

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

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2012

OR

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

Commission File number 1-6659

**AQUA AMERICA, INC.**

(a Pennsylvania corporation)

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

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

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

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

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

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

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

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (do not check if smaller reporting company)	Small reporting company	<input type="checkbox"/>

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2012: \$3,453,548,692

For purposes of determining this amount only, registrant has defined affiliates as including (a) the executive officers named in Part I of this 10-K report, (b) all directors of registrant, and (c) each shareholder that has informed registrant by June 30, 2012, that it has sole or shared voting power of 5% or more of the outstanding common stock of registrant.

The number of shares outstanding of the registrant's common stock as of February 14, 2013: 140,347,743

**DOCUMENTS INCORPORATED BY REFERENCE**

(1) Portions of registrant's 2012 Annual Report to Shareholders have been incorporated by reference into Parts I and II of this Form 10-K.

(2) Portions of the definitive Proxy Statement, relative to the May 8, 2013 annual meeting of shareholders of registrant, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, have been incorporated by reference into Part III of this Form 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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- the impact of federal and/or state tax policies and the regulatory treatment of the effects of those policies;
- the amount of repair tax deductions and the Internal Revenue Service’s ultimate acceptance of the deduction methodology; and
- the forward-looking statements contained under the heading “Forward-Looking Statements” in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” from the portion of our 2012 Annual Report to Shareholders incorporated by reference herein and made a part hereof.

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

- changes in general economic, business, credit and financial market conditions;
- changes in governmental laws, regulations and policies, including those dealing with taxation, the environment, health and water quality, and public utility regulation;
- our determination of what qualifies for a repair expense tax deduction;
- changes in environmental conditions, including those that result in water use restrictions;
- abnormal weather conditions, including the effects of climate change;
- changes in, or unanticipated, capital requirements;
- changes in our credit rating or the market price of our common stock;
- our ability to integrate businesses, technologies or services which we may acquire;
- our ability to manage the expansion of our business;
- our ability to supply water or collect and treat wastewater;
- the extent to which we are able to develop and market new and improved services;
- the effect of the loss of major customers;
- our ability to retain the services of key personnel and to hire qualified personnel as we expand;
- labor disputes;
- increasing difficulties in obtaining insurance and increased cost of insurance;
- cost overruns relating to improvements or the expansion of our operations;
- increases in the costs of goods and services;
- civil disturbance or terroristic threats or acts;
- the continuous and reliable operation of our information technology systems;
- changes in accounting pronouncements; and
- litigations and claims.

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

PART I

Item 1. Business

The Company

Aqua America, Inc. (referred to as “Aqua America”, the “Company”, “we”, or “us”) is the holding company for regulated utilities providing water or wastewater services to what we estimate to be almost 3 million people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Florida, Indiana, Virginia, and Georgia. Our largest operating subsidiary, Aqua Pennsylvania, Inc. (“Aqua Pennsylvania”), accounted for approximately 55% of our operating revenues and a larger percentage of our net income for 2012, and as of December 31, 2012, provided water or wastewater services to approximately one-half of the total number of people we serve, and is located in the suburban areas in counties north and west of the City of Philadelphia and in 25 other counties in Pennsylvania. Our other subsidiaries provide similar services in nine other states. In addition, we provide water and wastewater services through operating and maintenance contracts with municipal authorities and other parties in the states we operate in as well as sludge hauling, septage and grease services, backflow prevention services, certain other non-regulated water and wastewater services, and non-utility raw water supply services for firms in the natural gas and oil drilling industry.

In January 2012, we sold our regulated water operations in Maine, which served approximately 16,000 customers, to Connecticut Water Services, Inc. In May 2012, we acquired all of American Water Works Company, Inc.’s regulated water and wastewater operations in Ohio, which served approximately 59,000 customers, and simultaneously sold our regulated water operations in New York, which served approximately 51,000 customers. These transactions concluded our regulated operations in Maine and New York. In September 2012, we began to market for sale our regulated water and wastewater operations in Florida, which serve approximately 38,000 customers, and our operation in Georgia which consists of a wastewater treatment facility. In December 2012, the Company entered into a definitive agreement to sell 80 of its regulated water and wastewater systems in Florida to the Florida Governmental Utility Authority. These 80 water and wastewater systems represent approximately 56% of our total customers served in Florida. This transaction is expected to close in the first half of 2013. In addition, we are holding discussions with interested parties for the sale of the remainder of our Florida regulated water and wastewater operations. The operating results, cash flows, and financial position of the Company’s Maine, New York, Florida, and Georgia subsidiaries have been presented in the Company’s consolidated financial statements as discontinued operations. During the second quarter of 2011, we acquired all of American Water Works Company, Inc.’s regulated water and wastewater operations in Texas, which served approximately 5,300 customers, and sold our regulated water and wastewater operations in Missouri, which served approximately 3,900 customers and concluded our regulated utility operations in Missouri.

Aqua America, which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, formerly known as Philadelphia Suburban Water Company. In the early 1990s we embarked on a growth through acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of American Water Works Company, Inc.’s regulated water and wastewater operations in Ohio in 2012. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry and has extended our regulated operations from southeastern Pennsylvania to include our current operations in nine other states. In 2009, we began operations in Georgia through the acquisition of a wastewater utility business that is currently not subject to economic regulation by the Georgia Public Service Commission. Prior to classification as a discontinued operation, our Georgia operation was included within our Regulated segment as it provided services similar to our regulated utility subsidiaries.

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Beginning in 2010, and continuing into 2013, 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 2012, we sold our utility operations in Maine and in New York, in 2011 we sold our utility operations in Missouri, and in 2010 we sold our utility operation in South Carolina to a local municipality. In connection with the sale of our New York and Missouri utility operations, we acquired additional utility systems (and customers) in Ohio and Texas, two of the larger states in our portfolio. Initiated in 2012, and concluding in 2013, we began to market for sale our Florida utility operations and our wastewater treatment facility in Georgia, and these sales should conclude in 2013.

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 certain 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 serving the raw water needs of firms in the natural gas and oil drilling industry.

The following table reports our operating revenues from continuing operations by principal state for the Regulated segment and Other for the year ended December 31, 2012:

	Operating Revenues (000's)	Operating Revenues (%)
Pennsylvania	\$419,965	55.4%
Ohio	78,464	10.4%
Texas	65,976	8.7%
Illinois	49,329	6.5%
North Carolina	46,026	6.1%
Other states (a)	<u>80,124</u>	<u>10.6%</u>
Regulated segment total	739,884	97.7%
Other	<u>17,876</u>	<u>2.3%</u>
Consolidated	<u>\$757,760</u>	<u>100.0%</u>

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

Information concerning revenues, net income, identifiable assets and related financial information of the Regulated segment and Other for 2012, 2011, and 2010 is set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 17 – Segment Information in the "Notes to Consolidated Financial Statements" from the portions of our 2012 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K. The information from these sections of our 2012 Annual Report to Shareholders is incorporated by reference herein.

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The following table summarizes our operating revenues from continuing operations, by utility customer class, for the Regulated segment and Other for the year ended December 31, 2012:

	Operating Revenues (000's)	Operating Revenues (%)
Residential water	\$447,338	59.0%
Commercial water	117,992	15.6%
Fire protection	27,529	3.6%
Industrial water	25,015	3.3%
Other water	43,246	5.7%
Water	661,120	87.2%
Wastewater	68,225	9.0%
Other utility	10,539	1.5%
Regulated segment total	739,884	97.7%
Other	17,876	2.3%
Consolidated	<u>\$757,760</u>	<u>100.0%</u>

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

Our growth in revenues over the past five years is primarily a result of increases in water and wastewater rates and our growth through acquisition strategy. See "Economic Regulation" for a discussion of water and wastewater rates. The majority of the increase in our utility customer base has been due to customers added through acquisitions. In 2012, 2011, 2010, 2009, and 2008, the utility customer growth rate due to acquisitions and other growth ventures (excluding dispositions) was 7.2%, 1.0%, 1.0%, 1.0%, and 2.0%, respectively. In 2012, our customer count, excluding dispositions, increased by 69,858 customers, primarily due to the acquisition of American Water Works Company, Inc.'s Ohio operations and natural growth. Overall, for the five-year period of 2008 through 2012, our utility customer base increased at an annual compound rate of 0.4%. If the number of customers associated with utility system dispositions during the past five years was excluded from the January 1, 2008 utility customer base, the annual compound growth rate would have been 2.3% for that same period.



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### Acquisitions and Water Sale Agreements

According to the U.S. Environmental Protection Agency (“EPA”), approximately 85% of the U.S. population obtains its water from community water systems, and 15% of the U.S. population obtains its water from private wells. With approximately 53,000 community water systems in the U.S. (83% of which serve less than 3,300 customers), the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). The majority of these community water systems are government-owned, and the balance of the systems are privately-owned (or investor-owned). The nation’s water systems range in size from large government-owned systems, such as the New York City water system which serves approximately 8 million people, to small systems, where a few customers share a common well. In the states where we operate, we believe there are approximately 19,000 community water systems of widely-varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the EPA’s most recent survey of wastewater treatment facilities (which includes both government-owned and privately-owned facilities) in 2008, there are approximately 15,000 such facilities in the nation serving approximately 74% of the U.S. population. The remaining population represents individual homeowners with their own treatment facilities; for example, community on-lot disposal systems and septic tank systems. The vast majority of wastewater facilities are government-owned rather than privately-owned. The EPA’s survey also indicated that there are approximately 7,400 wastewater facilities in operation or planned in the 10 states where we operate.

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

- the benefits of economies of scale;
- the increasing cost and complexity of environmental regulations;
- the need for substantial capital investment;
- the need for technological and managerial expertise;
- limited access to cost-effective financing; and
- the monetizing of public assets to support the financial condition of municipalities.

We are actively exploring opportunities to expand our utility operations through acquisitions or other growth ventures. During the five-year period ended December 31, 2012, we completed 78 acquisitions or other growth ventures.

We believe that acquisitions will continue to be an important source of customer growth for us. We intend to continue to pursue acquisitions of government-owned and privately-owned water and wastewater systems that provide services in areas near our existing service territories or in new service areas. We engage in continuing activities with respect to potential acquisitions, including calling on prospective sellers, performing analyses and investigations of acquisition candidates, making preliminary acquisition proposals and negotiating the terms of potential acquisitions. Further, we are also seeking other potential business opportunities, including growth opportunities provided by the natural gas and oil drilling industry with a current focus on the raw water needs of drillers.

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

Our water utility operations obtain their water supplies from surface water sources, underground aquifers, and water purchased from other water suppliers. Our water supplies are primarily self supplied and processed at twenty surface water treatment plants located in four states, and numerous well stations located in all of the states in which we conduct business. Approximately 9% of our water supplies are supplied by water purchased from other water suppliers. It is our policy to obtain and maintain the permits necessary to obtain the water we distribute.

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

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

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

## Economic Regulation

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

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

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

Our water and wastewater operations are comprised of 66 rate divisions, each of which requires a separate rate filing for the evaluation of the cost of service, including the recovery of investments, in connection with the establishment of tariff rates for that rate division. When feasible and beneficial to our utility customers, we will seek approval from the applicable state regulatory commission to consolidate rate divisions to achieve a more even distribution of costs over a larger customer base. Eight of the states in which we operate permit us to file a revenue requirement for some form of consolidated rates for the rate divisions in that state.

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

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

Currently, Pennsylvania, Illinois, Ohio, and Indiana, allow for the use of infrastructure rehabilitation surcharges, and in 2012 New Jersey regulators approved a rulemaking to implement an infrastructure rehabilitation surcharge for regulated water utilities; as a result, the Company's operating subsidiary in New Jersey is in the process of implementing an infrastructure rehabilitation surcharge for 2013. These mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped at a percentage of base rates, generally at 5% to 12.75% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. Infrastructure rehabilitation surcharges provided revenues of \$15,911,000 in 2012, \$15,938,000 in 2011, and \$14,044,000 in 2010.

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In 2012, Aqua Pennsylvania adopted the repair tax accounting change on Aqua America's 2012 federal income tax return to be filed in September 2013. This tax accounting change allows a tax deduction for certain qualifying utility asset improvements that were formerly capitalized for tax purposes. The tax accounting change was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission to our subsidiary, which provides for flow-through accounting treatment of certain income tax benefits resulting from the accounting change. As a result of implementing this accounting change, the infrastructure rehabilitation surcharge will be suspended for 2013 for Aqua Pennsylvania's water customers. This tax accounting change and its treatment under the Pennsylvania rate order will financially offset the impact of the 2013 infrastructure rehabilitation surcharge suspension.

In general, we believe that Aqua America, Inc. and its subsidiaries have valid authority, free from unduly burdensome restrictions, to enable us to carry on our business as presently conducted in the franchised or contracted areas we now serve. The rights to provide water or wastewater service to a particular franchised service territory are generally non-exclusive, although the applicable regulatory commissions usually allow only one regulated utility to provide service to a given area. In some instances, another water utility provides service to a separate area within the same political subdivision served by one of our subsidiaries. Therefore, as a regulated utility, there is little or no competition for the daily water and wastewater service we provide to our customers. Water and wastewater utilities may compete for new customers in new service territories. Competition for new territory generally comes from nearby utilities, either investor-owned or municipal-owned. There is also often competition for the acquisition of other utilities. Competition for the acquisition of other water or wastewater utilities may come from other investor-owned utilities, nearby municipally-owned utilities and sometimes from strategic or financial purchasers seeking to enter or expand in the water and wastewater industry. We compete for new service territories and the acquisition of other utilities on the following bases: economic value, economies of scale, our ability to provide quality water and wastewater service, our existing infrastructure network, our ability to perform infrastructure improvements, our ability to comply with environmental, health, and safety regulations, our technical, regulatory, and operational expertise, our ability to access capital markets, and our cost of capital. The addition of new service territories and the acquisition of other utilities by regulated utilities such as us are generally subject to review and approval by the applicable state regulatory commissions.

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

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

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

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The price to be paid upon such an acquisition by the municipal government is usually determined in accordance with applicable law governing the taking of lands and other property under eminent domain. In other instances, the price may be negotiated, fixed by appraisers selected by the parties or computed in accordance with a formula prescribed in the law of the state or in the particular franchise or charter. We believe that our operating subsidiaries will be entitled to fair market value for any assets that are condemned, and we believe the fair market value will be in excess of the book value for such assets. The City of Fort Wayne, Indiana (the "City") has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the operating subsidiaries that we acquired in connection with the AquaSource acquisition in 2003. In addition, the City seeks to acquire certain of the Company's utility system assets located in the southwest section of the City. Refer to Item 3. Legal Proceedings of this Annual Report on Form 10-K for additional information regarding this proceeding.

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

### Environmental, Health and Safety Regulation

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

From time to time, Aqua America has acquired, and may acquire, systems that have environmental compliance issues. Environmental compliance issues also arise in the course of normal operations or as a result of regulatory changes. Aqua America attempts to align capital budgeting and expenditures to address these issues in a timely manner. We believe that the capital expenditures required to address outstanding compliance issues have been budgeted in our capital program and represent less than 5% of our expected total capital expenditures over the next five years. We are parties to agreements with regulatory agencies in Pennsylvania, Texas, Florida, Indiana, and Virginia under which we have committed to make certain improvements for environmental compliance. These agreements are intended to provide the regulators with assurance that problems covered by these agreements will be addressed, and the agreements generally provide protection from fines, penalties and other actions while corrective measures are being implemented. We are actively working directly with state environmental officials to implement or amend these agreements as necessary.

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

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In order to remove or inactivate microbial organisms, rules were issued by the EPA to improve disinfection and filtration of potable water and to reduce consumers' exposure to disinfectants and by-products of the disinfection process. We filter all of our surface water sources. New compliance monitoring requirements under the Stage 2 Disinfection By-Product Rule will go into effect beginning in 2013 at our largest surface water treatment plants, and in 2014 at several other facilities. Two capital projects are planned for 2013 at two systems acquired in 2012 in Ohio to maintain compliance under the new Stage 2 Rule monitoring requirements. Three smaller facilities experienced exceedances of the current Stage 1 Disinfection By-Product maximum contaminant levels (MCL) in 2012, but we do not believe these caused any unusual health risks and the exceedances did not result in any fines. These exceedances were addressed, or are being addressed, with operational changes or small capital investments. In aggregate, the costs of compliance with the requirements of the Stage 1 and Stage 2 Disinfection By-Product Rules in all of our state operations are estimated at less than 1% of our planned capital program over the next five years.

The federal Groundwater Rule became effective December 1, 2009. This rule requires additional testing of water from well sources, and under certain circumstances requires demonstration and maintenance of effective disinfection. States throughout the country are taking a variety of approaches to implementation of the Groundwater Rule. Pennsylvania has taken a position that all wells will be required to demonstrate and maintain effective disinfection, and work is underway in our Pennsylvania operations to achieve compliance. The federal rule is also expected to require modifications to a few wells or well stations in several other states. In North Carolina, the rule is being coupled with an existing requirement for visitation of well stations or installation of monitoring equipment. In aggregate, the costs of compliance with the requirements of the Groundwater Rule in all of our state operations is estimated at less than 1% of our planned capital program over the next five years.

A rule lowering the limit on arsenic was promulgated in 2001 by the EPA and became effective in January 2006, with a provision for further time extensions for small water systems. One system in Texas was equipped with treatment in 2009. Construction was completed in 2010 for treatment of one well in Pennsylvania acquired in 2008. Two wells acquired in 2011 in Texas have arsenic levels requiring treatment or replacement of the source. One well was taken out of service, and one remains in service. We are working under an EPA administrative order to correct these problems by May 2014, and we expect to have improvements to address the issue at these two Texas facilities completed in 2013 at a total estimated cost of less than \$500,000.

The Safe Drinking Water Act provides for the regulation of radionuclides other than radon, such as radium and uranium. Revisions to the Radionuclides Rule that became effective in 2003 changed the monitoring protocols and added a maximum contaminant level for uranium. Under the revised rule, some of our groundwater facilities exceeded one or more of the radionuclide standards and required treatment. Treatment has been installed at all wells that remain in service and that had been identified as needing treatment in the initial round of testing. Ongoing testing continues on quarterly, annual, 3-year or 9-year cycles, as required by applicable regulations, and occasionally test results for an individual well will trigger requirements for public notification and/or treatment. We acquired one well system in Texas in 2011 with uranium levels just over the MCL. A replacement well has been designed and will be drilled in 2013. The future capital cost of compliance with radionuclide requirements over the next five years is expected to be less than 1% of our planned capital budget over that time.

Clean Water Act - The Clean Water Act regulates discharges from drinking water and wastewater treatment facilities into lakes, rivers, streams, and groundwater. It is our policy to obtain and maintain all required permits and approvals for the discharges from our water and wastewater facilities, and to comply with all conditions of those permits and other regulatory requirements. A program is in place to monitor facilities for compliance with permitting, monitoring and reporting for wastewater discharges. From time to time, discharge violations may occur which may result in fines. These fines and penalties, if any, are not expected to have a material impact on our business, financial condition, or results of operations. We are also parties to compliance agreements with regulatory agencies in several states where we operate while improvements are being made to address wastewater discharge compliance issues. The required costs to comply with these compliance agreements are included in our capital program and are expected to be approximately 1% of our planned five-year capital budget.

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Solid Waste Disposal - The handling and disposal of residuals and solid waste generated from water and wastewater treatment facilities is governed by federal and state laws and regulations. A program is in place to monitor our facilities for compliance with regulatory requirements, and we are not aware of any significant environmental remediation costs necessary from our handling and disposal of waste material from our water and wastewater operations. Capital expenditures of less than \$3,000,000, or less than 1% of our planned five-year capital budget, have been included in our five-year capital budget related to the expansion and/or replacement of some of our current waste disposal facilities in Pennsylvania and Ohio for our large surface water treatment facilities in these states. Three capital projects to reduce waste volume and extend the life of our disposal facilities were completed in the past two years in Pennsylvania. Two more projects are budgeted to be completed in 2013, one in Pennsylvania and one in Ohio.

Dam Safety - Our subsidiaries own fifteen major dams that are subject to the requirements of the federal and state regulations related to dam safety. During 2011, we dismantled two of our major dams, and one of our major dams was reclassified by the Department of Environmental Protection in Pennsylvania to a lower hazard category. All major dams undergo an annual engineering inspection. We believe that all fifteen dams are structurally sound and well-maintained.

