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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2011**

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

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

**Commission File Number 1-6659**

**AQUA AMERICA, INC.**

(Exact name of registrant as specified in its charter)

\_\_\_\_\_  
Pennsylvania

(State or other jurisdiction of  
incorporation or organization)

\_\_\_\_\_  
23-1702594

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

\_\_\_\_\_  
762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania

(Address of principal executive offices)

\_\_\_\_\_  
19010-3489

(Zip Code)

\_\_\_\_\_  
(610) 527-8000

(Registrant's telephone number, including area code)

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

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

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

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

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

(do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 27, 2011: 138,217,191

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AQUA AMERICA, INC. AND SUBSIDIARIES

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EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

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Part I — Financial Information

Item 1. Financial Statements

AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In thousands of dollars, except per share amounts)  
(UNAUDITED)

	March 31, 2011	December 31, 2010
<b>Assets</b>		
Property, plant and equipment, at cost	\$ 4,532,368	\$ 4,488,195
Less: accumulated depreciation	<u>1,035,565</u>	<u>1,020,395</u>
Net property, plant and equipment	<u>3,496,803</u>	<u>3,467,800</u>
Current assets:		
Cash and cash equivalents	7,259	5,934
Accounts receivable and unbilled revenues, net	79,132	85,881
Income tax receivable	33,600	33,600
Deferred income taxes	16,116	0
Inventory, materials and supplies	10,937	10,616
Prepayments and other current assets	<u>9,849</u>	<u>10,846</u>
Total current assets	<u>156,893</u>	<u>146,877</u>
Regulatory assets	222,958	217,376
Deferred charges and other assets, net	60,144	65,093
Funds restricted for construction activity	134,427	135,086
Goodwill	<u>41,101</u>	<u>40,234</u>
	<u>\$ 4,112,326</u>	<u>\$ 4,072,466</u>
<b>Liabilities and Equity</b>		
Aqua America stockholders' equity:		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 138,906,683 and 138,449,039 in 2011 and 2010	\$ 69,452	\$ 69,223
Capital in excess of par value	673,605	664,369
Retained earnings	461,433	452,470
Treasury stock, at cost, 698,108 and 673,472 shares in 2011 and 2010	(12,875)	(12,307)
Accumulated other comprehensive income	<u>501</u>	<u>499</u>
Total Aqua America stockholders' equity	1,192,116	1,174,254
Noncontrolling interest	<u>576</u>	<u>572</u>
Total equity	<u>1,192,692</u>	<u>1,174,826</u>
Long-term debt, excluding current portion	1,530,092	1,531,976
Commitments and contingencies	—	—
Current liabilities:		
Current portion of long-term debt	28,351	28,413
Loans payable	91,994	89,668
Accounts payable	29,471	45,382
Accrued interest	20,960	15,891
Accrued taxes	15,393	16,401
Other accrued liabilities	<u>23,125</u>	<u>27,960</u>
Total current liabilities	<u>209,294</u>	<u>223,715</u>
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	514,223	478,705
Customers' advances for construction	66,679	66,966
Regulatory liabilities	37,599	35,921
Other	<u>112,367</u>	<u>116,250</u>
Total deferred credits and other liabilities	<u>730,868</u>	<u>697,842</u>
Contributions in aid of construction	<u>449,380</u>	<u>444,107</u>
	<u>\$ 4,112,326</u>	<u>\$ 4,072,466</u>

See notes to consolidated financial statements beginning on page 7 of this report.



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

	Three Months Ended March 31,	
	2011	2010
Operating revenues	\$ 171,324	\$ 160,517
Operating expenses:		
Operations and maintenance	67,325	67,601
Depreciation	27,293	26,200
Amortization	1,956	3,172
Taxes other than income taxes	13,765	12,860
	<u>110,339</u>	<u>109,833</u>
Operating income	60,985	50,684
Other expense (income):		
Interest expense, net	19,943	18,430
Allowance for funds used during construction	(1,977)	(1,541)
Gain on sale of other assets	(121)	(1,929)
Income before income taxes	43,140	35,724
Provision for income taxes	12,789	14,213
Net income attributable to common shareholders	<u>\$ 30,351</u>	<u>\$ 21,511</u>
Net income attributable to common shareholders	\$ 30,351	\$ 21,511
Other comprehensive income, net of tax:		
Unrealized holding gain on investments	4	902
Reclassification adjustment for gain reported in net income	(2)	(1,330)
Comprehensive income	<u>\$ 30,353</u>	<u>\$ 21,083</u>
Net income per common share:		
Basic	<u>\$ 0.22</u>	<u>\$ 0.16</u>
Diluted	<u>\$ 0.22</u>	<u>\$ 0.16</u>
Average common shares outstanding during the period:		
Basic	<u>137,825</u>	<u>136,509</u>
Diluted	<u>138,384</u>	<u>136,800</u>
Cash dividends declared per common share	<u>\$ 0.155</u>	<u>\$ 0.145</u>

See notes to consolidated financial statements beginning on page 7 of this report.

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

	March 31, 2011	December 31, 2010
Aqua America stockholders' equity:		
Common stock, \$.50 par value	\$ 69,452	\$ 69,223
Capital in excess of par value	673,605	664,369
Retained earnings	461,433	452,470
Treasury stock, at cost	(12,875)	(12,307)
Accumulated other comprehensive income	501	499
Total Aqua America stockholders' equity	1,192,116	1,174,254
Noncontrolling interest	576	572
Total equity	1,192,692	1,174,826
Long-term debt:		
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%	2012 to 2034
	6,469	6,632
	1.00% to 1.99%	2011 to 2035
	22,165	22,758
	2.00% to 2.99%	2019 to 2029
	13,217	13,461
	3.00% to 3.99%	2016 to 2025
	26,094	26,548
	4.00% to 4.99%	2020 to 2043
	367,776	367,854
	5.00% to 5.99%	2011 to 2043
	429,600	429,663
	6.00% to 6.99%	2011 to 2036
	78,237	78,232
	7.00% to 7.99%	2012 to 2025
	29,872	30,155
	8.00% to 8.99%	2021 to 2025
	34,186	34,260
	9.00% to 9.99%	2011 to 2026
	44,695	44,694
	10.40%	2018
	6,000	6,000
	1,058,311	1,060,257
Notes payable to bank under revolving credit agreement, variable rate, due May 2012	65,000	65,000
Unsecured notes payable:		
Notes ranging from 4.62% to 4.87%, due 2013 through 2024	193,000	193,000
Notes ranging from 5.01% to 5.95%, due 2014 through 2037	242,132	242,132
	1,558,443	1,560,389
Current portion of long-term debt	28,351	28,413
Long-term debt, excluding current portion	1,530,092	1,531,976
Total capitalization	\$ 2,722,784	\$ 2,706,802

See notes to consolidated financial statements beginning on page 7 of this report.

AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EQUITY  
(In thousands of dollars)

(UNAUDITED)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
Balance at December 31, 2010	\$ 69,223	\$ 664,369	\$452,470	\$(12,307)	\$ 499	\$ 572	\$1,174,826
Net income	—	—	30,351	—	—	4	30,355
Unrealized holding gain on investments, net of income tax of \$2	—	—	—	—	4	—	4
Reclassification adjustment for gain reported in net income, net of income tax of \$1	—	—	—	—	(2)	—	(2)
Dividends paid	—	—	(21,388)	—	—	—	(21,388)
Sale of stock (148,565 shares)	71	2,964	—	166	—	—	3,201
Repurchase of stock (31,978 shares)	—	—	—	(734)	—	—	(734)
Equity compensation plan forfeitures (855 shares)	(1)	1	—	—	—	—	—
Exercise of stock options (317,276 shares)	159	4,748	—	—	—	—	4,907
Stock-based compensation	—	970	—	—	—	—	970
Employee stock plan tax benefits	—	553	—	—	—	—	553
Balance at March 31, 2011	<u>\$ 69,452</u>	<u>\$ 673,605</u>	<u>\$461,433</u>	<u>\$(12,875)</u>	<u>\$ 501</u>	<u>\$ 576</u>	<u>\$1,192,692</u>

See notes to consolidated financial statements beginning on page 7 of this report.

