

**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, 2014

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  (do not check if a smaller reporting company)

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 23, 2014: 177,060,756

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## AQUA AMERICA, INC. AND SUBSIDIARIES

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

	March 31, 2014	December 31, 2013
Assets		
Property, plant and equipment, at cost	\$ 5,397,141	\$ 5,348,195
Less: accumulated depreciation	1,237,686	1,211,806
Net property, plant and equipment	4,159,455	4,136,389
Current assets:		
Cash and cash equivalents	17,508	5,058
Accounts receivable and unbilled revenues, net	89,892	94,704
Income tax receivable	1,211	7,873
Deferred income taxes	49,846	40,038
Inventory, materials and supplies	11,794	11,353
Prepayments and other current assets	11,129	11,081
Assets of discontinued operations held for sale	32,250	32,926
Total current assets	213,630	203,033
Regulatory assets	599,717	585,140
Deferred charges and other assets, net	51,253	50,290
Investment in joint venture	47,666	48,695
Funds restricted for construction activity	47	47
Goodwill	27,999	28,223
Total assets	\$ 5,099,767	\$ 5,051,817
Liabilities and Equity		
Aqua America stockholders' equity:		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 178,316,578 and 177,928,922 as of March 31, 2014 and December 31, 2013	\$ 89,158	\$ 88,964
Capital in excess of par value	748,080	743,335
Retained earnings	745,161	729,272
Treasury stock, at cost, 1,258,279 and 1,178,323 shares in March 31, 2014 and December 31, 2013	(29,055)	(27,082)
Accumulated other comprehensive income	667	346
Total Aqua America stockholders' equity	1,554,011	1,534,835
Noncontrolling interest	223	208
Total equity	1,554,234	1,535,043
Long-term debt, excluding current portion	1,498,040	1,468,583
Commitments and contingencies (See Note 13)	-	-
Current liabilities:		
Current portion of long-term debt	97,789	86,288
Loans payable	27,913	36,740
Accounts payable	31,547	65,815
Accrued interest	21,175	13,615
Accrued taxes	13,362	14,176
Other accrued liabilities	30,419	33,596
Liabilities of discontinued operations held for sale	29,037	29,649
Total current liabilities	251,242	279,879
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	901,391	866,211
Customers' advances for construction	73,728	73,892
Regulatory liabilities	278,283	281,014
Other	75,230	81,552
Total deferred credits and other liabilities	1,328,632	1,302,669
Contributions in aid of construction	467,619	465,643
Total liabilities and equity	\$ 5,099,767	\$ 5,051,817

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

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## AQUA AMERICA, INC. AND SUBSIDIARIES

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

	Three Months Ended	
	March 31,	
	2014	2013
Operating revenues	\$ 182,672	\$ 178,552
Operating expenses:		
Operations and maintenance	71,686	67,794
Depreciation	30,981	29,045
Amortization	1,133	1,377
Taxes other than income taxes	12,102	13,398
Total operating expenses	115,902	111,614
Operating income	66,770	66,938
Other expense (income):		
Interest expense, net	19,310	19,275
Allowance for funds used during construction	(1,167)	(552)
Loss (gain) on sale of other assets	348	(92)
Equity loss in joint venture	686	656
Income from continuing operations before income taxes	47,593	47,651
Provision for income taxes	5,192	6,787
Income from continuing operations	42,401	40,864
Discontinued operations:		
Income from discontinued operations before income taxes	772	8,925
Provision for income taxes	314	3,224
Income from discontinued operations	458	5,701
Net income attributable to common shareholders	\$ 42,859	\$ 46,565
Income from continuing operations per share:		
Basic	\$ 0.24	\$ 0.23
Diluted	\$ 0.24	\$ 0.23
Income from discontinued operations per share:		
Basic	\$ 0.00	\$ 0.03
Diluted	\$ 0.00	\$ 0.03
Net income per common share:		
Basic	\$ 0.24	\$ 0.27
Diluted	\$ 0.24	\$ 0.26
Average common shares outstanding during the period:		
Basic	176,839	175,415
Diluted	177,810	176,499
Cash dividends declared per common share	\$ 0.152	\$ 0.140

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

## AQUA AMERICA, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31,	
	2014	2013
Net income attributable to common shareholders	\$ 42,859	\$ 46,565
Other comprehensive income, net of tax:		
Unrealized holding gain (loss) on investments, net of tax of \$38 and \$(5) for the three months ended, March 31, respectively	72	(9)
Reclassification adjustment for loss reported in net income, net of tax benefit of \$(134) for the three months ended, March 31, 2014 (1)	249	-
Comprehensive income	<u>\$ 43,180</u>	<u>\$ 46,556</u>

(1) Amount of pre-tax loss of \$383 reclassified from accumulated other comprehensive income to loss on sale of other assets on the consolidated statements of net income for the three months ended March 31, 2014.

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

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AQUA AMERICA, INC. AND SUBSIDIARIES

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

	March 31, 2014	December 31, 2013
Aqua America stockholders' equity:		
Common stock, \$.50 par value	\$ 89,158	\$ 88,964
Capital in excess of par value	748,080	743,335
Retained earnings	745,161	729,272
Treasury stock, at cost	(29,055)	(27,082)
Accumulated other comprehensive income	667	346
Total Aqua America stockholders' equity	1,554,011	1,534,835
Noncontrolling interest	223	208
Total equity	1,554,234	1,535,043
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%	2023 to 2033	6,093
1.00% to 1.99%	2014 to 2035	26,911
2.00% to 2.99%	2024 to 2031	15,890
3.00% to 3.99%	2016 to 2047	166,794
4.00% to 4.99%	2020 to 2048	444,574
5.00% to 5.99%	2015 to 2043	256,514
6.00% to 6.99%	2015 to 2036	64,929
7.00% to 7.99%	2022 to 2027	34,900
8.00% to 8.99%	2021 to 2025	19,192
9.00% to 9.99%	2018 to 2026	28,500
10.40%	2018	6,000
		1,070,297
		1,101,339
Notes payable to bank under revolving credit agreement, variable rate, due March 2017	72,000	-
Unsecured notes payable:		
Notes at 3.57% due 2027	50,000	50,000
Notes ranging from 4.62% to 4.87%, due 2014 through 2024	171,400	171,400
Notes ranging from 5.01% to 5.95%, due 2015 through 2037	232,132	232,132
	1,595,829	1,554,871
Current portion of long-term debt	97,789	86,288
Long-term debt, excluding current portion	1,498,040	1,468,583
Total capitalization	\$ 3,052,274	\$ 3,003,626

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

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## AQUA AMERICA, INC. AND SUBSIDIARIES

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

	Capital in			Accumulated			
	Common	Excess of	Retained	Treasury	Other	Noncontrolling	Total
	Stock	Par Value	Earnings	Stock	Income	Interest	
Balance At December 31, 2013	\$ 88,964	\$743,335	\$729,272	\$ (27,082)	\$ 346	\$ 208	\$1,535,043
Net income	-	-	42,859	-	-	15	42,874
Other comprehensive income, net of income tax of \$172	-	-	-	-	321	-	321
Dividends	-	-	(26,873)	-	-	-	(26,873)
Repurchase of stock (79,961 shares)	-	-	-	(1,973)	-	-	(1,973)
Equity compensation plan (198,920 shares)	100	(100)	-	-	-	-	-
Exercise of stock options (188,736, shares)	94	2,663	-	-	-	-	2,757
Stock-based compensation	-	1,322	(97)	-	-	-	1,225
Employee stock plan tax benefits	-	1,041	-	-	-	-	1,041
Other	-	(181)	-	-	-	-	(181)
Balance At March 31, 2014	\$ 89,158	\$748,080	\$745,161	\$ (29,055)	\$ 667	\$ 223	\$1,554,234

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

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## AQUA AMERICA, INC. AND SUBSIDIARIES

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

	Three Months Ended	
	March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 42,859	\$ 46,565
Income from discontinued operations	458	5,701
Income from continuing operations	42,401	40,864
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:		
Depreciation and amortization	32,114	30,422
Deferred income taxes	3,692	11,189
Provision for doubtful accounts	1,508	925
Stock-based compensation	1,331	1,015
Loss (gain) on sale of other assets	348	(92)
Net increase in receivables, inventory and prepayments	3,644	5,492
Net increase in payables, accrued interest, accrued taxes and other accrued liabilities	13,269	514
Other	(7,833)	(1,704)
Operating cash flows from continuing operations	90,474	88,625
Operating cash flows (used in) from discontinued operations, net	(545)	361
Net cash flows from operating activities	89,929	88,986
Cash flows from investing activities:		
Property, plant and equipment additions, including the non-equity component of allowance for funds used during construction of \$367 and \$472	(59,819)	(59,085)
Acquisitions of utility systems and other, net	(4,045)	(10,674)
Additions to funds restricted for construction activity	-	(2)
Release of funds previously restricted for construction activity	-	394
Net proceeds from the sale of utility system and other assets	133	95
Investment in joint venture	-	(4,900)
Other	(91)	(233)
Investing cash flows used in continuing operations	(63,822)	(74,405)
Investing cash flows from discontinued operations, net	39	51,312
Net cash flows used in investing activities	(63,783)	(23,093)
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	1,142	794
Repayments of customers' advances	(234)	(577)
Net (repayments) proceeds of short-term debt	(8,827)	17,453
Proceeds from long-term debt	73,192	35,010
Repayments of long-term debt	(31,874)	(77,991)
Change in cash overdraft position	(21,753)	(11,881)
Proceeds from issuing common stock	-	3,427
Proceeds from exercised stock options	2,757	7,901
Stock-based compensation windfall tax benefits	964	-
Repurchase of common stock	(1,973)	(1,618)
Dividends paid on common stock	(26,873)	(24,562)
Other	(181)	-
Financing cash flows used in continuing operations	(13,660)	(52,044)
Financing cash flows used in discontinued operations, net	(36)	(17)
Net cash flows used in financing activities	(13,696)	(52,061)
Net increase in cash and cash equivalents	12,450	13,832
Cash and cash equivalents at beginning of period	5,058	5,521
Cash and cash equivalents at end of period	\$ 17,508	\$ 19,353