We performed studies of our dams that identified two dams in Pennsylvania and two dams in Ohio requiring capital improvements resulting from the adoption by state regulatory agencies of revised formulas for calculating the magnitude of a possible maximum flood event. The most significant capital improvement remaining to be performed is on one dam in Pennsylvania at an estimated cost of \$15,000,000. Design and construction for this dam is planned during the six-year period from 2013 to 2018. Expenditures in the aggregate for all four dams during the five-year period from 2013 to 2017 are expected to be approximately 1% of our planned capital program. We continue to study alternatives for these remaining dams which might change the cost estimates and timetables for these capital improvements.

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

### Security

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

### Employee Relations

As of December 31, 2012, we employed a total of 1,619 full-time employees. Our subsidiaries are parties to 14 labor agreements with labor unions covering 548 employees. The labor agreements expire at various times between May 2013 and May 2016.

### Available Information

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

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

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

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

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

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

Item 1A. Risk Factors

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

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

The rates we charge our customers are subject to approval by regulatory commissions or similar regulatory bodies in the states in which we operate. We file rate increase requests, from time to time, to recover our investments in utility plant and expenses. Our ability to maintain and meet our financial objectives is dependent upon the recovery of, and return on, our capital investments and expenses through the rates we charge our customers. Once a rate increase petition is filed with a regulatory commission, the ensuing administrative and hearing process may be lengthy and costly, and the cost to the Company may not always be fully recoverable. The timing of our rate increase requests are therefore partially dependent upon the estimated cost of the administrative process in relation to the investments and expenses that we hope to recover through the rate increase to the extent approved. In addition, the amount or frequency of rate increases may be decreased or lengthened as a result of changes in income tax laws regarding tax-basis depreciation as it applies to our capital expenditures or qualifying repair tax deductible expenditures. We can provide no assurances that any future rate increase request will be approved by the appropriate state regulatory commission; and, if approved, we cannot guarantee that these rate increases will be granted in a timely or sufficient manner to cover the investments, expenses, and return for which we initially sought the rate increase.



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

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

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

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

Our business is capital intensive. In addition to the capital required to fund our growth through acquisition strategy, on an annual basis, we spend significant sums for additions to or replacement of property, plant and equipment. We obtain funds for our capital expenditures from operations, contributions and advances by developers and others, equity issuances and debt issuances. We have paid common dividends consecutively for 68 years and our Board of Directors recognizes the value that our common shareholders place on both our historical payment record and on our future common dividend payments. Our ability to maintain and meet our financial objectives is dependent upon the availability of adequate capital, and we may not be able to access the debt and equity markets on favorable terms or at all. The U.S. credit and liquidity crisis of 2008 and 2009 caused substantial volatility in capital markets, including credit markets and the banking industry, generally reduced the availability of credit from financing sources, and could re-occur in the future. If in the future, our credit facilities are not renewed or our short-term borrowings are called for repayment, we would have to seek alternative financing sources; however, there can be no assurance that these alternative financing sources would be available on terms acceptable to us. In the event we are unable to obtain sufficient capital, we may need to take steps to conserve cash by reducing our capital expenditures or dividend payments and our ability to pursue acquisitions that we may rely on for future growth could be impaired. The reduction in capital expenditures may result in reduced potential earnings growth, affect our ability to meet environmental laws and regulations, and limit our ability to improve or expand our utility systems to the level we believe appropriate. There is no guarantee that we will be able to obtain sufficient capital in the future on reasonable terms and conditions for expansion, construction and maintenance. In addition, delays in completing major capital projects could delay the recovery of the capital expenditures associated with such projects through rates. If the cost of borrowing increases, we might not be able to recover increases in our cost of capital through rates. The inability to recover higher borrowing costs through rates, or the regulatory lag associated with the time that it takes to begin recovery, may adversely affect our business, financial condition, and results of operations.

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

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

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

A general economic downturn may lead to a number of impacts on our business that may affect our financial condition and results of operations. Such impacts may include: a reduction in discretionary and recreational water use by our residential water customers, particularly during the summer months when such discretionary usage is normally at its highest; a decline in usage by industrial and commercial customers as a result of decreased business activity; an increased incidence of customers' inability to pay or delays in paying their utility bills, or an increase in customer bankruptcies, which may lead to higher bad debt expense and reduced cash flow; a lower natural customer growth rate due to a decline in new housing starts; and a decline in the number of active customers due to housing vacancies or abandonments. General economic turmoil may also lead to an investment market downturn, which may result in our pension plans' asset market values suffering a decline and significant volatility. A decline in our pension plans' asset market values could increase our required cash contributions to these plans and pension expense in subsequent years.

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

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

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

We have invested in a joint venture for the construction and operation of a private pipeline system to supply raw water to certain natural gas drilling operations for hydraulic fracturing. Hydraulic fracturing involves the injection under pressure of water, along with other materials such as sand, into prospective rock formations to stimulate natural gas production. In general, the environmental community has taken an interest in monitoring and understanding the potential environmental impact of hydraulic fracturing. In the event the use of hydraulic fracturing is limited through regulation, our investment in the raw water pipeline may be adversely impacted in the event that demand for raw water is reduced.

Historically, natural gas and crude oil prices have been volatile, and are likely to continue to be volatile. A decrease in demand for natural gas, due to price volatility, could result in reduced demand for raw water utilized in hydraulic fracturing. In the event hydraulic fracturing is limited, due to a reduction in demand for natural gas, our investment in the raw water pipeline may be adversely impacted in the event that demand for raw water is reduced.

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

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

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

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

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

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

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

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

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

Some or all of these items could have a material adverse effect on our business and our ability to finance our business and to comply with regulatory requirements. The businesses we acquire in the future may not achieve sales and profitability that would justify our investment, and any difficulties we encounter in the integration process, including in the integration of processes necessary for internal control and financial reporting, could interfere with our operations, reduce our operating margins and adversely affect our internal controls. We compete with governmental entities, other regulated utilities, and strategic and financial buyers, for acquisition opportunities. As consolidation becomes more prevalent in the water and wastewater industries and competition for acquisitions increases, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to grow through acquisitions. In addition, our competitors may impede our growth by purchasing water utilities near our existing operations, thereby preventing us from acquiring them. Competing governmental entities, utilities, environmental or social activist groups, and strategic and financial buyers have challenged, and may in the future challenge, our efforts to acquire new companies and/or service territories. Our growth could be hindered if we are not able to compete effectively for new companies and/or service territories with other companies or strategic and financial buyers that have lower costs of operations or that can submit more attractive bids. In addition, as consolidation becomes more prevalent in the water and wastewater industries and competition for acquisitions increases, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to grow through acquisitions. Any of these risks may adversely affect our business, financial condition, and results of operations.

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

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

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

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

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

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

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

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

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

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In addition to the potential pollution of our water supply as described above, we maintain security measures at our facilities and have heightened employee awareness of potential threats to our water systems. We have and will continue to bear increases in costs for security precautions to protect our facilities, operations, and supplies, most of which have been recoverable under state regulatory policies. While the costs of increases in security, including capital expenditures, may be significant, we expect these costs to continue to be recoverable in water and wastewater rates. Despite our security measures, we may not be in a position to control the outcome of terrorist events, or other attacks on our water systems should they occur.

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

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

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

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

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

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

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

Approximately 34% of our workforce is unionized under 14 labor contracts with labor unions, which expire over several years. In light of rising costs for healthcare and retirement benefits, contract negotiations in the future may be difficult. We are subject to a risk of work stoppages and other labor actions as we negotiate with the unions to address these issues, which could affect our business, financial condition, and results of operations. We cannot assure you that issues with our labor forces will be resolved favorably to us in the future or that we will not experience work stoppages.

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

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

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

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

### ***We are increasingly dependent on the continuous and reliable operation of our information technology systems, and a disruption of these systems could adversely affect our business.***

We rely on our information technology systems in connection with the operation of our business, especially with respect to customer service and billing, accounting and, in some cases, the monitoring and operation of our treatment, storage and pumping facilities. In addition, we rely on our systems to track our utility assets and to manage maintenance and construction projects, materials and supplies, and our human resource functions. A loss of these systems, or major problems with the operation of these systems, could adversely affect our operations and have a material adverse effect on our business, financial condition, and results of operations. Although we do not believe that our systems are at a materially greater risk of cyber security incidents than other similar organizations, our information technology systems may be vulnerable to damage or interruption from:

- power loss, computer systems failures, and internet, telecommunications or data network failures;

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- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of data;
- computer viruses;
- intentional security breaches, hacking, denial of service actions, misappropriation of data and similar events; and
- hurricanes, fires, floods, earthquakes and other natural disasters.

Such cyber security incidents may result in the loss or compromise of customer, financial or operational data, disruption of billing, collections or normal field service activities, disruption of electronic monitoring and control of operational systems and delays in financial reporting and other normal management functions. Possible impacts associated with a cyber security incident may include remediation costs related to lost, stolen, or compromised data, repairs to data processing systems, increased cyber security protection costs, adverse effects on our compliance with regulatory and environmental laws and regulation, including standards for drinking water, litigation and reputational damage.

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

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

***Climate change laws and regulations may be adopted that could require compliance with greenhouse gas emissions standards and other climate change initiatives. Additional capital expenditures could be required and our operating costs could be increased in order to comply with new regulatory standards imposed by federal and state environmental agencies.***

Climate change is receiving ever increasing attention worldwide. Many scientists, legislators, and others attribute global warming to increased levels of greenhouse gases (GHG), including carbon dioxide. Climate change legislation has been introduced from time to time in Congress, and if enacted, would limit GHG emissions from covered entities through a “cap and trade” system to reduce the quantity of national GHG emissions in accordance with established goals and timelines. Possible new climate change laws and regulations, if enacted, may require us to monitor and/or change our utility operations. GHG emissions occur at several points across our utility operations, notably our use of service vehicles and energy. It is possible that new standards could be imposed that will require additional capital expenditures or raise our operating costs. Because it is uncertain what laws will be enacted, we cannot predict the potential impact of such laws on our business, financial condition, or results of operations. Although these expenditures and costs may be recovered in the form of higher rates, there can be no assurance that the various state regulatory commissions or similar regulatory bodies that govern our business would approve rate increases to enable us to recover such expenditures and costs. We cannot assure you that our costs of complying with new standards or laws will not adversely affect our business, financial condition, and results of operations.

Item 1B. Unresolved Staff Comments.

None.



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### Item 2. Properties.

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

The following table indicates for our continuing operations our net property, plant and equipment, in thousands of dollars, as of December 31, 2012 in the principal states where we operate:

	Net Property, Plant and Equipment	
Pennsylvania	\$2,474,269	62.9%
Ohio	349,211	8.9%
North Carolina	263,253	6.7%
Illinois	258,588	6.6%
Texas	227,893	5.8%
Other (a)	362,949	9.1%
Consolidated	<u>\$3,936,163</u>	<u>100.0%</u>

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

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

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

### Item 3. Legal Proceedings

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

For legal proceedings which were concluded during the first nine months of 2012, refer to our respective 2012 10-Q filings for disclosure of the conclusion of these legal proceedings.

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The City of Fort Wayne, Indiana (the “City”) authorized the acquisition by eminent domain of the northern portion of the utility system of one of the Company’s operating subsidiaries in Indiana. In January 2008, we reached a settlement with the City to transition this portion of the system in February 2008 upon receipt of the City’s initial valuation payment of \$16,910,500. The settlement agreement specifically stated that the final valuation of the system will be determined through a continuation of the legal proceedings that were filed challenging the City’s valuation. On February 12, 2008, we turned over the northern portion of the system to the City upon receipt of the initial valuation payment. The proceeds received by the Company are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. The net book value of the assets relinquished 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 of Fort Wayne, the amounts deferred will be recognized in the Company’s consolidated income statement. On March 16, 2009, oral argument was held before the Allen County Circuit Court on certain procedural aspects with respect to the valuation evidence that may be presented and whether we are entitled to a jury trial. On October 12, 2010, the Wells County Indiana Circuit Court ruled that the Company is not entitled to a jury trial, and that the Wells County judge should review the City of Fort Wayne Board of Public Works’ assessment based upon a “capricious, arbitrary or an abuse of discretion” standard. The Company 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. The Supreme Court of Indiana accepted transfer and the matter is pending the Court’s decision. The Company continues to evaluate its legal options with respect to this decision. Depending upon the outcome of all of the legal proceedings we may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The northern portion of the system relinquished represented approximately 0.40% of Aqua America’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 Company’s utility system assets located in the southwest section of the City and, if negotiations with Fort Wayne officials were to fail, to condemn certain of the Company’s utility system 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. The Company will participate in the City Council proceedings and will evaluate its legal options.

An appeal of a jury verdict for one of the Company’s subsidiaries, Aqua Utilities Florida, Inc., by a husband and wife who lived in a house abutting a percolation pond at a wastewater treatment plant owned by the Company’s subsidiary in Pasco County, Florida has been voluntarily dismissed by the plaintiffs. The lawsuit was originally filed in August 2006 in the circuit court for the Sixth Judicial Circuit in and for Pasco County, Florida and has been amended several times by the plaintiffs. The lawsuit alleged our subsidiary was negligent in the design, operation and maintenance of the plant, resulting in bodily injury to the plaintiffs and various damages to their property. Subsequent amendments to the complaint included additional counts alleging trespass, nuisance, and strict liability. A trial of this matter during January 2011 resulted in a judicial dismissal of the count for strict liability and jury verdicts in favor of the Company on the remaining counts. On June 16, 2011, the plaintiffs agreed to dismiss their appeals and to release all claims against our subsidiary and the Company, which resulted in the conclusion of the original plaintiffs’ litigation against our subsidiary. In the third quarter of 2008, approximately thirty-five additional plaintiffs, associated with approximately eight other homes in the area, filed a second lawsuit with the same court and represented by the same attorneys making similar allegations against our subsidiary with respect to the operation of the facility. The court has severed the litigation so that the plaintiffs will be grouped by the houses in which they lived and a separate trial will be held for each of the households. Some of these plaintiffs testified in the trial of the original lawsuit in which all allegations were resolved in the Company’s favor. The claims from the first of these households is expected to go to trial in May 2013. The lawsuit has been submitted to our insurance carriers, who have reserved their rights with respect to various portions of the plaintiffs’ claims. Based on the ultimate outcome of the litigation, we may or may not have insurance coverage for parts or all of the claim. The Company continues to assess this matter and any potential loss. At this time, the Company believes that the estimated amount of any potential loss would not be material to the Company’s consolidated results of operations or consolidated financial condition.

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One of the Company's subsidiaries, South Haven Sewer Works, acquired in 2008 has been operating under a Consent Decree with the EPA and the United States Department of Justice entered into in 2003. The Consent Decree addresses the elimination of sanitary sewer overflows from the subsidiary's sewer system. 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 on May 11, 2010, a revised Consent Decree, including new dates for completing work to address sanitary sewer overflows in the system and a proposed civil penalty, which is currently estimated to be approximately \$254,000 for purported sanitary sewer overflow violations since the date of the original Consent Decree, which was entered into by the original owner. The Company's subsidiary had contested the appropriateness of earlier calculations of the proposed penalty based on sanitary sewer violations occurring prior to the acquisition of the subsidiary and the amount of the proposed penalty. The Company continues to negotiate a proposed modification with the EPA and Department of Justice to resolve the matter. 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 has retained a portion of those shares in an amount anticipated to cover penalty amounts and attendant costs, continued to withhold a designated amount of shares to cover contingent increases, and released a certain number of shares to the sellers.

### Item 4. [Mine Safety Disclosures](#)

Not applicable.

## PART II

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

Our common stock is traded on the New York Stock Exchange under the ticker symbol WTR. As of February 14, 2013, there were approximately 26,126 holders of record of our common stock.

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2012					
Dividend paid per common share	\$0.165	\$0.165	\$0.165	\$0.175	\$0.670
Dividend declared per common share	0.165	0.165	0.340	—	0.670
Price range of common stock					
- high	22.75	25.17	26.93	25.94	26.93
- low	21.06	21.52	24.06	24.15	21.06
2011					
Dividend paid per common share	\$0.155	\$0.155	\$0.155	\$0.165	\$0.630
Dividend declared per common share	0.155	0.155	0.320	—	0.630
Price range of common stock					
- high	23.79	23.28	22.74	22.52	23.79
- low	21.56	21.03	19.28	20.16	19.28

We have paid common dividends consecutively for 68 years. Effective August 2, 2012, our Board of Directors authorized an increase of 6.1% in the December 1, 2012 quarterly dividend over the dividend Aqua America, Inc. paid in the previous quarter. As a result of this authorization, beginning with the dividend payment in December 2012, the annualized dividend rate increased to \$0.70 per share. This is the 22<sup>nd</sup> dividend increase in the past 21 years and the fourteenth consecutive year that we have increased our dividend in excess of five percent. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1, and December 1, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, our common dividends paid have averaged 60.8% of net income attributable to common shareholders.

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The following table summarizes the Company's purchases of its common stock for the quarter ending December 31, 2012:

Issuer Purchases of Equity Securities

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs (2)</u>
October 1-31, 2012	—	\$ —	—	548,278
November 1-30, 2012	—	\$ —	—	548,278
December 1-31, 2012	<u>14,358</u>	<u>\$ 24.69</u>	<u>—</u>	<u>548,278</u>
Total	<u>14,358</u>	<u>\$ 24.69</u>	<u>—</u>	<u>548,278</u>

- (1) Represents shares withheld and placed in treasury shares by the Company in conjunction with a prior acquisition of a wastewater company in accordance with the purchase agreement.
- (2) On August 5, 1997, our Board of Directors authorized a common stock repurchase program that was publicly announced on August 7, 1997, for up to 1,007,351 shares. No repurchases have been made under this program since 2000. The program has no fixed expiration date. The number of shares authorized for purchase was adjusted as a result of the stock splits effected in the form of stock distributions since the authorization date.

Item 6. Selected Financial Data

The information appearing in the section captioned "Summary of Selected Financial Data" from the portions of our 2012 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

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

The information appearing in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" from the portions of our 2012 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed rate, long-term debt. Such exposure is typically related to financings between utility rate increases, since generally our rate increases include a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2012, the debt maturities by period, in thousands of dollars, and the weighted average interest rate for long-term debt are as follows:

	2013	2014	2015	2016	2017	Thereafter	Total	Fair Value
Long-term debt:								
Fixed rate	\$45,038	\$86,419	\$58,487	\$35,607	\$ 42,769	\$1,220,672	\$1,488,992	\$1,602,997
Variable rate	—	—	—	—	100,000	—	100,000	100,000
Total	<u>\$45,038</u>	<u>\$86,419</u>	<u>\$58,487</u>	<u>\$35,607</u>	<u>\$142,769</u>	<u>\$1,220,672</u>	<u>\$1,588,992</u>	<u>\$1,702,997</u>
Weighted average interest rate*	5.37%	5.17%	5.21%	4.85%	2.33%	5.08%	4.81%	

\* Weighted average interest rate of 2017 long-term debt maturity is as follows: fixed rate debt of 5.08% and variable rate debt of 1.15%.

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for the “available-for-sale” marketable equity securities. As of December 31, 2012, the carrying value of certain investments, which reflects market value, in thousands of dollars, was \$494.

Item 8. Financial Statements and Supplementary Data

Information appearing under the captions “Consolidated Statements of Net Income,” “Consolidated Statements of Comprehensive Income,” “Consolidated Balance Sheets,” “Consolidated Statements of Cash Flows,” “Consolidated Statements of Capitalization,” “Consolidated Statements of Equity” and “Notes to Consolidated Financial Statements” from the portions of our 2012 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein. Also, the information appearing in the sections captioned “Management’s Report on Internal Control Over Financial Reporting” and “Report of Independent Registered Public Accounting Firm” from the portions of our 2012 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

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

None.

Item 9A. Controls and Procedures

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

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(b) Management's Report on Internal Control Over Financial Reporting - The information appearing in the section captioned "Management's Report on Internal Control Over Financial Reporting" from the portions of our 2012 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

(c) Attestation Report of the Registered Public Accounting Firm - The Attestation Report of our Independent Registered Public Accounting Firm as to our internal control over financial reporting, contained in our 2012 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K, is incorporated by reference herein. With the exception of the aforementioned information and the information incorporated by reference in Items 6, 7, and 8, the 2012 Annual Report to Shareholders is not to be deemed filed as part of the Annual Report on Form 10-K.