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

	Three Months Ended March 31,	
	2011	2010
<b>Cash flows from operating activities:</b>		
Net income attributable to common shareholders	\$ 30,351	\$ 21,511
Adjustments to reconcile net income attributable to common shareholders to net cash flows from operating activities:		
Depreciation and amortization	29,249	29,372
Deferred income taxes	20,735	1,791
Provision for doubtful accounts	962	1,115
Stock-based compensation	970	946
Gain on sale of utility system	(2,452)	0
Gain on sale of other assets	(121)	(1,929)
Net decrease in receivables, inventory and prepayments	5,593	3,250
Net (decrease) increase in payables, accrued interest, accrued taxes and other accrued liabilities	(4,676)	10,886
Other	(6,520)	(2,860)
<b>Net cash flows from operating activities</b>	<b>74,091</b>	<b>64,082</b>
<b>Cash flows from investing activities:</b>		
Property, plant and equipment additions, including allowance for funds used during construction of \$1,977 and \$1,541	(60,340)	(67,174)
Acquisitions of utility systems and other, net	0	(205)
Additions to funds restricted for construction activity	(71)	(980)
Release of funds previously restricted for construction activity	730	958
Net proceeds from the sale of utility system and other assets	3,237	3,031
Proceeds from note receivable	5,289	375
Other	(194)	51
<b>Net cash flows used in investing activities</b>	<b>(51,349)</b>	<b>(63,944)</b>
<b>Cash flows from financing activities:</b>		
Customers' advances and contributions in aid of construction	643	2,886
Repayments of customers' advances	(987)	(4,290)
Net proceeds of short-term debt	2,326	36,981
Proceeds from long-term debt	0	31,334
Repayments of long-term debt	(1,891)	(48,881)
Change in cash overdraft position	(7,792)	(9,362)
Proceeds from issuing common stock	3,201	3,075
Proceeds from exercised stock options	4,907	1,088
Stock-based compensation windfall tax benefits	298	110
Repurchase of common stock	(734)	(344)
Dividends paid on common stock	(21,388)	(19,818)
<b>Net cash flows used in financing activities</b>	<b>(21,417)</b>	<b>(7,221)</b>
Net increase (decrease) in cash and cash equivalents	1,325	(7,083)
Cash and cash equivalents at beginning of period	5,934	21,869
Cash and cash equivalents at end of period	<u>\$ 7,259</u>	<u>\$ 14,786</u>

See notes to consolidated financial statements beginning on page 7 of this report.



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

Note 1 Basis of Presentation

The accompanying consolidated balance sheets and statements of capitalization of Aqua America, Inc. and subsidiaries (the "Company") at March 31, 2011, the consolidated statements of income and comprehensive income for the three months ended March 31, 2011 and 2010, the consolidated statements of cash flow for the three months ended March 31, 2011 and 2010, and the consolidated statement of equity for the three months ended March 31, 2011, are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present fairly the consolidated financial position, the consolidated changes in equity, the consolidated results of operations, and the consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year. The December 31, 2010 consolidated balance sheet data presented herein was derived from the Company's December 31, 2010 audited consolidated financial statements, but does not include all disclosures and notes normally provided in annual financial statements. Certain prior period amounts have been reclassified to conform to the current period presentation.

Note 2 Goodwill

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

	<u>Regulated Segment</u>	<u>Other</u>	<u>Consolidated</u>
Balance at December 31, 2010	\$ 36,113	\$ 4,121	\$ 40,234
Goodwill acquired	867	—	867
Balance at March 31, 2011	<u>\$ 36,980</u>	<u>\$ 4,121</u>	<u>\$ 41,101</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 3 Dispositions

The City of Fort Wayne, Indiana (“the City”) has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the operating subsidiaries that the Company acquired in connection with the AquaSource acquisition in 2003. In 2008, the Company reached a settlement with the City to transition the northern portion of the system in 2008 upon receipt of the City’s initial valuation payment of \$16,911. The settlement agreement specifically stated that the final valuation of the northern portion of the Company’s system will be determined through a continuation of the legal proceedings that were filed challenging the City’s valuation. On February 12, 2008, the Company turned over the northern portion of the system to the City upon receipt of the initial valuation payment. The proceeds received by the Company are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. Once the contingency is resolved and the asset valuation is finalized, through the finalization of the litigation between the Company and the City of Fort Wayne, the amounts deferred will be recognized in the Company’s consolidated income statement. On March 16, 2009, oral argument was held on certain procedural aspects with respect to the valuation evidence that may be presented and whether the Company is entitled to a jury trial. On October 12, 2010, the Wells County Indiana Circuit Court ruled that the Company is not entitled to a jury trial, and that the Wells County judge should review the City of Fort Wayne Board of Public Works’ assessment based upon a “capricious, arbitrary or an abuse of discretion” standard. The Company disagreed with the Court’s decision and as such on November 11, 2010, requested that the Wells County Indiana Circuit Court certify those issues for an interim appeal. The Wells County Indiana Circuit Court granted that request and on March 7, 2011, the Indiana Court of Appeals granted the Company’s request to review the decision of those issues on appeal. Depending upon the outcome of all of the legal proceeding the Company may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The northern portion of the utility system relinquished represents approximately 0.50% of the Company’s total assets.

In March 2011, the Company 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 of these assets, net of expenses of \$2,452. The gain is reported in the consolidated statements of income and comprehensive income as a reduction to operations and maintenance expense.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

Note 4 Fair Value of Financial Instruments

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair value as of the dates presented. The carrying amount and estimated fair value of the Company's long-term debt are as follows:

	March 31, 2011	December 31, 2010
Carrying Amount	\$ 1,558,443	\$ 1,560,389
Estimated Fair Value	1,472,703	1,483,816

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The Company's customers' advances for construction and related tax deposits have a carrying value of \$66,679 as of March 31, 2011, and \$66,966 as of December 31, 2010. 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 2026 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Note 5 Net Income per Common Share

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

	Three Months Ended March 31,	
	2011	2010
Average common shares outstanding during the period for basic computation	137,825	136,509
Dilutive effect of employee stock-based compensation	559	291
Average common shares outstanding during the period for diluted computation	<u>138,384</u>	<u>136,800</u>

For the three months ended March 31, 2011 and 2010, employee stock options to purchase 937,133 and 3,136,875 shares of common stock, respectively, were excluded from the calculations of diluted net income per share as the calculated proceeds from the options' exercise were greater than the average market price of the Company's common stock during these periods.

## AQUA AMERICA, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 6 Stock-based Compensation

Under the Company's 2009 Omnibus Equity Compensation Plan (the "2009 Plan"), as approved by the Company's shareholders to replace the 2004 Equity Compensation Plan (the "2004 Plan"), stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to employees, non-employee directors, and consultants and advisors. The 2009 Plan authorizes 5,000,000 shares for issuance under the plan. A maximum of 50% of the shares available for issuance under the 2009 Plan may be issued as restricted stock and the maximum number of shares that may be subject to grants under the Plan to any one individual in any one year is 200,000. Awards under the 2009 Plan are made by a committee of the Board of Directors. At March 31, 2011, 4,160,076 shares underlying stock-based compensation awards were still available for grants under the 2009 Plan. No further grants may be made under the 2004 Plan.

**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 certain exceptions through the three year vesting period. 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. During the three months ended March 31, 2011, the Company recorded stock-based compensation related to PSUs as a component of operations and maintenance expense of \$101. Prior to the first quarter of 2011, there were no grants of PSUs. The following table summarizes nonvested PSU transactions for the three months ended March 31, 2011:

	Number of <u>Share Units</u>	Weighted Average <u>Fair Value</u>
Nonvested share units at beginning of period	—	\$ —
Granted	109,375	24.38
Performance criteria adjustment	14,219	24.38
Forfeited	—	—
Vested	—	—
Share unit awards issued	—	—
Nonvested share units at end of period	<u>123,594</u>	<u>\$ 24.38</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

The fair value of PSUs was estimated at the grant date based on the probability of satisfying the performance conditions associated with the PSUs using the Monte Carlo valuation method. The per unit weighted-average fair value at the date of grant for PSUs granted during the three months ended March 31, 2011 was \$24.38. The fair value of each PSU grant is amortized into compensation expense on a straight-line basis over their respective vesting periods, which ranges from 24 to 36 months. The accrual of compensation costs is based on our estimate of the final expected value of the award, and is adjusted as required. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. The recording of compensation expense for PSUs has no impact on net cash flows.

**Restricted Stock Units** — A restricted stock unit (“RSU”) represents the right to receive a share of the Company’s common stock. RSUs are eligible to be earned at the end of a specified restricted period, generally three years, beginning on the date of grant. During the three months ended March 31, 2011, the Company recorded stock-based compensation related to awards of RSUs as a component of operations and maintenance expense of \$39. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. Prior to the first quarter of 2011, there were no grants of RSUs. The following table summarizes nonvested RSU transactions for the three months ended March 31, 2011:

	Number of Stock Units	Weighted Average Fair Value
Nonvested stock units at beginning of period	—	\$ —
Granted	44,342	22.21
Vested	—	—
Forfeited	—	—
Nonvested stock units at end of period	<u>44,342</u>	<u>\$ 22.21</u>

**Stock Options** — The fair value of stock options is estimated at the grant date using the Black-Scholes option-pricing model. The following table provides compensation costs for stock-based compensation related to stock options granted in prior periods:

	Three months ended March 31,	
	2011	2010
Stock-based compensation for stock options within operations and maintenance expenses	\$ 440	\$ 494
Income tax benefit	374	152

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

There were no stock options granted during the three months ended March 31, 2011. The following table summarizes stock option transactions for the three months ended March 31, 2011:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
<b>Options:</b>				
Outstanding at beginning of period	3,839,197	\$ 19.54		
Granted	—			
Forfeited	(3,968)	18.19		
Expired	(10,115)	21.92		
Exercised	(317,276)	15.47		
Outstanding at end of period	<u>3,507,838</u>	<u>\$ 19.91</u>	<u>5.6</u>	<u>\$ 13,565</u>
Exercisable at end of period	<u>3,018,724</u>	<u>\$ 20.23</u>	<u>5.2</u>	<u>\$ 11,124</u>

**Restricted Stock** — During the three months ended March 31, 2011 and 2010, the Company recorded stock-based compensation related to restricted stock awards granted in prior periods as a component of operations and maintenance expense in the amounts of \$389 and \$452, respectively. The following table summarizes nonvested restricted stock transactions for the three months ended March 31, 2011:

	Number of Shares	Weighted Average Fair Value
Nonvested shares at beginning of period	233,387	\$ 17.62
Granted	—	—
Vested	(69,204)	17.75
Forfeited	(855)	17.23
Nonvested share units at end of period	<u>163,328</u>	<u>\$ 17.57</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 7 Pension Plans and Other Postretirement Benefits

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

	Pension Benefits	
	Three Months Ended	
	March 31,	
	2011	2010
Service cost	\$ 1,044	\$ 1,172
Interest cost	2,964	3,220
Expected return on plan assets	(2,596)	(2,796)
Amortization of prior service cost	43	35
Amortization of actuarial loss	1,016	1,030
Capitalized costs	(857)	(797)
Net periodic benefit cost	<u>\$ 1,614</u>	<u>\$ 1,864</u>

	Other	
	Postretirement Benefits	
	Three Months Ended	
	March 31,	
	2011	2010
Service cost	\$ 376	\$ 305
Interest cost	812	620
Expected return on plan assets	(621)	(462)
Amortization of transition obligation	34	26
Amortization of prior service cost	(89)	(67)
Amortization of actuarial loss	206	171
Amortization of regulatory asset	34	34
Capitalized costs	(155)	(121)
Net periodic benefit cost	<u>\$ 597</u>	<u>\$ 506</u>

The Company made cash contributions of \$9,520 to its defined benefit pension plans during the first three months of 2011, and intends to make cash contributions of \$7,620 to the plans during the remainder of 2011. In addition, the Company expects to make cash contributions of \$2,012 for the funding of its other postretirement benefit plans during the remainder of 2011.

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 8 Taxes Other than Income Taxes

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

	Three Months Ended March 31,	
	2011	2010
Property	\$ 7,071	\$ 6,526
Capital stock	882	866
Gross receipts, excise and franchise	2,316	2,220
Payroll	2,319	2,149
Other	1,177	1,099
Total taxes other than income	<u>\$ 13,765</u>	<u>\$ 12,860</u>

Note 9 Segment Information

The Company has identified fourteen operating segments and has one reportable segment named the “Regulated” segment. The reportable segment is comprised of thirteen operating segments for the Company’s water and wastewater regulated utility companies which are organized by the states where we provide these services. In addition, one segment is not quantitatively significant to be reportable and is comprised of the businesses that provide on-site septic tank pumping, sludge hauling services and certain other non-regulated water and wastewater services. This segment is included as a component of “Other” in the tables below. Also included in “Other” are corporate costs that have not been allocated to the Regulated segment and intersegment eliminations.

The following tables present the Company’s segment information:

	Three Months Ended March 31, 2011			Three Months Ended March 31, 2010		
	Regulated	Other	Consolidated	Regulated	Other	Consolidated
Operating revenues	\$ 168,365	\$ 2,959	\$ 171,324	\$ 158,006	\$ 2,511	\$ 160,517
Operations and maintenance expense	66,259	1,066	67,325	66,058	1,543	67,601
Depreciation	27,652	(359)	27,293	26,605	(405)	26,200
Operating income	59,330	1,655	60,985	49,851	833	50,684
Interest expense, net of AFUDC	17,008	958	17,966	16,223	666	16,889
Gain (loss) on sale of other assets	75	46	121	(117)	2,046	1,929
Income tax	12,651	138	12,789	13,844	369	14,213
Net income attributable to common shareholders	29,746	605	30,351	19,667	1,844	21,511
Capital expenditures	59,880	460	60,340	67,045	129	67,174



## AQUA AMERICA, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

	March 31, 2011	December 31, 2010
Total assets:		
Regulated	4,041,788	3,991,493
Other and eliminations	70,538	80,973
Consolidated	<u>\$ 4,112,326</u>	<u>\$ 4,072,466</u>

Note 10 Commitments and Contingencies

The Company is routinely involved in various disputes, claims, lawsuits and other regulatory and legal matters, including both asserted and unasserted legal claims, in the ordinary course of business. The status of each such matter, referred to herein as a loss contingency, is reviewed and assessed in accordance with applicable accounting rules regarding the nature of the matter, the likelihood that a loss will be incurred, and the amounts involved. As of March 31, 2011, the aggregate amount of \$12,363 is accrued for loss contingencies and is reported in the Company's consolidated balance sheet as other accrued liabilities and other liabilities. These accruals represent management's best estimate of probable loss (as defined in the accounting guidance) for loss contingencies or the low end of a range of losses if no single probable loss can be estimated. For some loss contingencies, the Company is unable to estimate the amount of the probable loss or range of probable losses. While the final outcome of these loss contingencies cannot be predicted with certainty, and unfavorable outcomes could negatively impact the Company, at this time in the opinion of management, the final resolution of these matters are not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows. Further, the Company has insurance coverage for certain of these loss contingencies, and as of March 31, 2011, estimates that approximately \$2,617 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.

Note 11 Income Taxes

As of March 31, 2011, the Company recorded a deferred tax asset for a Federal net operating loss ("NOL") carryforward of \$41,176, and for the Company's Pennsylvania operating subsidiary a state NOL of \$17,061. The Company believes the Federal and state NOL carryforwards are more likely than not to be recovered and require no valuation allowance. The Company's Federal and state NOL carryforwards do not begin to expire until 2030 and 2031, respectively.

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

Note 12 Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements that the Company has adopted that would have a material impact on the Company's consolidated results of operations or consolidated financial position during the three months ended March 31, 2011.

AQUA AMERICA, INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(In thousands of dollars, except per share amounts)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Statements

*This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report contain, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address, among other things: our belief in our ability to renew our short-term lines of credit; the impact and the actions we may need to take if we are unable to obtain sufficient capital; the projected impact of various legal proceedings; the projected effects of recent accounting pronouncements; prospects, plans, objectives, expectations and beliefs of management, as well as information contained in this report where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans," "future," "potential," "probably," "predictions," "intends," "will," "continue" or the negative of such terms or similar expressions. Forward-looking statements are based on a number of assumptions concerning future events, and are subject to a number of risks, uncertainties and other factors, many of which are outside our control, which could cause actual results to differ materially from those expressed or implied by such statements. These risks and uncertainties include, among others: the effects of regulation, abnormal weather, changes in capital requirements and funding, acquisitions, changes to the capital markets, and our ability to assimilate acquired operations, as well as those risks, uncertainties and other factors discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in such report. As a result, readers are cautioned not to place undue reliance on any forward-looking statements. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.*

General Information

*Nature of Operations* - Aqua America, Inc. ("we" or "us"), a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to what we estimate to be approximately 3 million people in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, New York, Florida, Indiana, Virginia, Maine, Missouri, and Georgia. Our largest operating subsidiary, Aqua Pennsylvania, Inc., provides water or wastewater services to approximately one-half of the total number of people we serve, who are located in the suburban areas in counties north and west of the City of Philadelphia and in 25 other counties in Pennsylvania. Our other subsidiaries provide similar services in 12 other states. In addition, we provide water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our utility companies' service territories as well as sludge hauling, septage and grease services, backflow prevention services, and certain other non-regulated water and wastewater services.

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)

Aqua America, Inc., which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, Inc., formerly known as Philadelphia Suburban Water Company. In the early 1990s we embarked on a growth through acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of New York Water Service Corporation in 2007. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry and has extended our regulated operations from southeastern Pennsylvania to include operations in 12 other states.

Financial Condition

During the first three months of 2011, we had \$60,340 of capital expenditures, and repaid debt and made sinking fund contributions and other loan repayments of \$1,891. The capital expenditures were related to improvements to treatment plants, new and rehabilitated water mains, tanks, hydrants, and service lines, well and booster improvements, and other enhancements and improvements.

At March 31, 2011, we had \$7,259 of cash and cash equivalents compared to \$5,934 at December 31, 2010. During the first three months of 2011, we used the proceeds from internally generated funds, the sale of other assets, and the issuance of common stock, to fund the cash requirements discussed above and to pay dividends.

At March 31, 2011, our \$95,000 unsecured revolving credit facility, which expires in May 2012, had \$12,399 available for borrowing. At March 31, 2011, we had short-term lines of credit of \$167,000, of which \$75,006 was available. One of our short-term lines of credit is an Aqua Pennsylvania \$100,000 364-day unsecured revolving credit facility with three banks, which is used to provide working capital, and as of March 31, 2011, \$19,747 was available.

Our short-term lines of credit of \$167,000 are subject to renewal on an annual basis. Although we believe we will be able to renew these facilities, there is no assurance that they will be renewed, or what the terms of any such renewal will be. The United States credit and liquidity crisis that occurred in 2008 and 2009 caused substantial volatility in capital markets, including credit markets and the banking industry, generally reduced the availability of credit from financing sources, and could re-occur in the future. If in the future, our credit facilities are not renewed or our short-term borrowings are called for repayment, we would have to seek alternative financing sources; however, there can be no assurance that these alternative financing sources would be available on terms acceptable to us. In the event we are not able to obtain sufficient capital, we may need to reduce our capital expenditures and our ability to pursue acquisitions that we may rely on for future growth could be impaired.