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



## AQUA AMERICA, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 1 Basis of Presentation

The accompanying consolidated balance sheets and statements of capitalization of Aqua America, Inc. and subsidiaries (the "Company") at March 31, 2014, the consolidated statements of net income and comprehensive income for the three months ended March 31, 2014 and 2013, the consolidated statements of cash flow for the three months ended March 31, 2014 and 2013, and the consolidated statement of equity for the three months ended March 31, 2014 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, 2013. 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, 2013 consolidated balance sheet data presented herein was derived from the Company's December 31, 2013 audited consolidated financial statements, but does not include all disclosures and notes normally provided in annual financial statements. All common share, per common share, stock unit, and per stock unit data, for all periods presented, has been adjusted to give effect to the September 1, 2013 five-for-four stock split effected in the form of a 25% stock distribution (see Note 5). Certain prior period amounts have been reclassified to conform to the reporting of discontinued operations (see Note 4).

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, 2013	\$ 24,102	\$ 4,121	\$ 28,223
Reclassifications to utility plant acquisition adjustment	(202)	-	(202)
Other	(22)	-	(22)
Balance at March 31, 2014	<u>\$ 23,878</u>	<u>\$ 4,121</u>	<u>\$ 27,999</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

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

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

Note 3 Acquisitions

In May 2014, the Company entered into an asset purchase agreement for the acquisition of the water and wastewater utility system assets of North Maine Utilities owned by the Village of Glenview, Illinois serving approximately 7,200 customers, for cash at closing of up to \$22,000, subject to final adjustment pursuant to the purchase agreement. Closing of this acquisition is anticipated to occur in mid-year 2015.

In March 2014, the Company acquired the wastewater utility system assets of Penn Township located in Chester County, Pennsylvania serving approximately 800 customers. The total purchase price consisted of \$3,668 in cash.

In March 2013, the Company acquired the water and wastewater utility system assets of Total Environmental Solutions, Inc. located in Clearfield County, Pennsylvania serving approximately 4,200 customers. The total purchase price consisted of \$10,350 in cash.

Note 4 Discontinued Operations and Other Disposition

***Discontinued Operations*** – In September 2012, the Company began to market for sale its water and wastewater operations in Florida, which served approximately 38,000 customers, and the Company’s wastewater treatment facility in Georgia. In March, April, and December 2013, through five separate sales transactions, the Company completed the sale of its water and wastewater utility systems in Florida, which concluded its regulated operations in Florida. The Company received total net proceeds from these sales of \$88,934 and recognized a gain on sale of \$21,178 (\$13,766 after-tax), including a first quarter 2013 gain on sale of \$6,451 (\$4,193 after-tax). One of the Company’s sales in Florida, which was completed in March 2013, and represented approximately 8% of its customers served in Florida, remains subject to customary regulatory review, for which the Company expects to receive the regulator’s decision by midyear 2014. If the regulator does not approve this sale, the purchase price would be refunded and the assets sold would revert back to the Company. On March 12, 2014, the Company completed the sale of its wastewater treatment facility in Georgia.

The City of Fort Wayne, Indiana (the “City”) has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the Company’s operating subsidiaries in Indiana (the “Northern Assets”). In January 2008, the Company reached a settlement with the City to transition the Northern Assets in February 2008 upon receipt

AQUA AMERICA, INC. AND SUBSIDIARIES

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

of the City's initial valuation payment of \$16,911. The settlement agreement specifically stated that the final valuation of the Northern Assets 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 Assets 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. The net book value of the Northern Assets has been removed from the consolidated balance sheet and the difference between the net book value and the initial payment received has been deferred and is recorded in other accrued liabilities on the Company's consolidated balance sheet. Once the contingency is resolved and the asset valuation is finalized, through the finalization of the litigation between the Company and the City, the amounts deferred will be recognized in the Company's consolidated statement of net income. 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 appealed the Wells County Indiana Circuit Court's decision to the Indiana Court of Appeals. On January 13, 2012, the Indiana Court of Appeals reached a decision upholding the Wells County Indiana Circuit Court decision. On February 10, 2012, the Company filed a petition for transfer requesting that the Indiana Supreme Court review the matter. On April 11, 2013, the Indiana Supreme Court ruled that the statute at issue gives the Company the right to a full evidentiary hearing before a jury regarding the value of the assets and remanded the case to the trial court for a proceeding consistent with that ruling. The Company continues to evaluate its legal options with respect to this decision. Depending upon the outcome of all of the legal proceedings, including the planned transaction below, which would resolve this litigation, the Company may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The Northern Assets relinquished represent approximately 0.4% of the Company's total assets.

In addition, in December 2012, the Fort Wayne City Council considered an ordinance that sought to declare it a "public convenience and necessity" to acquire certain of the Company's water utility system assets located in the southwest section of the City and in Allen County (the "Southern Assets"), and if negotiations with Fort Wayne officials were to fail, to condemn the Southern Assets. The first public hearing on the ordinance was held on January 22, 2013 and a subsequent hearing scheduled for February 5, 2013 was not held due to ongoing settlement discussions between the parties. On July 2, 2013, the Company's operating subsidiary and the City signed a letter of intent, which among other items, addresses many of the terms by which the City would purchase the Company's Southern Assets, will resolve the litigation between the Company and the City with respect to the Northern Assets, and will establish the terms by which the Company's operating

## AQUA AMERICA, INC. AND SUBSIDIARIES

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

subsidiary will treat wastewater sent to it by the City. The letter of intent states that the City agrees to pay the Company \$50,100 for the Northern Assets and Southern Assets in addition to the \$16,911 paid to the Company by the City in 2008 as an initial valuation payment for the Northern Assets (for a total payment of \$67,011). The letter of intent is conditioned on the Company's Board of Directors and City Council approving the final terms of the possible transaction, and the Company and the City entering into several definitive agreements that cover the subject matter of the letter of intent. On February 27, 2014, the Company's Board of Directors authorized management to enter into agreements with the City on terms and conditions that are consistent with the July 2, 2013 letter of intent, for among other items, the sale of the Company's Northern Assets and Southern Assets to the City. Further, the completion of the transaction is subject to regulatory requirements and approval. The planned sale of these operations is accounted for as businesses held for sale beginning in the first quarter of 2014. If this transaction is consummated, the Company will expand its sewer customer base by accepting new wastewater from the City. The completion of the transaction is not expected to close until the fourth quarter of 2014. The Company continues to evaluate its legal and operational options on an ongoing basis.

The operating results, cash flows, and financial position of the Company's operations named above, during the periods owned, have been presented in the Company's consolidated statements of net income, consolidated statements of cash flow, and consolidated balance sheets as discontinued operations. These operations were included in the Company's "Regulated" segment.

A summary of discontinued operations presented in the consolidated statements of net income include the following:

	Three Months Ended	
	March 31,	
	2014	2013
Operating revenues	\$ 1,579	\$ 7,493
Total operating expenses	673	5,020
Operating income	906	2,473
Other (income) expense:		
Loss (gain) on sale	134	(6,451)
Other, net	-	(1)
Income from discontinued operations before income taxes	772	8,925
Provision for income taxes	314	3,224
Income from discontinued operations	\$ 458	\$ 5,701

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## AQUA AMERICA, INC. AND SUBSIDIARIES

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

The assets and liabilities of discontinued operations presented in the consolidated balance sheets include the following:

	March 31, 2014	December 31, 2013
Property, plant and equipment, at cost	\$ 39,747	\$ 39,976
Less: accumulated depreciation	8,753	8,872
Net property, plant and equipment	30,994	31,104
Current assets	814	1,362
Regulatory assets	442	460
Assets of discontinued operations held for sale	32,250	32,926
Current liabilities	15,209	16,212
Deferred income taxes and investment tax credits	1,725	1,308
Contributions in aid of construction	10,935	10,935
Other liabilities	1,168	1,194
Liabilities of discontinued operations held for sale	29,037	29,649
Net assets	\$ 3,213	\$ 3,277

Note 5 Capitalization

In May 2013, the Board of Directors of the Company approved a five-for-four stock split to be effected in the form of a 25% stock distribution to shareholders of record on August 16, 2013. Common shares outstanding do not include shares held by the Company in treasury. The new shares were distributed on September 1, 2013. Aqua America's par value of \$0.50 per share did not change as a result of the common stock distribution, and \$17,655 was transferred from capital in excess of par value to common stock to record the stock split. All common share, per common share, stock unit, and per stock unit data, for all periods presented, has been adjusted to give effect to the stock split.