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

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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

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

The information appearing in the sections captioned "Information Regarding Nominees and Directors," "Corporate Governance - Code of Ethics", - "Board and Board Committees", and - "Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance" of the definitive Proxy Statement relating to our May 8, 2013, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

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### Our Executive Officers

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

<u>Name</u>	<u>Age</u>	<u>Position with Aqua America, Inc. (1)</u>
Nicholas DeBenedictis	67	Chairman, President and Chief Executive Officer (May 1993 to present); President and Chief Executive Officer (July 1992 to May 1993); Chairman and Chief Executive Officer, Aqua Pennsylvania (July 1992 to present); President, Philadelphia Suburban Water Company (February 1995 to January 1999) (2)
David P. Smeltzer	54	Executive Vice President and Chief Financial Officer (January 2012 to present); Chief Financial Officer (February 2007 to January 2012); Senior Vice President - Finance and Chief Financial Officer (December 1999 to February 2007); Vice President - Finance and Chief Financial Officer (May 1999 to December 1999); Vice President - Rates and Regulatory Relations, Philadelphia Suburban Water Company (March 1991 to May 1999) (3)
Christopher H. Franklin	48	Executive Vice President and President and Chief Operating Officer, Regulated Operations (January 2012 to Present); Regional President - Midwest and Southern Operations and Senior Vice President, Corporate and Public Affairs (January 2010 to January 2012); Regional President, Aqua America - Southern Operations and Senior Vice President, Public Affairs and Customer Operations (January 2007 to January 2010); Vice President, Public Affairs and Customer Operations (July 2002 to January 2007) (4)
Karl M. Kyriess	62	Executive Vice President and President, Aqua Capital Ventures (January 2012 to present); Regional President - Northeastern Operations (January 2010 to January 2012); Regional President, Aqua Mid-Atlantic Operations (February 2007 to January 2010); President - Aqua Pennsylvania (March 2003 to present) and President, Mid-Atlantic Operations (May 2005 to February 2007) (5)
Christopher P. Luning	45	Senior Vice President, General Counsel, and Secretary (April 2012 to present); Vice President Corporate Development and Corporate Counsel (June 2008 to April 2012); Vice President and Deputy General Counsel (May 2005 to June 2008); Assistant General Counsel (March 2003 to May 2005)
William C. Ross	67	Senior Vice President, Engineering and Environmental Affairs (January 2012 to present); Vice President, Engineering and Environmental Affairs (February 2001 to January 2012); Senior Manager Planning and Engineering Philadelphia Suburban Water Company (February 1998 to February 2001)
Robert A. Rubin	50	Senior Vice President, Controller and Chief Accounting Officer (January 2012 to present); Vice President, Controller and Chief Accounting Officer (May 2005 to January 2012); Controller and Chief Accounting Officer (March 2004 to May 2005); Controller (March 1999 to March 2004) (6)

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

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- (1) In addition to the capacities indicated, the individuals named in the above table hold other offices or directorships with subsidiaries of the Company. Officers serve at the discretion of the Board of Directors.
- (2) Mr. DeBenedictis was Secretary of the Pennsylvania Department of Environmental Resources from 1983 to 1986. From December 1986 to April 1989, he was President of the Greater Philadelphia Chamber of Commerce. Mr. DeBenedictis was Senior Vice President for Corporate and Public Affairs of Philadelphia Electric Company from April 1989 to June 1992.
- (3) Mr. Smeltzer was Vice President - Controller of Philadelphia Suburban Water Company from March, 1986 to March 1991.
- (4) Mr. Franklin was Director of Public Affairs from January 1993 to February 1997.
- (5) Mr. Kyriss was Vice President - Northeast Region of American Water Works Services Company from 1997 to 2003.
- (6) Mr. Rubin was Accounting Manager with Aqua America, Inc. from June 1989 to June 1994. He then served from June 1994 to March 1999 as Assistant Controller of Philadelphia Suburban Water Company.

Item 11. Executive Compensation

The information appearing in the sections captioned "Executive Compensation" and "Director Compensation" of the definitive Proxy Statement relating to our May 8, 2013, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

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

Ownership of Common Stock - The information appearing in the section captioned "Ownership of Common Stock" of the Proxy Statement relating to our May 8, 2013, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.



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Securities Authorized for Issuance under Equity Compensation Plans - The following table provides information for our equity compensation plans as of December 31, 2012:

Equity Compensation Plan Information

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u> (a)	<u>Weighted-average exercise price of outstanding options, warrants and rights</u> (b)	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u> (c)
Equity compensation plans approved by security holders	2,896,975 (1)	\$ 20.81 (2)	3,861,837
Equity compensation plans not approved by security holders	0	0	0
<b>Total</b>	<b>2,896,975</b>	<b>\$ 20.81</b>	<b>3,861,837</b>

- (1) Consists of 2,497,282 shares issuable upon exercise of outstanding options, 331,225 shares issuable upon conversion of outstanding performance share units, and 68,468 shares issuable upon conversion of outstanding restricted share units.
- (2) Calculated based upon outstanding options of 2,497,282 shares of our common stock.

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

The information appearing in the sections captioned “Corporate Governance - Director Independence” and “ - Policies and Procedures For Approval of Related Person Transactions” of the definitive Proxy Statement relating to our May 8, 2013, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

Item 14. Principal Accountant Fees and Services

The information appearing in the section captioned “Proposal No. 2 - Services and Fees” of the definitive Proxy Statement relating to our May 8, 2013, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

- Management's Report on Internal Control Over Financial Reporting
- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets - December 31, 2012 and 2011
- Consolidated Statements of Net Income - 2012, 2011, and 2010
- Consolidated Statements of Comprehensive Income - 2012, 2011, and 2010
- Consolidated Statements of Cash Flows - 2012, 2011, and 2010
- Consolidated Statements of Capitalization - December 31, 2012 and 2011
- Consolidated Statements of Equity - 2012, 2011, and 2010
- Notes to Consolidated Financial Statements

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

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

SIGNATURES

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

AQUA AMERICA, INC.

By Nicholas DeBenedictis

Nicholas DeBenedictis

Chairman, President and Chief Executive Officer

Date: February 28, 2013

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

Nicholas DeBenedictis

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

Robert A. Rubin

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

Richard H. Glanton

Richard H. Glanton  
Director

William P. Hankowsky

William P. Hankowsky  
Director

Mario Mele

Mario Mele  
Director

David P. Smeltzer

David P. Smeltzer  
Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Mary C. Carroll

Mary C. Carroll  
Director

Lon R. Greenberg

Lon R. Greenberg  
Director

Wendell F. Holland

Wendell F. Holland  
Director

Ellen T. Ruff

Ellen T. Ruff  
Director

Andrew J. Sordoni III

Andrew J. Sordoni III  
Director

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EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
2.1	Stock Purchase Agreement, dated as of July 26, 2011, by and between Aqua America, Inc. and Connecticut Water Service, Inc. (32) (Exhibit 2.1)
2.2	Stock Purchase Agreement, dated as of July 8, 2011, by and among American Water Works Company, Inc., Ohio-American Water Company and Aqua Ohio, Inc. (32) (Exhibit 2.2)
2.3	Stock Purchase Agreement, dated as of July 8, 2011, by and among Aqua Utilities, Inc., Aqua New York, Inc. and American Water Works Company, Inc. (32) (Exhibit 2.3)
2.4	Utility System Asset Acquisition Agreement as of December 28, 2012 by and among Florida Governmental Utility Authority, as buyer and Aqua Utilities Florida, Inc., and Crystal River Utilities, Inc., as sellers
3.1	Restated Articles of Incorporation as of December 9, 2004 (15) (Exhibit 3.1)
3.2	Bylaws, as amended effective as of October 5, 2010 (29) (Exhibit 3.2)
3.3	Amended and Restated Articles of Incorporate of Aqua America, Inc. as of May 10, 2012 (36) (Exhibit 3.1)
3.4	Bylaws, as amended effective as of May 10, 2012 (36) (Exhibit 3.2)
4.1	Indenture of Mortgage dated as of January 1, 1941 between Philadelphia Suburban Water Company and The Pennsylvania Company for Insurance on Lives and Granting Annuities (now First Pennsylvania Bank, N.A.), as Trustee, with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 (2) (Exhibits 4.1 through 4.16)
4.2	Agreement to furnish copies of other long-term debt instruments (1) (Exhibit 4.7)
4.3	Twenty-fourth Supplemental Indenture dated as of June 1, 1988 (3) (Exhibit 4.5)
4.4	Twenty-fifth Supplemental Indenture dated as of January 1, 1990 (4) (Exhibit 4.6)
4.5	Twenty-sixth Supplemental Indenture dated as of November 1, 1991 (5) (Exhibit 4.12)
4.6	Twenty-ninth Supplemental Indenture dated as of March 30, 1995 (6) (Exhibit 4.17)
4.7	Thirty-third Supplemental Indenture, dated as of November 15, 1999 (9) (Exhibit 4.27)
4.8	Thirty-fourth Supplemental Indenture, dated as of October 15, 2001 (11) (Exhibit 4.21)
4.9	Thirty-fifth Supplemental Indenture, dated as of January 1, 2002 (11) (Exhibit 4.22)
4.10	Thirty-sixth Supplemental Indenture, dated as of June 1, 2002 (12) (Exhibit 4.23)
4.11	Thirty-seventh Supplemental Indenture, dated as of December 15, 2002 (13) (Exhibit 4.23)
4.12	Note Purchase Agreement among the note purchasers and Philadelphia Suburban Corporation, dated July 31, 2003 (14) (Exhibit 4.27)
4.13	Thirty-eighth Supplemental Indenture, dated as of November 15, 2004 (20) (Exhibit 4.28)
4.14	Thirty-ninth Supplemental Indenture, dated as of May 1, 2005 (19) (Exhibit 4.29)
4.15	Fortieth Supplemental Indenture, dated as of December 15, 2005 (11) (Exhibit 4.31)
4.16	Forty-first Supplemental Indenture, dated as of January 1, 2007 (22) (Exhibit 4.1)
4.17	Forty-second Supplemental Indenture, dated as of December 1, 2007 (22) (Exhibit 4.36)
4.18	Forty-third Supplemental Indenture, dated as of December 1, 2008 (24) (Exhibit 4.37)
4.19	Forty-fourth Supplemental Indenture, dated as of July 1, 2009 (25) (Exhibit 4.38)
4.20	Forty-fifth Supplemental Indenture, dated as of October 15, 2009 (28) (Exhibit 4.39)

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<u>Exhibit No.</u>	<u>Description</u>
4.21	Forty-sixth Supplemental Indenture, dated as of October 15, 2010 (30) (Exhibit 4.35)
4.22	1994 Equity Compensation Plan, as amended by Amendment effective August 5, 2003* (16) (Exhibit 10.5)
4.23	Placement Agency Agreement between Philadelphia Suburban Water Company and PaineWebber Incorporated dated as of March 30, 1995 (6) (Exhibit 10.12)
4.24	Forty-seventh Supplement Indenture, dated as of October 15, 2012
10.1	Philadelphia Suburban Corporation Deferred Compensation Plan Master Trust Agreement with PNC Bank, National Association, dated as of December 31, 1996* (7) (Exhibit 10.24)
10.2	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and Commerce Capital Markets dated September 29, 1999 (8) (Exhibit 10.37)
10.3	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of October 1, 1999(8) (Exhibit 10.38)
10.4	Placement Agency Agreement between Philadelphia Suburban Water Company and Merrill Lynch & Co., PaineWebber Incorporated, A.G. Edwards & Sons, Inc., First Union Securities, Inc., PNC Capital Markets, Inc. and Janney Montgomery Scott, Inc., dated as of November 15, 1999 (9) (Exhibit 10.41)
10.5	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and The GMS Group, L.L.C., dated October 23, 2001 (11) (Exhibit 10.35)
10.6	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of October 15, 2001 (10) (Exhibit 10.36)
10.7	Bond Purchase Agreement among the Bucks County Industrial Development Authority, Pennsylvania Suburban Water Company and Janney Montgomery Scott LLC, dated May 21, 2002 (13) (Exhibit 10.42)
10.8	Construction and Financing Agreement between the Bucks County Industrial Development Authority and Pennsylvania Suburban Water Company dated as of June 1, 2002 (13) (Exhibit 10.43)
10.9	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Pennsylvania Suburban Water Company, and The GMS Group, L.L.C., dated December 19, 2002 (13) (Exhibit 10.44)
10.10	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Pennsylvania Suburban Water Company dated as of December 15, 2002 (13) (Exhibit 10.45)
10.11	Aqua America, Inc. 2004 Equity Compensation Plan as amended by Amendment effective February 22, 2007* (22) (Exhibit 10.29)
10.12	2010 Annual Cash Incentive Compensation Plan* (30) (Exhibit 10.24)
10.13	Bond Purchase Agreement among the Northumberland County Industrial Development Authority, Aqua Pennsylvania, Inc., and Sovereign Securities Corporation, LLC, dated November 16, 2004 (21) (Exhibit 10.31)
10.14	Aqua America, Inc. 2004 Equity Compensation Plan* (17) (Appendix C)
10.15	Bond Purchase Agreement among the Montgomery County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 12, 2007 (22) (Exhibit 10.34)

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<u>Exhibit No.</u>	<u>Description</u>
10.16	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated May 10, 2005 (19) (Exhibit 10.36)
10.17	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 21, 2005 (11) (Exhibit 10.37)
10.18	Aqua America, Inc. Dividend Reinvestment and Direct Stock Purchase Plan* (18)
10.19	Non-Employee Directors' Compensation for 2012* (33) (Exhibit 10.21)
10.20	Non-Employee Directors' Compensation for 2013*
10.21	Bond Purchase Agreement among the Chester County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 21, 2006 (21) (Exhibit 10.2)
10.22	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 4, 2008 (24) (Exhibit 10.35)
10.23	Aqua America, Inc. 2004 Equity Compensation Plan (amended and restated as of January 1, 2009)* (24) (Exhibit 10.36)
10.24	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Nicholas DeBenedictis* (24) (Exhibit 10.37)
10.25	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Roy H. Stahl* (24) (Exhibit 10.38)
10.26	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and David P. Smeltzer* (24) (Exhibit 10.39)
10.27	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Karl M. Kyriss* (24) (Exhibit 10.40)
10.28	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Christopher H. Franklin* (24) (Exhibit 10.41)
10.29	Change in Control and Severance Agreement between Aqua America, Inc. and Nicholas DeBenedictis* (24) (Exhibit 10.42)
10.30	Change in Control Agreement between Aqua America, Inc. and Roy H. Stahl* (24) (Exhibit 10.43)
10.31	Change in Control Agreement between Aqua America, Inc. and David P. Smeltzer* (24) (Exhibit 10.44)
10.32	Change in Control Agreement between Aqua America, Inc. and Karl M. Kyriss* (24) (Exhibit 10.45)
10.33	Change in Control Agreement between Aqua America, Inc. and Christopher H. Franklin* (24) (Exhibit 10.46)
10.34	Change in Control Agreement between Aqua America, Inc. and Christopher P. Luning*
10.35	Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (as amended and restated effective January 1, 2008)* (24) (Exhibit 10.47)
10.36	Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis (as amended and restated effective January 1, 2008)* (24) (Exhibit 10.48)

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<u>Exhibit No.</u>	<u>Description</u>
10.37	Amendment 2008-1 to the Aqua America, Inc. Deferred Compensation Plan Master Trust Agreement dated as of December 15, 2008* (24) (Exhibit 10.50)
10.38	Aqua America, Inc. 2009 Executive Deferral Plan, As Amended and Restated Effective January 1, 2009* (23) (Exhibit 4.1)
10.39	Aqua America, Inc. 2009 Omnibus Equity Compensation Plan* (26) (Exhibit 99.1)
10.40	Aqua America, Inc. 2009 Omnibus Equity Compensation Plan, As Amended Effective February 25, 2011 * (30) (Exhibit 10.42)
10.41	Employment agreement dated January 31, 2010, between Aqua America, Inc. and Nicholas DeBenedictis * (27) (Exhibit 10.1)
10.42	First amendment to Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (as amended and restated effective January 1, 2008)* (28) (Exhibit 10.54)
10.43	Second amendment to Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (as amended and restated effective January 1, 2008)* (27) (Exhibit 10.3)
10.44	First amendment to Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis (as amended and restated effective January 1, 2008)* (28) (Exhibit 10.56)
10.45	Second amendment to Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis (as amended and restated effective January 1, 2008)* (27) (Exhibit 10.4)
10.46	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jeffries and Company, Inc., and Janney Montgomery Scott LLC, dated June 30, 2009 (25) (Exhibit 10.52)
10.47	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jeffries and Company, Inc., Janney Montgomery Scott LLC, and PNC Capital Markets LLC, dated October 20, 2009 (28) (Exhibit 10.59)
10.48	Restricted Stock Grant Agreement made by Aqua America, Inc. to Nicholas DeBenedictis dated January 31, 2010* (27) (Exhibit 10.2)
10.49	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jeffries and Company, Inc., PNC Capital Markets LLC, and TD Securities (USA) LLC, dated October 27, 2010 (30) (Exhibit 10.51)
10.50	Revolving Credit Agreement between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., and Citizens Bank of Pennsylvania, dated as of November 30, 2010 (30) (Exhibit 4.34)
10.51	Revolving Credit Agreement between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., Citizens Bank of Pennsylvania, and Huntington National Bank, dated as of November 28, 2011 (33) (Exhibit 4.25)
10.52	Revolving Credit Agreement between Aqua America, Inc. and PNC Bank, National Association, CoBank, ACB, and Huntington National Bank, dated as of March 23, 2012 (35) (Exhibit 10.60)
10.53	Revolving Credit Agreement between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., Citizens Bank of Pennsylvania, and Huntington National Bank, dated as of November 26, 2012
10.54	Bond Purchase Agreement among Aqua Pennsylvania, Inc., Teachers Insurance and Annuity Association, John Hancock Life Insurance Company, John Hancock Life Insurance Company of New York, John Hancock Life & Health Insurance Company, The Lincoln National Life Insurance Company, Lincoln Life & Annuity Company of New York, New York Life Insurance Company, New York Life Insurance and Annuity Corporation, Minnesota Life Insurance Company, United Health Care Insurance Company, American Republic Insurance Company, Western Fraternal Life Association, dated November 8, 2012
10.55	2012 Annual Cash Incentive Compensation Plan* (33) (Exhibit 10.51)



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<u>Exhibit No.</u>	<u>Description</u>
10.56	2013 Annual Cash Incentive Compensation Plan*
10.57	Form of Performance Share Unit Grant Agreement for Chief Executive Officer* (31) (Exhibit 10.53)
10.58	Form of Performance Share Unit Grant Agreement for other Executive Officers* (31) (Exhibit 10.54)
10.59	Form of Restricted Stock Unit Grant Agreement for Chief Executive Officer* (31) (Exhibit 10.55)
10.60	Form of Restricted Stock Unit Grant Agreement for other Executive Officers* (31) (Exhibit 10.56)
10.61	Amendment to employment agreement effective as of December 6, 2011, between Aqua America, Inc. and Nicholas DeBenedictis * (33) (Exhibit 10.56)
10.62	Restricted Stock Grant Agreement made by Aqua America, Inc. to Nicholas DeBenedictis dated December 6, 2011* (33) (Exhibit 10.57)
10.63	Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (as amended and restated effective January 1, 2011)* (33) (Exhibit 10.58)
10.64	Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis (as amended and restated effective January 1, 2011)* (33) (Exhibit 10.59)
10.65	Aqua America, Inc. Amended and Restated Employee Stock Purchase Plan* (34) (Appendix C)
13.1	Selected portions of Annual Report to Shareholders for the year ended December 31, 2012 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 2012.
21.1	Subsidiaries of Aqua America, Inc.
23.1	Consent of Independent Registered Public Accounting Firm – PricewaterhouseCoopers LLP
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRES	XBRL Taxonomy Extension Presentation Linkbase Document

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

\* Indicates management contract or compensatory plan or arrangement.

Notes -  
Documents Incorporated by Reference

- (1) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1992.
- (2) Indenture of Mortgage dated as of January 1, 1941 with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 were filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1983.
- (3) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1988.
- (4) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1989.
- (5) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1991.
- (6) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.
- (7) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1996.
- (8) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.
- (9) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1999.
- (10) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2001.
- (11) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2005.
- (12) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- (13) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2002.
- (14) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
- (15) Filed as an Exhibit to Form 8-K filed December 9, 2004.
- (16) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2003.
- (17) Filed as Appendix C to definitive Proxy Statement dated April 2, 2004.
- (18) Filed as a Registration Statement on Form S-3 on February 19, 2005.
- (19) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
- (20) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2004.
- (21) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.
- (22) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2007.
- (23) Filed as a Registration Statement on Form S-8 on December 10, 2008.
- (24) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2008.
- (25) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.
- (26) Filed as a Registration Statement on Form S-8 on June 11, 2009.
- (27) Filed as an Exhibit to Form 8-K filed on February 4, 2010.
- (28) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2009.
- (29) Filed as an Exhibit to Form 8-K filed on October 7, 2010.
- (30) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2010.
- (31) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.
- (32) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 2011.
- (33) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2011.
- (34) Filed as Appendix C to Proxy Statement on Schedule 14A on March 30, 2012.
- (35) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2012.
- (36) Filed as an Exhibit to Form 8-K filed on May 11, 2012.