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)

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

Results of Operations

Analysis of First Quarter of 2011 Compared to First Quarter of 2010

Revenues increased \$10,807 or 6.7% primarily due to additional revenues associated with increased water and wastewater rates of \$7,960, increased water consumption as compared to the first quarter of 2010, and additional water and wastewater revenues of \$573 associated with a larger customer base due to acquisitions.

Operations and maintenance expenses decreased by \$276 or 0.4% primarily due to the gain on the sale of our utility system in Texas of \$2,452, the effect of the write-off in the first quarter of 2010 of previously deferred regulatory expenses of \$1,011, and decreased insurance expense of \$919. Offsetting these decreases was increased water production costs of \$1,380, an increase in postretirement benefits expenses of \$770, increases in operating costs associated with acquired utility systems of \$458, and normal increases in other operating costs. The increase in water production costs is primarily due to an increase in the cost of purchased water.

Depreciation expense increased \$1,093 or 4.2% due to the utility plant placed in service since March 31, 2010.

Amortization decreased \$1,216 primarily due to the additional expense recognized in the first quarter of 2010 of \$1,635 resulting from the recovery of our costs associated with a completed rate filing in Texas.

Taxes other than income taxes increased by \$905 or 7.0% primarily due to an increase in property taxes of \$545, which is attributable to an increase in recoverable expenses associated with a rate award received in February 2010 for one of our states. In that state recovery of the property taxes began with the conclusion of the most recent rate proceeding whereas previously these taxes had been deferred pending the inclusion in future rates.

Interest expense increased by \$1,513 or 8.2% primarily due to additional borrowings to finance capital projects, offset partially by decreased interest rates on long-term debt.

Allowance for funds used during construction ("AFUDC") increased by \$436 primarily due to an increase in the average balance of proceeds held from tax-exempt bond issuances that are restricted to funding certain capital projects.

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

Gain on sale of other assets totaled \$121 in the first quarter of 2011 and \$1,929 in the first quarter of 2010. The decrease of \$1,808 is principally due to a gain on the sale of an investment in the first quarter of 2010.

Our effective income tax rate was 29.6% in the first quarter of 2011 and 39.8% in the first quarter of 2010. The effective income tax rate decreased as a result of the recognition in 2011 of the net state income tax benefit of \$4,328 associated with 100% bonus depreciation for qualifying capital additions.

Net income attributable to common shareholders increased by \$8,840 or 41.1%, in comparison to the same period in 2010 primarily as a result of the factors described above. On a diluted per share basis, earnings increased \$0.06 reflecting the change in net income attributable to common shareholders and a 1.2% increase in the average number of common shares outstanding. If earnings were adjusted to exclude the net state income tax benefit associated with 100% bonus depreciation, a non-GAAP financial measure, earnings would have increased by \$0.03 per share, as compared to the first quarter of 2010. The increase in the number of shares outstanding is primarily a result of the additional shares sold or issued through our equity compensation plan, dividend reinvestment plan, and employee stock purchase plan.

Impact of Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements that the Company has adopted that would have a material impact on the Company's consolidated results of operations or consolidated financial position during the three months ended March 31, 2011.

Non-Generally Accepted Accounting Principle ("GAAP") Financial Measures

In addition to reporting "net income attributable to common shareholders" and "net income per common share", U.S. GAAP financial measures, we are presenting below "income attributable to common shareholders before net state income tax benefit associated with 100% bonus depreciation" and "income per common share before net state income tax benefit associated with 100% bonus depreciation", which are considered non-GAAP financial measures. The Company is providing disclosure of the reconciliation of these non-GAAP measures to their most comparable GAAP financial measures. The Company believes that the non-GAAP financial measures provide investors the ability to measure the Company's financial operating performance excluding the net state income tax benefit associated with 100% bonus depreciation, which is more indicative of the Company's ongoing performance, and is more comparable to measures reported by other companies. The Company further believes that the presentation of these non-GAAP financial measures is useful to investors as a more meaningful way to compare the Company's operating performance against its historical financial results and to assess the underlying profitability of our core business. As currently enacted, 100% bonus depreciation is in effect for qualifying capital additions placed in service from September 8, 2010 through December 31, 2011.

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)

	Three Months Ended March 31,	
	2011	2010
Net income attributable to common shareholders (GAAP financial measure)	\$ 30,351	\$ 21,511
Less: Net state income tax benefit associated with 100% bonus depreciation	4,328	—
Income attributable to common shareholders before net state income tax benefit associated with 100% bonus depreciation (Non-GAAP financial measure)	<u>\$ 26,023</u>	<u>\$ 21,511</u>
Net income per common share (GAAP financial measure):		
Basic	\$ 0.22	\$ 0.16
Diluted	\$ 0.22	\$ 0.16
Income per common share before net state income tax benefit associated with 100% bonus depreciation (Non-GAAP financial measure):		
Basic	\$ 0.19	\$ 0.16
Diluted	\$ 0.19	\$ 0.16
Average common shares outstanding:		
Basic	<u>137,825</u>	<u>136,509</u>
Diluted	<u>138,384</u>	<u>136,800</u>

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. There have been no significant changes in our exposure to market risks since December 31, 2010. Refer to Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2010 for additional information.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

AQUA AMERICA, INC. AND SUBSIDIARIES

(b) Changes in Internal Control over Financial Reporting

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

Part II. Other Information

Item 1. Legal Proceedings

The City of Fort Wayne, Indiana (the “City”) authorized the acquisition by eminent domain of the northern portion of the utility system of one of the Company’s operating subsidiaries in Indiana. In 2008, we reached a settlement agreement with the City to transition this portion of the system in 2008 upon receipt of the City’s initial valuation payment of \$16,910,500. The settlement agreement specifically stated that the final valuation of the system will be determined through a continuation of the legal proceedings that were filed challenging the City’s valuation. On February 12, 2008, we turned over the northern portion of the system to the City upon receipt of the initial valuation payment. The proceeds received by the Company are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. Once the contingency is resolved and the asset valuation is finalized, through the finalization of the litigation between the Company and the City of Fort Wayne, the amounts deferred will be recognized in the Company’s consolidated income statement. On March 16, 2009, oral argument was held before the Allen County Circuit Court on certain procedural aspects with respect to the valuation evidence that may be presented and whether we are entitled to a jury trial. On October 12, 2010, the Wells County Indiana Circuit Court ruled that the Company is not entitled to a jury trial, and that the Wells County judge should review the City of Fort Wayne Board of Public Works’ assessment based upon a “capricious, arbitrary or an abuse of discretion” standard. The Company disagreed with the Court’s decision and as such, on November 11, 2010, requested that the Wells County Indiana Circuit Court certify those issues for an interim appeal. The Wells County Circuit Court granted that request and on March 7, 2011, the Indiana Court of Appeals granted the Company’s request to review the decision of those issues on appeal. Depending upon the ultimate outcome of all of the legal proceedings we may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The northern portion of the system relinquished represented approximately 0.50% of Aqua America’s total assets.



AQUA AMERICA, INC. AND SUBSIDIARIES

Item 1A. Risk Factors

There have been no material changes to the risks disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010 (“Form 10-K”) under “Part 1, Item 1A — Risk Factors.”

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

The following table summarizes Aqua America’s purchases of its common stock for the quarter ended March 31, 2011:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs (2)
January 1 – 31, 2011	20,075	\$ 23.28	—	548,278
February 1 – 28, 2011	7,136	\$ 22.52	—	548,278
March 1 – 31, 2011	4,767	\$ 22.47	—	548,278
Total	31,978	\$ 22.99	—	548,278

- (1) These amounts consist of the following: (a) shares we purchased from employees who elected to have us withhold shares to pay certain withholding taxes upon the vesting of restricted stock awards granted to such employees; and (b) shares we purchased from employees who elected to pay the exercise price of their stock options (and then hold shares of the stock) upon exercise by delivering to us (and, thus, selling) shares of Aqua America common stock in accordance with the terms of our equity compensation plans that were previously approved by our shareholders and disclosed in our proxy statements. These features of our equity compensation plan are available to all employees who receive stock-based compensation under the plans. 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 award or on the day prior to the option exercise.
- (2) On August 5, 1997, our Board of Directors authorized a common stock repurchase program that was publicly announced on August 7, 1997, for up to 1,007,351 shares. No repurchases have been made under this program since 2000. The program has no fixed expiration date. The number of shares authorized for purchase was adjusted as a result of the stock splits affected in the form of stock distributions since the authorization date.