Note 6 Fair Value of Financial Instruments

The Company follows the Financial Accounting Standards Board's ("FASB") accounting guidance for fair value measurements and disclosures, which defines fair value and establishes a framework for using fair value to measure assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques

AQUA AMERICA, INC. AND SUBSIDIARIES

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

used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation techniques used to measure fair value or asset or liability transfers between the levels of the fair value hierarchy for the quarter ended March 31, 2014.

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

The fair value of funds restricted for construction activity and loans payable are determined based on their carrying amount and utilizing Level 1 methods and assumptions. As of March 31, 2014 and December 31, 2013, the carrying amount of the Company's funds restricted for construction activity was \$47 and \$47, respectively, which equates to their estimated fair value. As of March 31, 2014 and December 31, 2013, the carrying amount of the Company's loans payable was \$27,913 and \$36,740, respectively, which equates to their estimated fair value. The fair value of cash and cash equivalents, which is comprised of a money market fund, is determined based on the net asset value per unit utilizing Level 2 methods and assumptions. As of March 31, 2014 and December 31, 2013, the carrying amounts of the Company's cash and cash equivalents was \$17,508 and \$5,058, respectively, which equates to their fair value.

## AQUA AMERICA, INC. AND SUBSIDIARIES

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

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

	March 31, 2014	December 31, 2013
Carrying Amount	\$ 1,595,829	\$ 1,554,871
Estimated Fair Value	1,622,265	1,540,296

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration utilizing Level 2 methods and assumptions. The Company's customers' advances for construction have a carrying value of \$73,728 as of March 31, 2014, and \$73,892 as of December 31, 2013. 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 2029 and amounts not paid by the respective contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Note 7 Net Income per Common Share

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

	Three Months Ended March 31,	
	2014	2013
Average common shares outstanding during the period for basic computation	176,839	175,415
Dilutive effect of employee stock-based compensation	971	1,084
Average common shares outstanding during the period for diluted computation	177,810	176,499

For the three months ended March 31, 2014, all of the Company's employee stock options were included in the calculations of diluted net income per share as the calculated cost to

## AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(In thousands of dollars, except per share amounts)  
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exercise the stock options was less than the average market price of the Company's common stock during these periods. For the three months ended March 31, 2013, employee stock options to purchase 494,156 shares of common stock, were excluded from the calculations of diluted net income per share as the calculated cost to exercise the stock options was greater than the average market price of the Company's common stock during these periods.

Note 8 Stock-based Compensation

Under the Company's 2009 Omnibus Equity Compensation Plan (the "2009 Plan"), as approved by the Company's shareholders to replace the 2004 Equity Compensation Plan (the "2004 Plan"), stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to employees, non-employee directors, and consultants and advisors. The 2009 Plan authorizes 6,250,000 shares for issuance under the plan. A maximum of 50% of the shares available for issuance under the 2009 Plan may be issued pursuant to stock awards, stock units and other stock-based awards and the maximum number of shares that may be subject to grants under the 2009 Plan to any one individual in any one year is 250,000. Awards under the 2009 Plan are made by a committee of the Board of Directors. At March 31, 2014, 4,483,011 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 respective vesting period, generally three years. Each grantee is granted a target award of PSUs, and may earn between 0% and 200% of the target amount depending on the Company's performance against the performance goals. The following table provides compensation costs for stock-based compensation related to performance share units:

	Three Months Ended	
	March 31,	
	2014	2013
Stock-based compensation for performance share units within operations and maintenance expenses	\$ 1,002	\$ 715
Income tax benefit	410	291



## AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(In thousands of dollars, except per share amounts)  
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The following table summarizes nonvested PSU transactions for the three months ended March 31, 2014:

	Number of Share Units	Weighted Average Fair Value
Nonvested share units at beginning of period	528,092	\$ 21.25
Granted	143,630	25.31
Performance criteria adjustment	16,927	19.45
Forfeited	(3,939)	22.23
Share units vested in prior period and issued in current period	18,000	19.51
Share units issued	(174,148)	18.93
Nonvested share units at end of period	<u>528,562</u>	<u>\$ 22.99</u>

A portion of the fair value of PSUs was estimated at the grant date based on the probability of satisfying the market-based conditions associated with the PSUs using the Monte Carlo valuation method. The other portion of the fair value of the PSUs is based on the fair market value of the Company's stock at the grant date, regardless of whether the market-based condition is satisfied. The per unit weighted-average fair value at the date of grant for PSUs granted during the three months ended March 31, 2014 and 2013 was \$25.31 and \$26.88, respectively. The fair value of each PSU grant is amortized monthly into compensation expense on a straight-line basis over their respective vesting periods, generally 36 months. The accrual of compensation costs is based on our estimate of the final expected value of the award, and is adjusted as required for the portion based on the performance-based condition. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the PSUs includes dividend equivalents, no dividend yield assumption is required in calculating the fair value of the PSUs. The recording of compensation expense for PSUs has no impact on net cash flows.

## AQUA AMERICA, INC. AND SUBSIDIARIES

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

**Restricted Stock Units** – A restricted stock unit (“RSU”) represents the right to receive a share of the Company’s common stock. RSUs are eligible to be earned at the end of a specified restricted period, generally three years, beginning on the date of grant. In some cases the right to receive the shares is subject to certain performance goals established at the time the grant is made. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. The following table provides compensation costs for stock-based compensation related to restricted stock units:

	Three Months Ended	
	March 31,	
	2014	2013
Stock-based compensation for restricted stock units within operations and maintenance expenses	\$ 236	\$ 178
Income tax benefit	98	73

The following table summarizes nonvested RSU transactions for the three months ended March 31, 2014:

	Number of Stock Units	Weighted Average Fair Value
Nonvested stock units at beginning of period	112,666	\$ 20.16
Granted	41,150	24.80
Stock units vested but not paid	(5,750)	17.99
Stock units vested and paid	(24,772)	17.77
Forfeited	-	-
Nonvested stock units at end of period	123,294	\$ 22.29

The per unit weighted-average fair value at the date of grant for RSUs granted during the three months ended March 31, 2014 and 2013 was \$24.80 and \$23.28, respectively.

## AQUA AMERICA, INC. AND SUBSIDIARIES

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

**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,	
	2014	2013
Stock-based compensation for stock options within operations and maintenance expenses	\$ -	\$ 30
Income tax benefit	73	238

There were no stock options granted during the three months ended March 31, 2014 or 2013.

The following table summarizes stock option transactions for the three months ended March 31, 2014:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Outstanding at beginning of period	1,538,110	\$ 16.82		
Forfeited	-	-		
Expired	(2,707)	17.98		
Exercised	(188,736)	14.61		
Outstanding and exercisable at end of period	1,346,667	\$ 17.13	3.7	\$ 10,692

**Restricted Stock** – The following table provides compensation costs for stock-based compensation related to restricted stock:

	Three Months Ended March 31,	
	2014	2013
Stock-based compensation for restricted stock within operations and maintenance expenses	\$ 92	\$ 92
Income tax benefit	38	38

AQUA AMERICA, INC. AND SUBSIDIARIES

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

The following table summarizes nonvested restricted stock transactions for the three months ended March 31, 2014:

	Number of Shares	Weighted Average Fair Value
Nonvested shares at beginning of period	62,500	\$ 17.70
Granted	-	-
Vested	(31,250)	17.70
Forfeited	-	-
Nonvested shares at end of period	<u>31,250</u>	<u>\$ 17.70</u>

There was no restricted stock granted during the three months ended March 31, 2014 or 2013.

## AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(In thousands of dollars, except per share amounts)  
(UNAUDITED)Note 9 Pension Plans and Other Postretirement Benefits

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

	Pension Benefits	
	Three Months Ended	
	March 31,	
	2014	2013
Service cost	\$ 1,143	\$ 1,446
Interest cost	3,512	3,165
Expected return on plan assets	(4,305)	(3,693)
Amortization of prior service cost	69	57
Amortization of actuarial loss	500	2,016
Net periodic benefit cost	\$ 919	\$ 2,991

	Other	
	Postretirement Benefits	
	Three Months Ended	
	2014	2013
Service cost	\$ 312	\$ 425
Interest cost	737	667
Expected return on plan assets	(683)	(560)
Amortization of prior service cost	(74)	(74)
Amortization of actuarial loss	82	345
Net periodic benefit cost	\$ 374	\$ 803

The Company made cash contributions of \$8,937 to its Pension Plan during the first three months of 2014, and intends to make cash contributions of \$8,937 to the Pension Plan during the remainder of 2014. In addition, the Company expects to make cash contributions of \$2,763, to the extent allowable for a tax deduction, for the funding of its other postretirement benefit plans during the remainder of 2014.

In the first quarter of 2014 the Company offered a one-time voluntary lump sum window to certain eligible terminated vested participants in an effort to reduce its long-term obligations and plan volatility for its Pension Plan. In May 2014, the Pension Plan paid \$11,417 to participants who elected to receive a lump sum distribution, which was funded from the existing Pension Plan assets.

## AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(In thousands of dollars, except per share amounts)  
(UNAUDITED)Note 10 Water and Wastewater Rates

During the first three months of 2014, the Company's operating divisions in Ohio, Texas, New Jersey, Virginia, and Indiana were granted base rate increases designed to increase total operating revenues on an annual basis by \$2,715. Further, during the first three months of 2014, the Company's operating divisions in Illinois and New Jersey received infrastructure rehabilitation surcharges designed to increase total operating revenues on an annual basis by \$1,429.

