondholders, or effect or aid in any reorganization growing out of the enforcement of the bonds or of this Indenture, whether or not any such committee shall represent the holders of a majority in principal amount of the bonds outstanding hereunder.

**Section 15.** Any action taken by the Trustee pursuant to any provision of this Indenture or of any indenture supplemental hereto upon the request or with the consent of any person who at the time is the holder or registered owner of any bond or bonds shall be conclusive and binding upon any future holder or registered owner of the same bond or bonds.

**Section 16.** If the Trustee has or shall acquire any conflicting interest as defined in this Section, (a) the Trustee shall, within ninety (90) days after ascertaining that it has such conflicting interest, either eliminate such conflicting interest or resign in the manner hereinafter provided, such resignation to become effective upon the appointment of a successor Trustee and such successor's acceptance of such appointment, and the Company shall take prompt steps to have a successor appointed in the manner hereinafter provided in Section 20 of this Article; and (b) in the event that the Trustee shall fail to comply with the provisions of the preceding clause (a) of this Section, the Trustee shall, within ten (10) days after the expiration of such ninety (90) day period, transmit notice of such failure to the holders and registered owners of the bonds in the manner provided in subdivision (C) of Section 10 of this Article; and (c) any bondholder who has been a bona fide holder or registered owner of bonds for at least six (6) months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee, and the appointment of a successor, if the Trustee fails, after written request by such holder, to comply with the provisions of clause (a) of this Section. For the purposes of this Section the Trustee shall be deemed to have a conflicting interest if

(1) the Trustee is trustee under another indenture under which any other securities, or certificates of interest or participation in other securities, of the Company are outstanding, unless such other Indenture is a Collateral Trust Indenture under which the only collateral consists of bonds issued hereunder;

(2) the Trustee or any of its directors or executive officers is an obligor upon the bonds issued under this Indenture, or an underwriter for the Company;

(3) the Trustee directly or indirectly controls or is directly or indirectly controlled by or is under direct or indirect common control with the Company or an underwriter for the Company;

(4) the Trustee or any of its directors or executive officers is a director, officer, partner, employee, appointee, or representative of the Company, or of an underwriter (other than the Trustee itself) for the Company who is currently engaged in the business, of underwriting, except that (a) one individual may be a director or an executive officer of the Trustee and a director or an executive officer of the Company, but may not be at the same time an executive officer of both the Trustee and of the Company, and (b) if and so long as the number of directors of the Trustee in office is

more than nine, one additional individual may be a director or an executive officer of the Trustee and a director of the Company, and (c) the Trustee may be designated by the Company or by any underwriter for the Company to act in the capacity of transfer agent, registrar, custodian, paying agent, fiscal agent, escrow agent, or depository, or in any other similar capacity, or, subject to the provisions of paragraph (1) of this Section, to act as trustee, whether under an indenture or otherwise;

(5) ten per cent. (10%) or more of the voting securities of the Trustee is beneficially owned either by the Company or by any director, partner, or executive officer of the Company, or twenty per cent. (20%) or more of such voting securities is beneficially owned, collectively, by any two or more of such persons; or ten per cent. (10%) or more of the voting securities of the Trustee is beneficially owned either by an underwriter for the Company or by any director, partner or executive officer of any such underwriter, or is beneficially owned, collectively, by any two or more such persons;

(6) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default as hereinafter in this Section defined, (a) five per cent. (5%) or more of the voting securities, or ten per cent. (10%) or more of any other class of security, of the Company, not including bonds issued under this Indenture and securities issued under any other indenture under which the Trustee is also trustee, or (b) ten per cent. (10%) or more of any class of security of an underwriter for the Company;

(7) the trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default as hereinafter in this Section defined, five per cent. (5%) or more of the voting securities of any person who, to the knowledge of the Trustee, owns ten per cent. (10%) or more of the voting securities of, or controls directly or indirectly or is under direct or indirect common control with, the Company;

(8) the trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default as hereinafter in this Section defined, ten per cent. (10%) or more of any class of security of any person who, to the knowledge of the Trustee, owns fifty per cent. (50%) or more of the voting securities of the Company; or

(9) the Trustee owns, on May 15 in any calendar year, in the capacity of executor, administrator, testamentary or *inter vivos* trustee, guardian, committee or conservator, or in any other similar capacity, an aggregate of twenty-five per cent. (25%) or more of the voting securities, or of any class of security, of any person, the beneficial ownership of a specified percentage of which would have constituted a conflicting interest under paragraphs (6), (7) or (8) of this Section. As to any such securities of which the Trustee acquired ownership through becoming executor, administrator, or testamentary trustee of an estate which included them, the provisions of the preceding sentence shall not apply, for a period of not more than two (2) years from the date of such acquisition, to the extent that such securities included in such estate do not exceed twenty-five per cent. (25%) of such voting securities or twenty-five per cent. (25%) of any such class of security. Promptly after May 15 in each calendar year, the Trustee shall make a check of its holdings of such securities in any of the above-mentioned capacities as of such May 15. If the Company fails to make payment in full of principal or interest

under this Indenture when and as the same becomes due and payable, and such failure continues for thirty (30) days thereafter, the Trustee shall make a prompt check of its holdings of such securities in any of the above-mentioned capacities as of the date of the expiration of such thirty-day period, and after such date, notwithstanding the foregoing provisions of this paragraph (9), all such securities so held by the Trustee, with sole or joint control over such securities vested in it, shall, so long as such failure shall continue, be considered as though beneficially owned by the Trustee, for the purposes of paragraphs (6), (7) and (8) of this Section.

The specification of percentages in paragraphs (5) to (9), inclusive, of this Section shall not be construed as indicating that the ownership of such percentages of the securities of a person is or is not necessary or sufficient to constitute direct or indirect control for the purposes of paragraphs (3) or (7) of this Section.

For the purposes of paragraphs (6), (7), (8) and (9) of this Section, (a) the terms “security” and “securities” shall include only such securities as are generally known as corporate securities, but shall not include any note or other evidence of indebtedness issued to evidence an obligation to repay moneys lent to a person by one or more banks, trust companies, or banking firms, or any certificate of interest or participation in any such note or evidence of indebtedness; (b) an obligation shall be deemed to be in default when a default in payment of principal shall have continued for thirty (30) days or more, and shall not have been cured; and (c) the Trustees shall not be deemed the owner or holder of (i) any security which it holds as collateral security (as trustee or otherwise) for an obligation which is not in default as defined above, or (ii) any security which it holds as collateral security under this Indenture, irrespective of any default hereunder, or (iii) any security which it holds as agent for collection, or as a custodian, escrow agent or depositary, or in any similar representative capacity.

For the purposes of this Section, the term “underwriter,” when used with reference to the Company, means every person who, within three (3) years prior to the time as of which the determination is made, was an underwriter (as defined in Section 303(4) of the Trust Indenture Act of 1939) of any security of the Company outstanding at the time of such determination.

For the purposes of this Section, the terms “directors,” “executive officers” and “voting securities” shall have the meanings assigned to such terms in Section 303 of the Trust Indenture Act of 1939.

For the purposes of this Section, the term “person” shall have the meaning assigned to such term in Section 2 of the Securities Act of 1933.

The percentages of voting securities and other securities specified in this Section shall be calculated in accordance with the following provisions:

- (a) A specified percentage of the voting securities of a person means such amount of the outstanding voting securities of such person as entitles the holder or holders thereof to cast such specified percentage of the aggregate votes which the holders of all the outstanding voting securities of such person are entitled to cast in the direction or management of the affairs of such person.

(b) A specified percentage of a class of securities of a person means such percentage of the aggregate amount of securities of the class outstanding.

(c) The term “amount,” when used in regard to securities, means the principal amount if relating to evidences of indebtedness, the number of shares if relating to capital shares, and the number of units if relating to any other kind of security.

(d) The term “outstanding” means issued and not held by or for the account of the issuer. The following securities shall not be deemed outstanding within the meaning of this definition:

(1) Securities of an issuer held in a sinking fund relating to securities of the issuer of the same class;

(2) Securities of an issuer held in a sinking fund relating to another class of securities of the issuer, if the obligation evidenced by such other class of securities is not in default as to principal or interest or otherwise;

(3) Securities pledged by the issuer thereof as security for an obligation of the issuer not in default as to principal or interest or otherwise; or

(4) Securities held in escrow if placed in escrow by the issuer thereof;

provided, however, that any voting securities of an issuer shall be deemed outstanding if any person other than the issuer is entitled to exercise the voting rights thereof.

(e) A security shall be deemed to be of the same class as another security if both securities confer upon the holder or holders thereof substantially the same rights and privileges; provided, however, that, in the case of secured evidences of indebtedness, all of which are issued under a single indenture, differences in the interest rates or maturity dates of various series thereof shall not be deemed sufficient to constitute such series different classes; and provided, further, that, in the case of unsecured evidences of indebtedness, differences in the interest rates or maturity dates of various series thereof shall not be deemed sufficient to constitute such series different classes; and provided, further, that, in the case of unsecured evidences of indebtedness, differences in the interest rates or maturity dates thereof shall not be deemed sufficient to constitute them securities of different classes, whether or not they are issued under a single indenture.

**Section 17.** (A) Subject to the provisions of subdivision (B) of this Section, if the Trustee shall be or shall become a creditor, directly or indirectly, secured or unsecured, of the Company (other than in a relationship of the nature specified in subdivision (F) of this Section) within four (4) months prior to a default, as defined in subdivision (E) of this Section or subsequent to such a default, then, unless and until such default shall be cured, the Trustee shall set apart and hold in a special account for the benefit of the Trustee individually and of the bondholders, and the holders of other indenture securities as defined in said subdivision (E):



(1) an amount equal to any and all reductions in the amount due and owing to the Trustee upon any claim as such creditor in respect of principal or interest, effected after the beginning of such four months' period and valid as against the Company and its other creditors, except any such reduction resulting from the receipt or disposition of any property described in Paragraph (2) of this subdivision (A), or from the exercise of any right of set-off which the Trustee could have exercised if a petition in bankruptcy had been filed by or against the Company upon the date of such default; and

(2) all property received by the Trustee in respect of any claim as such creditor, either as security therefor, or in satisfaction or composition thereof, or otherwise, after the beginning of such four months' period, or an amount equal to the proceeds of any such property, if disposed of, subject, however, to the rights, if any of the Company and its other creditors in such property or such proceeds.

(B) Nothing contained in this Section shall affect the right of the Trustee:

(1) to retain for its own account (a) payments made on account of any such claim described in subdivision (A) of this Section by any person, other than the Company, who is liable thereon, and (b) the proceeds of the bona fide sale of any such claim by the Trustee to a third person, and (c) distributions made in cash, securities or other property in respect of claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Bankruptcy Act or applicable State law;

(2) to realize, for its own account, upon any property held by it as security for any such claim, if such property was so held prior to the beginning of such four months' period;

(3) to realize, for its own account, but only to the extent of the claim hereinafter mentioned, upon any property held by it as security for any such claim, if such claim was created after the beginning of such four months' period and such property was received as security therefor simultaneously with the creation thereof, and if the Trustee shall sustain the burden of proving that at the time such property was so received the Trustee had no reasonable cause to believe that a default, as defined in subdivision (E) of this Section, would occur within four (4) months; or

(4) to receive payment on any claim referred to in paragraph (2) or (3) of this subdivision (B), against the release of any property held as security for such claim as provided in paragraph (2) or (3), as the case may be, of this subdivision (B), to the extent of the fair value of such property.

For the purposes of paragraphs (2), (3) and (4) of this subdivision (B), property substituted after the beginning of such four months' period for property held as security at the time of such substitution shall, to the extent of the fair value of the property released, have the same status as the property released, and, to the extent that any claim referred to in paragraphs (2), (3) and (4) of this subdivision (B) is created in renewal of or in substitution for or for the



purpose of repaying or refunding any preexisting claim of the Trustee as such creditor, such claim shall have the same status as such preexisting claim of the Trustee.

(C) If the Trustee shall be required to account, as in this Section provided, the funds and property held in such special account and the proceeds thereof shall be apportioned between the Trustee, the bondholders, and the holders of other indenture securities in such manner that the Trustee, the bondholders, and the holders of other indenture securities realize, as a result of payments from such special account and payments of dividends on claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Bankruptcy Act or applicable State law, the same percentage of their respective claims, figured before crediting to the claim of the Trustee anything on account of the receipt by the Trustee from the Company of the funds and property in such special account and before crediting to the respective claims of the Trustee, of the bondholders, and of the holders of other indenture securities dividends on claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the Bankruptcy Act or applicable State law, but after crediting thereon receipts on account of the indebtedness represented by their respective claims from all sources other than from such dividends and from the funds and property so held in such special account. As used in this subdivision (C) with respect to any claim, the term “dividends” shall include any distribution with respect to such claim, in bankruptcy or receivership or in proceedings for reorganization pursuant to the Bankruptcy Act or applicable State law, whether such distribution is made in cash, securities, or other property, but shall not include any such distribution with respect to the secured portion, if any, of such claim. The court in which such bankruptcy, receivership or proceeding for reorganization is pending shall have jurisdiction (i) to apportion between the Trustee, the bondholders, and the holders of other indenture securities, in accordance with the provisions of this subdivision (C), the funds and property held in such special account and the proceeds thereof, or (ii) in lieu of such apportionment, in whole or in part, to give to the provisions of this subdivision (C) due consideration in determining the fairness of the distributions to be made to the Trustee, the bondholders, and the holders of other indenture securities with respect to their respective claims, in which event it shall not be necessary to liquidate or to appraise the value of any securities or other property held in such special account or as security for any such claim, or to make a specific allocation of such distribution as between the secured and unsecured portions of such claims, or otherwise to apply the provisions of this subdivision (C) as a mathematical formula.

(D) If the Trustee shall have resigned or been removed after the beginning of such four months’ period, it shall nevertheless be subject to the provisions of this Section as though such resignation or removal had not occurred. If the Trustee shall have resigned or been removed prior to the beginning of such four months’ period, it shall nevertheless be subject to the provisions of this Section, as though such resignation or removal had not occurred, if and only if the receipt of property or reduction of claim which would have given rise to the obligation to account, if the Trustee had continued as such Trustee, occurred after the beginning of such four months’ period and within four (4) months after such resignation or removal.

(E) As used in this Section, the term “default” means any failure to make payment in full of principal or interest, when and as the same becomes due and payable, on the bonds or on the other indenture securities; and the term “other indenture securities” means securities upon which the Company is an obligor (as defined in the Trust Indenture Act of 1939) outstanding

under any other indenture (a) under which the Trustee is also trustee, (b) which contains provisions substantially similar to the provisions of this Section, and (c) under which a default exists at the time of the apportionment of the funds and property held in said special account.

(F) The Trustee shall not be required to account, as provided in this Section, if the creditor relationship arises from:

(1) the ownership or acquisition of securities issued under any indenture, or any security or securities having a maturity of one (1) year or more at the time of acquisition by the Trustee;

(2) advances authorized by a receivership or bankruptcy court of competent jurisdiction, or by the terms and provisions of this Indenture, for the purpose of preserving the property subject to the lien hereof or of discharging tax liens or other prior liens or encumbrances on the trust estate, if notice of such advance and of the circumstances surrounding the making thereof is given to the bondholders, at the time and in the manner provided in this Indenture;

(3) disbursements made in the ordinary course of business in the capacity of trustee under an indenture, transfer agent, registrar, custodian, paying agent, fiscal agent or depository, or other similar capacity;

(4) an indebtedness created as a result of services rendered or premises rented; or an indebtedness created as a result of goods or securities sold in a cash transaction, as defined in this subdivision (F);

(5) the ownership of stock or of other securities of a corporation organized under the provisions of Section 25(a) of the Act approved December 23, 1913, known as the Federal Reserve Act, as amended, which is directly or indirectly a creditor of the Company; or

(6) the acquisition, ownership, acceptance, or negotiation of any drafts, bills of exchange, acceptances, or obligations, which fall within the classification of self-liquidating paper, as defined in this subdivision (F).

The term "security" or "securities," as used in this subdivision (F), shall have the same meaning as the definition of the term "security" in Section 2 of the Securities Act of 1933.

The term "cash transaction," as used in paragraph (4) of this subdivision (F), means any transaction in which full payment for goods or securities sold is made within seven (7) days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand.

The term "self-liquidating paper," as used in paragraph (6) of this subdivision (F), means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing, manufacture, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of or a lien upon, the goods, wares or merchandise or the

receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the Company arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

**Section 18.** The Trustee, or any successor or successors hereafter appointed, or any of them, may at any time resign and be discharged of the trusts hereby created by giving written notice thereof to the Company, specifying a date when such resignation shall take effect, at least sixty (60) days preceding the date on which such resignation is to take effect and, in the case of resignation of the Trustee, by publishing such notice once in each of not less than three (3) successive calendar weeks immediately preceding the date on which such resignation is to take effect, in an authorized newspaper in the City of Philadelphia, Pennsylvania, and such resignation shall take effect upon the day specified in such notice unless previously a successor trustee shall have been appointed by the Company or by the bondholders as hereinafter provided, in which event such resignation shall take effect immediately upon the appointment of such successor trustee.

**Section 19.** The Trustee, or any successor or successors hereafter appointed, or any of them, may be removed at any time by any instrument or concurrent instruments in writing filed with the Trustee and signed by the holders or registered owners of a majority in principal amount of the bonds then outstanding hereunder.

**Section 20.** In case at any time any Trustee shall resign or shall be removed, or shall become incapable of acting, or shall be dissolved or liquidated, or be in the process of dissolution or liquidation, or shall be adjudged a bankrupt or adjudged insolvent, or if a receiver of any Trustee or of its property shall be appointed, or if the Comptroller of the Currency or other public officer shall take charge or control of any Trustee or of its property or affairs, a successor or successors may be appointed by the holders or registered owners of a majority in principal amount of the bonds then outstanding hereunder, by an instrument or concurrent instruments in writing signed and acknowledged by such bondholders or by their attorneys-in-fact duly authorized, and delivered to such new Trustee, notification thereof having been given to the Company and predecessor Trustee; provided, nevertheless, that until a new Trustee shall be appointed by the bondholders as aforesaid, the Company by an instrument executed by order of its Board of Directors and duly acknowledged by its proper officers, may appoint a Trustee to fill such vacancy until a new Trustee shall be appointed by the bondholders as herein authorized. The Company shall publish notice of any such appointment by it made at least once in each of not less than two (2) successive calendar weeks, in a daily newspaper printed in the English language and published and of general circulation in the City of Philadelphia, Pennsylvania. Any new Trustee appointed by the Company shall, immediately and without further action, be superseded by a Trustee appointed by the bondholders under the foregoing provisions of this Section; provided, however, that any new Trustee appointed by the Company shall not be superseded by a Trustee appointed by the bondholders unless such appointment by the bondholders shall have been made within one year subsequent to the appointment of such new Trustee by the Company.

If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within six (6) months after a vacancy shall have occurred in

the office of Trustee, the holder of any bond outstanding hereunder or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

**Section 21.** Any successor trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor trustee, and also to the Company, an instrument accepting such appointment hereunder, and thereupon such successor trustee, without any further act, deed or conveyance shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessor in trust hereunder, with like effect as if originally named as trustee or co-trustee herein; but the trustee ceasing to act, shall nevertheless, on the written request of the Company, or of the successor trustee, but at the cost and expense of the Company, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor trustee all the right, title and interest of the trustee to which he or it succeeds, and to the trust estate and such rights, powers, trusts, duties and obligations, and the trustee ceasing to act shall also, upon like request, pay over, assign and deliver to the successor trustee any money or other property subject to the lien of this Indenture, which may then be in his or its possession. Should any deed, conveyance or instrument in writing from the Company be required by the new trustee for more fully and certainly vesting in and confirming to such new trustee such estate, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, be executed, acknowledged and delivered by the Company. A recital in any instrument executed by the Company and the new trustee that the appointment of such new trustee has been made by the requisite number of bondholders shall be deemed conclusive as to the appointment of such new trustee by such requisite number of bondholders. The resignation of any trustee and the instrument or instruments removing any trustee and appointing a successor trustee hereunder, together with deeds, conveyances and other instruments provided for in this Article shall forthwith, at the expense of the Company, be filed for record in the same office or offices, if any, in which this Indenture shall have been recorded.

**Section 22.** Any bank or trust company into which the Trustee or any successor to it in the trusts created by this Indenture may be merged, or converted, or with which it or any successor to it may be consolidated, or any bank or trust company resulting from any merger, conversion or consolidation to which the Trustee or any successor to it shall be a party, or which shall otherwise succeed to the business and affairs of the Trustee, shall be successor Trustee under this Indenture without the execution or filing of any paper or any further act on the part of either of the parties hereto, anything herein contained to the contrary notwithstanding, provided such bank or trust company shall be qualified under the provisions of Section 1 of this Article. In case any of the bonds issuable under this Indenture shall have been authenticated, but not delivered, any such successor trustee may adopt the certificate of authentication of The Pennsylvania Company for Insurances on Lives and Granting Annuities, or of any successor to it, as Trustee hereunder, and deliver the same so authenticated; and in case any of the bonds issuable hereunder shall not have been authenticated, any successor Trustee may authenticate such bonds whether in the name of any predecessor Trustee or in the name of such successor Trustee, and in all such cases such authentication shall have the full force and effect which anywhere in said bonds or in this Indenture it is provided that the authentication of the Trustee shall have; provided, however, that the right to authenticate bonds in the name of The

Pennsylvania Company for Insurances on Lives and Granting Annuities, shall extend only to its successor by merger, conversion or consolidation.

**Section 23.** The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and of the bondholders allowed in any judicial proceedings relative to the Company or its creditors or its property. In case of any receivership, insolvency, bankruptcy, reorganization or other similar proceedings affecting the Company or its property, the Trustee, irrespective of whether the principal of the bonds shall then be due and payable and irrespective of whether the Trustee shall have made any demand for such payment, shall be entitled and empowered either in its own name or as trustee of an express trust or as attorney in fact for the holders of the bonds and coupons, or in any one or more of such capacities, to file a proof of claim for the whole amount of principal and interest (with interest upon such overdue principal and, to the extent that payment of such interest is enforceable under applicable law, upon overdue installments of interest at the rate of six per centum (6%) per annum) which may be or become owing and unpaid with respect to the bonds and for any additional amount which may be or become payable by the Company hereunder, without regard to or deduction for any amount which may have been or which may thereafter be received, collected or realized by the Trustee from or out of the mortgaged property or any part thereof or from or out of the proceeds thereof or any part thereof; but nothing in this Indenture contained shall authorize the Trustee to accept or consent to any composition or plan of reorganization on behalf of any bondholder.

**Section 24.** Whenever it is provided in this Indenture that the Trustee shall take any action upon the happening of a specified event or upon the fulfillment of any condition or upon the request of the Company or of bondholders, the Trustee in taking such action shall have full power to give any and all notices and to do any and all acts necessary and incidental to such action.

#### **ARTICLE XIV.**

##### **Evidence of Rights of Bondholders and Ownership of Bonds.**

**Section 1.** Any request, direction, declaration or other instrument which this Indenture may require or permit to be signed and executed by the bondholders, may be in any number of concurrent instruments of similar tenor, and shall be signed and executed by such bondholders in person or by attorney appointed in writing. Proof of the execution of any such request, direction, declaration or other instrument, or of a writing appointing any such attorney, or of the holding by any person of the bonds or coupons appertaining thereto, shall be sufficient for any purpose of this Indenture (except as otherwise expressly provided herein) if made in the following manner:

(a) The fact and date of the execution by any person of any such request, direction, declaration or other instrument or writing may be proved by the certificate of any notary public, or other officer authorized to take acknowledgments of deeds in the State in which he purports to act, that the persons signing such request, direction, declaration or other instrument of writing acknowledged to him the execution thereof, or by an affidavit of a witness to such execution;

(b) The amount and description of bonds transferable by delivery held by any person executing such request, direction, declaration or other instrument as a bondholder, and the issue and serial numbers thereof, held by such person, and the date of his holding the same, may be proved by a certificate executed by any trust company, bank, banker, or other depository, wherever situated, if such certificate shall be deemed by the Trustee to be satisfactory, showing that at the date therein mentioned such person had on deposit with such depository the bonds described in such certificate;

(c) The ownership of registered bonds without coupons and of coupon bonds registered as to principal shall be proved by the registry books of the Company herein provided for or by a certificate of the custodian thereof.

The Trustee may, nevertheless, in its discretion, require further proof in cases where it deems further proof desirable, and may require the production of any bond or bonds, and shall not be bound to recognize any person as a bondholder unless and until his title to the bonds held by him is proved in a manner satisfactory to the Trustee.

Any request, consent or assent of the holder or registered owner of any bond shall bind all future holders and registered owners of the same bond, or any bond or bonds issued in lieu thereof or in exchange therefor, in respect of anything done, omitted, or suffered by the Company or the Trustee in pursuance thereof.

**Section 2.** The Company and the Trustee may deem and treat the bearer of any coupon bond outstanding hereunder, which shall not at the time be registered in the name of the owner thereof as hereinbefore authorized, and the holder of any coupon for interest on any such bond, whether such bond shall be registered or not, as the absolute owner of such bond or coupon, as the case may be, for the purpose of receiving payment thereof or on account thereof or for all other purposes, and neither the Company nor the Trustee shall be affected by any notice to the contrary.

The Company and the Trustee may deem and treat any person in whose name any registered bond without coupons outstanding hereunder shall be registered upon the books of the Company, as hereinbefore provided, as the absolute owner of such bond for the purpose of receiving payment of or on account of the principal of and interest on such bond and for all other purposes, and they may deem and treat the person in whose name any coupon bond shall be so registered as the absolute owner thereof for the purpose of receiving payment of or on account of the principal thereof and for all other purposes except to receive payment of interest represented by detached coupons; and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon any bond to the extent of the sum or sums so paid, and neither the Company nor the Trustee shall be affected by any notice to the contrary.

## ARTICLE XV.

### Meetings and Consents of Bondholders.

**Section 1.** Modifications and alterations of this Indenture, of any indenture supplemental hereto, and of the rights and obligations of the Company and of the holders of the bonds and coupons may be made as hereinafter provided in this Article.

**Section 2.** The Trustee may at any time call a meeting of the bondholders, and it shall call such a meeting on the written request of the Company or of the holders of not less than twenty-five per cent. (25%) in principal amount of the bonds then outstanding. In the event of the Trustee's failing for ten days to call a meeting after being thereunto requested as above set forth, the holders of twenty-five per cent. (25%) or more in principal amount of the bonds then outstanding, or the Company pursuant to resolution of the Board of Directors, may call such meeting. Every such meeting called at the instance of the Trustee shall be held at the principal office of the Trustee in the City of Philadelphia, Pennsylvania, but if called by or at the request of the bondholders or of the Company, may be held at such other place in the City of Philadelphia, Pennsylvania, or at such place in the Borough of Manhattan, The City of New York, New York, as may be specified in the notice calling such meeting or requesting such meeting to be called. If such meeting is called by the Trustee, written notice thereof, stating the place and time thereof and in general terms the business to be submitted, shall be mailed by the Trustee not less than thirty (30) days before such meeting,

(a) To the registered holders of coupon bonds registered as to principal and of registered bonds without coupons then outstanding addressed to them at their addresses appearing, if at all, on the bond registers of the Company,

(b) To each holder of any coupon bond not registered as to principal who shall have filed with the Trustee an address for notices, addressed to him at such address, and

(c) To the Company addressed to it at its office or agency in the City of Philadelphia, Pennsylvania,

and shall be published by the Trustee at least two times in a daily newspaper or newspaper printed in the English language and published and of general circulation in the city or cities in which the principal of the bonds is payable; provided, however, that the mailing of any such notice shall in no case be a condition precedent to the validity of any action taken at such meeting. The first such publication of notice of any such meeting shall be made at least thirty (30) days prior to the meeting and the second such publication shall be made in any calendar week after the calendar week in which the first publication is made and preceding the meeting. If such meeting is called by the bondholders or the Company, after failure of the Trustee to call the same after being requested so to do in accordance with this Section, notice of such meeting shall be sufficient for all purposes hereof if given by newspaper publication as aforesaid, stating the place and time of the meeting and in general terms the business to be submitted. Any meeting of bondholders shall be valid without notice if the holders of all bonds then outstanding are present in person or by proxy and if the Company and the Trustee are present by duly authorized

representatives, or if notice is waived before or after the meeting by the Company, by the holders of all bonds outstanding and by the Trustee.

All holders of bonds outstanding at the time of such meeting shall be entitled to vote thereat; except that

(a) with respect to coupon bonds which have been stamped or upon which has been made a notation recording the issue of a certificate for voting at such meeting issued in the manner provided in Section 3 of this Article (whether or not such bonds are thereafter registered as to principal) only the holder of such certificate and his proxies shall be entitled to vote such bonds at said meeting and any adjournment thereof;

(b) the Trustee may, and, upon request of the Company or of the holders of not less than twenty-five per cent. (25%) in principal amount of the bonds then outstanding, shall, fix a day not exceeding ninety (90) days preceding the date for which the meeting is called as a record date for the determination of the registered holders of coupon bonds registered as to principal and holders of registered bonds without coupons entitled to notice of and to vote at such meeting and any adjournment thereof, and only such holders of coupon bonds registered as to principal and such holders of registered bonds without coupons who shall have been such holders on the date so fixed, and who are entitled to vote such bonds at the meeting, shall be entitled to receive notice of such meeting, and, subject to the provisions of Paragraph (aa) of this Section, the coupon bonds registered as to principal on such record date and registered bonds without coupons may be voted at such meeting and any adjournment thereof only by the holders, and their proxies, who shall have been registered holders of such bonds on such record date, notwithstanding any transfer of any such bonds on the books of the Company after such date. If any coupon bonds registered as to principal on such record date shall thereafter be transferred to bearer, a suitable notation may be made upon such bonds at the time of their transfer from such registered holders' names to record the fact that the registered holders of such bonds on said record date and their proxies shall be the only persons entitled to vote such bonds at the meeting. If any registered bonds without coupons are transferred or exchanged for coupon bonds after such record date, a suitable notation may be made on the bonds issued on such transfer or exchange at the time thereof to record the fact that the registered holders on said record date of the bonds so transferred or exchanged and their proxies shall be the only persons entitled to vote at the meeting the bonds so issued on such transfer or exchange. If any bonds in bearer form on such record date are thereafter registered as to principal and before any certificate as provided in Section 3 of this Article has been issued with respect to such bonds, the first registered holder to whom such bonds in bearer form are transferred prior to the meeting shall be deemed to have been a registered holder of such bonds on the record date for the purposes of this Article, except as to his right to receive notice of such meeting; and

(c) no one shall be entitled to vote in respect of any bond owned by or held by, for the account of or for the benefit or interest of, the Company.

**Section 3.** Attendance by bondholders at any meeting may be in person or by proxy. In order that bearer bonds may be voted at any such bondholders' meeting without being produced



thereat, the Trustee may, and, upon request of the Company or of the holders of not less than twenty-five per cent. (25%) in principal amount of the bonds then outstanding, shall make and from time to time vary such regulations as it shall deem fit permitting holders of bearer bonds to submit such bonds to, or deposit their bonds with, any banks, bankers or trust companies or their duly authorized agents, which shall issue to or upon the order of the holders of such bonds certificates with respect thereto entitling the holders thereof to be present and vote at any such meeting and to appoint proxies to represent them and vote for them at any such meeting in the same way as if the persons so present and voting, either personally or by proxy, were the actual bearers of the bonds, in respect of which such certificates shall have been issued, and any regulations so made shall be binding upon the Trustee, the Inspectors of Votes and all bondholders. Unless the bonds so received are to be kept on deposit pending the holding of such bondholders' meeting and any adjournments thereof, said banks, bankers or trust companies, or their duly authorized agents, upon issuing any such certificates shall make a notation upon the bonds with respect to which the certificates are to be issued recording the issue of such certificates, and shall forthwith return the bonds bearing such notation to the persons entitled thereto. Thereafter the bonds bearing such notation shall not be entitled to be voted at the meeting except by the holders, and their duly authorized proxies or agents, of the certificates issued with respect to such bonds.

Each person seeking to attend or vote at any meeting of bondholders must, if required by any authorized representative of the Trustee or of the Company, produce such proof of bond or certificate of ownership or personal identity as shall be satisfactory to the Inspectors of Votes. Every proxy shall be signed by the bondholder or certificate holder himself or by his duly authorized attorney, and shall be witnessed; and its genuineness, if questioned, shall be established to the satisfaction of the Inspectors of Votes. All proxies and certificates presented at any meeting shall be delivered to the Inspectors of Votes and filed with the Trustee.

Officers and nominees of the Company and of the Trustee may attend at any such meeting and take part therein, but shall not be entitled to vote thereat except to the extent that they may be bondholders or may hold proxies of bondholders or may hold certificates entitling them to vote issued as in this Section provided.

**Section 4.** Persons named by the Trustee if represented at the meeting shall act as temporary Chairman and Secretary, respectively, of the meeting, but if the Trustee shall not be represented or shall fail to nominate such persons or if any person so nominated shall not be present, then the bondholders and holders of certificates, issued as provided in Section 3 of this Article, and proxies present shall by a majority vote, irrespective of the amount of their holdings, elect other persons from those present to fill such vacancy or vacancies. A permanent Chairman and a permanent Secretary of such meeting shall be elected from those present by a majority in principal amount of the bonds represented by the bondholders and holders of such certificates and proxies present. The Trustee, if represented at the meeting, shall appoint two Inspectors of Votes who shall count all votes cast at such meeting, except votes on the election of a Chairman and Secretary as aforesaid, and who shall make and file with the Secretary of the meeting their verified written report in duplicate of all such votes so cast at said meeting. If the Trustee shall not be represented at the meeting or shall fail to nominate such Inspectors of Votes or if either Inspector of Votes fails to attend the meeting, the vacancy shall be filled by appointment by the permanent Chairman of the meeting.

**Section 5.** The holders or registered owners of not less than seventy-five per cent. (75%) in principal amount of the bonds entitled to be voted at any such meeting (or persons entitled to vote the same) must be present at such meeting in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn. If such meeting is adjourned by less than a quorum for more than seven (7) days, notice thereof shall forthwith be mailed by the Trustee, if such meeting shall have been called by the Trustee, to the persons specified in paragraphs (a), (b) and (c) of Section 2 of this Article, and shall be published at least once during the period of such adjournment in the newspaper or newspapers specified in said Section 2, such publication to be made at least five (5) days prior to the date of the adjourned meeting. The failure to mail such notice as aforesaid shall in no case affect the validity of any action taken at any meeting held pursuant to such adjournment. If such meeting shall have been called by the bondholders or by the Company after failure of the Trustee to call the same after being requested so to do in accordance with Section 2 of this Article, notice of such adjournment shall be given by the Chairman and Secretary of the meeting in the newspaper or newspapers specified in said Section 2 in the manner specified in this Section and shall be sufficient if so given.

**Section 6.** Any modifications or alterations of this Indenture, of any indenture supplemental hereto, and of the rights and obligations of the Company and of the holders of the bonds and coupons in any particular may be made at a meeting of bondholders duly convened and held in accordance with the provisions of this Article, but only by a resolution duly adopted by the affirmative vote, in person or by proxy, of the holders or registered owners of seventy-five per cent. (75%) in principal amount or more of the bonds (or persons entitled to vote the same) entitled to be voted upon any such modification or alteration when such meeting is held, and approved by resolution of the Board of Directors of the Company as hereinafter specified; provided, however, that no such modification or alteration shall be made which shall reduce the percentage of bonds the consent of the holders or registered owners of which is required for any such modification or alteration or which shall affect the terms of payment of the principal of or interest on the bonds, or permit the creation by the Company of any lien prior to or on a parity with the lien of the Indenture with respect to any property subject to the lien of the Indenture as a first mortgage lien thereon, or which shall affect the rights of the holders or registered owners of less than all of the bonds of any series affected thereby. Any action permitted under this Section and taken at any meeting of the bondholders affecting the rights under this Indenture or any indenture supplemental hereto of the holders of one or more, but less than all, of the series of bonds outstanding hereunder, shall not be effective unless such action shall also have received the affirmative vote, in person or by proxy, of the holders or registered owners of at least seventy-five per cent. (75%) in principal amount of the bonds of each of the series so affected (or persons entitled to vote the same) entitled to be voted upon any such action when such meeting is held. For all purposes of this Article the Trustee shall be entitled to rely upon an Opinion of Counsel with respect to the extent, if any, as to which any action taken at such meeting affects the rights under this Indenture or under any indenture supplemental hereto of any holders or registered owners of bonds then outstanding.

Bonds owned or held by, for the account of or for the benefit or interest of, the Company shall not be deemed outstanding for the purpose of any vote or of any calculation of outstanding bonds provided for in this Article or for the purpose of the quorum provided for in Section 5 of this Article hereof.

For all purposes of this Article, the Trustee, the Chairman and Secretary of any meeting held pursuant to this Article and the Inspectors of Votes at any such meeting, shall (unless challenged by any bondholder at such meeting) be entitled conclusively to rely upon a notification in writing by the Company, specifying the principal amount of bonds owned by or held by, for the account of or for the benefit or interest of, the Company, or stating that no bonds are so owned or held. In case the meeting shall have been called otherwise than on the written request of the Company, the Trustee, if the notification by the Company is not furnished as in this paragraph provided, shall be entitled conclusively to assume that none of the bonds outstanding under this Indenture are so owned or held.

**Section 7.** A record in duplicate of the proceedings of each meeting of bondholders shall be prepared by the Secretary of the meeting and shall have attached thereto the original reports of the Inspectors of Votes, and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and a copy of the notice of adjournment thereof, if required under Section 5 of this Article, and showing that said notices were published as provided in Section 2 of this Article, and in a proper case, as provided in Section 5 of this Article, such record shall be signed and verified by the affidavits of the permanent Chairman, the permanent Secretary of the meeting, and a duly authorized representative of the Trustee if such a representative was present at the meeting, and one duplicate thereof shall be delivered to the Company and the other to the Trustee for preservation by the Trustee. Any record so signed and verified shall be proof of the matters therein stated until the contrary is proved, and such meeting shall be deemed conclusively to have been duly convened and held, and any resolution or proceeding stated in such record to have been adopted or taken shall be deemed conclusively to have been duly adopted or taken by such meeting. A true copy of any resolution adopted by such meeting shall be mailed by the Trustee to each holder of coupon bonds registered as to principal and each holder of registered bonds without coupons outstanding addressed to him at his address appearing, if at all, on the bond register of the Company and to each holder of any coupon bond not registered as to principal who shall have filed with the Trustee an address for notices, addressed to him at such address (but failure to mail copies of such resolution as aforesaid shall not affect the validity thereof), and a copy or summary thereof shall be published by the Company at least once in the newspaper or newspapers specified in Section 2 of this Article, such publication to be made not more than fifteen (15) days after the adoption of such resolution. Proof of such publication and mailing by the affidavit or affidavits of some person or persons having knowledge of the facts shall be filed with the Trustee. Such bondholders' resolution shall not become effective unless and until approved by the Board of Directors of the Company as evidenced by a directors' resolution filed with the Trustee, and any resolution of bondholders so adopted and approved shall be deemed conclusively to be binding upon the Company, the Trustee and the holders of all bonds and coupons, except as otherwise specifically provided in this Article; provided, that no such resolution of the bondholders, or of the Board of Directors of the Company, shall in any manner be so construed as to change or modify any of the rights or obligations of the Trustee without its written assent thereto. Nothing in this Article contained shall be deemed or construed to authorize or permit, by reason of any call of a meeting of bondholders or of any right expressly or impliedly conferred hereunder to make such call, any hindrance or delay in the exercise of any right or rights conferred upon or reserved to the Trustee or to the bondholders under any of the provisions of this Indenture or of the bonds.

**Section 8.** Bonds authenticated and delivered after the date of any bondholders' meeting may bear a notation, in form approved by the Trustee, as to the action taken at meetings of bondholders theretofore held, and, in such case, upon demand of the holder of any bond outstanding at the date of any such meeting and presentation of his bond for the purpose at the principal office of the Trustee, the Company shall cause suitable notation to be made on such bond by endorsement or otherwise as to any action taken at any meeting of bondholders theretofore held. If the Company or the Trustee shall so determine, new bonds so modified that they will, in the opinion of the Trustee and the Board of Directors of the Company, conform to such bondholders' resolutions, shall be prepared, authenticated and delivered, and such new bonds shall be exchanged for bonds of the same series and maturity then outstanding hereunder, upon demand of, and without cost to, the holders thereof, upon surrender of such bonds with all unmatured coupons appertaining thereto. The Company or the Trustee may require bonds to be presented for notation or exchange as aforesaid if either shall see fit to do so. Instruments supplemental to this Indenture embodying any modification or alteration of this Indenture or of any indenture supplemental hereto, or of the rights and obligations of the Company or of the holders of the bonds and coupons made at any bondholders' meeting approved by resolution of the Board of Directors of the Company, as aforesaid, may be executed by the Trustee and the Company; and upon demand of the Trustee, or if so specified in any resolution adopted by any such bondholders' meeting, shall be executed by the Company and the Trustee.

**Section 9.** Any action which can be taken pursuant to a bondholders' meeting as in this Article provided may also be taken without such a meeting provided that the written consent of the percentages of the holders of bonds specified in this Article to such action is given and that tin; approval of the Board of Directors of the Company, and, if required by this Article, the written consent of the Trustee, is given as provided in this Article.

## **ARTICLE XVI.**

### **Immunity of Incorporators, Stockholders, Officers and Directors.**

No recourse under or upon any obligation, covenant or agreement contained in this Indenture or in any indenture supplemental hereto or in any bond or coupon issued hereunder or because of the creation of any indebtedness hereby authorized shall be had against any incorporator, or against any stockholder, director or officer, as such, past, present or future, of the Company or of any predecessor or successor corporation, either directly or through the Company or any such predecessor or successor corporation, or through any receiver or trustee in bankruptcy, by virtue of any constitutional provision, statute or rule of law or equity, or by the enforcement of any assessment or penalty, or otherwise howsoever; it being expressly agreed and understood that this Indenture and the obligations issued hereunder or under any indenture supplemental hereto are solely corporate obligations and that no personal liability whatever, under any circumstances or conditions, shall attach to or be incurred by the incorporators, stockholders, officers or directors, as such, of the Company or of any predecessor or successor corporation, or any of them, because of the incurring of the indebtedness hereby authorized, or under or by reason of any of the obligations, covenants or agreements contained in this Indenture or in any indenture supplemental hereto or in any of the bonds or coupons issued hereunder, or implied therefrom; all such liability being expressly waived and released by every holder or

registered owner of the bonds or coupons by his acceptance thereof and as part of the consideration for the issue thereof.

## **ARTICLE XVII.**

### **Discharge of Indenture.**

The Trustee upon request of the Company but not otherwise shall, cancel and discharge the lien of these presents, and execute and deliver to the Company such deeds and instruments as shall be requisite to satisfy the lien hereof, and reconvey and transfer to the Company the mortgaged and pledged property, whenever all indebtedness secured hereby shall have been paid, including all proper charges of the Trustee hereunder. For this purpose bonds and coupons for the redemption of which money shall have been paid to the Trustee under the provisions of Article V hereof and bonds and coupons for the payment of which money shall have been deposited at or before maturity with the Trustee shall be deemed to be paid.

## **ARTICLE XVIII.**

### **Supplemental Indentures.**

**Section 1.** The Company, when authorized by Resolution, and the Trustee without any action or consent by the holder of any of the bonds from time to time and at any time, may enter into an indenture or indentures supplemental hereto and which thereafter shall form a part hereof the same as if its or their terms were incorporated herein, for any one or more of the following purposes:

(a) To correct any error in the description of any property hereby conveyed or pledged or intended so to be, or to convey, pledge, transfer and assign to the Trustee and to subject to the lien of this Indenture, with the same force and effect as though specifically mentioned in the granting clause hereof, additional property and franchises then owned by the Company, acquired by it through consolidation or merger, or by purchase, or otherwise;

(b) To define the covenants and provisions (permitted under or not inconsistent with this Indenture) of or applicable to any bonds of any series issued hereunder, other than the first series, as determined from time to time by Resolution;

(c) To add to the limitations on the authorized amount, date of maturity, method, conditions and purposes of issue of any bonds issued or to be issued hereunder, or of any series of bonds hereunder, further limitations to be thereafter observed;

(d) To add to the covenants and agreements of the Company in this Indenture contained, other covenants and agreements thereafter to be observed by the Company, and to surrender any right or power herein reserved to or conferred upon the Company;

(e) To evidence the succession of another corporation to the Company, or successive successions, and the assumption by a successor corporation of the covenants and obligations of the Company under this Indenture; and

(f) To make such provision in regard to matters or questions arising under this Indenture as may be necessary or desirable and not inconsistent with this Indenture and to cure, correct or supplement any defective provision contained herein or in any supplemental indenture.

Nothing in this Section 1 contained shall be taken to limit or restrict the right of the parties hereto to execute and deliver any indenture or indentures supplemental hereto, for any lawful and proper purpose, not inconsistent herewith.

**Section 2.** The Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture, to make the further agreements and stipulations which may be therein contained, and to accept the conveyance, pledge, transfer and assignment of any such property thereunder.

Every such supplemental indenture shall be in form approved by an Opinion of Counsel.

## **ARTICLE XIX.**

### **Miscellaneous.**

**Section 1.** Nothing expressed in or to be implied from this Indenture or any supplemental indenture or the bonds issued hereunder is intended or shall be construed to give any person or corporation, other than the parties hereto and their respective successors and the holders of bonds outstanding hereunder, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenant, condition or provision herein or in any supplemental indenture contained; all the covenants, conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties hereto and their successors and the holders of the bonds and of the coupons outstanding hereunder.

**Section 2.** The headings of the Articles of this Indenture are inserted for convenience of reference only, and are not to be taken to be any part of this Indenture or to control or affect the meaning of the same.

**Section 3.** Whenever in this Indenture one of the parties hereto is named or referred to, the successors and assigns of such party shall be deemed to be included, and all the covenants, promises and agreements in this Indenture contained by or on behalf of the Company or by or on behalf of the Trustee shall bind and enure to the benefit of their respective successors and assigns, whether so expressed or not.

**Section 4.** In the event that any bond issued hereunder shall not be presented for payment when the principal thereof becomes due, either at maturity or otherwise, or at the date fixed for the redemption thereof, or in the event that any coupon shall not be presented for payment at the due date thereof, the Company, having deposited with the Trustee, in trust for the purpose, or left with it if previously so deposited, funds sufficient to pay the principal of such

bonds (and premium, if any), together with all interest due thereon to the date of maturity of such bond or to the date fixed for the redemption thereof, or to pay such coupon, as the case may be for the use and benefit of the holder thereof, then and in every such case, interest on said bond or on said overdue coupon, and all liability of the Company to the holder or registered owner of said bond for the payment of the principal thereof and interest thereon (and premium, if any), or to the holder of said overdue coupon for the payment thereof and interest thereon, as the case may be, shall forthwith cease, determine and be completely discharged subject to the provisions of the last sentence of this Section; and thereupon it shall be the duty of the Trustee to hold the funds, so deposited in trust, for the benefit of the holder of such bond or overdue coupon, as the case may be, who shall thereafter, so long as the funds deposited or left on deposit for the payment thereof shall remain on deposit with the Trustee, be restricted exclusively to said funds for any claim of whatsoever nature on the part of such holder or registered owner under this Indenture or on such bond or any coupons appertaining thereto, or on such overdue coupon.

In case the holder or registered owner of any such bond or coupon shall not, within six (6) years after such bond or such coupon, as the case may be, shall have become due and payable, claim the amount deposited as above stated, for the payment thereof, the Trustee shall, upon demand and if it shall so require upon being furnished indemnity satisfactory to it, pay over to the Company such amount so deposited, if the Company is not at the time in default hereunder. The Trustee shall thereupon be relieved from all responsibility to the holder thereof and the Company shall be liable to the holder only to the extent of the funds so returned to it.

**Section 5.** Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to the Company of any bonds or coupons, the Trustee may, upon the request of the Company, in lieu of such cancellation and delivery, destroy or cremate such bonds or coupons and deliver a certificate of such destruction or cremation to the Company.

**Section 6.** All parties to this Indenture agree, and each holder or registered owner of any bond by his acceptance thereof shall be deemed to have agreed, that the court may in its discretion require in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; provided that the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any bondholder, or group of bondholders, holding in the aggregate more than ten per cent. (10%) in principal amount of the bonds outstanding, or to any suit instituted by any bondholder for the enforcement of the payment of the principal of or interest on any bond, on or after the respective due dates expressed in such bond.

**Section 7.** In case any one or more of the covenants or agreements contained in this Indenture or in the bonds shall be invalid, illegal, or unenforceable in any respect, the validity of the remaining covenants or agreements contained herein and in the bonds shall be in no wise affected, prejudiced or disturbed thereby.



**Section 8.** This Indenture may be executed in any number of counterparts, each of which shall be and shall be taken to be an original and all collectively but one instrument.

In Witness Whereof the parties hereto have caused their corporate seals to be hereunto affixed and their Presidents or Vice Presidents, under and by the authority vested in them, have hereto affixed their signatures, and their Secretaries or Assistant Secretaries, have duly attested the execution hereof, as of the first day of January, 1941.

Signed, sealed and delivered by  
Philadelphia Suburban Water  
Company in the presence of:

\_\_\_\_\_  
PHILADELPHIA SUBURBAN WATER COMPANY,

By /s/ C. E. DAVIS  
C. E. DAVIS, Vice-President.

FRANCIS A. MAHAN  
H. ORVEL SEBRING, JR.

Attest:

/s/ VAN HORN ELY, JR.  
VAN HORN ELY, JR., Secretary.

Signed, sealed and delivered by  
The Pennsylvania Company for  
Insurances on Lives and Granting  
Annuities in the presence of:

\_\_\_\_\_  
THE PENNSYLVANIA COMPANY FOR  
INSURANCES ON LIVES AND GRANTING  
ANNUITIES,

By: /s/ L.J. CLARK  
L. J. CLARK, Vice-President.

FRANCIS A. MAHAN  
LUCIEN B. CARPENTER

Attest:

/s/ H.E. RIGHTER  
H. E. RIGHTER, Asst. Secretary.



**CERTIFICATE OF RESIDENCE.**

The Pennsylvania Company for Insurances on Lives and Granting Annuities, Mortgage and Trustee within named, hereby certifies that its precise residence is Southeast Corner of Fifteenth and Chestnut Streets, Philadelphia, Pennsylvania.

THE PENNSYLVANIA COMPANY FOR  
INSURANCES ON LIVES AND GRANTING  
ANNUITIES,

By/s/ L.J. CLARK

L. J. CLARK, Vice-President.

NOTE:—

Seventeen thousand four hundred ninety dollars (\$17,490) face value United States Internal Revenue Stamps, representing the Federal Stamp Tax paid on Fifteen million, nine hundred thousand Dollars (\$15,900,000) principal amount Philadelphia Suburban Water Company First Mortgage Bonds, 3¼% Series due 1971, issued hereunder, affixed to counterpart original of the Indenture and duly cancelled, after the recording thereof.

RECORDING DATA.

County	Mortgage Book	Page	Time	Date Recorded
Bucks.....	496	1	8:55 a.m.	Feb. 20
Montgomery.....	1625	1	9:45 a.m.	Feb. 20
Chester.....	H-13			
	Vol. 307	20	11:00 a.m.	Feb. 20
Delaware.....	1034	1	11:30 a.m.	Feb. 20

Commonwealth of Pennsylvania )  
 ) ss.  
County of Montgomery )

On the 19th day of February, 1941, before me the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, residing at Philadelphia, personally appeared Van Horn Ely, Jr., Secretary of Philadelphia Suburban Water Company, to me known, who being duly sworn according to law, says that he was personally present at the execution of the above Indenture and saw the common or corporate seal of the said Corporation duly affixed thereto; that the seal so affixed thereto is the common or corporate seal of the said Corporation, and that the said Indenture was duly sealed and delivered by C. E. Davis, Vice-President of Philadelphia Suburban Water Company, as and for the act and deed of the said Corporation and for the uses and purposes therein mentioned, and that the name of this deponent as Secretary and of C. E. Davis, as Vice-President of the said Corporation subscribed to the said Indenture in attestation of its due execution and delivery are of their and each of their respective handwritings.

/s/ Van Horn Ely, Jr.  
Van Horn Ely, Jr.

Sworn to and subscribed before me  
the day and year aforesaid.

I am not a director, stockholder, or officer in the said Philadelphia Suburban Water Company.

/s/ Francis A. Mahan  
Francis A. Mahan,  
Notary Public.

My Commission expires  
at the next session of the Senate.

Post Office, Bryn Mawr, Pa.

Commonwealth of Pennsylvania )  
 ) ss.  
County of Montgomery )

On the 19th day of February, 1941, before me the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, residing at Philadelphia, personally appeared H. E. Righter, Asst. Secretary of The Pennsylvania Company for Insurances on Lives and Granting Annuities, Trustee, to me known, who being duly sworn according to law, says that he was personally present at the execution of the above Indenture and saw the common or corporate seal of the said Corporation duly affixed thereto, that the seal so affixed thereto is the common or corporate seal of the said Corporation, and that the said Indenture was duly sealed and delivered by L. J. Clark, Vice-President of The Pennsylvania Company for Insurances on Lives and Granting Annuities, Trustee, as and for the act and deed of the said Corporation and for the uses and purposes therein mentioned, and that the name of this deponent as Asst. Secretary and of L. J. Clark as Vice-President of the said Corporation subscribed to the said Indenture in attestation of its due execution and delivery are of their and each of their respective handwritings.

/s/ H.E. RIGHTER  
H. E. Righter.

Sworn to and subscribed before me  
the day and year aforesaid.

I am not a director, stockholder, or officer in the said The Pennsylvania Company for Insurances on Lives and Granting Annuities, Trustee.

/s/ Francis A. Mahan  
Francis A. Mahan,  
Notary Public.

My Commission expires  
at the next session of the Senate.

Post Office, Bryn Mawr, Pa.

\_\_\_\_\_ **SUPPLEMENTAL**

**INDENTURE**

DATED AS OF \_\_\_\_\_

TO

INDENTURE OF MORTGAGE

DATED AS OF JANUARY 1, 1941

AQUA PENNSYLVANIA, INC.

TO

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

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

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

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

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

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

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

**WHEREAS**, the Company has issued under the Original Indenture, as supplemented at the respective dates of issue, \_\_\_ series of First Mortgage Bonds designated, respectively, as set forth in the following table, the Indenture creating each series and the principal amount of bonds thereof issued being indicated opposite the designation of such series:

<u>Designation</u>	<u>Indenture</u>	<u>Amount</u>

and

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

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

WHEREAS, in addition to the property described in the Original Indenture and the First through \_\_\_\_\_ Supplemental Indentures thereto, the Company has acquired certain other property and desires to confirm the lien of the Original Indenture thereon and in order to confirm such lien shall cause this \_\_\_ Supplemental Indenture, with a true and correct copy of the Original Indenture attached hereto as Exhibit D (redacted to delete property descriptions for counties in which such Original Indenture has already been recorded) to be recorded in the offices for the Recording of Deeds for the county of McKean; and

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

WHEREAS, the Company proposes to create under the Original Indenture, as supplemented by this \_\_\_\_\_ Supplemental Indenture, \_\_\_ series of bonds to be designated (i) “First Mortgage Bond, \_\_\_% Series due \_\_\_” (herein referred to as the “\_\_\_% Series due \_\_\_”) to be limited in aggregate principal amount to \$\_\_\_\_, to bear interest at the rate of \_\_\_% per annum, and to mature on \_\_\_\_\_. Series due \_\_\_ are collectively referred to as the “Bonds”), each such series to be issued only as registered bonds without coupons and to be dated the date of delivery thereof; and

WHEREAS, the Company intends to use the proceeds of the Bonds for general corporate purposes; and

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

WHEREAS, Article XVIII of the Original Indenture provides that the Company, when authorized by resolution of its Board of Directors, may with the Trustee enter into an indenture supplemental to the Original Indenture, which thereafter shall form a part of the Original Indenture, for the purposes, inter alia, of subjecting to the lien of the Original Indenture additional property, of defining the covenants and provisions applicable to any bonds of any series other than the 3 1/4% Series due 1971, of adding to the covenants and agreements of the Company contained in the Original Indenture other covenants and agreements thereafter to be observed by the

Company, of surrendering any right or power in the Original Indenture reserved to or conferred upon the Company, and of making such provisions in regard to matters or questions arising under the Original Indenture as may be necessary or desirable and not inconsistent therewith; and

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

WHEREAS, the Bonds and the Trustee's certificate upon said Bonds are to be substantially in the following form - the principal amounts, names of registered owners and certificate and PPN numbers to be inserted therein, the applicable series designations and corresponding interest rates and maturity dates to be selected, and such appropriate insertions, omissions and changes to be made therein as may be required or permitted by this \_\_ Supplemental Indenture to conform to any pertinent law or usage:

[continued on next page]

THIS BOND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND SALES OR OTHER TRANSFERS HEREOF MAY BE MADE ONLY TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN RULE 144A UNDER THE ACT ("QUALIFIED INSTITUTIONAL BUYERS"), IN TRANSACTIONS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION UNDER THE ACT.