**UTILITY SYSTEM  
ASSET ACQUISITION AGREEMENT**

By and Among

FLORIDA GOVERNMENTAL UTILITY AUTHORITY,  
AS BUYER

and

AQUA UTILITIES FLORIDA, INC.,  
AND  
CRYSTAL RIVER UTILITIES, INC.,  
AS SELLERS

Dated

December 28, 2012

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**UTILITY SYSTEM  
ASSET ACQUISITION AGREEMENT**

**THIS AGREEMENT**, is made and entered into as of this 28th day of December, 2012, by and among the Florida Governmental Utility Authority, a legal entity and public body created by interlocal agreement pursuant to section 163.01(7), Florida Statutes (the "FGUA"), and Aqua Utilities Florida, Inc. and Crystal River Utilities, Inc. (each hereinafter individually referred to as a "Seller" and collectively referred to as "Aqua").

**WITNESSETH:**

**WHEREAS**, Aqua owns potable water supply, treatment, and distribution systems and wastewater collection, transmission, treatment, disposal and reuse systems that are the subject of this Agreement in Alachua County, Citrus County, Hardee County, Lake County, Lee County, Marion County, Orange County, Pasco County, Polk County, Putnam County, Seminole County, and Volusia County, Florida; and

**WHEREAS**, the FGUA, pursuant to section 163.01, Florida Statutes, the Florida Interlocal Cooperation Act of 1969, and that certain interlocal agreement initially entered into and adopted by Brevard County, Lee County, Polk County and Sarasota County, as subsequently amended and restated (the "Interlocal Agreement"), has the power and authority to provide potable water and wastewater infrastructure and service throughout the State of Florida, and more specifically within the Aqua Counties (as herein defined); and

**WHEREAS**, the FGUA held a public hearing on December 28, 2012 concerning the proposed purchase and sale of the water and wastewater utility assets owned by Aqua in Florida that are the subject of this Agreement, and made a determination that such a purchase and sale of such assets is in the public interest; and

---

**WHEREAS**, the FGUA, in determining if such a purchase and sale is in the public interest, considered, at a minimum, all of the factors required by law; and

**WHEREAS**, in accordance with the requirements of section 163.01(7)(g), Florida Statutes, either (i) the FGUA has obtained consent from each local government in the Aqua Counties, or (ii) a local government has taken no action following notice thereby authorizing the FGUA to execute this Agreement and to consummate the transactions contemplated by this Agreement;

**NOW, THEREFORE**, in consideration of the mutual promises, covenants, representations and agreements contained herein, the parties to this Agreement do undertake, promise and agree for themselves, their permitted successors and assigns as follows:

## **ARTICLE I**

### **DEFINITIONS AND CONSTRUCTION**

**SECTION 1.01. DEFINITIONS.** As used in this Agreement, the following terms shall have the meanings as defined herein unless the context requires otherwise:

**“Agreement”** means this Utility System Asset Acquisition Agreement, including any amendments and supplements hereto executed and delivered in accordance with the terms hereof.

**“Appendices”** means Appendices A through R attached to and made a parte of this Agreement.

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“**Aqua**” means, collectively, Aqua Utilities Florida, Inc. and Crystal River Utilities, Inc., each of which is a Florida corporation, and their successors and assigns.

“**Aqua Counties**” means counties in which Aqua owns and operates the Utility System including Alachua, Citrus, Hardee, Lake, Lee, Marion, Orange, Pasco, Polk, Putnam, Seminole, and Volusia Counties, Florida.

“**Board**” means the governing body of the FGUA.

“**Bonds**” has the meaning set forth in Section 4.03(A) of this Agreement.

“**Closing**” has the meaning set forth in Section 5.01 of this Agreement.

“**Closing Date**” has the meaning set forth in Section 5.01 of this Agreement.

“**Connection Charges**” has the meaning set forth in Section 5.05(A) of this Agreement.

“**Contractor**” has the meaning set forth in Section 6.03(A) of this Agreement.

“**Deductible**” has the meaning set forth in Section 6.09 of this Agreement.

“**Effective Time**” means 12:01 a.m. (Eastern) on the Closing Date.

“**Easements**” means all rights, privileges, easements, licenses, prescriptive rights, rights-of-ways, and rights to use public and private roads, highways, streets, railroads and other areas owned or used by Aqua in connection with the construction, reconstruction, installation, expansion, maintenance and operation of the Utility System or the Purchased Assets.

“**Environmental Law**” includes all federal, state and local environmental laws and regulations, including, without limitation: (1) the United States Clean Water Act (also known as the United States Federal Water Pollution Control Act), 33 U.S.C. §§ 1251 et seq.; (2) the United States Toxic Substances Control Act, 15 U.S.C. §§ 2601 et seq.; (3) the United States Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. §§ 9601 et seq.; (4) the United States Superfund Amendment and Reauthorization Act of 1986, Public Law 99-499, 100 Stat., 1613; (5) the United States Resource Conservation and Recovery Act, 42 U.S.C. § 6901 et seq.; (6) the United States Safe Drinking Water Act, 42 U.S.C. § 300j-8; (7) Chapter 403 Florida Statutes; and (8) regulations related thereto. Any reference to legislative act or regulation shall be deemed to include all amendments thereto and all regulations, orders, decrees, judgments or notices issued thereunder.



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**“Environmental Site Assessment” or “ESA”** has the meaning set forth in Section 4.05(A) of this Agreement.

**“Escrow Closing”** has the meaning set forth in Section 5.08(A) of this Agreement.

**“Excluded Assets”** means those assets, properties and rights, both tangible and intangible, real and personal, of Aqua described in Section 3.02(C) and **Appendix O** hereto which shall not be sold, conveyed, or transferred to the FGUA pursuant to this Agreement.

**“FGUA”** means the Florida Governmental Utility Authority created by the Interlocal Agreement initially entered into by and among Brevard County, Lee County, Polk County, and Sarasota County, Florida and whose membership currently consists of Polk County, Lee County, Citrus County, Pasco County, Hendry County and DeSoto County, Florida.

**“FPSC”** means the Florida Public Service Commission.

**“Individual System”** means a single water or wastewater system within an Operating System. For example, the Pasco System consists of the Palm Terrace, Zephyr Shores and Jasmine Lakes water and wastewater Individual Systems.

**“Initial Interest Rate”** has the meaning set forth in Section 4.04 of this Agreement.

**“Interlocal Agreement”** has the meaning set forth in the Recitals to this Agreement.

**“Knowledge”** means, with respect to an individual who is a natural being, the actual knowledge or awareness of a particular fact or other matter, or facts or matters a prudent person could be expected to discover or otherwise be aware thereof in the ordinary course of conducting his business.

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**“Lake System”** means that portion of the Utility System and Purchased Assets located in Lake County, Florida.

**“Lake System Bonds”** has the meaning set forth in Section 4.03(A) of this Agreement.

**“Material” or “Materiality”** means a level of significance that would have affected any decision of a reasonable person in that person’s position regarding whether to enter into this Agreement or would affect any decision of a reasonable person in that person’s position regarding whether to consummate the transaction contemplated by this Agreement.

**“Operating System”** means the Unified System, Lake System, or the Pasco System, each comprising an individual Operating System.

**“Other Bonds”** has the meaning set forth in Section 4.03(A) of this Agreement.

**“Pasco System”** means that portion of the Utility System and Purchased Assets located in Pasco County, Florida.

**“Pasco System Bonds”** has the meaning set forth in Section 4.03(A) of this Agreement.

**“Permitted Exceptions”** means those title exceptions described in **Appendix P** hereto.

**“Purchase Price”** has the meaning set forth in Section 3.03 of this Agreement.

**“Purchased Assets”** has the meaning set forth in Section 3.02(A) of this Agreement.

**“Real Estate Warranty Period”** has the meaning set forth in Section 2.02 of this Agreement.

**“Seller”** has the meaning set forth in the introductory paragraph of this Agreement.

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**“Tax”** means any income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, property, environmental, windfall profit, customs, vehicle, airplane, boat, vessel or other title or registration, capital stock, franchise, employees’ income withholding, foreign or domestic withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, value added, alternative, add-on minimum and other tax, fee, assessment, levy, tariff, charge or duty of any kind whatsoever and any interest, penalty, addition or additional amount thereof imposed, assessed or collected by or under the authority of any governmental body or payable under any tax-sharing agreement or any other contract.

**“TIC” or “True Interest Cost”** means the rate assuming semi-annual interest payments and a 30/360 day count convention, necessary to discount the amounts payable on the respective principal and interest payments, assuming the bonds are not redeemed prior to maturity, to the purchase price received for the bonds. The purchase price shall be calculated as par amount of the bonds at Closing minus any original issue discount and plus any original issue premium.

**“Title Agent”** means the law firm of Nabors, Giblin & Nickerson, P.A. as agent for Old Republic National Title Insurance Company or another entity acceptable to the FGUA.

**“Title Policy”** has the meaning set forth in Section 4.07(A) of this Agreement.

**“Transaction Cost”** means the engineering fees, system operator fees, attorney fees, and other costs, fees and expenses incurred by the FGUA in connection with the negotiations and due diligence leading up to the FGUA’s acquisition of the Purchased Assets and the documentation and closing on the acquisition, issuance of bonds, including, but not limited to, (A) rating agency and other financing fees; (B) the fees and disbursements of bond counsel; (C) the discount taken by the underwriter; (D) the fees and disbursements of the FGUA’s financial advisor; (E) the fees and disbursements of the FGUA’s consulting engineers; (F) the fees and disbursements of the FGUA’s water and wastewater counsel and consultants; (G) the costs of preparing or printing the Bonds and the documentation supporting issuance of the Bonds; (H) the fees payable in respect of any municipal bond insurance policy; and (I) any other costs of a similar nature incurred in connection with issuance of the Bonds.

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“**Unified System**” means those portions of the Utility System and Purchased Assets located in Alachua, Citrus, Hardee, Lee, Marion, Orange, Polk, Putnam, Seminole, and Volusia Counties, Florida.

“**Unified System Bonds**” has the meaning set forth in Section 4.03(A) of this Agreement.

“**Utility System**” means all potable water supply, treatment, storage, and distribution systems and wastewater collection, transmission, treatment, disposal and reuse systems owned by Aqua, which provide services in the Aqua Counties.

**SECTION 1.02. CONSTRUCTION AND INTERPRETATION.**

(A) Words that indicate a singular number shall include the plural in each case and vice versa, and words that import a person shall include legal entities, firms and corporations.

(B) The terms “herein,” “hereunder,” “hereby,” “hereof,” and any similar terms, shall refer to this Agreement; the term “heretofore” shall mean before the date of execution of this Agreement; and the term “hereafter” shall mean on or after the initial date of execution of this Agreement.

(C) Words that reference only one gender shall include all genders.

(D) This Agreement shall be construed as resulting from joint negotiation and authorship. No part of this Agreement shall be construed as the product of any one of the parties hereto.

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**SECTION 1.03. INCORPORATION.** The Appendices hereto and each of the documents referred to therein are incorporated and made a part hereof in their entirety by reference.

**SECTION 1.04. SECTION HEADINGS.** Any headings preceding the texts of the several Articles, Sections, or Appendices in this Agreement and any table of contents or marginal notes appended to copies hereof, shall be solely for the convenience of reference and shall neither constitute a part of this Agreement nor affect its meaning, construction or effect.

**SECTION 1.05. REPRESENTATION BY COUNSEL; CONSTRUCTION.** Each party acknowledges and represents to the other that it has been represented by legal counsel in connection with the preparation and execution of this Agreement and related documents, and each party, therefore, acknowledges and agrees that any rule of construction or interpretation of language against the drafting party shall not be applicable to this Agreement or any related document.

## **ARTICLE II REPRESENTATIONS**

**SECTION 2.01. REPRESENTATIONS OF THE FGUA.** The FGUA makes the following representations, which representations shall survive the Closing for a period of twelve (12) months.

(A) The FGUA is duly organized and validly existing as an intergovernmental utility authority created by the Interlocal Agreement pursuant to section 163.01(7), Florida Statutes.

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(B) The FGUA has full power and authority to enter into the transactions contemplated by this Agreement.

(C) Whether or not applicable, the FGUA has fulfilled and complied with the provisions of section 125.3401, section 180.301 and section 189.423, Florida Statutes, relative to the purchase of the Utility System by a governmental agency.

(D) The FGUA is not in default under any provisions of the laws of the State of Florida material to the performance of its obligations under this Agreement. The execution, delivery and performance of this Agreement and the consummation by the FGUA of the transactions contemplated by this Agreement have been duly authorized by all necessary action on the part of the FGUA. Assuming the due authorization, execution and delivery by the other parties hereto, this Agreement constitutes a valid and legally binding obligation of the FGUA, enforceable against the FGUA in accordance with its terms, except to the extent that the enforceability thereof may be limited by any applicable bankruptcy, insolvency, reorganization or other similar laws affecting creditors' rights generally, or by the exercise of judicial discretion of a court of competent jurisdiction in accordance with general principles of equity.

(E) The authorization, execution, performance and delivery of this Agreement and the consummation by the FGUA of the transactions contemplated by this Agreement will not conflict with, violate or constitute a material breach of, or default under, any existing law, court or administrative regulation, decree, order, or any provision of the Constitution or the laws of the State of Florida relating to the FGUA or its affairs, or any ordinance, resolution, agreement, lease or other instrument to which the FGUA is subject or by which it is bound.

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(F) There is no action, suit, investigation or proceeding pending or, to the FGUA's knowledge, threatened against or affecting the FGUA, at law or in equity or before any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, wherein any decision, ruling or finding would adversely affect the transactions contemplated by this Agreement or which in any way would adversely affect the validity of this Agreement or any other agreement or instrument to which the FGUA is a party and which is used or contemplated for use in the consummation of the transactions contemplated by this Agreement.

(G) The FGUA has not dealt with any broker, salesman or finder in connection with the transactions contemplated by this Agreement and no sales commissions or finder's fees are due or payable as a result hereof.

(H) At the FGUA's sole cost and expense, the FGUA has provided notice to, and received all required consents from, all host governments in the Aqua Counties of the proposed purchase by the FGUA of the Utility System, or the applicable host government took no action within the statutory time period. No other host government consents in the Aqua Counties are required for the FGUA to execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement.

(I) Subject to the provisions in Section 4.03 of this Agreement, the FGUA will have a source of immediately available funds to pay the Purchase Price and to consummate the transactions contemplated by this Agreement at the Closing.

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(J) The FGUA has conducted its own independent investigation, review and analysis of the Utility System and the Purchased Assets, and acknowledges that it has been provided adequate access to the personnel, properties, assets, premises, books and records, and other documents and data of Aqua for such purpose. The FGUA acknowledges and agrees that: (i) in making its decision to enter into this Agreement and to consummate the transactions contemplated by this Agreement, the FGUA has relied upon its own investigation and the express representations of warranties of Aqua set forth in Section 2.02 of this Agreement (including the related portions of the Appendices hereto); and (ii) neither Aqua nor any other person has made any representation or warranty as to Aqua, the Operating System or the Purchased Assets, except as expressly set forth in Section 2.02 of this Agreement (including the related portions of the Appendices hereto).

**SECTION 2.02. REPRESENTATIONS OF AQUA.** Each Seller, severally and jointly, makes the following representations and warranties, which representations and warranties shall survive the Closing for a period of twelve (12) months, except for those set forth in Sections 2.02(E)(1) and (2) which shall survive for a period of twenty four (24) months (“Real Estate Warranty Period”).

(A) Each Seller is duly organized, validly existing and in good standing in the State of Florida and authorized to do business in such jurisdiction, and has all requisite corporate power and authority to enter into the transactions contemplated by this Agreement.

(B) The execution, delivery and performance of this Agreement and the consummation by each Seller of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate action on the part of such Seller. Assuming the due authorization, execution and delivery by the FGUA, this Agreement will be valid and enforceable against such Seller in accordance with its terms, except to the extent that the enforceability thereof may be limited by any applicable bankruptcy, insolvency, reorganization or other similar laws affecting creditors’ rights generally, or by the exercise of judicial discretion of a court of competent jurisdiction in accordance with the general principles of equity.



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(C) Except as disclosed in **Appendix F**, there are no current actions, suits or proceedings at law or in equity pending or, to each Seller's knowledge, threatened against such Seller before any federal, state, municipal or other court, administrative or governmental agency or instrumentality, domestic or foreign, which affect its respective Utility System or any of its respective Purchased Assets or such Seller's right and ability to make and perform this Agreement; nor is Aqua aware of any facts which to its knowledge are likely to result in any such action, suit or proceeding. Aqua is not materially in default with respect to any permit, order or decree of any court or of any administrative or governmental agency or instrumentality affecting its respective Utility System or any of its respective Purchased Assets. Each Seller agrees and covenants that it shall have a continuing duty to disclose to the FGUA up to and including the Closing the existence and nature of all pending judicial or administrative suits, actions, proceedings and orders which in any way relate to the construction, operation or maintenance of its respective Utility System.

(D) Each Seller has not dealt with any broker, salesman or finder in connection with the transactions contemplated by this Agreement and no sales commissions or finder's fees are due or payable as a result hereof.

(E) Each Seller has prepared, completed and delivered to the FGUA, or, within ten (10) days following execution of this Agreement, each Seller shall prepare, complete and deliver to the FGUA, the following Appendices, subject to any qualifications stated in the Appendices. Within ten (10) days of the FGUA's receipt of the Appendices, the FGUA shall provide Aqua with written notice of objection to any Appendix, or part thereof. In the event of a timely objection, the parties shall have five (5) days to resolve the objection or the FGUA may elect to terminate the Agreement. Upon such termination the parties shall have no liability and no further obligation to each other under this Agreement. In the event that no timely objection is received, the Appendices shall be deemed accepted by the parties as the Appendices to this Agreement.

(1) **Appendix A** is a schedule providing a complete legal description or recording references, which each Seller has in its possession, for all real property owned by such Seller, to its knowledge upon due inquiry, which real property such Seller acquired either from Florida Water Services Corporation; AquaSource, Inc.; or another third party, respectively.

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(2) **Appendix B** is a schedule for each Seller identifying in reasonable detail all Easements with respect to its Utility System or Purchased Assets, to Seller's knowledge at the time of execution of this Agreement; provided that, the Appendix shall not include public rights-of-ways, platted easements and general rights to use public roads, highways, and streets.

(3) **Appendix C** contains a list of the material water and wastewater assets of each Seller comprising its respective Utility System together with the locations of such assets and identifying the places at which plans and specifications can be examined which substantially describe its respective Purchased Assets.

(4) **Appendix D** is a schedule for each Seller of its material construction work in progress and third party warranties currently in effect that relate to completed or in-progress construction, including manufacturer's warranties.

(5) **Appendix E** is a schedule for each Seller of all current or active federal and Florida Department of Environmental Protection and Water Management District permits, applications or other documents, together with effective dates and any expiration dates, which authorize the operation of its respective Utility System by all such applicable governmental authorities.

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(6) **Appendix F** is a schedule of litigation and material regulatory non-compliance issues known to each Seller which may include notices of violation, inspection or enforcement actions and specifically identifying the Individual System and the non-compliance issues identified by the regulatory authority.

(7) **Appendix G** is an inventory of the material equipment, vehicles (indicating leased rolling stock), tools, parts, laboratory equipment, computer equipment, meters, meter reading equipment and related software and other personal property, other than the Excluded Assets, used by each Seller in connection with the operation of its respective Utility System.

(8) **Appendix H** is a schedule for each Seller of all operating and vendor contracts affecting its respective Utility System, to be assumed by the FGUA.

(9) **Appendix I** is a schedule of all reuse or effluent disposal agreements entered into by each Seller for sale or reuse of effluent delivered through its respective Utility System.

(10) **Appendix J** is a schedule of all executory purchased water and purchased wastewater service agreements entered into by each Seller in connection with its respective Utility System.