In May 2014, the North Carolina Utilities Commission granted the Company's operating subsidiary in North Carolina a water and wastewater rate increase designed to increase total operating revenue by \$2,471, on an annual basis.

Note 11 Taxes Other than Income Taxes

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

	Three Months Ended	
	March 31,	
	2014	2013
Property	\$ 4,824	\$ 6,443
Capital stock	501	534
Gross receipts, excise and franchise	2,779	2,681
Payroll	2,654	2,420
Other	1,344	1,320
Total taxes other than income	<u>\$ 12,102</u>	<u>\$ 13,398</u>

## AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(In thousands of dollars, except per share amounts)  
(UNAUDITED)Note 12 Segment Information

The Company has identified ten operating segments and has one reportable segment named the “Regulated” segment. The reportable segment is comprised of eight operating segments for the Company’s water and wastewater regulated utility companies which are organized by the states where we provide these services. In addition, two segments are not quantitatively significant to be reportable and are comprised of the Company’s non-regulated subsidiaries: Aqua Resources, Inc. and Aqua Infrastructure LLC. Aqua Resources, Inc. provides water and wastewater services through operating and maintenance contracts with municipal authorities and other parties in close proximity to our utility companies’ service territories as well as offers, through a third party, water and sewer line repair service and protection solutions to households, liquid waste hauling and disposal, backflow prevention, construction, and other non-regulated water and wastewater services. Aqua Infrastructure LLC provides non-utility raw water supply services for firms, with which the Company enters into water supply contracts, in the natural gas drilling industry. These two segments are 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. Corporate costs include general and administrative expense, and interest expense.

The following table presents information about the Company’s reportable segment:

	Three Months Ended			Three Months Ended		
	March 31, 2014			March 31, 2013		
	Regulated	Other	Consolidated	Regulated	Other	Consolidated
Operating revenues	\$ 178,199	\$ 4,473	\$ 182,672	\$ 174,405	\$ 4,147	\$ 178,552
Operations and maintenance expense	68,456	3,230	71,686	65,410	2,384	67,794
Depreciation	30,881	100	30,981	29,510	(465)	29,045
Operating income	66,419	351	66,770	65,550	1,388	66,938
Interest expense, net of allowance for funds used during construction	16,804	1,339	18,143	16,951	1,772	18,723
Income tax expense (benefit)	6,087	(895)	5,192	7,352	(565)	6,787
Income (loss) from continuing operations	43,620	(1,219)	42,401	41,299	(435)	40,864
Capital expenditures	59,154	665	59,819	58,872	213	59,085

## AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(In thousands of dollars, except per share amounts)  
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	March 31, 2014	December 31, 2013
Total assets:		
Regulated	\$ 4,938,191	\$ 4,893,573
Other and eliminations	161,576	158,244
Consolidated	<u>\$ 5,099,767</u>	<u>\$ 5,051,817</u>

Note 13 Commitments and Contingencies

The Company is routinely involved in various disputes, claims, lawsuits and other regulatory and legal matters, including both asserted and unasserted legal claims, in the ordinary course of business. The status of each such matter, referred to herein as a loss contingency, is reviewed and assessed in accordance with applicable accounting rules regarding the nature of the matter, the likelihood that a loss will be incurred, and the amounts involved. As of March 31, 2014, the aggregate amount of \$11,835 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, 2014, estimates that approximately \$1,388 of the amount accrued for these matters are probable of recovery through insurance, which amount is also reported in the Company's consolidated balance sheet as deferred charges and other assets, net.

In addition to the aforementioned loss contingencies, the Company self-insures its employee medical benefit program, and maintains stop-loss coverage to limit the exposure arising from these claims. The Company's reserve for these claims totaled \$1,965 at March 31, 2014 and represents a reserve for unpaid claim costs, including an estimate for the cost of incurred but not reported claims.



AQUA AMERICA, INC. AND SUBSIDIARIES

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

Note 14 Income Taxes

During the three months ended March 31, 2014, the Company utilized \$15,422 of its Federal net operating loss carryforward (“NOL”). In addition, during the three months ended March 31, 2014, the Company’s state NOL carryforward increased by \$2,789. As of March 31, 2014, the balance of the Company’s Federal NOL was \$242,671. The Company believes its Federal NOL carryforward is more likely than not to be recovered and requires no valuation allowance. As of March 31, 2014, the balance of the Company’s state NOL was \$533,949, a portion of which was offset by a valuation allowance of \$5,229 because the Company does not believe the NOLs are more likely than not to be realized. The Company’s Federal and state NOL carryforwards begin to expire 2031 and 2023, respectively. The Company has unrecognized tax positions that result in the associated tax benefit being unrecognized. The Company’s Federal and state NOL carryforwards are reduced by an unrecognized tax position, on a gross basis, of \$62,865 and \$86,016, respectively, which results from the Company’s adoption in the third quarter of 2013 of the FASB’s accounting guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amounts of the Company’s Federal and state NOL carryforwards prior to being reduced by the unrecognized tax positions were \$305,536 and \$619,965, respectively. The Company records its unrecognized tax benefit as a reduction to its deferred income tax liability.

In December 2012, the Company changed its tax method of accounting for qualifying utility system repairs in Aqua Pennsylvania, Inc. (“Aqua Pennsylvania”) effective with the tax year ended December 31, 2012 and for prior tax years. The tax accounting method was changed to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for book and tax purposes (the “Repair Change”). As a result of the adoption of the Repair Change prior to the receipt of Aqua Pennsylvania’s next rate order, the Repair Change results in a substantial reduction in income tax expense and greater net income and cash flows. The Company’s effective income tax rate for the first quarter of 2014 and 2013, for its continuing operations, was 10.9% and 14.2%, respectively.

In September 2013, the Department of Treasury and the Internal Revenue Service issued “Guidance Regarding and Capitalization of Expenditures Related to Tangible Property” which contains standards for determining whether and when a taxpayer must capitalize costs incurred in acquiring, maintaining or improving tangible property. These regulations are effective for the Company’s 2014 fiscal year. The Company has reviewed the regulations and concluded that the regulations will not have a material impact on the Company’s consolidated results of operations or consolidated financial position.

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
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As of March 31, 2014, the total gross unrecognized tax benefit was \$28,850, of which \$10,534, if recognized, would affect the Company's effective tax rate as a result of the regulatory treatment afforded the Repair Change in Pennsylvania. At December 31, 2013, the Company had unrecognized tax benefits of \$28,690. There was no unrecognized tax benefit at March 31, 2013 or December 31, 2012.

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

Note 15 Recent Accounting Pronouncements

In April 2014, the FASB issued updated accounting guidance which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The updated guidance is effective prospectively for reporting periods beginning after December 15, 2014, with early adoption available. The Company will adopt the provisions of the updated accounting guidance for its quarterly reporting period beginning January 1, 2015, and the Company does not expect the adoption of the revised guidance to have an impact on the Company's consolidated results of operations or consolidated financial position.

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, 2013 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", "us", or the "Company"), a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to what we estimate to be almost three million people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. Our largest operating subsidiary, Aqua Pennsylvania, provides water or wastewater services to approximately one-half of the total number of people we serve, who are located in the suburban areas in counties north and west of the City of Philadelphia and in 26 other counties in Pennsylvania. Our other regulated utility subsidiaries provide similar services in seven other states. In addition, the Company's non-regulated subsidiary, Aqua Resources, Inc., provides liquid waste hauling and disposal, water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our utility companies' service territories and offers, through a third party, water and sewer line repair service and protection solutions to households, backflow prevention,

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)

construction, and other non-regulated water and wastewater services. The Company's non-regulated subsidiary, Aqua Infrastructure, LLC, provides non-utility raw water supply services for firms, with which we enter into water supply contracts, in the natural gas drilling industry.

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

Beginning in 2010, and completed in 2014, we pursued a portfolio rationalization strategy to focus our operations in areas where we have critical mass and economic growth potential and to divest operations where limited customer growth opportunities exist, or where we are unable to achieve favorable operating results or a return on equity that we consider acceptable. In 2014, we sold our operation in Georgia; in 2013, we sold our operations in Florida; in 2012, we sold our operations in Maine and New York; in 2011, we sold our operations in Missouri; and in 2010, we sold our operations in South Carolina. In connection with the sale of our New York and Missouri operations, we acquired additional utility systems (and customers) in Ohio and Texas, two of the larger states in our portfolio. One of our operations sold in Florida, which was completed in March 2013, and represented approximately 8% of our customers served in Florida, remains subject to customary regulatory review, for which we expect to receive the regulator's decision by midyear 2014. If the regulator does not approve this sale, the purchase price would be refunded and the assets sold would revert back to the Company.