BY ITS ACCEPTANCE OF THIS BOND, THE HOLDER REPRESENTS AND AGREES THAT IT IS A QUALIFIED INSTITUTIONAL BUYER AND THAT THIS BOND IS BEING ACQUIRED FOR ITS OWN ACCOUNT (AND NOT FOR THE ACCOUNT OF OTHERS) OR AS A FIDUCIARY FOR OTHERS FOR INVESTMENT AND NOT WITH A VIEW TO, OR FOR SALE IN CONNECTION WITH, THE PUBLIC DISTRIBUTION HEREOF IN ANY TRANSACTION THAT WOULD BE IN VIOLATION OF FEDERAL OR STATE SECURITIES LAWS, AND THAT ANY RESALE OR OTHER TRANSFER HEREOF OR ANY INTEREST HEREIN PRIOR TO THE DATE THAT IS TWO YEARS AFTER THE LATER OF (A) ITS DATE OF ISSUE OR (B) THE LAST DATE ON WHICH THE COMPANY OR ANY OF ITS AFFILIATES WAS THE BENEFICIAL OWNER HEREOF WILL BE MADE ONLY (1) TO A PLACEMENT AGENT OR THE COMPANY, (2) THROUGH ANY PLACEMENT AGENT OR BY ANY PLACEMENT AGENT ACTING AS PRINCIPAL TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE APPROVED BY SUCH PLACEMENT AGENT, (3) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER APPROVED BY THE COMPANY IN A TRANSACTION APPROVED BY THE COMPANY, (4) THROUGH A DEALER OTHER THAN A PLACEMENT AGENT TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE IN A TRANSACTION APPROVED BY THE COMPANY, OR (5) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION THAT MEETS THE REQUIREMENTS OF RULE 144A UNDER THE ACT, SUBJECT TO IN EACH CASE THE DISPOSITION OF THE PURCHASER'S PROPERTY BEING AT ALL TIMES WITHIN ITS CONTROL. IN THE CASE OF CERTIFICATED BONDS, ANY TRANSFER DESCRIBED IN CLAUSE (3), (4) OR (5) ABOVE REQUIRES THE SUBMISSION TO THE TRUSTEE (AS DEFINED HEREIN) OR ANY DULY AUTHORIZED PAYING AGENT OF THE CERTIFICATE OF TRANSFER ATTACHED HERETO DULY COMPLETED OR A DULY COMPLETED TRANSFER INSTRUMENT SUBSTANTIALLY IN THE FORM OF THE CERTIFICATE OF TRANSFER. THE COMPANY SHALL NOT RECOGNIZE ANY RESALE OR OTHER TRANSFER, OR ATTEMPTED RESALE OR OTHER TRANSFER, OF THIS BOND NOT MADE IN COMPLIANCE WITH THE FOREGOING PROVISIONS. THIS BOND AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON THE PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS BOND TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR PROVIDE ALTERNATIVE PROCEDURES IN COMPLIANCE WITH APPLICABLE LAW AND PRACTICES RELATING TO THE RESALE OR OTHER TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS BOND SHALL BE DEEMED, BY THE ACCEPTANCE OF THIS BOND, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.



AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth  
of Pennsylvania)

First Mortgage Bond, [ ]% Series due [ ]

Aqua Pennsylvania, Inc. (f/k/a known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the "Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to \_\_\_\_\_ or its registered assigns, on the \_\_\_<sup>th</sup> day of \_\_ (the "Maturity Date"), at the address designated by the registered owner pursuant to Section 11.1 of the Bond Purchase Agreement dated as of \_\_, between the Company and the Purchasers listed therein (the "Bond Purchase Agreement"), the sum \_\_\_\_\_ Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by wire transfer of immediately available funds in accordance with Section 11.1 of the Bond Purchase Agreement to such registered owner from the interest payment date next preceding the date of the authentication of this bond (or if this bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this bond is authenticated on or prior to \_\_\_ from the date hereof) until the principal hereof shall become due and payable, at the rate of \_\_\_% per annum, payable semiannually in like coin or currency on the \_\_\_ day of \_\_ and the \_\_\_ day of \_\_\_ in each year, commencing \_\_\_ and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of \_\_\_% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the \_\_ Supplemental Indenture referred to herein) be calculated on the basis of a 360-day year of twelve 30-day months and be paid to the person in whose name this bond (or a bond or bonds in exchange for which this bond was issued) is registered at the close of business on the 1<sup>st</sup> day of the calendar month in which the interest payment date occurs whether or not such day is a business day (a "Record Date") and principal, premium, if any, and interest on this bond shall be paid by the Company in accordance with written payment instructions of the registered owner delivered to the Company on or before such record date.

This bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by an Indenture of Mortgage (herein called the "Indenture") dated as of January 1, 1941, executed by the Philadelphia Suburban Water Company (now Aqua Pennsylvania, Inc., f/k/a Pennsylvania Suburban Water Company, as successor by merger) to The Pennsylvania Company for Insurances on Lives and Granting Annuities (succeeded as trustee by The Bank of New York Mellon Trust Company, N.A.), as Trustee (the "Trustee"), to which Indenture and all indentures supplemental thereto reference is

hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and premium, if any, and interest on this bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This bond is one of the bonds described in the \_\_ Supplemental Indenture (the “\_\_ Supplemental Indenture”) dated as of \_\_, and designated therein as “First Mortgage Bond, [\_\_]% Series due [\_\_]” in the aggregate principal amount of \$[\_\_] (the “Bonds”).

Concurrently with the issuance of the Bonds, the Company is issuing its [“First Mortgage Bond, \_\_% Series due \_\_” in the aggregate principal amount of \$ \_\_, its “First Mortgage Bonds, \_\_% Series due \_\_” in the aggregate principal amount of \$ \_\_.

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

[Except as otherwise provided in the succeeding paragraph with respect to optional redemption during the Prepayment Period (as defined herein), the Company may, at its option, upon notice as provided below, redeem at any time all, or from time to time any part of, the Bonds, in an amount not less than 10% of the aggregate principal amount of the Bonds then outstanding in the case of a partial redemption, at 100% of the principal amount so redeemed, together with interest accrued thereon to the date of such redemption, plus the Make-Whole Amount (as defined in the \_\_ Supplemental Indenture) determined for the redemption date with respect to such principal amount of each bond being redeemed.

Provided that no default or event of default has occurred and is continuing, within one hundred and eighty days (180) days of the stated maturity date of the Bonds (the period from such date to the stated maturity of the Bonds being referred to herein as the “Prepayment Period”), the Company may, at its option, upon prior written notice as provided below, prepay all the Bonds at 100% of the principal amount so prepaid, together with interest on such principal amount accrued to the date of prepayment and without any Make-Whole Amount.]

Any redemption shall be effected by notice mailed to the registered owners thereof, as provided in the Indenture, at least thirty (30) days and not more than forty-five (45) days before the redemption date, all on the conditions and in the manner provided in the Indenture. Each such notice shall specify such date (which shall be a Business Day (as defined in the \_\_ Supplemental Indenture)), the aggregate principal amount of the Bonds to be redeemed on such date, the principal amount of each bond held by such holder to be redeemed (determined in accordance with Article I, Section 3 of the \_\_ Supplemental Indenture), and the interest to be paid on the redemption date with respect to such principal amount being redeemed, and shall be accompanied by a certificate of the chief financial officer, principal accounting officer, treasurer or comptroller (each, for purposes of this bond, a “Senior Financial Officer”) of the Company as to the estimated Make-Whole Amount due in connection with such redemption (calculated as if the date of such notice were the date of the redemption), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Bonds a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified redemption date.

If this bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the redemption date. In the event of redemption of this bond in part only, a new bond for the unredeemed portion hereof shall be issued in the name of the holder hereof upon the surrender hereof.

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

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

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

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

This bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until The Bank of New York Mellon Trust Company, N.

A., as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

This bond shall be deemed to be a contract and shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania (excluding laws governing conflicts of law).

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

AQUA PENNSYLVANIA, INC.

Attest:

\_\_\_\_\_  
Assistant Secretary

By \_\_\_\_\_  
(Vice) President

[Form of Trustee's Certificate]

This bond is one of the Bonds, of the series designated therein, referred to in the within-mentioned \_\_\_ Supplemental Indenture.

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

By: \_\_\_\_\_  
Authorized Officer

[Form of Certificate of Transfer]

(To be delivered with a Certificated Bond to the Trustee)

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

(please print or typewrite name and address including postal zip code of assignee and insert Taxpayer Identification No.)

this bond and all rights hereunder, hereby irrevocably constituting and appointment attorney to transfer this bond the books of the Company with full power of substitution in the premises.

CERTIFICATE OF TRANSFER

(The following is not required for sales or other transfers of this bond to or through the Company or a placement agent).

In connection with any transfer of this bond occurring prior to the date which is two years after the later of (a) the date of original issue of this bond, or (b) the last date the Company or any of its affiliates was the beneficial owner of this bond, the undersigned confirms that:

This bond is being transferred by the undersigned to a transferee that is, or that the undersigned reasonably believes to be, a “qualified institutional buyer” (as defined in Rule 144A under the Securities Act of 1933, as amended) pursuant to the exemption from registration under the Securities Act of 1933, as amended, provided by Rule 144A thereunder.

If the foregoing box is not checked, then, so long as the accompanying bond shall bear a legend on its face restricting resales and other transfers thereof (except in the case of a resale or other transfer made (i) to a placement agent referred to in such legend or to the Company or (ii) through a placement agent or by a placement agent acting as principal to a “qualified institutional buyer” as defined in Rule 144A under the Securities Act of 1933, as amended, in a transaction approved by a placement agent) the Trustee shall not be obligated to register this bond in the name of any person other than the registered owner hereof.

Dated:

NOTICE: The signature of the beneficial owner to this assignment must correspond with the name as written on the face of this bond in every particular, without alteration or enlargement or any change whatsoever.

TO BE COMPLETED BY PURCHASER IF THE BOX ABOVE IS CHECKED:

The undersigned represents and warrants that it is a “qualified institutional buyer” as defined in Rule 144A under the Securities Act of 1933, as amended, and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the registered owner is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated:

NOTICE: To be executed by an officer.

and;

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

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

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

I.

REAL ESTATE AND WATER RIGHTS.

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

II.

BUILDINGS AND EQUIPMENT.

All mains, pipes, pipe lines, service pipes, buildings, improvements, standpipes, reservoirs, wells, flumes, sluices, canals, basins, cribs, machinery, conduits, hydrants, water works, plants and systems, tanks, shops, structures, purification systems, pumping stations, fixtures, engines, boilers, pumps, meters and equipment which are now owned or may hereafter be acquired by the Company (except as herein expressly excepted), including all improvements, additions and extensions appurtenant to any real or fixed property now or hereafter

subject to the lien of the Original Indenture or any indenture supplemental thereto which are used or useful in connection with the business of the Company as a water company or as a water utility, whether any of the foregoing property is now owned or may hereafter be acquired by the Company.

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

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

### III.

#### FRANCHISES AND RIGHTS OF WAY.

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

### IV.

#### AFTER ACQUIRED PROPERTY.

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

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

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

AND ALSO SAVING AND EXCEPTING from the property hereby mortgaged and pledged, all of the following property (whether now owned by the Company or hereafter acquired by it): all bills, notes and accounts receivable, cash on hand and in banks, contracts, choses in action and leases to others (as distinct from the property leased and without limiting any rights of the Trustee with respect thereto under any of the provisions of the Original Indenture or of any indenture supplemental thereto), all bonds, obligations, evidences of

indebtedness, shares of stock and other securities, and certificates or evidences of interest therein, all automobiles, motor trucks, and other like automobile equipment and all furniture, and all equipment, materials, goods, merchandise and supplies acquired for the purpose of sale in the ordinary course of business or for consumption in the operation of any properties of the Company other than any of the foregoing excepted property which may be specifically transferred or assigned to or pledged or deposited with the Trustee hereunder or required by the provisions of the Original Indenture or any indenture supplemental thereto so to be; provided, however, that if, upon the happening of a completed default, as specified in Section I of Article XI of the Original Indenture, the Trustee or any receiver appointed hereunder shall enter upon and take possession of the mortgaged property, the Trustee or any such receiver may, to the extent permitted by law, at the same time likewise take possession of any and all of the property described in this paragraph then on hand and any and all other property of the Company then on hand, not described or referred to in the foregoing granting clauses, which is used or useful in connection with the business of the Company as a water company or as a water utility, and use and administer the same to the same extent as if such property were part of the mortgaged property, unless and until such completed default shall be remedied or waived and possession of the mortgaged property restored to the Company, its successors or assigns.

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

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

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

IT IS HEREBY COVENANTED, DECLARED AND AGREED, by and between the parties hereto, that all such bonds and coupons are to be authenticated, delivered and issued, and that all property subject or to become subject hereto is to be held subject to the further covenants, conditions, uses and trusts hereinafter set forth, and the Company, for itself and its successors and assigns, does hereby covenant and agree to and with the



Trustee and its successor or successors in said trust, for the benefit of those who shall hold said bonds and coupons, or any of them, issued under this Indenture or any indenture supplemental hereto, or both, as follows:

## ARTICLE I.

### Form, Authentication and Delivery of the Bonds; Redemption Provisions

SECTION 1. There shall be a \_\_ series limited in aggregate principal amount to \$\_\_ designated as “Aqua Pennsylvania, Inc., First Mortgage Bond, \_\_% Series due \_\_”.

Interest on each Series of the Bonds shall be payable semiannually on \_\_\_ and \_\_\_ (each an “Interest Payment Date”) in each year commencing \_\_\_. Each Bond shall be dated the date of its authentication and shall bear interest from the interest payment date next preceding the date of the authentication of such Bond (or if such Bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if such Bond is authenticated on or prior to the record date for the first interest payment date for the Bonds, in which case it shall bear interest from the date of original issuance of the Bonds); provided, however, that, if at the time of authentication of any Bond, interest on the predecessor Bond of such Bond is in default, such Bond shall bear interest from the date to which interest has been paid, or, if no interest has been paid, from the date of original issuance thereof. The \_\_% Series due \_\_ shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on \_\_ and shall bear interest at the rate of \_\_% per annum. Any payment of principal of or interest on any Bond that is due on a date other than a Business Day (as defined below) shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; provided that if the maturity date of any Bond is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day. As used herein, “Business Day” means any day other than a Saturday or Sunday, on which the Trustee, any paying agent or banks in New York, New York are not required or authorized by law or executive order to close.

The Bonds shall be issuable only as registered bonds without coupons, shall be in the form hereinabove recited, in the minimum denomination of \$\_\_ or any integral multiple of \$\_\_ in excess thereof, shall be lettered “R”, and shall bear such numbers as the Company may reasonably require.

The principal of, and interest on the Bonds shall be payable as provided in the form of Bond, and shall be payable, along with interest on the Bonds, in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts; each installment of interest shall be paid by bank wire transfer of immediately available funds pursuant to instructions and conditions incorporated in an agreement between such person and the Trustee or the Company.

The person in whose name any Bond is registered at the close of business on any Record Date with respect to any Interest Payment Date shall be entitled to receive the interest payable on such Interest Payment Date notwithstanding the cancellation of such Bond upon any transfer or exchange subsequent to the Record Date and prior to such Interest Payment Date; provided, however, that if and to the extent the Company shall default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the persons in whose names outstanding Bonds are registered at the close of business on a subsequent Record Date established by notice given by mail by or on behalf of the Company to the holders of Bonds not less than fifteen (15) days

preceding such subsequent Record Date, such Record Date to be not less than ten (10) days preceding the date of payment of such defaulted interest. The term “Record Date” as used in this Section 1 with respect to any regular Interest Payment Date shall mean the first (1<sup>st</sup>) day of the calendar month in which such Interest Payment Date occurs.

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

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

[SECTION 2. Except as otherwise provided in the succeeding paragraph with respect to optional redemption during the Prepayment Period (as defined herein), the Company may, at its option, upon notice as provided below, redeem at any time all, or from time to time any part of, the Bonds, in an amount not less than 10% of the aggregate principal amount of the Bonds then outstanding in the case of a partial redemption, at 100% of the principal amount so redeemed, together with interest accrued thereon to the date of such redemption, plus the Make-Whole Amount (as defined below) determined for the redemption date with respect to such principal amount of each Bond being redeemed.

Provided that no default or event of default has occurred and is continuing, within one hundred and eighty days (180) days of the stated maturity date of any series of Bonds (the period from such date to the stated maturity of such series of Bonds being referred to herein as the “Prepayment Period”), the Company may, at its option, upon prior written notice as provided below, prepay all Bonds of such series at 100% of the principal amount so prepaid, together with interest on such principal amount accrued to the date of prepayment and without any Make-Whole Amount.

The Company will give each holder of Bonds and the Trustee written notice of each optional redemption under this Section 2 not less than 30 days and not more than 45 days prior to the date fixed for such prepayment. Each such notice shall specify such date (which shall be a Business Day), the aggregate principal amount of the Bonds to be redeemed on such date, the principal amount of each Bond held by such holder to be redeemed (determined in accordance with Section 3 below), and the interest to be paid on the redemption date with respect to such principal amount being redeemed, and shall be accompanied by a certificate of the chief financial officer, principal accounting officer, treasurer or comptroller (each, for purposes of this Article I, a “Senior Financial Officer”) of the Company as to the estimated Make-Whole Amount due in connection with such redemption (calculated as if the date of such notice were the date of the redemption), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Bonds and the Trustee a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified redemption date.]

The term “Make-Whole Amount” means, with respect to any Bond, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Bond over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

“Called Principal” means, with respect to any Bond, the principal of such Bond that is to be prepaid pursuant to this Section 2.

“Discounted Value” means, with respect to the Called Principal of any Bond, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on such Bond is payable) equal to the Reinvestment Yield with respect to such Called Principal.

“Reinvestment Yield” means, with respect to the Called Principal of any Bond, 0.50% over the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as “Page PX1” (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on-the-run U.S. Treasury securities (“Reported”) having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. If there are no such U.S. Treasury securities Reported having a maturity equal to such Remaining Average Life, then such implied yield to maturity will be determined by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between the yields Reported for the applicable most recently issued actively traded on-the-run U. S. Treasury securities with the maturities (1) closest to and greater than such Remaining Average Life and (2) closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Bond.

If such yields are not Reported or the yields Reported as of such time are not ascertainable (including by way of interpolation), then “Reinvestment Yield” means, with respect to the Called Principal of any Bond, 0.50% over the yield to maturity implied by the U.S. Treasury constant maturity yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for the U.S. Treasury constant maturity having a term equal to the Remaining Average Life of such Called Principal as of such Settlement Date. If there is no such U.S. Treasury constant maturity having a term equal to such Remaining Average Life, such implied yield to maturity will be determined by interpolating linearly between (1) the U.S. Treasury constant maturity so reported with the term closest to and greater than such Remaining Average Life and (2) the U.S. Treasury constant maturity so reported with the term closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Bond.

“Remaining Average Life” means, with respect to any Called Principal, the number of years obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years, computed on the basis of a 360 day year composed of twelve 30 day months and calculated to two decimal places, that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

“Remaining Scheduled Payments” means, with respect to the Called Principal of any Bond, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of any such Bond, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to this Section 2.

“Settlement Date” means, with respect to the Called Principal of any Bond, the date on which such Called Principal is to be redeemed pursuant to this Section 2.

SECTION 3. In the case of each partial redemption of the Bonds (other than with respect to a redemption of all of the Bonds of any one Series during a Prepayment Period with respect to such Series of Bonds in accordance with Section 2 of this Article I), the principal amount of the Bonds to be redeemed shall be allocated among all of the Bonds at the time outstanding in proportion, as nearly as practicable, to their respective unpaid principal amounts thereof.

SECTION 4. Any redemption of the Bonds shall be effected in accordance with the provisions of Article V of the Original Indenture.

SECTION 5. All Bonds deemed to have been paid in full as provided in Section 2 and 3 of this Article I of this \_\_ Supplemental Indenture shall be surrendered to the Trustee for cancellation, and the Trustee shall forthwith cancel the same and, in accordance with applicable laws and regulations and the Trustee’s policies and procedures, and on the written request of the Company, deliver the same to the Company. Any Bond paid in full, whether at maturity or earlier redemption, shall be surrendered to the Company and cancelled and shall not be reissued, and no Bond shall be issued in lieu of the principal amount of such Bond paid at maturity or redemption. In case part of an outstanding Bond shall be deemed to have been partially paid as provided in said Section 2 or Section 3, upon presentation of such Bond at the designated office of the Trustee, the Trustee shall make a notation thereon of the payment of the portion of the principal amount of such Bond so deemed to have been paid unless the registered owner shall elect to surrender such Bond to the Trustee, in which case the Company shall execute and the Trustee shall authenticate and deliver, without charge to the registered owner, Bonds in such authorized denominations as shall be specified by the registered owner for the unpaid balance of the principal amount of such outstanding Bond. The holder of a Bond that has been partially paid, shall not be required to surrender such Bond to the Trustee or the Company; provided, however, prior to any sale or other disposition of any Bond by a holder thereof, such holder will either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Bond to the Company in exchange for a new Bond or Bonds pursuant to Article II of the Original Indenture.

SECTION 6. The \_\_% Series due \_\_\_ in the aggregate principal amount of \$\_\_\_, may be issued under the provisions of Article IV of the Original Indenture and may forthwith be executed by the Company and delivered to the Trustee and shall be authenticated by the Trustee and delivered to or upon the order of the Company, upon receipt by the Trustee of the resolutions, certificates, opinions or other instruments or all of the foregoing required to be delivered upon the issue of bonds pursuant to the provisions of the Original Indenture.

ARTICLE II.

Maintenance or Improvement Deposit

SECTION 1. The Company covenants that it will deposit with the Trustee on or before the March 1 next occurring after the bonds of \_\_\_% Series due \_\_ cease to be outstanding, \_\_\_ whichever is latest, and on or before March 1 in each year thereafter if and so long as any of the Bonds are outstanding, an amount in cash (the "Maintenance or Improvement Deposit") equal to 9% of the Gross Operating Revenues of the Company during the preceding calendar year less, to the extent that the Company desires to take such credits, the following:

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

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

- (A) An Officers' Certificate, which shall state:
  - (i) The amount of the Gross Operating Revenues for the preceding calendar year;
  - (ii) 9% of such Gross Operating Revenues;
  - (iii) The amount actually expended by the Company for maintenance during such calendar year;
  - (iv) The amount set forth in subparagraph (xii) of each Officers' Certificate delivered to the Trustee pursuant to the provisions of this Section during the preceding five calendar years (specifying each such Officers' Certificate), after deducting from each such amount the aggregate of (a) the Cost or Fair Value, whichever is less, of all Permanent Additions represented by such amount which have ceased to be Available Permanent Additions; and (b) any part of such amount for which the Company has previously taken credit against any Maintenance or Improvement Deposit (specifying the Officers' Certificate in which such credit was taken); and (c) any part of such amount for which the Company then desires to take credit against the Maintenance or Improvement Deposit;

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

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

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

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

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

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

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

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

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

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

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

SECTION 3. All cash deposited with the Trustee as part of any Maintenance or Improvement Deposit provided for in Section 1 of this Article, may, at the option of the Company, be applied to the purchase of bonds under the provisions of Section 2 of Article X of the Original Indenture or to the redemption of bonds under the provisions of Section 3 of Article X of the Original Indenture or may be withdrawn by the Company at any

time to reimburse the Company for the cost of a Net Amount of Available Permanent Additions (excluding, however, from any such Available Permanent Additions all Permanent Additions included in any certificate delivered to the Trustee for the purpose of obtaining a credit against any Maintenance or Improvement Deposit provided for in Section 1 of this Article to the extent that such Permanent Additions have been used for any such credit). The Trustee shall pay to or upon the written order of the Company all or any part of such cash upon the receipt by the Trustee of:

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

### ARTICLE III.

#### Covenants of the Company

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

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

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

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

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

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

“Excluded Earnings” shall mean 35% of the Company’s Net Income during any Restricted Period.

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

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

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

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

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

#### ARTICLE IV.

##### The Trustee

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

SECTION 2. Subject to the provisions of Article XIII of the Original Indenture, the Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through and consult with attorneys, agents, officers or employees selected by the Trustee in its sole discretion. The Trustee shall be entitled to advice of counsel concerning all matters of trusts hereof and the duties hereunder and may in all cases pay such reasonable compensation to all such attorneys, agents, officers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act or refrain from acting and rely upon and be free from all liability for so relying upon the opinion or advice of any attorney (who may be the attorney or attorneys for the



Company) and shall be free from all liability for any action taken or not taken in reliance on such opinion or advice. The Trustee may act and rely on written opinions of experts employed by the Trustee and such advice shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by the Trustee hereunder in good faith and in reliance thereon. The Trustee shall not be responsible for any loss or damage resulting from any action or non-action in good faith taken in reliance upon such opinion or advice. The Trustee shall not be bound to confirm, verify or make any investigation into the facts or matters stated in any financial or other statements, resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order or other paper or document furnished pursuant to the terms hereof.

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

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ARTICLE V.

Miscellaneous

SECTION 1. This instrument is executed and shall be construed as an indenture supplemental to the Original Indenture, and shall form a part thereof, and except as hereby supplemented, the Original Indenture and the \_\_\_ Supplemental Indentures are hereby confirmed. All references in this \_\_\_ Supplemental Indenture to the Original Indenture shall be deemed to refer to the Original Indenture as heretofore amended and supplemented, and all terms used herein and not specifically defined herein shall be taken to have the same meaning as in the Original Indenture, as so amended, except in the cases where the context clearly indicates otherwise.

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

The Bank of New York Mellon Trust Company, N. A.  
500 Ross Street, 12th Floor  
Pittsburgh, PA 15262  
Attention: Nancy R. Johnson, Vice President  
Telephone: 412-236-3139  
Fax: 412-234-8377

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

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

SECTION 4. Although this \_\_\_ Supplemental Indenture is dated for convenience and for the purpose of reference as of \_\_\_, the actual date or dates of execution hereof by the Company and the Trustee are as indicated by their respective acknowledgments annexed hereto. This \_\_\_ Supplemental Indenture is effective on \_\_\_.

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

[Remainder of page intentionally left blank]

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

[CORPORATE SEAL]

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

Attest: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title:

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

Attest: \_\_\_\_\_  
Authorized Officer

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: Authorized Signer

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

The Bank of New York Mellon Trust Company, N. A.  
500 Ross Street, 12th Floor  
Pittsburgh, PA 15262  
Attention: Nancy R. Johnson, Vice President  
Telephone - 412.236.3139  
Fax: 412-234-8377

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

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: Authorized Signer

COMMONWEALTH OF PENNSYLVANIA:

COUNTY OF MONTGOMERY:

On the \_\_ day of \_\_\_\_ before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared \_\_, who acknowledged herself to be the \_\_\_\_ of Aqua Pennsylvania, Inc., a corporation, and that she as such \_\_, being authorized to do so, executed the foregoing \_\_ Supplemental Indenture as and for the act and deed of said corporation and for the uses and purposes therein mentioned, by signing the name of the corporation by herself as such officer.

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

[NOTARIAL SEAL]

\_\_\_\_\_

**ACKNOWLEDGMENT**

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA  
COUNTY OF \_\_\_\_\_)

On \_\_\_ before me, \_\_\_\_\_, personally appeared \_\_\_\_\_, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature \_\_\_\_\_

**(Seal)**

**SCHEDULE OF SUPPLEMENTAL INDENTURES SUBSTANTIALLY IDENTICAL TO FORM  
OF SUPPLEMENTAL INDENTURE DURING AND AFTER 2014**

In accordance with Instruction 2 to Item 601 of Regulation S-K, the Registrant has omitted filing the following Supplemental Indentures by and between Aqua Pennsylvania, Inc. and The Bank of New York Mellon Trust Company, N.A. because they are substantially identical in all material respects to the form of Supplemental Indenture filed as Exhibit 4.1.15 to Aqua America, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2015:

1. Forty-ninth Supplemental Indenture, dated as of December 1, 2014
  
  2. Fiftieth Supplemental Indenture, dated as of November 1, 2015
-

**TWENTY-FOURTH SUPPLEMENTAL  
INDENTURE**

**Dated as of June 1, 1988**

**to**

**INDENTURE OF MORTGAGE**

**Dated as of January 1, 1941**

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**PHILADELPHIA SUBURBAN WATER COMPANY**

**to**

**FIRST PENNSYLVANIA BANK N.A., as Trustee**

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**\$5,000,000 First Mortgage Bonds, 9.89% Series Due 2008**  
**\$5,000,000 First Mortgage Bonds, 9.93% Series Due 2013**  
**\$5,000,000 First Mortgage Bonds, 9.97% Series Due 2018**

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TWENTY-FOURTH SUPPLEMENTAL INDENTURE dated as of the first day of June, 1988 , by and between PHILADELPHIA SUBURBAN WATER COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania (the “Company”), party of the first part, and FIRST PENNSYLVANIA BANK N.A., national banking association previously known as The Pennsylvania Company for Insurances on Lives and Granting Annuities, and as The Pennsylvania Company for Banking and Trusts, and as The First Pennsylvania Banking and Trust Company (the “Trustee”), party of the second part.

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

Whereas, on March 29, 1947, concurrently with a merger of Germantown Trust Company into The Pennsylvania Company for Insurances on Lives and Granting Annuities, the name of the surviving corporation was changed to The Pennsylvania Company for Banking and Trusts, on September 30, 1955, concurrently with a merger of The First National Bank of Philadelphia into The Pennsylvania Company for Banking and Trusts, the name of the surviving corporation was changed to The First Pennsylvania Banking and Trust Company, and on June 3, 1974, by amendment to its Articles of Association. The First Pennsylvania Banking and Trust Company was changed and converted into a national bank and concurrently therewith changed its name to First Pennsylvania Bank N.A., such mergers and changes of name not involving any change in the corporate identity of the Trustee or its title, powers, rights or duties as trustee under the Original Indenture as supplemented at the respective dates thereof; and

Whereas, the Company duly executed and delivered to the Trustee a First Supplemental Indenture dated as of July 1, 1948, a Second Supplemental Indenture dated as of July 1, 1952, a Third Supplemental Indenture dated as of November 1, 1953, a Fourth Supplemental Indenture dated as of January 1, 1956, a Fifth Supplemental Indenture dated as of March 1, 1957, a Sixth Supplemental Indenture dated as of May 1, 1958, a Seventh Supplemental Indenture dated as of September 1, 1959, an Eighth Supplemental Indenture dated as of May 1, 1961, a Ninth Supplemental Indenture dated as of April 1, 1962, a Tenth Supplemental Indenture dated as of March 1, 1964, an Eleventh Supplemental Indenture dated as of November 1, 1966, a Twelfth Supplemental Indenture dated as of January 1, 1968, a Thirteenth Supplemental Indenture dated as of June 15, 1970, a Fourteenth Supplemental Indenture dated as of November 1, 1970, a Fifteenth Supplemental Indenture dated as of December 1, 1972, a Sixteenth Supplemental Indenture dated as of May 15, 1975, a Seventeenth Supplemental Indenture dated as of December 15, 1976, an Eighteenth Supplemental Indenture, dated as of May 1, 1977, a Nineteenth Supplemental Indenture dated as of June 1, 1980, a Twentieth Supplemental Indenture dated as of August 1, 1983, a Twenty-First Supplemental Indenture, dated as of August 1, 1985, a Twenty-Second Supplemental Indenture, dated as of April 1, 1986, and a Twenty-Third Supplemental Indenture, dated as of April 1, 1987, to subject certain additional property to the lien of the Original Indenture and to provide for the creation of additional series of bonds; and

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

<u>Designation</u>	<u>Indenture</u>	<u>Amount</u>
3¼% Series due 1971	Original	\$16,375,000
9% Series due 1975	Thirteenth Supplemental	10,000,000
9.15% Series due 1977	Fourteenth Supplemental	10,000,000
3% Series due 1978	First Supplemental	2,000,000
3⅞% Series due 1982	Second Supplemental	4,000,000
3.90% Series due 1983	Third Supplemental	5,000,000
3½% Series due 1986	Fourth Supplemental	6,000,000
4½% Series due 1987	Fifth Supplemental	4,000,000
4⅞% Series due 1988	Sixth Supplemental	4,000,000
5% Series due 1989	Seventh Supplemental	4,000,000
4⅝% Series due 1991	Eighth Supplemental	3,000,000
4.70% Series due 1992	Ninth Supplemental	3,000,000
6⅞% Series due 1993	Twelfth Supplemental	4,500,000
4.55% Series due 1994	Tenth Supplemental	4,000,000
10⅞% Series due 1995	Sixteenth Supplemental	10,000,000
5½% Series due 1996	Eleventh Supplemental	4,000,000
7⅞% Series due 1997	Fifteenth Supplemental	5,000,000
8.44% Series due 1997	Twenty-Third Supplemental	12,000,000
9.20% Series due 2001	Seventeenth Supplemental	7,000,000
8.40% Series due 2002	Eighteenth Supplemental	10,000,000
12.45% Series due 2003	Twentieth Supplemental	10,000,000
13% Series due 2005	Twenty-First Supplemental	8,000,000
10.65% Series due 2006	Twenty-Second Supplemental	10,000,000
8% Series due 2010	Nineteenth Supplemental	8,000,000

; and

Whereas, all of the bonds of each of said series are presently outstanding other than the bonds of the 3¼% Series due 1971, all of which were redeemed on December 31, 1970, the bonds of the 9% Series due 1975, all of which were paid at maturity on June 15, 1975, the bonds of the 9.15% Series due 1977, all of which were paid at maturity on November 1, 1977, the bonds of the 3% Series due 1978, all of which were paid at maturity on July 1, 1978, the bonds of the 3⅞% Series due 1982, all of which were paid at maturity on July 1, 1982, the bonds of the 3.90% Series due 1983, all of which were paid at maturity on July 1, 1983, the bonds of the 3½% Series due 1986, all of which were paid at maturity on January 1, 1986; the bonds of the 4½% Series due 1987, all of which were paid at maturity on January 1, 1987, the bonds of the 4⅞%, Series due 1988 all of which were paid at maturity on May 1, 1988, the bonds of the 10⅞% Series due 1995, \$4,200,000 principal amount of which has been redeemed by operation of the Sinking Fund and the concurrent redemption privilege as provided in the Sixteenth Supplemental Indenture, the bonds of the 9.20% Series due 2001, \$2,100,000 principal amount of which has been redeemed by operation of the Sinking Fund as provided in the Seventeenth Supplemental Indenture, and the bonds of the 8.40% Series due 2002, \$2,700,000 principal amount of which has been redeemed by operation of the Sinking Fund as provided in the Eighteenth Supplemental Indenture; and

Whereas, the Original Indenture and said Supplemental Indentures were duly recorded in the Commonwealth of Pennsylvania on the dates and in the office for the Recording of Deeds for the following counties in the Mortgage Books and at the pages indicated in the following table:

<u>Indenture</u>	<u>Date of Recording</u>	<u>County</u>							
		<u>Bucks</u>		<u>Chester</u>		<u>Delaware</u>		<u>Montgomery</u>	
		<u>Book</u>	<u>Page</u>	<u>Book</u>	<u>Page</u>	<u>Book</u>	<u>Page</u>	<u>Book</u>	<u>Page</u>
Original	2/20/41	496	1	H-13, Vol. 307	20	1034	1	1625	1
First Supplemental	8/26/48	632	1	F-16, Vol. 380	200	1668	169	2031	257

Second Supplemental	7/1/52	768	438	A-18, Vol. 425	186	1962	376	2360	517
Third Supplemental	11/25/53	895	1	S-18, Vol. 442	325	2052	1	2493	1
Fourth Supplemental	1/9/56	1089	155	Z-20, Vol. 499	1	2199	1	2722	425
Fifth Supplemental	3/20/57	1181	316	B-22, Vol. 536	601	2294	50	2850	335
Sixth Supplemental	5/9/58	1254	1	G-23	201	2380	39	2952	289
Seventh Supplemental	9/25/59	1332	509	B-25	109	2442	1	3090	249
Eighth Supplemental	5/9/61	—	—	Z-26	17	2526	312	—	—
Eighth Supplemental	5/10/61	1409	225	—	—	—	—	3249	289
Ninth Supplemental	4/10/62	1458	372	G-28	126	2581	463	3307	169
Tenth Supplemental	3/19/64	1568	1	M-30	967	2976	1043	3310	237
Eleventh Supplemental	11/4/66	1655	695	Q-32	668	2762	223	3549	129
Twelfth Supplemental	1/23/68	1691	531	N-33	219	2792	708	3542	315
Thirteenth Supplemental	7/2/70	1763	1167	D-35	80	2850	301	3687	23
Fourteenth Supplemental	11/5/70	1774	831	K-35	713	2858	311	3700	548
Fifteenth Supplemental	12/11/72	1869	196	O-37	998	2926	550	3786	96
Sixteenth Supplemental	5/28/75	1979	14	E-44	77	3005	511	4010	307
Seventeenth Supplemental	2/18/77	2072	683	L-51	1	3072	43	5002	436
Eighteenth Supplemental	4/29/77	2082	567	B-52	344	3078	728	5003	291
Nineteenth Supplemental	6/23/80	2303	714	J-62	92	3261	293	5030	502
Twentieth Supplemental	8/2/83	2487	370	D-72	1	96	810	5662	1045
Twenty-First Supplemental	8/27/85	2690	806	54	550	—	—	5864	1347
Twenty-First Supplemental	8/28/85	—	—	—	—	264	159	—	—
Twenty-Second Supplemental	4/22/86	2774	160	263	275	326	592	5944	360
Twenty-Third Supplemental	4/1/87	2960	693	—	—	—	—	—	—
Twenty-Third Supplemental	4/2/87	—	—	680	337	447	1807	6115	602

; and

Whereas, the lien of the Original Indenture as Supplemented has been perfected as a security interest under the Pennsylvania Uniform Commercial Code by filing a financing statement in the Office of the Secretary of the Commonwealth and by filing continuation statements in respect thereof; and

Whereas, the Company proposes to create under the Original Indenture as supplemented three new series of bonds to be designated “First Mortgage Bonds, 9.89% Series due 2008”, “First Mortgage Bonds, 9.93% Series due 2013” and First Mortgage Bonds, 9.97% Series due 2018” (these Series of bonds are respectively referred to individually as the “9.89% Series due 2008”, the “9.93% Series due 2013” and the “9.97% Series due 2018” and collectively as the “Bonds”), each Series to be limited in aggregate principal amount to \$5,000,000, to be issued only as registered Bonds without coupons, to be dated as provided in the Original Indenture, to bear interest at the

rates of 9.89%, 9.93% and 9.97% per annum, respectively, and to mature on June 1, 2008, June 1, 2013 and June 1, 2018, respectively; and

Whereas, the Company proposes to issue \$5,000,000 principal amount of bonds of the 9.89% Series due 2008, \$5,000,000 principal amount of bonds of the 9.93% Series due 2013 and \$5,000,000 principal amount of bonds of the 9.97% Series due 2018 under the provisions of Article IV of the Original Indenture, and will comply with the provisions thereof as well as other provisions of the Original Indenture and indentures supplemental thereto in connection with the issuance of additional bonds so that it will be entitled to procure the authentication and delivery of the Bonds; and

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

Whereas, in addition to the property described in the Original Indenture and the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth, Eighteenth, Nineteenth, Twentieth, Twenty-First, Twenty-Second and Twenty-Third Supplemental Indentures the Company has acquired certain other property and desires to confirm the lien of the Original Indenture thereon; and

Whereas, the Company, by proper corporate action, has duly authorized the creation of said three new series of bonds designated "First Mortgage Bonds, 9.89% Series due 2008", "First Mortgage Bonds, 9.93% Series due 2013" and "First Mortgage Bonds, 9.97% Series due 2018" (to be issued in accordance with the terms and provisions of the Original Indenture and indentures supplemental thereto, including this Twenty-Fourth Supplemental Indenture, and to be secured by said Original Indenture and indentures supplemental thereto, including this Twenty-Fourth Supplemental Indenture); and has further duly authorized the execution, delivery and recording of this Twenty-Fourth Supplemental Indenture setting forth the terms and provisions of the Bonds insofar as said terms and provisions are not set forth in said Original Indenture; and

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

No. R

\$

PHILADELPHIA SUBURBAN WATER  
COMPANY

(Incorporated under the Laws of the Commonwealth  
of Pennsylvania)

First Mortgage Bond, \_\_\_\_% Series Due 20

Philadelphia Suburban Water Company, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to \_\_\_\_\_ or registered assigns, on the first day of June, 20\_\_, at the office of First Pennsylvania Bank N.A. in the City of Philadelphia, Pennsylvania, the sum of \_\_\_\_\_ in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon at said office to the registered owner hereof from the interest payment date next preceding the date of this bond (or if this bond be dated prior to December 1, 1988, from the date hereof) until the principal hereof shall become due and payable, at the rate \_\_\_\_\_ of percent (\_\_\_\_%) per annum, payable semi-annually in like coin or currency on the first day of June and the first day of December in each year and at maturity and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of \_\_\_\_\_% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the TwentyFourth Supplemental Indenture referred to on the reverse side hereof) be calculated on the basis of a 360-day year of twelve 30-day months and be paid to the person in whose name this bond (or a bond or bonds in exchange for which this bond was issued) is registered at the close of business on the fifteenth day of the calendar month next preceding such June or December (a "record date"), and may be paid by wire transfer to such person in accordance with the payment instructions set forth in the Purchase Agreement dated July 25, 1988 between the Company and Allstate Life Insurance Company or as otherwise delivered by such person to the Trustee on or before such record date.

The provisions of this bond are continued on the reverse hereof and such continued provisions shall for all purposes have the same effect as if fully set forth at this place.

In Witness Whereof, Philadelphia Suburban Water Company has caused this bond to be signed by its President or a Vice-President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this bond to be dated

PHILADELPHIA SUBURBAN WATER COMPANY

By \_\_\_\_\_  
President.  
Attest: \_\_\_\_\_  
Secretary.

PHILADELPHIA SUBURBAN WATER COMPANY  
First Mortgage Bond, \_\_\_\_\_% Series Due 20

This bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by an Indenture of Mortgage (herein called the "Indenture") dated as of January 1, 1941, executed by the Company to The Pennsylvania Company for Insurances on Lives and Granting Annuities (now First Pennsylvania Bank N.A.), as Trustee (hereinafter called the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and interest on this bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This bond is one of the bonds described in an indenture supplemental to said Indenture known as the "Twenty-Fourth Supplemental Indenture" dated as of June 1, 1988, and designated therein as "First Mortgage Bonds, \_\_\_\_\_% Series due \_\_\_\_\_" (the "bonds of the \_\_\_\_\_% series due \_\_\_\_\_").

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

The bonds of the \_\_\_\_\_% series due \_\_\_\_\_ are subject to redemption either at the option of the Company or pursuant to certain requirements of the Indenture, either as a whole at any time, or in part from time to time on any interest payment date. In the case of redemption at the option of the Company no bonds of the \_\_\_\_\_% series due \_\_\_\_\_ may be redeemed in such manner prior to June 1, 2003. The bonds of the \_\_\_\_\_% series due are subject to mandatory redemption (i) in connection with the sale to or other acquisition by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies of all or substantially all of the property of the Company, or (ii) in connection with any voluntary or involuntary liquidation, dissolution or winding up of the Company, occurring in connection with

or subsequent to the acquisition of all or substantially all of the stock of the Company ordinarily entitled to voting rights by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies. In a mandatory redemption the bonds of the \_\_\_\_% series due \_\_\_\_\_ are redeemable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts, at one hundred percent (100%) of the principal amount thereof, together with interest accrued thereon to the date fixed for redemption. If redeemed at the option of the Company the bonds of the \_\_\_\_% series due \_\_\_\_\_ are redeemable in like coin and currency at a redemption price equal to the principal amount of bonds of the \_\_\_\_% series due \_\_\_\_\_ to be redeemed plus interest thereon to the date of redemption plus a premium equal to the amount by which the present value, as of the date of redemption, of all remaining principal and interest payments on the bonds of the \_\_\_\_% series due \_\_\_\_\_ to be redeemed using as a discount factor the Applicable Treasury Rate, as defined in the Indenture, exceeds the outstanding principal amount of the bonds of the \_\_\_\_% series due to be redeemed. No premium shall be payable if such difference is less than or equal to zero. Any redemption shall be effected by notice mailed, by registered mail, to the registered owners thereof, as provided in the Indenture, at least thirty (30) days before the redemption date, all on the conditions and in the manner provided in the Indenture.

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

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

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

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

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

This bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until First Pennsylvania Bank N.A., as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

[Form of Trustee's Certificate]

This bond is one of the bonds, of the series designated therein, referred to in the within-mentioned Twenty-Fourth Supplemental Indenture.

First Pennsylvania Bank N.A., Trustee

By \_\_\_\_\_  
Authorized Officer.

Date of Authentication: \_\_\_\_\_

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

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

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



I.

Real Estate And Water Rights.

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

II.

Buildings And Equipment.

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

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

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

III.

Franchises and Rights of Way.

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

IV.

After Acquired Property.

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

Together With all and singular the tenements, hereditaments and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders, tolls, rents, revenues, issues, income, product and profits thereof, and all the estate, right, title, interest and claim whatsoever, at law as well as in

equity, which the Company now has or may hereafter acquire in and to the aforesaid premises, property, rights and franchises and every part and parcel thereof.

Excepting and Reserving, However, certain premises, not used or useful in the supplying of water by the Company, expressly excepted and reserved from the lien of the Original Indenture and not subject to the terms thereof.

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

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

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

IN TRUST NEVERTHELESS, for the equal pro rata benefit and security of each and every person or corporation who may be or become the holders of bonds and coupons secured by the Original Indenture or by any indenture supplemental thereto, or both, without preference, priority or distinction as to lien or otherwise of any bond or coupon over or from any other bond or coupon, so that each and every of said bonds and coupons issued or to be issued, of whatsoever series, shall have the same right, lien and privilege under the Original Indenture and all indentures supplemental thereto and shall be equally secured hereby and thereby, with the same effect as if said bonds and coupons had all been made, issued and negotiated simultaneously on the date

thereof; subject, however, to the provisions with reference to extended, transferred or pledged coupons and claims for interest contained in the Original Indenture and subject to any sinking or improvement fund or maintenance deposit provisions, or both, for the benefit of any particular series of bonds.

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

ARTICLE I.

Form, Authentication and Delivery of  
the Bonds

Section 1. There shall be a twenty-fifth series of bonds, limited in aggregate principal amount, designated as "Philadelphia Suburban Water Company First Mortgage Bonds, 9.89% Series due 2008", a twenty-sixth series of bonds, limited in aggregate principal amount, designated "Philadelphia Suburban Water Company First Mortgage Bonds, 9.93% Series due 2013" and a twenty-seventh series of bonds, limited in aggregate principal amount, designated "Philadelphia Suburban Water Company First Mortgage Bonds, 9.97% Series due 2018" (sometimes the twenty-fifth, twenty-sixth and twenty-seventh series of bonds are herein referred to individually as the "9.89% Series due 2008", "9.93% Series due 2013" and "9.97% Series due 2018", respectively, and collectively as the "Bonds").

The Bonds shall be dated as of the date of issue (except that if any bond shall be issued prior to December 1, 1988 in exchange for any other bond, it shall be dated the date of the bond for which it is exchanged, and if any such bond shall be issued on any interest payment date it shall be dated as of the day next following such interest payment date), shall mature on and shall bear interest at the rate set forth below:

<u>Principal Amount</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>
\$5,000,000	2008	9.89%
5,000,000	2013	9.93%
5,000,000	2018	9.97%

Interest shall be payable semi-annually on the first day of June and the first day of December of each year. The Bonds shall bear interest from the interest payment date next preceding the date thereof, except that Bonds dated prior to December 1, 1988, shall bear interest from the date thereof and except as otherwise provided in Section 5 of Article II of the Original Indenture with respect to Bonds issued upon transfer or exchange of Bonds on which interest is in default.

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

The principal of, and premium, if any, and interest on the Bonds shall be payable at the office of the Trustee in the City of Philadelphia, Pennsylvania, in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts; provided, however, that each installment of interest may be paid by check to the order of the person entitled thereto, mailed to such person's address as the same appears on the

books maintained for such purpose by or on behalf of the Company, or by bank wire transfer of immediately available funds pursuant to instructions incorporated in an agreement between such person and the Trustee or the Company.

The person in whose name any Bond is registered at the close of business on any record date (as hereinafter defined) with respect to any interest payment date shall be entitled to receive the interest payable on such interest payment date notwithstanding the cancellation of such Bond upon any transfer or exchange subsequent to the record date and prior to such interest payment date; provided, however, that if and to the extent the Company shall default in the payment of the interest due on such interest payment date, such defaulted interest shall be paid to the persons in whose names outstanding Bonds are registered at the close of business on a subsequent record date established by notice given by mail by or on behalf of the Company to the holders of Bonds not less than fifteen days preceding such subsequent record date, such record date to be not less than ten days preceding the date of payment of such defaulted interest. The term "record date" as used in this Section 1 with respect to any regular interest payment date shall mean the fifteenth day of the calendar month preceding such interest payment date if such fifteenth day is a business day; if such fifteenth day is not a business day, the record date shall be the next preceding business day.

Exchange of any Bonds shall be effected in accordance with the applicable provisions of Sections 7, 8 and 9 of Article II of the Original Indenture. The text of the Bonds and of the certificate of the Trustee upon such Bonds shall be, respectively, substantially of the tenor and effect hereinbefore recited.

Section 2. The Bonds shall be redeemable either at the option of the Company pursuant to the provisions of the Original Indenture or of this Twenty-Fourth Supplemental Indenture pursuant to any provision of the Original Indenture or of this Twenty-Fourth Supplemental Indenture requiring such redemption, either as a whole at any time prior to maturity, or in part from time to time on any Interest Payment Date, except that in the case of redemption at the option of the Company, no Bonds may be redeemed in such manner prior to June 1, 2003. The Bonds shall be subject to mandatory redemption (i) in connection with the sale to or other acquisition by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies of all or substantially all of the property of the Company, or (ii) in connection with any voluntary or involuntary liquidation, dissolution or winding up of the Company, occurring in connection with or subsequent to the acquisition of all or substantially all of the stock of the Company ordinarily entitled to voting rights by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies. The Bonds are redeemable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts, at one hundred per cent (100%) of the principal amount thereof, together with interest accrued thereon to the date fixed for redemption. If redeemed otherwise than in accordance with the second preceding sentence, the Bonds of each series are redeemable in like coin and currency at a redemption price (the "Optional Redemption Price") equal to the principal amount to be redeemed plus interest thereon to the date of redemption plus a premium equal to the amount by which the present value, as of the date of redemption, of all remaining payments of principal and interest thereon to stated maturity using the Applicable Treasury Rate (as hereinafter defined) as a discount factor exceeds the outstanding principal amount to be redeemed of the particular series of Bonds. No premium shall be payable if such difference is less than or equal to zero. For the purposes hereof, the Applicable Treasury Rate means the yield on the United States Treasury obligations, determined with reference to the Statistical Release, whose maturity most closely coincides with the maturity of the Bonds being redeemed. For the purposes hereof, the Statistical Release means the statistical release designated "H.15 (519)" which is published weekly by the Federal Reserve System or if such release shall cease to be published by the Federal Reserve System or if such release does not set forth the interest rate of United States Treasury obligations with maturities permitting the calculation of the premium, then any comparable release of the Federal Reserve System which sets forth the interest rate of United States Treasury obligations with maturities permitting the calculation of the premium, or if the Federal Reserve System shall

not publish such comparable release then such other similar publicly available release which is acceptable to the Company and the holders of 66<sup>2/3</sup>% of outstanding Bonds.

Any redemption of the Bonds shall be effected in accordance with the provisions of Article V of the Original Indenture except that, notwithstanding any other provisions to the contrary, whenever less than all the outstanding Bonds of any series are to be redeemed, then the Bonds of such series to be redeemed shall not be selected by lot as provided in Section 2 of Article V of the Original Indenture but (in the absence of an agreement as hereinafter referred to) shall be selected by the Trustee, in accordance with any method which it shall adopt, in such manner that the principal amount of Bonds of such series of each registered owner thereof to be so redeemed shall, except as hereinafter provided, bear to the aggregate principal amount of Bonds of such series at the time to be redeemed the same ratio as is borne by the principal amount of Bonds of such series at the time registered in the name of that owner to the aggregate principal amount of such series of Bonds at the time outstanding; provided, however, that, to the extent, but only to the extent, that Bonds or portions thereof to be redeemed cannot be selected in the exact ratios above provided by reason of the fact that the application of such ratios would involve the selection of fractional parts of bonds (that is, portions of principal amounts thereof less than \$5,000), the Trustee shall select the principal amount of Bonds of each of the registered owners thereof to be redeemed in such amount as shall be deemed, in the discretion of the Trustee, appropriate to maintain, through successive partial redemptions, the ratios above provided. If an agreement with respect to the selection of Bonds to be redeemed duly executed by the registered owners of all of the outstanding Bonds of any series shall be filed with the Trustee at least ten days prior to the date upon which the publication or mailing of the notice of redemption hereinbefore mentioned is required to be made, the Bonds of said series to be redeemed shall be selected in accordance with the provisions of such agreement.

Section 3. Bonds of the 9.89% Series due 2008 in the aggregate principal amount of \$5,000,000, bonds of the 9.93% Series due 2013 in the aggregate principal amount of \$5,000,000 and bonds of the 9.97% Series due 2018 in the aggregate principal amount of \$5,000,000 may be issued under the provisions of Article IV of the Original Indenture and may forthwith be executed by the Company and delivered to the Trustee and shall be authenticated by the Trustee and delivered to or upon the order of the Company, upon receipt by the Trustee of the resolutions, certificates, opinions and/or other instruments required to be delivered upon the issue of bonds pursuant to the provisions of the Original Indenture.

## ARTICLE II.

### Maintenance or Improvement Deposit.

Section 1. The Company covenants that it will deposit with the Trustee on or before the March 1 next occurring after the bonds of the 5% Series due 1989 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 4<sup>5/8</sup>% Series due 1991 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 4.70% Series due 1992 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 4.55% Series due 1994 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 5<sup>1/2</sup>% Series due 1996 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 6<sup>7/8</sup>% Series due 1993 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 7<sup>7/8</sup>% Series due 1997 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 10<sup>1/8</sup>% Series due 1995 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.20% Series due 2001 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 8.40% Series due 2002 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 8<sup>7/8</sup>% Series due 2010 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 12.45% Series due 2003 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 13% Series due 2005 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 10.65% Series due 2006 cease to be

outstanding, or on or before the March 1 next occurring after the bonds of the 8.44% Series due 1997 cease to be outstanding, whichever is latest, and on or before March 1 in each year thereafter if and so long as any of the Bonds are outstanding, an amount in cash (the "Maintenance or Improvement Deposit") equal to 9% of the Gross Operating Revenues of the Company during the preceding calendar year less, to the extent that the Company desires to take such credits, the following:

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

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

(c) the unapplied balance, or any part thereof, of the Cost or Fair Value, whichever is less, of Available Permanent Additions acquired by the Company during the five (5) calendar years preceding such calendar year and specified in the Officers' Certificates delivered to the Trustee pursuant to Section 2 of this Article, but only to the extent that the Permanent Additions with respect to which such Cost or Fair Value was determined shall at the time of taking such credit constitute Available Permanent Additions.

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

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

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

(ii) 9% of such Gross Operating Revenues;

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

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

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

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

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

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

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

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

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

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

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

(B) In the event that the Officers' Certificate delivered to the Trustee pursuant to the provisions of paragraph (A) of this Section shall state, pursuant to the requirements of subparagraph (vi), the Cost or Fair Value of Available Permanent Additions acquired by the Company during the preceding calendar year, the documents specified in paragraphs 2, 3, 5, 6 and 7 of subdivision (B) of Section 3 of Article IV of the Original Indenture, with such modifications, additions and omissions as may be appropriate in the light of the purpose for which they are used.

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

Section 3. All cash deposited with the Trustee as part of any Maintenance or Improvement Deposit provided for in Section 1 of this Article, may, at the option of the Company, be applied to the purchase of Bonds under the provisions of Section 2 of Article X of the Original Indenture at a price not exceeding the Optional Redemption Price, or, after June 1, 2003, to the redemption of the Bonds under the provisions of Section 3 of Article X of the Original Indenture at the Optional Redemption Price, together with interest accrued to the date fixed for redemption, or may be withdrawn by the Company at anytime to reimburse the Company for the cost of a Net Amount of Available Permanent Additions (excluding, however, from any such Available Permanent Additions all Permanent Additions included in any certificate delivered to the Trustee for the purpose of obtaining a credit against any Maintenance or Improvement Deposit provided for in Section 1 of this Article to the extent that such Permanent Additions have been used for any such credit). The Trustee shall pay to or upon the written order of the Company all or any part of such cash upon the receipt by the Trustee of:

- (a) A Resolution requesting such payment; and
- (b) The documents specified in paragraphs 2, 5, 6 and 7 of subdivision (8) of Section 3 of Article IV of the Original Indenture, with such modifications, additions and omissions as may be appropriate in the light of the purposes for which they are used.

ARTICLE III.

Covenants of the Company.

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

Section 2. The Company covenants and agrees that so long as any of the Bonds are outstanding (a) the Company will not make any Stock Payment if, after giving effect thereto, its retained earnings, computed in accordance with generally accepted accounting principles consistently applied, will be less than the sum of (i) Excluded Earnings, if any, since December 31, 1987, and (ii) \$20,000,000; (b) Stock Payments made more than 40 days after the commencement, and prior to the expiration, of any Restricted Period shall not exceed 65% of the Company's Net Income during such Restricted Period; and (c) the Company will not authorize a Stock Payment if there has occurred and is continuing an event of default under subsections (a) and (b) of Section 1 of Article XI of the Original Indenture.

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

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

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

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

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

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



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

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

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

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

#### ARTICLE IV.

##### The Trustee.

The Trustee hereby accepts the trust hereby declared and provided, and agrees to perform the same upon the terms and conditions in the Original Indenture, as supplemented by this Twenty-Fourth Supplemental Indenture, and in this Twenty-Fourth Supplemental Indenture set forth, and upon the terms and conditions set forth in Article V hereof.