(11) **Appendix K** is a schedule which sets forth all executory developer or service agreements under which each Seller, as owner of its respective Utility System, has any continuing or outstanding water or wastewater service obligations relating to its respective Utility System as of September 30, 2012, and the total number of (a) contractual connections; (b) contractual connections paid for and not yet connected; (c) contractual connections not yet paid for and not yet connected; and (d) any contractual connections for which such Seller has or expects to begin collecting a periodic minimum or base charge prior to the Closing.

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(12) **Appendix L** is a schedule of all other agreements entered into between each Seller and third parties which would reasonably be considered to be an encumbrance upon its respective Purchased Assets, including, without limitation, any leasehold agreements or oral agreements, if any. Any such agreements that have not been reduced to writing are identified on said schedule with a narrative of the terms thereof included therein.

(13) **Appendix M** is a schedule of all current tariffs collectively setting forth the most current schedule of rates, fees and charges that each Seller is authorized to impose.

(F) Each Seller shall, prior to the Closing, secure all required consents from third parties necessary to comply with the terms of any of the agreements to be assumed by the FGUA or that are necessary for the FGUA's ownership, operation and use of the Purchased Assets.

(G) To its knowledge, each Seller is not in violation of any governmental law, rule, regulation, permitting condition, or other governmental requirement of any type or nature which violation would have a material adverse effect on its respective Individual Systems or on its applicable Operating Systems.

(H) To the knowledge of each Seller, (1) there are no hazardous substances (as that term is defined in the Environmental Laws), located upon or beneath the real estate to be conveyed to the FGUA at concentrations that could reasonably be expected to result in the owner or operator of such real estate being required to remediate such hazardous substances under Environmental Laws, and (2) except as set forth in **Appendix N**, such Seller is in material compliance with all applicable Environmental Laws. Except as set forth in **Appendix N**, each Seller has not received any written notice from any governmental authority finding material non-compliance with applicable Environmental Laws since January 1, 2007.

(I) The management, officers and directors of each Seller have no knowledge of material facts adversely affecting the physical condition of its respective Utility System or its respective Purchased Assets which are not readily observable or which have not been disclosed or provided by such Seller to the FGUA in connection with this transaction or otherwise.

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**ARTICLE III**

**PURCHASE AND SALE OF ASSETS**

**SECTION 3.01. PURCHASE AND SALE COVENANT.** At the Closing, the FGUA shall purchase and Aqua shall sell and convey the Purchased Assets to the FGUA upon the terms and subject to the conditions set forth in this Agreement. At the Closing, the FGUA shall assume responsibility for the performance and satisfaction of Aqua's obligations in accordance with Assignment and Assumption Agreements and other documents substantially in the form attached hereto as **Appendix R**.

**SECTION 3.02. PURCHASED ASSETS.**

(A) The assets of Aqua to be purchased by the FGUA hereunder (the "Purchased Assets") shall consist of those assets, business properties, and rights (both tangible and intangible) that Aqua owns or possesses at the Closing, including the following:

- (1) All fee simple real property as described in **Appendix A** hereof;

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(2) All Easements described in **Appendix B** and any others that Aqua owns or possesses that are necessary for the use of the Purchased Assets;

(3) All water and wastewater treatment plants, including reuse and reclaimed water wells, water supplies, wells, collection, transmission, and distribution system piping, pumping, and effluent and disposal facilities of every kind and description whatsoever including, without limitation, all trade fixtures, leasehold improvements, lift stations, pumps, generators, controls, tanks, distribution, collection or transmission pipes or facilities, valves, meters, meter reading devices and associated software, service connections, and all other physical facilities, appurtenances and property installations used in the operation of the Utility System described in **Appendix C**, together with an assignment of all existing and assignable third party warranties and ownership documents that relate to completed or in progress construction as more particularly described in **Appendix D**;

(4) All equipment and other personal property as more particularly described in **Appendix G** to this Agreement.

(5) All as-built surveys and water and wastewater plans, plats, engineering and other drawings, designs, blueprints, plans and specifications, maintenance and operating manuals, engineering reports, calculations, computer studies, non-corporate accounting, and non-corporate business records and all other non-corporate information, in each case, controlled by or in the possession of Aqua that relate to the description and operation of the Utility System, inclusive of all pertinent computer records;

(6) To the extent that they may be transferred, all necessary regulatory approvals subject to all conditions, limitations or restrictions contained therein; all existing permits and other governmental authorizations and approvals of any kind necessary to construct, operate, expand, and maintain the Utility System according to all governmental requirements, as more specifically described in **Appendix E** to this Agreement;

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(7) The following records: (i) all information required to be maintained related to the Purchased Assets; (ii) all information provided through the due diligence process; (iii) engineering project files; (iv) electronic map files; (v) plans for engineering projects; (vi) environmental files; (vii) developer files; (viii) daily operations logs; (ix) operations files; (x) any consents or administrative orders; (xi) service and warranty records; (xii) equipment logs, operating guides, and manuals located at each plant; (xiii) database of customer accounts; (xiv) updated fixed asset list; and (xv) copies of general ledger by plant;

(8) All claims of Aqua against third parties, whether choate or inchoate, known or unknown, contingent or non-contingent, relating to (a) the Purchased Assets and (b) a tacking of time periods for any prescriptive easement or adverse possession claim; and

(9) The rolling stock listed in **Appendix G** to this Agreement; provided that, at or prior to Closing, Aqua may sell certain components of this rolling stock to third parties in which case the sale price for such components (net of any lease payments Aqua is required to make in order to convey such components free and clear of any lease encumbrance), shall be a reduction to the Purchase Price payable at Closing. Notwithstanding the foregoing, if the lease payments which Aqua is required to make in order to convey free and clear title for such vehicles is greater than the purchase price paid to Aqua for such vehicles, then Aqua shall have the right to include such vehicles in the definition of "Excluded Assets".

(B) The Purchased Assets shall be conveyed by Aqua to the FGUA free and clear of all liens or encumbrances, subject to the Permitted Exceptions.

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(C) The Purchased Assets do not and shall not include the Excluded Assets as set forth in **Appendix O** to this Agreement.

(D) Within sixty (60) days after the Closing, Aqua shall remove all Excluded Assets from the real property portion of the Utility System. Such removal shall be done in such manner as to avoid (1) any damage to the Utility System and other properties to be occupied by the FGUA, and (2) any disruption to the operation of the Utility System after the Closing. Any damage to the Utility System resulting from such removal shall be paid, as soon as reasonably practicable, by Aqua. Should Aqua fail to remove the Excluded Assets within such sixty (60) day period, the FGUA shall have the right, but not the obligation, (1) to remove the Excluded Assets at Aqua's sole cost and expense; (2) to store the Excluded Assets and to charge Aqua all storage costs associated therewith; or (3) to exercise any other right or remedy conferred by this Agreement. Aqua shall, as soon as reasonably practicable, reimburse the FGUA for all costs and expenses incurred by the FGUA in connection with any Excluded Assets not removed from the Utility System by Aqua within the timeframe provided above.

(E) The FGUA does not assume any debts, liabilities, obligations, or other financial or service obligations of Aqua, except as may be expressly provided hereunder or as may be otherwise provided in writing. The FGUA does not assume and shall not be liable for any expense, assessment, exposure, fine, penalty, liability, act or omission of any kind whatsoever imposed or required by any third party, whether known or unknown, contingent, liquidated or not liquidated, arising or accruing under contract, tort, or pursuant to statute, rule, ordinance, law, regulation or otherwise, arising or accruing before the Closing Date, regardless of when the claim is made. Aqua shall remain liable for and shall pay, perform or discharge all such liabilities and obligations; provided Aqua is not hereby limited in its right to contest in good faith any such liabilities or obligations. The FGUA does not assume, and is not liable for, any litigation pending at Closing involving Aqua or the Purchased Assets.



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**SECTION 3.03. PURCHASE PRICE.** The aggregate purchase price shall be Forty Nine Million Two Hundred Thousand Dollars (\$49,200,000.00) (“Purchase Price”), subject to the terms, adjustments and prorations provided herein. The Purchase Price for each of the Operating Systems shall be payable by the FGUA to the respective Seller in immediately available funds at the Closing by wire transfer pursuant to wire instructions to be provided by Sellers to the FGUA prior to the Closing. The Purchase Price for each of the Operating Systems is as follows:

(1)	Pasco System	\$16,419,315
(2)	Lake System	\$14,627,847
(3)	Unified System	\$18,152,838

**ARTICLE IV**

**CONDITIONS PRECEDENT TO CLOSING**

**SECTION 4.01. PROVISION OF INFORMATION BY AQUA.**

(A) Aqua has gathered, and delivered to the FGUA, the information described and to be encompassed by **Appendices A through N** hereof, which are more particularly described in Sections 2.02(E)(1) through (13) and 2.02(H) hereof, and the corporate guarantee described in Section 6.09(A).

(B) Aqua shall make any plans or specifications for the Utility System available to the FGUA, or its representatives, for inspection during normal business hours and upon reasonable advance notice from the FGUA.

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**SECTION 4.02. FINANCIAL DUE DILIGENCE.** The FGUA has had the opportunity to examine the billing analysis and to cause to be prepared at its expense a due diligence investigation of the revenues of the Utility System by a FGUA rate consultant or fiscal agent selected by it. The FGUA has relied upon its own financial due diligence investigation in entering into this Agreement.

**SECTION 4.03. ISSUANCE OF BONDS.**

(A) The purchase of the Utility System by the FGUA is subject to its ability to successfully finance it in accordance with the provisions of this Section 4.03. At a minimum, it will be necessary for the FGUA to issue several series of its bonds in a par amount adequate to pay (1) the Purchase Price for each Operating System, (2) all Transaction Costs, and (3) the cost of capital improvements as determined by the FGUA's engineers. Currently the FGUA anticipates issuing: (1) at least \$19,199,239 aggregate principal amount of bonds to acquire the Pasco System (the "Pasco System Bonds"); (2) at least \$17,277,033 aggregate principal amount of bonds to acquire the Lake System (the "Lake System Bonds"); and (3) at least \$22,415,977 aggregate principal amount of bonds to acquire the Unified System (the "Unified System Bonds"). One or more of the aforescribed bond issues could be divided into multiple bond issues (the "Other Bonds"). The Pasco System Bonds, the Lake System Bonds, the Unified System Bonds, and the Other Bonds are referred to herein as the "Bonds."

(B) Each series of the Bonds shall have the following characteristics: (1) the term of such series shall be for at least thirty (30) years; (2) a true interest cost of not greater than 4.5%; (3) ratings from any two of the following rating agencies: (a) a rating by Moody's Investors Service of no less than "A3", (b) a rating by Standard & Poor's Ratings Service of no less than "A-", and (c) a rating by Fitch Ratings of no less than "A-" ("Ratings"); (4) standard redemption provisions with an optional redemption price of no greater than par; and (5) with a debt service reserve account in an amount equal to the maximum debt service to be paid on such series any year, subject in each case to the review and approval of the FGUA's financial advisor that each such parameter has been met. The Bonds shall be delivered on or before the Closing Date.

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**SECTION 4.04. INTEREST RATE ADJUSTMENT.**

(A) The Purchase Price provided for herein was arrived at based on a bondable cash flow pro-forma. That pro-forma assumes a TIC of 4.5% (“Initial Interest Rate”) based upon a municipal tax-free revenue bond issue with 30-year maturity schedule of level principal and interest payments, a debt service coverage of 140%, achievement of the Ratings, and with the Bond insured if, in the judgment of the FGUA, that results in a lower cost of funds. For purposes of this Section 4.04, each Operating System acquisition will be financed through a separate Bond. The parties agree that the Purchase Price shall be adjusted at Closing to reflect the actual TIC achieved for each Operating System Bond. The FGUA shall direct the underwriters for the Bonds in the “Bond Purchase Agreement” to use all reasonable efforts to attain the lowest possible TIC on the Bonds.

(B) In the event that the TIC for a particular Operating System Bond is lower than the Initial Interest Rate, then the Purchase Price for that Operating System shall be adjusted upward by the additional net Bond proceeds resulting from the difference between the Initial Interest Rate and the greater of the actual TIC or 4.25%.

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(C) In the event that the actual TIC for a particular Operating System Bond is greater than the Initial Interest Rate, then the Purchase Price for that Operating System shall be adjusted downward to reflect the lower net Bond proceeds resulting from the difference between the Initial Interest Rate and the actual TIC.

(D) In the event that the actual TIC is higher than 4.65% for a particular Operating System Bond, then both Aqua and the FGUA shall have the option of terminating this Agreement for all Operating Systems by providing written notice to the other party of such termination, and, if terminated, thereupon the FGUA and Aqua shall have no liabilities and no further obligations to each other under this Agreement.

(E) The parties acknowledge and agree that a fair and accurate example of the variation in the TIC and the effect on the Purchase Price is set forth in **Appendix S**, and that the principals and assumptions applied in **Appendix S** shall likewise be applied in the determination of the Purchase Price at such time as the actual TIC has been determined. Following the FGUA's pricing of the Bonds, Aqua agrees to execute the Purchase Price certification in the form set forth in **Appendix S**, prior to the FGUA entering into a Bond Purchase Agreement.

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#### SECTION 4.05. ENVIRONMENTAL ASSESSMENT.

(A) Aqua and the FGUA agree that the FGUA may direct and authorize, at the FGUA's cost, a "Phase I" Environmental Site Assessment of any or all of the real property to be conveyed hereunder. The Environmental Site Assessment shall be in general accordance with the scope and limitations of the American Society for Testing and Materials Designation: E 1527-97 (Standard Practice for Environmental Site Assessments: Phase I Environmental Site Assessment ("ESA") Process). Prior to conducting any environmental assessment other than a Phase I ESA, the FGUA shall notify Aqua of its desire to conduct additional environmental assessments or testing. Only if the FGUA receives prior written approval from Aqua shall it be permitted to conduct any additional testing or assessment other than a Phase I ESA. Prior to performing any Phase II or additional ESA, the FGUA shall provide a scope of work to Aqua, and Aqua shall have the right to review and approve such scope of work, prior to any intrusive sampling. In the event the Phase II or additional ESA performed for the FGUA identifies the presence of hazardous substances (as that term is defined in the Environmental Laws) in the soil or groundwater at levels required to be remediated under applicable Environmental Laws, the FGUA shall provide the ESA report to Aqua. Aqua shall obtain the opinion of a qualified expert regarding an estimated cost to remediate such hazardous substances identified in the soil or groundwater as required by applicable Environmental Laws. Aqua shall be responsible for such remediation, at its expense; provided that, if the cost estimated for any remediation as set forth in this Section 4.05 exceeds \$500,000, either party shall have the option of: (1) waiving this condition precedent to the Closing, (2) terminating this Agreement as to the Individual System affected, whereupon the FGUA and Aqua shall have no liability and no obligation to each other under this Agreement for such Individual System, or (3) terminating this Agreement, thereupon the FGUA and Aqua shall have no liability and no further obligations to each other under this Agreement. The provisions in this Section 4.05(A) shall not be subject to the Deductible or the Cap set forth in Section 6.09(A).

(B) All ESAs are expected to be completed and delivered to the FGUA and Aqua not less than thirty (30) days prior to the Closing.

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**SECTION 4.06. SURVEY.** Aqua shall provide the FGUA with all existing surveys of the real property to be conveyed to the FGUA within ten (10) days of Aqua signing this Agreement. The FGUA shall have the option to order a new or updated survey of any or all real property being insured by the title insurance policies hereunder. Such new surveys shall be at the FGUA's expense. Any such surveys shall (A) be received not less than thirty (30) days prior to the Closing and updated thereafter as required by the title insurer; (B) be satisfactory and sufficient for the title insurer to delete the standard exceptions of title insurance coverage concerning encroachments, overlays, boundary line disputes or any other adverse matter which would be disclosed by an accurate survey; (C) be certified as of the current date to the FGUA, Aqua, the title insurer or any other parties requested by the FGUA; and (D) show the location of all improvements and easements. Material adverse matters (i.e., matters that materially interfere with the present use of the real property) disclosed by such surveys and disclosed to Aqua may be resolved by Aqua in its sole and absolute discretion so that such matters may be removed as an exclusion to coverage on the title insurance commitment, at Aqua's expense, prior to the issuance of any policy after the Closing. Nothing shall obligate Aqua to expend any monies to resolve such survey matters. If Aqua is unable or unwilling to resolve such material adverse matters prior to the Closing, the FGUA shall have the option of: (1) waiving this condition precedent to the Closing, (2) terminating this Agreement as to the Individual System affected, whereupon the FGUA and Aqua shall have no liability and no obligation to each other under this Agreement for such Individual System, or (3) terminating this Agreement, thereupon the FGUA and Aqua shall have no liability and no further obligations to each other under this Agreement.

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**SECTION 4.07. TITLE VERIFICATION.**

(A) The FGUA shall obtain, and deliver copies to Aqua of, title insurance commitments for the real property to be conveyed hereunder as set forth in **Appendix A** for an ALTA form owner's title insurance policy from the Title Agent (the "Title Policy"). Subject to subsection (D) of this Section 4.07, any encumbrances or defects in title must be removed from any title insurance commitment prior to the Closing and the subsequent Title Policy issued free and clear of encumbrances, title defects, materialman's liens or other adverse matters, created or potentially created by Aqua, with the exception of: (1) taxes for the current year which are not yet due and payable, (2) the Permitted Exceptions, and (3) any encumbrance of or created by the FGUA, including any instruments evidencing debt executed by the FGUA at the Closing.

(B) The estate or interests to be insured by the Title Insurance Policy shall consist of all real property identified in **Appendix A**.

(C) At the Closing, or upon issuance of any Title Insurance Policy after the Closing, the owner's title insurance policy shall show marketable title to the insured estate or interests vested in the FGUA. All charges and costs for the issuance of the owner's title insurance commitments and policy(ies) shall be paid by the FGUA.

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(D) Marketable title shall be determined according to applicable Title Standards adopted by authority of The Florida Bar and in accordance with law. If the title commitment reflects title exceptions other than the Permitted Exceptions, the FGUA shall thereafter within ten (10) days, notify Aqua in writing specifying the defects. Aqua shall have no more than thirty (30) days from receipt of notice within which (1) to remove the defects, (2) to provide notice that it intends to remove the defects, or (3) to provide notice that it disputes the defects. Aqua shall have one hundred eighty (180) days after receipt of the FGUA's notice, to eliminate the defects, which timeframe may extend beyond Closing. Aqua may, at its option, eliminate such defects in a variety of ways including, without limitation: (1) purchasing all or a portion of the property interest in question; (2) providing an alternate property reasonably acceptable to the FGUA; (3) commencing an eminent domain proceeding or other legal proceeding to acquire or clear title; or, (4) if the FGUA agrees, reimbursing the FGUA for its expenses in acquiring title to the property in an eminent domain proceeding. If Aqua or the FGUA commences a legal proceeding to acquire or clear title, the time period to cure defects shall extend until a final determination is made in such proceeding or appeal thereof; provided Aqua shall use its commercially reasonable efforts to prosecute diligently to completion any such proceeding. In the event Aqua fails to cure any title defect as provided herein, the FGUA may require substitute property, or payment by Aqua of an amount equal to the fair market value of the property, or portion thereof, taking into account any planned closure of existing utility plants or related facilities located thereon.

(E) At its election, the FGUA may search the Official Records of the Aqua Counties and the records of the Secretary of State for uniform commercial code financing statements evidencing a secured interest in the Purchased Assets other than the real property. Such search shall be at the FGUA's expense. Any secured interests in the Purchased Assets other than Permitted Exceptions and those relating to real property must be identified by the FGUA to Aqua not less than thirty (30) days prior to the Closing and must be paid off, released or terminated at Aqua's expense provided that, the FGUA's failure to identify shall not relieve Aqua of its obligation hereunder to convey the Purchased Assets free and clear of all liens or encumbrances, subject to the Permitted Exceptions.



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**SECTION 4.08. REGULATORY RATE COMPLIANCE.** To the extent that Aqua has any regulatory rate relief proceedings pending at the time of the Closing before the FPSC, other county regulatory authority, or before an appellate court in the State of Florida, Aqua shall terminate such proceedings upon the Closing and all financial responsibility or liability for any rate relief, refund or other obligations relating to such proceedings shall remain with Aqua after the Closing, and shall expressly not be assumed by the FGUA. Notwithstanding the foregoing sentence, Aqua shall not be prohibited from filing or pursuing any such regulatory rate relief proceedings during the period commencing on the date of this Agreement and ending on the Closing Date. The parties further acknowledge that Aqua has pending a FPSC rate indexing. Aqua shall complete and fully implement the indexed rates prior to the FGUA's obligation to consummate the transactions contemplated by this Agreement.