AQUA AMERICA, INC. AND SUBSIDIARIES

Item 6. Exhibits

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

SIGNATURES

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

May 9, 2011

Aqua America, Inc.  
\_\_\_\_\_  
Registrant

Nicholas DeBenedictis  
\_\_\_\_\_  
Nicholas DeBenedictis  
Chairman, President and  
Chief Executive Officer

David P. Smeltzer  
\_\_\_\_\_  
David P. Smeltzer  
Chief Financial Officer

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
10.52	2011 Annual Cash Incentive Compensation Plan
10.53	Form of Performance Share Unit Grant Agreement for Chief Executive Officer
10.54	Form of Performance Share Unit Grant Agreement for other Executive Officers
10.55	Form of Restricted Stock Unit Grant Agreement for Chief Executive Officer
10.56	Form of Restricted Stock Unit Grant Agreement for other Executive Officers
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

**AQUA AMERICA, INC.  
and SUBSIDIARIES  
2011 ANNUAL CASH INCENTIVE COMPENSATION PLAN**

**BACKGROUND**

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

**MANAGEMENT INCENTIVE PROGRAM**

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

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

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

## Participation

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

- If an employee who would otherwise be eligible to participate in this Management Incentive Plan retires from the Company within the first ten (10) months of the Company's fiscal year, the employee will receive payment of the bonus calculated under the terms of this Plan that the employee would otherwise have been entitled to assuming a 100% Company Factor and 100% Individual Factor, but pro-rated for the number of full calendar months the employee completed before his or her retirement. If an employee who would otherwise be eligible to participate in this Management Incentive Plan retires from the Company after completion of the first ten (10) months of the Company's fiscal year, the employee will receive payment of the bonus calculated under the terms of this Plan, but pro-rated for the number of full calendar months the employee completed before his or her retirement.

#### **Compliance**

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

- **Recovery of Incentive Compensation**

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



**Company Factor**

- Company performance will be measured on the following schedule:

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

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

- Individual Factor**

- Individual performance will be measured on the following scale:

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

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

**Sample Calculations**

- Example 1

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

Calculation:

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

- Example 2

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

Calculation:

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

- Example 3

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

Calculation:

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


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- Example 4

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

Calculation:

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

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#### **EMPLOYEE RECOGNITION (“CHAIRMAN’S AWARD”) PROGRAM**

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

8. All Chairman's Awards under the Employee Recognition Program shall be paid by March 15 of the calendar year following the calendar year in which such awards are earned.
9. The Employee Recognition Program is intended to comply with the short-term deferral rule set forth in the regulations under section 409A of the Code, in order to avoid application of section 409A to the Plan. If and to the extent that any payment under this Employee Recognition Program is deemed to be deferred compensation subject to the requirements of section 409A, this Employee Recognition Program shall be administered so that such payments are made in accordance with the requirements of section 409A.

PERFORMANCE-BASED SHARE UNIT GRANT

\_\_\_\_\_, 2011

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: Nicholas DeBenedictis

Grant Date: \_\_\_\_\_, 2011

Target Award: \_\_\_\_\_ shares

Vesting Date: \_\_\_\_\_, 2013

Performance Period: Period beginning on January 1, 2011 and ending on December 31, 2013

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: \_\_\_\_\_

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

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

**1. Grant of Performance Units.**

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

Subject to the terms and vesting conditions hereinafter set forth, the Company, with the approval and at the direction of the Executive Compensation Committee (the “Committee”) of the Company’s Board of Directors (the “Board”), has granted to the Grantee a target award (the “Target Award”) of performance-based share units as specified in the Performance-Based Share Unit Grant (the “Performance Units”). The Performance Units are contingently awarded and shall be earned, vested and payable if and to the extent that the total shareholder return and earnings per share performance goals described on Schedule A (the “Performance Goals”), employment conditions and other conditions of these Grant Conditions are met. The Performance Units are granted with Dividend Equivalents (as defined in Section 7).

**2. Vesting.**

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

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

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

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

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

(a) Except as described below, if the Grantee ceases to be employed by the Employer prior to the Vesting Date, the Performance Units shall be forfeited as of the termination date and shall cease to be outstanding. Except as described below, if the Grantee ceases to be employed by the Employer on or after the Vesting Date for any reason other than Cause, the Performance Units shall remain outstanding through the Performance Period and the Grantee shall earn Performance Units based on the attainment of the Performance Goals described on Schedule A, as determined following the end of the Performance Period (or as described in Section 4, if applicable). The earned Performance Units shall be paid as described in Section 6.

(b) If the Grantee ceases to be employed by the Employer during the Vesting Period on account of the Grantee's death or Disability, the Grantee's outstanding Performance Units shall remain outstanding through the Performance Period and the Grantee shall earn Performance Units based on the attainment of the Performance Goals described on Schedule A, as determined following the end of the Performance Period (or as described in Section 4, if applicable). The earned Performance Units shall be paid as described in Section 6.

(c) If the Grantee ceases to be employed by the Employer during the Vesting Period on account of Retirement (defined below), the Grantee shall earn a pro-rata portion of the outstanding Performance Units based on attainment of the Performance Goals described on Schedule A, as determined following the end of the Performance Period (or as described in Section 4, if applicable). The pro-rated portion shall be determined based on the number of Performance Units earned based on the attainment of the Performance Goals during the Performance Period, multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date and prior to the Retirement Date in which the Grantee was employed by the Employer and the denominator of which is twenty-four (24). The pro-rated earned Performance Units shall be paid as described in Section 6.

### 4. Change in Control.

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

(i) If the Change in Control occurs more than one (1) year after the Grant Date and before the end of the Performance Period, the Grantee shall earn the greater of (x) the number of Performance Units earned based on the attainment of the Performance Goals from the beginning of the Performance Period to the Change in Control Date, or (y) the Target Award.



(ii) If a Change in Control occurs within one year after the Grant Date, the Grantee shall earn a pro-rata portion of the outstanding Performance Units. The pro-rated portion shall be determined based on the greater of (x) the number of Performance Units earned based on the attainment of the Performance Goals from the beginning of the Performance Period to the Change in Control Date, or (y) the Target Award, multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date until the Change in Control Date and the denominator of which is twenty-four (24).

Performance Units earned as of the Change in Control Date, as described above in subsection (a)(i) or (ii), are referred to as the "CIC Earned Units." All references in this Agreement to "Performance Units" include CIC Earned Units on and after a Change in Control. CIC Earned Units shall vest as described in this Section 4, and vested CIC Earned Units shall be paid as described in Section 6.

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

(c) If a Change in Control occurs before the Vesting Date and the Grantee ceases to be employed by the Employer upon or following a Change in Control on account of (i) the Grantee's Retirement, (ii) the Grantee's termination by the Company without Cause, (iii) the Grantee's termination for Good Reason (defined below), or (iv) the Grantee's Disability or death, the CIC Earned Units shall vest as of the termination date (if not previously vested).

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

(e) If a Change in Control occurs on or after the Vesting Date, the CIC Earned Units shall vest as of the Change in Control Date.

#### 5. Definitions.

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

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

#### 6. Payment with Respect to Performance Units.

(a) Except as otherwise set forth herein, if the Committee certifies that the Performance Goals and other conditions to payment of the Performance Units have been met, shares of Company Stock equal to the vested earned Performance Units shall be issued to the Grantee on the third anniversary of the Grant Date (the "Payment Date"), following the Committee's certification of the Performance Goals, subject to applicable tax withholding and Section 18 below.

(b) Except as provided below, if a Change in Control occurs, shares of Company Stock (or other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee on the Payment Date, subject to applicable tax withholding and Section 18 below.

(c) If a Change in Control occurs and the Grantee ceases to be employed by the Employer before the Vesting Date on account of (i) the Grantee's Retirement, (ii) the Grantee's termination by the Employer without Cause, (iii) the Grantee's termination for Good Reason, or (iv) the Grantee's Disability or death, shares of Company Stock (or other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee within sixty (60) days following the Grantee's date of termination, subject to applicable tax withholding and Section 18 below.

(d) If a Change in Control occurs and the Grantee ceases to be employed by the Employer on or after the Vesting Date for any reason other than Cause, shares of Company Stock (or other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee within sixty (60) days following the Grantee's date of termination, subject to applicable tax withholding and Section 18 below.

(e) If the Grantee terminates employment on account of Retirement before a Change in Control, any outstanding pro-rated Performance Units under Section 3(c) may be earned as CIC Earned Units pursuant to Section 4(a), but in all cases prorated by applying the fraction in Section 3(c), and such CIC Earned Units shall vest on the date of the Change in Control. Shares of Company Stock (or such other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee within sixty (60) days after the Change in Control, subject to applicable tax withholding and Section 18 below.

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

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

#### 7. Dividend Equivalents with Respect to Performance Units.

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

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

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

(d) Notwithstanding the foregoing, if shares of Company Stock are converted to cash as described in Section 6(f) above in connection with a Change in Control, Dividend Equivalents shall cease to be credited with respect to the Performance Units.

8. Non-Competition.

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

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

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

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

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

(d) The parties to these Grant Conditions acknowledge and agree that any breach by the Grantee of any of the covenants or agreements contained in this Section 8 will result in irreparable injury to the Employer for which money damages could not adequately compensate the Employer and therefore, in the event of any such breach, the Employer shall be entitled (in addition to any other rights and remedies which it may have at law or in equity) to have an injunction issued by any competent court enjoining and restraining the Grantee and any other person involved therein from continuing such breach without posting a bond. The existence of any claim or cause of action which the Grantee may have against the Employer or any other person shall not constitute a defense or bar to the enforcement of such covenants. If any portion of the covenants or agreements contained in this Section 8 is construed to be invalid or unenforceable, the other portions of such covenants or agreements shall not be affected and shall be given full force and effect without regard to the invalid or unenforceable portion to the fullest extent possible. If any covenant or agreement in this Section 8 is held to be unenforceable because of the duration or scope thereof, then the court making such determination shall have the power to reduce the duration and limit the scope thereof, and the covenant or agreement shall then be enforceable in its reduced form. In addition to other actions that may be taken by the Employer, if the Grantee breaches any of the covenants or agreements contained in this Section 8, the Grantee shall forfeit all outstanding Performance Units, and all outstanding Performance Units (whether or not vested) shall immediately terminate.