In January 2008, we reached a settlement agreement with the City of Fort Wayne, Indiana, (the "City") to transition the northern portion of the utility system of one of the Company's operating subsidiaries in Indiana (the "Northern Assets"), upon receipt of the City's initial valuation payment of \$16,911. The settlement agreement specifically stated that the final valuation of the Northern Assets will be determined through a continuation of the legal proceedings that were filed challenging the City's valuation. In February 2008, we turned over the Northern Assets 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. In December 2012, the Fort Wayne City Council considered an ordinance that sought to declare it a "public convenience and necessity" to acquire certain of our water utility assets located in the southwest section of the City and in Allen County (the "Southern Assets"), and if negotiations with Fort Wayne officials were to fail, to condemn the Southern

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)

Assets. In July 2013, we signed a letter of intent with the City, which among other items, addresses many of the terms by which the City will purchase our Southern Assets, will resolve the litigation between us and the City with respect to the valuation of the former Northern Assets, and will establish the terms by which our Indiana operating subsidiary will treat wastewater sent to it by the City. The letter of intent states that the City agrees to pay us \$50,100 for the Northern Assets and Southern Assets in addition to the \$16,911 paid to us by the City in 2008 as an initial valuation payment for the Northern Assets (for a total payment of \$67,011). The letter of intent is conditioned on our Board of Directors and City Council approving the final terms of the possible transaction, and the Company and the City entering into several definitive agreements that cover the subject matter of the letter of intent. On February 27, 2014, the Company's Board of Directors authorized management to enter into agreements with the City on terms and conditions that are consistent with the July 2, 2013 letter of intent, for among other items, the sale of the Company's Northern Assets and Southern Assets to the City. Further, the completion of the transaction is subject to regulatory requirements and approval. If this transaction is consummated, the Company will expand its sewer customer base by accepting new wastewater from the City. The completion of the transaction is not expected to close until the fourth quarter of 2014. We continue to evaluate our legal and operational options on an ongoing basis.

We have accounted for sales of our operations in Georgia and Florida, and planned disposition of our Southern Assets in Indiana as discontinued operations.

In 2011, one of our subsidiaries entered into a joint venture with a firm that operates natural gas pipelines and processing plants for the construction and operation of a private pipeline system to supply raw water to natural gas well drilling operations in Pennsylvania. The operation of the private pipeline system commenced in the second quarter of 2012 and marks an expansion of our growth venture in serving the raw water needs of firms in the natural gas drilling industry.

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

Financial Condition

During the first three months of 2014, we had \$59,819 of capital expenditures, issued \$73,192 of long-term debt, and repaid debt and made sinking fund contributions and other loan repayments of \$31,874. 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. The issuance of \$73,192 of long-term debt was comprised principally of the funds borrowed under our revolving credit facility of \$72,000.

At March 31, 2014 we had \$17,508 of cash and cash equivalents compared to \$5,058 at December 31, 2013. During the first three months of 2014, we used the proceeds from the issuance of long-term debt, internally generated funds, the sale of certain water and wastewater

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)

utility systems, the sale of other assets, and the sale or issuance of common stock through our equity compensation plan, to fund the cash requirements discussed above and to pay dividends.

At March 31, 2014, our \$150,000 unsecured revolving credit facility, which expires in March 2017, had \$53,434 available for borrowing. At March 31, 2014, we had short-term lines of credit of \$160,500, of which \$132,587 was available for borrowing. One of our short-term lines of credit is an Aqua Pennsylvania \$100,000 364-day unsecured revolving credit facility with three banks, which is used to provide working capital, and as of March 31, 2014, \$77,328 was available for borrowing.

Our short-term lines of credit of \$160,500 are subject to renewal on an annual basis. Although we believe we will be able to renew these facilities, there is no assurance that they will be renewed, or what the terms of any such renewal will be.

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

On June 7, 2012, the Company's Pennsylvania operating subsidiary, Aqua Pennsylvania, reached a settlement agreement in its rate filing with the Pennsylvania Public Utility Commission, which in addition to a water rate increase, provided for the flow-through accounting treatment of certain income tax benefits upon Aqua Pennsylvania changing its tax accounting method to permit the expensing of certain utility asset improvement costs that have historically been capitalized and depreciated for book and tax purposes (the "Repair Change"). In December 2012, Aqua Pennsylvania implemented the Repair Change. During the third quarter of 2013, we recorded additional tax deductions for certain qualifying infrastructure improvements in connection with the preparation of our annual tax return filings, which resulted in both additional recognized and unrecognized tax benefits. As a result of the adoption of the Repair Change prior to the receipt of Aqua Pennsylvania's next rate order, the Repair Change results in a substantial reduction in income tax expense and greater net income and cash flow, and as a result allowed the Company to suspend its Distribution System Improvement Charges ("DSIC") in 2013 and lengthen the amount of time until the next Aqua Pennsylvania rate case is filed. A portion of the additional tax deductions recognized in the third quarter of 2013 relate to a change in our tax method of accounting for certain qualifying utility system repairs in certain other operating divisions. These divisions currently do not employ a flow-through method of accounting and as such the change in the Company's tax method of accounting in these other operating divisions had no impact on our effective income tax rate.

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

Results of Operations

Analysis of First Quarter of 2014 Compared to First Quarter of 2013

Unless specifically noted, the following discussion of the Company's results of operations for the first quarter of 2014 refers to the Company's results of operations from continuing operations.

Revenues increased by \$4,120 or 2.3% primarily due to increased water and wastewater rates of \$1,401, an increase in customer water consumption, and additional water and wastewater revenues of \$645 associated with a larger customer base due to acquisitions.

Operations and maintenance expenses increased by \$3,892 or 5.7% primarily due to additional operating costs of \$2,216 associated with severe winter weather conditions experienced in many of our service territories, the effect of the favorable recognition in the first quarter of 2013 of a legal settlement received of \$871, and operating costs associated with acquired utility systems of \$292.

Depreciation expense increased by \$1,936 or 6.7% due to the utility plant placed in service since March 31, 2013.

Taxes other than income taxes decreased by \$1,296 or 9.7% primarily due to a decrease in property taxes of \$1,619 associated with a reduction in the property tax rate assessed for our Ohio subsidiary.

Allowance for funds used during construction ("AFUDC") increased by \$615 primarily due to the usage of equity funds in the capitalization rate, which are a component of the AFUDC rate.

Our effective income tax rate was 10.9% in the first quarter of 2014 and 14.2% in the first quarter of 2013. The effective income tax rate decreased due to an increase in Repair Change tax deductions in the first quarter of 2014 as compared to the first quarter of 2013. The repair change reduced the Company's first quarter 2014 and 2013 income tax expense due to the flow-through treatment afforded by the Pennsylvania Public Utility Commission's June 2012 rate order, thereby increasing net income.

Income from continuing operations increased by \$1,537 or 3.8%, primarily as a result of the factors described above. On a diluted per share basis, income from continuing operations increased by \$0.01, reflecting the change in income from continuing operations and a 0.7% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the additional shares sold or issued through our equity compensation plan.

Income from discontinued operations decreased by \$5,243 primarily as a result of the effect of the recognition in the first quarter of 2013 of the gain on sale of certain of our Florida operations net of income taxes of \$4,193.

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)

Net income attributable to common shareholders decreased by \$3,706 or 8.0% primarily as a result of the factors described above. On a diluted per share basis, earnings decreased by \$0.02 reflecting the change in net income attributable to common shareholders and a 0.7% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the additional shares sold or issued through our equity compensation plan.

Impact of Recent Accounting Pronouncements

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



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### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. There have been no significant changes in our exposure to market risks since December 31, 2013. Refer to Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for additional information.

### Item 4. Controls and Procedures

#### (a) Evaluation of Disclosure Controls and Procedures

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

#### (b) Changes in Internal Control over Financial Reporting

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

## Part II. Other Information

### Item 1. Legal Proceedings

There are various legal proceedings in which we are involved. Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings, other than as set forth below, to which we or any of our subsidiaries is a party or to which any of our properties is the subject that we believe are material or are expected to have a material adverse effect on our financial position, results of operations or cash flows. Dollar amounts disclosed in this section, Item 1. Legal Proceedings are presented in whole dollars, not thousands of dollars.

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

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operating subsidiaries in Indiana (the “Northern Assets”). In January 2008, we reached a settlement with the City to transition the Northern Assets in February 2008 upon receipt of the City’s initial valuation payment of \$16,910,500. The settlement agreement specifically stated that the final valuation of the Northern Assets 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 Assets 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. The net book value of the Northern Assets has been removed from the consolidated balance sheet and the difference between the net book value and the initial payment received has been deferred and is recorded in other accrued liabilities on the Company’s consolidated balance sheet. Once the contingency is resolved and the asset valuation is finalized, through the finalization of the litigation between the Company and the City 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 appealed the Wells County Indiana Circuit Court’s decision to the Indiana Court of Appeals. On January 13, 2012, the Indiana Court of Appeals reached a decision upholding the Wells County Indiana Circuit Court decision. On February 10, 2012, the Company filed a petition for transfer requesting that the Indiana Supreme Court review the matter. On April 11, 2013, the Indiana Supreme Court ruled that the statute at issue gives the Company the right to a full evidentiary hearing before a jury regarding the value of the assets and remanded the case to the trial court for a proceeding consistent with that ruling. The Company continues to evaluate its legal options with respect to this decision. Depending upon the outcome of all of the legal proceedings, including the planned transaction below, which would resolve this litigation, the Company may be required to refund a portion of the initial valuation payment, or may receive additional proceeds.