#### ARTICLE Y.

##### Miscellaneous.

Section 1. This instrument is executed and shall be construed as an indenture supplemental to the Original Indenture, and shall form a part thereof, and except as hereby supplemented, the Original Indenture and the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth, Eighteenth, Nineteenth, Twentieth, Twenty-First, Twenty-Second and Twenty-Third Supplemental Indentures are hereby confirmed. All references in this Twenty-Fourth Supplemental Indenture to the Original Indenture shall be deemed to refer to the Original Indenture as heretofore amended and supplemented, and all terms used herein shall be taken to have the same meaning as in the Original Indenture, as so amended, except in the cases where the context clearly indicates otherwise.

Section 2. All recitals in this Twenty-Fourth Supplemental Indenture are made by the Company only and not by the Trustee; and all of the provisions contained in the Original

Indenture in respect of the rights, Privileges, immunities, powers and duties of the Trustee shall be applicable in respect hereof as fully and with like effect as if set forth herein in full.

Section 3. Although this Twenty-Fourth Supplemental Indenture is dated for convenience and for the purpose of reference as of June 1, 1988, the actual date or dates of execution hereof by the Company and the Trustee are as indicated by their respective acknowledgments annexed hereto.

Section 4. In order to facilitate the recording or filing of this TwentyFourth Supplemental Indenture, the same may be simultaneously executed in several counterparts, each of which shall be deemed to be an original and such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF the parties hereto have caused their corporate seals to be hereunto affixed and their Presidents or Vice-Presidents, under and by the authority vested in them. have hereto affixed their signatures, and their Secretaries or Assistant Secretaries have duly attested the execution hereof, as of the first day of June, 1988.

[CORPORATE SEAL]

PHILADELPHIA SUBURBAN WATER  
COMPANY

Signed, sealed and delivered by  
Philadelphia Suburban Water  
Company in presence of:

By /s/ DEWAYEN LAIRD  
Senior Vice President

Attest: /s/ MARK J. KROPILAK  
Assistant Secretary

[CORPORATE SEAL]

FIRST PENNSYLVANIA BANK N.A.

Signed, sealed and delivered by First  
Pennsylvania Bank N.A. in the  
presence of:

By /s/ EDWARD S. NANCARROW  
Vice President

Attest: /s/ BRIAN A. BUCHANAN  
Assistant Secretary

First Pennsylvania Bank N.A., Mortgagee and Trustee named in the foregoing Twenty-Fourth Supplemental Indenture, hereby certifies that its precise name and the post office address of its Corporate Trust Department are as follows:

First Pennsylvania Bank N.A., 30 South 30th Street, Philadelphia, Pennsylvania 19104.

FIRST PENNSYLVANIA BANK N.A.

By /s/ EDWARD S. NANCARROW  
Vice President

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EXHIBIT A

<u>County and Grantor</u>	<u>Company's Real Estate Index No.</u>	<u>Date of Deed</u>	<u>Recorded in Book</u>	<u>Page</u>
CHESTER COUNTY Ferguson & Flynn Corp.....	VI-E-22	9/15/87	922	405

COMMONWEALTH OF PENNSYLVANIA)

) ss.:

COUNTY OF MONTGOMERY )

On the 25th day of July, 1988, before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared DeWayne Laird, who acknowledged himself to be the Senior Vice President of Philadelphia Suburban Water Company, a corporation, and that he as such Senior Vice President, being authorized to do so, executed the foregoing Twenty-Fourth Supplemental Indenture as and for the act and deed of said corporation and for the uses and purposes therein mentioned, by signing the name of the corporation by himself as such officer.

IN WITNESS WHEREOF I hereunto set my hand and official seal.

[NOTARIAL SEAL]

/s/ PATRICIA M. MYCEK  
Notary Public

COMMONWEALTH OF PENNSYLVANIA)

) ss.:

COUNTY OF PHILADELPHIA )

On the 25th day of July, 1988, before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared Edward S. Nancarrow, who acknowledged himself to be a Vice-President of First Pennsylvania Bank N.A., Trustee, a corporation, and that he as such Vice-President, being authorized to do so, executed the foregoing Twenty-Fourth Supplemental Indenture as and for the act and deed of the said corporation and for the uses and purposes therein mentioned by signing the name of the corporation by himself as such officer.

IN WITNESS WHEREOF I hereunto set my hand and official seal.

I am not a director or officer of the said First Pennsylvania Bank N.A.

[NOTARIAL SEAL]

/s/ BARBARA ANNE RYAN  
Notary Public

This Twenty-Fourth Supplemental Indenture was recorded on July 25, 1988 in the Office for the Recording of Deeds for each of the four counties tabulated below in the Mortgage Book and at the page indicated:

<u>County</u>	<u>Date</u>	<u>Mortgage Book</u>	<u>Page</u>
Bucks.....	July 25, 1988	3199	1095
Chester.....	July 25, 1988	1224	389
Delaware.....	July 25, 1988	593	585
Montgomery.....	July 25, 1988	6324	143

For the recording information with respect to the Original Indenture and the first twenty-three supplemental indentures, see pages 3 and 4 of, this Twenty-Fourth Supplemental Indenture.

**TWENTY-SIXTH SUPPLEMENTAL  
INDENTURE**

DATED AS OF NOVEMBER 1, 1991

TO

INDENTURE OF MORTGAGE  
DATED AS OF JANUARY 1, 1941

PHILADELPHIA SUBURBAN WATER COMPANY

TO

CORESTATES BANK, N.A., as Trustee

**\$12,000,000 FIRST MORTGAGE BONDS, 9.29% SERIES DUE 2026**  
**\$8,000,000 FIRST MORTGAGE BONDS, 9.17% SERIES DUE 2021**  
**\$5,000,000 FIRST MORTGAGE BONDS, 9.17% SERIES DUE 2011**

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TWENTY-SIXTH SUPPLEMENTAL INDENTURE dated as of the first day of November, 1991, by and between PHILADELPHIA SUBURBAN WATER COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania (the "Company"), party of the first part, and CORESTATES BANK, N.A., a national banking association successor to The Pennsylvania Company for Insurances on Lives and Granting Annuities, and as The Pennsylvania Company for Banking and Trusts, and as The First Pennsylvania Banking and Trust Company, and as First Pennsylvania Bank N.A. (the "Trustee"), party of the second part.

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

WHEREAS, on March 29, 1947, concurrently with a merger of Germantown Trust Company into The Pennsylvania Company for Insurances on Lives and Granting Annuities, the name of the surviving corporation was changed to The Pennsylvania Company for Banking and Trusts, on September 30, 1955, concurrently with a merger of The First National Bank of Philadelphia into The Pennsylvania Company for Banking and Trusts, the name of the surviving corporation was changed to The First Pennsylvania Banking and Trust Company, and on June 3, 1974, by amendment to its Articles of Association, The First Pennsylvania Banking and Trust Company was changed and converted into a national bank and concurrently therewith changed its name to First Pennsylvania Bank N.A., and on October 1, 1991, First Pennsylvania Bank N.A. merged with and into Philadelphia National Bank, which changed its name to CoreStates Bank, N.A., such mergers and changes of name not involving any change in the title, powers, rights or duties of the Trustee, as trustee under the Original Indenture as supplemented at the respective dates thereof; and

WHEREAS, the Company duly executed and delivered to the Trustee a First Supplemental Indenture dated as of July 1, 1948, a Second Supplemental Indenture dated as of July 1, 1952, a Third Supplemental Indenture dated as of November 1, 1953, a Fourth Supplemental Indenture dated as of January 1, 1956, a Fifth Supplemental Indenture dated as of March 1, 1957, a Sixth Supplemental Indenture dated as of May 1, 1958, a Seventh Supplemental Indenture dated as of September 1, 1959, an Eighth Supplemental Indenture dated as of May 1, 1961, a Ninth Supplemental Indenture dated as of April 1, 1962, a Tenth Supplemental Indenture dated as of March 1, 1964, an Eleventh Supplemental Indenture dated as of November 1, 1966, a Twelfth Supplemental Indenture dated as of January 1, 1968, a Thirteenth Supplemental Indenture dated as of June 15, 1970, a Fourteenth Supplemental Indenture dated as of November 1, 1970, a Fifteenth Supplemental Indenture dated as of December 1, 1972, a Sixteenth Supplemental Indenture dated as of May 15, 1975, a Seventeenth Supplemental Indenture dated as of December 15, 1976, an Eighteenth Supplemental Indenture dated as of May 1, 1977, a Nineteenth Supplemental Indenture dated as of June 1, 1980, a Twentieth Supplemental Indenture dated as of August 1, 1983, a Twenty-First Supplemental Indenture, dated as of August 1, 1985, a Twenty-Second Supplemental Indenture, dated as of April 1, 1986, a Twenty-

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Third Supplemental Indenture, dated as of April 1, 1987, a Twenty-Fourth Supplemental Indenture, dated as of June 1, 1988 and a Twenty-Fifth Supplemental Indenture, dated as of January 1, 1990, to subject certain additional property to the lien of the Original Indenture and to provide for the creation of additional series of bonds; and

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

<u>Designation</u>	<u>Indenture</u>	<u>Amount</u>
3 1/4% Series due 1971	Original	\$16,375,000
9 5/8% Series due 1975	Thirteenth Supplemental	10,000,000
9.15% Series due 1977	Fourteenth Supplemental	10,000,000
3% Series due 1978	First Supplemental	2,000,000
3 3/8% Series due 1982	Second Supplemental	4,000,000
3.90% Series due 1983	Third Supplemental	5,000,000
3 1/2% Series due 1986	Fourth Supplemental	6,000,000
4 1/2% Series due 1987	Fifth Supplemental	4,000,000
4 1/8% Series due 1988	Sixth Supplemental	4,000,000
5% Series due 1989	Seventh Supplemental	4,000,000
4 5/8% Series due 1991	Eighth Supplemental	3,000,000
4.70% Series due 1992	Ninth Supplemental	3,000,000
6 7/8% Series due 1993	Twelfth Supplemental	4,500,000
4.55% Series due 1994	Tenth Supplemental	4,000,000
10 1/8% Series due 1995	Sixteenth Supplemental	10,000,000
5 1/2% Series due 1996	Eleventh Supplemental	4,000,000
7 7/8% Series due 1997	Fifteenth Supplemental	5,000,000
8.44% Series due 1997	Twenty-Third Supplemental	12,000,000
9.20% Series due 2001	Seventeenth Supplemental	7,000,000
8.40% Series due 2002	Eighteenth Supplemental	10,000,000
12.45% Series due 2003	Twentieth Supplemental	10,000,000
13% Series due 2005	Twenty-First Supplemental	8,000,000
10.65% Series due 2006	Twenty-Second Supplemental	10,000,000
9.89% Series due 2008	Twenty-Fourth Supplemental	5,000,000
9.12% Series due 2010	Twenty-Fifth Supplemental	20,000,000
8 7/8% Series due 2010	Nineteenth Supplemental	8,000,000
9.93% Series due 2013	Twenty-Fourth Supplemental	5,000,000
9.97% Series due 2018	Twenty-Fourth Supplemental	5,000,000

; and

WHEREAS, all of the bonds of each of said series are presently outstanding other than the bonds of the 3 1/4% Series due 1971, all of which were redeemed on December 31, 1970, the bonds of the 9 5/8% Series due 1975, all of which were paid at maturity on June 15,



1975, the bonds of the 9.15% Series due 1977, all of which were paid at maturity on November 1, 1977, the bonds of the 3% Series due 1978, all of which were paid at maturity on July 1, 1978, the bonds of the 3 3/8% Series due 1982, all of which were paid at maturity on July 1, 1982, the bonds of the 3.90% Series due 1983, all of which were paid at maturity on July 1, 1983, the bonds of the 3 1/2% Series due 1986, all of which were paid at maturity on January 1, 1986, the bonds of the 4 1/2% Series due 1987, all of which were paid at maturity on January 1, 1987, the bonds of the 4 1/8% Series due 1988, all of which were paid at maturity on May 1, 1988, the bonds of the 5% Series due 1989, all of which were paid at maturity on September 1, 1989, the bonds of the 4 5/8% Series due 1991, all of which were paid at maturity on May 1, 1991, the bonds of the 10 1/8% Series due 1995, \$5,250,000 principal amount of which has been redeemed by operation of the Sinking Fund and the concurrent redemption privilege as provided in the Sixteenth Supplemental Indenture, the bonds of the 9.20% Series due 2001, \$3,150,000 principal amount of which has been redeemed by operation of the Sinking Fund and the concurrent redemption privilege as provided in the Seventeenth Supplemental Indenture and the bonds of the 8.40% Series due 2002, \$4,050,000 principal amount of which has been redeemed by operation of the Sinking Fund and the concurrent redemption privilege as provided in the Eighteenth Supplemental Indenture; and

WHEREAS, the Original Indenture and said Supplemental Indentures were duly recorded in the Commonwealth of Pennsylvania on the dates and in the office for the Recording of Deeds for the following counties in the Mortgage Books and at the pages indicated in the following table:

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Original	2/20/41	496	1	H-13.Vol.307	20	1034	1	1625	1
First Supplemental	8/26/48	632	1	F-16.Vol.380	200	1668	169	2031	257
Second Supplemental	7/1/52	768	438	18.Vol.425	186	1962	376	2360	517
Third Supplemental	11/25/53	895	1	18.Vol.442	325	2052	1	2493	1
Fourth Supplemental	1/9/56	1089	155	Z-20.Vol.499	1	2199	1	2722	425
Fifth Supplemental	3/20/57	1181	316	B-22.Vol.536	601	2294	50	2850	335
Sixth Supplemental	5/9/58	1254	1	G-23	201	2380	039	2952	289
Seventh Supplemental	9/25/59	1332	509	B-25	109	2442	1	3090	249
Eighth Supplemental	5/9/61	-	-	Z-26	17	2526	312	-	-
Eighth Supplemental	5/10/61	1409	225	-	-	-	-	3249	289
Ninth Supplemental	4/10/62	1458	372	G-28	126	2581	463	3307	169
Tenth Supplemental	3/19/64	1568	1	M-30	967	2976	1043	3310	237
Eleventh Supplemental	11/4/66	1655	695	Q-32	6682	762	223	3549	129

Twelfth Supplemental	1/23/68	1691	531	N-33	219	2792	708	3542	315
Thirteenth Supplemental	7/2/70	1763	1167	D-35	80	2850	301	3687	23
Fourteenth Supplemental	11/5/70	1774	331	K-35	713	2858	3113	700	548
Fifteenth Supplemental	12/11/72	1869	196	O-37	998	2926	550	3786	96
Sixteenth Supplemental	5/28/75	1979	14	E-44	77	3005	511	4010	307
Seventeenth Supplemental	12/18/77	2072	683	L-51	1	3072	43	5002	436
Eighteenth Supplemental	4/29/77	2082	567	B-52	344	3078	728	5003	291
Nineteenth Supplemental	6/23/80	2303	714	J-62	92	3261	293	5030	502
Twentieth Supplemental	8/2/83	2487	370	D-72	1	96	810	5662	1045
Twenty-First Supplemental	8/27/85	2690	806	54	550	-	-	5864	1347
Twenty-First Supplemental	8/28/85	-	-	-	-	264	159	-	-
Twenty-Second Supplemental	4/22/86	2774	160	263	275	326	592	5944	360
Twenty-Third Supplemental	4/1/87	2960	693	-	-	-	-	-	-
Twenty-Third Supplemental	4/2/87	-	-	680	337	447	1807	6115	602
Twenty-Fourth Supplemental	7/25/88	3199	1095	1224	389	0593	0585	6324	143
Twenty-Fifth Supplemental	1/12/90	0136	0250	1848	205	731	1571	6538	376

; and

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

WHEREAS, the Company proposes to create under the Original Indenture as supplemented three new series of bonds to be designated "First Mortgage Bonds, 9.29% Series due 2026", "First Mortgage Bonds, 9.17% Series due 2021" and "First Mortgage Bonds, 9.17% Series due 2011" (these Series of bonds are respectively referred to individually as the "9.29% Series due 2026", the "9.17% Series due 2021" and the "9.17% Series due 2011", and collectively as the "Bonds") to be limited in aggregate principal amount to \$12,000,000, \$8,000,000, and \$5,000,000, respectively, to be issued only as registered bonds without coupons, to be dated as provided in the Original Indenture, to bear interest at the rates of 9.29%, 9.17% and 9.17% per annum, respectively, and to mature on September 15, 2026, September 15, 2021, and September 15, 2011; and

WHEREAS, the Company proposes to issue \$12,000,000 principal amount of the bonds of the 9.29% Series due 2026, \$8,000,000 principal amount of the bonds of the 9.17% Series due 2021 and \$5,000,000 principal amount of the bonds of the 9.17% Series due 2011 under the provisions of Article IV of the Original Indenture, and will comply with the provisions thereof as well as with other provisions of the Original Indenture and indentures supplemental thereto in connection with the issuance of additional bonds so that it will be entitled to procure the authentication and delivery of the Bonds; and

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

WHEREAS, in addition to the property described in the Original Indenture and the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth, Eighteenth, Nineteenth, Twentieth, Twenty-First, Twenty-Second, Twenty-Third, Twenty-Fourth and Twenty-Fifth Supplemental Indentures the Company has acquired certain other property and desires to confirm the lien of the Original Indenture thereon; and

WHEREAS, the Company, by proper corporate action, has duly authorized the creation of said three new series of Bonds (to be issued in accordance with the terms and provisions of the Original Indenture and indentures supplemental thereto, including this Twenty-Sixth Supplemental Indenture, and to be secured by said Original Indenture and indentures supplemental thereto, including this Twenty-Sixth Supplemental Indenture); and has further duly authorized the execution, delivery and recording of this Twenty-Sixth Supplemental Indenture setting forth the terms and provisions of the Bonds insofar as said terms and provisions are not set forth in said Original Indenture; and

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

No. R-  
\$ \_\_\_\_\_

PHILADELPHIA SUBURBAN WATER  
COMPANY

(Incorporated under the Laws of the Commonwealth  
of Pennsylvania)

First Mortgage Bond, \_\_\_\_% Series Due \_\_\_\_

Philadelphia Suburban Water Company, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the "Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to \_\_\_\_\_ or its registered assigns, on the fifteenth day September, \_\_\_\_\_, at the corporate trust office of CoreStates Bank, N.A. in the City of Philadelphia, Pennsylvania, the sum of \_\_\_\_\_ in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon at said office to the registered owner hereof from the interest payment date next preceding the date of this bond (or if this bond be dated prior to March 15, 1992, from the date hereof) until the principal hereof shall become due and payable, at the rate of \_\_\_\_\_ percent (\_\_\_\_%) per annum, payable semiannually in like coin or currency on the fifteenth day of March and the fifteenth day of September in each year and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of \_\_\_\_% per annum after maturity whether by acceleration or otherwise until paid.

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

This bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by an Indenture of Mortgage (herein called the "Indenture") dated as of January 1, 1941, executed by the Company to The Pennsylvania Company for Insurances on Lives and Granting Annuities (now CoreStates Bank, N.A.), as Trustee (hereinafter called the "Trustee"), to which

Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and interest on this bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This bond is one of the bonds described in an indenture supplemental to said Indenture known as the "Twenty-Sixth Supplemental Indenture" dated as of November 1, 1991, and designated therein as "First Mortgage Bonds, \_\_\_% Series due \_\_\_ (the "bonds of the \_\_\_% series due \_\_\_\_") .

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

Insert in bonds of the 9.17% series due 2 021 only - The bonds of the 9.17% series due 2021 are subject to redemption prior to maturity in part on September 15 of each year, commencing September 15, 2002, pursuant to the terms of a sinking fund provided in Twenty-Sixth Supplemental Indenture at a price equal to one hundred percent (100%) of the principal amount of the bonds to be redeemed, together with unpaid interest accrued to the date fixed for redemption.

The bonds of the \_\_\_% series due \_\_\_ are subject to redemption at the option of the Company on or after September 15, 2001, either as a whole or in part, on any interest payment date in coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts at a redemption price equal to the principal amount of bonds of the \_\_\_% series due \_\_\_ to be redeemed plus interest thereon to the date of redemption plus a premium, as provided in the Twenty-Sixth Supplemental Indenture.

The bonds of the \_\_\_\_% series due \_\_\_\_ are subject to mandatory redemption (i) in connection with the sale to or other acquisition by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies of all or substantially all of the property of the Company, or (ii) in connection with any voluntary or involuntary liquidation, dissolution or winding up of the Company, occurring in connection with or subsequent to the acquisition of all or substantially all of the stock of the Company ordinarily entitled to voting rights by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies. In such a mandatory redemption the bonds of the \_\_\_\_% series due \_\_\_\_ are redeemable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts, at one hundred per cent (100%) of the principal amount thereof, together with interest accrued thereon to the date fixed for redemption.

Any redemption shall be effected by notice mailed, to the registered owners thereof, as provided in the Indenture, at least thirty (30) days before the redemption date, all on the conditions and in the manner provided in the Indenture.

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

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

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

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

No recourse shall be had for the payment of the principal of or interest on this bond or for any claim based hereon or otherwise in respect hereof or of the Indenture or of any indenture supplemental thereto against any incorporator or any past, present or future stockholder, officer or director of the Company or of any predecessor or successor corporation, as such, either directly or through the Company, or through any such predecessor or successor

corporation or through any receiver or trustee in bankruptcy, by virtue of any constitutional provision, statute or rule of law or equity, or by the enforcement of any assessment or penalty or otherwise; all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released by every holder or registered owner hereof, as more fully provided in the Indenture.

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

IN WITNESS WHEREOF, Philadelphia Suburban Water Company has caused this bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this bond to be dated

PHILADELPHIA SUBURBAN

Attest:

WATER COMPANY

\_\_\_\_\_  
Assistant Secretary

By: \_\_\_\_\_  
Vice President and Treasurer

[Form of Trustee's Certificate]

This bond is one of the bonds, of the series designated therein, referred to in the within-mentioned Twenty-Sixth Supplemental Indenture.

CORESTATES BANK, N.A., TRUSTEE

By: \_\_\_\_\_  
Authorized Officer

and;

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

NOW, THEREFORE, THIS TWENTY-SIXTH SUPPLEMENTAL INDENTURE WITNESSETH: That, in order to secure the payment of the principal and interest of all bonds issued under the Original Indenture and all indentures supplemental thereto, according to their tenor and effect, and according to the terms of the Original Indenture and of any indenture supplemental thereto, and to secure the performance of the covenants and

obligations in said bonds and in the Original Indenture and any indenture supplemental thereto respectively contained, and to provide for the proper issuing, conveying and confirming unto the Trustee, its successors in said trust and its and their assigns forever, upon the trusts and for the purposes expressed in the Original Indenture and in any indenture supplemental thereto, all and singular the estates, property and franchises of the Company thereby mortgaged or intended so to be, the Company, for and in consideration of the premises and of the sum of One Dollar (\$1.00) in hand paid by the Trustee to the Company upon the execution and delivery of this Twenty-Sixth Supplemental Indenture, receipt whereof is hereby acknowledged, and of other good and valuable consideration, has granted, bargained, sold, aliened, enfeoffed, released and confirmed and by these presents does grant, bargain, sell, alien, enfeoff, release and confirm unto CoreStates Bank, N.A., as Trustee, and to its successors in said trust and its and their assigns forever:

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

I.

REAL ESTATE AND WATER RIGHTS.

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

II.

BUILDINGS AND EQUIPMENT.

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

It is hereby declared by the Company that all property of the kinds described in the next preceding paragraph, whether now owned or hereafter acquired, has been or is or will be owned or acquired with the intention of using the same in carrying on the business or branches of the business of the Company, and it is hereby declared that it is the intention of the Company



that all thereof (except property hereinafter specifically excepted) shall be subject to the lien of the Original Indenture.

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

III.

FRANCHISES AND RIGHTS OF WAY.

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

IV.

AFTER ACQUIRED PROPERTY.

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

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

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

AND ALSO SAVING AND EXCEPTING from the property hereby mortgaged and pledged, all of the following property (whether now owned by the Company or hereafter acquired by it): All bills, notes and accounts receivable, cash on hand and in banks, contracts, choses in action and leases to others (as distinct from the property leased and without limiting any rights of the Trustee with respect thereto under any of the provisions of the Original Indenture or of any indenture supplemental thereto), all bonds, obligation, evidences of indebtedness, shares of stock and other securities, and certificates or evidences of interest therein, all automobiles, motor trucks, and other like automobile equipment and all furniture, and all equipment, materials, goods, merchandise and supplies acquired for the purpose of sale in the ordinary course of business or for consumption in the operation of any properties of the Company other than any of the foregoing which may be specifically transferred or assigned to or

pledged or deposited with the Trustee hereunder or required by the provisions of the Original Indenture or any indenture supplemental thereto so to be; provided, however, that if, upon the happening of a completed default, as specified in Section 1 of Article XI of the Original Indenture, the Trustee or any receiver appointed hereunder shall enter upon and take possession of the mortgaged property, the Trustee or any such receiver may, to the extent permitted by law, at the same time likewise take possession of any and all of the property described in this paragraph then on hand and any and all other property of the Company then on hand, not described or referred to in the foregoing granting clauses, which is used or useful in connection with the business of the Company as a water company or as a water utility, and use and administer the same to the same extent as if such property were part of the mortgaged property, unless and until such completed default shall be remedied or waived and possession of the mortgaged property restored to the Company, its successors or assigns.

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

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

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

IT IS HEREBY COVENANTED, DECLARED AND AGREED, by and between the parties hereto, that all such bonds and coupons are to be authenticated, delivered and issued, and that all property subject or to become subject hereto is to be held subject to the further

covenants, conditions, uses and trusts hereinafter set forth, and the Company, for itself and its successors and assigns, does hereby covenant and agree to and with the Trustee and its successor or successors in said trust, for the benefit of those who shall hold said bonds and coupons, or any of them, issued under this Indenture or any indenture supplemental hereto, or both, as follows:

ARTICLE I.

Form, Authentication and Delivery of the Bonds;  
Redemption Provisions

SECTION 1. There shall be a twenty-ninth series of bonds, limited in aggregate principal amount to \$12,000,000 designated as “Philadelphia Suburban Water Company First Mortgage Bonds, 9.29% Series due 2026”, a thirtieth series of bonds, limited in aggregate principal amount to \$8,000,000 designated as “Philadelphia Suburban Water Company First Mortgage Bonds, 9.17% Series due 2021” and a thirty-first series of bonds, limited in aggregate principal amount to \$5,000,000 designated as “Philadelphia Suburban Water Company First Mortgage Bonds, 9.17% Series due 2011” (sometimes the twenty-ninth, thirtieth and thirty-first series of bonds are herein referred to individually as the “9.29% Series due 2026”, the “9.17% Series due 2021” and the “9.17% Series due 2011”, respectively, and collectively as the “Bonds”).

Interest on the Bonds shall be payable semiannually on March 15 and September 15 of each year (each an “interest payment date”), commencing March 15, 1992. Each Bond shall be dated the date of its authentication and shall bear interest from the interest payment date next preceding its date, unless authenticated on an interest payment date, in which case it shall bear interest from such interest payment date, or, unless authenticated prior to the first interest payment date for the Bonds, in which case it shall bear interest from the date of original authentication and delivery of the Bonds; provided, however, that if at the time of authentication of any Bond interest on the predecessor Bond of such Bond is in default, such Bond shall bear interest from the date to which interest has been paid, or, if no interest has been paid from the date of original authentication and delivery of the Bonds. The Bonds shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) and shall bear interest at the rates set forth below:

<u>Principal Amount</u>	<u>Date of Maturity</u>	<u>Interest Rate</u>
\$12,000,000	September 15, 2026	9.29%
8,000,000	September 15, 2021	9.17%
5,000,000	September 15, 2011	9.17%

Principal of any Bond, premium, if any, thereon and, to the extent legally enforceable, any installment of interest not paid when due shall bear interest at a rate equal to the rate borne by such Bond plus one percent (1%).

The Bonds shall be issuable only as registered bonds without coupons, shall be in the form hereinabove recited, in the denomination of Five Thousand Dollars (\$5,000) or any

multiple thereof, shall be lettered "R", and shall bear such numbers as the Company may reasonably require.

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

The person in whose name any Bond is registered at the close of business on any record date (as hereinafter defined) with respect to any interest payment date shall be entitled to receive the interest payable on such interest payment date notwithstanding the cancellation of such Bond upon any transfer or exchange subsequent to the record date and prior to such interest payment date; provided, however, that if and to the extent the Company shall default in the payment of the interest due on such interest payment date, such defaulted interest shall be paid to the persons in whose names outstanding Bonds are registered at the close of business on a subsequent record date established by notice given by mail by or on behalf of the Company to the holders of Bonds not less than fifteen days preceding such subsequent record date, such record date to be not less than ten days preceding the date of payment of such defaulted interest. The term "record date" as used in this Section 1 with respect to any regular interest payment date shall mean the first day of the calendar month in which such interest payment date occurs if such first day is a business day; if such first day is not a business day, the record date shall be the next preceding business day.

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

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

SECTION 2. The Company shall establish a Sinking Fund for the benefit and security of the bonds of the 9.17% Series due 2 021 and shall pay to the Trustee on or before the fifteenth day of September (the "Mandatory Redemption Date") in each year commencing 2002 to and including 2020 a sum in cash sufficient to redeem on such Mandatory Redemption Date \$400,000 principal amount of bonds of said series, which shall be applied on such Mandatory Redemption Date to the redemption of bonds of said series at one hundred percent (100%) of the principal amount thereof, together with interest accrued thereon to the date fixed for redemption.

For the purposes of this Section 2, any redemption of less than all of the bonds of the 9.17% due 2021 pursuant to Section 3 hereof shall be applied to the scheduled principal payments of such series in inverse chronological order.

SECTION 3. The Bonds of each series shall be redeemable at the option of the Company on or after September 15, 2 001, either as a whole or in part on any interest payment

date at one hundred percent (100%) of the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, plus a premium equal to the “Make-Whole Premium” determined five (5) business days prior to the date fixed for redemption; provided, that the Company shall furnish notice to the Trustee and to each holder of the Bonds of such series by telecopy or other same day communication, on a date at least two business days prior to the date fixed for redemption of such series of the Make-Whole Premium, if any, applicable to such redemption and the calculations, in reasonable detail, used to determine the amount thereof.

As used herein the following terms have the meanings set forth.

“Make-Whole Premium” shall mean, in connection with any redemption of the Bonds of a series, the excess, if any, of (i) the aggregate present value as of the date of such redemption of each dollar of principal of the Bonds of such series being redeemed (taking into account in the case of the bonds of the 9.17% Series due 2021 the application of such redemption required by Section 2 of this Twenty-Sixth Supplemental Indenture) and the amount of interest (exclusive of interest accrued to the date of redemption) that would have been payable in respect of such dollar if such redemption had not been made, determined by discounting such amounts at the Reinvestment Rate from the respective dates on which they would have been payable, over (ii) 100% of the principal amount of the outstanding Bonds of such series being redeemed. If the Reinvestment Rate is equal to or higher than the interest rate of such series of Bonds being redeemed, the Make-Whole Premium shall be zero.

“Reinvestment Rate” shall mean the sum of (i) 0.5% plus (ii) the arithmetic mean of the yields under the respective headings “This Week” and “Last Week” published in the Statistical Release under the caption “Treasury Constant Maturities” for the maturity (rounded to the nearest month) corresponding to the Weighted Average Life to Maturity of the principal being redeemed (taking into account in the case of the bonds of the 9.17% Series due 2021 the application of such redemption required by Section 2 of this Twenty-Sixth Supplemental Indenture). If no maturity exactly corresponds to such Weighted Average Life to Maturity, yields for the two published maturities most closely corresponding to such Weighted Average Life to Maturity shall be calculated pursuant to the immediately preceding sentence and the Reinvestment Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month. For the purposes of calculating the Reinvestment Rate, the most recent Statistical Release published prior to the date of determination of the premium hereunder shall be used.

“Statistical Release” shall mean the statistical release designated “H.15(519)” or any successor publication which is published weekly by the Federal Reserve System and which establishes yields on actively traded U.S. Government Securities adjusted to constant maturities or, if such statistical release is not published at the time of any determination hereunder, then such other reasonably comparable index which shall be designated by the holders of 66 2/3% in aggregate principal amount of the outstanding Bonds of the series being redeemed.

“Weighted Average Life to Maturity” of the principal amount of Bonds of a series being redeemed shall mean, as of the time of any determination thereof, the number of years obtained by dividing the then Remaining Dollar-Years of the principal of the Bonds of such series being redeemed by the aggregate amount of such principal. The term “Remaining Dollar-

Years” of any such principal being redeemed shall mean the amount obtained by (i) multiplying (1) the amount by which each required repayment (including repayment at maturity) shall be reduced as a result of the redemption of such principal being redeemed (which redemption in the case of the bonds of the 9.17% Series due 2021 shall be applied as required by Section 2 of this Twenty-Sixth Supplemental Indenture) by (2) the number of years (calculated to the nearest one-twelfth) which will elapse between the date of determination and the date of that required repayment and (ii) totalling the products obtained in (i).

SECTION 4. The Bonds shall be subject to mandatory redemption (i) in connection with the sale to or other acquisition by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies of all or substantially all of the property of the Company, or (ii) in connection with any voluntary or involuntary liquidation, dissolution or winding up of the Company, occurring in connection with or subsequent to the acquisition of all or substantially all of the stock of the Company ordinarily entitled to voting rights by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies. The Bonds are redeemable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts, at one hundred per cent (100%) of the principal amount thereof, together with interest accrued thereon to the date fixed for redemption.

SECTION 5. Any redemption of the Bonds shall be effected in accordance with the provisions of Article V of the Original Indenture.

SECTION 6. Bonds of the 9.29% Series due 2 02 6 in the aggregate principal amount of \$12,000,000, bonds of the 9.17% Series due 2021 in the aggregate principal amount of \$8,000,000 and bonds of the 9.17% Series due 2011 in the aggregate principal amount of \$5,000,000 may be issued under the provisions of Article IV of the Original Indenture and may forthwith be executed by the Company and delivered to the Trustee and shall be authenticated by the Trustee and delivered to or upon the order of the Company, upon receipt by the Trustee of the resolutions, certificates, opinions or other instruments or all of the foregoing required to be delivered upon the issue of bonds pursuant to the provisions of the Original Indenture.

## ARTICLE II.

### Maintenance or Improvement Deposit.

SECTION 1. The Company covenants that it will deposit with the Trustee on or before the March 1 next occurring after the bonds of the 4.70% Series due 1992 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 4.55% Series due 1994 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 5 1/2% Series due 1996 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 6 7/8% Series due 1993 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 7 7/8% Series due 1997, cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 10 1/8% Series due 1995 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.20% Series due 2001 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 8.40% Series due 2 002 cease to be outstanding, or on or before the March 1 next occurring after

the bonds of the 8 7/8% Series due 2010 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 12.45% Series due 2003 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 13% Series due 2005 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 10.65% Series due 2006 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 8.44% Series due 1997 cease to be outstanding or on or before the March 1 next occurring after the bonds of the 9.89% Series due 2008, or on or before the March 1 next occurring after the bonds of the 9.93% Series due 2013, or on or before the next March 1 next occurring after the bonds of the 9.97% Series due 2018 cease to be outstanding, or on or before the March 1 next occurring often the bonds of the 9.12% Series Due 2010 cease to be outstanding whichever is latest, and on or before March 1 in each year thereafter if and so long as any of the Bonds are outstanding, an amount in cash (the "Maintenance or Improvement Deposit") equal to 9% of the Gross Operating Revenues of the Company during the preceding calendar year less, to the extent that the Company desires to take such credits, the following:

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

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

- (A) An Officers' Certificate, which shall state:
  - (i) The amount of the Gross Operating Revenues for the preceding calendar year;
  - (ii) 9% of such Gross Operating Revenues;
  - (iii) The amount actually expended by the Company for maintenance during such calendar year;
  - (iv) The amount set forth in subparagraph (xii) of each Officers' Certificate delivered to the Trustee pursuant to the provisions of this Section during the preceding five calendar years (specifying each such Officers' Certificate), after deducting from each such amount the aggregate of (a) the Cost

or Fair Value, whichever is less, of all Permanent Additions represented by such amount which have ceased to be Available Permanent Additions; and (b) any part of such amount for which the Company has previously taken credit against any Maintenance or Improvement Deposit (specifying the Officers' Certificate in which such credit was taken); and (c) any part of such amount for which the Company then desires to take credit against the Maintenance or Improvement Deposit;

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

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

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

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

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

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

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

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

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

(B) In the event that the Officers' Certificate delivered to the Trustee pursuant to the provisions of paragraph (A) of this Section shall state, pursuant to the requirements of subparagraph (vi), the Cost or Fair Value of Available Permanent Additions acquired by the Company during the preceding calendar year, the documents specified in



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

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

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

(a) A Resolution requesting such payment;

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

### ARTICLE III.

#### Covenants of the Company.

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

SECTION 2. The Company covenants and agrees that so long as any of the Bonds are outstanding (a) the Company will not make any Stock Payment if, after giving effect thereto, its retained earnings, computed in accordance with generally accepted accounting principles consistently applied, will be less than the sum of (i) Excluded Earnings, if any, since December 31, 1990, and (ii) \$20,000,000; (b) Stock Payments made more than 40 days after the commencement, and prior to the expiration, of any Restricted Period shall not exceed 65% of the Company's Net Income during such Restricted Period; and (c) the Company will not authorize a Stock Payment if there has occurred and is continuing an event of default under subsections (a) and (b) of Section 1 of Article XI of the Original Indenture.

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

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

“Excluded Earnings” shall mean 35% of the Company’s Net Income during any Restricted Period.

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

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

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

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

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

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

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

ARTICLE IV.

The Trustee.

The Trustee hereby accepts the trust hereby declared and provided, and agrees to perform the same upon the terms and conditions in the Original Indenture, as supplemented by this Twenty-Sixth Supplemental Indenture, and in this Twenty-Sixth Supplemental Indenture set forth, and upon the terms and conditions set forth in Article V hereof.

ARTICLE V.

Miscellaneous.

SECTION 1. This instrument is executed and shall be construed as an indenture supplemental to the Original Indenture, and shall form a part thereof, and except as hereby supplemented, the Original Indenture and the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth, Eighteenth, Nineteenth, Twentieth, Twenty-First, Twenty-Second, Twenty-Third, Twenty-Fourth and Twenty-Fifth Supplemental Indentures are hereby confirmed. All references in this Twenty-Sixth Supplemental Indenture to the Original Indenture shall be deemed to refer to the Original Indenture as heretofore amended and supplemented, and all terms used herein shall be taken to have the same meaning as in the Original Indenture, as so amended, except in the cases where the context clearly indicates otherwise.

SECTION 2. All recitals in this Twenty-Sixth Supplemental Indenture are made by the Company only and not by the Trustee; and all of the provisions contained in the Original Indenture in respect of the rights, privileges, immunities, powers and duties of the Trustee shall be applicable in respect hereof as fully and with like effect as if set forth herein in full.

SECTION 3. Although this Twenty-Sixth Supplemental Indenture is dated for convenience and for the purpose of reference as of November 1, 1991, the actual date or dates of execution hereof by the Company and the Trustee are as indicated by their respective acknowledgments annexed hereto.

SECTION 4. In order to facilitate the recording or filing of this Twenty-Sixth Supplemental Indenture, the same may be simultaneously executed in several counterparts, each of which shall be deemed to be an original and such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF the parties hereto have caused their corporate seals to be hereunto affixed and their Presidents or Vice-Presidents, under and by the authority vested in

them, have hereto affixed their signatures, and their Secretaries or Assistant Secretaries have duly attested the execution hereof, as of the first day of November, 1991.

[CORPORATE SEAL]

PHILADELPHIA SUBURBAN  
WATER COMPANY

Attest: /s/ Suzanne Falcone  
Secretary

By: /s/ Michel Graham  
Vice President and Treasurer

[CORPORATE SEAL]

CORESTATES BANK, N.A.

Attest: /s/ Illegible  
Authorized Officer

By: /s/ Illegible  
Vice President

Aqua Pennsylvania, Inc.

\$65,000,000 First Mortgage Bonds, 3.77% Series due 2036

\$20,000,000 First Mortgage Bonds, 3.82% Series due 2037

\$25,000,000 First Mortgage Bonds, 3.85% Series due 2038

\$60,000,000 First Mortgage Bonds, 4.16% Series due 2046

\$20,000,000 First Mortgage Bonds, 4.18% Series due 2047

\$20,000,000 First Mortgage Bonds, 4.20% Series due 2048

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Bond Purchase Agreement

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Dated as of December 3, 2015

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Exhibit 4.4 (c)		Form of Opinion of Special Counsel for the Purchasers

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**Aqua Pennsylvania, Inc.**  
762 West Lancaster Avenue  
Bryn Mawr, Pennsylvania 19010-3489

\$65,000,000 First Mortgage Bonds, 3.77% Series due 2036  
\$20,000,000 First Mortgage Bonds, 3.82% Series due 2037  
\$25,000,000 First Mortgage Bonds, 3.85% Series due 2038  
\$60,000,000 First Mortgage Bonds, 4.16% Series due 2046  
\$20,000,000 First Mortgage Bonds, 4.18% Series due 2047  
\$20,000,000 First Mortgage Bonds, 4.20% Series due 2048

As of December 3, 2015

To Each of The Purchasers Listed in  
Schedule A Hereto:

Ladies and Gentlemen:

Aqua Pennsylvania, Inc., a corporation organized under the laws of the Commonwealth of Pennsylvania (the "*Company*"), agrees with each of the purchasers whose names appear at the end hereof (each, a "*Purchaser*" and, collectively, the "*Purchasers*") as follows:

Section 1. Authorization of Bonds .

The Company will authorize the issue and sale of (i) \$65,000,000 First Mortgage Bonds, 3.77% Series due January 15, 2036 (the "*Series A Bonds*"), (ii) \$20,000,000 First Mortgage Bonds, 3.82% Series due January 15, 2037 (the "*Series B Bonds*"), (iii) \$25,000,000 First Mortgage Bonds, 3.85% Series due January 15, 2038 (the "*Series C Bonds*"), (iv) \$60,000,000 First Mortgage Bonds, 4.16% Series due January 15, 2046 (the "*Series D Bonds*"), (v) \$20,000,000 First Mortgage Bonds, 4.18% Series due January 15, 2047 (the "*Series E Bonds*"), (vi) \$20,000,000 First Mortgage Bonds, 4.20% Series due January 15, 2048 (the "*Series F Bonds*" and together with the Series A Bonds, the Series B Bonds, the Series C Bonds, the Series D Bonds, and the Series E Bonds, the "*Bonds*") and such term includes any such bonds issued in substitution therefor). The Bonds will be issued under and secured by that certain Indenture of Mortgage dated as of January 1, 1941, from the Company (as successor by merger to the Philadelphia Suburban Water Company), as grantor, to The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "*Trustee*") (the "*Original Indenture*"), as previously amended and supplemented by forty-nine supplemental indentures and as further supplemented by the Fiftieth Supplemental Indenture dated as of November 1, 2015 (such Fiftieth Supplemental Indenture being referred to herein as the "*Supplement*") which will be substantially in the form attached hereto as Exhibit A, with such changes therein, if any, as shall be approved by the Purchasers and the Company. The Original Indenture, as supplemented and amended by the aforementioned forty-nine supplemental indentures and the Supplement, and as further supplemented or amended according to its terms, is hereinafter referred to as the "*Indenture*". Certain capitalized and other terms used in this Agreement are defined in

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Schedule B; and references to a “*Schedule*” or an “*Exhibit*” are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement. Terms used herein but not defined herein shall have the meanings set forth in the Indenture.

Section 2. Sale and Purchase of Bonds .

Subject to the terms and conditions of this Agreement, the Company will issue and sell to each Purchaser and each Purchaser will purchase from the Company, at the Closing provided for in Section 3, Bonds in the principal amount and in the series specified opposite such Purchaser’s name in Schedule A at the purchase price of 100% of the principal amount thereof. The Purchasers’ obligations hereunder are several and not joint obligations and no Purchaser shall have any liability to any Person for the performance or non-performance of any obligation by any other Purchaser hereunder.

Section 3. Closing .

The execution and delivery of this Agreement and the sale and purchase of the Bonds to be purchased by each Purchaser shall occur at the offices of Chapman and Cutler LLP, 111 West Monroe Street, Chicago, Illinois 60603, at 10:00 a.m., Chicago time, at a closing (the “*Closing*”) on December 3, 2015. At the Closing the Company will deliver to each Purchaser the Bonds to be purchased by such Purchaser in the form of one or more Bonds in each series to be purchased by such Purchaser, as applicable, in such denominations as such Purchaser may request (with a minimum denomination of \$100,000 for each Bond), dated the date of the Closing and registered in such Purchaser’s name (or in the name of its nominee), against delivery by such Purchaser to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for Account Number: 8559742757, Account Name: Aqua Pennsylvania, Inc., at PNC Bank, N.A., Philadelphia, Pennsylvania, ABA Number 031-000053. If at the Closing the Company shall fail to tender such Bonds to any Purchaser as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to such Purchaser’s satisfaction, such Purchaser shall, at its election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Purchaser may have by reason of such failure or such nonfulfillment.

Section 4. Conditions to Closing .

Each Purchaser’s obligation to execute and deliver this Agreement and to purchase and pay for the Bonds to be sold to such Purchaser prior to or at the Closing is subject to the fulfillment to such Purchaser’s satisfaction at the Closing of the following conditions:

*Section 4.1. Representations and Warranties* . The representations and warranties of the Company in this Agreement shall be correct when made and at the time of the Closing.

*Section 4.2. Performance; No Default* . The Company shall have performed and complied with all agreements and conditions contained in each Financing Agreement required to be performed or complied with by the Company prior to or at the Closing, and after giving effect

to the issue and sale of the Bonds (and the application of the proceeds thereof as contemplated by Section 5.14), no Default or Event of Default shall have occurred and be continuing.

*Section 4.3. Compliance Certificates* . The Company shall have performed and complied with all agreements and conditions contained in the Indenture which are required to be performed or complied with by the Company for the issuance of the Bonds. In addition the Company shall have delivered the following certificates:

(a) *Officer's Certificate*. The Company shall have delivered to such Purchaser (i) an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in Section 4 of this Agreement have been fulfilled, and (ii) copies of all certificates and opinions required to be delivered to the Trustee under the Indenture in connection with the issuance of the Bonds under the Indenture, in each case, dated the date of the Closing.

(b) *Secretary's Certificate*. The Company shall have delivered to such Purchaser a certificate of its Secretary or Assistant Secretary, dated the date of the Closing, certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of this Agreement, the Bonds and the Supplement.

(c) *Certification of Indenture*. Each Purchaser shall have received a composite copy of the Indenture (together with all amendments and supplements thereto), certified by the Company as of the date of the Closing, exclusive of property exhibits, recording information and the like.

*Section 4.4. Opinions of Counsel* . Such Purchaser shall have received opinions in form and substance satisfactory to such Purchaser, dated the date of the Closing (a) from Christopher P. Luning, counsel for the Company, covering the matters set forth in Exhibit 4.4(a) and covering such other matters incident to the transactions contemplated hereby as such Purchaser or its counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Purchasers) and (b) from Dilworth Paxson, LLP, special counsel to the Company, covering the matters set forth in Exhibit 4.4(b) and covering such other matters incident to the transactions contemplated hereby as such Purchaser or such Purchaser's counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Purchasers), and (c) from Chapman and Cutler LLP, the Purchasers' special counsel in connection with such transactions, substantially in the form set forth in Exhibit 4.4(c) and covering such other matters incident to such transactions as such Purchaser may reasonably request. The Company hereby directs its counsel to deliver the opinions required by this Section 4.4 and understands and agrees that each Purchaser will and hereby is authorized to rely on such opinions.

*Section 4.5. Purchase Permitted by Applicable Law, Etc* . On the date of the Closing such Purchaser's purchase of Bonds shall (a) be permitted by the laws and regulations of each jurisdiction to which such Purchaser is subject, without recourse to provisions (such as section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance

companies without restriction as to the character of the particular investment, (b) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (c) not subject such Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date of the Closing. If requested by such Purchaser, such Purchaser shall have received an Officer's Certificate certifying as to such matters of fact as such Purchaser may reasonably specify to enable such Purchaser to determine whether such purchase is so permitted.

*Section 4.6. Sale of Bonds* . Contemporaneously with the Closing, the Company shall sell to each Purchaser and each Purchaser shall purchase the Bonds to be purchased by it at the Closing as specified in Schedule A.

*Section 4.7. Payment of Special Counsel Fees* . Without limiting the provisions of Section 12.2, the Company shall have paid on or before the Closing the reasonable fees, reasonable charges and reasonable disbursements of the Purchasers' special counsel referred to in Section 4.4(c) to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing.

*Section 4.8. Private Placement Number* . A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the SVO) shall have been obtained for each series of Bonds.

*Section 4.9. Changes in Corporate Structure* . The Company shall not have changed its jurisdiction of incorporation or organization, as applicable, or been a party to any merger or consolidation or succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in Schedule 5.5.

*Section 4.10. Funding Instructions* . At least three Business Days prior to the date of the Closing, each Purchaser shall have received written instructions signed by a Responsible Officer on letterhead of the Company confirming the information specified in Section 3 including (a) the name and address of the transferee bank, (b) such transferee bank's ABA number and (c) the account name and number into which the purchase price for the Bonds is to be deposited.

*Section 4.11. Proceedings and Documents* . All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be reasonably satisfactory to such Purchaser and its special counsel, and such Purchaser and its special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Purchaser or such special counsel may reasonably request.

*Section 4.12. Execution and Delivery and Filing and Recording of the Supplement* . The Supplement shall have been duly executed and delivered by the Company, and the Company shall have filed, or delivered for recordation, the Supplement in all locations in Pennsylvania (and financing statements in respect thereof shall have been filed, if necessary) in such manner and in such places as is required by law (and no other instruments are required to be filed) to establish, preserve, perfect and protect the direct security interest and mortgage Lien of the Trust

Estate created by the Indenture on all mortgaged and pledged property of the Company referred to in the Indenture as subject to the direct mortgage Lien thereof and the Company shall have delivered satisfactory evidence of such filings, recording or delivery for recording.

*Section 4.13. Regulatory Approvals* . The issue and sale of the Bonds shall have been duly authorized by an order of the Pennsylvania Public Utility Commission and such order shall be in full force and effect on the Closing Date and all appeal periods, if any, applicable to such order shall have expired. The Company shall deliver satisfactory evidence that orders have been obtained approving the issuance of the Bonds from the Pennsylvania Public Utility Commission or that the Pennsylvania Public Utility Commission shall have waived jurisdiction thereof and such approval or waiver shall not be contested or subject to review, or that the Pennsylvania Public Utility Commission does not have jurisdiction.

Section 5. Representations and Warranties of the Company .

The Company represents and warrants to each Purchaser that:

*Section 5.1. Organization; Power and Authority* . The Company is a corporation duly organized, validly existing and subsisting under the laws of the Commonwealth of Pennsylvania, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement, the Bonds and the Supplement (and had the corporate power and authority to execute and deliver the Indenture at the time of execution and delivery thereof) and to perform the provisions of the Financing Agreements.

*Section 5.2. Authorization, Etc* . Each Financing Agreement has been duly authorized by all necessary corporate action on the part of the Company, and each Financing Agreement (other than the Supplement and the Bonds) constitutes, and when the Supplement is executed and delivered by the Company and the Trustee and when the Bonds are executed, issued and delivered by the Company, authenticated by the Trustee and paid for by the Purchasers, the Supplement and each Bond will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its respective terms, except as such enforceability may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

*Section 5.3. Disclosure* . This Agreement and the documents, certificates or other writings delivered to the Purchasers by or on behalf of the Company in connection with the transactions contemplated hereby, including the Confidential Private Placement Memorandum (including the documents incorporated therein by reference) dated October 16, 2015, and the financial statements listed in Schedule 5.5 (collectively, the "*Disclosure Documents*"), taken as

a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Since December 31, 2014, there has been no change in the financial condition, operations, business or properties of the Company or any of its Subsidiaries except changes that individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect. There is no fact known to management of the Company that, in the reasonable judgment of management of the Company, could be expected to have a Material Adverse Effect that has not been set forth herein or in the other documents, certificates and other writings delivered to the Purchaser by the Company specifically for use in connection with the transactions contemplated hereby.

*Section 5.4. Organization and Ownership of Shares of Subsidiaries*

(a) Schedule 5.4 contains a complete and correct list of the Company's Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien.

(c) Each Subsidiary identified in Schedule 5.4 is duly incorporated and is validly subsisting as a corporation under the laws of the Commonwealth of Pennsylvania, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

*Section 5.5. Financial Statements; Material Liabilities*. The Company has delivered to each Purchaser copies of the financial statements of the Company and its Subsidiaries listed on Schedule 5.5. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates specified in such financial statements and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments). The Company does not have any Material liabilities that are not disclosed on such financial statements or otherwise disclosed in the Disclosure Documents.

*Section 5.6. Compliance with Laws, Other Instruments, Etc*. The execution, delivery and performance by the Company of each Financing Agreement (including the prior execution and delivery of the Indenture), will not (a) contravene, result in any breach of, or constitute a default

under, or result in the creation of any Lien, other than the Lien created under the Indenture, in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other Material agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (b) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (c) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary, except for any such default, breach, contravention or violation which would not reasonably be expected to have a Material Adverse Effect.

*Section 5.7. Governmental Authorizations, Etc* . No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement, the Bonds and the Supplement, other than approval of the Pennsylvania Public Utility Commission, which has been obtained and is in full force and effect and final and is non-appealable.

*Section 5.8. Litigation; Observance of Statutes and Orders* . (a) There are no actions, suits, investigations or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is (i) in default under any term of any agreement or instrument to which it is a party or by which it is bound, (ii) in violation of any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority naming or referring to the Company or any Subsidiary or (iii) in violation of any applicable law, or, to the knowledge of the Company, any ordinance, rule or regulation of any Governmental Authority (including, without limitation, Environmental Laws the USA Patriot Act or any of the other laws and regulations that are referred to in Section 5.16), which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

*Section 5.9. Taxes* . The Company and its Subsidiaries have filed all income tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments payable by them, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (i) the amount of which is not individually or in the aggregate Material or (ii) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The charges, accruals, and reserves on the books of the Company and its Subsidiaries in respect of federal, state or other taxes for all fiscal periods are adequate. The Federal income tax liabilities of the Company and its Subsidiaries have been finally determined (whether by reason of completed audits or the statute of limitations having run) for all fiscal years up to and



including the fiscal year ended December 31, 2011 and all amounts owing in respect of such audit have been paid.

*Section 5.10. Title to Property; Leases* . The Company and its Subsidiaries have good and sufficient title to their respective Material properties, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement or the Indenture, except for those defects in title and Liens that, individually or in the aggregate, would not have a Material Adverse Effect. All Material leases are valid and subsisting and are in full force and effect in all material respects.

*Section 5.11. Licenses, Permits, Etc* . The Company and its Subsidiaries own or possess all licenses, permits, franchises, certificates of conveyance and necessity, authorizations, patents, copyrights, proprietary software, service marks, trademarks and trade names, or rights thereto, that are Material, without known conflict with the rights of others, except for those conflicts that, individually or in the aggregate, would not have a Material Adverse Effect.

*Section 5.12. Compliance with ERISA* . (a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in section 3 of ERISA), and no event, transaction or condition has occurred or exists that would reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to section 401(a)(29) or 412 of the Code or section 4068 of ERISA, other than such liabilities or Liens as would not be individually or in the aggregate Material.

(b) The present value of the aggregate benefit liabilities under each of the Plans subject to section 412 of the Code (other than Multiemployer Plans), determined as of January 1, 2015 based on such Plan's actuarial assumptions as of that date for funding purposes as documented in such Plan's actuarial valuation reports dated September 2015 did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities by more than \$5,000,000 in the case of any single Plan and by more than \$5,000,000 in the aggregate for all Plans. The term "*benefit liabilities*" has the meaning specified in section 4001 of ERISA and the terms "current value" and "*present value*" have the meaning specified in section 3 of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected postretirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards

Board Accounting Standards Codification Topic 715-60, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(e) The execution and delivery of this Agreement and the issuance and sale of the Bonds hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section 4975(c)(1)(A)-(D) of the Code. The representation by the Company to each Purchaser in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of such Purchaser's representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Bonds to be purchased by such Purchaser.

*Section 5.13. Private Offering by the Company* . Neither the Company nor anyone acting on the Company's behalf has offered the Bonds or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than the Purchasers and not more than thirty-five (35) other Institutional Investors, each of which has been offered the Bonds in connection with a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Bonds to the registration requirements of Section 5 of the Securities Act.

*Section 5.14. Use of Proceeds; Margin Regulations* . The Company will apply the proceeds of the sale of the Bonds to repay existing indebtedness and for general corporate purposes and in compliance with all laws referenced in Section 5.16. No part of the proceeds from the sale of the Bonds hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Margin stock does not constitute more than 2% of the value of the consolidated assets of the Company and its Subsidiaries and the Company does not have any present intention that margin stock will constitute more than 2% of the value of such assets. As used in this Section, the terms "margin stock" and "purpose of buying or carrying" shall have the meanings assigned to them in said Regulation U.