9. Certain Corporate Changes.

If any change is made to the Company Stock (whether by reason of merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, or exchange of shares or any other change in capital structure made without receipt of consideration), then unless such event or change results in the termination of all the Performance Units, the Committee shall adjust, in an equitable manner and as provided in the Plan, the number and class of shares underlying the Performance Units to reflect the effect of such event or change in the Company's capital structure in such a way as to preserve the value of the Performance Units, and the Committee shall adjust the Performance Goals as necessary to reflect the effect of such event or change in the Company's capital structure. Any adjustment that occurs under the terms of this Section 9 or the Plan will not change the timing or form of payment with respect to any Performance Units.

10. No Stockholder Rights.

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

11. No Right to Continued Employment.

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

12. Termination or Amendment.

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

13. Notice.

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

14. Incorporation of Plan by Reference.

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

15. Income Taxes; Withholding Taxes.

The Grantee is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the award or settlement of Performance Units pursuant to these Grant Conditions. At the time of taxation, the Employer shall have the right to deduct from other compensation, or to withhold shares of Company Stock, in an amount equal to the federal (including FICA), state, local and foreign taxes and other amounts as may be required by law to be withheld with respect to the Performance Units, provided that any share withholding shall not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state, local and foreign tax liabilities.

16. Governing Law.

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

17. Assignment.

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

18. Section 409A.

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

\* \* \*

## **Schedule A**

### **Performance Goals**

#### **1. Performance Goals.**

The Performance Units shall be earned based on the Company's achievement of three Performance Goals, as follows:

- 25% of the Target Award shall be earned based on the TSR (as defined below) as compared to the TSR of the companies in the peer group described in Section 3 below.
- 25% of the Target Award shall be earned based on the Company's TSR as compared to the TSR of the reference companies in described in Section 4 below.
- 50% of the Target Award shall be earned based on the Company's three-year compound annual growth rate in earnings per share as described in Section 5 below.

#### **2. Calculation of TSR.**

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

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

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

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

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

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

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

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



(c) The Peer Group Portion shall be earned based on how the Company's TSR ranks in comparison to the TSRs of the Peer Group in accordance with the following schedule, depending on how many companies remain in the Peer Group at the end of the Performance Period:

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

4. **Performance Units Earned Based on Comparative TSR to the S&P MidCap Utilities Index.** Twenty-five percent of the Target Award of the Performance Units (the "S&P Index Portion") shall be earned based on the Company's TSR as compared to the TSR of the companies in the S&P MidCap Utilities Index, in accordance with the following:

(a) The S&P Index Portion shall be earned based on how the Company's TSR ranks compares to the TSRs of the Reference Companies in the S&P MidCap Utilities Index, according to the following schedule:

<b>Percentile Ranking of the Company Versus Reference Companies</b>	<b>Payout as a % of Target Award</b>
90th or above	200%
50th	100%
30th	50%
Below 30th	0%

If the Company's TSR rank falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation.

(b) The companies in the S&P MidCap Utilities Index will be determined on the first day of the Performance Period for purposes of the TSR calculation and will be changed only in accordance with Section 4(c) below. No company shall be added to the S&P MidCap Utilities Index during the Performance Period for purposes of the TSR calculation.

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

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

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

5. Performance Units Earned Based on Compound Annual Growth Rate in Earnings Per Share. Fifty percent of the Target Award of the Performance Units (the “EPS Portion”) shall be earned based on the attainment of the following three-year compound annual earnings per share (“EPS”) growth rate performance goals, which shall be determined based on the Company’s audited financial statements. The EPS Portion shall vest according to the following schedule:

<b>The Company’s Compound Annual EPS Growth Rate</b>	<b>Payout as a % of Target Award</b>
10% or above	200%
9%	180%
8%	160%
7%	140%
6%	120%
5%	100%
4%	87.5%
3%	75%
2%	62.5%
1%	50%
0%	0%

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

PERFORMANCE-BASED SHARE UNIT GRANT

\_\_\_\_\_, 2011

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: \_\_\_\_\_, 2011

Target Award: \_\_\_\_\_ shares

Vesting Date: \_\_\_\_\_, 2014

Performance Period: Period beginning on January 1, 2011 and ending on December 31, 2013

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: \_\_\_\_\_

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

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

**1. Grant of Performance Units.**

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

Subject to the terms and vesting conditions hereinafter set forth, the Company, with the approval and at the direction of the Executive Compensation Committee (the “Committee”) of the Company’s Board of Directors (the “Board”), has granted to the Grantee a target award (the “Target Award”) of performance-based share units as specified in the Performance-Based Share Unit Grant (the “Performance Units”). The Performance Units are contingently awarded and shall be earned, vested and payable if and to the extent that the total shareholder return and earnings per share performance goals described on Schedule A (the “Performance Goals”), employment conditions and other conditions of these Grant Conditions are met. The Performance Units are granted with Dividend Equivalents (as defined in Section 7).

**2. Vesting.**

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

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

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

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

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

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

(b) If the Grantee ceases to be employed by the Employer during the Vesting Period on account of the Grantee's death or Disability, the Grantee's outstanding Performance Units shall remain outstanding through the Vesting Period and the Grantee shall earn Performance Units based on the attainment of the Performance Goals described on Schedule A, as determined following the end of the Performance Period (or as described in Section 4, if applicable). The earned Performance Units shall be paid as described in Section 6.

(c) If the Grantee ceases to be employed by the Employer during the Vesting Period on account of Retirement (defined below), the Grantee shall earn a pro-rata portion of the Performance Units based on attainment of the Performance Goals described on Schedule A, as determined following the end of the Performance Period (or as described in Section 4, if applicable). The pro-rated portion shall be determined based on the number of Performance Units earned based on the attainment of the Performance Goals during the Performance Period, multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date and prior to the Retirement Date in which the Grantee was employed by the Employer and the denominator of which is thirty-six (36). The pro-rated earned Performance Units shall be paid as described in Section 6.

### 4. Change in Control.

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

(i) If the Change in Control occurs more than one (1) year after the Grant Date and before the end of the Performance Period, the Grantee shall earn the greater of (x) the number of Performance Units earned based on the attainment of the Performance Goals from the beginning of the Performance Period to the Change in Control Date, or (y) the Target Award.

(ii) If a Change in Control occurs within one year after the Grant Date, the Grantee shall earn a pro-rata portion of the Performance Units. The pro-rated portion shall be determined based on the greater of (x) the number of Performance Units earned based on the attainment of the Performance Goals from the beginning of the Performance Period to the Change in Control Date, or (y) the Target Award, multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date until the Change in Control Date and the denominator of which is thirty-six (36).

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

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

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

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

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

#### 5. Definitions.

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

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

#### 6. Payment with Respect to Performance Units.

(a) Except as otherwise set forth in Section 4, if the Committee certifies that the Performance Goals and other conditions to payment of the Performance Units have been met, shares of Company Stock equal to the vested earned Performance Units shall be issued to the Grantee on the Vesting Date, subject to applicable tax withholding and Section 18 below.

(b) If, prior to the Vesting Date, a Change in Control occurs and the Grantee continues to be employed by the Employer through the Vesting Date, shares of Company Stock (or other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee on the Vesting Date, subject to applicable tax withholding and Section 18 below.

(c) If, prior to the Vesting Date, a Change in Control occurs and the Grantee ceases to be employed by the Employer on or after the Change in Control on account of (i) the Grantee's Retirement, (ii) the Grantee's termination by the Employer without Cause, (iii) the Grantee's termination for Good Reason, or (iv) the Grantee's Disability or death, shares of Company Stock (or other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee within sixty (60) days following the Grantee's date of termination, subject to applicable tax withholding and Section 18 below.

(d) If the Grantee terminates employment on account of Retirement before a Change in Control, any outstanding pro-rated Performance Units under Section 3(c) may be earned as CIC Earned Units pursuant to Section 4(a), but in all cases prorated by applying the fraction in Section 3(c), and such CIC Earned Units shall vest on the date of the Change in Control. Shares of Company Stock (or such other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee within sixty (60) days after the Change in Control, subject to applicable tax withholding and Section 18 below.

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

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

#### 7. Dividend Equivalents with Respect to Performance Units.

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

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

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

(d) Notwithstanding the foregoing, if shares of Company Stock are converted to cash as described in Section 6(e) above in connection with a Change in Control, Dividend Equivalents shall cease to be credited with respect to the Performance Units.