**SECTION 4.09. TRANSFER OF PERMITS.** Within thirty (30) days after the FGUA executes this Agreement, Aqua shall commence all requisite action to notify, apply for and seek the transfer of the permits and governmental approvals described in **Appendix E** hereof, including, but not limited to, the procedures referenced in Rule 62-4.120, Florida Administrative Code (1990), 40 C.F.R. § 122.63(d) (1998) and 47 C.F.R. § 73 (1998) and shall use all reasonable efforts to obtain the transfer of such permits. The FGUA shall timely cooperate and provide all reasonably necessary assistance in this endeavor, including, but not limited to, execution at the Closing of the permit transfer applications prepared by Aqua. Upon the Closing, the FGUA shall assume all obligations under the permits and governmental approvals necessary for the continued operation of the Utility System. The FGUA and Aqua acknowledge that the transfer of permits cannot be effectuated until after the Closing of the transactions contemplated by this Agreement, and as such shall constitute a post-Closing obligation of the parties until completed. All charges and costs for the transfer of permits shall be shared equally by Aqua and the FGUA.

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**SECTION 4.10. DEADLINE TO CLOSE AND DISBURSE.** Notwithstanding any other provision in this Agreement, if the Closing and disbursement to Aqua of the Purchase Price, subject to the terms, adjustments and proration provided herein, do not occur on or before June 30, 2013, then Aqua or the FGUA shall have the option of: (1) waiving this deadline or (2) terminating this Agreement, thereupon the FGUA and Aqua shall have no liability and no further obligations to each other under this Agreement.

**SECTION 4.11. ACKNOWLEDGEMENT OF TRANSFER.** The obligations of the parties to consummate the transactions contemplated hereby are subject to (1) Aqua Utilities Florida, Inc. filing a notice with the FPSC to acknowledge transfer of its respective Purchased Assets to the FGUA, and (2) Crystal River Utilities, Inc. filing a notice with Citrus County to acknowledge transfer of its respective Purchased Assets to the FGUA.

**SECTION 4.12. TRANSACTION WITH SARASOTA COUNTY.** The obligations of Aqua to consummate the transactions contemplated hereby are subject to: (1) Dolomite Utilities Corp. (as affiliate of Aqua) executing an agreement with Sarasota County not less than twenty (20) days prior to the Closing Date, pursuant to which Sarasota County agrees to purchase from Dolomite Utilities Corp. the water and wastewater systems owned by Dolomite Utilities Corp. in Sarasota County for a purchase price of not less than \$36,800,000; and (2) the FGUA entering into an Interlocal Agreement with Sarasota County to provide for mutual cooperation and assistance to achieve a successful closing on the Aqua transactions. In the event these conditions are not met, either party shall have the option of: (1) waiving this condition or (2) terminating this Agreement, thereupon the FGUA and Aqua shall have no liability and no further obligations to each other under this Agreement.

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**ARTICLE V**

**CLOSING PROCEDURES**

**SECTION 5.01. CLOSING DATE AND PLACE.** The asset and bond closings (collectively, the “Closing”) shall be held at the law firm of Nabors, Giblin & Nickerson, P.A., in Tampa, on or before February 28, 2013, or at such later date as mutually agreed among the parties (the “Closing Date”); provided that the Closing Date shall be automatically extended for a period of up to thirty (30) days to complete the financing as provided in Section 4.03 of this Agreement.

**SECTION 5.02. DOCUMENTS FOR THE CLOSING.**

(A) At the Closing, each Seller shall furnish a certificate reaffirming such Seller’s representations and warranties as set forth in this Agreement up to the Closing Date, and a release of documents from the Escrow Closing.

(B) At the Closing, the FGUA shall furnish the closing statement, a certificate reaffirming the FGUA’s representations and warranties as set forth in this Agreement up to the Closing Date, and a release of documents from the Escrow Closing.

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(C) From time to time after the Closing, each party hereto shall, upon request of the other, execute, acknowledge and deliver, or shall cause to be executed, acknowledged and delivered, all such further acts, deeds, assignments, transfers or other documentation for (1) confirming or correcting title in the name of the FGUA or perfecting possession by the FGUA of any or all of the Purchased Assets in existence or use at the time of the Closing, including the establishment of Easements of record, without resort to litigation, expenditure of monies or other extraordinary means, provided that Aqua's obligations pursuant to this Section 5.02(C) shall be subject to Section 6.09(B), or (2) otherwise fulfilling the obligations of the parties hereunder.

**SECTION 5.03. PROPERTY TAXES.** Aqua shall be required to escrow through the Title Agent for payment to the Tax Collector of the Aqua Counties an amount equal to the current ad valorem taxes and assessments due (real and personal), prorated through the Closing Date in accordance with section 196.295, Florida Statutes. The FGUA shall cooperate with Aqua in its effort to recover any taxes paid in excess of that due through the Closing Date. However, in no event shall the FGUA be responsible for any ad valorem taxes or assessments (real or personal) for the current year, which are not cancelled after the Closing Date.

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**SECTION 5.04. ACCOUNTS RECEIVABLE; CUSTOMER DEPOSITS.** Each Seller hereby agrees to cooperate with the FGUA to ensure an orderly transition of all of its customers with respect to billing and customer service activities including, but not limited to, working with the FGUA on a compatible format for transfer of customer data. The parties agree that the FGUA will be entitled to all customer billings with respect to water and wastewater collection and treatment services for the period on or after the Closing Date, and each Seller will be entitled to all such billings prior to the Closing Date, such billings being considered an Excluded Asset under this Agreement. After the Closing, any payments received by the FGUA or the Sellers with respect to utility services provided utilizing the Purchased Assets shall belong to the FGUA or such Seller as provided above. If such payment or the documentation relating thereto does not indicate whether such payment is for the period prior to or after Closing, the FGUA and such Seller shall jointly determine whether the payment belongs to the FGUA or such Seller. If either the FGUA or such Seller receives a payment which under the terms of this Agreement properly belongs to the other, the party in receipt of such payment shall hold such payment in trust for the other party and shall turn the payment over to the other party upon receipt thereof without any right of setoff. At Closing, the FGUA shall assume the liability for customer deposits and each Seller shall, by electronic funds transfer, transfer all customer deposits and accrued interest thereon through Closing to the FGUA. Each Seller shall provide, by customer account, a reconciliation of accrued interest up to the Closing Date.

**SECTION 5.05. CONNECTION CHARGES.**

(A) Sums collected by Aqua in the ordinary course of business for connection charges, including capacity, deferred standby fees or service availability charges of any type (collectively referred to herein as “Connection Charges”) up to the Closing Date shall remain Aqua’s sole and separate property with no claim of the FGUA therefore to the extent that such connections are physically connected to the Utility System prior to the Closing. To the extent such connections are not physically connected to the Utility System prior to the Closing, then Aqua shall transfer the Connection Charges for such connections to the FGUA at the Closing.

(B) All sums collected from and after the Closing Date relative to the use of, or connection to, the Utility System shall be paid to the FGUA, with no claim of Aqua therefor.

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**SECTION 5.06. PROFESSIONAL FEES; COSTS.** Each party shall be responsible for securing its own counsel for representation in connection with the negotiation of this Agreement, and all other matters associated with performance, termination or the Closing hereunder; unless otherwise specified herein, and each party shall be responsible for the payment of the fees of its own attorneys, bankers, engineers, accountants, and other professional advisors or consultants in connection therewith.

**SECTION 5.07. RISK OF LOSS.** At all times prior to and through the Effective Time, Aqua shall maintain adequate fire and extended insurance coverage for the cost of any repairs to the Purchased Assets that may be required by casualty damage. The risk of loss during the said period of time shall fall upon Aqua. The risk of loss shall pass to the FGUA at the Effective Time.

**SECTION 5.08. PROCEEDS OF SALE; CLOSING PROCEDURE.**

(A) Prior to the FGUA closing the issuance of the Bonds to pay the Purchase Price, Aqua and the FGUA shall execute and place in escrow all documents necessary to close the transactions contemplated by this Agreement (the "Escrow Closing"). At the Escrow Closing, the parties shall execute and enter into an Escrow Closing Agreement in substantially the form attached as **Appendix Q** to this Agreement; and Aqua shall furnish the documents listed in Section 5.08(C), all in substantially the form attached as **Appendix R** to this Agreement. Aqua shall also furnish at the Escrow Closing any necessary assignments, estoppel letters, releases, satisfactions, terminations and any corrective instruments.

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(B) In order to secure title insurance coverage against the existence of material adverse matters recorded during the period of time between the effective date of the title insurance commitment and the date of recording of the documents creating the estate to be insured, Aqua and the FGUA agree that the escrow agent for the Escrow Closing may also be the Title Agent.

(C) Aqua shall pay all Taxes and fees necessary for transfer, filing or recording of, and shall deliver to the FGUA, the following documents affecting the transfer of the Purchased Assets to the FGUA; these documents shall be in final form, together with any exhibits or appendices thereto in the form attached as **Appendix R** to the Agreement:

(1) Special warranty deed for the conveyance of all real property set forth in **Appendix A**;

(2) Assignment of Easements for the easements set forth in **Appendix B**;

(3) Transfer, Assignment and Assumption Agreement covering all contracts, agreements, permits and approvals and other interests in the Purchased Assets as set forth in **Appendices C, D, E, F, G, H, I, J, K and L**;

(4) Bill of Sale or other documents of assignment and transfer, with full warranties of title, to all Purchased Assets, other than the property set forth in **Appendix A**;

(5) Non-foreign affidavit, no-lien affidavit, "gap" affidavit, waiver and release of lien or such other forms as are customarily required for issuance of the title insurance policy referenced herein; and

(6) Any affidavits, certificates, estoppel certificates, corrective instruments, releases, satisfactions or terminations necessary to close, including, but not limited to, those instruments identified by the title insurer insuring the real property set forth in **Appendix A**.

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(D) Aqua acknowledges that the FGUA will issue Bonds to generate proceeds to pay the Purchase Price as described in Section 3.03 hereof. Therefore, all closing procedures shall be subject to the customary and reasonable requirements of the underwriter selected by the FGUA and the purchasers of the revenue bonds. The disbursement of proceeds shall be at the direction of the Title Agent in order to secure coverage against material adverse matters or defects in title which are recorded during the period of time between the effective date of the title insurance commitment and the date of recording of the document creating the estate or interest to be insured.

## ARTICLE VI

### GENERAL PROVISIONS

**SECTION 6.01. RIGHT TO ENTER.** Prior to the Closing, the FGUA shall have the right, at any reasonable time during normal business hours with twenty four (24) hours prior notice to Aqua, to enter upon Aqua's property to inspect the Utility System and the Purchased Assets, to familiarize itself with day-to-day operations, to review the operational practices of Aqua, and to ensure compliance with any and all federal and state regulatory requirements; provided, however, that such access shall not be had or done in any such manner so as to unreasonably interfere with the normal conduct of the Utility System and Purchased Assets.



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**SECTION 6.02. CONDUCT BETWEEN EXECUTION AND CLOSING.** After the date of execution of this Agreement until the Closing, Aqua shall:

(A) Continue to provide water and wastewater treatment to its current customers in the ordinary and usual manner;

(B) Comply with all legal requirements, contractual obligations and maintain the Utility System in the ordinary course of business, consistent with prior practice;

(C) Not, except in the ordinary course of business or as required by law, dispose of any Purchased Assets or enter into or modify any effluent reuse or disposal agreements, developer, water or wastewater service agreement, or construction or third party vendor agreement affecting the Utility System, without the prior written consent of the FGUA, which consent shall not be unreasonably withheld and which shall be acted upon promptly by the FGUA;

(D) Confer with the FGUA prior to implementing operational decisions of a material nature which are not in the ordinary course of business or which may constitute an obligation or liability of the FGUA following Closing;

(E) Maintain all books and records relating to the Utility System in the ordinary course of business; and

(F) Make a good faith effort to provide to the FGUA copies of all Easements of Aqua.

Notwithstanding the foregoing, Aqua shall have the right until the Closing, and in its sole and absolute discretion, to (i) settle any or all disputes provided such settlement does not modify Utility System rates, fees, charges or revenue or materially modify the Purchased Assets, and (ii) file and pursue any and all rate proceedings, in each case without obtaining the prior written consent of the FGUA.

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**SECTION 6.03. AQUA EMPLOYEES.**

(A) Each Seller shall, within five (5) days of Aqua signing this Agreement, provide the FGUA and its contractor, U.S. Water/Wade Trim, LLC (“Contractor”), with a list of all of such Seller’s non-executive employees and other pertinent information with respect to such employees relating to the Aqua Counties as reasonably requested by the FGUA or Contractor.

(B) The FGUA covenants, and shall cause Contractor, to offer employment to all such non-executive employees relating to the Aqua Counties as of the Closing Date with comparable pay and benefits as such non-executive employees presently enjoy as of the date of this Agreement, subject to passing Contractor’s standard background check and drug screening. Each Seller shall be responsible for payment of all wages, salaries and benefits accrued and payable to individuals employed by such Seller through the Effective Time, and the FGUA shall have no liability therefor. The FGUA shall be responsible for payment of all wages, salaries and benefits, under the Contractor’s benefit plans, relating to all non-executive employees hired by the FGUA for the period commencing on and from the Effective Time for a minimum period of twelve (12) months, subject to the FGUA or Contractor’s ordinary employment retention and termination standards.

**SECTION 6.04. APPLICABLE LAW; JURISDICTION AND VENUE.**

(A) This Agreement shall be governed by and construed in accordance with the laws of the State of Florida.

(B) The parties to this Agreement expressly consent to the jurisdiction of and agree to suit in any court of general jurisdiction in the State of Florida, whether state, local or federal, and further agree that venue shall lie in Leon County.

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**SECTION 6.05. NOTICE.**

(A) All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when hand delivered or mailed by registered or certified mail, postage prepaid, or by courier service, charges prepaid, to the parties at the following addresses:

**To the FGUA:** System Manager  
Government Services Group, Inc.  
1500 Mahan Drive, Suite 250  
Tallahassee, Florida 32308  
Attention: Robert Sheets  
Email: Rsheets@govserv.com

with a copy to: Nabors, Giblin & Nickerson, P.A.  
1500 Mahan Drive, Suite 200  
Tallahassee, Florida 32308  
Attention: Brian P. Armstrong  
Email: Barmstrong@ngnlaw.com

**To Aqua:** Aqua Utilities Florida, Inc.  
Crystal River Utilities, Inc.  
762 West Lancaster Avenue  
Bryn Mawr, Pennsylvania 19010  
Attention: Christopher P. Luning, Esquire  
Email: Cpluning@aquaamerica.com

with a copy to: Fox Rothschild LLP  
2000 Market Street, 20th Floor  
Philadelphia, Pennsylvania 19103  
Attention: Peter J. Tucci, Esquire  
Email: ptucci@foxrothschild.com

(B) Any written notice given to one person in subsection (A) of this Section 6.05 shall also be copied and provided to all other persons identified in subsection (A) of this Section 6.05.

(C) The parties may, by notice in writing given to the others, designate any future or different addresses to which the subsequent notices, certificates or other communications shall be sent. Any notice shall be deemed given on the date such notice is delivered by hand, by electronic correspondence or by facsimile transmission or five (5) days after the date mailed.

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**SECTION 6.06. ASSIGNMENT AND JOINDER.** Neither Aqua nor the FGUA shall have the power or authority to assign this Agreement or any of their rights, duties or obligations hereunder to a third party, without the prior written consent of the other party. This Agreement shall be construed as solely for the benefit of the FGUA and Aqua, and their successors by law, and no claim or cause of action shall accrue to or for the benefit of any other third party by reason hereof.

**SECTION 6.07. INDIVIDUAL LIABILITY.** Notwithstanding anything to the contrary contained herein or in any other instrument or document executed by or on behalf of the FGUA in connection herewith, no stipulation, covenant, agreement or obligation contained herein or therein shall be deemed or construed to be a stipulation, covenant, agreement, or obligation of any present or future member, officer, employee, contractor or agent of the FGUA, or of any incorporator, member, director, trustee, officer, employee or agent of any successor to the FGUA, in any such Person's individual capacity, and no such Person, in an individual capacity, shall be liable personally for any breach or non-observance of or for any failure to perform, fulfill or comply with any such stipulations, covenants, agreements or obligations, nor shall any recourse be had for the payment of the Purchase Price or for any claim based hereon or on any such stipulation, covenant, agreement, or obligation, against any such person, in an individual capacity, either directly or through the FGUA or any successor to the FGUA, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such Person, in an individual capacity, is hereby expressly waived and released. All references to the FGUA in this Section 6.07 shall be deemed to include the FGUA, its government members, Board members, officers, attorneys, employees, contractors and agents. The provisions of this Section shall survive the termination of this Agreement.

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**SECTION 6.08. FGUA LIABILITIES.** The FGUA shall not be obligated to pay any liability arising out of or in any connection whatsoever with this Agreement from any funds except from the net revenues realized by the FGUA after the Closing from its ownership and operation of the respective Operating System. It is further agreed between the FGUA and Aqua that this Agreement and any obligations arising in connection therewith, whether for payment of the Purchase Price, or for any claim of liability, remedy for breach or otherwise, shall not constitute a lien on the Utility System or any other property owned or operated by the FGUA, or any governmental member of the FGUA.

**SECTION 6.09. AQUA LIABILITIES.**

(A) Aqua shall not be liable to the FGUA for any liabilities, obligations, damages, losses, actions, audits, deficiencies, claims, fines, costs and expenses resulting from, relating to or arising out of any misrepresentation, breach of warranty or non-fulfillment of any agreement or covenant on the part of Aqua under this Agreement, or from any misrepresentation in, or omission from, any Appendix or information furnished by Aqua pursuant to this Agreement, unless and until the FGUA shall have sustained cumulative losses as a result of one or more claims of Two Hundred Fifty Thousand Dollars (\$250,000.00) (the “Deductible”) in which event Aqua shall be responsible only for losses exceeding the Deductible. Once the aggregate of losses exceeds the Deductible, the maximum liability for which Aqua shall reimburse the FGUA shall not exceed the amount of Five Million Five Hundred Thousand Dollars (\$5,500,000.00) (the “Cap”). At Closing, Aqua shall provide a corporate guarantee by Aqua Utilities, Inc., in a form reasonably satisfactory to the FGUA’s counsel, that shall guarantee and ensure payment and performance of any and all Aqua liabilities arising under this Section 6.09.

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(B) Notwithstanding the foregoing, during the Real Estate Warranty Period, Aqua agrees to undertake the following, and to be liable for the full cost thereof including reasonable attorney's fees and costs: (i) conveyance to the FGUA, free and clear of any liens or encumbrances (subject to the Permitted Exceptions), of any real property interests discovered post-Closing that should have been included in **Appendices A or B** based on ownership or possession of Aqua on the Closing Date; and (ii) acquisition and conveyance to the FGUA, free and clear of any liens or encumbrances, of any interest in real property within which Purchased Assets are located, and which should have been included in **Appendices A or B** based on ownership or possession of that portion of the Purchased Assets by Aqua on the Closing Date; provided, however, that Aqua's liabilities pursuant to this Section 6.09(B) shall not be subject to the Deductible, but shall be subject to the Cap. Discovery and correction of the real estate issues identified in the subsection shall not constitute a misrepresentation or breach of warranty actionable under Section 6.09(A) of this Agreement.

**SECTION 6.10. AMENDMENTS AND WAIVERS.** No amendment, supplement, modification or waiver of this Agreement shall be binding upon any party hereto unless executed in writing by such party. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision of this Agreement, whether or not similar, unless otherwise expressly provided.

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**SECTION 6.11. ENTIRE AGREEMENT.** This Agreement is the entire agreement between the parties and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions of the agreements, understandings, negotiations and discussions of the parties, whether oral or written, pertaining to the subject matter hereof, and there are not warranties, representations or other agreements between the parties in connection with the subject matter hereof, except as specifically set forth herein.

**SECTION 6.12. EFFECT OF TERMINATION.** In the event of the termination of this Agreement in accordance with its terms, this Agreement shall then become void and have no effect, with no liability on the part of any of the parties to this Agreement or their affiliates, except that nothing shall relieve a party from liability for any breach of this Agreement.