*Section 5.15. Existing Debt* . Except as described therein, Schedule 5.15(a) sets forth a complete and correct list of all outstanding Debt of the Company and its Subsidiaries as of September 30, 2015, since which date except as described therein there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Debt of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Debt of the Company or any Subsidiary and no event or condition exists with respect to any Debt of the Company or any Subsidiary, the outstanding principal amount of which exceeds \$5,000,000 that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Debt to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Without limiting the representation in Section 5.6, the Company is not a party to, or otherwise subject to any provision contained in, any instrument evidencing Debt of the Company or any Subsidiary, any agreement relating thereto or any other agreement (including, but not limited to, its charter or other organizational document) which limits the amount of, or otherwise imposes restrictions on the incurring of, Debt evidenced by the Bonds, except as specifically indicated in Schedule 5.15(b).

*Section 5.16. Foreign Assets Control Regulations, Etc* . (a) Neither the Company nor any Controlled Entity is (i) a Person whose name appears on the list of Specially Designated Nationals and Blocked Persons published by the Office of Foreign Assets Control, U.S. Department of Treasury (“OFAC”) or a Person that is otherwise subject to an OFAC Sanctions Program (an “OFAC Listed Person”) or (ii) a department, agency or instrumentality of, or is otherwise controlled by or acting on behalf of, directly or indirectly, (x) any OFAC Listed Person or (y) any Person, entity, organization, foreign country or regime that is subject to any OFAC Sanctions Program (each OFAC Listed Person and each other Person, entity, organization and government of a country described in clause (ii), a “Blocked Person”).

(b) No part of the proceeds from the sale of the Bonds hereunder constitutes or will constitute funds obtained on behalf of any Blocked Person or will otherwise be used, directly by the Company or indirectly through any Controlled Entity, in connection with any investment in, or any transactions or dealings with, any Blocked Person or for investment in the Iranian energy sector (as defined in Section 201 (1) of CISADA).

(c) To the Company’s knowledge after making due inquiry, neither the Company nor any Controlled Entity (i) is under investigation by any Governmental Authority for, or has been charged with, or convicted of, money laundering, drug trafficking, terrorist-related activities or other money laundering predicate crimes under any applicable law (collectively, “Anti-Money Laundering Laws”), (ii) has been assessed civil penalties under any Anti-Money Laundering Laws or (iii) has had any of its funds seized or forfeited in an action under any Anti-Money Laundering Laws. The Company has taken reasonable measures appropriate to the circumstances (in any event as required by applicable law) to ensure that the Company and each Controlled Entity is and will continue to be in compliance with all applicable current and future Anti-Money Laundering Laws.

(d) No part of the proceeds from the sale of the Bonds hereunder will be used, directly or indirectly, for any improper payments to any governmental official or employee, political party, official of a political party, candidate for political office, official of any public international organization or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage. The Company has taken reasonable measures appropriate to the circumstances (in any event as required by applicable law) to ensure that the Company and each Controlled Entity is and will continue to be in compliance with all applicable current and future anti-corruption laws and regulations.

*Section 5.17. Status under Certain Statutes* . Neither the Company nor any Subsidiary is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility

Holding Company Act of 2005, as amended, the ICC Termination Act of 1995, as amended, or subject to rate regulation under the Federal Power Act, as amended.

*Section 5.18. Environmental Matters* . Neither the Company nor any Subsidiary has knowledge of any claim or has received any notice of any claim, and no proceeding has been instituted of which it has received notice, raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them, or other assets, alleging damage to the environment or any violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed to the Purchasers in writing:

(a) neither the Company nor any Subsidiary has knowledge of any facts which would give rise to any claim, public or private, for violation of Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties or to other assets now or formerly owned, leased or operated by any of them or their use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect;

(b) neither the Company nor any of its Subsidiaries has stored any Hazardous Materials on real properties now or formerly owned, leased or operated by any of them or has disposed of any Hazardous Materials in each case in a manner contrary to any Environmental Laws and in any manner that could reasonably be expected to result in a Material Adverse Effect; and

(c) all buildings on all real properties now owned, leased or operated by the Company or any of its Subsidiaries are in compliance with applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

*Section 5.19. Lien of Indenture* . The Indenture (and for avoidance of doubt including the Supplement) constitutes a direct and valid Lien upon the Trust Estate, subject only to the exceptions referred to in the Indenture and Permitted Liens, and will create a similar Lien upon all properties and assets acquired by the Company after the date hereof which are required to be subjected to the Lien of the Indenture, when acquired by the Company, subject only to the exceptions referred to in the Indenture and Permitted Liens, and subject, further, as to real property interests, to the recordation of a supplement to the Indenture describing such after-acquired property; the descriptions of all such properties and assets contained in the granting clauses of the Indenture are correct and adequate for the purposes of the Indenture; the Indenture has been duly recorded as a mortgage and deed of trust of real estate, and any required filings with respect to personal property and fixtures subject to the Lien of the Indenture have been duly made in each place in which such recording or filing is required to protect, preserve and perfect the Lien of the Indenture; and all taxes and recording and filing fees required to be paid with respect to the execution, recording or filing of the Indenture, the filing of financing statements related thereto and similar documents and the issuance of the Bonds have been paid.

*Section 5.20. Filings* . No action, including any filings, registration or notice, is necessary or advisable in Pennsylvania or any other jurisdictions to ensure the legality, validity and enforceability of the Financing Agreements, except such action as has been previously taken, which action remains in full force and effect. No action, including any filing, registration or notice, is necessary or advisable in Pennsylvania or any other jurisdiction to establish or protect for the benefit of the Trustee and the holders of Bonds, the security interest and Liens purported to be created under the Indenture and the priority and perfection thereof and the other Financing Agreements, except such action as has been previously taken, which action remains in full force and effect.

Section 6. *Representations of the Purchasers* .

*Section 6.1. Purchase for Investment* . Each Purchaser severally represents that it is purchasing the Bonds for its own account or for one or more separate accounts maintained by such Purchaser or for the account of one or more pension or trust funds and not with a view to the distribution thereof, provided that the disposition of such Purchaser's or their property shall at all times be within such Purchaser's or their control. Each Purchaser understands that the Bonds have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Bonds.

*Section 6.2. Source of Funds* . Each Purchaser severally represents that at least one of the following statements is an accurate representation as to each source of funds (a "*Source*") to be used by such Purchaser to pay the purchase price of the Bonds to be purchased by such Purchaser hereunder:

(a) the Source is an "insurance company general account" (as the term is defined in the United States Department of Labor's Prohibited Transaction Exemption ("*PTE*") 95-60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the NAIC (the "*NAIC Annual Statement*")) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Purchaser's state of domicile; or

(b) the Source is a separate account that is maintained solely in connection with such Purchaser's fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(c) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 and, except as disclosed by such Purchaser to the Company in writing pursuant to this clause (c), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(d) the Source constitutes assets of an “investment fund” (within the meaning of Part VI of PTE 84-14 (the “*QPAM Exemption*”)) managed by a “qualified professional asset manager” or “QPAM” (within the meaning of Part VI of the QPAM Exemption), no employee benefit plan’s assets that are managed by the QPAM in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Part VI(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, represent more than 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM maintains an ownership interest in the Company that would cause the QPAM and the Company to be “related” within the meaning of Part VI(h) of the QPAM Exemption and (i) the identity of such QPAM and (ii) the names of any employee benefit plans whose assets in the investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Part VI(c)(1) of the QPAM Exemption) of such employer or by the same employee organization, represent 10% or more of the assets of such investment fund, have been disclosed to the Company in writing pursuant to this clause (d);or

(e) the Source constitutes assets of a “plan(s)” (within the meaning of Part IV(h) of PTE 96-23 (the “*INHAM Exemption*”)) managed by an “in-house asset manager” or “INHAM” (within the meaning of Part IV(a) of the INHAM Exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a person controlling or controlled by the INHAM (applying the definition of “control” in Part IV(d)(3) of the INHAM Exemption) owns a 10% or more interest in the Company and (i) the identity of such INHAM and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (e); or

(f) the Source is a governmental plan; or

(g) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (g); or

(h) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this Section 6.2, the terms “*employee benefit plan*,” “*governmental plan*,” and “*separate account*” shall have the respective meanings assigned to such terms in section 3 of ERISA.

Section 7. Information as to Company .

*Section 7.1. Financial and Business Information* . The Company shall deliver to each holder of Bonds that is an Institutional Investor:

(a) *Quarterly Statements* — within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of income, changes in shareholders’ equity and cash flows of the Company and its Subsidiaries, for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments, *provided* that the delivery within the time period specified above of the Company’s said financial statements, prepared in accordance with the requirements therefor and filed with the Municipal Securities Rulemaking Board on the Electronic Municipal Market Access (“*EMMA*”) database shall be deemed to satisfy the requirements of this Section 7.1(a);

(b) *Annual Statements* — within 120 days after the end of each fiscal year of the Company, duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders’ equity and cash flows of the Company and its Subsidiaries for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by an opinion thereon of independent public accountants of recognized national standing, which opinion shall state that such financial

statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, *provided* that the delivery within the time period specified above of the Company's said financial statements, prepared in accordance with the requirements therefor and filed with the Municipal Securities Rulemaking Board on the EMMA database shall be deemed to satisfy the requirements of this Section 7.1(b);

(c) *SEC and Other Reports* — promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to its public securities holders generally, and (ii) each regular or periodic report, each registration statement that shall have become effective (without exhibits except as expressly requested by such holder), and each final prospectus and all amendments thereto filed by the Company or any Subsidiary with the SEC, *provided* that the delivery within the time period specified above of the Company's said financial statements, prepared in accordance with the requirements therefor and filed with the Municipal Securities Rulemaking Board on the EMMA database shall be deemed to satisfy the requirements of this Section 7.1(c);

(d) *Notice of Default or Event of Default* — promptly, and in any event within five days after a Responsible Officer becomes aware of the existence of any Default or Event of Default, a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) *ERISA Matters* — promptly, and in any event within five days after a Responsible Officer becomes aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan (other than any Multiemployer Plan) that is subject to Title IV of ERISA, any reportable event, as defined in section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof and on the date of the Closing; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any such Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or



(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, would reasonably be expected to have a Material Adverse Effect;

(f) *Notices from Governmental Authority* — promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary from any federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect;

(g) *Requested Information* — with reasonable promptness, following the receipt by the Company of a written request by such holder of Bonds, the names and contact information of holders of the outstanding bonds issued under the Indenture (i.e. the bonds in which the Company or a trustee is required to keep in a register and that are not publicly traded) of which the Company has knowledge and the principal amount of the outstanding bonds issued under the Indenture owed to each holder (unless disclosure of such names, contact information or holdings is prohibited by law), and such data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations under any Financing Agreement as from time to time may be reasonably requested by such holder of Bonds; and

(h) *Deliveries to Trustee* — promptly, and in any event within five days after delivery to the Trustee, a copy of any deliveries made by the Company to the Trustee, including without limitation the annual report delivered to the Trustee pursuant to Article VIII, Section 12 of the Indenture.

*Section 7.2 Officer's Certificate* . Each set of financial statements delivered to a holder of Bonds pursuant to Section 7.1(a) or Section 7.1(b) shall be accompanied by a certificate of a Senior Financial Officer (which, in the case of financial statements filed with the Municipal Securities Rulemaking Board on the EMMA database, shall be by separate concurrent delivery of such certificate to each holder of Bonds) setting forth a statement that such Senior Financial Officer has reviewed the relevant terms hereof and of the Indenture and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of

existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

*Section 7.3. Visitation* . The Company shall permit the representatives of each holder of Bonds that is an Institutional Investor:

(a) *No Default* — if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and, with the consent of the Company (which consent will not be unreasonably withheld), to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times during normal business hours and as often as may be reasonably requested in writing; and

(b) *Default* — if a Default or Event of Default then exists, at the expense of the Company to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such reasonable times and as often as may be requested.

*Section 8. Purchase of Bonds*

The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Bonds except (a) upon the payment or prepayment of the Bonds in accordance with the terms of this Agreement and the Bonds or (b) pursuant to a written offer to purchase any outstanding Bonds made by the Company or an Affiliate pro rata to the holders of the Bonds upon the same terms and conditions. Any such offer shall provide each holder with sufficient information to enable it to make an informed decision with respect to such offer, and shall remain open for at least 15 Business Days. If the holders of more than 10% of the principal amount of the Bonds then outstanding accept such offer, the Company shall promptly notify the remaining holders of such fact and the expiration date for the acceptance by holders of Bonds of such offer shall be extended by the number of days necessary to give each such remaining holder at least 10 Business Days from its receipt of such notice to accept such offer. The Company will promptly cancel all Bonds acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Bonds pursuant to any provision of this Agreement and no Bonds may be issued in substitution or exchange for any such Bonds.

*Section 9. Affirmative Covenants* .

The Company covenants that so long as any of the Bonds are outstanding:

*Section 9.1. Compliance with Law* . Without limiting Section 10.4, the Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, ERISA, Environmental Laws, the USA Patriot Act and the other laws and regulations that are referred to in Section 5.16, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

*Section 9.2. Insurance* . The Company will cause each of its Subsidiaries to maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

*Section 9.3. Maintenance of Properties* . The Company will cause each of its Subsidiaries to maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, *provided* that this Section shall not prevent any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company and such Subsidiary have concluded that such discontinuance would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

*Section 9.4. Payment of Taxes* . The Company will cause each of its Subsidiaries to file all income tax or similar tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies payable by any of them, to the extent the same have become due and payable and before they have become delinquent, provided that any Subsidiary does not need to pay any such tax, assessment, charge or levy if (a) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of such Subsidiary or (b) the nonpayment of all such taxes, assessments, charges and levies in the aggregate would not reasonably be expected to have a Material Adverse Effect.

*Section 9.5. Corporate Existence, Etc* . The Company will at all times preserve and keep in full force and effect the corporate existence of each of its Subsidiaries (unless merged into the Company or a wholly-owned Subsidiary) and all rights and franchises of its Subsidiaries unless, in the good faith judgment of the Company or such Subsidiary, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise would not, individually or in the aggregate, have a Material Adverse Effect.

*Section 9.6. Books and Records* . The Company will, and will cause each of its Subsidiaries to, maintain proper books of record and account in conformity with GAAP and all applicable requirements of any Governmental Authority having legal or regulatory jurisdiction over the Company or such Subsidiary.

Section 10. *Negative Covenants* .

The Company covenants that so long as any of the Bonds are outstanding:

*Section 10.1. Transactions with Affiliates* . The Company will not and will not permit any Subsidiary to enter into directly or indirectly any Material transaction or Material group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or another Subsidiary), except pursuant to the reasonable requirements of the Company's or such Subsidiary's business.

*Section 10.2. Merger, Consolidation, Etc* . The Company will not consolidate with or merge with any other Person or convey, transfer or lease all or substantially all of its assets in a single transaction or series of transactions to any Person unless:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease all or substantially all of the assets of the Company as an entirety, as the case may be, shall be a solvent corporation or limited liability company organized and existing under the laws of the United States or any State thereof (including the District of Columbia), and, if the Company is not such corporation or limited liability company, such corporation or limited liability company shall have executed and delivered to each holder of any Bonds its assumption of the due and punctual performance and observance of each covenant and condition of the Financing Agreements (pursuant to such agreements and instruments as shall be reasonably satisfactory to the Required Holders), and the Company shall have caused to be delivered to each holder of Bonds an opinion of nationally recognized independent counsel, to the effect that all agreements or instruments effecting such assumption are enforceable in accordance with their terms and comply with the terms hereof; and

(b) immediately before and immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing.

No such conveyance, transfer or lease of substantially all of the assets of the Company shall have the effect of releasing the Company or any successor corporation or limited liability company that shall theretofore have become such in the manner prescribed in this Section 10.2 from its liability under the Financing Agreements.

*Section 10.3. Line of Business* . The Company will not engage in any business if, as a result, the general nature of the business in which the Company and its Subsidiaries, taken as a whole, would then be engaged would be substantially changed from the general nature of the

business in which the Company and its Subsidiaries, taken as whole, is engaged on the date of this Agreement.

*Section 10.4. Terrorism Sanctions Regulations* . The Company will not and will not permit any Controlled Entity to (a) become a Blocked Person or (b) have any investments in or engage in any dealings or transactions with any Blocked Person except in accordance with applicable law and in a manner where such investments, transactions or dealings would not cause the purchase, holding or receipt of any payment or exercise of any rights in respect of any Bond by the holder thereof to be in violation of any laws or regulations administered by OFAC.

Section 11. *Payments on Bonds* .

*Section 11.1. Home Office Payment* . So long as any Purchaser or its nominee shall be the holder of any Bond, and notwithstanding anything contained in the Indenture or in such Bond to the contrary, the Company will pay, or cause to be paid by a paying agent, a trustee or other similar party, all sums becoming due on such Bond for principal, Make-Whole Amount or premium, if any, and interest by the method and at the address specified for such purpose below such Purchaser's name in Schedule A, or by such other method or at such other address as such Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Bond or the making of any notation thereon, except that upon written request of the Company or any paying agent made concurrently with or reasonably promptly after payment or prepayment in full of any Bond, such Purchaser shall surrender such Bond for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Article II of the Indenture. Prior to any sale or other disposition of any Bond held by a Purchaser or its nominee, such Purchaser will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Bond to the Company in exchange for a new Bond or Bonds pursuant to Article II of the Indenture. The Company will afford the benefits of this Section 11.1 to any Institutional Investor that is the direct or indirect transferee of any Bond purchased by a Purchaser under this Agreement and that has made the same agreement relating to such Bond as the Purchasers have made in this Section 11.1.

Section 12. *Registration; Exchange; Expenses, Etc* .

*Section 12.1. Registration of Bonds* . The Company shall cause the Trustee to keep a register for the registration and registration of transfers of Bonds in accordance with Article XIII, Section 9 of the Indenture.

*Section 12.2. Transaction Expenses* . Whether or not the transactions contemplated hereby are consummated, the Company will pay all reasonable costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required by the Required Holders, local or other counsel) incurred by the Purchasers and each other holder of a Bond in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of any Financing Agreement (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in

enforcing or defending (or determining whether or how to enforce or defend) any rights under any Financing Agreement or in responding to any subpoena or other legal process or informal investigative demand issued in connection with any Financing Agreement, or by reason of being a holder of any Bond, (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated by any Financing Agreement and (c) the costs and expenses incurred in connection with the initial filing of any Financing Agreement and all related documents and financial information with the SVO, provided that such costs and expenses under this clause (c) shall not exceed \$5,000 for the Bonds. The Company will pay, and will save each Purchaser and each other holder of a Bond harmless from, all claims in respect of any fees, costs or expenses if any, of brokers and finders (other than those, if any, retained by a Purchaser or other holder in connection with its purchase of the Bonds).

*Section 12.3. Survival* . The obligations of the Company under this Section 12 will survive the payment or transfer of any Bond, the enforcement, amendment or waiver of any provision of any Financing Agreement, and the termination of any Financing Agreement.

Section 13. *Survival of Representations and Warranties; Entire Agreement* .

All representations and warranties contained herein shall survive the execution and delivery of this Agreement, the purchase or transfer by any Purchaser of any Bond or portion thereof or interest therein and the payment of any Bond, and may be relied upon by any subsequent holder of a Bond, regardless of any investigation made at any time by or on behalf of such Purchaser or any other holder of a Bond. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, the Financing Agreements embody the entire agreement and understanding between each Purchaser and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

Section 14. *Amendment and Waiver* .

*Section 14.1. Requirements* . This Agreement and the Bonds may be amended, and the observance of any term hereof or of the Bonds may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (i) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5, 6 or 19 hereof, or any defined term, will be effective as to any holder of Bonds unless consented to by such holder of Bonds in writing, and (ii) no such amendment or waiver may, without the written consent of all of the holders of Bonds at the time outstanding affected thereby, (A) subject to the provisions of the Indenture relating to acceleration, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest (if such change results in a decrease in the interest rate) or of the Make-Whole Amount on, the Bonds, (B) change the percentage of the principal amount of the Bonds the holders of which are required to consent to any such amendment or waiver, or (C) amend any of Sections 8, 14 or 18.

*Section 14.2. Solicitation of Holders of Bonds* .

(a)*Solicitation.* The Company will provide each holder of the Bonds (irrespective of the amount of Bonds then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Bonds. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 14 to each holder of outstanding Bonds promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Bonds.

(b)*Payment.* The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise (other than legal fees or other related expenses), or grant any security or provide other credit support, to any holder of Bonds as consideration for or as an inducement to the entering into by any holder of Bonds of any waiver or amendment of any of the terms and provisions hereof or of the Bonds unless such remuneration is concurrently paid, or security is concurrently granted or other credit support concurrently provided, on the same terms, ratably to each holder of Bonds then outstanding even if such holder did not consent to such waiver or amendment.

(c)*Consent in Contemplation of Transfer.* Any consent made pursuant to this Section 14 by the holder of any Bond that has transferred or has agreed to transfer such Bond to the Company, any Subsidiary or any Affiliate of the Company and has provided or has agreed to provide such written consent as a condition to such transfer shall be void and of no force or effect except solely as to such holder, and any amendments effected or waivers granted or to be effected or granted that would not have been or would not be so effected or granted but for such consent (and the consents of all other holders of Bonds that were acquired under the same or similar conditions) shall be void and of no force or effect except solely as to such transferring holder.

*Section 14.3. Binding Effect, Etc* . Any amendment or waiver consented to as provided in this Section 14 applies equally to all holders of Bonds and is binding upon them and upon each future holder of any Bond and upon the Company without regard to whether such Bond has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Bond nor any delay in exercising any rights hereunder or under any Bond shall operate as a waiver of any rights of any holder of such Bond. As used herein, the term “this Agreement” and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

*Section 14.4. Bonds Held by Company, Etc* . Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Bonds then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Bonds, or have directed the taking of any action provided herein or in the Bonds to be taken upon the direction of the holders of a specified percentage of the aggregate

principal amount of Bonds then outstanding, Bonds directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

Section 15. Notices .

All notices and communications provided for hereunder shall be in writing and sent (a) by telecopy if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to any Purchaser or its nominee, to such Purchaser or nominee at the address specified for such communications in Schedule A, or at such other address as such Purchaser or nominee shall have specified to the Company in writing,

(ii) if to any other holder of any Bond, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010-3489 , or at such other address as the Company shall have specified to the holder of each Bond in writing, or

(iv) if to the Trustee, to BNY Mellon Trust Company N.A., as Trustee, Attention: Client Service Management, 500 Ross Street, 12th Floor, Pittsburgh, PA 15262, or at such other address as the Trustee shall have specified to the Company and each other party hereto in writing.

Notices under this Section 15 will be deemed given only when actually received.

Section 16. Indemnification .

The Company hereby agrees to indemnify and hold the Purchasers harmless from, against and in respect of any and all loss, liability and expense (including reasonable attorneys' fees) arising from any misrepresentation or nonfulfillment of any undertaking on the part of the Company under this Agreement. The indemnification obligations of the Company under this Section 16 shall survive the execution and delivery of this Agreement, the delivery of the Bonds to the Purchasers and the consummation of the transactions contemplated herein.

Section 17. Reproduction of Documents .

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by any Purchaser at the Closing (except the Bonds themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to any Purchaser, may be



reproduced by such Purchaser by any photographic, photostatic, electronic, digital, or other similar process and such Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Purchaser in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 17 shall not prohibit the Company or any other holder of Bonds from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

#### Section 18. Confidential Information

For the purposes of this Section 18, “*Confidential Information*” means information delivered to any Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Purchaser as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any person acting on such Purchaser’s behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Purchaser under Section 7.1 of this Agreement or under the Indenture that are otherwise publicly available. Each Purchaser will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser, provided that such Purchaser may deliver or disclose Confidential Information to (i) its directors, trustees, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by Bonds), (ii) its financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 18, (iii) the Trustee or any other holder of any Bond, (iv) any Institutional Investor to which it sells or offers to sell such Bond or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 18), (v) any Person from which it offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 18), (vi) any federal or state or provincial regulatory authority having jurisdiction over such Purchaser, (vii) the NAIC or the SVO or, in each case, any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser’s investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Purchaser is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under any

Financing Agreement. Each holder of a Bond, by its acceptance of a Bond, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 18 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Bond of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this Section 18.

In the event that as a condition to receiving access to information relating to the Company or its Subsidiaries in connection with the transactions contemplated by or otherwise pursuant to this Agreement, any Purchaser or holder of a Bond is required to agree to a confidentiality undertaking (whether through EMMA, another secure website, a secure virtual workspace or otherwise) which is different from this Section 18, this Section 18 shall not be amended thereby and, as between such Purchaser or such holder and the Company, this Section 18 shall supersede any such other confidentiality undertaking.

Section 19. Miscellaneous .

*Section 19.1. Successors and Assigns* . All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Bond) whether so expressed or not.

*Section 19.2. Accounting Terms* . All accounting terms used herein which are not expressly defined in this Agreement have the meanings respectively given to them in accordance with GAAP. Except as otherwise specifically provided herein, (a) all computations made pursuant to this Agreement shall be made in accordance with GAAP, and (b) all financial statements shall be prepared in accordance with GAAP. For purposes of determining compliance with the financial covenants contained in the Financing Agreements, if any, any election by the Company to measure Debt using fair value (as permitted by Financial Accounting Standards Board Accounting Standards Codification Topic No. 825-10-25 – *Fair Value Option*, International Accounting Standard 39 – *Financial Instruments: Recognition and Measurement* or any similar accounting standard) shall be disregarded and such determination shall be made as if such election had not been made and such Debt shall be valued at not less than 100% of the principal amount thereof.

*Section 19.3. Severability* . Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

*Section 19.4. Construction, Etc* . Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision

herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

For the avoidance of doubt, all Schedules and Exhibits attached to this Agreement shall be deemed to be a part hereof.

*Section 19.5. Counterparts* . This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

*Section 19.6. Governing Law* . This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the Commonwealth of Pennsylvania excluding choice-of-law principles of the law of such State that would permit the application of the laws of a jurisdiction other than such State.

*Section 19.7. Jurisdiction and Process; Waiver of Jury Trial* . (a) The Company irrevocably submits to the non-exclusive jurisdiction of any Pennsylvania State or federal court sitting in Philadelphia, Pennsylvania, over any suit, action or proceeding arising out of or relating to this Agreement or the Bonds. To the fullest extent permitted by applicable law, the Company irrevocably waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the jurisdiction of any such court, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(b) The Company consents to process being served by or on behalf of any holder of Bonds in any suit, action or proceeding of the nature referred to in Section 19.7(a) by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, return receipt requested, to it at its address specified in Section 15 or at such other address of which such holder shall then have been notified pursuant to said Section. The Company agrees that such service upon receipt (i) shall be deemed in every respect effective service of process upon it in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by applicable law, be taken and held to be valid personal service upon and personal delivery to it. Notices hereunder shall be conclusively presumed received as evidenced by a delivery receipt furnished by the United States Postal Service or any reputable commercial delivery service.

(c) Nothing in this Section 19.7 shall affect the right of any holder of a Bond to serve process in any manner permitted by law, or limit any right that the holders of any of the Bonds may have to bring proceedings against the Company in the courts of any appropriate jurisdiction or to enforce in any lawful manner a judgment obtained in one jurisdiction in any other jurisdiction.

(d) The parties hereto hereby waive trial by jury in any action brought on or with respect to this Agreement, the Bonds or any other document executed in connection herewith or therewith.

*Section 19.8. Payments Due on Non-Business Days*. Anything in this Agreement or the Bonds to the contrary notwithstanding, any payment of principal of or Make-Whole Amount or interest on any Bond that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; provided that if the maturity date of any Bond is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day.

\* \* \* \* \*

If you are in agreement with the foregoing, please sign the form of agreement on a counterpart of this Bond Purchase Agreement and return it to the Company, whereupon this Agreement shall become a binding agreement between you and the Company.

Very truly yours,

Aqua Pennsylvania, Inc.

By /s/ David P.

Smeltzer

Name: David P. Smeltzer

Its: Chief Financial Officer

Accepted as of the date first written above.

Thrivent Financial for Lutherans

By: /s/ Martin  
Rosacker

Name: Martin Rosacker  
Title: Managing Director

Accepted as of the date first written above.

State Farm Life Insurance Company

By: /s/ Julie

Hoyer

Julie Hoyer

Senior Investment Officer—Fixed Income

By: /s/ Christiane M.

Stoffer

Christiane M. Stoffer

Assistant Secretary

State Farm Life and Accident Assurance Company

By: /s/ Julie

Hoyer

Julie Hoyer

Senior Investment Officer—Fixed Income

By: /s/ Christiane M.

Stoffer

Christiane M. Stoffer

Assistant Secretary

State Farm Insurance Companies Employee Retirement  
Trust

By: /s/ Julie

Hoyer

Julie Hoyer

Senior Investment Officer—Fixed Income

By: /s/ Christiane M.

Stoffer

Christiane M. Stoffer

Assistant Secretary

Accepted as of the date first written above.

John Hancock Life Insurance Company (U.S.A.)

By: /s/ Pradeep

Killamsetty

Name: Pradeep Killamsetty

Title: Managing Director

John Hancock Life & Health Insurance Company

By: /s/ Pradeep

Killamsetty

Name: Pradeep Killamsetty

Title: Managing Director



Accepted as of the date first written above.

The Lincoln National Life Insurance Company

By: Delaware Investment Advisers, a series of Delaware  
Management Business Trust, Attorney in Fact

By: /s/ Karl  
Spaeth

Name: Karl Spaeth  
Title: Vice President

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Accepted as of the date first written above.

Teachers Insurance and Annuity Association of America

By: /s/ Matthew W.  
Smith

Name: Matthew W. Smith  
Title: Director

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Accepted as of the date first written above.

CMFG Life Insurance Company

By: MEMBERS Capital Advisors, Inc.  
acting as Investment Advisor

By: /s/ Allen R.

Cantrell

Name: Allen R. Cantrell

Title: Managing Director, Investments

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Accepted as of the date first written above.

Genworth Life Insurance Company

By: /s/ Stephen  
DeMotto

Name: Stephen DeMotto  
Title: Investment Officer

Accepted as of the date first written above.

Phoenix Life Insurance Company

By: /s/ Christopher M.  
Wilkos

Name: Christopher M. Wilkos  
Title: Executive Vice President

PHL Variable Insurance Company

By: /s/ Christopher M.  
Wilkos

Name: Christopher M. Wilkos  
Title: Executive Vice President

Accepted as of the date first written above.

United of Omaha Life Insurance Company

By: /s/ Lee R.

Martin

Name: Lee R. Martin

Title: Vice President

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Accepted as of the date first written above.

The State Life Insurance Company

By: American United Life Insurance Company  
Its: Agent

By: /s/ David M.  
Weisenburger

Name: David M. Weisenburger  
Title: VP, Fixed Income Securities

Pioneer Mutual Life Insurance Company

By: American United Life Insurance Company  
Its: Agent

By: /s/ David M.  
Weisenburger

Name: David M. Weisenburger  
Title: VP, Fixed Income Securities

Accepted as of the date first written above.

MONY Life Insurance Company

By: /s/ Philip E.

Passafiume

Name: Philip E. Passafiume

Title: Director, Fixed Income



### Information Relating to Purchasers

Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>Thrivent Financial for Lutherans</b>	A	\$5,000,000
Attn: Investment Division-Private Placements	A	\$5,000,000
625 Fourth Avenue South	B	\$5,000,000
Minneapolis, MN 55415	B	\$5,000,000
Fax: (612) 844-4027	B	\$5,000,000
Email: privateinvestments@thrivent.com	C	\$5,000,000
	C	\$5,000,000
<b>*Please issue notes in increments of no more than \$5 million.</b>	C	\$5,000,000
<b>*Please register notes in the name of Swanbird &amp; Co.</b>	C	\$2,000,000
	D	\$2,000,000
	E	\$5,000,000
	F	\$5,000,000

#### Payments

ABA # 011000028  
State Street Bank & Trust Co.  
DDA # A/C – 6813-049-1  
Fund Number: NCE1  
Fund Name: Thrivent Financial for Lutherans

#### **All payments must include the following information:**

Security Description  
Private Placement Number  
Reference Purpose of Payment  
Interest and/or Principal Breakdown

#### Notices

Notices of payments and written confirmation of such wire transfers to:

Investment Division-Private Placements  
Attn: Martin Rosacker  
Thrivent Financial for Lutherans  
625 Fourth Avenue South  
Minneapolis, MN 55415  
Fax: (612) 844-4027  
Email: privateinvestments@thrivent.com

Schedule A  
(to Bond Purchase Agreement)

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With a copy to:

ATT: Jeremy Anderson or Harmon Bergenheier  
Thrivent Financial for Lutherans  
625 Fourth Avenue South  
Minneapolis, MN 55415  
Email: boxprivateplacement@thrivent.com

**All other communications to:**

Thrivent Financial for Lutherans  
Attn: Investment Division-Private Placements  
625 Fourth Avenue South  
Minneapolis, MN 55415  
Fax: (612) 844-4027  
Email: privateinvestments@thrivent.com

**Physical Delivery of Bonds**

DTCC  
Newport Office Center  
570 Washington Blvd  
Jersey City, NJ 07310  
Attn: 5th floor / NY Window / Robert Mendez  
Ref: State Street Account  
Fund Name: Thrivent Financial for Lutherans  
Fund Number: NCE1  
Nominee Name: Swanbird & Co.  
Nominee Tax ID Number: 04-3475606

With a .pdf copy to:

Taiesha McBroom taiesha.mcbroom@thrivent.com and  
Lisa Corbin lisa.corbin@thrivent.com

Name of Nominee in which Bonds are to be issued: Swanbird & Co.

Taxpayer I.D. Numbers:

Thrivent Financial for Lutherans: 39-0123480  
Swanbird & Co: 04-3475606

Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>State Farm Life Insurance Company</b> One State Farm Plaza Bloomington, IL 61710	A	\$40,000,000

**Payments**

**Wire Transfer Instructions:**

JPMorganChase  
 ABA# 021000021  
 Attn: SSG Private Income Processing  
 A/C# 9009000200  
 For further credit to: State Farm Life Insurance Company  
 Custody Account # G06893  
 RE: Aqua Pennsylvania, Inc., 3.77% First Mortgage Bonds Series A

due January 15, 2036, PPN #: 03842\* AQ9, Maturity Date: January 15, 2036

**Notices**

**Send notices, financial statements, officer's certificates and other correspondence to:**

State Farm Life Insurance Company  
 Investment Dept. E-8  
 One State Farm Plaza  
 Bloomington, IL 61710  
 If by E-Mail: privateplacements@statefarm.com

**Send confirms to:**

State Farm Life Insurance Company  
 Investment Accounting Dept. D-3  
 One State Farm Plaza  
 Bloomington, IL 61710

**Physical Delivery of Bonds**

**Send the original security (via registered mail) to:**

JPMorgan Chase Bank, N.A.  
 4 Chase Metrotech Center  
 3rd Floor  
 Brooklyn, New York 11245-0001  
 Attention: Physical Receive Department  
 Account: G06893

**With a copy to:**

State Farm Insurance Companies  
One State Farm Plaza  
Bloomington, Illinois 61710  
Attn: Corporate Law-Investments, A-3  
Christiane M. Stoffer, Associate General Counsel

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 37-0533090

Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>State Farm Life and Accident Assurance Company</b> One State Farm Plaza Bloomington, IL 61710	A	\$2,500,000

**Payments**

**Wire Transfer Instructions:**

JPMorganChase  
 ABA# 021000021  
 Attn: SSG Private Income Processing  
 A/C# 9009000200  
 For further credit to: State Farm Life and Accident Assurance Company  
 Custody Account # G06895  
 RE: Aqua Pennsylvania, Inc., 3.77% First Mortgage Bonds Series A

due January 15, 2036, PPN #: 03842\* AQ9, Maturity Date: January 15, 2036

**Notices**

**Send notices, financial statements, officer's certificates and other correspondence to:**

State Farm Life and Accident Assurance Company  
 Investment Dept. E-8  
 One State Farm Plaza  
 Bloomington, IL 61710  
 If by E-Mail: privateplacements@statefarm.com

**Send confirms to:**

State Farm Life and Accident Assurance Company  
 Investment Accounting Dept. D-3  
 One State Farm Plaza  
 Bloomington, IL 61710

**Physical Delivery of Bonds**

**Send the original security (via registered mail) to:**

JPMorgan Chase Bank, N.A.  
 4 Chase Metrotech Center  
 3rd Floor  
 Brooklyn, New York 11245-0001  
 Attention: Physical Receive Department  
 Account: G06895

**With a copy to:**

State Farm Insurance Companies  
One State Farm Plaza  
Bloomington, Illinois 61710  
Attn: Corporate Law-Investments, A-3  
Christiane M. Stoffer, Associate General Counsel

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 37-0805091

Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>State Farm Insurance Companies Employee Retirement Trust</b> One State Farm Plaza Bloomington, IL 61710	A	\$2,500,000

**Payments**

**Wire Transfer Instructions:**

JPMorganChase  
 ABA# 021000021  
 Attn: SSG Private Income Processing  
 A/C# 9009000200  
 For further credit to: State Farm Insurance Companies Employee Retirement Trust  
 Custody Account # G07251  
 RE: Aqua Pennsylvania, Inc., 3.77% First Mortgage Bonds Series A

due January 15, 2036, PPN #: 03842\* AQ9, Maturity Date: January 15, 2036

**Notices**

**Send notices, financial statements, officer's certificates and other correspondence to:**

State Farm Insurance Companies Employee Retirement Trust  
 Investment Dept. E-8  
 One State Farm Plaza  
 Bloomington, IL 61710  
 If by E-Mail: privateplacements@statefarm.com

**Send confirms to:**

State Farm Insurance Companies Employee Retirement Trust  
 Investment Accounting Dept. D-3  
 One State Farm Plaza  
 Bloomington, IL 61710

**Physical Delivery of Bonds**

**Send the original security (via registered mail) to:**

JPMorgan Chase Bank, N.A.  
 4 Chase Metrotech Center  
 3rd Floor  
 Brooklyn, New York 11245-0001  
 Attention: Physical Receive Department  
 Account: G07251

**With a copy to:**

State Farm Insurance Companies  
One State Farm Plaza  
Bloomington, Illinois 61710  
Attn: Corporate Law-Investments, A-3  
Christiane M. Stoffer, Associate General Counsel

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 36-6042145



Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>John Hancock Life Insurance Company (U.S.A.)</b>	D	\$12,000,000
197 Clarendon Street	E	\$8,000,000
Boston, MA 02116		

**Payments**

All payments to be by bank wire transfer of immediately available funds to:

Bank Name: Bank of New York Mellon  
 ABA Number: 011001234  
 Account Number: JPPF10010002  
 Account Name: US PP Collector F008  
 For Further Credit to: DDA Number 0000048771  
 On Order of: Aqua Pennsylvania Inc

**Notices and Audit Requests**

All notices with respect to payments, prepayments (scheduled and unscheduled, whether partial or in full) and audit requests shall be sent to:

John Hancock Financial Services  
 197 Clarendon Street  
 Boston, MA 02116  
 Attention: Investment Administration  
 Fax Number: (617) 572-1799  
 Email: InvestmentAdministration@jhancock.com

All notices and communication with respect to compliance reporting, financial statements and related certifications shall be sent to:

John Hancock Financial Services  
 197 Clarendon Street  
 Boston, MA 02116  
 Attention: Bond and Corporate Finance, C-2  
 Email Address: powerteam@jhancock.com

All other notices shall be sent to:

John Hancock Financial Services 197 Clarendon Street Boston, MA 02116 Attention: Investment Law, C-3 Corporate Finance, C-2 Fax Number: (617) 572-9269 powerteam@jhancock.com	and John Hancock Financial Services 197 Clarendon Street Boston, MA 02116	Attention: Bond and Email Address:
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**Physical Delivery of Bonds**

John Hancock Financial Services  
197 Clarendon Street, C-3-08  
Boston, MA 02116  
Attention: Andrew Bobenski

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 01-0233346

Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>John Hancock Life &amp; Health Insurance Company</b>	D	\$2,000,000
197 Clarendon Street	E	\$2,000,000
Boston, MA 02116		

**Payments**

All payments to be by bank wire transfer of immediately available funds to:

Bank Name: Bank of New York Mellon  
 ABA Number: 011001234  
 Account Number: JPPF10010002  
 Account Name: US PP Collector F008  
 For Further Credit to: DDA Number 0000048771  
 On Order of: Aqua Pennsylvania Inc

**Notices and Audit Requests**

All notices with respect to payments, prepayments (scheduled and unscheduled, whether partial or in full) and audit requests shall be sent to:

John Hancock Financial Services  
 197 Clarendon Street  
 Boston, MA 02116  
 Attention: Investment Administration  
 Fax Number: (617) 572-1799  
 Email: InvestmentAdministration@jhancock.com

All notices and communication with respect to compliance reporting, financial statements and related certifications shall be sent to:

John Hancock Financial Services  
 197 Clarendon Street  
 Boston, MA 02116  
 Attention: Bond and Corporate Finance, C-2  
 Email Address: powerteam@jhancock.com

All other notices shall be sent to:

John Hancock Financial Services 197 Clarendon Street Boston, MA 02116 Attention: Investment Law, C-3 Corporate Finance, C-2 Fax Number: (617) 572-9269 powerteam@jhancock.com	and	John Hancock Financial Services 197 Clarendon Street Boston, MA 02116 Attention: Bond and Email Address:
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**Physical Delivery of Bonds**

John Hancock Financial Services  
197 Clarendon Street, C-3-08  
Boston, MA 02116  
Attention: Andrew Bobenski

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 13-3072894

Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>The Lincoln National Life Insurance Company</b>	D	\$6,000,000
c/o Delaware Investment Advisers	D	\$3,000,000
2005 Market Street, Mail Stop 41-104		
Philadelphia, Pennsylvania 19103		
Attention: Fixed Income Private Placements		
Private Placement Fax: (215) 255-1654		

SECURITY: Aqua Pennsylvania Inc Series D 4.16% due 1/15/46

<u>BOND AMOUNT</u>	<u>LINCOLN ACCOUNT NAME</u>	<u>CUSTODY ACCT #</u>
\$3,000,000	The Lincoln National Life Insurance Company – Seg 76	215736
\$6,000,000	The Lincoln National Life Insurance Company – Seg 16	216625

### Payments

PRINCIPAL & INTEREST PAYMENTS:

The Bank of New York Mellon  
(via Fed Wire)  
One Wall Street, New York, NY 10286  
ABA #: 021000018  
BENEFICIARY/Account #: GLA 111566  
Acct Name: The Bank of New York Mellon Private Placement Income Collection  
Bank to Bank Information Ref: insert Custody Account# listed above  
PPN #/Sec Desc/ P&I Details  
Reference Registered Holder: The Lincoln National Life Insurance Company

### Notices

<u>INVESTMENT ADVISER ADDRESS</u> <u>-ALL COMMUNICATIONS</u> Delaware Investment Advisers 2005 Market Street, Mail Stop 41-104 Philadelphia, PA 19103 Attn: Fixed Income Private Placements Private Placement Fax: 215-255-1654	<u>TREASURY OPERATIONS</u> <u>--NOTICE OF PAYMENT ONLY:</u> Lincoln Financial Group 1300 South Clinton St. Fort Wayne, IN 46802 Attn: Inv Acctg--Treasury Operations Email: securities_data_rese@lfg.com	<u>BANK ADDRESS</u> <u>--NOTICE OF PAYMENT ONLY:</u> The Bank of New York Mellon P. O. Box 392003 Pittsburgh, PA 15251-9003 Attn: Private Placement P & I Dept Ref: Registered Holder/Sec  Desc/PPN# Email: ppservicing@bnymellon.com
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**Physical Delivery**

FORWARD SECURITIES TO:  
(via *Express Delivery*)

The Depository Trust Company  
570 Washington Blvd – 5<sup>th</sup> Floor  
Jersey City, New Jersey 07310  
ATTENTION: BNY MELLON/BRANCH DEPOSIT DEPARTMENT  
(*in cover letter reference note amt, acct name, and bank custody account #*)

Mellon

Please fax copy of cover letter to: Karen Costa – The Bank of New York

Fax #: 1-844-601-7769

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 35-0472300

Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>The Lincoln National Life Insurance Company</b> c/o Delaware Investment Advisers 2005 Market Street, Mail Stop 41-104 Philadelphia, Pennsylvania 19103 Attention: Fixed Income Private Placements Private Placement Fax: (215) 255-1654	E	\$5,000,000

SECURITY: Aqua Pennsylvania Inc Series E 4.18% due 1/15/47

<u>BOND AMOUNT</u>	<u>LINCOLN ACCOUNT NAME</u>	<u>CUSTODY ACCT #</u>
\$5,000,000	The Lincoln National Life Insurance Company – Seg 16	216625

**Payments**

PRINCIPAL & INTEREST PAYMENTS:

The Bank of New York Mellon  
(via Fed Wire)  
One Wall Street, New York, NY 10286  
ABA #: 021000018  
BENEFICIARY/Account #: GLA 111566  
Acct Name: The Bank of New York Mellon Private Placement Income Collection  
Bank to Bank Information Ref: insert Custody Account# listed above  
PPN #/Sec Desc/ P&I Details  
Reference Registered Holder: The Lincoln National Life Insurance Company

**Notices**

<u>INVESTMENT ADVISER ADDRESS</u> <u>-ALL COMMUNICATIONS</u> Delaware Investment Advisers 2005 Market Street, Mail Stop 41-104 Philadelphia, PA 19103 Attn: Fixed Income Private Placements Private Placement Fax: 215-255-1654	<u>TREASURY OPERATIONS</u> <u>--NOTICE OF PAYMENT ONLY:</u> Lincoln Financial Group 1300 South Clinton St. Fort Wayne, IN 46802 Attn: Inv Acctg–Treasury Operations Email: securities_data_rese@lfg.com	<u>BANK ADDRESS</u> <u>--NOTICE OF PAYMENT ONLY:</u> The Bank of New York Mellon P. O. Box 392003 Pittsburgh, PA 15251-9003 Attn: Private Placement P & I Dept Ref: Registered Holder/Sec  Desc/PPN# Email: ppservicing@bnymellon.com
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**Physical Delivery**

FORWARD SECURITIES TO:  
(via *Express Delivery*)

The Depository Trust Company  
570 Washington Blvd – 5<sup>th</sup> Floor  
Jersey City, New Jersey 07310  
ATTENTION: BNY MELLON/BRANCH DEPOSIT DEPARTMENT  
(*in cover letter reference note amt, acct name, and bank custody account #*)

Mellon

Please fax copy of cover letter to: Karen Costa – The Bank of New York

Fax #: 1-844-601-7769

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 35-0472300



Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>The Lincoln National Life Insurance Company</b> c/o Delaware Investment Advisers 2005 Market Street, Mail Stop 41-104 Philadelphia, Pennsylvania 19103 Attention: Fixed Income Private Placements Private Placement Fax: (215) 255-1654	F	\$10,000,000

SECURITY: Aqua Pennsylvania Inc Series F 4.20% due 1/15/48

<u>BOND AMOUNT</u>	<u>LINCOLN ACCOUNT NAME</u>	<u>CUSTODY ACCT #</u>
\$10,000,000	The Lincoln National Life Insurance Company – Seg 1	215715

**Payments**

PRINCIPAL & INTEREST PAYMENTS:

The Bank of New York Mellon  
(via Fed Wire)  
One Wall Street, New York, NY 10286  
ABA #: 021000018  
BENEFICIARY/Account #: GLA 111566  
Acct Name: The Bank of New York Mellon Private Placement Income Collection  
Bank to Bank Information Ref: insert Custody Account# listed above  
PPN #/Sec Desc/ P&I Details  
Reference Registered Holder: The Lincoln National Life Insurance Company

**Notices**

<u>INVESTMENT ADVISER ADDRESS</u> <u>-ALL COMMUNICATIONS</u> Delaware Investment Advisers 2005 Market Street, Mail Stop 41-104 Philadelphia, PA 19103 Attn: Fixed Income Private Placements Private Placement Fax: 215-255-1654	<u>TREASURY OPERATIONS</u> <u>--NOTICE OF PAYMENT ONLY:</u> Lincoln Financial Group 1300 South Clinton St. Fort Wayne, IN 46802 Attn: Inv Acctg–Treasury Operations Email: securities_data_rese@lfg.com	<u>BANK ADDRESS</u> <u>--NOTICE OF PAYMENT ONLY:</u> The Bank of New York Mellon P. O. Box 392003 Pittsburgh, PA 15251-9003 Attn: Private Placement P & I Dept Ref: Registered Holder/Sec  Desc/PPN# Email: ppservicing@bnymellon.com
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**Physical Delivery**

FORWARD SECURITIES TO:  
(via *Express Delivery*)

The Depository Trust Company  
570 Washington Blvd – 5<sup>th</sup> Floor  
Jersey City, New Jersey 07310  
ATTENTION: BNY MELLON/BRANCH DEPOSIT DEPARTMENT  
(*in cover letter reference note amt, acct name, and bank custody account #*)

Mellon

Please fax copy of cover letter to: Karen Costa – The Bank of New York

Fax #: 1-844-601-7769

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 35-0472300

Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>Teachers Insurance and Annuity Association of America</b> 8500 Andrew Carnegie Boulevard Charlotte, North Carolina 28262	D	\$20,000,000

**Payments**

All payments on or in respect of the Series D Bonds shall be made in immediately available funds on the due date by electronic funds transfer, through the Automated Clearing House System, to:

JPMorgan Chase Bank, N.A.  
 ABA # 021-000-021  
 Account Number: 900-9-000200  
 Account Name: TIAA  
 For Further Credit to the Account Number: G07040  
 Reference: PPN: 03842\* AT3/Aqua Pennsylvania, Inc.  
 Maturity Date: January 15, 2046/Interest Rate: 4.16%/P&I Breakdown

**Payment Notices**

All notices with respect to payments and prepayments of the Series D Bonds shall be sent to:

Teachers Insurance and Annuity Association of America  
 730 Third Avenue  
 New York, New York 10017  
 Attention: Securities Accounting Division  
 Phone: (212) 916-5504  
 Email: [jpiperato@tiaa-cref.org](mailto:jpiperato@tiaa-cref.org) or [mwolfe@tiaa-cref.org](mailto:mwolfe@tiaa-cref.org)

With a copy to:

JPMorgan Chase Bank, N.A.  
 P.O. Box 35308  
 Newark, New Jersey 07101

And to:

Teachers Insurance and Annuity Association of America  
8500 Andrew Carnegie Boulevard  
Charlotte, North Carolina 28262  
Attention: Global Private Markets  
Telephone: (704) 988-4349 (Ho Young Lee)  
(704) 988-1000 (General Number)  
Facsimile: (704) 988-4916  
Email: hlee@tiaa-cref.org

Contemporaneous written confirmation of any electronic funds transfer shall be sent to the above addresses setting forth (1) the full name, private placement number, interest rate and maturity date of the Series D Bonds, (2) allocation of payment between principal, interest, Make-Whole Amount, other premium or any special payment and (3) the name and address of the bank from which such electronic funds transfer was sent.

**Other Notices and Communications**

All other notices and communications shall be delivered or mailed to:

Teachers Insurance and Annuity Association of America  
8500 Andrew Carnegie Boulevard  
Charlotte, North Carolina 28262  
Attention: Global Private Markets  
Telephone: (704) 988-4349 (Ho Young Lee)  
(704) 988-1000 (General Number)  
Facsimile: (704) 988-4916  
Email: hlee@tiaa-cref.org

**Physical Delivery of Series D Bonds:**

JPMorgan Chase Bank, N.A.  
4 Chase Metrotech Center  
3<sup>rd</sup> Floor  
Brooklyn, New York 11245-0001  
Attention: Physical Receive Department  
For TIAA A/C #G07040

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 13-1624203

Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>CMFG Life Insurance Company</b> <b>(nominee name TURNKEYS &amp; CO)</b> c/o Members Capital Advisors, Inc. Attn: Private Placements 5910 Mineral Point Road Madison, Wisconsin 53705-4456	A	\$7,000,000

**Payments**

All payments by wire or intrabank transfer of immediately available funds to:

ABA: 011000028  
Bank: State Street Bank  
Account Name: CMFG Life Insurance Company  
DDA #: 1662-544-4  
REFERENCE FUND: ZT1E  
Nominee Name: TURNKEYS & CO

**Notices**

All notices of payments, wires, audit confirmations, compliance and Financials shall be EMAILED to:

EMAIL: DS-PRIVATEPLACEMENTS@CUNAMUTUAL.COM

All Legal communications shall be EMAILED to:

EMAIL: DS-PRIVATEPLACEMENTS@CUNAMUTUAL.COM  
EMAIL: RALPH.GUNDRUM@CUNAMUTUAL.COM

**Physical Delivery of Bonds**

All Securities Being Purchased Should Be Registered In (See Nominee Name) and Notes Delivered To:

DTCC  
Newport Office Center  
570 Washington Boulevard  
Jersey City, NJ 07310  
5th Floor / NY Window / Robert Mendez  
FBO: State Street Bank & Trust for account ZT1E

Name of Nominee in which Bonds are to be issued: TURNKEYS & CO

Taxpayer I.D. Number for CMFG Life Insurance Company: 39-0230590

Taxpayer I.D. Number for TURNKEYS & CO: 03-0400481

Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>CMFG Life Insurance Company</b> <b>(nominee name TURNKEYS &amp; CO)</b> c/o Members Capital Advisors, Inc. Attn: Private Placements 5910 Mineral Point Road Madison, Wisconsin 53705-4456	A	\$3,000,000

**Payments**

All payments by wire or intrabank transfer of immediately available funds to:

ABA: 011000028  
Bank: State Street Bank  
Account Name: CMFG Life Members Zone  
DDA #: 1026-256-6  
REFERENCE FUND: ZTAV  
Nominee Name: TURNKEYS & CO

**Notices**

All notices of payments, wires, audit confirmations, compliance and Financials shall be EMAILED to:

EMAIL: DS-PRIVATEPLACEMENTS@CUNAMUTUAL.COM

All Legal communications shall be EMAILED to:

EMAIL: DS-PRIVATEPLACEMENTS@CUNAMUTUAL.COM  
EMAIL: RALPH.GUNDRUM@CUNAMUTUAL.COM

**Physical Delivery of Bonds**

All Securities Being Purchased Should Be Registered In (See Nominee Name) and Notes Delivered To:

DTCC  
Newport Office Center  
570 Washington Boulevard  
Jersey City, NJ 07310  
5th Floor / NY Window / Robert Mendez  
FBO: State Street Bank & Trust for account ZTAV

Name of Nominee in which Bonds are to be issued: TURNKEYS & CO

Taxpayer I.D. Number for CMFG Life Insurance Company: 39-0230590

Taxpayer I.D. Number for TURNKEYS & CO: 03-0400481



Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>Genworth Life Insurance Company</b>	B	\$5,000,000

**Payments**

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds to:

Bank of New York  
 ABA #: 021000018  
 Account #: GLA111566  
 SWIFT Code: IRVTUS3N  
 Acct Name: Income Collection Dept  
 Attn: Income Collection Department  
 Reference: GLIC / LILTC  
 Account#: 127458  
 CUSIP/PPN & Security Description, and Identify Principal & Interest Amounts

**And By Email:** [treasppbkoffice@genworth.com](mailto:treasppbkoffice@genworth.com)  
**Fax:** (804) 662-7777

**Notices**

All notices and communications including original note agreement, conformed copy of the note agreement, amendment requests, financial statements and other general information to be addressed as follows:

Genworth Financial, Inc.  
 Account: Genworth Life Insurance Company  
 3001 Summer Street, 4thFloor  
 Stamford, CT 06905  
 Attn: Private Placements  
 Telephone No: (203)708-3300  
 Fax No: (203)708-3308

*If available, an electronic copy is additionally requested. Please send to the following e-mail address  
 : [GNW.privateplacements@genworth.com](mailto:GNW.privateplacements@genworth.com)*

All **corporate actions, including payments and prepayments**, should be sent to the above address with copies to:

Genworth Financial, Inc.  
 Account: Genworth Life Insurance Company  
 3001 Summer Street  
 Stamford, CT 06905  
 Attn: Trade Operations  
 Telephone No: (203)708-3300  
 Fax No: (203)708-3308

*If available, an electronic copy is additionally requested. Please send to the following e-mail address  
 : [GNWInvestmentsOperations@genworth.com](mailto:GNWInvestmentsOperations@genworth.com)*

Notices with respect to payments and written confirmation of each such payment, including interest payments, redemptions, premiums, make wholes, and fees should also be **addressed as above with additional copies addressed to the following:**

The Depository Trust Co  
Income Collection Department  
P.O. Box 19266  
Newark, NJ 07195  
Attn: Income Collection Department  
Ref: GLIC LILTC Account 127458 CUSIP/PPN & Security Description  
P&I Contact: Purisima Teylan - (718) 315-3035

**Physical Delivery of Bonds**

The Depository Trust Co  
570 Washington Blvd  
BNY Mellon /Branch Deposit Dept 5th FLR  
Jersey City, NJ 07310  
Ref: GLIC /LILTC Account 127458

Name of Nominee in which Bonds are to be issued: HARE & CO, LLC

Taxpayer I.D. Number for CMFG Life Insurance Company: 91-6027719

Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>Genworth Life Insurance Company</b>	F	\$5,000,000

**Payments**

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds to:

Bank of New York  
 ABA #: 021000018  
 Account #: GLA111566  
 SWIFT Code: IRVTUS3N  
 Acct Name: Income Collection Dept  
 Attn: Income Collection Department  
 Reference: GLIC / LILTCNEW  
 Account#: 364781  
 CUSIP/PPN & Security Description, and Identify Principal & Interest Amounts

**And By Email:** [treasppbkoffice@genworth.com](mailto:treasppbkoffice@genworth.com)  
**Fax:** (804) 662-7777

**Notices**

All notices and communications including original note agreement, conformed copy of the note agreement, amendment requests, financial statements and other general information to be addressed as follows:

Genworth Financial, Inc.  
 Account: Genworth Life Insurance Company  
 3001 Summer Street, 4thFloor  
 Stamford, CT 06905  
 Attn: Private Placements  
 Telephone No: (203)708-3300  
 Fax No: (203)708-3308

*If available, an electronic copy is additionally requested. Please send to the following e-mail address  
 : [GNW.privateplacements@genworth.com](mailto:GNW.privateplacements@genworth.com)*

All **corporate actions, including payments and prepayments**, should be sent to the above address with copies to:

Genworth Financial, Inc.  
 Account: Genworth Life Insurance Company  
 3001 Summer Street  
 Stamford, CT 06905  
 Attn: Trade Operations  
 Telephone No: (203)708-3300  
 Fax No: (203)708-3308

*If available, an electronic copy is additionally requested. Please send to the following e-mail address  
 : [GNWInvestmentsOperations@genworth.com](mailto:GNWInvestmentsOperations@genworth.com)*

Notices with respect to payments and written confirmation of each such payment, including interest payments, redemptions, premiums, make wholes, and fees should also be **addressed as above with additional copies addressed to the following:**

The Depository Trust Co  
Income Collection Department  
P.O. Box 19266  
Newark, NJ 07195  
Attn: Income Collection Department  
Ref: GLIC LILTCNEW Account 364781 CUSIP/PPN & Security Description  
P&I Contact: Purisima Teylan - (718) 315-3035

**Physical Delivery of Bonds**

The Depository Trust Co  
570 Washington Blvd  
BNY Mellon /Branch Deposit Dept 5th FLR  
Jersey City, NJ 07310  
Ref: GLIC /LILTCNEW Account 364781

Name of Nominee in which Bonds are to be issued: HARE & CO, LLC

Taxpayer I.D. Number for CMFG Life Insurance Company: 91-6027719

Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>Phoenix Life Insurance Company</b> One American Row Private Placement Department H-2W Hartford, CT 06102	C	\$4,000,000

**Payments**

All payments on or in respect of the Bonds to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as “Aqua Pennsylvania, Inc. First Mortgage Bonds, 3.85% Series C due 2038, PPN 03842\* AS5, principal, premium or interest”) to:

JP Morgan Chase  
 New York, NY  
 ABA 021 000 021  
 Account Name: Income Processing  
 Account Number: 900 9000 200  
 Reference: Phoenix Life Insurance, G05123, Aqua Pennsylvania

**Notices**

All notices and communications, including notices with respect to payments and written confirmation of each such payment, to be addressed as first provided above.