In addition, in December 2012, the Fort Wayne City Council considered an ordinance that sought to declare it a “public convenience and necessity” to acquire certain of the Company’s water utility system assets located in the southwest section of the City and in Allen County (the “Southern Assets”) and, if negotiations with Fort Wayne officials were to fail, to condemn the Southern Assets. The first public hearing on the ordinance was held on January 22, 2013 and a subsequent hearing scheduled for February 5, 2013 was not held due to ongoing settlement discussions between the parties. On July 2, 2013, the Company’s operating subsidiary and the City signed a letter of intent, which among other items, addresses many of the terms by which the City will purchase the Company’s Southern Assets, which will resolve the litigation between the Company and the City with respect to the Northern Assets, and will establish the terms by which the Company will treat wastewater sent to it by the City.

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The letter of intent states that the City agrees to pay the Company \$50,100,000 for the Northern Assets and Southern Assets in addition to the \$16,910,500 paid to the Company by the City in 2008 as an initial valuation payment for the Northern Assets (for a total cost of \$67,010,500). The letter of intent is conditioned on the Company's Board of Directors and City Council approving the final terms of the possible transaction, and the Company and the City entering into several definitive agreements that cover the subject matter of the letter of intent. On February 27, 2014, the Company's Board of Directors authorized management to enter into agreements with the City on terms and conditions that are consistent with the July 2, 2013 letter of intent, for among other items, the sale of the Company's Northern Assets and Southern Assets to the City. Further, the completion of the transaction is subject to regulatory requirements and approval. If this transaction is consummated, the Company will expand its sewer customer based by accepting new wastewater from the City. The completion of the transaction is not expected to close until the fourth quarter of 2014. The Company continues to evaluate its legal and operational options on an ongoing basis.

One of the Company's subsidiaries, South Haven Sewer Works, acquired in 2008, has been operating under a Consent Decree with the United States Environmental Protection Agency ("EPA") and the United States Department of Justice ("Department of Justice") entered into in 2003 while under ownership of a previous owner. Although substantial improvements to the system have been made to significantly reduce the number of sanitary sewer overflows at the sewer system since the Company's acquisition of the subsidiary, the EPA and Department of Justice proposed revisions to the Consent Decree to address purported sanitary sewer overflow violations since the date of the original Consent Decree. On April 15, 2013, the Company's subsidiary, the EPA, and the Department of Justice submitted a proposed modification of the Consent Decree for approval by the Northern District of Indiana U.S. District Court. The Court entered the modification on April 25, 2013. The modification includes the provision of operational compliance and implementation of a Capacity, Management, Operations, and Maintenance program for one year and an agreed civil penalty in the amount of \$254,250, which was paid by the Company in May 2013. The Company had withheld payment of a certain amount of shares payable to the sellers as a contingent indemnification offset related to the proceedings. Pursuant to further agreement with the sellers, the Company retained a portion of those shares in an amount covering the stipulated penalty amounts and anticipated attendant costs, and released a certain number of shares to the sellers. The Company intends to release a final designated amount of shares to the seller that were withheld to cover contingent increases in the absence of such contingent increases.

### 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, 2013 under "Part 1, Item 1A – Risk Factors."

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

The following table summarizes the Company's purchases of its common stock for the quarter ended March 31, 2014:

<u>Period</u>	<u>Issuer Purchases of Equity Securities</u>			<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs (2)</u>
	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>			
January 1-31, 2014	7,409	\$ 23.45	-	685,348	
February 1-28, 2014	72,552	\$ 24.78	-	685,348	
March 1-31, 2014	-	\$ -	-	685,348	
<b>Total</b>	<b>79,961</b>	<b>\$ 24.65</b>	<b>-</b>	<b>685,348</b>	

- (1) These amounts consist of the following: (a) shares we acquired from employees associated with the withholding of shares to pay certain withholding taxes upon the vesting of performance share and restricted stock units; and (b) shares we acquired 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 shares of our 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 plans are available to all employees who receive stock-based compensation under the plans. We acquired 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 awards or on the day prior to the option exercise.
- (2) On October 4, 2013, our Board of Directors approved a resolution authorizing the purchase of up to 685,348 shares. This authorization renewed the number of shares that had remained, when affected for stock splits, from an existing buy-back authorization from 1997. The program has no fixed expiration date.

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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 8, 2014

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

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

/s/David P. Smeltzer  
\_\_\_\_\_  
David P. Smeltzer  
Executive Vice President and  
Chief Financial Officer

**EXHIBIT INDEX**

<b>Exhibit No. _____</b>	<b>Description</b>
10.47	Form of Performance Share Unit Grant Agreement for Executive Officers and Senior Officers
10.48	Form of Performance Share Unit Grant Agreement for Managers
10.49	Form of Restricted Stock Unit Grant Agreement for Executive Officers and Senior Officers
10.50	Form of Restricted Stock Unit Grant Agreement for Managers
10.51	Form of Performance Share Unit Grant Agreement for Chief Executive Officer
10.52	Form of Restricted Stock Unit Grant Agreement for Chief Executive Officer
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

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PERFORMANCE-BASED SHARE UNIT GRANT

February 27, 2014

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:	February 27, 2014
Target Award:	_____ Shares
Vesting Date:	February 27, 2017
Performance Period:	Period beginning on January 1, 2014 and ending on December 31, 2016
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: \_\_\_\_\_

*Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form.*

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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 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 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 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 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.

(a) 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.

(b) 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.

(c) 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 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 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 19 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 19 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 19 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 19 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.

(a) 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.

(b) 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. Company Policies.

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

17. 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.

18. 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.

19. 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 Aqua America's (the Company's) achievement of four Performance Goals, as follows:

- 30% 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.
- 30% 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.
- 20% of the Target Award shall be earned based on maintaining an average ratio of operations and maintenance expenses as a percentage of revenues at Aqua Pennsylvania, as described in Section 5 below.
- 20% of the Target Award will be earned based on earning a cumulative total earnings before taxes for the Company's operations other than Aqua Pennsylvania, as described in Section 6 below.

#### 2. Calculation of TSR.

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

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

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

3. Performance Units Earned Based on Comparative TSR to the Peer Group. Thirty 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><u>Ordinal Ranking of the Company (including the Company) Versus Peer Group</u></b>	<b><u>Payout as a % of Target Award (7 Peer Companies)</u></b>	<b><u>Payout as a % of Target Award (6 Peer Companies)</u></b>	<b><u>Payout as a % of Target Award (5 Peer Companies)</u></b>	<b><u>Payout as a % of Target Award (4 Peer Companies)</u></b>	<b><u>Payout as a % of Target Award (1, 2 or 3 Peer Companies)</u></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. Thirty 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><u>Percentile Ranking of the Company Versus Reference Companies</u></b>	<b><u>Payout as a % of Target Award</u></b>
90 <sup>th</sup> or above	200%
50 <sup>th</sup>	100%
30 <sup>th</sup>	50%
Below 30 <sup>th</sup>	0%

If the Company’s TSR rank is above the 30th percentile and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

(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 the Aqua Pennsylvania O&M Ratio. Twenty percent of the Target Award of the Performance Units (the “O&M Ratio Portion”) shall be earned based on maintaining an average of the annual ratios of the consolidated operations and maintenance expenses to revenue for Aqua Pennsylvania and its subsidiaries over the three-year Performance Period. The O&M Ratio Portion shall be calculated according to the following schedule:

2014 - 2016	
O&M Ratio Metric	
Aqua PA O&M Ratio 3YR Avg	Rating (% of 20% PSU's Earned)
33.1%	50
32.9%	60
32.7%	70
32.5%	80
32.3%	90
32.1%	100
31.9%	110
31.7%	120
31.5%	130
31.3%	140
31.1%	150
30.9%	160
30.7%	170
30.5%	180
30.3%	190
30.1%	200

If Aqua Pennsylvania’s ratio of operations and maintenance expense to revenues is below the 33.1% level and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

Performance Units Earned Based on the Earnings Before Taxes for the Company's operations other than Aqua Pennsylvania (Non-PA EBT). Twenty percent of the Target Award of the Performance Units (the "Non-PA EBT") shall be earned based on the Company's total cumulative income from continuing operations before income taxes plus the Company's income from discontinued operations before income taxes, less the corresponding amounts from Aqua Pennsylvania, over the three-year Performance Period. The Non-PA EBT Portion shall be calculated according to the following schedule:

2014-2016	
NON-PA Earnings Before Tax	
NON-PA EBT 3 YR (\$000 Omitted)	RATING (% of 20% PSU's Earned)
\$ 225,400	50%
\$ 230,400	60%
\$ 235,400	70%
\$ 240,400	80%
\$ 245,400	90%
\$ 250,400	100%
\$ 252,900	110%
\$ 255,400	120%
\$ 257,900	130%
\$ 260,400	140%
\$ 262,900	150%
\$ 265,400	160%
\$ 267,900	170%
\$ 270,400	180%
\$ 272,900	190%
\$ 275,400	200%

If the Company's Non-PA EBT as defined is above \$225,400 and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

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

February 27, 2014

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:	February 27, 2014
Target Award:	_____ shares
Vesting Date:	February 27, 2017
Performance Period:	Period beginning on January 1, 2014 and ending on December 31, 2016
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: \_\_\_\_\_

*Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form.*

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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 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 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 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 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 mean:

(i) a material diminution in the Grantee's base salary, which, for purposes of this Agreement, means a reduction in base salary of ten (10) percent or more that does not apply generally to all officers of the Employer; or

(ii) a material change in the geographic location at which the Grantee must perform services for the Employer, which, for purposes of this Agreement, means a requirement that the Grantee be based at any office or location which is located more than fifty (50) miles from the Grantee's primary place of employment immediately prior to the Change in Control on other than on a temporary basis (less than six (6) months).