8. Non-Competition.

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

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

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

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

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



(d) The parties to these Grant Conditions acknowledge and agree that any breach by the Grantee of any of the covenants or agreements contained in this Section 8 will result in irreparable injury to the Employer for which money damages could not adequately compensate the Employer and therefore, in the event of any such breach, the Employer shall be entitled (in addition to any other rights and remedies which it may have at law or in equity) to have an injunction issued by any competent court enjoining and restraining the Grantee and any other person involved therein from continuing such breach without posting a bond. The existence of any claim or cause of action which the Grantee may have against the Employer or any other person shall not constitute a defense or bar to the enforcement of such covenants. If any portion of the covenants or agreements contained in this Section 8 is construed to be invalid or unenforceable, the other portions of such covenants or agreements shall not be affected and shall be given full force and effect without regard to the invalid or unenforceable portion to the fullest extent possible. If any covenant or agreement in this Section 8 is held to be unenforceable because of the duration or scope thereof, then the court making such determination shall have the power to reduce the duration and limit the scope thereof, and the covenant or agreement shall then be enforceable in its reduced form. In addition to other actions that may be taken by the Employer, if the Grantee breaches any of the covenants or agreements contained in this Section 8, the Grantee shall forfeit all Performance Units, and all Performance Units (whether or not vested) shall immediately terminate.

9. Certain Corporate Changes.

If any change is made to the Company Stock (whether by reason of merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, or exchange of shares or any other change in capital structure made without receipt of consideration), then unless such event or change results in the termination of all the Performance Units, the Committee shall adjust, in an equitable manner and as provided in the Plan, the number and class of shares underlying the Performance Units to reflect the effect of such event or change in the Company's capital structure in such a way as to preserve the value of the Performance Units, and the Committee shall adjust the Performance Goals as necessary to reflect the effect of such event or change in the Company's capital structure. Any adjustment that occurs under the terms of this Section 9 or the Plan will not change the timing or form of payment with respect to any Performance Units.

10. No Stockholder Rights.

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

11. No Right to Continued Employment.

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

12. Termination or Amendment.

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

13. Notice.

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

14. Incorporation of Plan by Reference.

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

15. Income Taxes; Withholding Taxes.

The Grantee is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the award or settlement of Performance Units pursuant to these Grant Conditions. At the time of taxation, the Employer shall have the right to deduct from other compensation, or to withhold shares of Company Stock, in an amount equal to the federal (including FICA), state, local and foreign income taxes and other amounts as may be required by law to be withheld with respect to the Performance Units, provided that any share withholding shall not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state, local and foreign tax liabilities.

16. Governing Law.

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

17. Assignment.

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

18. Section 409A.

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

\* \* \*

## **Schedule A**

### **Performance Goals**

#### **1. Performance Goals.**

The Performance Units shall be earned based on the Company's achievement of three Performance Goals, as follows:

- 25% of the Target Award shall be earned based on the TSR (as defined below) as compared to the TSR of the companies in the peer group described in Section 3 below.
- 25% of the Target Award shall be earned based on the Company's TSR as compared to the TSR of the reference companies in described in Section 4 below.
- 50% of the Target Award shall be earned based on the Company's three-year compound annual growth rate in earnings per share as described in Section 5 below.

#### **2. Calculation of TSR.**

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

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

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

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

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

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

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

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

(c) The Peer Group Portion shall be earned based on how the Company's TSR ranks in comparison to the TSRs of the Peer Group in accordance with the following schedule, depending on how many companies remain in the Peer Group at the end of the Performance Period:

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

4. **Performance Units Earned Based on Comparative TSR to the S&P MidCap Utilities Index.** Twenty-five percent of the Target Award of the Performance Units (the "S&P Index Portion") shall be earned based on the Company's TSR as compared to the TSR of the companies in the S&P MidCap Utilities Index, in accordance with the following:

(a) The S&P Index Portion shall be earned based on how the Company's TSR ranks compares to the TSRs of the Reference Companies in the S&P MidCap Utilities Index, according to the following schedule:

<b>Percentile Ranking of the Company Versus Reference Companies</b>	<b>Payout as a % of Target Award</b>
90th or above	200%
50th	100%
30th	50%
Below 30th	0%

If the Company's TSR rank falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation.

(b) The companies in the S&P MidCap Utilities Index will be determined on the first day of the Performance Period for purposes of the TSR calculation and will be changed only in accordance with Section 4(c) below. No company shall be added to the S&P MidCap Utilities Index during the Performance Period for purposes of the TSR calculation.

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

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

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

5. Performance Units Earned Based on Compound Annual Growth Rate in Earnings Per Share. Fifty percent of the Target Award of the Performance Units (the “EPS Portion”) shall be earned based on the attainment of the following three-year compound annual earnings per share (“EPS”) growth rate performance goals, which shall be determined based on the Company’s audited financial statements. The EPS Portion shall vest according to the following schedule:

<b>The Company’s Compound Annual EPS Growth Rate</b>	<b>Payout as a % of Target Award</b>
10% or above	200%
9%	180%
8%	160%
7%	140%
6%	120%
5%	100%
4%	87.5%
3%	75%
2%	62.5%
1%	50%
0%	0%

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

RESTRICTED STOCK UNIT GRANT

\_\_\_\_\_, 2011

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: Nicholas DeBenedictis

Grant Date: February \_\_, 2011

Number of Restricted  
Stock Units Granted: \_\_\_\_\_

Performance Goals: See Restricted Stock Unit Grant Terms and Conditions, including Exhibit A

First Vesting Date: February \_\_, 2012

Second Vesting Date: February \_\_, 2013

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: \_\_\_\_\_

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

**RESTRICTED STOCK UNIT GRANT**  
**TERMS AND CONDITIONS**

**1. Grant of Restricted Units.**

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

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

**2. Restricted Unit Account.**

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

**3. Vesting.**

(a) Except as otherwise set forth in these Grant Conditions, the Grantee shall vest in the Restricted Units on the Vesting Dates specified in the Restricted Stock Unit Grant (each of the First Vesting Date and Second Vesting Date, as designated on the Restricted Stock Unit Grant, is referred to as a “Vesting Date”), provided that the Grantee continues to be employed by the Employer through the applicable Vesting Date and provided the performance goals set forth on the attached Exhibit A (the “Performance Goals”) are met, as follows:

(1) If the Performance Goals are met for calendar year 2011, fifty percent (50%) of the Restricted Units shall vest on the First Vesting Date, and fifty percent (50%) of the Restricted Units shall vest on the Second Vesting Date, subject to the Grantee's continued employment with the Employer through the applicable Vesting Date.

(2) If the Performance Goals are not met for calendar year 2011 but are met for calendar year 2012, all of the Restricted Units shall vest on the Second Vesting Date, subject to the Grantee's continued employment with the Employer through the Second Vesting Date.

(4) The Committee shall certify attainment of the Performance Goals (or determine that the Performance Goals have not been attained, if applicable) within sixty (60) days after the end of the calendar year to which the Performance Goals apply.

(b) Except as described in Section 4 or 5 below, the Grantee must continue to be employed by the Employer on the applicable Vesting Date, and the Performance Goals must be met, in order for the Grantee to vest and receive payment with respect to the Restricted Units. Notwithstanding anything in these Grant Conditions to the contrary, if the Performance Goals are not met for calendar year 2011 and are also not met for calendar year 2012, all outstanding Restricted Units shall be forfeited as of December 31, 2012 and shall cease to be outstanding (except as provided in Section 5 below with respect to a Change in Control before December 31, 2012). Shares of Company Stock equal to the Restricted Units that vest under this Section 3 shall be issued to the Grantee within sixty (60) days after the Second Vesting Date, subject to applicable tax withholding and subject to Sections 4, 5 and 18 below.

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

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

(b) If, before a Change in Control and before the Second Vesting Date, the Grantee ceases to be employed by the Employer on account of the Grantee's Retirement (defined below), and if the Performance Goals are met for calendar year 2011 or 2012, the Grantee will vest in a pro rata number of the Restricted Units that have not previously vested. The pro rata number of Restricted Units will vest on the Retirement date or, if later, on the first date on which the Committee certifies that the Performance Goals are met. The remaining unvested Restricted Units shall be forfeited as of the termination date. If the Performance Goals are not met, all outstanding Restricted Units will be forfeited as of December 31, 2012 and shall cease to be outstanding (except as provided in Section 5 below with respect to a Change in Control before December 31, 2012). Shares of Company Stock equal to the vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Second Vesting Date, subject to applicable tax withholding and subject to Sections 5 and 18 below. The pro rata number of Restricted Units that vest under this subsection (b) if the Performance Goals are met for calendar year 2011 or 2012 shall be determined as follows:

(1) If the Grantee's Retirement occurs prior to the First Vesting Date, the Grantee shall vest in a pro rata portion of the Restricted Units, as follows: (i) fifty percent (50%) of the Restricted Units multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date and prior to the Retirement date in which the Grantee was employed by the Employer and the denominator of which is twelve (12), plus (ii) fifty percent (50%) of the Restricted Units multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date and prior to the Retirement date in which the Grantee was employed by the Employer and the denominator of which is twenty-four (24).

(2) If the Grantee's Retirement occurs on or after the First Vesting Date and before the Second Vesting Date, the Grantee shall vest in the Restricted Units as follows: (i) fifty percent (50%) of the Restricted Units (if not previously vested under Section 3), plus (ii) fifty percent (50%) of the Restricted Units multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date and prior to the Retirement date in which the Grantee was employed by the Employer and the denominator of which is twenty-four (24).

(c) If the Grantee ceases to be employed by the Employer prior to the Second Vesting Date on account of the Grantee's death or Disability, the Grantee's outstanding Restricted Units shall fully vest and shares of Company Stock equal to the vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Grantee's date of termination, subject to applicable tax withholding and subject to Section 18 below.