All legal notices should be addressed to:

Phoenix Life Insurance Company  
 One American Row  
 Hartford, CT 06102  
 Attention: Brad Buck

**Physical Delivery of Bonds**

Phoenix Life Insurance Company  
 One American Row  
 Hartford, CT 06102  
 Attention: Brad Buck

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 06-0493340

Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>PHL Variable Insurance Company</b> One American Row Private Placement Department H-2W Hartford, CT 06102	C	\$4,000,000

**Payments**

All payments on or in respect of the Bonds to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as “Aqua Pennsylvania, Inc. First Mortgage Bonds, 3.85% Series C due 2038, PPN 03842\* AS5, principal, premium or interest”) to:

JP Morgan Chase  
 New York, NY  
 ABA 021 000 021  
 Account Name: Income Processing  
 Account Number: 900 9000 200  
 Reference: Phoenix Variable, G11923, Aqua Pennsylvania

**Notices**

All notices and communications, including notices with respect to payments and written confirmation of each such payment, to be addressed as first provided above.

All legal notices should be addressed to:

Phoenix Life Insurance Company  
 One American Row  
 Hartford, CT 06102  
 Attention: Brad Buck

**Physical Delivery of Bonds**

Phoenix Life Insurance Company  
 One American Row  
 Hartford, CT 06102  
 Attention: Brad Buck

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 06-1045829

Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>United of Omaha Life Insurance Company</b> Mutual of Omaha Plaza Omaha, NE 68175-1011	D	\$5,000,000

**Payments**

All principal and interest payments on the Notes shall be made by wire transfer of immediately available funds to:

JPMorgan Chase Bank  
ABA #021000021  
Private Income Processing

For credit to:  
United of Omaha Life Insurance Company  
Account # 900-9000200  
a/c: G07097  
Cusip/PPN: 03842\* AT3  
Interest Amount:  
Principal Amount:

**Notices**

Address for all notices in respect of payment of Principal and Interest, Corporate Actions, and Reorganization Notifications:

JPMorgan Chase Bank  
14201 Dallas Parkway - 13th Floor  
Dallas, TX 75254-2917  
Attn: Income Processing  
a/c: G07097

Address for all other communications (i.e.: Quarterly/Annual reports, Tax filings, Modifications, Waivers regarding the indenture):

4 - Investment Management  
United of Omaha Life Insurance Company  
Mutual of Omaha Plaza  
Omaha, NE 68175-1011  
Email Address for Electronic Document Transmission: [privateplacements@mutualofomaha.com](mailto:privateplacements@mutualofomaha.com)

**Physical Delivery of Bonds**

Address for delivery of bonds:

JPMorgan Chase Bank  
4 Chase Metrotech Center, 3<sup>rd</sup> Floor  
Brooklyn, NY 11245-0001  
Attention: Physical Receive Department  
Account # G07097

\*\*It is imperative that the custody account be included on the delivery letter.  
Without this information, the security will be returned to the sender.

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 47-0322111



Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>The State Life Insurance Company</b> One American Square, Suite 305W Post Office Box 368 Indianapolis, IN 46206	D	\$4,500,000

**Payments**

Aqua Pennsylvania, Inc. shall make payment of principal and interest on the note(s) in immediately available funds by wire transfer to the following bank account:

THE STATE LIFE INSURANCE COMPANY  
Bank of New York  
ABA #: 021000018  
Credit Account: GLA111566  
Account Name: The State Life Insurance Company  
Account #: 343761  
P & I Breakdown: (Insert)  
Re: (PPN 03842\* AT3 and Aqua Pennsylvania, Inc. 4.16% Senior Note(s) due 2046)

Payments should contain sufficient information to identify the breakdown of principal and interest and should identify the full description of the note(s) and the payment date.

**Notices**

Please send all **POST-CLOSING** documentation to:

American United Life Insurance Company  
Attn: Mike Bullock, Securities Department  
One American Square, Suite 305W  
Post Office Box 368  
Indianapolis, IN 46206  
mike.bullock@oneamerica.com

**Physical Delivery of Bonds**

The original note(s) should be sent to:

The Depository Trust Company  
Attn: BNY Mellon/Branch Deposit Dept.  
Acct # 343761 State Life, c/o AUL  
570 Washington Blvd. – 5<sup>th</sup> Floor  
Jersey City, NJ 07310

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 35-0684263



Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>Pioneer Mutual Life Insurance Company</b> One American Square, Suite 305W Post Office Box 368 Indianapolis, IN 46206	D	\$500,000

**Payments**

Aqua Pennsylvania, Inc. shall make payment of principal and interest on the note(s) in immediately available funds by wire transfer to the following bank account:

PIONEER MUTUAL LIFE INSURANCE COMPANY  
Bank of New York  
ABA #: 021000018  
Credit Account: GLA111566  
Account Name: Pioneer Mutual Life Insurance Company  
Account #: 186709  
P & I Breakdown: (Insert)  
Re: (PPN 03842\* AT3 and Aqua Pennsylvania, Inc. 4.16% Senior Note(s) due 2046)

Payments should contain sufficient information to identify the breakdown of principal and interest and should identify the full description of the note(s) and the payment date.

**Notices**

Please send all **POST-CLOSING** documentation to:

American United Life Insurance Company  
Attn: Mike Bullock, Securities Department  
One American Square, Suite 305W  
Post Office Box 368  
Indianapolis, IN 46206  
mike.bullock@oneamerica.com

**Physical Delivery of Bonds**

The original note(s) should be sent to:

The Depository Trust Company  
Attn: BNY Mellon/Branch Deposit Dept.  
Acct # 186709 Pioneer Mutual, c/o AUL  
570 Washington Blvd. – 5<sup>th</sup> Floor  
Jersey City, NJ 07310

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 45-0220640



Name of and Address of Purchaser	Series of Bonds	Principal Amount of Bonds to be Purchased
<b>MONY Life Insurance Company (MNYCLO)</b> Attn: Investment Department – Jared Wingard 2801 Hwy. 280 South Birmingham, AL 35223	D	\$5,000,000

**Payments**

All payments by wire transfer of immediately available funds to:

THE BANK OF NEW YORK  
 ABA #: 021 000 018  
 Acct. #: GLA 111566  
 ATTN: PP P & I Department  
 FFC CUSTODY #: 4737138400  
 CUST. NAME: MONY Life Ins., Co. Closed  
 REF: MONY Life Ins., Co. Closed  
 PPN # 03842\* AT3

with sufficient information to identify the source and application of such funds.

**Notices**

All notices of payments and written confirmations of such wire transfers:

middleoffice@protective.com  
 MONY Life Insurance Co.  
 Attn: Investment Department – Jamie Broadhead  
 2801 Hwy. 280 South  
 Birmingham, AL 35223

**Physical Delivery of Bonds**

The Depository Trust Company  
 570 Washington Blvd - 5<sup>th</sup> floor  
 Jersey City, NJ 07310  
 Attn: BNY Mellon/Branch Deposit Department  
 CUSTODY A/C # 473713  
 CUST NAME: MONY LIFE INSURANCE COMPANY CLOSED

Name of Nominee in which Bonds are to be issued: HARE & CO, LLC

Taxpayer I.D. Number: 13-1632487

## Defined Terms

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

“*Affiliate*” means, at any time, and with respect to any Person, any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person. As used in this definition, “*Control*” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an “*Affiliate*” is a reference to an Affiliate of the Company.

“*Anti-Money Laundering Laws*” is defined in Section 5.16(c).

“*Blocked Person*” is defined in Section 5.16(a).

“*Bonds*” is defined in Section 1.

“*Business Day*” means for the purposes of any provision of this Agreement, any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York or Philadelphia, Pennsylvania are required or authorized to be closed.

“*Capital Lease*” means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

“*Capital Lease Obligation*” means, with respect to any Person and a Capital Lease, the amount of the obligation of such Person as the lessee under such Capital Lease which would, in accordance with GAAP, appear as a liability on a balance sheet of such Person.

“*CISADA*” means the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, United States Public Law 111195, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

“*Closing*” is defined in Section 3.

“*Closing Date*” is the date of the Closing.

“*Code*” means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

“*Company*” means Aqua Pennsylvania, Inc., a corporation existing under the laws of the Commonwealth of Pennsylvania.

“*Controlled Entity*” means any of the Subsidiaries of the Company and any of their or the Company’s respective Controlled Affiliates. As used in this definition, “Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“*Debt*” means, with respect to any Person, without duplication,

- (a) its liabilities for borrowed money;
- (b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable and other accrued liabilities arising in the ordinary course of business but including, without limitation, all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);
- (c) its Capital Lease Obligations;
- (d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);
- (e) all non-contingent liabilities in respect of reimbursement agreements or similar agreements in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions;
- (f) Swaps of such Person; and
- (g) Guaranties of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Debt of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

“*Default*” means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

“*Disclosure Documents*” is defined in Section 5.3.

“*EMMA*” is defined in Section 7.1(a).

“*Environmental Laws*” means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to Hazardous Materials.

“*ERISA*” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

“*ERISA Affiliate*” means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under section 414 of the Code.

“*Event of Default*” is an “event of default” as defined in the Indenture.

“*Financing Agreements*” means this Agreement, the Indenture (including without limitation the Supplement), and the Bonds.

“*GAAP*” means generally accepted accounting principles as in effect from time to time in the United States of America.

“*Governmental Authority*” means:

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any other jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

“*Guaranty*” means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any Debt, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such Debt or obligation or any property constituting security therefor primarily for the purpose of assuring the owner of such Debt or obligation of the ability of any other Person to make payment of the Debt or obligation;

(b) to advance or supply funds (i) for the purchase or payment of such Debt or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such Debt or obligation;



(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such Debt or obligation of the ability of any other Person to make payment of the Debt or obligation; or

(d) otherwise to assure the owner of such Debt or obligation against loss in respect thereof.

In any computation of the Debt or other liabilities of the obligor under any Guaranty, the Debt or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor, *provided* that the amount of such Debt outstanding for purposes of this Agreement shall not exceed the maximum amount of Debt that is the subject of such Guaranty.

*“Hazardous Material”* means any and all pollutants, toxic or hazardous wastes or other substances that might pose a hazard to health and safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage or filtration of which is or shall be restricted, prohibited or penalized by any applicable law including, but not limited to, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum, petroleum products, lead based paint, radon gas or similar restricted, prohibited or penalized substances.

*“holder”* is defined in the Indenture.

*“Indenture”* is defined in Section 1.

*“Institutional Investor”* means (a) any Purchaser of a Bond, (b) any holder of a Bond holding (together with one or more of its affiliates) more than 5% of the aggregate principal amount of the Bonds then outstanding, (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form, and (d) any Related Fund of any holder of any Bond.

*“Lien”* means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

*“Make-Whole Amount”* is defined in the Supplement.

*“Material”* means material in relation to the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole.

*“Material Adverse Effect”* means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries

taken as a whole, (b) the ability of the Company to perform its obligations under this Agreement, the Bonds or the Indenture or (c) the validity or enforceability of any Financing Agreement.

“*Multiemployer Plan*” means any Plan that is a “multiemployer plan” (as such term is defined in section 4001(a)(3) of ERISA).

“*NAIC*” means the National Association of Insurance Commissioners or any successor thereto.

“*OFAC*” is defined in Section 5.16(a).

“*OFAC Listed Person*” is defined in Section 5.16(a).

“*OFAC Sanctions Program*” means all laws, regulations, Executive Orders and any economic or trade sanction that OFAC is responsible for administering and enforcing, including, without limitation 31 CFR Subtitle B, Chapter V, as amended, along with any enabling legislation; the Bank Secrecy Act; Trading with the Enemy Act; and any similar laws, regulations or orders adopted by any State within the United States. A list of economic and trade sanctions administered by OFAC may be found at <http://www.ustreas.gov/offices/enforcement/ofac/programs/>.

“*Officer’s Certificate*” means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

“*Original Indenture*” is defined in Section 1.

“*PBGC*” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

“*Permitted Liens*” shall have the meaning assigned to such term in the Indenture.

“*Person*” means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, business entity or Governmental Authority.

“*Plan*” means an “employee benefit plan” (as defined in section 3(2) of ERISA) subject to Title I of ERISA that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

“*property*” or “*properties*” means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

“*PTE*” is defined in Section 6.2(a).

“*Purchaser*” is defined in the first paragraph of this Agreement.

“*Related Fund*” means, with respect to any holder of any Bond, any fund or entity that (i) invests in Securities or bank loans, and (ii) is advised or managed by such holder, the same investment advisor as such holder or by an affiliate of such holder or such investment advisor.

“*Required Holders*” means, at any time, the holders of at least 51% in principal amount of the Bonds at the time outstanding (exclusive of Bonds then owned by the Company or any of its Affiliates).

“*Responsible Officer*” means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

“*SEC*” means the Securities and Exchange Commission of the United States, or any successor thereto.

“*Securities*” or “*Security*” shall have the meaning specified in Section 2(1) of the Securities Act.

“*Securities Act*” means the Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

“*Senior Financial Officer*” means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

“*Source*” is defined in Section 6.2.

“*Subsidiary*” means, as to any Person, any other Person in which such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such second Person, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries (unless such partnership or joint venture can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a “Subsidiary” is a reference to a Subsidiary of the Company.

“*Supplement*” is defined in Section 1.

“*SVO*” means the Securities Valuation Office of the NAIC or any successor to such Office.

“*Swaps*” means, with respect to any Person, payment obligations with respect to interest rate swaps, currency swaps and similar obligations obligating such Person to make payments, whether periodically or upon the happening of a contingency. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended fiscal quarter of such Person, based

on the assumption that such Swap had terminated at the end of such fiscal quarter, and in making such determination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

*“Trust Estate”* is defined in the Indenture.

*“Trustee”* is defined in Section 1.

*“UCC”* means, the Uniform Commercial Code as enacted and in effect from time to time in the state whose laws are treated as applying to the Trust Estate.

*“USA Patriot Act”* means United States Public Law 107-56, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

**Aqua Pennsylvania, Inc.  
Subsidiaries of the Company,  
Ownership of Subsidiary Stock**

<b>Company Name</b>	<b>State of Incorporation</b>	<b>% of Ownership (Direct &amp; Indirect)</b>
Aqua Pennsylvania, Inc.	Pennsylvania	100%
1. Little Washington Wastewater Company	Pennsylvania	100%
2. The Hawley Water Company	Pennsylvania	100%
3. Honesdale Consolidated Water Company	Pennsylvania	100%

Schedule 5.4  
(to Bond Purchase Agreement)

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## **Financial Statements**

1. Aqua Pennsylvania, Inc. Consolidated Financial Statements as of and for the years ended December 31, 2014, 2013 and 2012 (audited)
2. Aqua Pennsylvania, Inc. Report for Quarter Ended September 30, 2015

Schedule 5.5  
(to Bond Purchase Agreement)

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**Schedule 5.15(a)**  
**Existing Debt**

Attached.

Schedule 5.15(a)  
(to Bond Purchase Agreement)

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Aqua Pennsylvania and Subsidiaries  
Schedule 5.15(a) - Existing Debt  
as of 9/30/15

		<u>Outstanding Balance</u>
Unsecured Note	5.50%	2,132,180
Unsecured Note	5.64%	4,489,000
Unsecured Note	5.64%	5,466,000
Unsecured Note	5.64%	5,461,000
Unsecured Note	5.95%	10,000,000
Unsecured Note	5.95%	10,000,000
Unsecured Note	5.95%	10,000,000
Unsecured Note	5.95%	10,000,000
Bank Loan	1.92%	50,000,000
Bank Loan	1.98%	<u>50,000,000</u>
<b>Total Unsecured Notes</b>		<b>157,548,180</b>
Tax Exempt (FGIC)	5.00%	21,770,000
Tax Exempt (FGIC)	5.00%	24,165,000
Tax Exempt (FGIC)	5.00%	25,375,000
Tax Exempt-Bond Premium		468,551
Tax Exempt (FGIC)	5.00%	24,675,000
Tax Exempt-Bond Premium		214,433
Tax Exempt (FGIC)	5.00%	23,915,000
Tax Exempt (FGIC)	5.00%	23,915,000
Tax Exempt-Bond Premium		1,606,190
Tax Exempt (No Ins. - S&P)	5.25%	24,830,000
Tax Exempt	5.25%	24,830,000
Tax Exempt-Bond Premium		263,176
Tax Exempt	6.25%	9,000,000
Tax Exempt	6.75%	13,000,000
Tax Exempt-Bond Discount		(40,800)
Tax Exempt	5.00%	58,000,000
Tax Exempt-Bond Discount		(1,607,586)
Tax Exempt	5.00%	62,165,000
Tax Exempt-Bond Premium		494,009
Tax Exempt	4.75%	12,520,000
Tax Exempt-Bond Discount		(241,782)
Tax Exempt	5.00%	25,910,000
Tax Exempt	5.00%	19,270,000
Tax Exempt-Bond Discount		(106,589)
Tax Exempt	4.50%	15,000,000
Tax Exempt-Bond Discount		(520,800)
Tax Exempt	5.00%	81,205,000
Tax Exempt-Bond Premium		<u>2,204,294</u>
<b>Total Tax Exempt Bonds</b>		<b>492,278,116</b>



PennVest	2.711%	547,037
PennVest	2.547%	1,024,136
PennVest	2.547%	344,211
PennVest	1.559%	937,925
PennVest	1.274%	1,838,302
PennVest	1.274%	603,370
PennVest	1.000%	2,462,282
PennVest	1.000%	1,088,257
PennVest	4.047%	282,131
PennVest	3.631%	56,963
PennVest	4.047%	133,130
PennVest	3.550%	1,602,942
PennVest	1.350%	145,100
PennVest	3.631%	152,366
PennVest	4.050%	438,955
PennVest	3.030%	477,274
PennVest	3.460%	4,941,830
PennVest	3.468%	394,740
PennVest	2.774%	1,663,188
PennVest	4.047%	242,197
PennVest	3.790%	967,007
PennVest	3.810%	532,264
PennVest	3.430%	635,166
PennVest	2.770%	868,764
PennVest	3.470%	3,275,108
PennVest	3.430%	188,906
PennVest	3.195%	1,475,479
PennVest	2.556%	775,802
PennVest	2.554%	933,069
PennVest	2.547%	458,848
PennVest	3.046%	1,066,409
PennVest	1.274%	1,199,964
PennVest	1.274%	863,240
PennVest	1.274%	1,007,042
PennVest	2.464%	1,654,608
PennVest	1.274%	801,473
PennVest	1.000%	7,490,623
PennVest	3.330%	319,577
PennVest	2.730%	2,608,929
PennVest	2.668%	1,236,615
PennVest	1.274%	955,102
PennVest	1.000%	361,451
PennVest	2.774%	184,009
PennVest	2.774%	163,535
PennVest	3.052%	645,404
PennVest	3.470%	4,276,856
PennVest	2.774%	1,078,608
PennVest	1.000%	323,168

PennVest	2.774%	1,266,550
PennVest	3.365%	1,505,683
PennVest	2.547%	<u>1,496,068</u>
<b>Total PennVest</b>		<b>59,991,663</b>
FMB	5.17%	7,000,000
FMB	5.751%	15,000,000
FMB	5.751%	5,000,000
FMB	5.98%	3,000,000
FMB	6.06%	15,000,000
FMB	6.06%	5,000,000
FMB	6.89%	12,000,000
FMB	7.72%	15,000,000
FMB-Shenango	8.14%	4,000,000
FMB	9.17%	2,400,000
FMB	9.29%	12,000,000
FMB	9.97%	5,000,000
FMB	3.79%	40,000,000
FMB	3.80%	20,000,000
FMB	3.85%	20,000,000
FMB	3.94%	25,000,000
FMB	4.61%	25,000,000
FMB	4.62%	25,000,000
FMB	3.64%	25,000,000
FMB	4.01%	15,000,000
FMB	4.06%	13,000,000
FMB	4.11%	<u>12,000,000</u>
<b>Total First Mortgage Bonds</b>		<b>320,400,000</b>
PennVest - Aqua PA WW	1.00%	684,083
PennVest - Aqua PA WW	1.16%	1,244,202
PennVest - Aqua PA WW	1.00%	673,317
PennVest - Aqua PA WW	1.00%	238,604
PennVest - Aqua PA WW	1.35%	107,181
PennVest - Aqua PA WW	2.77%	229,858
PennVest - Aqua PA WW	3.34%	3,425
PennVest - Aqua PA WW	1.00%	<u>214,396</u>
<b>Total PennVest LWWW</b>		<b>3,395,066</b>
<b>Total Long Term Debt</b>		<b><u>1,033,613,025</u></b>
<b>PNC Revolver</b>		<b>23,289,734</b>
<b>PNC Uncommitted line</b>		<b><u>0</u></b>
<b>Total Debt Aqua Pennsylvania</b>		<b><u>1,056,902,759</u></b>

**Schedule 5.15(b)**

**Aqua Pennsylvania, Inc. and Subsidiaries  
Debt Issuance Limitations**

Indenture of Mortgage dated as of January 1, 1941 of Aqua Pennsylvania, Inc. as Supplemented and Amended

\$100 million Revolving Credit Agreement among Aqua Pennsylvania, Inc. and PNC Bank, National Association, as Agent, dated as of November 30, 2010, as amended

Aqua Pennsylvania, Inc. \$40,000,000 5.95% Senior Notes dated March 31, 2006

Aqua Pennsylvania, Inc. \$20,000,000 5.64% Senior Notes dated September 29, 2006, currently outstanding in the amount of \$15,416,000

Aqua Pennsylvania, Inc. \$2,132,180 5.50% Senior Notes dated May 15, 2007

\$50 million Term Loan Agreement among Aqua Pennsylvania, Inc. and PNC Bank, National Association as Agent and Dated as of September 29, 2014

\$50 million Term Loan Agreement among Aqua Pennsylvania, Inc. and PNC Bank, National Association as Agent and Dated as of May 6, 2015

Schedule 5.15(b)  
(to Bond Purchase Agreement)

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**[Form of Supplement]**

[See Attached]

Exhibit A  
(to Bond Purchase Agreement)

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**Form of Opinion of General Counsel  
to the Company**

[See attached]

Exhibit 4.4(a)  
(to Bond Purchase Agreement)

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**Form of Opinion of Special Counsel  
to the Company**

[See attached]

Exhibit 4.4(b)  
(to Bond Purchase Agreement)

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**Form of Opinion of Special Counsel  
to the Purchasers**

[Delivered to Purchasers only]

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AQUA AMERICA, INC.

2012 EMPLOYEE STOCK PURCHASE PLAN

As Amended as of September 1, 2013

The purpose of the Aqua America, Inc. 2012 Employee Stock Purchase Plan (the “Plan”) is to provide eligible employees of Aqua America, Inc. (the “Company”) and its designated subsidiaries an opportunity to purchase the common stock of the Company. The Board of Directors of the Company believes that employee participation in stock ownership will be to the mutual benefit of the employees and the Company. The Plan was approved by the shareholders of the Company within twelve (12) months after the date on which the Plan was originally adopted. The Plan was amended as of September 1, 2013 to reflect the 25% stock split, effective September 1, 2013 (the “2013 Stock Split”).

1. **Definitions**

1.1 “Board of Directors” means the Board of Directors of the Company.

1.2 “Code” means the Internal Revenue Code of 1986, as amended. References to specific sections of the Code shall be taken to be references to corresponding sections of any successor statute.

1.3 “Committee” means the committee appointed by the Board of Directors to administer the Plan, as provided in Section 5.4.

1.4 “Company” means Aqua America, Inc., a Pennsylvania corporation or any successor by merger or otherwise.

1.5 “Compensation” means a Participant’s base wages, overtime pay, commissions, cash bonuses, premium pay and shift differential, before giving effect to any compensation reductions made in connection with plans described in Sections 401(k) or 125 of the Code. The Committee may make modifications to the definition of Compensation for one or more offerings as deemed appropriate and consistent with Section 423 of the Code.

1.6 “Effective Date” means June 1, 2012, subject to shareholder approval of the Plan. This amendment and restatement of the Plan shall be effective as of September 1, 2013.

1.7 “Election Date” means the first business day of each calendar month during which the Plan is in effect, or such other dates as the Committee shall specify.

1.8 “Eligible Employee” means:

(a) Each employee who is employed by an Employer and (i) is classified by the Employer as an “active regular or part-time non-union employee” or as an “active full or part-time union employee” and (ii) each person who is not so classified, if such person’s customary employment is for more than twenty (20) hours per week and for more than five (5) months per year, and

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(b) Each employee of an Employer who is not deemed for purposes of Section 423(b)(3) of the Code to own stock possessing five percent (5%) or more of the total combined voting power or value of all classes of Stock of the Company or any Subsidiary as defined under Section 423 of the Code.

(c) In the event the collective bargaining unit of which the employee is a member does not allow participation in the Plan, such employee shall not be an Eligible Employee and shall be excluded from participation in the Plan.

(d) Notwithstanding any provision contained in the Plan to the contrary, the following individuals shall not be Eligible Employees and shall be excluded from participation in the Plan: (i) any individual who is classified by an Employer as an independent contractor, or (ii) who is otherwise treated by an Employer as other than an employee on its payroll records, including any individual who has signed a document stating that he or she is not eligible to participate in Company benefits, or any leased employee within the meaning of Code section 414(n) or other leased employee, temporary employee, freelancer, lease-to-hire worker, common law employee or worker who performs services for an Employer and who is paid by a job agency or similar outside employment or staffing agency, regardless of whether any of the above such individuals are subsequently determined by the Internal Revenue Service, the U.S. Department of Labor or a court to be employees. The purpose of this provision is to exclude from participation in the Plan all individuals who may be actual common law employees of an Employer but who, absent a recharacterization of their status by a court or agency, are not paid as though they were employees, regardless of the reason any such individual is excluded from the payroll and regardless of whether that exclusion is later determined to be incorrect.

1.9 “Employer” means the Company and each Subsidiary.

1.10 “Exchange Act” means the Securities Exchange Act of 1934, as amended, and as the same may hereafter be amended.

1.11 “Market Value” means the average of the high and low trading prices for the Stock as reported on the NYSE Composite Transactions or, if the Stock is no longer traded on the NYSE, on such other principal market on which the Stock is traded on the date of reference. If there was no such price reported for the date of reference, “Market Value” means the average of the high and low trading prices for the Stock on the day next preceding the date of reference for which such price was reported or, if there was no such reported price, the fair market value as determined by the Committee.

1.12 “NYSE” means the New York Stock Exchange.

1.13 “Participant” means each Eligible Employee who elects to participate in the Plan in accordance with Section 2.1 below.

1.14 “Plan” means the Aqua America, Inc. 2012 Employee Stock Purchase Plan, as set forth herein and as hereafter amended.

1.15 “Plan Year” means each calendar year during which the Plan is in effect.

1.16 "Purchase Agreement" means the instrument prescribed by the Committee pursuant to which an Eligible Employee may enroll as a Participant and subscribe for the purchase of shares of Stock on the terms and conditions offered by the Company. The Purchase Agreement is intended to evidence the Company's offer of an option to the Eligible Employee to purchase Stock on the terms and conditions set forth therein and herein. A Purchase Agreement may be delivered and executed electronically if such a process is authorized by the Company.

1.17 "Purchase Date" means the last day of each Purchase Period.

1.18 "Purchase Period" means each one-month period or other period specified by the Committee in a manner consistent with Section 423 of the Code, beginning on or after the Effective Date, during which the Participant's Stock purchase is funded through payroll deduction accumulations or a lump sum deposit under Section 3.5(b).

1.19 "Purchase Price" means the purchase price for shares of Stock purchased under the Plan, determined as set forth in Section 3.3.

1.20 "Stock" means the common shares of the Company.

1.21 "Subsidiary" means any present or future corporation (i) which constitutes a "subsidiary corporation" of the Company as that term is defined in Section 424 of the Code, and (ii) is designated as a participating entity in the Plan by the Committee. Unless the Committee specifically designates otherwise, a Canadian or other non-U.S. subsidiary shall not be considered a Subsidiary for purposes of the Plan, and employees of such a subsidiary shall not be Eligible Employees.

## 2. ***Admission to Participation.***

2.1 *Initial Participation.* An Eligible Employee may elect to participate in the Plan and may become a Participant effective as of any Election Date, by executing and filing with the Committee a Purchase Agreement at such time in advance of the Election Date as the Committee shall prescribe. The Purchase Agreement shall remain in effect until it is modified through discontinuance of participation under Section 2.2 or a change under Section 3.5.

### 2.2 *Discontinuance of Participation.*

(a) A Participant may voluntarily cease his or her participation in the Plan and stop payroll deductions at any time by filing a notice of cessation of participation on such form and at such time in advance of the Purchase Date as the Committee shall prescribe. A Participant who ceases contributions during a Purchase Period may make additional contributions to the Plan during the Purchase Period by depositing funds with the Company in accordance with Section 3.5(b) below. The Participant may again elect to make payroll deductions on the next Election Date, if the Participant is then an Eligible Employee. A Participant who ceases contributions during a Purchase Period may request payment of any funds held in his or her account under the Plan. Any funds remaining in the Participant's account on the Purchase Date shall be used to purchase Stock pursuant to Section 3.4, if the Participant remains an Eligible Employee.

(b) If a Participant ceases to be an Eligible Employee, his or her participation automatically shall cease and no further purchase of Stock shall be made for the Participant. In such event, any funds held in the Participant's account shall be returned, without interest, to such Participant (or, to his/her designated beneficiary, as the case may be), as soon as practicable following the date the Participant ceases to be an Eligible Employee.

2.3 *Readmission to Participation.* Any Eligible Employee who has previously been a Participant, who has discontinued participation (whether by cessation of eligibility or otherwise), and who wishes to be reinstated as a Participant may again become a Participant by executing and filing with the Committee a new Purchase Agreement. Reinstatement to Participant status shall be effective as of any subsequent Election Date, provided the Participant files a new Purchase Agreement with the Committee at such time in advance of the Election Date as the Committee shall prescribe.

2.4 *Leave of Absence.* A Participant who is on an approved leave of absence may continue to participate in the Plan during the leave of absence by making cash payments to the Company, at such times as the Committee determines, equal to the payroll deductions that would be made had the leave of absence not occurred.

### 3. *Stock Purchase and Resale.*

3.1 *Reservation of Shares.* There shall be \_\_\_\_\_ shares of Stock reserved for issuance or transfer under the Plan on or after September 1, 2013, as adjusted for the 2013 Stock Split, subject to adjustment in accordance with Section 4. Subject to Section 4, the aggregate number of shares of Stock that may be purchased under the Plan shall not exceed the number of shares of Stock reserved under the Plan. The shares of Stock may be (i) Treasury or newly issued shares of the Company or (ii) purchased by the Company on the open market.

#### 3.2 *Limitation on Shares Available.*

(a) The maximum number of shares of Stock that may be purchased for each Participant on a Purchase Date is the lesser of (a) the number of whole and fractional shares of Stock that can be purchased by applying the full balance of the Participant's withheld funds and deposits for the Purchase Period to the purchase of shares of Stock at the Purchase Price, or (b) the Participant's proportionate part of the maximum number of shares of Stock available under the Plan, as stated in Section 3.1.

(b) Notwithstanding the foregoing, if any person entitled to purchase shares of Stock pursuant to any offering under the Plan would be deemed for purposes of Section 423(b)(3) of the Code to own stock (including any number of shares of Stock that such person would be entitled to purchase under the Plan) possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company, the maximum number of shares of Stock that such person shall be entitled to purchase pursuant to the Plan shall be reduced to that number which, when added to the number of shares of stock that such person is deemed to own (excluding any number of shares of Stock that such person would be entitled to purchase under the Plan), is one less than such five percent (5%). Any amounts withheld from a

Participant's Compensation that cannot be applied to the purchase of Stock by reason of the foregoing limitation shall be returned to the Participant as soon as practicable.

(c) A Participant may not purchase shares of Stock having an aggregate Market Value of more than twenty-five thousand dollars (\$25,000), determined at the time an option is granted under Section 3.4 below in accordance with the Treasury regulations issued under Section 423 of the Code, for any calendar year in which one or more offerings under the Plan are outstanding at any time, and a Participant may not purchase a share of Stock under any offering after the expiration of the Purchase Period for the offering.

(d) Before the beginning of the Purchase Period, the Committee may establish the maximum number of shares of Stock that may be purchased by a Participant on any one Purchase Date.

3.3 *Purchase Price of Shares.* Unless the Committee determines otherwise, when a Participant purchases shares of Stock through this Plan, the Participant shall pay 95% of the Market Value of the Stock on the Purchase Date. The Committee may determine, in its sole discretion in advance of a Purchase Period, that the Purchase Price shall be based on another percentage of the Market Value of the Stock, so long as the Purchase Price is not less than the lower of (i) eighty-five percent (85%) of the Market Value per share on the first day of the Purchase Period, or (ii) eighty-five percent (85%) of the Market Value of such share on the Purchase Date.

3.4 *Exercise of Purchase Privilege.*

(a) As of the first day of each Purchase Period, each Participant shall be granted an option to purchase shares of Stock at the Purchase Price specified in Section 3.3. The option shall continue in effect through the Purchase Date for the Purchase Period. Subject to the provisions of Section 3.2 above, on each Purchase Date, the Participant shall automatically be deemed to have exercised his or her option to purchase shares of Stock, unless he or she notifies the Committee, in such manner and at such time in advance of the Purchase Date as the Committee shall prescribe, of his or her desire not to make such purchase.

(b) Subject to the provisions of Section 3.2, there shall be purchased for the Participant on each Purchase Date, at the Purchase Price for the Purchase Period, the largest number of whole and fractional shares of Stock as can be purchased with the amounts withheld from the Participant's Compensation or deposited by the Participant as described in Section 3.5(b) during the Purchase Period. Each such purchase shall be deemed to have occurred on the Purchase Date occurring at the close of the Purchase Period for which the purchase was made. Any amounts that are withheld from a Participant's Compensation or deposited by the Participant during a Purchase Period and that remain after the purchase of whole and fractional shares of Stock on a Purchase Date will be held in the Participant's account, without interest, and applied on the Participant's behalf to purchase Stock on the next Purchase Date.

3.5 *Payroll Deductions and Deposits.*

(a) Each Participant shall authorize payroll deductions from his or her Compensation for the purpose of funding the purchase of Stock pursuant to his or her Purchase

Agreement. In the Purchase Agreement, each Participant shall authorize an after-tax payroll deduction from each payment of Compensation during the Purchase Period of an amount (i) not less than \$5.00 per paycheck for a Participant who is paid on a weekly payroll period basis or \$10.00 per paycheck for a Participant who is paid on a biweekly or semi-monthly payroll period basis, and (ii) not more than ten percent (10%) of a Participant's Compensation, rounded to the next highest whole dollar amount. A Participant may change the payroll deduction to any permissible level effective as of any Election Date. A change shall be made by filing with the Committee a notice in such form and at such time in advance of the Election Date on which the change is to be effective as the Committee shall prescribe.

(b) The Committee may allow Participants to deposit funds with the Company to be used for the purpose of purchasing Stock pursuant to their Purchase Agreements, instead of or in addition to payroll deductions pursuant to Section 3.5(a), subject to the following: (i) one deposit as described in this paragraph shall be accepted in a Purchase Period, (ii) the minimum amount that a Participant may contribute to the Plan pursuant to this paragraph shall be twenty-five dollars (\$25.00) per Purchase Period, (iii) a Participant shall not deposit more than ten percent (10%) of a Participant's Compensation, rounded to the next highest whole dollar amount, and (iv) the total amount that the Participant may contribute to the Plan pursuant to this paragraph together with all payroll deductions pursuant to paragraph (a) above may not exceed the twenty-five thousand dollar (\$25,000) accrual limitation specified in paragraph (c) of Section 3.2 above. The Committee shall designate the dates by which any such deposits must be made for a Purchase Period.

(c) Notwithstanding the foregoing, to the extent necessary to comply with the limitations of Section 423(b)(8) of the Code, a Participant's payroll deductions may be decreased to zero percent (0%) during any Purchase Period if such Participant would, as a result of such limitations, be precluded from buying any additional Stock on the Purchase Date for that Purchase Period. The suspension of such payroll deductions shall not terminate the Participant's participation in the Plan. Payroll deductions shall recommence at the rate provided in such Participant's Purchase Agreement at the beginning of the first Purchase Period for which the Participant is able to purchase shares in compliance with the limitations of Section 423(b)(8) of the Code.

3.6 *Payment for Stock.* The Purchase Price for all shares of Stock purchased by a Participant under the Plan shall be paid out of the Participant's authorized payroll deductions and any deposits made by a Participant pursuant to Section 3.5(b). All funds received or held by the Company under the Plan are general assets of the Company, shall be held free of any trust or other restriction, and may be used for any corporate purpose.

3.7 *Share Ownership; Issuance of Certificates.*

(a) The shares of Stock purchased by a Participant on a Purchase Date shall, for all purposes, be deemed to have been issued or sold at the close of business on the Purchase Date. Prior to that time, none of the rights or privileges of a shareholder of the Company shall inure to the Participant with respect to such shares of Stock. All the shares of Stock purchased under the Plan shall be delivered by the Company in a manner as determined by the Committee.

(b) The Committee, in its sole discretion, may determine that shares of Stock shall be delivered by (i) issuing and delivering to the Participant a certificate for the number of shares of Stock purchased by the Participant, (ii) issuing and delivering certificates for the number of shares of Stock purchased to a firm which is a member of the National Association of Securities Dealers, as selected by the Committee from time to time, which shares shall be maintained by such firm in a separate account for each Participant, or (iii) issuing and delivering certificates for the number of shares of Stock purchased by Participants to a bank or trust company or affiliate thereof, as selected by the Committee from time to time, which shares may be held by such bank or trust company or affiliate in street name, but with a separate account maintained by such entity for each Participant reflecting such Participant's share interests in the Stock. Each certificate or account, as the case may be, may be in the name of the Participant or, if he or she so designates on the Participant's Purchase Agreement, in the Participant's name jointly with the Participant's spouse, with right of survivorship, or in such other form as the Committee may permit.

(c) The Committee, in its sole discretion, may impose such restrictions or limitations as it shall determine on the resale of Stock, the issuance of individual stock certificates or the withdrawal from any shareholder accounts established for a Participant.

(d) Dividends will be paid on all whole and fractional shares purchased by a Participant. Unless otherwise directed by the Participant, all dividends paid with respect to shares purchased by each Participant shall be automatically reinvested under the Aqua America, Inc. Dividend Reinvestment and Direct Stock Purchase Plan.

### 3.8 *Distribution of Shares or Resale of Stock.*

(a) In accordance with the procedures established by the Committee, a Participant may request a distribution of shares of Stock purchased for the Participant under the Plan or order the sale of such shares at any time by making a request in such form and at such time as the Committee shall prescribe.

(b) If a Participant terminates his or her employment with the Employer or otherwise ceases to be an Eligible Employee, the Participant shall receive a distribution of his or her shares of Stock held in any shareholder account established under the Plan, unless the Participant elects to have the shares of Stock sold in accordance with such procedures as the Committee shall prescribe.

(c) If a Participant is to receive a distribution of shares of Stock, or if shares are to be sold, the distribution or sale shall be made in whole shares of Stock, with fractional shares paid in cash. Any sales charges resulting from a sale of Stock shall be deducted from amounts payable to the Participant.

### 3.9 *Conditions Upon Issuance of Shares.*

(a) Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and

regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. In addition, should the Plan not be registered on a Purchase Date of any Purchase Period in any foreign jurisdiction in which such registration is required, then no options granted with respect to the Purchase Period to employees in that foreign jurisdiction shall be exercised on such Purchase Date, and all contributions accumulated on behalf of such employees during the Purchase Period ending with such Purchase Date shall be distributed to the participating employees in that foreign jurisdiction without interest unless the terms of the offering specifically provide otherwise or otherwise required by applicable law.

(b) As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

#### 4. *Special Adjustments.*

4.1 *Shares Unavailable.* If, on any Purchase Date, the aggregate funds available for the purchase of Stock would purchase a number of shares in excess of the number of shares of Stock then available for purchase under the Plan, the following events shall occur:

(a) The number of shares of Stock that would otherwise be purchased by each Participant shall be proportionately reduced on the Purchase Date in order to eliminate such excess; and

(b) The Plan shall automatically terminate immediately after the Purchase Date as of which the supply of available shares is exhausted; and

(c) Any amounts remaining shall be repaid to the Participants.

4.2 *Changes in Capitalization.* If there is any change in the number or kind of shares of Stock outstanding by reason of any stock split or reverse stock split, stock dividend, spinoff, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Stock as a class without the Company's receipt of consideration, the Committee shall make appropriate adjustments to (i) the maximum number and class of securities issuable under the Plan, (ii) the maximum number and class of securities purchasable per Participant on any Purchase Date, (iii) the maximum number and class of securities purchasable in total by all Participants on any Purchase Date, and (iv) the number and class of securities and the price per share in effect under each outstanding purchase right, in order to prevent the dilution or enlargement of benefits thereunder. In addition, the Committee shall have discretion to make the foregoing equitable adjustments in any circumstances in which an adjustment is not mandated by this Section 4.2 or applicable law. Any adjustments made by the Committee shall be consistent with Code section 423 and shall be final, binding and conclusive.

4.3 *Effect of Certain Transactions.* If the Company shall be the surviving corporation in any merger or consolidation, any offering hereunder shall pertain to and apply to the shares of Stock of the Company, unless the Committee determines otherwise. However, in the event of a

dissolution or liquidation of the Company, or of a merger or consolidation in which the Company is not the surviving corporation, or of a Change in Control (as defined in the Aqua America, Inc. 2009 Omnibus Equity Compensation Plan), the Plan and any offering hereunder shall terminate upon the effective date of such dissolution, liquidation, merger, consolidation or Change in Control, unless the Committee determines otherwise, and, in such case, the balance of any amounts withheld from a Participant's Compensation or deposited pursuant to Section 3.5(b) which have not by such time been applied to the purchase of Stock shall be returned to the Participant.

5. *Miscellaneous.*

5.1 *Non-Alienation.* Except as set forth below, the right to purchase shares of Stock under the Plan is personal to the Participant, is exercisable only by the Participant during the Participant's lifetime and may not be assigned or otherwise transferred by the Participant. If a Participant dies, unless the executor, administrator or other personal representative of the deceased Participant directs otherwise, any amounts previously withheld from the Participant's Compensation or deposited pursuant to Section 3.5(b) before the Participant's death during the Purchase Period in which the Participant dies shall be used to purchase Stock on the Purchase Date for the Purchase Period. After that Purchase Date, there shall be delivered to the executor, administrator or other personal representative of the deceased Participant all shares of Stock and such residual amounts as may remain to the Participant's credit under the Plan.

5.2 *Administrative Costs.* The Company shall pay the administrative expenses associated with the operation of the Plan (other than sales charges resulting from sales of Stock directed by Participants).

5.3 *No Interest.* No interest shall be payable with respect to amounts withheld or deposited under the Plan.

5.4 *Committee.*

(a) The Board of Directors shall appoint the Committee, which shall have the authority and power to administer the Plan and to make, adopt, construe, and enforce rules and regulations not inconsistent with the provisions of the Plan. The Committee shall adopt and prescribe the contents of all forms required in connection with the administration of the Plan, including, but not limited to, the Purchase Agreement, payroll withholding authorizations, requests for distribution of shares, and all other notices required hereunder. The Committee shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination made by the Committee shall, to the full extent permitted by law, be final and binding upon all parties.

(b) As a condition of participating in the Plan, all Participants must acknowledge, in writing or by completing the Purchase Agreement, that all decisions and determinations of the Committee shall be final and binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under the Plan on behalf of the Participant.



5.5 *Withholding of Taxes; Notification of Transfer.*

(a) All acquisitions and sales of Stock under the Plan shall be subject to applicable federal (including FICA), state and local tax withholding requirements if the Internal Revenue Service or other taxing authority requires such withholding. The Company may require that Participants pay to the Company (or make other arrangements satisfactory to the Company for the payment of) the amount of any federal, state or local taxes that the Company is required to withhold with respect to the purchase of Stock or the sale of Stock acquired under the Plan, or the Company may deduct from the Participant's wages or other compensation the amount of any withholding taxes due with respect to the purchase of Stock or the sale of Stock acquired under the Plan.

(b) The Committee may require the Participant to notify the Company before the Participant sells or otherwise disposes of any shares acquired under the Plan.

5.6 *Amendment of the Plan.*

(a) The Board of Directors may, at any time and from time to time, amend the Plan in any respect, except that any amendment that is required to be approved by the shareholders under Section 423 of the Code shall be submitted to the shareholders of the Company for approval.

(b) Without shareholder consent and without Participant consent, the Committee shall be entitled to change the Purchase Periods, change the Purchase Price, change the maximum number of shares of Stock purchasable per Participant on any Purchase Date, limit the frequency and/or number of changes in the amounts withheld or contributed during Purchase Periods, establish the exchange ratio applicable to amounts withheld or contributed in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a Participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Stock for each Participant properly correspond with amounts withheld from the Participant's Compensation or contributed by the Participant, and establish such other limitations or procedures as the Committee determines in its sole discretion advisable which are consistent with the Plan.

5.7 *Expiration and Termination of the Plan.* The Plan shall continue in effect until terminated pursuant to the provisions of the Plan or pursuant to action by the Board of Directors. The Board of Directors shall have the right to terminate the Plan at any time without prior notice to any Participant and without liability to any Participant. Upon the expiration or termination of the Plan, the balance, if any, then standing to the credit of each Participant from amounts withheld from the Participant's Compensation or deposited by the Participant which has not, by such time, been applied to the purchase of Stock shall be refunded to the Participant.

5.8 *No Employment Rights.* Participation in the Plan shall not give an employee any right to continue in the employment of an Employer, and shall not affect the right of the Employer to terminate the employee's employment at any time, with or without cause.

5.9 *Repurchase of Stock.* The Company shall not be required to purchase or repurchase from any Participant any of the shares of Stock that the Participant acquires under the Plan.

5.10 *Notice.* A Purchase Agreement and any notice that a Participant files pursuant to the Plan shall be on the form prescribed by the Committee and shall be effective only when received by the Committee. Delivery of such forms may be made by hand or by certified mail, sent postage prepaid, to the Company's corporate headquarters, or such other address as the Committee may designate. Delivery by any other mechanism shall be deemed effective at the option and discretion of the Committee.

5.11 *Government Regulation.* The Company's obligation to sell and to deliver the Stock under the Plan is at all times subject to all approvals of any governmental authority required in connection with the authorization, issuance, sale or delivery of such Stock.

5.12 *Internal Revenue Code and ERISA Considerations.* The Plan is intended to constitute an "employee stock purchase plan" within the meaning of Section 423 of the Code. The Plan is not intended and shall not be construed as constituting an "employee benefit plan," within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended.

5.13 *Headings, Captions, Gender.* The headings and captions herein are for convenience of reference only and shall not be considered as part of the text. The masculine shall include the feminine, and vice versa.

5.14 *Severability of Provisions, Prevailing Law.* The provisions of the Plan shall be deemed severable. In the event any such provision is determined to be unlawful or unenforceable by a court of competent jurisdiction or by reason of a change in an applicable statute, the Plan shall continue to exist as though such provision had never been included therein (or, in the case of a change in an applicable statute, had been deleted as of the date of such change). The Plan shall be governed by the laws of the Commonwealth of Pennsylvania to the extent such laws are not in conflict with, or superseded by, federal law.

**SCHEDULE OF CHANGE IN CONTROL AGREEMENTS**

In accordance with Instruction 2 to Item 601 of Regulation S-K, Aqua America, Inc. (the “Company”) has omitted filing Change in Control Agreements by and between the Company and the following executive officers because they are substantially identical in all material respects to the form of Change in Control Agreement filed as Exhibit 10.12 to the Company’s Form 10-K for the fiscal year ended December 31, 2015:

1. David Smeltzer
2. Christopher Luning
3. Dan Schuller
4. Rick Fox
5. Karl Kyriss\*

\*On June 30, 2015, Mr. Kyriss resigned as an executive officer.

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**Non-Employee Directors' Compensation for 2016**

At its regularly scheduled meeting on December 1, 2015, the Board of Directors of Aqua America, Inc., upon the recommendation of its Executive Compensation Committee, approved the following directors' compensation for 2016 for the non-employee directors of Aqua America, Inc.: (1) an annual cash retainer of \$75,000; (2) an annual cash retainer for the Chair of the Executive Compensation Committee of \$12,500; (3) an annual cash retainer for the Chair of the Audit Committee of \$12,500; (4) an annual cash retainer for the Chair of the Corporate Governance Committee of \$10,000; (5) an annual cash retainer for the Chair of the Risk Mitigation Committee of \$10,000; (6) an annual cash retainer for the Lead Independent Director of \$25,000; (7) an annual stock grant to directors of \$75,000; and (8) the non-executive Chairman shall be paid a retainer in the amount of \$175,000 per year and the normal Director equity award as set forth above. All Directors are reimbursed for reasonable expenses incurred in connection with attendance at Board or Committee meetings.

**AMENDMENT TO INCENTIVE STOCK OPTION AND DIVIDEND EQUIVALENT  
GRANT AGREEMENTS**

**AQUA AMERICA, INC.  
2004 EQUITY COMPENSATION PLAN**

WHEREAS, Aqua America, Inc. a Pennsylvania corporation (the "Corporation") maintains the Aqua America, Inc. 2004 Equity Compensation Plan (the "Plan");

WHEREAS, the Board of Directors of the Corporation (the "Board") has amended the Plan effective as of January 1, 2009 in order to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and related Treasury regulations; and

WHEREAS, the compensation committee of the Board (the "Committee") desires to amend all Incentive Stock Option and Dividend Equivalent Grant Agreements (the "Grant Agreements") between the Corporation and the Grantee which are in effect on January 1, 2009, to reflect the changes made to the Plan comply with Section 409A of the Code and related Treasury regulations effective January 1, 2009.

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

1. Notwithstanding the terms of any Grant Agreement in effect on January 1, 2009 to the contrary, Dividend Equivalent Amounts, as defined in the applicable Grant Agreement, shall be paid in accordance with the following provisions effective January 1, 2009:

a. Payment of Credited Dividend Equivalents. The total Dividend Equivalent Amounts accrued in the Grantee's account on March 1, 2009 which have not, prior to such date, been paid to the Grantee or forfeited, shall be paid to the Grantee no later than March 15, 2009. Any Dividend Equivalent Amounts accrued in an account from March 2, 2009 (or any anniversary thereof) through March 1 of the following year shall be distributed to the grantee no later than March 15 of such following year, subject to subject to Section 1.b. Notwithstanding the foregoing, upon a Change of Control of the Corporation (as defined in the Plan), any Dividend Equivalent Amount or portion thereof, which has not, prior to such date, been paid to the Grantee or forfeited shall be paid within 60 days to the Grantee.

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

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c. Amount of Dividend Equivalent Credited. Notwithstanding the other provisions of this Amendment, the amount of the Dividend Equivalent Amount to be credited to the Grantee's account under Section 8(a) of the Plan is not changed by this Amendment.

d. Interest on Dividend Equivalents. No interest shall be paid on any Dividend Equivalent Amounts.

e. Deferral of Dividend Equivalents. The Grantee shall not be permitted to defer any Dividend Equivalent Amounts effective as of January 1, 2009.

2. The terms of the Grant Agreements in effect on January 1, 2009 shall otherwise remain in effect.

**AQUA AMERICA, INC.**

By: \_\_\_\_\_  
Grantee

By: \_\_\_\_\_

Date:

Date:

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PERFORMANCE-BASED SHARE UNIT GRANT

Date: \_\_\_\_\_

Dear \_\_\_\_\_:

Pursuant to the terms and conditions of the Aqua America Inc. 2009 Omnibus Equity Compensation Plan, as amended and restated (the "Plan"), you have been granted performance-based share units as outlined below and in the attached Performance-Based Share Unit Grant Terms and Conditions.

Granted To: \_\_\_\_\_

Grant Date: \_\_\_\_\_

Target Award: \_\_\_\_\_ shares

Vesting Date: \_\_\_\_\_

Performance Period: Period beginning on \_\_\_\_\_ and ending on \_\_\_\_\_

Vesting Schedule and

Performance Goals: The Target Award is subject to vesting based on continued service and achievement of performance goals, as set forth in the Performance-Based Share Unit Grant Terms and Conditions, including Schedule A attached thereto.

By my signature below, I hereby acknowledge and accept the award of this Performance-Based Share Unit Grant and the Performance-Based Share Unit Grant Terms and Conditions attached hereto and incorporated herein, and I agree to be bound by the terms of the Performance-Based Share Unit Grant, the Performance-Based Share Unit Grant Terms and Conditions and the Plan. I hereby agree that all decisions and determinations of the Committee (as defined in the Plan) with respect to the performance-based share units shall be final and binding.

Signature: \_\_\_\_\_

Date:

\_\_\_\_\_

\_\_\_\_\_

RESTRICTED STOCK UNIT GRANT

Date: \_\_\_\_\_

Dear \_\_\_\_\_:

Pursuant to the terms and conditions of the Aqua America Inc. 2009 Omnibus Equity Compensation Plan, as amended and restated (the "Plan"), you have been granted restricted stock units as outlined below and in the attached Restricted Stock Unit Grant Terms and Conditions.

Granted To: \_\_\_\_\_

Grant Date: \_\_\_\_\_

Number of Restricted  
Stock Units Granted: \_\_\_\_\_

Performance Goals: See Restricted Stock Unit Grant Terms and Conditions,  
including Exhibit A

First Vesting Date: \_\_\_\_\_

Vesting Schedule: See Restricted Stock Unit Grant Terms and Conditions

By my signature below, I hereby acknowledge and accept the award of this Restricted Stock Unit Grant and the Restricted Stock Unit Grant Terms and Conditions attached hereto and incorporated herein, and I agree to be bound by the terms of the Restricted Stock Unit Grant, the Restricted Stock Unit Grant Terms and Conditions and the Plan. I hereby agree that all decisions and determinations of the Committee (as defined in the Plan) with respect to the restricted stock units shall be final and binding.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



SELECTED PORTIONS OF ANNUAL REPORT TO SHAREHOLDERS  
FOR THE YEAR ENDED DECEMBER 31, 2015

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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)*

**FORWARD-LOOKING STATEMENTS**

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

- recovery of capital expenditures and expenses in rates;
- projected capital expenditures and related funding requirements;
- the availability and cost of capital financing;
- developments, trends and consolidations within the water and wastewater utility and infrastructure industries;
- dividend payment projections;
- future financing plans;
- future pension contributions;
- the impact of changes in income tax laws regarding tax-basis depreciation on capital additions, and income tax deductions for qualifying utility asset improvements;
- our determination of what qualifies as a capital cost versus an income tax deduction for qualifying utility asset improvements;
- opportunities for future acquisitions, the success of pending acquisitions and the impact of future acquisitions;
- acquisition-related costs and synergies;
- the sale of water and wastewater divisions;
- the capacity of our water supplies, water facilities and wastewater facilities;
- the impact of geographic diversity on our exposure to unusual weather;
- the impact of conservation awareness of customers and more efficient plumbing fixtures and appliances on water usage per customer;
- the availability and cost of key production necessities, including power, chemicals and purchased water or wastewater services;
- the availability of qualified personnel;
- the return performance of our defined benefit pension and other post-retirement plans' assets;
- general economic conditions;
- the impact of Federal and/or state tax policies and the regulatory treatment of the effects of those policies; and
- the impact of accounting pronouncements and income taxation policies.