**SECTION 6.13. PUBLICITY; ANNOUNCEMENTS.** The parties agree to issue an initial press release announcing the consummation of the transactions contemplated by this Agreement to be issued promptly following the date hereof and in a form which is prepared by Aqua and reasonably satisfactory to the FGUA. The parties acknowledge that notices have been provided to the Aqua Counties in which the FGUA must provide notice, and that the FGUA has held public hearings and issued other public statements concerning the negotiation, execution and delivery of this Agreement and the consummation of the transactions contemplated by this Agreement to local government representatives, customer groups and others as appropriate in furtherance of the objectives of this Agreement. To the extent practicable, the FGUA will coordinate with Aqua regarding the timing and content of notices and public statements regarding the transactions contemplated by this Agreement.

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**SECTION 6.14 CONFIDENTIALITY.** Notwithstanding any other term of this Agreement, each of the FGUA and Aqua acknowledges that it is no longer bound by the terms of that certain Non-Disclosure Agreement, dated April 3, 2012, entered into by and between the FGUA and Aqua Utilities Florida, Inc.

**SECTION 6.15 RADON GAS.** RADON IS NATURALLY OCCURRING RADIOACTIVE GAS THAT, WHEN IT HAS ACCUMULATED IN A BUILDING IN SUFFICIENT QUANTITIES, MAY PRESENT HEALTH RISKS TO PERSONS WHO ARE EXPOSED TO IT OVER TIME. LEVELS OF RADON THAT EXCEED FEDERAL AND STATE GUIDELINES HAVE BEEN FOUND IN BUILDINGS IN FLORIDA. ADDITIONAL INFORMATION REGARDING RADON TESTING MAY BE OBTAINED FROM THE COUNTY PUBLIC HEALTH UNIT.

**SECTION 6.16. TRANSITION SERVICES.**

(A) The parties acknowledge and agree that the FGUA and its Contractor will require a minimum period of sixty (60) days to prepare for an orderly and efficient transition of operations, customer service and billing activities to the FGUA and, as such, the parties acknowledge and agree that beginning January 1, 2013, the FGUA, its Contractor and Aqua will take all steps necessary and exert their respective best efforts, to include information sharing, test programming, document sharing and such other activities, so as to create a seamless transition of such activities on or around the Closing Date. In the event such activities are accomplished in this timely fashion, the need for Aqua post-closing transition services will be mitigated or eliminated.



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(B) On or before the Closing Date, at either party's option, the parties will enter into a transition services agreement (the "Transition Services Agreement"), pursuant to which the parties will agree upon a list of reasonable transition services to be provided by either party, or its affiliates, to the other party, or its affiliates. Such services shall be provided at reasonable rates (which rates shall not exceed 100% of the cost of either party, or its affiliates, providing such services prior to the Closing) as allocated in accordance with the methodologies used for such allocations by such party and its affiliates in accordance with past practice, and in accordance with the terms and conditions set forth in the Transition Services Agreement. The parties shall cooperate in good faith during the period between the date hereof and the Closing Date in order to minimize, to the extent possible, the period of time following the Closing Date that either party will require services to be provided under the Transition Services Agreement.

*[remainder of page left intentionally blank; signature page follows]*

IN WITNESS WHEREOF, the FGUA and Aqua have caused this Agreement to be duly executed and entered into on the date first above written.

FLORIDA GOVERNMENTAL UTILITY AUTHORITY

By: Lea Ann Thomas  
Its: Chair

Attest:

Robert Sheets

AQUA UTILITIES FLORIDA, INC.

By: Nicholas DeBenedictis  
Its: Chairman

Attest:

Christopher P Luning

CRYSTAL RIVER UTILITIES, INC.

By: Nicholas DeBenedictis  
Its: Chairman

Attest:

Christopher P Luning

Asset Acquisition Agreement

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**APPENDIX A**

**SCHEDULE OF REAL PROPERTY**

A-1

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**APPENDIX B**  
**SCHEDULE OF EASEMENTS**

B-1

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**APPENDIX C**

**SCHEDULE OF ASSETS COMPRISING THE UTILITY SYSTEM**

C-1

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**APPENDIX D**

**SCHEDULE OF THIRD PARTY WARRANTIES RELATED TO  
COMPLETED OR IN PROGRESS CONSTRUCTION**

D-1

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**APPENDIX E**  
**SCHEDULE OF PERMITS**

E-1

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**APPENDIX F**

**SCHEDULE OF LITIGATION AND REGULATORY NON-COMPLIANCE**

F-1



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**APPENDIX G**  
**SCHEDULE OF INVENTORY**

G-1

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**APPENDIX H**

**SCHEDULE OF OPERATING AND VENDOR CONTRACTS**

H-1

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**APPENDIX I**

**SCHEDULE OF REUSE AND EFFLUENT DISPOSAL AGREEMENTS**

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**APPENDIX J**

**SCHEDULE OF PURCHASED  
WATER AND WASTEWATER SERVICE AGREEMENTS**

J-1

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**APPENDIX K**

**SCHEDULE OF EXECUTORY AGREEMENTS  
(DEVELOPER AGREEMENTS)**

K-1

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**APPENDIX L**

**SCHEDULE OF EXECUTORY AGREEMENTS  
(OTHER THAN DEVELOPER AGREEMENTS)**

L-1

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**APPENDIX M**

**SCHEDULE OF RATES, FEES AND CHARGES**

M-1

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**APPENDIX N**

**SCHEDULE OF ENVIRONMENTAL COMPLIANCE EXCEPTIONS**

N-1



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**APPENDIX O**

**SCHEDULE OF EXCLUDED ASSETS**

- (1) all cash, cash equivalents and short-term investments; all payments received by Aqua prior to the Closing;
- (2) all minute books, stock records and corporate seals;
- (3) any shares of capital stock of Aqua;
- (4) all insurance policies and rights thereunder;
- (5) the following agreements:
  - (a)
  - (b)
  - (c)
- (6) records that Aqua is required by law to retain in its possession;
- (7) all claims, existing as of the Closing Date, for refunds of Taxes and other governmental charges of whatever nature;
- (8) all rights and obligations in connection with and assets of any employee benefit plans;
- (9) the following property and assets:
  - (a)
  - (b)
  - (c)
- (10) the following rolling stock:
  - (a)
  - (b)
  - (c)
- (11) All rights of Aqua under this Agreement and all ancillary documents hereto.

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**APPENDIX P**

**SCHEDULE OF PERMITTED EXCEPTIONS**

P-1

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**APPENDIX Q**

**FORM OF DOCUMENT ESCROW AGREEMENT**

Q-1

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**APPENDIX R**

**FORM OF DOCUMENTS FOR CLOSING**

R-1

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**APPENDIX S**

**PURCHASE PRICE CALCULATION  
BASED ON TRUE INTEREST COST**

S-1

Prepared by and Return to:  
Mary T. Tomich, Esq.  
Dilworth Paxson LLP  
1500 Market Street  
Suite 3500E  
Philadelphia, PA 19102  
215-575-7000

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**FORTY-SEVENTH SUPPLEMENTAL**

**INDENTURE**

DATED AS OF OCTOBER 15, 2012

TO

INDENTURE OF MORTGAGE

DATED AS OF JANUARY 1, 1941

AQUA PENNSYLVANIA, INC.

TO

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

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FORTY-SEVENTH SUPPLEMENTAL INDENTURE dated as of October 15, 2012, by and between AQUA PENNSYLVANIA, INC. (f/k/a Pennsylvania Suburban Water Company), a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania (the "Company") as successor by merger to the Philadelphia Suburban Water Company (the "Original Company"), party of the first part, and THE BANK OF NEW YORK MELLON TRUST COMPANY, N. A., a national banking association (the "Trustee"), party of the second part.

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

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

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

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

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

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

Designation	Indenture	Amount
3 1/4% Series due 1971	Original	\$16,375,000
9 5/8% Series due 1975	Thirteenth Supplemental	10,000,000
9.15% Series due 1977	Fourteenth Supplemental	10,000,000
3% Series due 1978	First Supplemental	2,000,000
3 3/8% Series due 1982	Second Supplemental	4,000,000
3.90% Series due 1983	Third Supplemental	5,000,000
3 1/2% Series due 1986	Fourth Supplemental	6,000,000
4 1/2% Series due 1987	Fifth Supplemental	4,000,000
4 1/8% Series due 1988	Sixth Supplemental	4,000,000
5% Series due 1989	Seventh Supplemental	4,000,000
4 5/8% Series due 1991	Eighth Supplemental	3,000,000
4.70% Series due 1992	Ninth Supplemental	3,000,000
6 7/8% Series due 1993	Twelfth Supplemental	4,500,000
4.55% Series due 1994	Tenth Supplemental	4,000,000
10 1/8% Series due 1995	Sixteenth Supplemental	10,000,000
5 1/2% Series due 1996	Eleventh Supplemental	4,000,000
7 7/8% Series due 1997	Fifteenth Supplemental	5,000,000
8.44% Series due 1997	Twenty-Third Supplemental	12,000,000
9.20% Series due 2001	Seventeenth Supplemental	7,000,000
8.40% Series due 2002	Eighteenth Supplemental	10,000,000
5.95% Series due 2002	Twenty-Seventh Supplemental	4,000,000
12.45% Series due 2003	Twentieth Supplemental	10,000,000
13% Series due 2005	Twenty-First Supplemental	8,000,000
10.65% Series due 2006	Twenty-Second Supplemental	10,000,000
9.89% Series due 2008	Twenty-Fourth Supplemental	5,000,000
7.15% Series due 2008	Twenty-Eighth Supplemental	22,000,000
9.12% Series due 2010	Twenty-Fifth Supplemental	20,000,000
8 7/8% Series due 2010	Nineteenth Supplemental	8,000,000
6.50% Series due 2010	Twenty-Seventh Supplemental	3,200,000
9.17% Series due 2011	Twenty-Sixth Supplemental	5,000,000
9.93% Series due 2013	Twenty-Fourth Supplemental	5,000,000
9.97% Series due 2018	Twenty-Fourth Supplemental	5,000,000
9.17% Series due 2021	Twenty-Sixth Supplemental	8,000,000
6.35% Series due 2025	Thirtieth Supplemental	22,000,000
9.29% Series due 2026	Twenty-Sixth Supplemental	12,000,000
1995 Medium Term Note Series	Twenty-Ninth Supplemental	77,000,000
7.72% Subseries A due 2025		15,000,000
6.82% Subseries B due 2005		10,000,000
6.89% Subseries C due 2015		12,000,000
6.99% Subseries D due 2006		10,000,000
7.47% Subseries E due 2003		10,000,000
6.83% Subseries F due 2003		10,000,000
7.06% Subseries G due 2004		10,000,000



1997 Medium Term Note Series	Thirty-First Supplemental	65,000,000
6.75% Subseries A due 2007		10,000,000
6.30% Subseries B due 2002		10,000,000
6.14% Subseries C due 2008		10,000,000
5.80% Subseries D due 2003		10,000,000
5.85% Subseries E due 2004		10,000,000
6.00% Subseries F due 2004		15,000,000
6.00% Series due 2029	Thirty-Second Supplemental	25,000,000
1999 Medium Term Note Series	Thirty-Third Supplemental	222,334,480
7.40% Subseries A due 2005		15,000,000
7.40% Subseries B due 2005		11,000,000
6.21% Subseries C due 2011		15,000,000
9.53% Subseries D due 2019		4,000,000
6.375% Subseries E due 2023		14,000,000
8.26% Subseries F due 2022		1,500,000
9.50% Subseries G due 2006		1,440,000
9.22% Subseries H due 2019		2,534,480
8.32% Subseries I due 2022		3,500,000
8.14% Subseries J due 2025		4,000,000
6.00% Subseries K due 2030		18,360,000
5.93% Subseries L due 2012		25,000,000
2.65% Subseries M due 2006		5,000,000
3.461% Subseries N due 2007		12,000,000
5.08% Subseries O due 2015		20,000,000
5.17% Subseries P due 2017		7,000,000
5.751% Subseries Q due 2019		15,000,000
5.751% Subseries R due 2019		5,000,000
6.06% Subseries S due 2027		15,000,000
6.06% Subseries T due 2027		5,000,000
5.98% Subseries U due 2028		3,000,000
5.35% Series due 2031	Thirty-Fourth Supplemental	30,000,000
5.55% Series due 2032	Thirty-Sixth Supplemental	25,000,000
3.75% Series due 2010	Thirty-Seventh Supplemental	3,200,000
5.15% Series due 2032	Thirty-Seventh Supplemental	25,000,000
5.05% Series due 2039	Thirty-Eighth Supplemental	14,000,000
5.00% Series due 2036	Thirty-Ninth Supplemental	21,770,000
5.00% Series due 2037	Thirty-Ninth Supplemental	24,165,000
5.00% Series due 2038	Thirty-Ninth Supplemental	25,375,000
5.00% Series due 2035	Fortieth Supplemental	24,675,000
5.00% Series due 2040	Forty-first Supplemental	23,915,000
5.00% Series due 2041	Forty-first Supplemental	23,915,000
5.25% Series due 2042	Forty-second Supplemental	24,830,000
5.25% Series due 2043	Forty-second Supplemental	24,830,000
6.25% Series due 2017	Forty-third Supplemental	9,000,000
6.75% Series due 2018	Forty-third Supplemental	13,000,000
5.00% Series due 2039	Forty-fourth Supplemental	58,000,000
5.00% Series due 2040	Forty-fifth Supplemental	62,165,000
4.75% Series due 2040	Forty-fifth Supplemental	12,520,000
5.00% Series due 2033	Forty-sixth Supplemental	25,910,000
5.00% Series due 2034	Forty-sixth Supplemental	19,270,000
4.50% Series due 2042	Forty-sixth Supplemental	15,000,000
5.00% Series due 2043	Forty-sixth Supplemental	81,205,000

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and

WHEREAS, the bonds of each of said series that are outstanding as of September 30, 2012 are listed on Exhibit A attached hereto and made a part hereof; and

WHEREAS, in order to secure the lien of the Original Indenture on the properties of the Original Company and the Company, the Original Indenture and the first forty-six supplemental indentures supplemental to the Original Indenture were duly recorded in the Commonwealth of Pennsylvania on the dates and in the office for the Recording of Deeds for the counties and in the Mortgage Books at the pages indicated in Exhibit B hereto; and

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

WHEREAS, the Delaware County Industrial Development Authority previously issued its Water Facilities Revenue Bonds (Philadelphia Suburban Water Company Project), Series of 2001 in the aggregate principal amount of \$30,000,000, all of which are currently outstanding (the "2001 Bonds") to finance the acquisition, construction, installation and equipping of facilities for the furnishing of water at various sites throughout the Company's water supply and distribution system; and

WHEREAS, the Bucks County Industrial Development Authority previously issued its Water Facilities Revenue Bonds (Pennsylvania Suburban Water Company Project), Series of 2002 in the aggregate principal amount of \$25,000,000, all of which are currently outstanding (the "2002 Bonds") finance the acquisition, construction, installation and equipping of facilities for the furnishing of water at various sites throughout the Company's water supply and distribution system; and

WHEREAS, the Company previously issued its \$1,500,000 principal amount 8.26% Series due 2022 (the "8.26% Series"), all of which are currently outstanding, and its \$3,500,000 principal amount 8.32% Series due 2022 (the "8.32% Series"), all of which are currently outstanding; and

WHEREAS, the Company proposes to create under the Original Indenture, as supplemented by this Forty-seventh Supplemental Indenture, three series of bonds to be designated (i) "First Mortgage Bond, 3.79% Series due 2041" (herein referred to as the "3.79% Series due 2041") to be limited in aggregate principal amount to \$40,000,000, to bear interest at the rate of 3.79% per annum, and to mature on December 1, 2041, (ii) "First Mortgage Bond, 3.80% Series due 2042" (herein referred to as the "3.80% Series due 2042") to be limited in aggregate principal amount to \$20,000,000, to bear interest at the rate of 3.80% per annum, and to mature on December 1, 2042, and (iii) "First Mortgage Bond, 3.85% Series due 2047 (herein referred to as the "3.85% Series due 2047") to be limited in aggregate principal amount to \$20,000,000, to bear interest at the rate of 3.85% per annum, and to mature on December 1, 2047 (the 3.79% Series due 2041, the 3.80% Series due 2042 and the 3.85% Series due 2047 are collectively referred to as the "Bonds"), each such series to be issued only as registered bonds without coupons and to be dated the date of delivery thereof; and

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WHEREAS, the Company proposes to issue the Bonds under the provisions of Article IV of the Original Indenture, as supplemented by the indentures supplemental thereto, including this Forty-seventh Supplemental Indenture, and will comply with the provisions thereof as well as with other provisions of the Original Indenture and indentures supplemental thereto in connection with the issuance of additional bonds so that it will be entitled to procure the authentication and delivery of the Bonds; and

WHEREAS, Article XVIII of the Original Indenture provides that the Company, when authorized by resolution of its Board of Directors, may with the Trustee enter into an indenture supplemental to the Original Indenture, which thereafter shall form a part of the Original Indenture, for the purposes, inter alia, of subjecting to the lien of the Original Indenture additional property, of defining the covenants and provisions applicable to any bonds of any series other than the 3 1/4% Series due 1971, of adding to the covenants and agreements of the Company contained in the Original Indenture other covenants and agreements thereafter to be observed by the Company, of surrendering any right or power in the Original Indenture reserved to or conferred upon the Company, and of making such provisions in regard to matters or questions arising under the Original Indenture as may be necessary or desirable and not inconsistent therewith; and

WHEREAS, the Company, by proper corporate action, has duly authorized the creation of the 3.79% Series due 2041, the 3.80% Series due 2042 and the 3.85% Series due 2047 (to be issued in accordance with the terms and provisions of the Original Indenture and indentures supplemental thereto, including this Forty-seventh Supplemental Indenture, and to be secured by said Original Indenture and indentures supplemental thereto, including this Forty-seventh Supplemental Indenture), and has further duly authorized the execution, delivery and recording of this Forty-seventh Supplemental Indenture setting forth the terms and provisions of the 3.79% Series due 2041, the 3.80% Series due 2042 and the 3.85% Series due 2047 insofar as said terms and provisions are not set forth in said Original Indenture; and

WHEREAS, the Bonds and the Trustee's certificate upon said Bonds are to be substantially in the following form - the proper amount, names of registered owners and numbers to be inserted therein, and such appropriate insertions, omissions and changes to be made therein as may be required or permitted by this Forty-seventh Supplemental Indenture to conform to any pertinent law or usage:

THIS BOND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND SALES OR OTHER TRANSFERS HEREOF MAY BE MADE ONLY TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN RULE 144A UNDER THE ACT ("QUALIFIED INSTITUTIONAL BUYERS"), IN TRANSACTIONS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION UNDER THE ACT.