#### 5. Change in Control.

(a) If a Change in Control occurs prior to December 31, 2012, the Performance Goals shall be deemed to have been met as of the date of the Change in Control (if they have not previously been met) with respect to outstanding Restricted Units.

(b) In the event of a Change in Control, the Grantee's outstanding Restricted Units shall vest on the Vesting Dates described in Section 3(a)(1) or (2), as applicable, if the Grantee continues to be employed by the Employer through the applicable Vesting Date. Shares of Company Stock (or other consideration, as described below) equal to the vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Second Vesting Date, subject to applicable tax withholding and subject to Section 18 below.

(c) If the Grantee ceases to be employed by the Employer upon or following a Change in Control on account of (i) the Grantee's Retirement, (ii) termination by the Employer without Cause, (iii) termination by the Grantee for Good Reason (defined below), or (iv) the Grantee's Disability or death, the Grantee's outstanding unvested Restricted Units shall fully vest. Shares of Company Stock (or such other consideration, as described below) equal to the Grantee's vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Grantee's date of termination, subject to applicable tax withholding and Section 18 below.

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

(e) In the event of a Change in Control, if the Grantee terminated employment on account of Retirement before the Change in Control, the Grantee's outstanding prorated Restricted Units under Section 4(b) shall vest on the date of the Change in Control. Shares of Company Stock (or such other consideration, as described below) equal to the vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Change in Control, subject to applicable tax withholding and Section 18 below.

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

6. Definitions.

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

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

7. Payment with Respect to Restricted Units.

Except as otherwise set forth in Section 4 or 5 above, shares of Company Stock equal to the vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Second Vesting Date, subject to applicable tax withholding and subject to Section 18. Any fractional Restricted Units shall be paid to the Grantee in cash.

8. Dividend Equivalents with Respect to Restricted Units.

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

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

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

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

## 9. Non-Competition.

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

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

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

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

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

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

10. Certain Corporate Changes.

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

11. No Right to Continued Employment.

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

12. Termination or Amendment.

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

13. Notice.

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

14. Incorporation of Plan by Reference.

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

15. Income Taxes; Withholding Taxes.

The Grantee is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the award or settlement of Restricted Units pursuant to these Grant Conditions. At the time of taxation, the Employer shall have the right to deduct from other compensation, or to withhold shares of Company Stock, in an amount equal to the federal (including FICA), state, local and foreign taxes and other amounts as may be required by law to be withheld with respect to the Restricted Units, provided that any share withholding shall not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state, local and foreign tax liabilities.

16. Governing Law.

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

17. Assignment.

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

18. Code Section 409A.

The Restricted Stock Unit Grant and these Grant Conditions are intended to comply with Code Section 409A or an exemption, and payments may only be made under these Grant Conditions upon an event and in a manner permitted by Code Section 409A, to the extent applicable. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, if the Grantee is considered a “specified employee” for purposes of Code Section 409A and if any payment under these Grant Conditions is required to be delayed for a period of six (6) months after separation from service pursuant to Code Section 409A, such payment shall be delayed as required by Code Section 409A, and the accumulated payment amounts shall be paid in a lump sum payment within ten (10) days after the end of the six (6)-month period. If the Grantee dies during the postponement period prior to payment, the amounts withheld on account of Code Section 409A shall be paid to the personal representative of the Grantee’s estate within sixty (60) days after the date of the Grantee’s death. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, (i) any payments to be made upon a termination of employment under these Grant Conditions may only be made upon a “separation from service” under Code Section 409A and (ii) any payments upon Disability may only be made upon a “disability” under Code Section 409A. In no event may the Grantee, directly or indirectly, designate the calendar year of a payment, except in accordance with Code Section 409A. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, in the event that a Change in Control is not a “change in control event” under Code Section 409A or the payment event under Section 5(c) does not occur upon or within two (2) years following a “change in control event” under Code Section 409A, any vested Restricted Units payable under Section 5(c) or 5(e) shall be paid to the Grantee within sixty (60) days after the Second Vesting Date (or upon termination of employment on account of death or Disability, if earlier).

\* \* \*



**Exhibit A**  
**Performance Goals**

The Performance Goals for the Restricted Units are that there be a year over year increase in the Company's Operating Income for at least one of the 2011 and 2012 calendar years, as follows:

- The Company's Operating Income for the 2011 calendar year is greater than the Company's Operating Income for the 2010 calendar year; or
- The Company's Operating Income for the 2012 calendar year is greater than the Company's Operating Income for the 2011 calendar year.

In each case, Operating Income shall be determined as the Operating Income of the Company and its subsidiaries as shown in the Company's audited financial statements based on generally accepted accounting principles. The Committee has specified in writing as of the Grant Date any objectively determinable adjustments that shall be made to the calculation of Operating Income.

RESTRICTED STOCK UNIT GRANT

\_\_\_\_\_, 2011

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: \_\_\_\_\_, 2011

Number of Restricted  
Stock Units Granted: \_\_\_\_\_

Vesting Date: \_\_\_\_\_, 2014

Vesting Schedule: 100% on \_\_/\_\_/2014

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: \_\_\_\_\_

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

**RESTRICTED STOCK UNIT GRANT**  
**TERMS AND CONDITIONS**

**1. Grant of Restricted Units.**

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

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

**2. Restricted Unit Account.**

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

**3. Vesting.**

(a) Except as otherwise set forth in these Grant Conditions, the Grantee shall vest in the Restricted Units on the Vesting Dates specified in the Restricted Stock Unit Grant (the “Vesting Date”), provided that the Grantee continues to be employed by the Employer through the Vesting Date.

(b) Except as described in Section 3 below, the Grantee must continue to be employed by the Employer on the Vesting Date in order for the Grantee to vest and receive payment with respect to Restricted Units.

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

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

(b) If the Grantee ceases to be employed by the Employer prior to the Vesting Date on account of the Grantee's Retirement (defined below), the Grantee shall earn a pro-rata portion of the unvested Restricted Units. The pro-rated portion shall be determined based on the number of unvested Restricted Units, multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date and prior to the Retirement Date in which the Grantee was employed by the Employer and the denominator of which is thirty-six (36). Shares of Company Stock equal to the pro-rata portion of the Restricted Units shall be issued to the Grantee within sixty (60) days following the Grantee's Retirement date, subject to applicable tax withholding and subject to Section 18 below.

(c) If the Grantee ceases to be employed by the Employer prior to the Vesting Date on account of the Grantee's death or Disability, the Grantee's Restricted Units shall fully vest and shares of Company Stock equal to the vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Grantee's date of termination, subject to applicable tax withholding and subject to Section 18 below.

#### 5. Change in Control.

(a) Except as described below, if a Change in Control occurs prior to the Vesting Date, the Grantee's Restricted Units shall remain outstanding and shall vest on the Vesting Date if the Grantee continues to be employed by the Employer through the Vesting Date. Shares of Company Stock (or other consideration, as described below) equal to the vested Restricted Units shall be issued to the Grantee on the Vesting Date, subject to applicable tax withholding and Section 18 below.

(b) If the Grantee ceases to be employed by the Employer upon or following a Change in Control on account of (i) the Grantee's Retirement, (ii) termination by the Employer without Cause, (iii) termination by the Grantee for Good Reason (defined below), or (iv) the Grantee's Disability or death, the Grantee's outstanding unvested Restricted Units shall fully vest. Shares of Company Stock (or such other consideration, as described below) equal to the Grantee's vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Grantee's date of termination, subject to applicable tax withholding and Section 18 below.

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

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

6. Definitions.

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

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

7. Payment with Respect to Restricted Units.

Except as otherwise set forth in Section 4 and 5 above, shares of Company Stock equal to the vested Restricted Units shall be issued to the Grantee on the Vesting Date, subject to applicable tax withholding and subject to Section 18. Any fractional Restricted Units shall be paid to the Grantee in cash.

8. Dividend Equivalents with Respect to Restricted Units.

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

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

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

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

9. Non-Competition.

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

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

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

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

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

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

10. Certain Corporate Changes.

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

11. No Right to Continued Employment.

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

12. Termination or Amendment.

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

13. Notice.

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

14. Incorporation of Plan by Reference.

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

15. Income Taxes; Withholding Taxes.

The Grantee is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the award or settlement of Restricted Units pursuant to these Grant Conditions. At the time of taxation, the Employer shall have the right to deduct from other compensation, or to withhold shares of Company Stock, in an amount equal to the federal (including FICA), state, local and foreign taxes and other amounts as may be required by law to be withheld with respect to the Restricted Units, provided that any share withholding shall not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state, local and foreign tax liabilities.

16. Governing Law.

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

17. Assignment.

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



18. Code Section 409A.

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

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## Certification

I, Nicholas DeBenedictis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aqua America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2011

Nicholas DeBenedictis  
Nicholas DeBenedictis  
Chairman, President and Chief Executive Officer

## Certification

I, David P. Smeltzer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aqua America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2011

David P. Smeltzer  
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David P. Smeltzer  
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2011 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nicholas DeBenedictis, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Nicholas DeBenedictis  
Nicholas DeBenedictis  
Chairman, President and Chief Executive Officer  
May 9, 2011

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

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2011 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Smeltzer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

David P. Smeltzer  
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David P. Smeltzer  
Chief Financial Officer  
May 9, 2011