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

- changes in general economic, business, credit and financial market conditions;
  - changes in governmental laws, regulations and policies, including those dealing with taxation, the environment, health and water quality, and public utility regulation;
  - changes to the rules or our assumptions underlying our determination of what qualifies for an income tax deduction for qualifying utility asset improvements;
  - the decisions of governmental and regulatory bodies, including decisions on rate increase requests;
  - our ability to file rate cases on a timely basis to minimize regulatory lag;
  - abnormal weather conditions, including those that result in water use restrictions;
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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)

- changes in, or unanticipated, capital requirements;
- changes in our credit rating or the market price of our common stock;
- our ability to integrate businesses, technologies or services which we may acquire;
- change in valuation of strategic ventures;
- our ability to manage the expansion of our business;
- our ability to treat and supply water or collect and treat wastewater;
- the extent to which we are able to develop and market new and improved services;
- the effect of the loss of major customers;
- our ability to retain the services of key personnel and to hire qualified personnel as we expand;
- labor disputes;
- increasing difficulties in obtaining insurance and increased cost of insurance;
- cost overruns relating to improvements to, or the expansion of, our operations;
- increases in the costs of goods and services;
- civil disturbance or terroristic threats or acts;
- the continuous and reliable operation of our information technology systems, including the impact of cyber security attacks or other cyber-related events;
- changes in accounting pronouncements;
- litigation and claims; and
- changes in environmental conditions, including the effects of climate change.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this report with the understanding that our actual future results, performance and achievements may be materially different from what we expect. These forward-looking statements represent our estimates and assumptions only as of the date of this report. Except for our ongoing obligations to disclose material information under the Federal securities laws, we are not obligated to update these forward-looking statements, even though our situation may change in the future. We qualify all of our forward-looking statements by these cautionary statements. As you read this report, you should pay particular attention to the *Risk Factors* included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

### OVERVIEW

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.

#### **The Company**

Aqua America, Inc., 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 is Aqua Pennsylvania, Inc., which accounted for approximately 52% of our operating revenues and approximately 76% of our Regulated segment's income from continuing operations for 2015. As of December 31, 2015, Aqua Pennsylvania provided water or wastewater services to approximately one-half of the total number of people we serve. Aqua Pennsylvania's service territory is 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; offers, through a third party, water and sewer line repair service and protection solutions to households; inspects, cleans and repairs

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storm and sanitary wastewater lines; installs and tests devices that prevent the contamination of potable water; designs and builds water and wastewater systems; and provides other market-based water and wastewater services. In addition, Aqua Resources provides liquid waste hauling and disposal services in a business unit that the Company has decided to sell, which as of December 31, 2015 is reported as assets held for sale in the Company's Consolidated Balance Sheets. Aqua Infrastructure provides non-utility raw water supply services for firms in the natural gas drilling industry.

Aqua America, which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, formerly known as Philadelphia Suburban Water Company. Since the early 1990s, we have 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 water and wastewater 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 have extended our regulated utility operations from southeastern Pennsylvania to include our current operations in seven other states.

During 2010 through 2013, we sold our utility operations in six states, pursuant to a portfolio rationalization strategy to focus our operations in areas where we have critical mass and economic growth potential.

In December 2014, we completed the sale of our water utility system in southwest Allen County, Indiana to the City of Fort Wayne, Indiana. The completion of this sale settled the dispute concerning the February 2008 acquisition, by eminent domain, by the City of Fort Wayne, of the northern portion of our water and wastewater utility systems. In addition, as a result of this transaction, Aqua Indiana will expand its sewer customer base by accepting new wastewater flows from the City of Fort Wayne.

Refer to Note 3 – *Discontinued Operations and Other Disposition* for further information on this sale.

#### **Industry Mission**

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

- strict environmental, health and safety standards;
- aging utility infrastructure and the need for substantial capital investment;
- economic regulation by state, and/or, in some cases, local government;
- declining consumption per customer as a result of conservation;
- lawsuits and the need for insurance; and
- the impact of weather and sporadic drought conditions on water sales demand.

#### **Economic Regulation**

Most of our water and wastewater utility operations are subject to regulation by their respective state utility commissions, which have broad administrative power and authority to regulate billing rates, determine franchise areas and conditions of service, approve acquisitions, and authorize the issuance of securities. The utility commissions also generally establish uniform systems of accounts and approve the terms of contracts with affiliates and customers, business combinations with other utility systems, and loans and other financings. The policies of the utility commissions often differ from state to state, and may change over time. A small number of our operations are subject to rate regulation by county or city government. Over time, the regulatory party in a particular state may change, as was the case for our Texas operations where, in 2014, economic regulation changed from the Texas Commission on Environmental Quality to the Texas Public Utility Commission. The profitability of our utility operations is influenced to a great extent by the timeliness and adequacy of rate allowances in the various states in which we operate. A consideration in evaluating which states to focus our growth and investment strategy is whether a state provides for consolidated rates, a surcharge for replacing and rehabilitating infrastructure systems, and other regulatory policies that promote infrastructure investment and efficiency in processing rate cases.

***Rate Case Management Capability*** – We strive to achieve the industry's mission by effective planning, efficient investments, and productive use of our resources. We maintain a rate case management capability to pursue timely and adequate returns on the capital investments that we make in improving our distribution system, treatment plants, information technology systems, and other infrastructure. This capital investment represents our assets used and useful in providing utility

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*(In thousands of dollars, except per share amounts)*

service, and is commonly referred to as rate base. Timely, adequate rate relief is important to our continued profitability and in providing a fair return to our shareholders, and thus providing access to capital markets to help fund these investments. Accordingly, the objective of our rate case management strategy is to provide that the rates of our utility operations reflect, to the extent practicable, the timely recovery of increases in costs of operations (primarily labor and employee benefits, electricity, chemicals, transportation, maintenance expenses, insurance and claims costs, and costs to comply with environmental regulations), capital, and taxes. In pursuing our rate case strategy, we consider the amount of net utility plant additions and replacements made since the previous rate decision, the changes in the cost of capital, changes in our capital structure, and changes in operating and other costs. Based on these assessments, our utility operations periodically file rate increase requests with their respective state utility commissions or local regulatory authorities. In general, as a regulated enterprise, our water and wastewater rates are established to provide full recovery of utility operating costs, taxes, interest on debt used to finance capital investments, and a return on equity used to finance capital investments. Our ability to recover our expenses in a timely manner and earn a return on equity employed in the business helps determine the profitability of the Company. As of December 31, 2015, the Company's rate base that has been filed with the respective state utility commissions or local regulatory authorities is \$2,852,712, and \$617,157 is subject to review by the respective state utility commissions or local regulatory authorities.

Our water and wastewater operations are composed of 52 rate divisions, each of which requires a separate rate filing for the evaluation of the cost of service and recovery of investments in connection with the establishment of tariff rates for that rate division. When feasible and beneficial to our utility customers, we have sought approval from the applicable state utility commission to consolidate rate divisions to achieve a more even distribution of costs over a larger customer base. All of the eight states in which we operate currently permit us to file a revenue requirement using some form of consolidated rates for some or all of the rate divisions in that state.

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

**Effects of Inflation** – Recovery of the effects of inflation through higher water and wastewater rates is dependent upon receiving adequate and timely rate increases. However, rate increases are not retroactive and often lag increases in costs caused by inflation. On occasion, our regulated utility companies may enter into rate settlement agreements, which require us to wait for a period of time to file the next base rate increase request. These agreements may result in regulatory lag whereby inflationary increases in expenses may not yet be reflected in rates, or a gap may exist between when a capital project is completed and the start of its recovery in rates. Even during periods of moderate inflation, the effects of inflation can have a negative impact on our operating results.

#### **Growth-Through-Acquisition Strategy**

Part of our strategy to meet the industry challenges is to actively explore opportunities to expand our utility operations through acquisitions of water and wastewater utilities either in areas adjacent to our existing service areas or in new service areas, and to explore acquiring market-based businesses that are complementary to our regulated water and wastewater operations. To complement our growth strategy, we routinely evaluate the operating performance of our individual utility systems, and in instances where limited economic growth opportunities exist or where we are unable to achieve favorable operating results or a return on equity that we consider acceptable, we will seek to sell the utility system and reinvest the proceeds in other utility systems. Consistent with this strategy, we are focusing our acquisitions and resources in states where we have critical mass of operations in an effort to achieve economies of scale and increased efficiency. Our growth-through-acquisition strategy allows us to operate more efficiently by sharing operating expenses over more utility customers and provides new locations for possible future growth. Another element of our growth strategy is the consideration of opportunities to expand by acquiring other utilities, including those that may be in a new state if they provide promising economic growth opportunities and a return on equity that we consider acceptable. The ability to successfully execute this strategy and meet the industry challenges is largely due to our core competencies, financial position, and our qualified and

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trained workforce, which we strive to retain by treating employees fairly and providing our employees with development and growth opportunities.

During 2015, we completed 16 acquisitions and other growth ventures, which along with the organic growth in our existing systems, represents 17,747 new customers. During 2014, we completed 16 acquisitions and other growth ventures, which along with the organic growth in our existing systems, represents 12,120 new customers. During 2013, we completed 15 acquisitions and other growth ventures, which along with the organic growth in our existing systems, represents 12,341 new customers.

In addition to acquisitions, from time to time, we sell utility systems or relinquish ownership in systems through condemnation. In 2014 and 2013, consistent with our strategy to evaluate future growth opportunities or the financial performance of our individual utility systems, we divested our operations in the following states:

- our wastewater treatment facility in Georgia in March 2014; and
- our water and wastewater utility systems in Florida in separate transactions in March, April, and December of 2013.

In addition, in December 2014, we sold our water utility systems in Fort Wayne, Indiana.

In addition to the dispositions mentioned above, in 2013 we sold three utility systems representing 1,763 customers.

The operating results, cash flows, and financial position of the Company's water utility systems in Fort Wayne, Indiana and Georgia, and Florida subsidiaries were presented in the Company's consolidated financial statements as discontinued operations.

We believe that utility acquisitions, organic growth, and expansion of our market-based business will continue to be the primary sources of customer growth for us. With approximately 53,000 community water systems in the U.S., 82% of which serve less than 3,300 customers, the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). In the states where we operate regulated utilities, we believe there are approximately 14,500 community water systems of widely-varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the U.S. Environmental Protection Agency's ("EPA") most recent survey of wastewater treatment facilities (which includes both government-owned and privately-owned facilities) in 2012, there are approximately 15,000 such facilities in the nation serving approximately 76% of the U.S. population. The remaining population represents individual homeowners with their own treatment facilities; for example, community on-lot disposal systems and septic tank systems. The vast majority of wastewater facilities are government-owned rather than privately-owned. The EPA survey also indicated that there are approximately 4,000 wastewater facilities in operation in the states where we operate regulated utilities.

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

- the benefits of economies of scale;
- the increasing cost and complexity of environmental regulations;
- the need for substantial capital investment;
- the need for technological and managerial expertise;
- the desire to improve water quality and service;
- limited access to cost-effective financing;
- the monetizing of public assets to support, in some cases, the declining financial condition of municipalities; and
- the use of system sale proceeds by a municipality to accomplish other public purposes.

We are actively exploring opportunities to expand our water and wastewater utility operations through regulated utility acquisitions or otherwise, including the management of publicly-owned facilities in a public-private partnership. We intend to continue to pursue acquisitions of government-owned and privately-owned water and wastewater utility systems that provide services in areas near our existing service territories or in new service areas. It is our intention to focus on growth

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opportunities in states where we have critical mass, which allows us to improve economies of scale through spreading our fixed costs over more customers – this cost efficiency should enable us to reduce the size of future rate increases. Periodically, we consider opportunities for the acquisition of market-based water and wastewater service businesses, as well as other utilities, including those that may be in a new state. From time to time, we also seek other potential business opportunities, including partnering with public and private utilities to invest in water and wastewater infrastructure improvements, and growing our market-based subsidiary, Aqua Resources.

#### **Sendout**

Sendout represents the quantity of treated water delivered to our distribution systems. We use sendout as an indicator of customer demand. Weather conditions tend to impact water consumption, particularly during the late spring, summer, and early fall when discretionary and recreational use of water is at its highest. Consequently, a higher proportion of annual operating revenues are realized in the second and third quarters. In general, during this period, an extended period of hot and dry weather increases water consumption, while above-average rainfall and cool weather decreases water consumption. Conservation efforts, construction codes that require the use of low-flow plumbing fixtures, as well as mandated water use restrictions in response to drought conditions can reduce water consumption. We believe an increase in conservation awareness by our customers, including the increased use of more efficient plumbing fixtures and appliances, may continue to result in a long-term structural trend of declining water usage per customer. These gradual long-term changes are normally taken into account by the utility commissions in setting rates, whereas significant short-term changes in water usage, resulting from drought warnings, water use restrictions, or extreme weather conditions, may not be fully reflected in the rates we charge between rate proceedings.

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

The geographic diversity of our utility customer base reduces the effect of our exposure to extreme or unusual weather conditions in any one area of the country. During the year ended December 31, 2015, our operating revenues were derived principally from the following states: approximately 52% in Pennsylvania, 12% in Ohio, 9% in Texas, 7% in Illinois, and 6% in North Carolina.

#### **Performance Measures Considered by Management**

We consider the following financial measures (and the period to period changes in these financial measures) to be the fundamental basis by which we evaluate our operating results:

- earnings per share,
- operating revenues,
- income from continuing operations,
- net income attributable to common shareholders, and
- the dividend rate on common stock.

In addition, we consider other key measures in evaluating our utility business performance within our Regulated segment:

- our number of utility customers;
- the ratio of operations and maintenance expense compared to operating revenues (this percentage is termed “operating expense ratio”);
- return on revenues (income from continuing operations divided by operating revenues);
- return on equity (net income attributable to common shareholders divided by stockholders' equity); and
- the ratio of capital expenditures to depreciation expense.



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We also review the measure of earnings before interest, taxes, and depreciation ("EBITD") and the measure of earnings before income taxes as compared to our operating budget. Furthermore, we review the measure of earnings before unusual items that are noncash and not directly related to our core business, such as the measure of adjusted earnings to remove the joint venture impairment charge recognized in the fourth quarter of 2015. Refer to *Note 1 – Summary of Significant Accounting Policies – Investment in Joint Venture* for information regarding the impairment charge. We review these measurements regularly and compare them to historical periods, to our operating budget as approved by our Board of Directors, and to other publicly-traded water utilities.

Our operating expense ratio is one measure that we use to evaluate our operating efficiency and management effectiveness of our regulated operations. Our operating expense ratio is affected by a number of factors, including the following:

- **Regulatory lag** – Our rate filings are designed to provide for the recovery of increases in costs of operations (primarily labor and employee benefits, electricity, chemicals, transportation, maintenance expenses, insurance and claim costs, and costs to comply with environmental regulations), capital, and taxes. The revenue portion of the operating expense ratio can be impacted by the timeliness of recovery of, and the return on capital investments. The operating expense ratio is further influenced by regulatory lag (increases in operations and maintenance expenses not yet recovered in rates or a gap between the time that a capital project is completed and the start of its cost recovery in rates). The operating expense ratio is also influenced by decreases in operating revenues without a commensurate decrease in operations and maintenance expense, such as changes in customer water consumption as impacted by adverse weather conditions, conservation trends, or as a result of utility rates incorporating the effects of income tax benefits derived from deducting qualifying utility asset improvements for tax purposes that are capitalized for book purposes in Aqua Pennsylvania and consequently forgoing operating revenue increases. During periods of inflation, our operations and maintenance expenses may increase, impacting the operating expense ratio, as a result of regulatory lag since our rate cases may not be filed timely and are not retroactive.
- **Acquisitions** – In general, acquisitions of smaller undercapitalized utility systems in some areas may initially increase our operating expense ratio if the operating revenues generated by these operations are accompanied by a higher ratio of operations and maintenance expenses as compared to other operational areas of the company that are more densely populated and have integrated operations. In these cases, the acquired operations are characterized as having relatively higher operating costs to fixed capital costs, in contrast to the majority of our operations, which generally consist of larger, interconnected systems, with higher fixed capital costs (utility plant investment) and lower operating costs per customer. In addition, we operate market-based subsidiary companies, Aqua Resources and Aqua Infrastructure. The cost-structure of these market-based companies differs from our utility companies in that, although they may generate free cash flow, these companies have a much higher ratio of operations and maintenance expenses to operating revenues and a lower capital investment and, consequently, a lower ratio of fixed capital costs versus operating revenues in contrast to our regulated operations. As a result, the operating expense ratio is not comparable between the businesses. These market-based subsidiary companies are not a component of our Regulated segment.

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

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**Consolidated Selected Financial and Operating Statistics**

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

Years ended December 31,	2015	2014	2013 (1)	2012 (2)	2011 (3)
Utility customers:					
Residential water	791,404	779,665	771,660	766,121	711,664
Commercial water	40,151	39,614	39,237	38,805	34,806
Industrial water	1,353	1,357	1,368	1,373	1,212
Other water	17,420	17,412	17,230	16,643	15,676
Wastewater	107,538	102,071	98,705	95,044	84,978
Total utility customers	<u>957,866</u>	<u>940,119</u>	<u>928,200</u>	<u>917,986</u>	<u>848,336</u>
Operating revenues:					
Residential water	\$ 477,773	\$ 460,013	\$ 457,404	\$ 441,240	\$ 403,311
Commercial water	126,677	122,795	121,178	117,559	105,461
Industrial water	28,021	27,369	25,263	24,822	21,407
Other water	56,997	59,474	57,446	70,693	64,769
Wastewater	79,399	76,472	73,062	68,225	62,780
Other utility	10,746	9,934	10,174	10,416	10,585
Regulated segment total	<u>779,613</u>	<u>756,057</u>	<u>744,527</u>	<u>732,955</u>	<u>668,313</u>
Other and eliminations	34,591	23,846	17,366	17,730	12,364
Consolidated	<u>\$ 814,204</u>	<u>\$ 779,903</u>	<u>\$ 761,893</u>	<u>\$ 750,685</u>	<u>\$ 680,677</u>
Operations and maintenance expense	\$ 309,310	\$ 288,556	\$ 283,561	\$ 270,042	\$ 255,017
Joint venture impairment charge (5)	\$ 21,433	\$ -	\$ -	\$ -	\$ -
Income from continuing operations	<u>\$ 201,790</u>	<u>\$ 213,884</u>	<u>\$ 202,871</u>	<u>\$ 181,837</u>	<u>\$ 139,675</u>
Net income attributable to common shareholders	<u>\$ 201,790</u>	<u>\$ 233,239</u>	<u>\$ 221,300</u>	<u>\$ 196,563</u>	<u>\$ 143,069</u>
Capital expenditures	<u>\$ 364,689</u>	<u>\$ 328,605</u>	<u>\$ 307,908</u>	<u>\$ 347,098</u>	<u>\$ 324,360</u>
<b>Operating Statistics</b>					
Selected operating results as a percentage of operating revenues:					
Operations and maintenance	38.0%	37.0%	37.2%	36.0%	37.5%
Depreciation and amortization	15.8%	16.2%	16.3%	15.5%	15.8%
Taxes other than income taxes	6.8%	6.5%	6.9%	6.2%	6.0%
Interest expense, net	9.4%	9.8%	10.1%	10.4%	11.4%
Income from continuing operations	<u>24.8%</u>	<u>27.4%</u>	<u>26.6%</u>	<u>24.2%</u>	<u>20.5%</u>
Return on Aqua America stockholders' equity	<u>11.7%</u>	<u>14.1%</u>	<u>14.4%</u>	<u>14.2%</u>	<u>11.4%</u>
Ratio of capital expenditures to depreciation expense	<u>2.9</u>	<u>2.7</u>	<u>2.6</u>	<u>3.1</u>	<u>3.2</u>
Effective tax rate (4)	<u>6.9%</u>	<u>10.5%</u>	<u>9.5%</u>	<u>26.4%</u>	<u>32.6%</u>

- (1) Net income attributable to common shareholders includes the gain of \$615 (\$1,025 pre-tax) realized on the sale of a utility system. The gain is reported in the 2013 consolidated statement of net income as a reduction to operations and maintenance expense.
- (2) 2012 utility customers were impacted by the addition of 65,577 utility customers associated with utility systems acquired.
- (3) Net income attributable to common shareholders includes the gain of \$3,035 (\$5,058 pre-tax) realized on the sale of utility systems. The gain is reported in the 2011 consolidated statement of net income as a reduction to operations and maintenance expense.
- (4) See Results of Operations – *Income Taxes* for a discussion of the effective tax rate change that commenced in 2012.
- (5) Represents a \$21,433 (\$32,975 pre-tax) joint venture impairment charge. This amount represents our share of the impairment charge recognized by our joint venture that operates a private pipeline to supply raw water to firms with natural gas well drilling operations.

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*(In thousands of dollars, except per share amounts)*

**RESULTS OF OPERATIONS**

Our income from continuing operations has grown at an annual compound rate of approximately 12.0% and our net income has grown at an annual compound rate of approximately 10.2% during the five-year period ended December 31, 2015. During the past five years, operating revenues grew at a compound rate of 4.5% and operating expenses grew at a compound rate of 4.3%. In addition, as a result of the implementation, in 2012, of an income tax accounting change that provides for a reduction in current income taxes, the Company's provision for income taxes decreased by \$52,628 or 77.9% during the five-year period ended December 31, 2015. Refer to *Note 7 – Income Taxes* for information regarding this change to allow expensing, for tax purposes, of qualifying utility asset improvement costs.

**Operating Segments**

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

- Eight segments are composed of our water and wastewater regulated utility operations in the eight states where we provide these services. These operating segments are aggregated into one reportable segment since each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution and/or wastewater collection methods, and the nature of the regulatory environment. Our single reportable segment is named the Regulated segment.
- Two segments are not quantitatively significant to be reportable and are composed of Aqua Resources and Aqua Infrastructure. These segments are included as a component of "Other," in addition to corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include general and administrative expenses, and interest expense.

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Unless specifically noted, the following discussion and analysis provides information on our consolidated results of continuing operations. The following table provides the Regulated segment and consolidated information for the years ended December 31, 2015, 2014, and 2013:

	2015			2014		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$ 779,613	\$ 34,591	\$ 814,204	\$ 756,057	\$ 23,846	\$ 779,903
Operations and maintenance expense	282,866	26,444	309,310	274,754	13,802	288,556
Taxes other than income taxes	52,361	2,696	55,057	48,218	2,235	50,453
Earnings before interest, taxes, depreciation and amortization	\$ 444,386	\$ 5,451	449,837	\$ 433,085	\$ 7,809	440,894
Depreciation and amortization			128,737			126,535
Operating income			321,100			314,359
Other expense (income):						
Interest expense, net			76,536			76,397
Allowance for funds used during construction			(6,219)			(5,134)
(Gain) loss on sale of other assets			(468)			4
Gain on extinguishment of debt			(678)			-
Equity loss in joint venture			35,177			3,989
Provision for income taxes			14,962			25,219
Income from continuing operations			201,790			213,884
Income from discontinued operations, net of income taxes of \$12,800 for 2014			-			19,355
Net income			\$ 201,790			\$ 233,239

  

	2013		
	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$ 744,527	\$ 17,366	\$ 761,893
Operations and maintenance expense	269,804	13,757	283,561
Taxes other than income taxes	50,523	2,162	52,685
Earnings before interest, taxes, depreciation and amortization	\$ 424,200	\$ 1,447	425,647
Depreciation and amortization			123,985
Operating income			301,662
Other expense (income):			
Interest expense, net			77,316
Allowance for funds used during construction			(2,275)
Gain on sale of other assets			(148)
Equity loss in joint venture			2,665
Provision for income taxes			21,233
Income from continuing operations			202,871
Income from discontinued operations, net of income taxes of \$9,678			18,429
Net income			\$ 221,300

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(In thousands of dollars, except per share amounts)

#### **Consolidated Results**

**Operating Revenues** – Operating revenues totaled \$814,204 in 2015, \$779,903 in 2014, and \$761,893 in 2013. The growth in revenues over the past three years is a result of increases in our customer base and water and wastewater rates. The number of customers increased at an annual compound rate of 1.3% over the past three years due to acquisitions and organic growth, adjusted to exclude customers associated with utility system dispositions. Acquisitions in our Regulated segment have provided additional water and wastewater revenues of \$8,900, in 2015, \$2,732 in 2014, and \$16,200 in 2013. Rate increases implemented during the past three years have provided additional operating revenues of \$8,503 in 2015, \$5,250 in 2014, and \$25,676 in 2013. The decreasing trend, when compared to 2013, in operating revenues from rate increases is primarily due to Aqua Pennsylvania not filing for a water base rate case or infrastructure rehabilitation surcharge since 2012 as a result of the 2012 rate case settlement discussed in the paragraph below.

On June 7, 2012, Aqua Pennsylvania reached a settlement agreement in its rate filing with the Pennsylvania Public Utility Commission, which in addition to a water rate increase, provided for a reduction in current income tax expense as a result of the recognition of qualifying income tax benefits upon Aqua Pennsylvania changing its tax accounting method to permit the expensing of qualifying utility asset improvement costs that historically had been capitalized and depreciated for book and tax purposes. In December 2012, Aqua Pennsylvania implemented this change which resulted in a substantial reduction in income tax expense and greater net income and cash flow. As a result, Aqua Pennsylvania was able to suspend its water Distribution System Improvement Charges in 2013 and lengthen the amount of time until the next Aqua Pennsylvania rate case is filed. As a result of the Pennsylvania rate order, income tax benefits reduced the Company's current income tax expense and increased net income \$60,555 in 2013, \$69,048 in 2014 and \$72,944 in 2015. The Company recognized a tax deduction on its 2012 Federal tax return of \$380,000 for qualifying capital expenditures made prior to 2012, and based on the settlement agreement, beginning in 2013, the Company began to amortize 1/10<sup>th</sup> of these expenditures, or \$38,000 annually, which reduced income tax expense and increased the Company's net income by \$16,734, which is included in the income tax benefits noted in the previous sentence. In accordance with the settlement agreement, this amortization is expected to reduce income tax expense during periods when qualifying parameters are met.

Our operating subsidiaries received rate increases representing estimated annualized revenues of \$3,347 in 2015 resulting from four rate decisions, \$9,886 in 2014 resulting from twelve rate decisions, and \$9,431 in 2013 resulting from six rate decisions. Revenues from these increases realized in the year of grant were \$2,887 in 2015, \$5,375 in 2014, and \$8,169 in 2013. As of December 31, 2015, our operating subsidiaries have filed one rate request, which is being reviewed by the state utility commission, proposing an aggregate increase of \$1,490 in annual revenues. In January 2016, we filed a rate request in New Jersey, which is being reviewed by the state utility commission, proposing an aggregate increase of \$2,536 in annual revenues. During 2016, we intend to file three additional rate requests proposing an aggregate of approximately \$7,628 of increased annual revenues; the timing and extent to which our rate increase requests may be granted will vary by state.

Currently, Pennsylvania, Illinois, Ohio, Indiana, New Jersey, and North Carolina allow for the use of a surcharge for replacing and rehabilitating infrastructure systems. The rate increases under this surcharge typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. This surcharge is capped as a percentage of base rates, generally at 5% to 12.75% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. These surcharges provided revenues of \$3,261 in 2015, \$4,598 in 2014, and \$3,205 in 2013.

Our Regulated segment also includes operating revenues of \$10,746 in 2015, \$9,934 in 2014, and \$10,174 in 2013 associated with contract operations that are integrated into the regulated utility business and operations. These amounts vary over time according to the level of activity associated with the utility contract operations.

In addition to the Regulated segment operating revenues, we recognized market-based revenues that are associated with Aqua Resources and Aqua Infrastructure of \$34,909 in 2015, \$24,189 in 2014, and \$17,712 in 2013. The growth in our market-based revenues in 2015 is principally associated with revenue from acquisitions of \$10,105, which reflects a full year of operations from prior year acquisitions, and the growth in 2014 is principally due to additional revenues of \$3,511 associated with market-based water and wastewater services provided by Aqua Resources, and acquisitions, which provided additional revenues of \$2,726.

**Operations and Maintenance Expenses** – Operations and maintenance expenses totaled \$309,310 in 2015, \$288,556 in 2014, and \$283,561 in 2013. Most elements of operating costs are subject to the effects of inflation and changes in the number of customers served. Several elements are subject to the effects of changes in water consumption, weather, and the degree of water treatment required due to variations in the quality of the raw water. The principal elements of operating costs

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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)*

are labor and employee benefits, electricity, chemicals, transportation, maintenance expenses, insurance and claims costs, and costs to comply with environmental regulations. Electricity and chemical expenses vary in relationship to water consumption, raw water quality, and price changes. Maintenance expenses are sensitive to extremely cold weather, which can cause water mains to rupture, resulting in additional costs to repair the affected main.

Operations and maintenance expenses increased in 2015 as compared to 2014 by \$20,754 or 7.2%, primarily due to: additional operating costs associated with acquisitions, consisting of market-based activities of \$8,313 and utility systems of \$6,823; an increase in water production costs of \$3,401; leadership transition expenses of \$2,510; the recording of a reserve of \$1,862 for water rights held for future use; the recording of a legal contingency reserve of \$1,580; the effect of the favorable recognition of a regulatory asset in 2014 of \$1,575; and an increase in legal fees of \$1,420; offset by a decrease in postretirement benefits expense of \$4,447. The increase in water production costs of \$3,401 was impacted by an increase in energy costs resulting from the extreme cold temperatures experienced in many of our service territories in the first quarter of 2015.

Operations and maintenance expenses increased in 2014 as compared to 2013 by \$4,995 or 1.8%, primarily due to: additional operating costs associated with acquired utility systems and other growth ventures of \$3,871; additional operating expenses of \$2,683 primarily associated with market-based water and sewer line repairs and construction services; additional operating costs of \$1,861 associated with severe winter weather conditions experienced in many of our service territories; an increase in bad debt expense of \$1,131; and the effect of the June 2013 gain on sale of a utility system of \$1,025; partially offset by a reduction in post-retirement benefits expense of \$3,010 and the recognition of a regulatory asset in 2014 of \$1,575. 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 and Amortization Expenses** – Depreciation expense was \$125,290 in 2015, \$123,054 in 2014, and \$118,414 in 2013, and has increased principally as a result of the significant capital expenditures made to expand and improve our utility facilities, and our acquisitions of new utility systems. The increase for 2015 was impacted by the absence of a credit recognized in 2014 for the effect of decreased depreciation rates implemented in our Texas operating subsidiary, offset by a decrease in depreciation rates, implemented in 2015, for Aqua Pennsylvania. The increase for 2014 was partially offset by the implementation of lower depreciation rates for our Texas operating subsidiary.

Amortization expense was \$3,447 in 2015, \$3,481 in 2014, and \$5,571 in 2013, and has decreased primarily due to the completion of the recovery of our costs associated with various rate filings. Additionally, in 2014 the amortization period for costs associated with providing raw water supply services for firms in the natural gas drilling industry was increased. Expenses associated with filing rate cases are deferred and amortized over periods that generally range from one to three years.

**Taxes Other than Income Taxes** – Taxes other than income taxes totaled \$55,057 in 2015, \$50,453 in 2014, and \$52,685 in 2013. The increase in 2015 is primarily due to an increase in property taxes of \$2,412 largely due to the effect of a non-recurring credit realized in 2014 that resulted in a reduction in property taxes for our Ohio operating subsidiary. The decrease in 2014 is primarily due to a decrease in property taxes of \$1,208 associated primarily with a reduction in the property tax rate assessed for our Ohio operating subsidiary recognized in 2014, and a decrease in capital stock taxes of \$812 primarily associated with a decrease in capital stock taxes assessed for Aqua Pennsylvania.

**Interest Expense, net** – Net interest expense was \$76,536 in 2015, \$76,397 in 2014, and \$77,316 in 2013. Interest income of \$272 in 2015, \$316 in 2014, and \$438 in 2013 was netted against interest expense. Net interest expense increased in 2015 due to an increase in average short-term borrowings of \$13,977 and an increase in average outstanding fixed rate long-term debt of \$91,785, partially offset by a decline in long-term interest rates. Net interest expense decreased in 2014 primarily due to a decline in average short-term borrowings of \$16,186, partially offset by an increase in average outstanding fixed rate long-term debt of \$13,276, as well as a decline in long and short term interest rates. Interest income decreased in 2015 and 2014 due to lower investment rates. The weighted average cost of fixed rate long-term debt was 4.57% at December 31, 2015, 4.85% at December 31, 2014, and 5.00% at December 31, 2013. The weighted average cost of fixed and variable rate long-term debt was 4.44% at December 31, 2015, 4.65% at December 31, 2014, and 5.00% at December 31, 2013.

**Allowance for Funds Used During Construction** – The allowance for funds used during construction (“AFUDC”) was \$6,219 in 2015, \$5,134 in 2014, and \$2,275 in 2013, and varies as a result of changes in the average balance of utility plant construction work in progress, to which AFUDC is applied, changes in the AFUDC rate which is based predominantly on short-term interest rates, changes in the balance of short-debt, changes in the amount of AFUDC related to equity, and changes in the average balance of the proceeds held from tax-exempt bond issuances that are restricted to funding specific capital projects. The increase in 2015 and 2014 is primarily due to an increase in the AFUDC rate as a result of an increase in the amount of AFUDC related to equity and in 2015 an increase in the average balance of utility plant construction work in

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progress, to which AFUDC is applied. The amount of AFUDC related to equity was \$4,621 in 2015, \$3,640 in 2014, and \$533 in 2013.

***(Gain) Loss on Sale of Other Assets*** – (Gain) loss on sale of other assets totaled \$(468) in 2015, \$4 in 2014, and \$(148) in 2013, and consists of the sales of property, plant and equipment and marketable securities.

***Gain on Extinguishment of Debt*** – The gain on extinguishment of debt of \$678 results from the recognition of the unamortized issuance premium for the early redemption of \$95,985 of tax-exempt bonds at 5.00% that were originally maturing between 2035 and 2038.

***Equity Loss in Joint Venture*** – Equity loss in joint venture totaled \$35,177 in 2015, \$3,989 in 2014, and \$2,665 in 2013. The increase in equity loss in joint venture in 2015 of \$31,188 is primarily due to a noncash impairment charge recognized by the joint venture on its long-lived assets for which our share was \$32,975, partially offset by a decrease in depreciation expense resulting from the 2015 increase in depreciable life for the joint venture's pipeline assets. The impairment charge was recognized in the fourth quarter of 2015 as a result of a determination that the long-lived assets, primarily consisting of a pipeline and pump station, had become impaired due to a marked decline in natural gas prices in 2015, and in particular a further decline in the fourth quarter of 2015, a distinguishable reduction in the volume of water sales by the joint venture which led to a lowered forecast in the fourth quarter of 2015 on future water sales volumes by the joint venture, as well as changes in the natural gas industry and market conditions. These market conditions are largely associated with natural gas prices, which sharply declined in the fourth quarter and this downturn no longer appeared to be temporary and instead may be a long-term condition. The increase in equity loss in joint venture in 2014 of \$1,324 reflects a decline in water sales, believed to be temporary at the time, to the joint venture's customers in the natural gas drilling industry.

***Income Taxes*** – Our effective income tax rate was 6.9% in 2015, 10.5% in 2014, and 9.5% in 2013. The effective income tax rate for 2015, 2014, and 2013 was affected by the 2012 income tax accounting change for qualifying utility asset improvements at Aqua Pennsylvania which resulted in a \$72,944, \$69,048 and \$60,555 net reduction to the Company's 2015, 2014, and 2013 Federal and state income tax expense, respectively. As of December 31, 2015, the Company has an unrecognized tax benefit related to the Company's change in its tax accounting method for qualifying utility asset improvement costs, of which \$17,777 of these tax benefits would further reduce the Company's effective income tax rate in the event the Company does sustain all, or a portion, of its tax position in the period this information is determined.

***Summary*** –

	Years ended December 31,		
	2015	2014	2013
Operating income	\$ 321,100	\$ 314,359	\$ 301,662
Income from continuing operations	\$ 201,790	\$ 213,884	\$ 202,871
Income from discontinued operations	-	19,355	18,429
Net income attributable to common shareholders	<u>\$ 201,790</u>	<u>\$ 233,239</u>	<u>\$ 221,300</u>
Diluted income from continuing operations per share	\$ 1.14	\$ 1.20	\$ 1.15
Diluted income from discontinued operations per share	-	0.11	0.10
Diluted net income per share	1.14	1.31	1.25

The changes in the per share income from continuing operations in 2015 and 2014 over the previous years were due to the aforementioned changes.

Income from discontinued operations for 2014 increased by \$926 or \$0.01 per diluted share, in comparison to 2013 primarily as a result of the net gain on sale of \$17,611 recognized on the sale of our water utility systems in Fort Wayne, Indiana in 2014, offset by the effect of the prior year recognition of the net gain on sale of \$13,766 for our Florida operations.

Although we have experienced increased income in the recent past, continued adequate rate increases reflecting increased operating costs and new capital investments, as well as a continuation of income tax benefits related to eligible utility asset improvement costs are important to the future realization of improved profitability.

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

	Three Months Ended December 31,	
	2015	2014
Operating revenues	\$ 197,067	\$ 191,389
Operations and maintenance	77,856	74,121
Depreciation	31,760	31,365
Amortization	858	796
Taxes other than income taxes	11,978	12,510
	<u>122,452</u>	<u>118,792</u>
Operating income	74,615	72,597
Other expense (income):		
Interest expense, net	19,732	19,004
Allowance for funds used during construction	(2,289)	(1,835)
Gain on sale of other assets	(130)	(129)
Gain on extinguishment of debt	(678)	-
Equity loss in joint venture	33,681	1,316
Income before income taxes	24,299	54,241
Provision for income taxes	(4,135)	5,287
Income from continuing operations	28,434	48,954
Income from discontinued operations, net of income taxes of \$11,797 for 2014	-	17,861
Net income	<u>\$ 28,434</u>	<u>\$ 66,815</u>

The increase in operating revenues of \$5,678 was primarily due to additional revenues of \$2,691 associated with a larger customer base due to utility acquisitions and an increase in market-based activities revenues of \$1,330 principally associated with the inspection, cleaning and repair of storm and sanitary sewer lines. The increase in operations and maintenance expense of \$3,735 is due primarily to additional operating costs associated with acquisitions of \$2,379, an increase in the Company's self-insured employee medical benefit program expense of \$1,253, an increase in bad debt expense of \$889, and normal increases in other operating expenses, partially offset by a decrease in postretirement benefits expense of \$1,557. Depreciation expense increased by \$395 primarily due to the utility plant placed in service since December 31, 2014. The decrease in other taxes of \$532 is primarily due to a decrease in capital stock taxes of \$541 for Aqua Pennsylvania resulting from the effect of a favorable credit. Interest expense increased by \$728 due to an increase in the average outstanding debt balance offset by a decrease in our effective interest rate on average borrowings. Allowance for funds used during construction increased by \$454 primarily due to an increase in the average balance of utility plant construction work in progress, to which AFUDC is applied. The gain on extinguishment of debt is due to the recognition of the unamortized premium associated with the early redemption of long-term debt. The increase in equity loss in joint venture of \$32,365 is primarily due to a noncash impairment charge recognized by the joint venture (discussed below under "Acquisitions") for which our share was \$32,975. The provision for income taxes decreased by \$9,422 primarily as a result of the change in income before income taxes, offset by the effect of lower income tax benefits recognized in the fourth quarter of 2015 for deductions of certain qualifying infrastructure improvements for Aqua Pennsylvania.



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**FINANCIAL CONDITION**

**Consolidated Cash Flow and Capital Expenditures**

Net operating cash flows from continuing operations, dividends paid on common stock, capital expenditures used in continuing operations, including allowances for funds used during construction, and expenditures for acquiring water and wastewater systems for our continuing operations for the five years ended December 31, 2015 were as follows:

	Net Operating Cash Flows	Dividends	Capital Expenditures	Acquisitions
2011	\$ 349,927	\$ 87,133	\$ 324,360	\$ 8,515
2012	375,823	93,423	347,098	121,248
2013	365,409	102,889	307,908	14,997
2014	364,888	112,106	328,605	14,616
2015	370,794	121,248	364,689	28,989
	<u>\$ 1,826,841</u>	<u>\$ 516,799</u>	<u>\$ 1,672,660</u>	<u>\$ 188,365</u>

Included in capital expenditures for the five-year period are: expenditures for the rehabilitation of existing water distribution systems, the expansion of our water distribution systems, modernization and replacement of existing treatment plants, and water meters. During this five-year period, we received \$27,197 of customer advances and contributions in aid of construction to finance new water mains and related facilities that are not included in the capital expenditures presented in the above table. In addition, during this period, we have made repayments of debt of \$797,457, and have refunded \$21,848 of customers' advances for construction. Dividends increased during the past five years as a result of annual increases in the dividends declared and paid and increases in the number of shares outstanding during the periods prior to 2015.

Our planned 2016 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to continue at similar levels as 2015. The 2016 capital program is expected to include \$191,000 for infrastructure rehabilitation surcharge qualified projects, of which \$156,700 is for Aqua Pennsylvania. On January 1, 2013, Aqua Pennsylvania reset its water infrastructure rehabilitation surcharge to zero resulting from the change in its tax method of accounting for qualifying utility asset improvements as described below. Although we were not eligible to use an infrastructure rehabilitation surcharge with our Aqua Pennsylvania water customers in 2015, 2014, or 2013, and we don't anticipate being eligible in 2016, we were able to use the income tax savings derived from the qualifying utility asset improvements to continue to maintain a similar capital investment program as 2012. Our planned 2016 capital program in Pennsylvania is estimated to be approximately \$248,000 a portion of which is expected to be eligible as a deduction for qualifying utility asset improvements for Federal income tax purposes. Our overall 2016 capital program, along with \$35,593 of debt repayments, and \$160,283 of other contractual cash obligations, as reported in the section captioned *Contractual Obligations*, has been, or is expected to be, financed through internally-generated funds, our revolving credit facilities, and the issuance of long-term debt.

Future utility construction in the period 2017 through 2018, including recurring programs, such as the ongoing replacement or rehabilitation of water meters, water mains, water treatment plant upgrades, storage facility renovations, and additional transmission mains to meet customer demands, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to require aggregate expenditures of approximately \$786,000. We anticipate that less than one-half of these expenditures will require external financing. We expect to refinance \$266,885 of long-term debt during this period as they become due with new issues of long-term debt, internally-generated funds, and our revolving credit facilities. The estimates discussed above do not include any amounts for possible future acquisitions of water and wastewater systems or the financing necessary to support them.

Our primary sources of liquidity are cash flows from operations (including the allowed deferral of Federal income tax payments), borrowings under various short-term lines of credit and other credit facilities, and customer advances and contributions in aid of construction. Our cash flow from operations, or internally-generated funds, is impacted by the timing of rate relief, water consumption, and changes in Federal tax laws with respect to accelerated tax depreciation or deductions for utility construction projects. We fund our capital and acquisition programs through internally-generated funds, supplemented by short-term lines of credit. Over time, we partially repay or pay-down our short-term lines of credit with long-term debt. The ability to finance our future construction programs, as well as our acquisition activities, depends on our

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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)*

ability to attract the necessary external financing and maintain internally-generated funds. Rate orders permitting compensatory rates of return on invested capital and timely rate adjustments will be required by our operating subsidiaries to achieve an adequate level of earnings and cash flow to enable them to secure the capital they will need to operate and to maintain satisfactory debt coverage ratios.

On June 7, 2012, Aqua Pennsylvania reached a settlement agreement in its rate filing with the Pennsylvania Public Utility Commission, which in addition to a water rate increase, provided for a reduction in current income tax expense as a result of the recognition of qualifying income tax benefits upon Aqua Pennsylvania changing its tax accounting method to permit the expensing of qualifying utility asset improvement costs that have historically been capitalized and depreciated for book and tax purposes. In December 2012, Aqua Pennsylvania implemented this change, which resulted in a substantial reduction in income tax expense and greater net income and cash flow, and as a result allowed Aqua Pennsylvania to suspend its water Distribution System Improvement Charges in 2013 and lengthen the amount of time until the next Aqua Pennsylvania rate case is filed. As a result of the Pennsylvania rate order, income tax benefits reduced the Company's current income tax expense and increased net income by \$60,555 in 2013, \$69,048 in 2014 and \$72,944 in 2015. The Company recognized a tax deduction on its 2012 Federal tax return of \$380,000 for qualifying capital expenditures made prior to 2012, and based on the settlement agreement, beginning in 2013, the Company began to amortize 1/10<sup>th</sup> of these expenditures or \$38,000 annually, which reduced income tax expense and increased the Company's net income by \$16,734. In accordance with the settlement agreement, this amortization is expected to reduce income tax expense during periods when qualifying parameters are met. During 2013, our Ohio and North Carolina operating divisions implemented this change in tax accounting method. These divisions currently do not employ a method of accounting that provides for a reduction in current income taxes as a result of the recognition of income tax benefits, and as such the change in the Company's tax method of accounting in these operating divisions has no impact on our effective income tax rate.

The deduction for qualifying utility asset improvements is anticipated to continue in 2016 and beyond. Our 2016 earnings will be impacted by the following factors in Aqua Pennsylvania: the deduction for qualifying utility asset improvements in 2016 is expected to decrease current income tax expense by a similar amount as 2015, and the ten year amortization of the qualifying capital expenditures made prior to 2012 is also expected to reduce current income tax expense; offset by the effect of regulatory lag.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was enacted on December 17, 2010 and provided for an extension of 50% bonus depreciation for qualifying capital additions through 2012 and a 100% expensing allowance for qualifying capital additions placed in service after September 8, 2010 through 2011. A substantial portion of our capital expenditures qualified for 50% bonus depreciation or the 100% expensing allowance. As a result of this act, the Company's Federal income tax payments were eliminated for tax year 2011 and our net operating cash flows were favorably impacted. In addition, we received a Federal income tax refund in the amount of \$33,600 in October 2011 relating to our 2010 tax return. The Protecting Americans from Tax Hikes Act of 2015 was enacted on December 18, 2015 and provides for an extension of bonus depreciation for property acquired and placed in service during 2015 through 2019. The bonus depreciation percentage is 50% for property placed in service during 2015, 2016, and 2017, but then phases down to 40% in 2018 and 30% in 2019.

#### **Acquisitions**

During the past five years, we have expended cash of \$188,365 related to the acquisition of utility systems, both water and wastewater utilities, as well as investments in supplying raw water to the natural gas drilling industry. In April 2015, we acquired the water and wastewater utility system assets of North Maine Utilities, located in the Village of Glenview, Illinois. The total purchase price consisted of \$23,079 in cash. Additionally, during 2015, we completed 14 acquisitions of water and wastewater utility systems for \$5,210 in cash in six of the states in which we operate. During 2014, we completed 16 acquisitions of water and wastewater utility systems for \$10,530 in cash in seven of the states in which we operate. Further, in August 2014, we acquired a market-based business that specializes in the inspection, cleaning and repair of storm and sanitary sewer lines. The total purchase price consisted of \$3,010, of which a total of \$810 is contingent upon satisfying certain annual performance targets over a three-year period, for which \$270 has been paid for completion of the performance targets for year one. Additionally, in December 2014, we acquired a market-based business that specializes in providing water distribution system services to prevent the contamination of potable water, including training to waterworks operators. The total purchase price consisted of \$1,800, of which \$700 was paid in the first quarter of 2015. During 2013, we completed 15 acquisitions of water and wastewater utility systems for \$14,997 in cash in four of the states in which we operate.

As part of the Company's growth-through-acquisition strategy, in July 2011, the Company entered into a definitive agreement with American Water to purchase all of the stock of the subsidiary that held American Water's regulated water and wastewater

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

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operations in Ohio. American Water's Ohio operations served approximately 59,000 customers. On May 1, 2012, the Company completed its acquisition of American Water's water and wastewater operations in Ohio. The total purchase price at closing consisted of \$102,154 in cash plus specific assumed liabilities, including debt of \$14,281, as adjusted pursuant to the purchase agreement based on book value at closing. The transaction has been accounted for as a business combination. The Ohio acquisition was financed primarily from the proceeds from the January 1, 2012 sale of our Maine subsidiary, the May 1, 2012 sale of our New York subsidiary, and by the issuance of long-term and/or short-term debt. In addition to our Ohio acquisition, during 2012, we completed 16 acquisitions of water and wastewater utility systems for \$19,094 in cash in six of the states in which we operate.

In June 2011, the Company completed its acquisition of approximately 51 water and five wastewater systems in Texas serving approximately 5,300 customers. The total purchase price consisted of \$6,245 in cash. The Company's acquisitions in Ohio and Texas were accretive to the Company's results of operations, however, the pro forma effect of the businesses acquired are not material to the Company's results of operations. In addition to our Texas acquisition, during 2011, we completed eight acquisitions of water and wastewater utility systems for \$2,270 in cash in three of the states in which we operate.

We included the operating results of these acquisitions in our consolidated financial statements beginning on the respective acquisition dates.

We continue to pursue the acquisition of water and wastewater utility systems, and explore other utility acquisitions that may be in a new state. Our typical acquisitions are expected to be financed with short-term debt with subsequent repayment from the proceeds of long-term debt, retained earnings, or equity issuances.

In September 2011, one of our subsidiaries entered into a joint venture with a firm that operates natural gas pipelines and processing plants for the construction and operation of a private pipeline system to supply raw water to natural gas well drilling operations in the Marcellus Shale in north-central Pennsylvania (the "Joint Venture"). We own 49% of the Joint Venture. The initial 18-mile pipeline commenced operations in 2012. The initial pipeline system was expanded for an additional 38 miles with a permitted intake on the Susquehanna River, which extended the pipeline to additional drillers. The total cost of this pipeline was \$109,000. The Joint Venture has entered into water supply contracts with natural gas drilling companies. As of December 31, 2015, our capital contributions since inception totaled \$53,643 in cash. This investment has been financed through the issuance of long-term debt. Our 49% investment in the Joint Venture is as an unconsolidated affiliate and is accounted for under the equity method of accounting. Our investment is carried at cost, including capital contributions or distributions and our equity in earnings and losses since the commencement of the system's operations. In the fourth quarter of 2015 an impairment charge was recognized by the joint venture on its long-lived assets, of which the Company's share totaled \$32,975 (\$21,433 after-tax), representing our share of the noncash impairment charge as further described in Note 1 – *Summary of Significant Accounting Policies – Investment in Joint Venture*. As of December 31, 2015, the Joint Venture's assets are comprised of approximately one-half in long-lived assets and one-half in cash, and our share was \$7,716.

#### **Dispositions**

We routinely review and evaluate areas of our business and operating divisions and, over time, may sell utility systems or portions of systems. In 2013, 2012, and 2011, in accordance with our strategy to focus our resources on states where we have critical mass to improve our economies of scale and expect future economic growth, we sold water and wastewater systems in the following states: Florida, New York, Maine, and Missouri. With respect to the sale of our systems in New York and the sale of our systems in Missouri to American Water, we acquired additional utility systems from American Water in Ohio and in Texas. Additionally, in March, 2014, we completed the sale of our wastewater treatment facility in Georgia.

In December 2014, we completed the sale of our water utility system in southwest Allen County Indiana to the City of Fort Wayne, Indiana for \$67,011, which is comprised of \$50,100 in addition to \$16,911 the city initially paid the Company towards its water and wastewater system assets in the northern part of Fort Wayne in 2008. We recognized a gain on sale of \$29,210 (\$17,611 after-tax) in the fourth quarter of 2014. In addition, as a result of this transaction, Aqua Indiana will expand its sewer customer base by accepting new wastewater flows from the City. Refer to Note 3 – *Discontinued Operations and Other Disposition* for further information on this sale.

In March, April, and December 2013, through five separate sales transactions, we completed the sale of our water and wastewater utility systems in Florida, which concluded our regulated operations in Florida. The Company received total net proceeds from these sales of \$88,934, and recognized a gain on sale of \$21,178 (\$13,766 after-tax).

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### Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

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In June 2013, the Company sold a water and wastewater utility system in Texas for net proceeds of \$3,400. The sale resulted in the recognition of a gain on sale of these assets, net of expenses, of \$1,025 (\$615 after-tax). The utility system represented approximately 0.04% of the Company's total assets.

In July 2011, the Company entered into a definitive agreement with American Water to sell its operations in New York for its book value at closing plus specific assumed liabilities, including debt of approximately \$23,000. On May 1, 2012, the Company completed the sale for net proceeds of \$36,688 in cash as adjusted pursuant to the sale agreement based on book value at closing. The Company's New York operations served approximately 51,000 customers. The sale of our New York operations concluded our regulated operations in New York. The proceeds were used to finance a portion of our acquisition of American Water's Ohio subsidiary, pay-down a portion of our short-term debt, and other general corporate purposes.

In July 2011, the Company entered into a definitive agreement with Connecticut Water Service, Inc. to sell its operations in Maine, which served approximately 16,000 customers, for cash at closing plus specific assumed liabilities, including debt of \$17,364. On January 1, 2012, we completed the sale for net proceeds of \$36,870, and recognized a gain on sale of \$17,699 (\$10,821 after-tax). The sale of our Maine operations concluded our regulated operations in Maine. The proceeds were used to finance a portion of our acquisition of American Water's Ohio subsidiary, pay-down a portion of our short-term debt, and other general corporate purposes.

In June 2011, we sold a water and wastewater utility system in North Carolina for net proceeds of \$4,106. The sale resulted in the recognition of a gain on the sale, net of expenses, of \$2,692 (\$1,615 after-tax), and is reported in the consolidated statement of net income as a reduction to operations and maintenance expense. The utility system represented approximately 0.03% of Aqua America's total assets. In May 2011, we sold our regulated water and wastewater operations in Missouri for net proceeds of \$3,225, resulting in a small gain on sale. The sale of our utility operations in Missouri represented approximately 0.07% of Aqua America's total assets. In January 2011, we sold a water and wastewater utility system in Texas for net proceeds of \$3,118. The sale resulted in the recognition of a gain on the sale, net of expenses, of \$2,452 (\$1,471 after-tax). The utility system represented approximately 0.01% of Aqua America's total assets. The gain is reported in the consolidated statement of net income as a reduction to operations and maintenance expense.

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

#### **Sources of Capital**

Since net operating cash flow plus advances and contributions in aid of construction have not been sufficient to fully fund cash requirements, we issued \$1,042,821 of long-term debt and obtained other short-term borrowings during the past five years. At December 31, 2015, we have a \$200,000 long-term revolving credit facility that expires in March 2017, of which \$23,360 was designated for letter of credit usage, \$116,640 was available for borrowing and \$60,000 of borrowings were outstanding at December 31, 2015. In addition, we have short-term lines of credit of \$135,500, of which \$118,779 was available as of December 31, 2015. These short-term lines of credit are subject to renewal on an annual basis. Although we believe we will be able to renew these facilities, there is no assurance that they will be renewed, or what the terms of any such renewal will be.

Our consolidated balance sheet historically has had a negative working capital position, whereby routinely our current liabilities exceed our current assets. Management believes that internally-generated funds along with existing credit facilities and the proceeds from the issuance of long-term debt 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.

Our loan and debt agreements require us to comply with certain financial covenants, which among other things, subject to specific exceptions, limit the Company's ratio of consolidated total indebtedness to consolidated total capitalization, and require a minimum level of earnings coverage over interest expense. During 2015, we were in compliance with our debt covenants under our credit facilities. Failure to comply with our debt covenants could result in an event of default, which could result in us being required to repay or finance our borrowings before their due date, possibly limiting our future borrowings, and increasing our borrowing costs.

The Company has a universal shelf registration statement, which was filed with the Securities and Exchange Commission, ("SEC") on February 27, 2015, which allows for the potential future offer and sale by us, from time to time, in one or more public offerings, of an indeterminate amount of our common stock, preferred stock, debt securities, and other securities specified therein at indeterminate prices. The Company's Board of Directors has authorized the Company to issue up to

## 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)*

\$500,000 of our common stock, preferred stock, debt securities, and other securities specified therein under this universal shelf registration statement. The Company has not issued any securities to date under this universal shelf registration statement. .

In addition, we have a shelf registration statement, which was filed with the SEC on February 27, 2015, to permit the offering from time to time of an aggregate of \$500,000 of our common stock and shares of preferred stock in connection with acquisitions. As of December 31, 2015, the Company has not issued any shares under the acquisition shelf registration. We will determine the form and terms of any securities issued under the universal shelf registration statement and the acquisition shelf registration statement at the time of issuance.

We offer a Dividend Reinvestment and Direct Stock Purchase Plan (the "Plan") that provides a convenient and economical way to purchase shares of the Company. Under the direct stock purchase portion of the Plan, shares are issued throughout the year. The dividend reinvestment portion of the Plan offers a five percent discount on the purchase of shares of common stock with reinvested dividends. As of the December 2015 dividend payment, holders of 11.2% of the common shares outstanding participated in the dividend reinvestment portion of the Plan. The shares issued under the Plan are either original issue shares or shares purchased by the Company's transfer agent in the open-market. During the past five years, we have sold 1,906,860 original issue shares of common stock for net proceeds of \$36,009 through the dividend reinvestment portion of the Plan, and we used the proceeds to invest in our operating subsidiaries, to repay short-term debt, and for general corporate purposes. In 2015 and 2014, 535,439 and 558,317 shares of the Company were purchased under the dividend reinvestment portion of the Plan by the Company's transfer agent in the open-market for \$14,380 and \$14,148, respectively.