Termination of employment after any of the foregoing events shall constitute a termination by the Grantee for Good Reason only if the Grantee provides written notice to the Employer of the existence of such event within ninety (90) days after the initial occurrence of such event, the Employer fails to remedy the event within thirty (30) days following the receipt of such notice and the Grantee terminates employment with the Employer for Good Reason within fifteen (15) days after the expiration of the cure period.

(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 19 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 19 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 19 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 19 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 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. Company Policies.

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

17. 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.

18. 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.

19. 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 Aqua America's (the Company's) achievement of four Performance Goals, as follows:

- 30% 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.
- 30% 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.
- 20% of the Target Award shall be earned based on maintaining an average ratio of operations and maintenance expenses as a percentage of revenues at Aqua Pennsylvania, as described in Section 5 below.
- 20% of the Target Award will be earned based on earning a cumulative total earnings before taxes for the Company's operations other than Aqua Pennsylvania, as described in Section 6 below.

#### 2. Calculation of TSR.

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

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

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

3. Performance Units Earned Based on Comparative TSR to the Peer Group. Thirty 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><u>Ordinal Ranking of the Company (including the Company) Versus Peer Group</u></b>	<b><u>Payout as a % of Target Award (7 Peer Companies)</u></b>	<b><u>Payout as a % of Target Award (6 Peer Companies)</u></b>	<b><u>Payout as a % of Target Award (5 Peer Companies)</u></b>	<b><u>Payout as a % of Target Award (4 Peer Companies)</u></b>	<b><u>Payout as a % of Target Award (1, 2 or 3 Peer Companies)</u></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.** Thirty 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><u>Percentile Ranking of the Company Versus Reference Companies</u></b>	<b><u>Payout as a % of Target Award</u></b>
90 <sup>th</sup> or above	200%
50 <sup>th</sup>	100%
30 <sup>th</sup>	50%
Below 30 <sup>th</sup>	0%

If the Company’s TSR rank is above the 30th percentile and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

(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 the Aqua Pennsylvania O&M Ratio. Twenty percent of the Target Award of the Performance Units (the “O&M Ratio Portion”) shall be earned based on maintaining an average of the annual ratios of the consolidated operations and maintenance expenses to revenue for Aqua Pennsylvania and its subsidiaries over the three-year Performance Period. The O&M Ratio Portion shall be calculated according to the following schedule:

2014 - 2016	
O&M Ratio Metric	
Aqua PA O&M Ratio 3YR Avg	Rating (% of 20% PSU's Earned)
33.1%	50
32.9%	60
32.7%	70
32.5%	80
32.3%	90
32.1%	100
31.9%	110
31.7%	120
31.5%	130
31.3%	140
31.1%	150
30.9%	160
30.7%	170
30.5%	180
30.3%	190
30.1%	200

If Aqua Pennsylvania’s ratio of operations and maintenance expense to revenues is below the 33.1% level and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

Performance Units Earned Based on the Earnings Before Taxes for the Company's operations other than Aqua Pennsylvania (Non-PA EBT). Twenty percent of the Target Award of the Performance Units (the "Non-PA EBT") shall be earned based on the Company's total cumulative income from continuing operations before income taxes plus the Company's income from discontinued operations before income taxes, less the corresponding amounts from Aqua Pennsylvania, over the three-year Performance Period. The Non-PA EBT Portion shall be calculated according to the following schedule:

2014-2016	
NON-PA Earnings Before Tax	
NON-PA EBT 3 YR (\$000 Omitted)	RATING (% of 20% PSU's Earned)
\$ 225,400	50%
\$ 230,400	60%
\$ 235,400	70%
\$ 240,400	80%
\$ 245,400	90%
\$ 250,400	100%
\$ 252,900	110%
\$ 255,400	120%
\$ 257,900	130%
\$ 260,400	140%
\$ 262,900	150%
\$ 265,400	160%
\$ 267,900	170%
\$ 270,400	180%
\$ 272,900	190%
\$ 275,400	200%

If the Company's Non-PA EBT as defined is above \$225,400 and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

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

February 27, 2014

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:	February 27, 2014
Number of Restricted Stock Units Granted:	_____
Vesting Date:	February 27, 2017
Vesting Schedule:	100% on February 27, 2017

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: \_\_\_\_\_

DB1/ 74007686.1

*Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form.*

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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

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

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

5. Change in Control.

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

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

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

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

6. Definitions.

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

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

7. Payment with Respect to Restricted Units.

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

8. Dividend Equivalents with Respect to Restricted Units.

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

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

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

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

9. Non-Competition.

(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. Company Policies.

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

17. Governing Law.

The validity, construction, interpretation and effect of the Restricted Stock Unit Grant and these Grant Conditions shall exclusively be governed by, and determined in accordance

with, the applicable laws of the Commonwealth of Pennsylvania, excluding any conflicts or choice of law rule or principle.

18. Assignment.

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

19. Code Section 409A.

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

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RESTRICTED STOCK UNIT GRANT

February 27, 2014

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:	February 27, 2014
Number of Restricted Stock Units Granted:	_____
Vesting Date:	February 27, 2017
Vesting Schedule:	100% on February 27, 2017

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: \_\_\_\_\_

DB1/ 74007686.1

*Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form.*

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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 Date specified in the Restricted Stock Unit Grant (the

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

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

5. Change in Control.

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

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

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

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

6. Definitions.

(a) For purposes of these Grant Conditions, “Good Reason” shall mean:

(i) a material diminution in the Grantee’s base salary, which, for purposes of this Agreement, means a reduction in base salary of ten (10) percent or more that does not apply generally to all officers of the Employer; or

(ii) a material change in the geographic location at which the Grantee must perform services for the Employer, which, for purposes of this Agreement, means a requirement that the Grantee be based at any office or location which is located more than fifty (50) miles from the Grantee’s primary place of employment immediately prior to the Change in Control on other than on a temporary basis (less than six (6) months).

Termination of employment after any of the foregoing events shall constitute a termination by the Grantee for Good Reason only if the Grantee provides written notice to the Employer of the existence of such event within ninety (90) days after the initial occurrence of such event, the Employer fails to remedy the event within thirty (30) days following the receipt of such notice and the Grantee terminates employment with the Employer for Good Reason within fifteen (15) days after the expiration of the cure period.

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

7. Payment with Respect to Restricted Units.

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

8. Dividend Equivalents with Respect to Restricted Units.

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

Restricted Units. If, and to the extent that the underlying Restricted Units are forfeited, all related Dividend Equivalents shall also be forfeited.

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

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

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

9. Non-Competition.

(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. Company Policies.

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

17. Governing Law.

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

18. Assignment.

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

19. Code Section 409A.

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

indirectly, designate the calendar year of a payment, except in accordance with Code Section 409A.

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PERFORMANCE-BASED SHARE UNIT GRANT

February 27, 2014

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:	February 27, 2014
Target Award:	xxxxxxx shares
Vesting Date:	June 30, 2015
Performance Period:	Period beginning on January 1, 2014 and ending on December 31, 2016
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: \_\_\_\_\_

*Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form.*

CEO PSU Grant

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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”) apply to and are part of the grant award 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 or one of its subsidiaries or 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.

(a) If the Grantee ceases to be employed by the Employer prior to the Vesting Date because he voluntarily terminates his employment or is terminated for Cause by the Employer, 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 on or after the Vesting Date as a result of death, Disability, Retirement or termination by Employer without 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.

(c) If the Grantee ceases to be employed by the Employer prior the Vesting Date as a result of death, Disability or termination by Employer without 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.

(d) If the Grantee ceases to be employed by the Employer prior to the Vesting Date 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 sixteen (16). 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 sixteen (16).

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) a Good Reason Termination by the Grantee, 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 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, “Cause” and “Good Reason Termination” shall have the meanings given those terms 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.

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, or CIC Earned Units, as applicable, shall be issued to the Grantee, subject to Sections 8, 15 and 19 below, within sixty (60) days of the earliest of the following dates:

(a) the date of Grantee's separation from service as an employee with the Employer, following a Change in Control, by reason of:

- (i) the Grantee's Retirement;
- (ii) termination by the Employer without Cause;
- (iii) a Good Reason Termination by the Grantee; or
- (iv) the Grantee's death or Disability;

(b) the date of Grantee's separation from service as an employee with the Employer by reason of the Grantee's Disability or death, Retirement or termination by Employer without Cause (or, if later, the last day of the Performance Period);

(c) the date of a Change of Control, in the event of the Grantee's separation from service as an employee with the Employer by reason of the Grantee's Retirement prior to the Change in Control; or

(d) the later of the Vesting Date or the last day of the Performance Period.

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 Performance Units or CIC Earned Units, as applicable, shall be payable in such form of consideration, as determined by the Committee (provided that payment in such form does not violate Code Section 409A).

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. Company Policies.

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

18. 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.

19. 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 within sixty (60) days after the Vesting Date.

\* \* \*

## Schedule A

### Performance Goals

1. Performance Goals.

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

- 30% 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.
- 30% 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.
- 20% of the Target Award shall be earned based on maintaining an average ratio of operations and maintenance expenses as a percentage of revenues at Aqua Pennsylvania, as described in Section 5 below.
- 20% of the Target Award will be earned based on earning a cumulative total earnings before taxes for the Company's operations other than Aqua Pennsylvania, as described in Section 6 below.