The Company's Board of Directors has authorized us to repurchase our common stock, from time to time, in the open market or through privately negotiated transactions. In 2014, we repurchased 560,000 shares of our common stock in the open market for \$13,280. In December 2014, the Company's Board of Directors authorized a share buyback program of up to 1,000,000 shares to minimize share dilution through timely and orderly share repurchases. In December 2015, the Company's Board of Directors added 400,000 shares to this program. In 2015, we repurchased 805,000 shares of our common stock in the open market for \$20,502. As of December 31, 2015, 720,348 shares remain available for repurchase. Funding for future stock purchases, if any, is not expected to have a material impact on our financial position.

#### **Off-Balance Sheet Financing Arrangements**

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

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

*(In thousands of dollars, except per share amounts)*

**Contractual Obligations**

The following table summarizes our contractual cash obligations as of December 31, 2015:

	Total	Payments Due By Period			
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt	\$ 1,779,205	\$ 35,593	\$ 266,885	\$ 139,055	\$ 1,337,672
Interest on fixed-rate, long-term debt (1)	1,315,793	78,676	148,184	131,541	957,392
Operating leases (2)	19,964	1,718	2,390	1,892	13,964
Unconditional purchase obligations (3)	55,897	13,509	13,469	9,781	19,138
Other purchase obligations (4)	57,135	57,135	-	-	-
Pension plan obligation (5)	8,145	8,145	-	-	-
Other obligations (6)	13,911	1,100	2,201	2,200	8,410
<b>Total</b>	<b>\$ 3,250,050</b>	<b>\$ 195,876</b>	<b>\$ 433,129</b>	<b>\$ 284,469</b>	<b>\$ 2,336,576</b>

(1) Represents interest payable on fixed rate, long-term debt. Amounts reported may differ from actual due to future refinancing of debt.

(2) Represents operating leases that are noncancelable, before expiration, for the lease of motor vehicles, buildings, land and other equipment.

(3) Represents our commitment to purchase minimum quantities of water as stipulated in agreements with other water purveyors. We use purchased water to supplement our water supply, particularly during periods of peak customer demand. Our actual purchases may exceed the minimum required levels.

(4) Represents an approximation of the open purchase orders for goods and services purchased in the ordinary course of business.

(5) Represents contributions to be made to pension plan.

(6) Represents expenditures estimated to be required under legal and binding contractual obligations.

In addition to these obligations, we pay refunds on customers' advances for construction over a specific period of time based on operating revenues related to developer-installed water mains or as new customers are connected to and take service from such mains. After all refunds are paid, any remaining balance is transferred to contributions in aid of construction. The refund amounts are not included in the above table because the refund amounts and timing are dependent upon several variables, including new customer connections, customer consumption levels and future rate increases, which cannot be accurately estimated. Portions of these refund amounts are payable annually through 2025 and amounts not paid by the contract expiration dates become non-refundable.

In addition to the obligations disclosed in the contractual obligations table above, we have uncertain tax positions of \$28,016. Although we believe our tax positions comply with applicable law, we have made judgments as to the sustainability of each uncertain tax position based on its technical merits. Due to the uncertainty of future cash outflows, if any, associated with our uncertain tax positions, we are unable to make a reasonable estimate of the timing or amounts that may be paid. See Note 7 – *Income Taxes* for further information on our uncertain tax positions.

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

The Company is routinely involved in legal matters, including both asserted and unasserted legal claims, during the ordinary course of business. See Note 9 – *Commitments and Contingencies* of the consolidated financial statements for a discussion of the Company's legal matters. It is not always possible for management to make a meaningful estimate of the potential loss or range of loss associated with such litigation. Also, unanticipated changes in circumstances and/or revisions to the assessed probability of the outcomes of legal matters could result in expenses being incurred in future periods as well as an increase in actual cash required to resolve the legal matter.

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

*(In thousands of dollars, except per share amounts)*

**Market Risk**

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed rate, long-term debt. Such exposure is typically related to financings between utility rate increases, because generally our rate increases provide a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2015, the debt maturities by period and the weighted average interest rate for long-term debt are as follows:

	2016	2017	2018	2019	2020	Thereafter	Total	Fair Value
Long-term debt:								
Fixed rate	\$ 35,593	\$ 103,007	\$ 103,878	\$ 89,636	\$ 49,419	\$ 1,337,672	\$ 1,719,205	\$ 1,845,393
Variable rate	-	60,000	-	-	-	-	60,000	60,000
<b>Total</b>	<b>\$ 35,593</b>	<b>\$ 163,007</b>	<b>\$ 103,878</b>	<b>\$ 89,636</b>	<b>\$ 49,419</b>	<b>\$ 1,337,672</b>	<b>\$ 1,779,205</b>	<b>\$ 1,905,393</b>
Weighted average interest rate*	4.85%	2.63%	4.25%	4.93%	5.06%	4.62%		

\*Weighted average interest rate of 2017 long-term debt maturity is as follows: fixed rate debt of 4.57% and variable rate debt of 0.99%.

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for marketable equity securities. As of December 31, 2015, the carrying value of these investments, which reflects market value, was \$196.

**Capitalization**

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

December 31,	2015	2014	2013	2012	2011
Long-term debt (1)	50.8%	49.4%	50.3%	53.4%	54.8%
Aqua America stockholders' equity	49.2%	50.6%	49.7%	46.6%	45.2%
	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Includes current portion, as well as our borrowings under a variable rate revolving credit agreement of \$60,000 at December 31, 2015, \$72,000 at December 31, 2014, \$0 at December 31, 2013, \$100,000 at December 31, 2012, and \$38,212 at December 31, 2011.

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

**Dividends on Common Stock**

We have paid dividends on our common stock consecutively for 71 years. Effective August 4, 2015, our Board of Directors authorized an increase of 7.9% in the September 1, 2015 quarterly dividend over the dividend we paid in the previous quarter. As a result of this authorization, beginning with the dividend payment in September 2015, the annualized dividend rate increased to \$0.712 per share from \$0.66 per share. This is the 25<sup>th</sup> dividend increase in the past 24 years and the 17<sup>th</sup> consecutive year that we have increased our dividend in excess of five percent. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1, and December 1, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, our dividends paid have averaged 51.9% of net income attributable to common shareholders.

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)

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our financial condition and results of operations are impacted by the methods, assumptions, and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to our financial condition or results of operations, and require estimates or other judgments of matters of uncertainty. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the financial statements. We believe our most critical accounting policies include revenue recognition, the use of regulatory assets and liabilities, the valuation of our long-lived assets, which consist primarily of utility plant in service, regulatory assets, and goodwill, our accounting for post-retirement benefits, and our accounting for income taxes. We have discussed the selection and development of our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

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

In some operating divisions, we commence the billing of our utility customers, under new rates, upon authorization from the respective utility commission and before the final commission rate order is issued. The revenue recognized reflects an estimate based on our judgment of the final outcome of the commission's ruling. We monitor the applicable facts and circumstances regularly, and revise the estimate as required. The revenue billed and collected prior to the final ruling is subject to refund based on the commission's final ruling.

**Regulatory Assets and Liabilities** — We defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in our rates charged for water or wastewater service. In the event that our assessment as to the probability of the inclusion in the rate-making process is incorrect, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

**Valuation of Long-Lived Assets, Goodwill and Intangible Assets** — We review our long-lived assets for impairment, including utility plant in service and investment in joint venture. We also review regulatory assets for the continued application of the Financial Accounting Standards Board's ("FASB") accounting guidance for regulated operations. Our review determines whether there have been changes in circumstances or events that have occurred that require adjustments to the carrying value of these assets. Adjustments to the carrying value of these assets would be made in instances where their inclusion in the rate-making process is unlikely. For our investment in joint venture, the Company would recognize an impairment loss if it is determined that the carrying amount of the joint venture's assets exceeds the sum of the joint venture's undiscounted estimated cash flows.

Our long-lived assets, which consist primarily of utility plant in service, regulatory assets and investment in joint venture, are reviewed for impairment when changes in circumstances or events occur. These circumstances or events could include a decline in the market value or physical condition of a long-lived asset, an adverse change in the manner in which long-lived assets are used or planned to be used, a change in historical trends, operating cash flows associated with the long-lived assets, changes in macroeconomic conditions, industry and market conditions, or overall financial performance. When these circumstances or events occur, we determine whether it is more likely than not that the fair value of those assets is less than their carrying amount. If we determine that it is more likely than not (that is, the likelihood of more than 50 percent), we would recognize an impairment charge if it is determined that the carrying amount of an asset exceeds the sum of the undiscounted estimated cash flows. In this circumstance, we would recognize an impairment charge equal to the difference between the carrying amount and the fair value of the asset. Fair value is estimated to be the present value of future net cash flows associated with the asset, discounted using a discount rate commensurate with the risk and remaining life of the asset. This assessment requires significant management judgment and estimates that are based on budgets, general strategic business plans, historical trends and other data and relevant factors. These estimates include significant inherent uncertainties, since they involve forecasting future events. If changes in circumstances or events occur, or estimates and assumptions that were used in this review are changed, we may be required to record an impairment charge on our long-lived assets.

We have an investment in a joint venture, for which we own 49%, and use the equity method of accounting to account for this joint venture. The joint venture operates a private pipeline system to supply raw water to natural gas well drilling operations in the Marcellus Shale in north central Pennsylvania. In the fourth quarter of 2015, the joint venture recognized an impairment charge on its long-lived assets, of which the Company's share totaled \$32,975 (\$21,433 after-tax), representing our share of the



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)

noncash impairment charge. As of December 31, 2015, the joint venture's assets are comprised of approximately one-half in long-lived assets and one-half in cash, and our share was \$7,716. Refer to *Note 1 – Summary of Significant Accounting Policies – Property, Plant and Equipment and Depreciation*, and *Investment in Joint Venture* for additional information regarding the review of long-lived assets for impairment.

We test the goodwill attributable for each of our reporting units for impairment at least annually on July 31, or more often, if circumstances indicate a possible impairment may exist. When testing goodwill for impairment, we may assess qualitative factors for some or all of our reporting units to determine whether it's more likely than not that the fair value of a reporting unit is less than its carrying amount. Alternatively, we may bypass this qualitative assessment for some of our reporting units and perform a quantitative goodwill impairment test. If we perform a quantitative test and determine that the fair value of a reporting unit is less than its carrying amount, we would determine the reporting unit's implied fair value of its goodwill and compare it with the carrying amount of its goodwill to measure such impairment. The assessment requires significant management judgment and estimates that are based on budgets, general strategic business plans, historical trends and other data and relevant factors. If changes in circumstances or events occur, or estimates and assumptions that were used in our impairment test change, we may be required to record an impairment charge for goodwill. Refer to *Note 1 – Summary of Significant Accounting Policies – Goodwill* for information regarding the results of our annual impairment test.

**Accounting for Post-Retirement Benefits** — We maintain a qualified defined benefit pension plan and plans that provide for post-retirement benefits other than pensions. Accounting for pension and other post-retirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by our employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from our actuarial consultant, who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other post-retirement benefits expense that we recognize.

Our discount rate assumption, which is used to calculate the present value of the projected benefit payments of our post-retirement benefits, was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to match the projected benefit payments of the plans. The selected bond portfolio was derived from a universe of Aa-graded corporate bonds, all of which were noncallable (or callable with make-whole provisions), and have at least \$50,000 in outstanding value. The discount rate was then developed as the rate that equates the market value of the bonds purchased to the discounted value of the projected benefit payments of the plans. A decrease in the discount rate would increase our post-retirement benefits expense and benefit obligation. After reviewing the hypothetical portfolio of bonds, we selected a discount rate of 4.48% for our pension plan and 4.60% for our other post-retirement benefit plans as of December 31, 2015, which represent a 28 and 43 basis-point increase as compared to the discount rates selected at December 31, 2014. Our post-retirement benefits expense under these plans is determined using the discount rate as of the beginning of the year, which was 4.20% for our pension plan and 4.17% for our other-postretirement benefit plans for 2015, and will be 4.48% for our pension plan and 4.60% for our other post-retirement benefit plans for 2016.

Our expected return on plan assets is determined by evaluating the asset class return expectations with our advisors as well as actual, long-term, historical results of our asset returns. The Company's market-related value of plan assets is equal to the fair value of the plans' assets as of the last day of its fiscal year, and is a determinant for the expected return on plan assets, which is a component of post-retirement benefits expense. The allocation of our plans' assets impacts our expected return on plan assets. The expected return on plan assets is based on a targeted allocation of 25% to 75% domestic equities, 0% to 10% international equities, 25% to 50% fixed income, 0% to 5% alternative investments, and 0% to 20% cash and cash equivalents. Our post-retirement benefits expense increases as the expected return on plan assets decreases. We believe that our actual long-term asset allocations on average will approximate our targeted allocations. Our targeted allocations are driven by our investment strategy to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories. For 2015, we used a 7.50% expected return on plan assets assumption which will decrease to 7.25% for 2016.

In October 2014, the Society of Actuaries issued an updated set of mortality tables and a mortality improvement scale. The updated mortality tables extend the assumed life expectancy of participants in defined benefit plans, and the updated mortality improvement scale projects how mortality rates will improve into the future based on anticipated medical innovations and a reduction in unhealthy behaviors. We considered the mortality data at the December 31, 2014 measurement of our post-retirement benefit obligations in relation to our plans' participant population experience and adopted the updated mortality table and mortality improvement scale. Because mortality is a key assumption in developing actuarial estimates, the impact of

## 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)*

adopting the mortality data was, an increase in our post-retirement benefit obligation as of December 31, 2014 of \$14,400 and an increase in our 2015 net periodic benefit costs of \$2,500, of which approximately \$900 had an impact on our 2015 post-retirement benefits expense, due to the regulatory treatment of our net periodic benefit costs.

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and our funding policy, during 2016 our pension contribution is expected to be \$8,145. Future years' contributions will be subject to economic conditions, plan participant data and the funding rules in effect at such time as the funding calculations are performed, though we expect future changes in the amount of contributions and expense recognized to be generally included in customer rates.

**Accounting for Income Taxes** — We estimate the amount of income tax payable or refundable for the current year and the deferred income tax liabilities and assets that results from estimating temporary differences resulting from the treatment of specific items, such as depreciation, for tax and financial statement reporting. Generally, these differences result in the recognition of a deferred tax asset or liability on our consolidated balance sheet and require us to make judgments regarding the probability of the ultimate tax impact of the various transactions we enter into. Based on these judgments, we may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realization of future tax benefits. Actual income taxes could vary from these estimates and changes in these estimates can increase income tax expense in the period that these changes in estimates occur.

Our determination of what qualifies as a capital cost versus a tax deduction for qualifying utility asset improvements as it relates to our income tax accounting method change beginning in 2012 is subject to subsequent adjustment as well as IRS audits, changes in tax laws, the expiration of a statute of limitations, or other unforeseen matters, and could impact the tax benefits that have already been recognized. We establish reserves for uncertain tax positions based upon management's judgment as to the sustainability of these positions. These accounting estimates related to the uncertain tax position reserve require judgments to be made as to the sustainability of each uncertain tax position based on its technical merits. We believe our tax positions comply with applicable law and that we have adequately recorded reserves as required. However, to the extent the final tax outcome of these matters is different than our estimates recorded, we would then need to adjust our tax reserves which could result in additional income tax expense or benefits in the period that this information is known.

#### **IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS**

We describe the impact of recent accounting pronouncements in Note 1 – *Summary of Significant Accounting Policies* of the consolidated financial statements.

## AQUA AMERICA, INC. AND SUBSIDIARIES

### Management's Report On Internal Control Over Financial Reporting

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

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

In assessing the effectiveness of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework* (2013). As a result of management's assessment and based on the criteria in the framework, management has concluded that, as of December 31, 2015, the Company's internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ Christopher H. Franklin

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Christopher H. Franklin

*President and Chief Executive Officer*

February 26, 2016

/s/ David P. Smeltzer

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David P. Smeltzer

*Executive Vice President and Chief Financial Officer*

## Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of net income, of comprehensive income, of capitalization, of equity and of cash flows present fairly, in all material respects, the financial position of Aqua America, Inc. and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015 based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania

February 26, 2016

AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF NET INCOME

(In thousands, except per share amounts)

Years ended December 31, 2015, 2014, and 2013

	2015	2014	2013
Operating revenues	\$ 814,204	\$ 779,903	\$ 761,893
Operating costs and expenses:			
Operations and maintenance	309,310	288,556	283,561
Depreciation	125,290	123,054	118,414
Amortization	3,447	3,481	5,571
Taxes other than income taxes	55,057	50,453	52,685
Total operating expenses	493,104	465,544	460,231
Operating income	321,100	314,359	301,662
Other expense (income):			
Interest expense, net	76,536	76,397	77,316
Allowance for funds used during construction	(6,219)	(5,134)	(2,275)
(Gain) loss on sale of other assets	(468)	4	(148)
Gain on extinguishment of debt	(678)	-	-
Equity loss in joint venture	35,177	3,989	2,665
Income from continuing operations before income taxes	216,752	239,103	224,104
Provision for income taxes	14,962	25,219	21,233
Income from continuing operations	201,790	213,884	202,871
Discontinued operations:			
Income from discontinued operations before income taxes	-	32,155	28,311
Provision for income taxes	-	12,800	9,882
Income from discontinued operations	-	19,355	18,429
Net income attributable to common shareholders	\$ 201,790	\$ 233,239	\$ 221,300
Income from continuing operations per share:			
Basic	\$ 1.14	\$ 1.21	\$ 1.15
Diluted	\$ 1.14	\$ 1.20	\$ 1.15
Income from discontinued operations per share:			
Basic	\$ -	\$ 0.11	\$ 0.10
Diluted	\$ -	\$ 0.11	\$ 0.10
Net income per common share:			
Basic	\$ 1.14	\$ 1.32	\$ 1.26
Diluted	\$ 1.14	\$ 1.31	\$ 1.25
Average common shares outstanding during the period:			
Basic	176,788	176,864	176,140
Diluted	177,517	177,763	176,814
Cash dividends declared per common share	\$ 0.686	\$ 0.634	\$ 0.584

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of dollars)

Years ended December 31, 2015, 2014, and 2013

	2015	2014	2013
Net income attributable to common shareholders	\$ 201,790	\$ 233,239	\$ 221,300
Other comprehensive income, net of tax:			
Unrealized holding (loss) gain on investments, net of tax (benefit) expense of \$(53), \$104, and \$76 for the years ended December 31, 2015, 2014, and 2013, respectively	(101)	193	141
Reclassification adjustment for loss (gain) reported in net income, net of tax (benefit) expense of \$(134) and \$(49) for the twelve months ended December 31, 2014 and 2013, respectively (1)	-	249	90
<b>Comprehensive income</b>	<b>\$ 201,689</b>	<b>\$ 233,681</b>	<b>\$ 221,531</b>

See accompanying notes to consolidated financial statements.

(1) Amount of pre-tax loss (gain) of \$383 and \$139 reclassified from accumulated other comprehensive income to loss (gain) on sale of other assets on the consolidated statements of net income for the years ended December 31, 2014 and 2013, respectively.

AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In thousands of dollars, except per share amounts)  
December 31, 2015 and 2014

Assets	2015	2014
Property, plant and equipment, at cost	\$ 6,088,011	\$ 5,707,017
Less: accumulated depreciation	1,399,086	1,305,027
Net property, plant and equipment	4,688,925	4,401,990
Current assets:		
Cash and cash equivalents	3,229	4,138
Accounts receivable and unbilled revenues, net	99,146	96,999
Deferred income taxes	-	26,849
Inventory, materials and supplies	12,414	12,788
Prepayments and other current assets	11,802	11,748
Assets held for sale	1,779	-
Total current assets	128,370	152,522
Regulatory assets	830,118	725,591
Deferred charges and other assets, net	52,043	52,084
Investment in joint venture	7,716	43,334
Funds restricted for construction activity	-	47
Goodwill	33,866	31,184
Total assets	\$ 5,741,038	\$ 5,406,752
Liabilities and Equity		
Aqua America stockholders' equity:		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 179,363,660 and 178,591,254 in 2015 and 2014	\$ 89,682	\$ 89,296
Capital in excess of par value	773,585	758,145
Retained earnings	930,061	849,952
Treasury stock, at cost, 2,819,569 and 1,837,984 shares in 2015 and 2014	(68,085)	(42,838)
Accumulated other comprehensive income	687	788
Total Aqua America stockholders' equity	1,725,930	1,655,343
Noncontrolling interest	-	40
Total equity	1,725,930	1,655,383
Long-term debt, excluding current portion	1,743,612	1,560,655
Commitments and contingencies (See Note 9)	-	-
Current liabilities:		
Current portion of long-term debt	35,593	58,615
Loans payable	16,721	18,398
Accounts payable	56,452	63,035
Accrued interest	12,651	12,437
Accrued taxes	21,887	31,462
Other accrued liabilities	49,895	41,388
Total current liabilities	193,199	225,335
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	1,118,923	1,000,791
Customers' advances for construction	86,934	78,301
Regulatory liabilities	259,507	278,317
Other	100,498	109,692
Total deferred credits and other liabilities	1,565,862	1,467,101
Contributions in aid of construction	512,435	498,278
Total liabilities and equity	\$ 5,741,038	\$ 5,406,752

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CAPITALIZATION

(In thousands of dollars, except per share amounts)

December 31, 2015 and 2014

	2015	2014
Aqua America stockholders' equity:		
Common stock, \$.50 par value	\$ 89,682	\$ 89,296
Capital in excess of par value	773,585	758,145
Retained earnings	930,061	849,952
Treasury stock, at cost	(68,085)	(42,838)
Accumulated other comprehensive income	687	788
Total Aqua America stockholders' equity	1,725,930	1,655,343
Noncontrolling interest	-	40
Total equity	1,725,930	1,655,383
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	5,148
1.00% to 1.99%	2016 to 2035	20,811
2.00% to 2.99%	2024 to 2031	19,167
3.00% to 3.99%	2016 to 2047	297,275
4.00% to 4.99%	2020 to 2054	487,093
5.00% to 5.99%	2016 to 2043	221,435
6.00% to 6.99%	2017 to 2036	52,964
7.00% to 7.99%	2022 to 2027	33,762
8.00% to 8.99%	2021 to 2025	14,502
9.00% to 9.99%	2018 to 2026	27,100
10.00% to 10.99%	2018	6,000
		1,185,257
		1,115,322
Notes payable to bank under revolving credit agreement, variable rate, due 2017	60,000	72,000
Unsecured notes payable:		
Bank notes at 1.921% and 1.975% due 2017 and 2018	100,000	50,000
Notes at 3.57% and 3.59% due 2027 and 2030	120,000	50,000
Notes ranging from 4.62% to 4.87%, due 2016 through 2024	144,400	144,400
Notes ranging from 5.20% to 5.95%, due 2016 through 2037	169,548	187,548
Total long-term debt	1,779,205	1,619,270
Current portion of long-term debt	35,593	58,615
Long-term debt, excluding current portion	1,743,612	1,560,655
Total capitalization	\$ 3,469,542	\$ 3,216,038

See accompanying notes to consolidated financial statements.



AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EQUITY

(In thousands of dollars)

	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
Balance at December 31, 2012	\$ 70,472	\$ 718,482	\$ 611,303	\$ (14,668)	\$ 115	\$ 188	\$ 1,385,892
Net income	-	-	221,300	-	-	20	221,320
Other comprehensive income, net of income tax of \$125	-	-	-	-	231	-	231
Dividends	-	-	(102,889)	-	-	-	(102,889)
Stock split	17,655	(17,655)	-	-	-	-	-
Sale of stock (449,129 shares)	188	9,693	-	409	-	-	10,290
Repurchase of stock (415,233 shares)	-	-	-	(12,823)	-	-	(12,823)
Equity compensation plan (43,500 shares)	17	(17)	-	-	-	-	-
Exercise of stock options (1,566,089 shares)	632	25,066	-	-	-	-	25,698
Stock-based compensation	-	5,066	(442)	-	-	-	4,624
Employee stock plan tax benefits	-	2,700	-	-	-	-	2,700
Balance at December 31, 2013	88,964	743,335	729,272	(27,082)	346	208	1,535,043
Net income	-	-	233,239	-	-	40	233,279
Purchase of subsidiary shares from noncontrolling interest	-	-	-	-	-	(208)	(208)
Other comprehensive income, net of income tax of \$238	-	-	-	-	442	-	442
Dividends	-	-	(112,106)	-	-	-	(112,106)
Repurchase of stock (659,666 shares)	-	-	-	(15,756)	-	-	(15,756)
Equity compensation plan (212,920 shares)	107	(107)	-	-	-	-	-
Exercise of stock options (449,412 shares)	225	7,071	-	-	-	-	7,296
Stock-based compensation	-	6,811	(453)	-	-	-	6,358
Employee stock plan tax benefits	-	1,828	-	-	-	-	1,828
Other	-	(793)	-	-	-	-	(793)
Balance at December 31, 2014	89,296	758,145	849,952	(42,838)	788	40	1,655,383
Net income	-	-	201,790	-	-	-	201,790
Other comprehensive loss, net of income tax of \$53	-	-	-	-	(101)	-	(101)
Dividends	-	-	(121,248)	-	-	-	(121,248)
Sale of stock (26,295 shares)	13	664	-	-	-	-	677
Repurchase of stock (981,585 shares)	-	-	-	(25,247)	-	-	(25,247)
Equity compensation plan (321,402 shares)	161	(161)	-	-	-	-	-
Exercise of stock options (424,709 shares)	212	7,328	-	-	-	-	7,540
Stock-based compensation	-	5,860	(433)	-	-	-	5,427
Employee stock plan tax benefits	-	2,602	-	-	-	-	2,602
Other	-	(853)	-	-	-	(40)	(893)
Balance at December 31, 2015	\$ 89,682	\$ 773,585	\$ 930,061	\$ (68,085)	\$ 687	\$ -	\$ 1,725,930

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars)

Years ended December 31, 2015, 2014, and 2013

	2015	2014	2013
Cash flows from operating activities:			
Net income attributable to common shareholders	\$ 201,790	\$ 233,239	\$ 221,300
Income from discontinued operations	-	19,355	18,429
Income from continuing operations	201,790	213,884	202,871
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:			
Depreciation and amortization	128,737	126,535	123,985
Deferred income taxes	16,506	31,477	26,699
Provision for doubtful accounts	5,765	5,838	4,708
Share-based compensation	5,860	6,819	5,066
Gain on sale of utility system	-	-	(1,025)
(Gain) loss on sale of other assets	(468)	4	(148)
Gain on extinguishment of debt	(678)	-	-
Equity loss in joint venture	35,177	3,989	2,665
Net change in receivables, inventory and prepayments	(6,520)	(20,299)	4,466
Net change in payables, accrued interest, accrued taxes and other accrued liabilities	(3,469)	470	(13,425)
Change in income tax receivable	-	7,873	8,209
Other	(11,906)	(11,702)	1,338
Operating cash flows from continuing operations	370,794	364,888	365,409
Operating cash flows (used in) from discontinued operations, net	-	(1,100)	2,410
Net cash flows from operating activities	370,794	363,788	367,819
Cash flows from investing activities:			
Property, plant and equipment additions, including the debt component of allowance for funds used during construction of \$1,598, \$1,494, and \$1,742	(364,689)	(328,605)	(307,908)
Acquisitions of utility systems and other, net	(28,989)	(14,616)	(14,997)
Release of funds previously restricted for construction activity	47	-	23,531
Additions to funds restricted for construction activity	-	-	(6)
Net proceeds from the sale of utility systems and other assets	648	558	5,315
Investment in joint venture	-	-	(14,700)
Other	(1,079)	279	76
Investing cash flows used in continuing operations	(394,062)	(342,384)	(308,689)
Investing cash flows from discontinued operations, net	-	49,883	87,126
Net cash flows used in investing activities	(394,062)	(292,501)	(221,563)
Cash flows from financing activities:			
Customers' advances and contributions in aid of construction	5,904	6,064	5,114
Repayments of customers' advances	(3,977)	(4,028)	(4,303)
Net repayments of short-term debt	(1,677)	(18,342)	(43,643)
Proceeds from long-term debt	560,544	317,699	263,834
Repayments of long-term debt	(400,407)	(253,192)	(300,323)
Change in cash overdraft position	(739)	(322)	9,872
Proceeds from issuing common stock	677	-	10,290
Proceeds from exercised stock options	7,540	7,296	25,698
Share-based compensation windfall tax benefits	1,842	1,422	2,420
Repurchase of common stock	(25,247)	(15,756)	(12,823)
Dividends paid on common stock	(121,248)	(112,106)	(102,889)
Other	(853)	(793)	-
Financing cash flows used in continuing operations	22,359	(72,058)	(146,753)
Financing cash flows (used in) from discontinued operations, net	-	(149)	34
Net cash flows used in financing activities	22,359	(72,207)	(146,719)
Net decrease in cash and cash equivalents	(909)	(920)	(463)
Cash and cash equivalents at beginning of year	4,138	5,058	5,521
Cash and cash equivalents at end of year	\$ 3,229	\$ 4,138	\$ 5,058
Cash paid during the year for:			
Interest, net of amounts capitalized	\$ 70,103	\$ 72,441	\$ 75,452
Income taxes	6,902	4,348	6,995
Non-cash investing activities:			
Property, plant and equipment additions purchased at the period end, but not yet paid	\$ 25,612	\$ 31,050	\$ 30,974
Non-cash customer advances for construction	27,992	43,642	26,188

See accompanying notes to consolidated financial statements.

See Note 10 – *Long-term Debt and Loans Payable*, and Note 14 – *Employee Stock and Incentive Plan* for a description of non-cash activities.

**Note 1 – Summary of Significant Accounting Policies**

**Nature of Operations** — Aqua America, Inc. (“Aqua America,” the “Company,” “we,” or “us”) is the holding company for regulated utilities providing water or wastewater services concentrated in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. Our largest operating subsidiary is Aqua Pennsylvania, Inc., which accounted for approximately 52% of our operating revenues and approximately 76% of our Regulated segment’s income from continuing operations for 2015. As of December 31, 2015, Aqua Pennsylvania provided water or wastewater services to approximately one-half of the total number of people we serve. Aqua Pennsylvania’s service territory is located in the suburban areas north and west of the City of Philadelphia and in 27 other counties in Pennsylvania. The Company’s 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 services through operating and maintenance contracts with municipal authorities and other parties in close proximity to our utility companies’ service territories; offers, through a third party, water and wastewater line repair service and protection solutions to households; inspects, cleans and repairs sanitary wastewater lines; installs and tests devices that prevent the contamination of potable water; designs and builds water and wastewater systems; and provides other market-based water and wastewater services. In addition, Aqua Resources provides liquid waste hauling and disposal services in a business unit that the Company has decided to sell, which as of December 31, 2015 is reported as assets held for sale in the Company’s Consolidated Balance Sheets. Aqua Infrastructure provides non-utility raw water supply services for firms in the natural gas drilling industry.

In December 2014, we completed the sale of our water utility system in southwest Allen County, Indiana, which served approximately 13,000 customers, to the City of Fort Wayne, Indiana. The completion of this sale settled the dispute concerning the February 2008 acquisition, by eminent domain, by the City of Fort Wayne, of the northern portion of our water and wastewater utility systems. Refer to Note 3 – *Discontinued Operations and Other Disposition* for further information on this sale.

In September 2012, we began to market for sale our water and wastewater operations in Florida, which served approximately 38,000 customers, and our non-regulated wastewater treatment facility in Georgia. In March 2014, we completed the sale of our wastewater treatment facility in Georgia, which concluded our operations in Georgia. In March, April, and December 2013, through five separate sales transactions, we completed the sale of our water and wastewater utility systems in Florida, which concluded our regulated operations in Florida.

The operating results, cash flows, and financial position of the Company’s water utility systems in Fort Wayne, Indiana, and Georgia and Florida subsidiaries have been presented in the Company’s consolidated financial statements as discontinued operations. Unless specifically noted, the financial information presented in the notes to consolidated financial statements reflects the Company’s continuing operations.

The company has identified ten operating segments and has one reportable segment named the Regulated segment. The reportable segment is comprised of eight operating segments for our water and wastewater regulated utility companies which are organized by the states where we provide these services. These operating segments are aggregated into one reportable segment since each of the Company’s operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment. In addition, Aqua Resources and Aqua Infrastructure are not quantitatively significant to be reportable and are included as a component of “Other,” in addition to corporate costs that have not been allocated to the Regulated segment and intersegment eliminations.

**Regulation** — Most of the operating companies that are regulated public utilities are subject to regulation by the utility commissions of the states in which they operate. The respective utility commissions have jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters. Some of the operating companies that are regulated public utilities are subject to rate regulation by county or city government. Regulated public utilities follow the Financial Accounting Standards Board’s (“FASB”) accounting guidance for regulated operations, which provides for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. The regulatory assets or liabilities are then relieved as the cost or credit is reflected in rates.

AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

***Use of Estimates in Preparation of Consolidated Financial Statements*** — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Basis of Presentation*** — The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation of operating cash flows from continuing operations.

***Recognition of Revenues*** — Revenues in our Regulated segment principally include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the latest billing to the end of the accounting period. In addition, the Company's market-based subsidiary Aqua Resources recognizes revenues when services are performed or, for construction of water and wastewater systems, based on the percentage of completion of the project and Aqua Infrastructure recognizes revenues when services are performed. The Company's market-based subsidiaries recognized revenues of \$34,909 in 2015, \$24,189 in 2014, and \$17,712 in 2013.

***Property, Plant and Equipment and Depreciation*** — Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads and, for additions meeting certain criteria, allowance for funds used during construction. Water systems acquired are typically recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost, less applicable accumulated depreciation, and the purchase price is recorded as goodwill, or as an acquisition adjustment within utility plant as permitted by the applicable regulatory jurisdiction. At December 31, 2015, utility plant includes a net credit acquisition adjustment of \$24,428, which is generally being amortized from 2 to 53 years, except where not permitted or appropriate. Amortization of the acquisition adjustments totaled \$2,556 in 2015, \$2,648 in 2014, and \$2,480 in 2013.

Utility expenditures for maintenance and repairs, including major maintenance projects and minor renewals and betterments, are charged to operating expenses when incurred in accordance with the system of accounts prescribed by the utility commissions of the states in which the company operates. The cost of new units of property and betterments are capitalized. Utility expenditures for water main cleaning and relining of pipes are deferred and recorded in net property, plant and equipment in accordance with the FASB's accounting guidance for regulated operations. As of December 31, 2015, \$16,148 of these costs have been incurred since the last respective rate proceeding and the Company expects to recover these costs in future rates.

The cost of software upgrades and enhancements are capitalized if they result in added functionality which enable the software to perform tasks it was previously incapable of performing. Information technology costs associated with major system installations, conversions and improvements, such as software training, data conversion and business process reengineering costs, are deferred as a regulatory asset if the Company expects to recover these costs in future rates. If these costs are not deferred, then these costs are charged to operating expenses when incurred. As of December 31, 2015, \$24,509 of these costs have been deferred since the last respective rate proceeding as a regulatory asset, and the deferral is reported as a component of net property, plant and equipment.

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

The straight-line remaining life method is used to compute depreciation on utility plant. Generally, the straight-line method is used with respect to transportation and mechanical equipment, office equipment and laboratory equipment. Long-lived assets of the Company, which consist primarily of utility plant in service, regulatory assets, and investment in joint venture, are reviewed for impairment when changes in circumstances or events occur. These circumstances or events could include a decline in the market value or physical condition of a long-lived asset, an adverse change in the manner in which long-lived assets are used or planned to be used, a change in historical trends, operating cash flows

AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

associated with the long-lived assets, changes in macroeconomic conditions, industry and market conditions, or overall financial performance. When these circumstances or events occur, the Company determines whether it is more likely than not that the fair value of those assets is less than their carrying amount. If the Company determines that it is more likely than not (that is, the likelihood of more than 50 percent), the Company would recognize an impairment charge if it is determined that the carrying amount of an asset exceeds the sum of the undiscounted estimated cash flows. In this circumstance, the Company would recognize an impairment charge equal to the difference between the carrying amount and the fair value of the asset. Fair value is estimated to be the present value of future net cash flows associated with the asset, discounted using a discount rate commensurate with the risk and remaining life of the asset. There has been no change in circumstances or events that have occurred that require adjustments to the carrying values of the Company's long-lived assets, except for an impairment charge recognized by the joint venture on its long-lived assets in 2015.

***Allowance for Funds Used During Construction*** — The allowance for funds used during construction (“AFUDC”) represents the capitalized cost of funds used to finance the construction of utility plant. In general, AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction, contributions in aid of construction, or applicable state-revolving fund loans. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. The amount of AFUDC related to equity funds in 2015 was \$4,621, 2014 was \$3,640, and 2013 was \$533. No interest was capitalized by our market-based businesses.

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

The Company had a book overdraft, which represents transactions that have not cleared the bank accounts at the end of the period, for specific disbursement cash accounts of \$20,693 and \$21,431 at December 31, 2015 and 2014, respectively. The Company transfers cash on an as-needed basis to fund these items as they clear the bank in subsequent periods. The balance of the book overdraft is reported as accounts payable and the change in the book overdraft balance is reported as cash flows from financing activities, due to our ability to fund the overdraft with the Company's credit facility.

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

***Regulatory Assets, Deferred Charges and Other Assets*** — Deferred charges and other assets consist of financing expenses, other costs and marketable securities. Deferred bond issuance expenses are amortized over the life of the related issues. Call premiums related to the early redemption of long-term debt, along with the unamortized balance of the related issuance expense, are deferred and amortized over the life of the long-term debt used to fund the redemption as the Company has received or expects to receive rate recovery of these costs. Other costs, for which the Company has received or expects to receive prospective rate recovery, are deferred as a regulatory asset and amortized over the period of rate recovery in accordance with the FASB's accounting guidance for regulated operations. See Note – 6 *Regulatory Assets and Liabilities* for further information regarding the Company's regulatory assets.

Marketable equity securities are carried on the balance sheet at fair market value, and changes in fair value are included in other comprehensive income.

***Investment in Joint Venture*** — The Company uses the equity method of accounting to account for our 49% investment in a joint venture with a firm in the natural gas industry for the construction and operation of a private pipeline system to supply raw water to natural gas well drilling operations in the Marcellus Shale in north-central Pennsylvania, which commenced operations in 2012. Our initial investment is carried at cost. Subsequently, the carrying amount of our investment is adjusted to reflect capital contributions or distributions, and our equity in earnings or losses since the commencement of the system's operations. Our share of equity earnings or losses in the

AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

joint venture is reported in the consolidated statements of net income as equity losses (earnings) in joint venture. During 2015 and 2014 we received distributions of \$441 and \$1,372, respectively.

During the fourth quarter of 2015, the joint venture experienced the following events: a marked decline in natural gas prices, particularly in the fourth quarter of 2015, following a period of steady decline in 2015, a distinguishable reduction in the volume of water sales by the joint venture which led to a lowered forecast in the fourth quarter of 2015 on future water sales volumes by the joint venture, as well as changes in the natural gas industry and market conditions. These market conditions are largely associated with natural gas prices, which sharply declined in the fourth quarter and this downturn no longer appeared temporary and instead may be a long-term condition. It was then determined that the carrying amount of the joint venture's long-lived assets exceeded the sum of the joint venture's undiscounted estimated cash flows, which resulted in the recognition of a noncash impairment charge of \$32,975 (\$21,433 after-tax), representing the Company's share of the impairment charge. The impairment charge, on a pre-tax basis, is reported as equity loss in joint venture on the Company's consolidated statements of income. The amount of the impairment charge recognized by the joint venture is equal to the difference between the carrying value and the fair value of the long-lived assets. Fair value is estimated to be the present value of the future net cash flows associated with the assets, discounted using a rate commensurate with the risk and remaining life of the assets. As of December 31, 2015, the joint venture's assets are comprised of approximately one-half in long-lived assets and one-half in cash, and our share was \$7,716.

**Funds Restricted for Construction Activity** — The proceeds received from specific financings for construction and capital improvement of utility facilities are held in escrow until the designated expenditures are incurred. These amounts are reported as funds restricted for construction activity and are expected to be released over time as the capital projects are funded.

**Goodwill** — Goodwill represents the excess cost over the fair value of net tangible and identifiable intangible assets acquired through acquisitions. Goodwill is not amortized but is tested for impairment annually, or more often, if circumstances indicate a possible impairment may exist. When testing goodwill for impairment, we may assess qualitative factors for some or all of our reporting units to determine whether it's more likely than not that the fair value of a reporting unit is less than its carrying amount. Alternatively, we may bypass this qualitative assessment for some of our reporting units and perform a quantitative goodwill impairment test. If we perform a quantitative test and determine that the fair value of a reporting unit is less than its carrying amount, we would determine the reporting unit's implied fair value of its goodwill and compare it with the carrying amount of its goodwill to measure such impairment. The Company tested the goodwill attributable for each of our reporting units for impairment as of July 31, 2015, in conjunction with the timing of our annual strategic business plan, and concluded that the estimated fair value of each reporting unit, which has goodwill recorded, exceeded the reporting unit's carrying amount, indicating that none of the Company's goodwill was impaired. The following table summarizes the changes in the Company's goodwill:

	Regulated Segment	Other	Consolidated
Balance at December 31, 2013	\$ 24,102	\$ 4,121	\$ 28,223
Goodwill acquired during year	182	2,515	2,697
Reclassifications to utility plant acquisition adjustment	(302)	-	(302)
Other	582	(16)	566
Balance at December 31, 2014	24,564	6,620	31,184
Goodwill acquired during year	-	12	12
Reclassifications from (to) utility plant acquisition adjustment, net	2,682	-	2,682
Other	-	(12)	(12)
Balance at December 31, 2015	\$ 27,246	\$ 6,620	\$ 33,866

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

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customer rates, of goodwill associated with some acquisitions upon achieving specific objectives. The reclassification from utility plant acquisition adjustment to goodwill represents the purchase price in excess of the fair market value of the net assets acquired, from a prior acquisition, which was originally accounted for as utility plant acquisition adjustment.

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

In 2012, the Company changed its tax method of accounting for qualifying utility asset improvement costs in Aqua Pennsylvania effective with the tax year ended December 31, 2012 and for prior tax years. The tax accounting method was changed to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for book and tax purposes. This change was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission to Aqua Pennsylvania, which provides for a reduction in current income tax expense as a result of the recognition of income tax benefits for qualifying utility asset improvements. This change results in a significant reduction in the effective income tax rate, a reduction in current income tax expense, and reduces the amount of taxes currently payable. For qualifying capital expenditures made prior to 2012, the resulting tax benefits have been deferred as of December 31, 2012 and, in accordance with the rate order, a ten year amortization of the income tax benefits, which reduces future income tax expense, commenced in 2013. During 2013, our Ohio and North Carolina operating divisions implemented this change. These divisions currently do not employ a method of accounting that provides for a reduction in current income taxes as a result of the recognition of income tax benefits, and as such the change in the Company's tax method of accounting in these operating divisions had no impact on the Company's effective income tax rate.

**Customers' Advances for Construction and Contributions in Aid of Construction** — Water mains, other utility property or, in some instances, cash advances to reimburse the Company for its costs to construct water mains or other utility property, are contributed to the Company by customers, real estate developers and builders in order to extend utility service to their properties. The value of these contributions is recorded as customers' advances for construction. Over time, the amount of non-cash contributed property will vary based on the timing of the contribution of the non-cash property and the volume of non-cash contributed property received in connection with development in our service territories. The Company makes refunds on these advances over a specific period of time based on operating revenues related to the property, or as new customers are connected to and take service from the applicable water main. After all refunds are made, any remaining balance is transferred to contributions in aid of construction. Contributions in aid of construction include direct non-refundable contributions and the portion of customers' advances for construction that become non-refundable.

Based on regulatory conventions in states where the Company operates, generally our subsidiaries depreciate contributed property and amortize contributions in aid of construction at the composite rate of the related property. Contributions in aid of construction and customers' advances for construction are deducted from the Company's rate base for rate-making purposes, and therefore, no return is earned on contributed property.

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

**Stock-Based Compensation** — The Company records compensation expense in the financial statements for stock-based awards based on the grant date fair value of those awards. Stock-based compensation expense includes an estimate for pre-vesting forfeitures and is recognized over the requisite service periods of the awards on a straight-line basis, which is generally commensurate with the vesting term.

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**Fair Value Measurements** – The Company follows the FASB’s 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;
- 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 years ended December 31, 2015 and 2014.

**Recent Accounting Pronouncements** — In November 2015, the FASB issued updated accounting guidance on the balance sheet classification of deferred tax assets and liabilities, which requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. Previously, deferred taxes were presented as a net current asset or liability and net noncurrent asset or liability, which required a jurisdiction-by-jurisdiction analysis based on the classification of the assets and liabilities to which the underlying temporary differences relate, or, in the case of tax loss carryforwards, based on the period in which the attribute is expected to be realized. The updated guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption available, and the guidance may be applied either prospectively or retrospectively. The Company has elected to early adopt the updated guidance, prospectively, for its fiscal year ended December 31, 2015, and has not retrospectively adjusted the prior period consolidated balance sheet. If the Company had adopted the updated guidance retrospectively, the December 31, 2014 deferred income taxes of \$26,849 classified as current assets would have been reported as a partial reduction to the deferred income taxes and investment tax credits reported in the deferred credits and other liabilities section of the consolidated balance sheet.

In September 2015, the FASB issued updated accounting guidance on simplifying measurement-period adjustments in business combinations, which eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. The updated guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption available. The Company does not expect the provisions of this accounting standard to have a material impact on its results of operations or financial position.

In April 2015, the FASB issued updated accounting guidance on simplifying the presentation of debt issuance costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. Previously, debt issuance costs were presented in the balance sheet as a deferred charge. The accounting standard is effective for reporting periods beginning after December 15, 2015, and will be applied retrospectively. The Company does not expect the provisions of this accounting standard to have a material impact on its results of operations or financial position.

In August 2014, the FASB issued an accounting standard that will require management to assess an entity’s ability to continue as a going concern for each annual and interim reporting period and to provide related footnote disclosures in circumstances in which substantial doubt exists. The accounting standard is effective in the first annual reporting period ending after December 15, 2016. The Company does not expect the provisions of this accounting standard to have an impact on its results of operations or financial position.



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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. In July 2015, the FASB approved a one year deferral to the original effective date of this guidance. The updated guidance is effective retrospectively for reporting periods beginning after December 15, 2017. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

In April 2014, the FASB issued updated accounting guidance which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The updated guidance is effective prospectively for reporting periods beginning after December 15, 2014, with early adoption available. The Company adopted the provisions of the updated accounting guidance for its quarterly reporting period beginning January 1, 2015, and the adoption of the revised guidance did not have an impact on the Company's consolidated results of operations or consolidated financial position.

**Note 2 – Acquisitions**

Pursuant to the Company's growth-through-acquisition strategy, the Company completed the following acquisitions. In April 2015, the Company acquired the water and wastewater utility system assets of North Maine Utilities, located in the Village of Glenview, Illinois serving approximately 7,400 customers. The total purchase price consisted of \$23,079 in cash. The purchase price allocation for this acquisition consists primarily of acquired property, plant and equipment. Additionally, in 2015, the Company completed 14 acquisitions of water and wastewater utility systems in various states. The total purchase price of these utility systems consisted of \$5,210 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company for the utility systems acquired in 2015 are \$6,662. The pro forma effect of the businesses acquired is not material either individually or collectively to the Company's results of operations.

In 2014, the Company completed 16 acquisitions of water and wastewater utility systems in various states. The total purchase price of these utility systems consisted of \$10,530 in cash. Further, in August 2014, the Company acquired a market-based business that specializes in the inspection, cleaning and repair of storm and sanitary sewer lines. The total purchase price consisted of \$3,010, of which a total of \$810 is contingent upon satisfying certain annual performance targets over a three-year period for which \$270 has been paid for completion of the performance targets for year one. Additionally, in December 2014, the Company acquired a market-based business that specializes in providing water distribution system services to prevent the contamination of potable water, including training to waterworks operators. The total purchase price consisted of \$1,800, of which \$700 was paid in the first quarter of 2015. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company for these utility systems and market-based businesses were \$19,154 in 2015 and \$4,403 in 2014. The pro forma effect of the businesses acquired is not material either individually or collectively to the Company's results of operations.

In 2013, the Company completed 15 acquisitions of water and wastewater utility systems in various states. The total purchase price consisted of \$14,997 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were \$3,276 in 2015, \$3,180 in 2014, and \$2,103 in 2013. The pro forma effect of the businesses acquired is not material either individually or collectively to the Company's results of operations.

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, 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, which was valued based on the average closing price for the thirty consecutive trading days ending December 31, 2015, and \$3,905 in cash. As of the date of issuance of the financial statements, the initial accounting of the purchase price allocation for this acquisition is incomplete.

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**Note 3 – Discontinued Operations and Other Disposition**

*Discontinued Operations* – In December 2014, we completed the sale of our water utility system in southwest Allen County, Indiana to the City of Fort Wayne, Indiana (the “City”) for \$67,011, which included a payment received in December 2014 of \$50,100 in addition to \$16,911 the City already paid the Company for the northern portion of our water and wastewater utility systems, which were acquired by the City in February 2008, by eminent domain. We recognized a gain on sale of \$29,210 (\$17,611 after-tax) in the fourth quarter of 2014. As a result of this transaction, Aqua Indiana will expand its sewer customer base by accepting new wastewater flows from the City.

In September 2012, the Company began to market for sale its water and wastewater operations in Florida, which served approximately 38,000 customers, and the Company’s non-regulated wastewater treatment facility in Georgia. In March 2014, we completed the sale of our wastewater treatment facility in Georgia, which concluded our operations in this state. In March, April, and December 2013, through five separate sales transactions, we completed the sale of our water and wastewater utility systems in Florida, which concluded our regulated operations in Florida. The Company received total net proceeds from these sales of \$88,934 and recognized a gain on sale of \$21,178 (\$13,766 after-tax).

The operating results, cash flows, and financial position of the Company’s subsidiaries named above have been presented in the Company’s consolidated statements of net income, consolidated statements of cash flow, and consolidated balance sheets as discontinued operations.

A summary of discontinued operations presented in the consolidated statements of net income includes the following:

	Years Ended December 31,	
	2014	2013
Operating revenues	\$ 6,324	\$ 19,014
Total operating expenses	3,262	11,880
Operating income	3,062	7,134
Other (income) expense:		
Gain on sale	(29,093)	(21,178)
Other, net	-	1
Income from discontinued operations before income taxes	32,155	28,311
Provision for income taxes	12,800	9,882
Income from discontinued operations	\$ 19,355	\$ 18,429

As of December 31, 2015 and 2014 the Company does not have any assets or liabilities of discontinued operations held for sale.

*Other Disposition* – The following disposition has not been presented as discontinued operations in the Company’s consolidated financial statements as the Company does not believe that disclosure of the following disposed water and wastewater utility system as discontinued operations is meaningful to the reader of the financial statements for making investment decisions. The gains disclosed below are reported in the consolidated statements of net income as a reduction to operations and maintenance expense.

In June 2013, the Company sold a water and wastewater utility system in Texas for net proceeds of \$3,400. The sale resulted in the recognition of a gain on sale of these assets, net of expenses, of \$1,025 (\$615 after-tax), and is reported in the consolidated statement of net income as a reduction to operations and maintenance expense. The utility system represented approximately 0.04% of the Company’s total assets.

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**Note 4 – Property, Plant and Equipment**

	December 31,		Approximate Range of Useful Lives	Weighted Average Useful Life
	2015	2014		
Utility plant and equipment:				
Mains and accessories	\$ 2,696,194	\$ 2,516,895	30 - 93 years	77 years
Services, hydrants, treatment plants and reservoirs	1,531,052	1,426,701	5 - 85 years	49 years
Operations structures and water tanks	263,722	252,908	14 - 70 years	47 years
Miscellaneous pumping and purification equipment	687,472	654,316	5 - 90 years	40 years
Meters, data processing, transportation and operating equipment	684,335	650,253	4 - 63 years	25 years
Land and other non-depreciable assets	98,575	100,009	-	-
Utility plant and equipment	5,961,350	5,601,082		
Utility construction work in progress	144,448	116,644	-	-
Net utility plant acquisition adjustment	(24,428)	(20,164)	2 - 53 years (1)	28 years
Non-utility plant and equipment	6,641	9,455	3 - 25 years	7 years
Total property, plant and equipment	<u>\$ 6,088,011</u>	<u>\$ 5,707,017</u>		

(1) Net utility plant acquisition adjustment is generally being amortized from 2 to 53 years, except where not permitted.

**Note 5 – Accounts Receivable**

	December 31,	
	2015	2014
Billed utility revenue	\$ 56,876	\$ 55,537
Unbilled revenue	37,276	35,566
Other	10,867	11,261
	<u>105,019</u>	<u>102,364</u>
Less allowance for doubtful accounts	5,873	5,365
Net accounts receivable	<u>\$ 99,146</u>	<u>\$ 96,999</u>

The Company's utility customers are located principally in the following states: 47% in Pennsylvania, 16% in Ohio, 10% in North Carolina, 8% in Texas, and 8% in Illinois. No single customer accounted for more than one percent of the Company's regulated operating revenues during the years ended December 31, 2015, 2014, and 2013. The following table summarizes the changes in the Company's allowance for doubtful accounts:

	2015	2014	2013
Balance at January 1,	\$ 5,365	\$ 4,413	\$ 4,299
Amounts charged to expense	5,762	5,838	4,708
Accounts written off	(6,513)	(6,120)	(5,884)
Recoveries of accounts written off	1,259	1,234	1,290
Balance at December 31,	<u>\$ 5,873</u>	<u>\$ 5,365</u>	<u>\$ 4,413</u>

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**Note 6 – Regulatory Assets and Liabilities**

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts recovered from customers in advance of incurring the costs. Except for income taxes, regulatory assets and regulatory liabilities are excluded from the Company's rate base and do not earn a return. The components of regulatory assets and regulatory liabilities are as follows:

	December 31, 2015		December 31, 2014	
	Regulatory Assets	Regulatory Liabilities	Regulatory Assets	Regulatory Liabilities
Income taxes	\$ 699,247	\$ 181,067	\$ 596,459	\$ 206,940
Utility plant retirement costs	6,052	27,604	7,687	25,236
Post-retirement benefits	112,626	50,775	108,586	46,074
Accrued vacation	1,744	-	1,605	-
Water tank painting	303	-	1,533	-
Fair value adjustment of long-term debt assumed in acquisition	3,636	-	4,004	-
Rate case filing expenses and other	6,510	61	5,717	67
	\$ 830,118	\$ 259,507	\$ 725,591	\$ 278,317

Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to specific differences between tax and book depreciation expense, are recognized in the rate setting process on a cash basis or as a reduction in current income tax expense and will be recovered as they reverse. Amounts include differences that arise between specific utility asset improvement costs capitalized for book and deducted as an expense for tax purposes.

A portion of the regulatory liability for income taxes is related to Aqua Pennsylvania's income tax accounting change for the tax benefits realized on the Company's 2012 tax return, which have not yet reduced current income tax expense due to the ten year amortization period which began in 2013. This amortization was stipulated in a June 2012 rate order issued to Aqua Pennsylvania and is subject to specific parameters being met each year. Beginning in 2013, the Company amortized \$38,000, annually, of its deferred income tax benefits, which reduced current income tax expense and increased the Company's net income by \$16,734.

The regulatory asset for utility plant retirement costs, including cost of removal, represents costs already incurred that are expected to be recovered in future rates over a five year recovery period. The regulatory liability for utility plant retirement costs represents amounts recovered through rates during the life of the associated asset and before the costs are incurred.

The regulatory asset for accrued vacation represents costs that would otherwise be charged to operations and maintenance expense for vacation that is earned by employees, which is recovered as a cost of service.

The regulatory asset for Post-retirement benefits, which includes pension and other post-retirement benefits, primarily reflects a regulatory asset that has been recorded for the costs that would otherwise be charged to stockholders' equity for the underfunded status of the Company's pension and other post-retirement benefit plans. The Company also has a regulatory asset related to post-retirement benefits costs that represents costs already incurred which are now being recovered in rates over 10 years. The regulatory liability for post-retirement benefits represents costs recovered in rates in excess of post-retirement benefits expense.

Expenses associated with water tank painting are deferred and amortized over a period of time as approved in the regulatory process. Water tank painting costs are generally being amortized over a period ranging from 1 to 15 years.

The Company recorded a fair value adjustment for fixed rate, long-term debt assumed in acquisitions that matures in various years ranging from 2022 to 2029. The regulatory asset or liability results from the rate setting process continuing to recognize the historical interest cost of the assumed debt.

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The regulatory asset related to rate case filing expenses and other represents the costs associated with filing for rate increases that are deferred and amortized over periods that generally range from one to five years, and costs incurred by the Company for which it has received or expects to receive rate recovery.

The regulatory asset related to the costs incurred for information technology software projects and water main cleaning and relining projects are described in Note 1 – *Summary of Significant Accounting Policies – Property, Plant and Equipment and Depreciation*.

**Note 7 – Income Taxes**

The provision for income taxes for the Company’s continuing operations consists of:

	Years Ended December 31,		
	2015	2014	2013
<b>Current:</b>			
Federal	\$ 2,624	\$ (11,296)	\$ (11,153)
State	(4,168)	5,038	5,687
	(1,544)	(6,258)	(5,466)
<b>Deferred:</b>			
Federal	12,649	37,500	30,327
State	3,857	(6,023)	(3,628)
	16,506	31,477	26,699
<b>Total tax expense</b>	<b>\$ 14,962</b>	<b>\$ 25,219</b>	<b>\$ 21,233</b>

The statutory Federal tax rate is 35% and for states with a corporate net income tax, the state corporate net income tax rates range from 5% to 9.99% for all years presented.

The reasons for the differences between amounts computed by applying the statutory Federal income tax rate to income before income tax expense for the Company’s continuing operations are as follows:

	Years Ended December 31,		
	2015	2014	2013
Computed Federal tax expense at statutory rate	\$ 75,863	\$ 83,686	\$ 78,436
Decrease in Federal tax expense related to an income tax accounting change for qualifying utility asset improvement costs	(59,488)	(57,015)	(57,467)
State income taxes, net of Federal tax benefit	(202)	(640)	1,338
Increase in tax expense for depreciation expense to be recovered in future rates	199	317	295
Stock-based compensation	(174)	(168)	(421)
Deduction for Aqua America common dividends paid under employee benefit plan	(456)	(350)	(414)
Amortization of deferred investment tax credits	(421)	(416)	(420)
Other, net	(359)	(195)	(114)
<b>Actual income tax expense</b>	<b>\$ 14,962</b>	<b>\$ 25,219</b>	<b>\$ 21,233</b>

In December 2012, the Company changed its tax method of accounting for qualifying utility system repairs in Aqua Pennsylvania effective with the tax year ended December 31, 2012 and for prior tax years. The tax accounting method was changed to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for book and tax purposes. This change was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission to Aqua Pennsylvania which provides for a reduction in current income tax expense as a result of the recognition of some income tax benefits resulting from the income tax accounting change. In 2013, the Company recorded \$60,555 of income tax benefits, which includes \$14,908 of income tax benefits recognized based on final filing positions used in the 2012 tax return. In 2014, the Company recorded \$69,048 of income tax benefits. In 2015, the Company recorded \$72,944 of income tax benefits. The

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Company recognized a tax deduction on its 2012 Federal tax return of \$380,000 for qualifying capital expenditures made prior to 2012, and based on the rate order, in 2013, the Company began to amortize 1/10<sup>th</sup> of these expenditures. In accordance with the rate order, the amortization is expected to reduce current income tax expense during periods when qualifying parameters are met. Beginning in 2013, the Company amortized the qualifying capital expenditures made prior to 2012 and recognized \$38,000, annually, of deferred income tax benefits, which reduced current income tax expense and increased the Company's net income by \$16,734. The Company's effective income tax rate for 2015, 2014, and 2013, for its continuing operations, was 6.9%, 10.5%, and 9.5%, respectively.

In September 2013, the Department of Treasury and the Internal Revenue Service issued "Guidance Regarding Deduction and Capitalization of Expenditures Related to Tangible Property" which contains standards for determining whether and when a taxpayer must capitalize costs incurred in acquiring, maintaining or improving tangible property. These regulations were effective for the Company's 2014 fiscal year, and the adoption of these regulations did not have a material impact on the Company's consolidated results of operations or consolidated financial position.

The Company establishes reserves for uncertain tax positions based upon management's judgment as to the sustainability of these positions. These accounting estimates related to the uncertain tax position reserve require judgments to be made as to the sustainability of each uncertain tax position based on its technical merits. The Company believes its tax positions comply with applicable law and that it has adequately recorded reserves as required. However, to the extent the final tax outcome of these matters is different than the estimates recorded, the Company would then adjust its tax reserves or unrecognized tax benefits in the period that this information becomes known. The Company has elected to recognize accrued interest and penalties related to uncertain tax positions as income tax expense.

The following table provides the changes in the Company's unrecognized tax benefits:

	2015	2014
Balance at January 1,	\$ 25,292	\$ 28,690
Additions based on tax position related to the current year	2,724	1,077
Reductions based on tax position related to prior years	-	(4,475)
Balance at December 31,	\$ 28,016	\$ 25,292

The unrecognized tax benefits relate to the income tax accounting change, and the tax position is attributable to a temporary difference. The Company does not anticipate material changes to its unrecognized tax benefits within the next year. As a result of the regulatory treatment afforded by the income tax accounting change in Pennsylvania and despite this position being a temporary difference, as of December 31, 2015 and 2014, \$17,777 and \$12,567, respectively, of these tax benefits would have an impact on the Company's effective income tax rate in the event the Company does sustain all, or a portion, of its tax position.

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The following table provides the components of the net deferred tax liability from continuing operations:

	December 31,	
	2015	2014
Deferred tax assets:		
Customers' advances for construction	\$ 27,675	\$ 27,130
Costs expensed for book not deducted for tax, principally accrued expenses	15,612	14,279
Utility plant acquisition adjustment basis differences	3,489	12,314
Post-retirement benefits	36,362	34,653
Tax loss carryforward	93,263	112,719
Other	1,102	1,528
	<u>177,503</u>	<u>202,623</u>
Less valuation allowance	10,982	6,578
	<u>166,521</u>	<u>196,045</u>
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	1,027,406	966,596
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	214,861	161,479
Tax effect of regulatory asset for post-retirement benefits	36,362	34,653
Deferred investment tax credit	6,815	7,259
	<u>1,285,444</u>	<u>1,169,987</u>
Net deferred tax liability	<u>\$ 1,118,923</u>	<u>\$ 973,942</u>

At December 31, 2015, the Company has a cumulative Federal net operating loss ("NOL") of \$158,276. The Company believes the Federal NOLs are more likely than not to be recovered and require no valuation allowance. The Company's Federal NOLs do not begin to expire until 2031.

In 2012 and 2011, as a result of the Company's Federal cumulative NOLs the Company ceased recognizing the windfall tax benefit associated with stock-based compensation, because the deduction did not reduce income taxes payable. As of December 31, 2015, the Company utilized all of the 2011 NOL and recognized a windfall tax benefit of \$1,680. Upon realization of the Company's 2012 Federal NOLs, the Company will recognize a windfall tax benefit of \$2,805.

At December 31, 2015 the Company has a cumulative state NOL of \$548,671, a portion of which is offset by a valuation allowance because the Company does not believe these NOLs are more likely than not to be realized. The state NOLs do not begin to expire until 2023.

The Company has unrecognized tax positions that result in the associated tax benefit being unrecognized. The Company's Federal and state NOL carryforwards are reduced by an unrecognized tax position, on a gross basis, of \$62,975 and \$88,904, respectively, which results from the Company's adoption in 2013 of the FASB's accounting guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amounts of the Company's Federal and state NOL carryforwards prior to being reduced by the unrecognized tax positions are \$221,070 and \$637,575, respectively. The Company records its unrecognized tax benefit as a reduction to its deferred income tax liability.

As of December 31, 2015, the Company's Federal income tax returns for all years through 2011 have been closed. Tax years 2012 through 2015 remain open to Federal examination. The statute remains open for the Company's state income tax returns for tax years 2012 through 2015 in the various states in which the Company's conducts business.

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**Note 8 – Taxes Other than Income Taxes**

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

	Years Ended December 31,		
	2015	2014	2013
Property	\$ 26,545	\$ 24,133	\$ 25,341
Capital Stock	1,644	1,315	2,127
Gross receipts, excise and franchise	10,362	10,945	11,775
Payroll	9,539	7,583	7,395
Regulatory assessments	2,689	2,538	2,462
Other	4,278	3,939	3,585
<b>Total taxes other than income</b>	<b>\$ 55,057</b>	<b>\$ 50,453</b>	<b>\$ 52,685</b>

**Note 9 – Commitments and Contingencies**

The following disclosures reflect commitments and contingencies for the Company's continuing operations.

**Commitments** – The Company leases motor vehicles, buildings and other equipment under operating leases that are noncancelable. The future annual minimum lease payments due are as follows:

	2016		2017		2018		2019		2020		Thereafter
	\$ 1,138	\$	714	\$	493	\$	404	\$	315	\$	301

The Company leases parcels of land on which treatment plants and other facilities are situated and adjacent parcels that are used for watershed protection. The operating leases are noncancelable, expire between 2016 and 2052 and contain renewal provisions. Some leases are subject to an adjustment every five years based on changes in the Consumer Price Index. Subject to the aforesaid adjustment, during each of the next five years, an average of \$587 of annual lease payments for land is due, and the aggregate of the years remaining approximates \$13,663.

The Company maintains agreements with other water purveyors for the purchase of water to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2026. The estimated annual commitments related to such purchases through 2020 are expected to average \$7,352 and the aggregate of the years remaining approximates \$19,138.

The Company has entered into purchase obligations, in the ordinary course of business, that include agreements for water treatment processes at some of its wells in a small number of its divisions. The 20 year term agreement provides for the use of treatment equipment and media used in the treatment process and are subject to adjustment based on changes in the Consumer Price Index. The future contractual cash obligation related to these agreements are as follows:

	2016		2017		2018		2019		2020		Thereafter
	\$ 1,100	\$	1,100	\$	1,100	\$	1,100	\$	1,100	\$	8,410

Rent expense under operating leases, purchased water expense, and water treatment expenses under these agreements were as follows:

	Years Ended December 31,		
	2015	2014	2013
Operating lease expense	\$ 2,440	\$ 2,820	\$ 3,375
Purchased water under long-term agreements	13,718	13,139	12,923
Water treatment expense under contractual agreement	972	892	926



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**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 December 31, 2015, the aggregate amount of \$13,570 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, Aqua America has insurance coverage for a number of these loss contingencies, and as of December 31, 2015, estimates that approximately \$1,013 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.

Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of its properties is the subject that are material or are expected to have a material effect on the Company’s financial position, results of operations or cash flows.

Additionally, 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 \$1,496 and \$1,468 at December 31, 2015 and 2014 and represents a reserve for unpaid claim costs, including an estimate for the cost of incurred but not reported claims.

**Note 10 – Long-term Debt and Loans Payable**

**Long-term Debt** – The consolidated statements of capitalization provide a summary of long-term debt as of December 31, 2015 and 2014. The supplemental indentures with respect to specific issues of the first mortgage bonds restrict the ability of Aqua Pennsylvania and other operating subsidiaries of the Company to declare dividends, in cash or property, or repurchase or otherwise acquire the stock of these companies. Loan agreements for Aqua Pennsylvania and other operating subsidiaries of the Company have restrictions on minimum net assets. As of December 31, 2015, restrictions on the net assets of the Company were \$1,240,826 of the total \$1,725,930 in net assets. Included in this amount were restrictions on Aqua Pennsylvania’s net assets of \$929,319 of their total net assets of \$1,308,793. As of December 31, 2015, approximately \$1,121,206 of Aqua Pennsylvania’s retained earnings of approximately \$1,141,206 and approximately \$103,800 of the retained earnings of approximately \$155,000 of other subsidiaries were free of these restrictions. Some supplemental indentures also prohibit Aqua Pennsylvania and some other subsidiaries of the Company from making loans to, or purchasing the stock of, the Company.

Sinking fund payments are required by the terms of specific issues of long-term debt. Excluding amounts due under the Company’s revolving credit agreement, the future sinking fund payments and debt maturities of the Company’s long-term debt are as follows:

Interest Rate Range	2016	2017	2018	2019	2020	Thereafter
0.00% to 0.99%	\$ 491	\$ 60,489	\$ 488	\$ 491	\$ 487	\$ 2,702
1.00% to 1.99%	1,736	51,584	51,611	1,506	1,457	12,917
2.00% to 2.99%	1,492	1,529	1,571	1,614	1,658	11,303
3.00% to 3.99%	2,500	2,584	2,674	2,621	2,413	404,483
4.00% to 4.99%	11,091	11,100	11,110	50,325	16,536	531,331
5.00% to 5.99%	16,818	25,055	10,716	31,250	23,245	283,899
6.00% to 6.99%	-	9,000	12,964	-	-	31,000
7.00% to 7.99%	408	484	523	566	613	31,168
8.00% to 8.99%	357	482	521	563	610	11,969
9.00% to 9.99%	700	700	5,700	700	2,400	16,900
10.00% to 10.99%	-	-	6,000	-	-	-
Total	\$ 35,593	\$ 163,007	\$ 103,878	\$ 89,636	\$ 49,419	\$ 1,337,672

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In December 2015, Aqua Pennsylvania issued \$210,000 of first mortgage bonds, of which \$65,000 is due in 2036, \$20,000 is due in 2037, \$25,000 is due in 2038, \$60,000 is due in 2046, \$20,000 is due in 2047, and \$20,000 is due in 2048 with interest rates of 3.77%, 3.82%, 3.85%, 4.16%, 4.18%, and 4.20%, respectively. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes.

In October 2015, Aqua Pennsylvania provided notice for the early redemption of \$4,000 of first mortgage bonds at 8.14% that were originally maturing in 2025 and \$95,985 of tax-exempt bonds at 5.00% that were originally maturing between 2035 and 2038. Upon early redemption in December 2015 of the tax-exempt bonds, a gain of \$678 was recognized resulting from the recognition of the unamortized issuance premium.

In May 2015, the Company issued \$70,000 of senior unsecured notes due in 2030 with an interest rate of 3.59%. The proceeds were used to repay existing indebtedness and for general corporate purposes.

In May 2015, Aqua Pennsylvania entered into a \$50,000 three-year unsecured loan at an interest rate of 1.975%. The proceeds from this loan were used for refinancing existing indebtedness and general working capital purposes.

In December 2014, Aqua Pennsylvania issued \$65,000 of first mortgage bonds, of which \$25,000 is due in 2035, \$15,000 is due in 2040, \$13,000 is due in 2045, and \$12,000 is due in 2054 with interest rates of 3.64%, 4.01%, 4.06%, and 4.11%, respectively. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes.

In September 2014, Aqua Pennsylvania entered into a \$50,000 three year unsecured loan at an interest rate of 1.92%. The proceeds from this loan were used for refinancing existing indebtedness and general working capital purposes including financing acquisitions.

As of December 31, 2015, the Company did not have any funds restricted for construction activity.

The weighted average cost of long-term debt at December 31, 2015 and 2014 was 4.44% and 4.65%, respectively. The weighted average cost of fixed rate long-term debt at December 31, 2015 and 2014 was 4.57% and 4.85%, respectively.

The Company has a five-year \$200,000 unsecured revolving credit facility with three banks that expires in March 2017. Included within this facility is a \$15,000 sublimit for daily demand loans. Funds borrowed under this facility are classified as long-term debt and are used to provide working capital as well as support for letters of credit for insurance policies and other financing arrangements. As of December 31, 2015, the Company has the following sublimits and available capacity under the credit facility: \$50,000 letter of credit sublimit, \$26,640 of letters of credit available capacity, \$0 borrowed under the swing-line commitment, and \$60,000 of funds borrowed under the agreement. Interest under this facility is based at the Company's option, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. A facility fee is charged on the total commitment amount of the agreement. Under this facility the average cost of borrowings was 0.87% and 0.78%, and the average borrowing was \$82,880 and \$67,916, during 2015 and 2014, respectively. On February 24, 2016, the Company amended its unsecured revolving credit facility to extend the expiration from March 2017 to February 2021, to increase the facility from \$200,000 to \$250,000, and added a fourth bank to the lending group.

The Company is obligated to comply with covenants under some of its loan and debt agreements. These covenants contain a number of restrictive financial covenants, which among other things limit, subject to specific exceptions, the Company's ratio of consolidated total indebtedness to consolidated total capitalization, and require a minimum level of earnings coverage over interest expense. During 2015, the Company was in compliance with its debt covenants under its credit facilities. Failure to comply with the Company's debt covenants could result in an event of default, which could result in the Company being required to repay or finance its borrowings before their due date, possibly limiting the Company's future borrowings, and increasing its borrowing costs.

**Loans Payable** – In November 2015, Aqua Pennsylvania renewed its \$100,000 364-day unsecured revolving credit facility with four banks. The funds borrowed under this agreement are classified as loans payable and used to provide working capital. As of December 31, 2015 and 2014, funds borrowed under the agreement were \$7,281 and \$13,658, respectively. Interest under this facility is based, at the borrower's option, on the prime rate, an adjusted federal funds rate, an adjusted London Interbank Offered Rate corresponding to the interest period selected, an adjusted Euro-Rate corresponding to the interest period selected or at rates offered by the banks. This agreement restricts short-term

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borrowings of Aqua Pennsylvania. A commitment fee of 0.05% is charged on the total commitment amount of Aqua Pennsylvania's revolving credit agreement. The average cost of borrowing under the facility was 0.86% and 0.81%, and the average borrowing was \$25,486 and \$24,072, during 2015 and 2014, respectively. The maximum amount outstanding at the end of any one month was \$40,000 and \$36,943 in 2015 and 2014, respectively.

At December 31, 2015 and 2014, the Company had other combined short-term lines of credit of \$35,500 and \$60,500, respectively. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. As of December 31, 2015 and 2014, funds borrowed under the short-term lines of credit were \$9,440 and \$4,740, respectively. The average borrowing under the lines was \$5,132 and \$5,657 during 2015 and 2014, respectively. The maximum amount outstanding at the end of any one month was \$9,440 and \$13,740 in 2015 and 2014, respectively. Interest under the lines is based at the Company's option, depending on the line, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. The average cost of borrowings under all lines during 2015 and 2014 was 0.99% and 1.00%, respectively.

**Interest Income and Expense**— Interest income of \$272, \$316, and \$438 was netted against interest expense on the consolidated statement of net income for the years ended December 31, 2015, 2014, and 2013, respectively. The total interest cost was \$76,808, \$76,713, and \$77,754 in 2015, 2014, and 2013, including amounts capitalized of \$6,219, \$5,134, and \$2,275, respectively.

**Note 11 – Fair Value of Financial Instruments**

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 funds restricted for construction activity and loans payable are determined based on their carrying amount and utilizing level 1 methods and assumptions. As of December 31, 2015, the Company did not have any funds restricted for construction activity and as of December 31, 2014, the carrying amount of the Company's funds restricted for construction activity was \$47, which equates to its estimated fair value. As of December 31, 2015 and 2014, the carrying amount of the Company's loans payable was \$16,721 and \$18,398, 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 December 31, 2015 and 2014, the carrying amounts of the Company's cash and cash equivalents were \$3,229 and \$4,138, which equates to their fair value.

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

	December 31,	
	2015	2014
Carrying amount	\$ 1,779,205	\$ 1,619,270
Estimated fair value	1,905,393	1,694,424

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 \$86,934 and \$78,301 at December 31, 2015 and 2014, respectively. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2025 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

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**Note 12 – Stockholders’ Equity**

At December 31, 2015, the Company had 300,000,000 shares of common stock authorized; par value \$0.50. Shares outstanding and treasury shares held were as follows:

	December 31,		
	2015	2014	2013
Shares outstanding	176,544,091	176,753,270	176,750,599
Treasury shares	2,819,569	1,837,984	1,178,323

At December 31, 2015, the Company had 1,770,819 shares of authorized but unissued Series Preferred Stock, \$1.00 par value.

In February 2015, the Company filed a universal shelf registration statement with the Securities and Exchange Commission (“SEC”) to allow for the potential future sale by the Company, from time to time, in one or more public offerings, of an indeterminate amount of our common stock, preferred stock, debt securities and other securities specified therein at indeterminate prices.

In February 2015, the Company filed a registration statement with the SEC which permits the offering, from time to time, of an aggregate of \$500,000 in shares of common stock and shares of preferred stock in connection with acquisitions. The form and terms of any securities issued under these universal shelf registration statement and the acquisition shelf registration statement will be determined at the time of issuance.

The Company has a Dividend Reinvestment and Direct Stock Purchase Plan (“Plan”) that allows reinvested dividends to be used to purchase shares of common stock at a five percent discount from the current market value. Under the direct stock purchase program, shares are purchased by investors at market price. The shares issued under the Plan are either shares purchased by the Company’s transfer agent in the open-market or original issue shares. In 2015, 2014, and 2013, 535,439, 558,317, and 154,900 shares of the Company were purchased under the dividend reinvestment portion of the Plan by the Company’s transfer agent in the open-market for \$14,380, \$14,148, and \$3,693, respectively. During 2015 and 2013, under the dividend reinvestment portion of the Plan, 26,295 and 432,894 original issue shares of common stock were sold, providing the Company with proceeds of \$677 and \$10,107, respectively. During 2014, to minimize share dilution, the Company did not sell original issue shares of common stock under the Plan.

In October 2013, the Company’s Board of Directors approved a resolution authorizing the Company to purchase, from time to time, up to 685,348 shares of its common stock in the open market or through privately negotiated transactions. This authorization renewed the number of shares that had remained, when affected for stock splits, from an existing share buy-back authorization from 1997. The specific timing, amount and other terms of repurchases will depend on market conditions, regulatory requirements and other factors. In 2014, we repurchased 560,000 shares of our common stock in the open market for \$13,280. In December 2014, the Company’s Board of Directors authorized a share buyback program, commencing in 2015, of up to 1,000,000 shares to minimize share dilution through timely and orderly share repurchases. In December 2015, the Company’s Board of Directors added 400,000 shares to this program. In 2015, we repurchased 805,000 shares of the Company’s common stock in the open market for \$20,502. As of December 31, 2015, an aggregate of 720,348 shares remain available for repurchase.

The Company’s accumulated other comprehensive income is reported in the stockholders’ equity section of the consolidated balance sheets, the consolidated statements of equity, and the related components of other comprehensive income are reported in the consolidated statements of comprehensive income. The Company reports its unrealized gains or losses on investments as other comprehensive income and accumulated other comprehensive income. The Company recorded a regulatory asset for its underfunded status of its pension and other post-retirement benefit plans that would otherwise be charged to other comprehensive income, as it anticipates recovery of its costs through customer rates.

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**Note 13 – Net Income per Common Share and Equity per Common Share**

Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock-based compensation is included in the computation of diluted net income per 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 following table summarizes the shares, in thousands, used in computing basic and diluted net income per share:

	Years ended December 31,		
	2015	2014	2013
Average common shares outstanding during the period for basic computation	176,788	176,864	176,140
Effect of dilutive securities:			
Employee stock-based compensation	729	899	674
Average common shares outstanding during the period for diluted computation	177,517	177,763	176,814

For the years ended December 31, 2015, 2014 and 2013, all of the Company's employee stock options were included in the calculation 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.

Equity per common share was \$9.78 and \$9.37 at December 31, 2015 and 2014, respectively. These amounts were computed by dividing Aqua America stockholders' equity by the number of shares of common stock outstanding at the end of each year.

**Note 14 – Employee Stock and Incentive Plan**

Under the Company's 2009 Omnibus Equity Compensation Plan, 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 award, 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 common 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, 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 December 31, 2015, 4,212,079 shares underlying stock-based compensation awards were still available for grant under the 2009 Plan. No further grants may be made under the 2004 plan.

The recording of compensation expense for share-based compensation has no impact on net cash flows and results in the reclassification on the consolidated cash flow statements of related tax benefits from cash flows from operating activities to cash flows from financing activities to the extent these tax benefits exceed the associated compensation cost.

**Performance Share Units** – During 2015, 2014, and 2013, the Company granted 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 periods, 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, which consist of the following metrics for the 2015, 2014, and 2013 grants: 30% of the PSUs will be earned based on the Company's TSR compared to the TSR for a specific peer group of investor-owned water companies (a

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market-based condition), 30% of the PSUs will be earned based on the Company's TSR compared to the TSR for the companies listed in the Standard and Poor's Midcap Utilities Index (a market-based condition), 20% of the PSUs will be earned based on maintaining an average ratio of operations and maintenance expenses as a percentage of revenues at Aqua Pennsylvania compared to a target average ratio for the three year performance period (a performance-based condition), and 20% of the PSUs will be earned based on earning a cumulative total earnings before taxes for the Company operations other than Aqua Pennsylvania for the three year performance period compared to a target (a performance-based condition).

The following table provides compensation costs for PSUs:

	Years ended December 31,		
	2015	2014	2013
Stock-based compensation within operations and maintenance expense	\$ 4,419	\$ 4,996	\$ 3,437
Income tax benefit	1,796	2,044	1,400

The following table summarizes nonvested PSU transactions for the year ended December 31, 2015:

	Number of Share Units	Weighted Average Fair Value
Nonvested share units at beginning of period	582,644	\$ 22.98
Granted	142,212	26.46
Performance criteria adjustment	17,717	25.59
Forfeited	(14,276)	25.92
Share units vested	(86,425)	26.25
Share units issued	(217,014)	18.49
Nonvested share units at end of period	424,858	\$ 25.78

A portion of the fair value of PSUs was estimated at the grant date based on the probability of satisfying the market-based conditions associated with the PSUs using the Monte Carlo valuation method, which assesses the probabilities of various outcomes of market conditions. The other portion of the fair value of the PSUs associated with performance-based conditions was 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 fair value of each PSU grant is amortized into compensation expense on a straight-line basis over their respective vesting periods, generally 36 months. The accrual of compensation costs is based on an 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. The following table provides the assumptions used in the pricing model for the grant, the resulting grant date fair value of PSUs, and the intrinsic value and fair value of PSUs that vested during the year:

	Years ended December 31,		
	2015	2014	2013
Expected term (years)	3.0	3.0	3.0
Risk-free interest rate	1.03%	0.68%	0.36%
Expected volatility	16.9%	19.8%	20.0%
Weighted average fair value of PSUs granted	\$ 26.46	\$ 25.31	\$ 26.88

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Intrinsic value of vested PSUs	\$	7,964	\$	4,327	\$	415
Fair value of vested PSUs	\$	6,416	\$	3,297	\$	351

As of December 31, 2015, \$4,098 of unrecognized compensation costs related to PSUs is expected to be recognized over a weighted average period of approximately 1.7 years. The aggregate intrinsic value of PSUs as of December 31, 2015 was \$15,236. The aggregate intrinsic value of PSUs is based on the number of nonvested share units and the market value of the Company's common stock as of the period end date.

**Restricted Stock Units** – A restricted stock unit (“RSU”) represents the right to receive a share of the Company's common stock and is valued based on the fair market value of the Company's stock on the date of grant. RSUs are eligible to be earned at the end of a specified restricted period, generally three years, beginning on the date of grant. In some cases, the right to receive the shares is subject to specific performance goals established at the time the grant is made. 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 compensation costs for RSUs:

	Years ended December 31,		
	2015	2014	2013
Stock-based compensation within operations and maintenance expense	\$ 1,076	\$ 1,122	\$ 813
Income tax benefit	444	464	336

The following table summarizes nonvested RSU transactions for the year ended December 31, 2015:

	Number of Stock Units	Weighted Average Fair Value
Nonvested stock units at beginning of period	122,565	\$ 22.29
Granted	47,285	26.00
Stock units vested in prior period and issued in current period	11,500	17.99
Stock units vested and issued	(90,588)	21.02
Forfeited	(2,409)	24.94
Nonvested stock units at end of period	88,353	\$ 24.94

The following table summarizes the value of RSUs:

	Years ended December 31,		
	2015	2014	2013
Weighted average fair value of RSUs granted	\$ 26.00	\$ 24.80	\$ 23.28
Intrinsic value of vested RSUs	2,327	759	449
Fair value of vested RSUs	1,904	544	348

As of December 31, 2015, \$1,046 of unrecognized compensation costs related to RSUs is expected to be recognized over a weighted average period of approximately 1.9 years. The aggregate intrinsic value of RSUs as of December 31, 2015 was \$2,633. The aggregate intrinsic value of RSUs is based on the number of nonvested stock units and the market value of the Company's common stock as of the period end date.



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*Stock Options* – The following table provides compensation costs for stock options:

	Years ended December 31,		
	2015	2014	2013
Stock-based compensation within operations and maintenance expense	\$	-	\$ 30
Income tax benefit	193	189	461

There were no stock options granted during the years ended December 31, 2015, 2014, and 2013.

Options under the plans were issued at the closing market price of the stock on the day of the grant. Options are exercisable in installments of 33% annually, starting one year from the date of the grant and expire 10 years from the date of the grant. The fair value of options was estimated at the grant date using the Black-Scholes option-pricing model, which relies on assumptions that require management's judgment.

The following table summarizes stock option transactions for the year ended December 31, 2015:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Outstanding, beginning of year	1,084,992	\$ 17.06		
Forfeited	-	-		
Expired / Cancelled	(750)	13.72		
Exercised	(424,709)	17.75		
Outstanding and exercisable at end of year	659,533	\$ 16.62	2.5	\$ 8,692

The intrinsic value of stock options is the amount by which the market price of the stock on a given date, such as at the end of the period or on the day of exercise, exceeded the closing market price of stock on the date of grant. The following table summarizes the aggregate intrinsic value of stock options exercised and the fair value of stock options which became vested:

	Years ended December 31,		
	2015	2014	2013
Intrinsic value of options exercised	\$ 4,154	\$ 4,054	\$ 12,658
Fair value of options vested	-	-	500



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The following table summarizes information about the options outstanding and options exercisable as of December 31, 2015:

Options Outstanding and Exercisable			
	Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price
Range of prices:			
\$13.00 - 14.99	160,722	4.1	\$ 13.72
\$15.00 - 15.99	165,615	3.2	15.30
\$16.00 - 16.99	144,654	2.2	16.15
\$17.00 - 19.99	112,297	1.2	18.61
\$20.00 - 23.99	76,245	0.2	23.57
	659,533	2.5	\$ 16.62

As of December 31, 2015, there were no unrecognized compensation costs related to nonvested stock options granted under the plans.

**Restricted Stock** – Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. Restricted stock awards result in compensation expense which is equal to the fair market value of the stock on the date of the grant and is amortized ratably over the restriction period. The Company expects forfeitures of restricted stock to be de minimis.

The following table provides compensation costs for restricted stock:

	Years ended December 31,		
	2015	2014	2013
Stock-based compensation within operations and maintenance expense	\$ -	\$ 691	\$ 770
Income tax benefit	-	287	320

The following table summarizes the value of restricted stock awards:

	Years ended December 31,		
	2015	2014	2013
Intrinsic value of restricted stock awards vested	\$ 860	\$ 1,097	\$ 2,236
Fair value of restricted stock awards vested	553	906	1,560
Weighted average fair value of restricted stock awards granted	-	25.19	25.09

As of December 31, 2015, there were no unrecognized compensation costs related to nonvested restricted stock as restricted stock was fully amortized in 2014. Additionally, there was no restricted stock granted during the year ended December 31, 2015.

**Stock Awards** – On June 3, 2015, the Company granted an aggregate of 13,800 shares of common stock to the non-employee members of the Board of Directors continuing in office. The fair market value of the shares is \$26.44 per share. The shares granted are not subject to any restrictions. In 2015, the Company recognized \$365 of compensation expense and an income tax benefit of \$151 associated with these grants.

**Note 15 – Pension Plans and Other Post-retirement Benefits**

The Company maintains a qualified, defined benefit pension plan that covers its full-time employees who were hired prior to April 1, 2003. Retirement benefits under the plan are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund the plan annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations over time. To offset some limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Supplemental Pension Benefit Plan for Salaried Employees in order to prevent some employees from being penalized by these limitations, and to provide certain retirement benefits based on employee's years of service and compensation. The Company also has non-qualified Supplemental Executive Retirement Plans for some current and retired employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow. Employees hired after April 1, 2003 may participate in a defined contribution plan that provides a Company matching contribution on amounts contributed by participants and an annual profit-sharing contribution based upon a percentage of the eligible participants' compensation.

In August 2014, the Company announced changes to the way it will provide future retirement benefits to employees acquired through a prior acquisition. Effective January 1, 2015, the Company began providing future retirement benefits for these employees through its defined contribution plan. As a result, no further service will be considered in future accruals in the qualified defined benefit pension plan after December 31, 2014, and as a result of this change, the Company recognized a curtailment loss of \$84 in 2014.

In the first quarter of 2014, the Company offered a one-time voluntary lump sum window to certain eligible terminated vested participants in an effort to reduce its long-term obligations and plan volatility for its qualified defined benefit pension plan. In May 2014, the plan paid \$11,471 to participants who elected to receive a lump sum distribution, which was funded from existing plan assets. These payments are reported as a portion of benefits paid for 2014 in the table presenting the change in benefit obligation for pension benefits. 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 upon retirement or termination. The plan paid \$5,329 during the second half of 2015 to participants who elected this option.

In addition to providing pension benefits, the Company offers post-retirement benefits other than pensions to employees hired before April 1, 2003 and retiring with a minimum level of service. These benefits include continuation of medical and prescription drug benefits, or a cash contribution toward such benefits, for eligible retirees and life insurance benefits for eligible retirees. The Company funds these benefits through various trust accounts. The benefits of retired officers and other eligible retirees are paid by the Company and not from plan assets due to limitations imposed by the Internal Revenue Code.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Years:	Pension Benefits	Other Post-retirement Benefits
2016	\$ 27,402	\$ 1,889
2017	20,034	2,200
2018	20,079	2,518
2019	19,937	2,783
2020	20,823	2,995
2021-2025	102,607	17,413

The changes in the benefit obligation and fair value of plan assets, the funded status of the plans and the assumptions used in the measurement of the company's benefit obligation are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2015	2014	2015	2014
Change in benefit obligation:				
Benefit obligation at January 1,	\$ 311,609	\$ 281,161	\$ 71,958	\$ 57,174
Service cost	3,349	4,295	1,224	1,161
Interest cost	12,955	14,153	2,802	2,903
Actuarial (gain) loss	(7,778)	43,250	(6,527)	11,769
Plan participants' contributions	-	-	204	217
Benefits paid	(17,118)	(22,600)	(1,270)	(1,311)
Plan amendments	3,220	-	(3,254)	45
Curtailment	-	(8,650)	-	-
Special termination benefits	302	-	-	-
Benefit obligation at December 31,	306,539	311,609	65,137	71,958
Change in plan assets:				
Fair value of plan assets at January 1,	244,897	232,347	43,326	40,840
Actual return on plan assets	(3,058)	17,148	(998)	3,175
Employer contributions	13,884	18,002	2,428	300
Benefits paid	(17,118)	(22,600)	(1,052)	(989)
Fair value of plan assets at December 31,	238,605	244,897	43,704	43,326
Funded status of plan:				
Net amount recognized at December 31,	\$ 67,934	\$ 66,712	\$ 21,433	\$ 28,632

The Company's pension plans had an accumulated benefit obligation of \$291,132 and \$293,364 at December 31, 2015 and 2014, respectively. The following table provides the net liability recognized on the consolidated balance sheets at December 31;

	Pension Benefits		Other Post-retirement Benefits	
	2015	2014	2015	2014
Current liability	\$ 8,370	\$ 4,930	\$ -	\$ -
Noncurrent liability	59,564	61,782	21,433	28,632
Net liability recognized	\$ 67,934	\$ 66,712	\$ 21,433	\$ 28,632

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At December 31, 2015 and 2014, the Company's pension plans had benefit obligations in excess of its plan assets. The following tables provide the projected benefit obligation, the accumulated benefit obligation and fair market value of the plan assets as of December 31,:

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets			
	2015		2014	
Projected benefit obligation	\$	306,539	\$	311,609
Fair value of plan assets		238,605		244,897

	Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets			
	2015		2014	
Accumulated benefit obligation	\$	291,132	\$	293,364
Fair value of plan assets		238,605		244,897

The following table provides the components of net periodic benefit costs for the years ended December 31,:

	Pension Benefits			Other Post-retirement Benefits		
	2015	2014	2013	2015	2014	2013
Service cost	\$ 3,349	\$ 4,295	\$ 5,313	\$ 1,224	\$ 1,161	\$ 1,525
Interest cost	12,955	14,153	12,660	2,802	2,903	2,579
Expected return on plan assets	(18,702)	(17,601)	(14,770)	(2,923)	(2,742)	(2,268)
Amortization of prior service cost (credit)	174	277	228	(687)	(278)	(295)
Amortization of actuarial loss	5,993	2,256	8,169	1,282	260	1,479
Curtailment loss	-	84	-	-	-	-
Net periodic benefit cost	<u>\$ 3,769</u>	<u>\$ 3,464</u>	<u>\$ 11,600</u>	<u>\$ 1,698</u>	<u>\$ 1,304</u>	<u>\$ 3,020</u>

The Company records the underfunded status of its pension and other post-retirement benefit plans on its consolidated balance sheets and records a regulatory asset for these costs that would otherwise be charged to stockholders' equity, as the Company anticipates recoverability of the costs through customer rates. The Company's pension and other post-retirement benefit plans were underfunded at December 31, 2015 and 2014. Changes in the plans' funded status will affect the assets and liabilities recorded on the balance sheet. Due to the Company's regulatory treatment, the recognition of the funded status is recorded as a regulatory asset pursuant to the FASB's accounting guidance for regulated operations.

The following table provides the amounts recognized in regulatory assets that have not been recognized as components of net periodic benefit cost as of December 31,:

	Pension Benefits		Other Post-retirement Benefits	
	2015	2014	2015	2014
Net actuarial loss	\$ 87,930	\$ 79,639	\$ 14,469	\$ 18,356
Prior service cost (credit)	4,419	1,374	(2,926)	(359)
Total recognized in regulatory assets	<u>\$ 92,349</u>	<u>\$ 81,013</u>	<u>\$ 11,543</u>	<u>\$ 17,997</u>

The estimated net actuarial loss and prior service cost for the Company's pension plans that will be amortized in 2016 from the regulatory assets into net periodic benefit cost are \$6,917 and \$578, respectively. The estimated net actuarial loss and prior service credit for the Company's other post-retirement benefit plans that will be amortized in 2016 from regulatory assets into net periodic benefit cost are \$1,068 and \$549, respectively.

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Accounting for pensions and other post-retirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from the Company's actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other post-retirement benefit expense that the Company recognizes.

The significant assumptions related to the Company's benefit obligations are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2015	2014	2015	2014
Weighted Average Assumptions Used to Determine Benefit Obligations as of December 31,				
Discount rate	4.48%	4.20%	4.60%	4.17%
Rate of compensation increase	3.0-4.0%	3.0-4.0%	n/a	n/a

Assumed Health Care Cost Trend Rates Used to Determine Benefit Obligations as of December 31,

	2015	2014	2015	2014
Health care cost trend rate	n/a	n/a	7.0%	7.0%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2021	2019

*n/a – Assumption is not applicable.*

The significant assumptions related to the Company's net periodic benefit costs are as follows:

	Pension Benefits			Other Post-retirement Benefits		
	2015	2014	2013	2015	2014	2013
Weighted Average Assumptions Used to Determine Net Periodic Benefit Costs for Years Ended December 31,						
Discount rate	4.20%	5.12%	4.17%	4.17%	5.12%	4.17%
Expected return on plan assets	7.50%	7.50%	7.50%	5.00-7.50%	5.00-7.50%	5.00-7.50%
Rate of compensation increase	3.0-4.0%	4.0-4.5%	4.0-4.5%	n/a	n/a	n/a

Assumed Health Care Cost Trend Rates Used to Determine Net Periodic Benefit Costs for Years Ended December 31,

	2015	2014	2013	2015	2014	2013
Health care cost trend rate	n/a	n/a	n/a	7.0%	7.5%	8.0%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	n/a	5.0%	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	n/a	n/a	n/a	2019	2019	2019

*n/a – Assumption is not applicable.*

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Assumed health-care trend rates have a significant effect on the expense and liabilities for other post-retirement benefit plans. The health care<sup>7</sup> trend rate is based on historical rates and expected market conditions. A one-percentage point change in the assumed health-care cost trend rates would have the following effects:

	1-Percentage- Point Increase	1-Percentage- Point Decrease
Effect on the health-care component of the accrued other post-retirement benefit obligation	\$ 3,691	\$ (3,319)
Effect on aggregate service and interest cost components of net periodic post-retirement health-care benefit cost	\$ 254	\$ (233)

The Company's discount rate assumption, which is utilized to calculate the present value of the projected benefit payments of our post-retirement benefits, was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to match the projected benefit payments of the plans. The selected bond portfolio was derived from a universe of Aa-graded corporate bonds, all of which were noncallable (or callable with make-whole provisions), and have at least \$50,000 in outstanding value. The discount rate was then developed as the rate that equates the market value of the bonds purchased to the discounted value of the plan's benefit payments. The Company's pension expense and liability (benefit obligations) increases as the discount rate is reduced.

The Company's expected return on plan assets is determined by evaluating the asset class return expectations with its advisors as well as actual, long-term, historical results of our asset returns. The Company's market related value of plan assets is equal to the fair value of the plan's assets as of the last day of its fiscal year, and is a determinant for the expected return on plan assets which is a component of post-retirement benefits expense. The Company's pension expense increases as the expected return on plan assets decreases. For 2015, the Company used a 7.50% expected return on plan assets assumption which will decrease to 7.25% for 2016. The Company believes its actual long-term asset allocation on average will approximate the targeted allocation. The Company's investment strategy is to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories. Investment returns are compared to benchmarks that include the S&P 500 Index, the Barclays Capital Intermediate Government/Credit Index, and a combination of the two indices. The Pension Committee meets semi-annually to review plan investments and management monitors investment performance quarterly through a performance report prepared by an external consulting firm.

The Company's pension plan asset allocation and the target allocation by asset class are as follows:

	Target Allocation	Percentage of Plan Assets at December 31,	
		2015	2014
Domestic equities	25 to 75%	63%	64%
International equities	0 to 10%	6%	6%
Fixed income	25 to 50%	24%	25%
Alternative investments	0 to 5%	3%	3%
Cash and cash equivalents	0 to 20%	4%	2%
Total	100%	100%	100%

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The fair value of the Company's pension plans' assets at December 31, 2015 by asset class are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Domestic equities: (1)				
Common stocks	\$ 146,970	\$ 146,970	\$ -	\$ -
Mutual funds	3,605	3,605	-	-
International equities (2)	14,180	14,180	-	-
Fixed income: (3)				
U.S. Treasury and government agency bonds	22,953	-	22,953	-
Corporate and foreign bonds	13,579	-	13,579	-
Mutual funds	21,523	21,523	-	-
Alternative investments: (4)				
Real estate	5,981	5,981	-	-
Commodity funds	1,169	1,169	-	-
Cash and cash equivalents (5)	8,645	50	8,595	-
Total pension assets	<u>\$ 238,605</u>	<u>\$ 193,478</u>	<u>\$ 45,127</u>	<u>\$ -</u>

The fair value of the Company's pension plans' assets at December 31, 2014 by asset class are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Domestic equities: (1)				
Common stocks	\$ 151,402	\$ 151,402	\$ -	\$ -
Mutual funds	4,168	4,168	-	-
International equities (2)	14,584	14,584	-	-
Fixed income: (3)				
U.S. Treasury and government agency bonds	25,150	-	25,150	-
Corporate and foreign bonds	13,716	-	13,716	-
Mutual funds	21,405	21,405	-	-
Alternative investments: (4)				
Real estate	6,215	6,215	-	-
Commodity funds	1,203	1,203	-	-
Cash and cash equivalents (5)	7,054	19	7,035	-
Total pension assets	<u>\$ 244,897</u>	<u>\$ 198,996</u>	<u>\$ 45,901</u>	<u>\$ -</u>

- (1) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in equity mutual funds, which invest in stocks, are valued using the net asset value per unit as obtained from quoted market prices from active markets.
- (2) Investments in international equities are valued using unadjusted quoted prices obtained from active markets.
- (3) Investments in U.S. Treasury and government agency bonds and corporate and foreign bonds are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market information to value the fixed income securities. Investments in fixed income mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices in active markets.
- (4) Alternative investments are comprised of real estate funds, real estate investment trusts, and commodity funds, and are valued using unadjusted quoted prices obtained from active markets.
- (5) Cash and cash equivalents are comprised of both uninvested cash and money market funds. The uninvested cash is valued based on its carrying value, and the money market funds are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.

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Equity securities include Aqua America, Inc. common stock in the amounts of \$19,958 or 8.4% and \$17,409 or 7.1% of total pension plans' assets as of December 31, 2015 and 2014, respectively.

The asset allocation for the Company's other post-retirement benefit plans and the target allocation by asset class are as follows:

	Target Allocation	Percentage of Plan Assets at December 31,	
		2015	2014
Domestic equities	25 to 75%	54%	57%
International equities	0 to 10%	2%	3%
Fixed income	25 to 50%	26%	25%
Alternative investments	0 to 5%	0%	1%
Cash and cash equivalents	0 to 20%	18%	14%
Total	100%	100%	100%

The fair value of the Company's other post-retirement benefit plans' assets at December 31, 2015 by asset class are as follows:

	Total	Level 1	Level 2	Level 3
Domestic equities: (1)				
Common stocks	\$ 11,772	\$ 11,772	\$ -	\$ -
Mutual funds	12,030	12,030	-	-
International equities (2)	1,078	1,078	-	-
Fixed income: (3)				
U.S. Treasury and government agency bonds	4,551	-	4,551	-
Corporate and foreign bonds	4,476	-	4,476	-
Mutual funds	2,177	2,177	-	-
Cash and cash equivalents (5)	7,620	-	7,620	-
Total other post-retirement assets	\$ 43,704	\$ 27,057	\$ 16,647	\$ -



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The fair value of the Company's other post-retirement benefit plans' assets at December 31, 2014 by asset class are as follows:

	Total	Level 1	Level 2	Level 3
Domestic equities: (1)				
Common stocks	\$ 12,265	\$ 12,265	\$ -	\$ -
Mutual funds	12,582	12,582	-	-
International equities (2)	1,482	1,482	-	-
Fixed income: (3)				
U.S. Treasury and government agency bonds	5,678	-	5,678	-
Corporate and foreign bonds	3,822	-	3,822	-
Mutual funds	1,409	1,409	-	-
Alternative investments (4)	204	204	-	-
Cash and cash equivalents (5)	5,884	-	5,884	-
Total other post-retirement assets	<u>\$ 43,326</u>	<u>\$ 27,942</u>	<u>\$ 15,384</u>	<u>\$ -</u>

- (1) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in equity mutual funds, which invest in stocks, are valued using the net asset value per unit as obtained from quoted market prices from active markets.
- (2) Investments in international equities are valued using unadjusted quoted prices obtained from active markets.
- (3) Investments in U.S. Treasury and government agency bonds and corporate and foreign bonds are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market information to value the fixed income securities. Investments in fixed income mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices in active markets.
- (4) Investments in alternative investments are comprised of investments in real estate funds and real estate investment trusts and are valued using unadjusted quoted prices obtained from active markets.
- (5) Cash and cash equivalents is comprised of money market funds, which are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and the Company's funding policy, during 2016 our pension contribution is expected to be \$8,145.

The Company has a 401(k) savings plan, which is a defined contribution plan and covers substantially all employees. The Company makes matching contributions that are initially invested in our common stock based on a percentage of an employee's contribution, subject to specific limitations. Participants may diversify their Company matching account balances into other investments offered under the 401(k) savings plan. The Company's contributions, which are recorded as compensation expense, were \$5,001, \$3,051, and \$2,790, for the years ended December 31, 2015, 2014, and 2013, respectively.

**Note 16 – Water and Wastewater Rates**

On June 7, 2012, Aqua Pennsylvania reached a settlement agreement in its rate filing with the Pennsylvania Public Utility Commission, which in addition to a water rate increase, provided for a reduction in current income tax expense as a result of the recognition of qualifying income tax benefits upon Aqua Pennsylvania changing its tax accounting method to permit the expensing of qualifying utility asset improvement costs that historically have been capitalized and depreciated for book and tax purposes. In December 2012, Aqua Pennsylvania implemented this change which resulted in a substantial reduction in income tax expense and greater net income and cash flow, and as a result allowed Aqua Pennsylvania to suspend its water Distribution System Improvement Charges in 2013 and lengthen the amount of time until the next Aqua Pennsylvania rate case is filed.

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The Company's operating subsidiaries were allowed rate increases totaling \$3,347 in 2015, \$9,886 in 2014, and \$9,431 in 2013, represented by four, twelve, and six rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately \$2,887, \$5,375, and \$8,169 in 2015, 2014, and 2013, respectively.

Six states in which the Company operates permit water utilities, and in five states wastewater utilities, to add a surcharge to their water or wastewater bills to offset the additional depreciation and capital costs related to infrastructure system replacement and rehabilitation projects completed and placed into service between base rate filings. Currently, Pennsylvania, Illinois, Ohio, Indiana, New Jersey, and North Carolina allow for the use of this surcharge. On December 22, 2014, the North Carolina Utilities Commission granted the first infrastructure surcharge for Aqua North Carolina. The Attorney General filed an appeal to the State Supreme Court challenging the approval and on August 21, 2015, the State Supreme Court upheld the Commission's decision granting this surcharge. The surcharge for infrastructure system replacements and rehabilitations is typically adjusted periodically based on additional qualified capital expenditures completed or anticipated in a future period, is capped as a percentage of base rates, generally at 5% to 12.75%, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. The surcharge for infrastructure system replacements and rehabilitations provided revenues in 2015, 2014, and 2013 of \$3,261, \$4,598, and \$3,205, respectively.

**Note 17 – 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 since each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment.

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. 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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The following table presents information about the Company's reportable segment:

	2015			2014		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$ 779,613	\$ 34,591	\$ 814,204	\$ 756,057	\$ 23,846	\$ 779,903
Operations and maintenance expense	282,866	26,444	309,310	274,754	13,802	288,556
Depreciation	125,146	144	125,290	122,728	326	123,054
Operating income	315,876	5,224	321,100	305,333	9,026	314,359
Interest expense, net	72,703	3,833	76,536	72,106	4,291	76,397
Allowance for funds used during construction	(6,219)	-	(6,219)	(5,134)	-	(5,134)
Equity loss in joint venture	-	35,177	35,177	-	3,989	3,989
Income tax (benefit)	26,379	(11,417)	14,962	24,792	427	25,219
Income (loss) from continuing operations	224,122	(22,332)	201,790	213,890	(6)	213,884
Capital expenditures	363,594	1,095	364,689	325,943	2,662	328,605
Total assets	5,564,089	176,949	5,741,038	5,195,191	211,561	5,406,752
Goodwill	27,246	6,620	33,866	24,564	6,620	31,184

  

	2013		
	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$ 744,527	\$ 17,366	\$ 761,893
Operations and maintenance expense	269,804	13,757	283,561
Depreciation	118,592	(178)	118,414
Operating income	300,779	883	301,662
Interest expense, net	70,835	6,481	77,316
Allowance for funds used during construction	(2,275)	-	(2,275)
Equity loss in joint venture	-	2,665	2,665
Income tax (benefit)	24,911	(3,678)	21,233
Income (loss) from continuing operations	207,509	(4,638)	202,871
Capital expenditures	307,032	876	307,908
Total assets	4,893,573	158,244	5,051,817
Goodwill	24,102	4,121	28,223

Selected Quarterly Financial Data (Unaudited)

Aqua America, Inc. and Subsidiaries

(In thousands of dollars, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2015					
Operating revenues	\$ 190,326	\$ 205,760	\$ 221,051	\$ 197,067	\$ 814,204
Operations and maintenance expense	73,189	79,746	78,519	77,856	309,310
Operating income	71,167	80,246	95,072	74,615	321,100
Net income attributable to common shareholders	48,545	57,382	67,429	28,434	201,790
Basic net income per common share	0.27	0.32	0.38	0.16	1.14
Diluted net income per common share	0.27	0.32	0.38	0.16	1.14
Dividend paid per common share	0.165	0.165	0.178	0.178	0.686
Dividend declared per common share	0.165	0.165	0.178	0.178	0.686
Price range of common stock:					
- high	28.13	27.53	27.10	31.09	31.09
- low	25.42	24.40	24.45	26.20	24.40
2014					
Operating revenues	\$ 182,672	\$ 195,307	\$ 210,535	\$ 191,389	\$ 779,903
Operations and maintenance expense	71,686	70,375	72,374	74,121	288,556
Operating income	66,770	79,934	95,058	72,597	314,359
Income from continuing operations	42,401	54,818	67,711	48,954	213,884
Income from discontinued operations	458	751	285	17,861	19,355
Net income attributable to common shareholders	42,859	55,569	67,996	66,815	233,239
Basic income from continuing operations per common share	0.24	0.31	0.38	0.28	1.21
Diluted income from continuing operations per common share	0.24	0.31	0.38	0.28	1.20
Basic income from discontinued operations per common share	0.00	0.00	0.00	0.10	0.11
Diluted income from discontinued operations per common share	0.00	0.00	0.00	0.10	0.11
Basic net income per common share	0.24	0.31	0.38	0.38	1.32
Diluted net income per common share	0.24	0.31	0.38	0.38	1.31
Dividend paid per common share	0.152	0.152	0.165	0.165	0.634
Dividend declared per common share	0.152	0.152	0.165	0.165	0.634
Price range of common stock:					
- high	25.56	26.27	26.29	28.22	28.22
- low	22.40	24.25	23.12	23.26	22.40

Fourth quarter of 2015 net income attributable to common shareholders includes the Company's share of a joint venture impairment charge of \$21,433 (\$32,975 pre-tax).

High and low prices of the Company's common stock are as reported on the New York Stock Exchange.

Summary of Selected Financial Data (Unaudited)

Aqua America, Inc. and Subsidiaries

(In thousands of dollars, except per share amounts)

Years ended December 31,	2015	2014	2013	2012	2011
PER COMMON SHARE:					
Income from continuing operations:					
Basic	\$ 1.14	\$ 1.21	\$ 1.15	\$ 1.04	\$ 0.81
Diluted	1.14	1.20	1.15	1.04	0.81
Income from discontinued operations:					
Basic	0.00	0.11	0.10	0.08	0.02
Diluted	0.00	0.11	0.10	0.08	0.02
Net income:					
Basic	1.14	1.32	1.26	1.13	0.83
Diluted	1.14	1.31	1.25	1.12	0.83
Cash dividends declared and paid	0.69	0.63	0.58	0.54	0.50
Return on Aqua America stockholders' equity	11.7%	14.1%	14.4%	14.2%	11.4%
Book value at year end	\$ 9.78	\$ 9.37	\$ 8.68	\$ 7.91	\$ 7.21
Market value at year end	29.80	26.70	23.59	20.34	17.64
INCOME STATEMENT HIGHLIGHTS:					
Operating revenues	\$ 814,204	\$ 779,903	\$ 761,893	\$ 750,685	\$ 680,677
Depreciation and amortization	128,737	126,535	123,985	116,180	107,463
Interest expense, net	76,536	76,397	77,316	77,757	77,804
Income from continuing operations before income taxes (1)	216,752	239,103	224,104	247,057	207,265
Provision for income taxes	14,962	25,219	21,233	65,220	67,590
Income from continuing operations (1)	201,790	213,884	202,871	181,837	139,675
Income from discontinued operations	-	19,355	18,429	14,726	3,394
Net income attributable to common shareholders (1)	201,790	233,239	221,300	196,563	143,069
BALANCE SHEET HIGHLIGHTS:					
Total assets	\$ 5,741,038	\$ 5,406,752	\$ 5,051,817	\$ 4,858,517	\$ 4,348,420
Property, plant and equipment, net	4,688,925	4,401,990	4,138,568	3,907,552	3,502,968
Aqua America stockholders' equity	1,725,930	1,655,343	1,534,835	1,385,704	1,251,313
Long-term debt, including current portion	1,779,205	1,619,270	1,554,871	1,588,992	1,475,886
Total debt	1,795,926	1,637,668	1,591,611	1,669,375	1,583,657
ADDITIONAL INFORMATION:					
Operating cash flows from continuing operations	\$ 370,794	\$ 364,888	\$ 365,409	\$ 375,823	\$ 349,927
Capital additions	364,689	328,605	307,908	347,098	324,360
Net cash expended for acquisitions of utility systems and other	28,989	14,616	14,997	121,248	8,515
Dividends on common stock	121,248	112,106	102,889	93,423	87,133
Number of utility customers served (2)	957,866	940,119	928,200	917,986	848,336
Number of shareholders of common stock	25,269	25,780	25,833	26,216	26,744
Common shares outstanding (000)	176,544	176,753	176,751	175,209	173,519
Employees (full-time) (2)	1,617	1,617	1,542	1,556	1,464

(1) 2015 results includes Aqua America's share of a joint venture impairment charge of \$21,433 (\$32,975 pre-tax).

(2) Reflects continuing operations.

AQUA AMERICA, INC. AND SUBSIDIARIES

The following table lists the significant subsidiaries and other active subsidiaries of Aqua America, Inc. at December 31, 2015:

Aqua Pennsylvania, Inc. (Pennsylvania)  
Aqua Resources, Inc. (Delaware)  
Aqua Services, Inc. (Pennsylvania)  
Aqua Infrastructure, LLC (Pennsylvania)  
Aqua Ohio, Inc. (Ohio)  
Aqua Illinois, Inc. (Illinois)  
Aqua New Jersey, Inc. (New Jersey)  
Aqua North Carolina, Inc. (North Carolina)  
Aqua Texas, Inc. (Texas)  
Aqua Indiana, Inc. (Indiana)  
Aqua Virginia, Inc. (Virginia)

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-197805, and 333-202392), on Form S-4 (No. 333-202393), and on Form S-8 (Nos. 033-52557, 033-53689, 333-26613, 333-70859, 333-81085, 333-61768, 333-107673, 333-113502, 333-116776, 333-126042, 333-148206, 333-156047, 333-159897, and 333-181389) of Aqua America, Inc. of our report dated February 26, 2016 relating to the consolidated financial statements, and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K and the financial statement schedule which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP

Philadelphia, Pennsylvania

February 26, 2016

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

I, Christopher H. Franklin, certify that:

1. I have reviewed this annual report on Form 10-K of Aqua America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth 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  
February 26, 2016

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

I, David P. Smeltzer, certify that:

1. I have reviewed this annual report on Form 10-K of Aqua America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth 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

February 26, 2016

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2015 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 of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Christopher H. Franklin

Christopher H. Franklin

President and Chief Executive Officer

February 26, 2016

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2015 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Smeltzer, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David P. Smeltzer

David P. Smeltzer

Executive Vice President and Chief Financial Officer  
February 26, 2016

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