20. 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.

21. Performance Units Earned Based on Comparative TSR to the Peer Group. Thirty 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><u>Ordinal Ranking of the Company (including the Company) Versus Peer Group</u></b>	<b><u>Payout as a % of Target Award (7 Peer Companies)</u></b>	<b><u>Payout as a % of Target Award (6 Peer Companies)</u></b>	<b><u>Payout as a % of Target Award (5 Peer Companies)</u></b>	<b><u>Payout as a % of Target Award (4 Peer Companies)</u></b>	<b><u>Payout as a % of Target Award (1, 2 or 3 Peer Companies)</u></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

22. Performance Units Earned Based on Comparative TSR to the S&P MidCap Utilities Index. Thirty 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><u>Percentile Ranking of the Company Versus Reference Companies</u></b>	<b><u>Payout as a % of Target Award</u></b>
90 <sup>th</sup> or above	200%
50 <sup>th</sup>	100%
30 <sup>th</sup>	50%
Below 30 <sup>th</sup>	0%

If the Company’s TSR rank is above the 30th percentile and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

(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.

23. Performance Units Earned Based on the Aqua Pennsylvania O&M Ratio. Twenty percent of the Target Award of the Performance Units (the “O&M Ratio Portion”) shall be earned based on maintaining an average of the annual ratios of the consolidated operations and maintenance expenses to revenue for Aqua Pennsylvania and its subsidiaries over the three-year Performance Period. The O&M Ratio Portion shall be calculated according to the following schedule:

2014 - 2016	
O&M Ratio Metric	
Aqua PA O&M Ratio 3 YR Avg	Rating (% of 20% PSU's Earned)
33.1%	50
32.9%	60
32.7%	70
32.5%	80
32.3%	90
32.1%	100
31.9%	110
31.7%	120
31.5%	130
31.3%	140
31.1%	150
30.9%	160
30.7%	170
30.5%	180
30.3%	190
30.1%	200

If Aqua Pennsylvania’s ratio of operations and maintenance expense to revenues is below the 33.1% level and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

24. Performance Units Earned Based on the Earnings Before Taxes for the Company's operations other than Aqua Pennsylvania (Non-PA EBT). Twenty percent of the Target Award of the Performance Units (the "Non-PA EBT") shall be earned based on the Company's total cumulative income from continuing operations before income taxes plus the Company's income from discontinued operations before income taxes, less the corresponding amounts from Aqua Pennsylvania, over the three-year Performance Period. The Non-PA EBT Portion shall be calculated according to the following schedule:

2014-2016	
NON-PA Earnings Before Tax	
NON-PA EBT 3 YR (\$000 Omitted)	RATING (% of 20% PSU's Earned)
\$ 225,400	50%
\$ 230,400	60%
\$ 235,400	70%
\$ 240,400	80%
\$ 245,400	90%
<b>\$ 250,400</b>	<b>100%</b>
\$ 252,900	110%
\$ 255,400	120%
\$ 257,900	130%
\$ 260,400	140%
\$ 262,900	150%
\$ 265,400	160%
\$ 267,900	170%
\$ 270,400	180%
\$ 272,900	190%
\$ 275,400	200%

If the Company's Non-PA EBT as defined is above \$225,400 and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

25. 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

February 27, 2014

Dear Nick:

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 27, 2014
Number of Restricted Stock Units	xxxxxx
Granted:	
Performance Goals:	See Restricted Stock Unit Grant Terms and Conditions, including Exhibit A
First Vesting Date:	June 30, 2015
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: \_\_\_\_\_  
\_\_\_\_\_

*Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form.*

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

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

1. Grant of Restricted Stock Units.

These Restricted Stock Unit Grant Terms and Conditions (the “Grant Conditions”) apply to and are part of the grant award made by Aqua America, Inc., a Pennsylvania corporation (the “Company”), to the Grantee named in the Restricted Stock Unit Grant (the “Restricted 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 or one of its subsidiaries or 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.

The Restricted Units represent the right to acquire shares of common stock of the Company (“Company Stock”) upon satisfaction of all vesting conditions and lapse of the forfeiture restrictions as set forth in these Grant Conditions. 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 Restricted Unit 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. Achievement of Performance Goal: Vesting.

(a) In order for the Restricted Units to be earned, the Performance Goal set forth on Exhibit A must be achieved for the 2014 calendar year. The Committee shall determine whether the Performance Goal is achieved, and, therefore, whether the Restricted Units are earned, and shall certify as to such determination.

(b) Following the determination of whether the Restricted Units are earned, the Award shall be subject to forfeiture, except as otherwise set forth in these Grant Conditions, until the Vesting Date specified in the Restricted Unit Grant (the "Vesting Date"), provided that the Grantee continues to be employed by the Employer through the Vesting Date.

4. Termination of Employment.

(a) If the Grantee voluntarily terminates his employments with the Employer or if his employment is terminated by the Employer for Cause, in each case prior to the Vesting Date, the Restricted Units shall be forfeited as of the termination date.

(b) If, before a Change in Control and before the Vesting Date, the Grantee ceases to be employed by the Employer on account of the Grantee's Retirement, and if the Performance Goal for calendar year 2014 is met, the Grantee will vest in a pro rata number of the Restricted Units. The pro rata number of Restricted Units that will vest on the Retirement date shall be calculated with the numerator being the number of whole months for which the Award has been outstanding since the Grant Date, and the denominator being the term of the Restricted Unit Grant from Grant Date to the Vesting Date. Payment of the vested Restricted Units shall be made in accordance with Section 7.

(c) If the Grantee ceases to be employed by the Employer prior to the Vesting Date as a result of his death or Disability or termination without Cause by Employer, all outstanding Restricted Units shall fully vest. Payment of the vested Restricted Units shall be made in accordance with Section 7.

5. Change in Control.

(a) If a Change in Control occurs prior to December 31, 2014, the Performance Goal shall be deemed to have been met as of the date of the Change in Control 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 Date, if the Grantee continues to be employed by the Employer through the Vesting Date.

(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) a Good Reason Termination by the Grantee, or (iv) the Grantee's Disability or death, the Grantee's outstanding unvested Restricted Units shall fully vest.

(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.

6. Definitions.

(a) For purposes of these Grant Conditions, “Cause” and “Good Reason Termination” shall have the meanings given those terms 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.

Subject to Sections 9, 15 and 19, shares of Company Stock equal to the vested Restricted Units shall be issued to the Grantee within sixty (60) days of the earliest of the following dates:

(a) the date of Grantee’s separation from service as an employee with the Employer, following a Change in Control, by reason of:

- (i) the Grantee’s Retirement;
- (ii) termination by the Employer without Cause; or
- (iii) a Good Reason Termination by the Grantee;

(b) the date of Grantee’s separation from service as an employee with the Employer by reason of the Grantee’s Disability or death if such event occurs after the end of the Performance Period; or after the end of the Performance Period if such event occurs prior to the end of the Performance Period; or

(c) the Vesting Date.

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 (provided that payment in such form does not violate Code Section 409A).

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 the Grantee’s Restricted Unit account. On each date on which a dividend is declared by the

Company on Company Stock, the Company shall credit to the Grantee's Restricted Unit 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 7, 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. Company Policies.

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

17. Governing Law.

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

18. Assignment.

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

19. Code Section 409A.

The Restricted Stock Unit Grant and these Grant Conditions are intended to comply with Code Section 409A or an exemption, and payments may only be made under these Grant Conditions upon an event and in a manner permitted by Code Section 409A, to the extent applicable. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, if the Grantee is considered a "specified employee" for purposes of Code Section 409A and if any payment under these Grant Conditions is required to be delayed for a period of six (6) months after separation from service pursuant to Code Section 409A, such payment shall be delayed as required by Code Section 409A, and the accumulated payment amounts shall be paid in a lump sum payment within ten (10) days after the end of the six (6)-month period. If the Grantee dies during the postponement period prior to payment, the amounts withheld on account of Code Section 409A shall be paid to the personal representative of the Grantee's estate within sixty (60) days after the date of the Grantee's death. Notwithstanding anything in these Grant Conditions to the contrary, if 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, any vested Restricted Units payable under Section 7(c) shall be paid to the Grantee within sixty (60) days after the Vesting Date.

\* \* \*

**Exhibit A**  
**Performance Goal**

The Performance Goal for the Restricted Stock Units is that the Company's return on equity (Net Income divided by year-end shareholder equity) for the 2014 calendar year exceeds 11%. "Net Income" shall be determined as the net 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 Net Income.



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

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 8, 2014

/s/Nicholas DeBenedictis

Nicholas DeBenedictis

Chairman, President and Chief Executive Officer

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

I, David P. Smeltzer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aqua America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(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 8, 2014

/s/David P. Smeltzer

David P. Smeltzer

Executive Vice President and Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2014 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nicholas DeBenedictis, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

/s/Nicholas DeBenedictis

Nicholas DeBenedictis  
Chairman, President and Chief Executive Officer  
May 8, 2014

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

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2014 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Smeltzer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

/s/David P. Smeltzer

David P. Smeltzer  
Executive Vice President and Chief Financial Officer  
May 8, 2014

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