[continued on next page]

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BY ITS ACCEPTANCE OF THIS BOND, THE HOLDER REPRESENTS AND AGREES THAT IT IS A QUALIFIED INSTITUTIONAL BUYER AND THAT THIS BOND IS BEING ACQUIRED FOR ITS OWN ACCOUNT (AND NOT FOR THE ACCOUNT OF OTHERS) OR AS A FIDUCIARY FOR OTHERS FOR INVESTMENT AND NOT WITH A VIEW TO, OR FOR SALE IN CONNECTION WITH, THE PUBLIC DISTRIBUTION HEREOF IN ANY TRANSACTION THAT WOULD BE IN VIOLATION OF FEDERAL OR STATE SECURITIES LAWS, AND THAT ANY RESALE OR OTHER TRANSFER HEREOF OR ANY INTEREST HEREIN PRIOR TO THE DATE THAT IS TWO YEARS AFTER THE LATER OF (A) ITS DATE OF ISSUE OR (B) THE LAST DATE ON WHICH THE COMPANY OR ANY OF ITS AFFILIATES WAS THE BENEFICIAL OWNER HEREOF WILL BE MADE ONLY (1) TO A PLACEMENT AGENT OR THE COMPANY, (2) THROUGH ANY PLACEMENT AGENT OR BY ANY PLACEMENT AGENT ACTING AS PRINCIPAL TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE APPROVED BY SUCH PLACEMENT AGENT, (3) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER APPROVED BY THE COMPANY IN A TRANSACTION APPROVED BY THE COMPANY, (4) THROUGH A DEALER OTHER THAN A PLACEMENT AGENT TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE IN A TRANSACTION APPROVED BY THE COMPANY, OR (5) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION THAT MEETS THE REQUIREMENTS OF RULE 144A UNDER THE ACT, SUBJECT TO IN EACH CASE THE DISPOSITION OF THE PURCHASER'S PROPERTY BEING AT ALL TIMES WITHIN ITS CONTROL. IN THE CASE OF CERTIFICATED BONDS, ANY TRANSFER DESCRIBED IN CLAUSE (3), (4) OR (5) ABOVE REQUIRES THE SUBMISSION TO THE TRUSTEE (AS DEFINED HEREIN) OR ANY DULY AUTHORIZED PAYING AGENT OF THE CERTIFICATE OF TRANSFER ATTACHED HERETO DULY COMPLETED OR A DULY COMPLETED TRANSFER INSTRUMENT SUBSTANTIALLY IN THE FORM OF THE CERTIFICATE OF TRANSFER. THE COMPANY SHALL NOT RECOGNIZE ANY RESALE OR OTHER TRANSFER, OR ATTEMPTED RESALE OR OTHER TRANSFER, OF THIS BOND NOT MADE IN COMPLIANCE WITH THE FOREGOING PROVISIONS. THIS BOND AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON THE PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS BOND TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR PROVIDE ALTERNATIVE PROCEDURES IN COMPLIANCE WITH APPLICABLE LAW AND PRACTICES RELATING TO THE RESALE OR OTHER TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS BOND SHALL BE DEEMED, BY THE ACCEPTANCE OF THIS BOND, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth  
of Pennsylvania)

First Mortgage Bond, 3.79% Series due 2041

Aqua Pennsylvania, Inc. (f/k/a known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the "Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to \_\_\_\_\_ or its registered assigns, on the 1st day of December, 2041 (the "Maturity Date"), at the address designated by the registered owner pursuant to Section 11.1 of the Bond Purchase Agreement dated as of November 8, 2012, between the Company and the Purchasers listed therein (the "Bond Purchase Agreement"), the sum of \_\_\_\_\_ Million Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by wire transfer of immediately available funds in accordance with Section 11.1 of the Bond Purchase Agreement to such registered owner from the interest payment date next preceding the date of the authentication of this bond (or if this bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this bond is authenticated on or prior to June 1, 2013 from the date hereof) until the principal hereof shall become due and payable, at the rate of 3.79% per annum, payable semiannually in like coin or currency on the 1st day of June and the 1st day of December in each year, commencing June 1, 2013 and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of 5.79% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Forty-seventh Supplemental Indenture referred to herein) be calculated on the basis of a 360-day year of twelve 30-day months and be paid to the person in whose name this bond (or a bond or bonds in exchange for which this bond was issued) is registered at the close of business on the 15th day of the calendar month preceding the month in which the interest payment date occurs whether or not such day is a business day (a "Record Date") and principal, premium, if any, and interest on this bond shall be paid by the Company in accordance with written payment instructions of the registered owner delivered to the Company on or before such record date.

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This bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by an Indenture of Mortgage (herein called the "Indenture") dated as of January 1, 1941, executed by the Philadelphia Suburban Water Company (now Aqua Pennsylvania, Inc., f/k/a Pennsylvania Suburban Water Company, as successor by merger) to The Pennsylvania Company for Insurances on Lives and Granting Annuities (succeeded as trustee by The Bank of New York Mellon Trust Company, N.A.), as Trustee (the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and premium, if any, and interest on this bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This bond is one of the bonds described in the Forty-seventh Supplemental Indenture (the "Forty-seventh Supplemental Indenture") dated as of October 15, 2012, and designated therein as "First Mortgage Bond, 3.79% Series due 2041" (the "Bonds").

Concurrently herewith the Company is issuing its "First Mortgage Bond, 3.80% Series due 2042" in the aggregate principal amount of \$20,000,000 and its "First Mortgage Bond, 3.85% Series due 2047" in the aggregate principal amount of \$20,000,000.

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

The Company may, at its option, upon notice as provided below, redeem at any time all, or from time to time any part of, the Bonds, in an amount not less than 10% of the aggregate principal amount of the Bonds then outstanding in the case of a partial redemption, at 100% of the principal amount so redeemed, together with interest accrued thereon to the date of such redemption, plus the Make-Whole Amount (as defined in the Forty-seventh Supplemental Indenture) determined for the redemption date with respect to such principal amount of each bond then outstanding.

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Any redemption shall be effected by notice mailed to the registered owners thereof, as provided in the Indenture, at least thirty (30) days and not more than forty-five (45) days before the redemption date, all on the conditions and in the manner provided in the Indenture. Each such notice shall specify such date (which shall be a Business Day (as defined in the Forty-seventh Supplemental Indenture)), the aggregate principal amount of the Bonds to be redeemed on such date, the principal amount of each bond held by such holder to be redeemed (determined in accordance with Article I, Section 3 of the Forty-seventh Supplemental Indenture), and the interest to be paid on the redemption date with respect to such principal amount being redeemed, and shall be accompanied by a certificate of the chief financial officer, principal accounting officer, treasurer or comptroller (each, for purposes of this bond, a "Senior Financial Officer") of the Company as to the estimated Make-Whole Amount due in connection with such redemption (calculated as if the date of such notice were the date of the redemption), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Bonds a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified redemption date.

If this bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the redemption date. In the event of redemption of this bond in part only, a new bond for the unredeemed portion hereof shall be issued in the name of the holder hereof upon the surrender hereof.

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

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

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

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

This bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until The Bank of New York Mellon Trust Company, N. A., as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

This bond shall be deemed to be a contract and shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania (excluding laws governing conflicts of law).

IN WITNESS WHEREOF, Aqua Pennsylvania, Inc. has caused this bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this bond to be dated \_\_\_\_\_.

AQUA PENNSYLVANIA, INC.

Attest:

\_\_\_\_\_  
Assistant Secretary

By \_\_\_\_\_  
(Vice) President

[Form of Trustee's Certificate]

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

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

By: \_\_\_\_\_  
Authorized Officer



[Form of Certificate of Transfer]

(To be delivered with a Certificated Bond to the Trustee)

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

(please print or typewrite name and address including postal zip code of assignee and insert Taxpayer Identification No.)

this bond and all rights hereunder, hereby irrevocably constituting and appointment attorney to transfer this bond the books of the Company with full power of substitution in the premises.

CERTIFICATE OF TRANSFER

(The following is not required for sales or other transfers of this bond to or through the Company or a placement agent).

In connection with any transfer of this bond occurring prior to the date which is two years after the later of (a) the date of original issue of this bond, or (b) the last date the Company or any of its affiliates was the beneficial owner of this bond, the undersigned confirms that:

- This bond is being transferred by the undersigned to a transferee that is, or that the undersigned reasonably believes to be, a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933, as amended) pursuant to the exemption from registration under the Securities Act of 1933, as amended, provided by Rule 144A thereunder.

If the foregoing box is not checked, then, so long as the accompanying bond shall bear a legend on its face restricting resales and other transfers thereof (except in the case of a resale or other transfer made (i) to a placement agent referred to in such legend or to the Company or (ii) through a placement agent or by a placement agent acting as principal to a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, in a transaction approved by a placement agent) the Trustee shall not be obligated to register this bond in the name of any person other than the registered owner hereof.

Dated:

NOTICE: The signature of the beneficial owner to this assignment must correspond with the name as written on the face of this bond in every particular, without alteration or enlargement or any change whatsoever.

TO BE COMPLETED BY PURCHASER IF THE BOX ABOVE IS CHECKED:

The undersigned represents and warrants that it is a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the registered owner is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated:

NOTICE: To be executed by an officer.

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THIS BOND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND SALES OR OTHER TRANSFERS HEREOF MAY BE MADE ONLY TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN RULE 144A UNDER THE ACT ("QUALIFIED INSTITUTIONAL BUYERS") IN TRANSACTIONS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION UNDER THE ACT.

BY ITS ACCEPTANCE OF THIS BOND, THE HOLDER REPRESENTS AND AGREES THAT IT IS A QUALIFIED INSTITUTIONAL BUYER AND THAT THIS BOND IS BEING ACQUIRED FOR ITS OWN ACCOUNT (AND NOT FOR THE ACCOUNT OF OTHERS) OR AS A FIDUCIARY FOR OTHERS FOR INVESTMENT AND NOT WITH A VIEW TO, OR FOR SALE IN CONNECTION WITH, THE PUBLIC DISTRIBUTION HEREOF IN ANY TRANSACTION THAT WOULD BE IN VIOLATION OF FEDERAL OR STATE SECURITIES LAWS, AND THAT ANY RESALE OR OTHER TRANSFER HEREOF OR ANY INTEREST HEREIN PRIOR TO THE DATE THAT IS TWO YEARS AFTER THE LATER OF (A) ITS DATE OF ISSUE OR (B) THE LAST DATE ON WHICH THE COMPANY OR ANY OF ITS AFFILIATES WAS THE BENEFICIAL OWNER HEREOF WILL BE MADE ONLY (1) TO A PLACEMENT AGENT OR THE COMPANY, (2) THROUGH ANY PLACEMENT AGENT OR BY ANY PLACEMENT AGENT ACTING AS PRINCIPAL TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE APPROVED BY SUCH PLACEMENT AGENT, (3) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER APPROVED BY THE COMPANY IN A TRANSACTION APPROVED BY THE COMPANY, (4) THROUGH A DEALER OTHER THAN A PLACEMENT AGENT TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE IN A TRANSACTION APPROVED BY THE COMPANY, OR (5) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION THAT MEETS THE REQUIREMENTS OF RULE 144A UNDER THE ACT, SUBJECT TO IN EACH CASE THE DISPOSITION OF THE PURCHASER'S PROPERTY BEING AT ALL TIMES WITHIN ITS CONTROL. IN THE CASE OF CERTIFICATED BONDS, ANY TRANSFER DESCRIBED IN CLAUSE (3), (4) OR (5) ABOVE REQUIRES THE SUBMISSION TO THE TRUSTEE (AS DEFINED HEREIN) OR ANY DULY AUTHORIZED PAYING AGENT OF THE CERTIFICATE OF TRANSFER ATTACHED HERETO DULY COMPLETED OR A DULY COMPLETED TRANSFER INSTRUMENT SUBSTANTIALLY IN THE FORM OF THE CERTIFICATE OF TRANSFER. THE COMPANY SHALL NOT RECOGNIZE ANY RESALE OR OTHER TRANSFER, OR ATTEMPTED RESALE OR OTHER TRANSFER, OF THIS BOND NOT MADE IN COMPLIANCE WITH THE FOREGOING PROVISIONS. THIS BOND AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON THE PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS BOND TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR PROVIDE ALTERNATIVE PROCEDURES IN COMPLIANCE WITH APPLICABLE LAW AND PRACTICES RELATING TO THE RESALE OR OTHER TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS BOND SHALL BE DEEMED, BY THE ACCEPTANCE OF THIS BOND, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth  
of Pennsylvania)

First Mortgage Bond, 3.80% Series due 2042

Aqua Pennsylvania, Inc. (f/k/a known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the "Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to \_\_\_\_\_ or its registered assigns, on the 1st day of December, 2042 (the "Maturity Date"), at the address designated by the registered owner pursuant to Section 11.1 of the Bond Purchase Agreement dated as of November 8, 2012, between the Company and the Purchasers listed therein (the "Bond Purchase Agreement"), the sum of \_\_\_\_\_ Million Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by wire transfer of immediately available funds in accordance with Section 11.1 of the Bond Purchase Agreement to such registered owner from the interest payment date next preceding the date of the authentication of this bond (or if this bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this bond is authenticated on or prior to June 1, 2013 from the date hereof) until the principal hereof shall become due and payable, at the rate of 3.80% per annum, payable semiannually in like coin or currency on the 1st day of June and the 1st day of December in each year, commencing June 1, 2013 and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of 5.80% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Forty-seventh Supplemental Indenture referred to herein) be calculated on the basis of a 360-day year of twelve 30-day months and be paid to the person in whose name this bond (or a bond or bonds in exchange for which this bond was issued) is registered at the close of business on the 15<sup>th</sup> day of the calendar month preceding the month in which the interest payment date occurs whether or not such day is a business day (a "Record Date") and principal, premium, if any, and interest on this bond shall be paid by the Company in accordance with written payment instructions of the registered owner delivered to the Company on or before such record date.

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This bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by an Indenture of Mortgage (herein called the "Indenture") dated as of January 1, 1941, executed by the Philadelphia Suburban Water Company (now Aqua Pennsylvania, Inc., f/k/a Pennsylvania Suburban Water Company, as successor by merger) to The Pennsylvania Company for Insurances on Lives and Granting Annuities (succeeded as trustee by The Bank of New York Mellon Trust Company, N.A.), as Trustee (the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and premium, if any, and interest on this bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This bond is one of the bonds described in the Forty-seventh Supplemental Indenture (the "Forty-seventh Supplemental Indenture") dated as of October 15, 2012, and designated therein as "First Mortgage Bond, 3.80% Series due 2042" (the "Bonds").

Concurrently herewith the Company is issuing its "First Mortgage Bond, 3.79% Series due 2041" in the aggregate principal amount of \$40,000,000 and its "First Mortgage Bond, 3.85% Series due 2047" in the aggregate principal amount of \$20,000,000.

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

The Company may, at its option, upon notice as provided below, redeem at any time all, or from time to time any part of, the Bonds, in an amount not less than 10% of the aggregate principal amount of the Bonds then outstanding in the case of a partial redemption, at 100% of the principal amount so redeemed, together with interest accrued thereon to the date of such redemption, plus the Make-Whole Amount (as defined in the Forty-seventh Supplemental Indenture) determined for the redemption date with respect to such principal amount of each bond then outstanding.

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Any redemption shall be effected by notice mailed to the registered owners thereof, as provided in the Indenture, at least thirty (30) days and not more than forty-five (45) days before the redemption date, all on the conditions and in the manner provided in the Indenture. Each such notice shall specify such date (which shall be a Business Day (as defined in the Forty-seventh Supplemental Indenture)), the aggregate principal amount of the Bonds to be redeemed on such date, the principal amount of each bond held by such holder to be redeemed (determined in accordance with Article I, Section 3 of the Forty-seventh Supplemental Indenture), and the interest to be paid on the redemption date with respect to such principal amount being redeemed, and shall be accompanied by a certificate of the chief financial officer, principal accounting officer, treasurer or comptroller (each, for purposes of this bond, a "Senior Financial Officer") of the Company as to the estimated Make-Whole Amount due in connection with such redemption (calculated as if the date of such notice were the date of the redemption), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Bonds a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified redemption date.

If this bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the redemption date. In the event of redemption of this bond in part only, a new bond for the unredeemed portion hereof shall be issued in the name of the holder hereof upon the surrender hereof.

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

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

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

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

This bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until The Bank of New York Mellon Trust Company, N. A., as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

This bond shall be deemed to be a contract and shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania (excluding laws governing conflicts of law).

IN WITNESS WHEREOF, Aqua Pennsylvania, Inc. has caused this bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this bond to be dated \_\_\_\_\_.

AQUA PENNSYLVANIA, INC.

Attest:

\_\_\_\_\_  
Assistant Secretary

By \_\_\_\_\_  
(Vice) President

[Form of Trustee's Certificate]

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

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

By: \_\_\_\_\_  
Authorized Officer

[Form of Certificate of Transfer]

(To be delivered with a Certificated Bond to the Trustee)

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

(please print or typewrite name and address including postal zip code of assignee and insert Taxpayer Identification No.)

this bond and all rights hereunder, hereby irrevocably constituting and appointment attorney to transfer this bond the books of the Company with full power of substitution in the premises.

CERTIFICATE OF TRANSFER

(The following is not required for sales or other transfers of this bond to or through the Company or a placement agent).

In connection with any transfer of this bond occurring prior to the date which is two years after the later of (a) the date of original issue of this bond, or (b) the last date the Company or any of its affiliates was the beneficial owner of this bond, the undersigned confirms that:

- This bond is being transferred by the undersigned to a transferee that is, or that the undersigned reasonably believes to be, a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933, as amended) pursuant to the exemption from registration under the Securities Act of 1933, as amended, provided by Rule 144A thereunder.

If the foregoing box is not checked, then, so long as the accompanying bond shall bear a legend on its face restricting resales and other transfers thereof (except in the case of a resale or other transfer made (i) to a placement agent referred to in such legend or to the Company or (ii) through a placement agent or by a placement agent acting as principal to a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, in a transaction approved by a placement agent) the Trustee shall not be obligated to register this bond in the name of any person other than the registered owner hereof.

Dated:

NOTICE: The signature of the beneficial owner to this assignment must correspond with the name as written on the face of this bond in every particular, without alteration or enlargement or any change whatsoever.

TO BE COMPLETED BY PURCHASER IF THE BOX ABOVE IS CHECKED:

The undersigned represents and warrants that it is a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the registered owner is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated:

NOTICE: To be executed by an officer.

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THIS BOND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND SALES OR OTHER TRANSFERS HEREOF MAY BE MADE ONLY TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN RULE 144A UNDER THE ACT ("QUALIFIED INSTITUTIONAL BUYERS") IN TRANSACTIONS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION UNDER THE ACT.

BY ITS ACCEPTANCE OF THIS BOND, THE HOLDER REPRESENTS AND AGREES THAT IT IS A QUALIFIED INSTITUTIONAL BUYER AND THAT THIS BOND IS BEING ACQUIRED FOR ITS OWN ACCOUNT (AND NOT FOR THE ACCOUNT OF OTHERS) OR AS A FIDUCIARY FOR OTHERS FOR INVESTMENT AND NOT WITH A VIEW TO, OR FOR SALE IN CONNECTION WITH, THE PUBLIC DISTRIBUTION HEREOF IN ANY TRANSACTION THAT WOULD BE IN VIOLATION OF FEDERAL OR STATE SECURITIES LAWS, AND THAT ANY RESALE OR OTHER TRANSFER HEREOF OR ANY INTEREST HEREIN PRIOR TO THE DATE THAT IS TWO YEARS AFTER THE LATER OF (A) ITS DATE OF ISSUE OR (B) THE LAST DATE ON WHICH THE COMPANY OR ANY OF ITS AFFILIATES WAS THE BENEFICIAL OWNER HEREOF WILL BE MADE ONLY (1) TO A PLACEMENT AGENT OR THE COMPANY, (2) THROUGH ANY PLACEMENT AGENT OR BY ANY PLACEMENT AGENT ACTING AS PRINCIPAL TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE APPROVED BY SUCH PLACEMENT AGENT, (3) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER APPROVED BY THE COMPANY IN A TRANSACTION APPROVED BY THE COMPANY, (4) THROUGH A DEALER OTHER THAN A PLACEMENT AGENT TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE IN A TRANSACTION APPROVED BY THE COMPANY, OR (5) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION THAT MEETS THE REQUIREMENTS OF RULE 144A UNDER THE ACT, SUBJECT TO IN EACH CASE THE DISPOSITION OF THE PURCHASER'S PROPERTY BEING AT ALL TIMES WITHIN ITS CONTROL. IN THE CASE OF CERTIFICATED BONDS, ANY TRANSFER DESCRIBED IN CLAUSE (3), (4) OR (5) ABOVE REQUIRES THE SUBMISSION TO THE TRUSTEE (AS DEFINED HEREIN) OR ANY DULY AUTHORIZED PAYING AGENT OF THE CERTIFICATE OF TRANSFER ATTACHED HERETO DULY COMPLETED OR A DULY COMPLETED TRANSFER INSTRUMENT SUBSTANTIALLY IN THE FORM OF THE CERTIFICATE OF TRANSFER. THE COMPANY SHALL NOT RECOGNIZE ANY RESALE OR OTHER TRANSFER, OR ATTEMPTED RESALE OR OTHER TRANSFER, OF THIS BOND NOT MADE IN COMPLIANCE WITH THE FOREGOING PROVISIONS. THIS BOND AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON THE PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS BOND TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR PROVIDE ALTERNATIVE PROCEDURES IN COMPLIANCE WITH APPLICABLE LAW AND PRACTICES RELATING TO THE RESALE OR OTHER TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS BOND SHALL BE DEEMED, BY THE ACCEPTANCE OF THIS BOND, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.



AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth  
of Pennsylvania)

First Mortgage Bond, 3.85% Series due 2047

Aqua Pennsylvania, Inc. (f/k/a known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the "Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to \_\_\_\_\_ or its registered assigns, on the 1st day of December, 2047 (the "Maturity Date"), at the address designated by the registered owner pursuant to Section 11.1 of the Bond Purchase Agreement dated as of November 8, 2012, between the Company and the Purchasers listed therein (the "Bond Purchase Agreement"), the sum of \_\_\_\_\_ Million Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by wire transfer of immediately available funds in accordance with Section 11.1 of the Bond Purchase Agreement to such registered owner from the interest payment date next preceding the date of the authentication of this bond (or if this bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this bond is authenticated on or prior to June 1, 2013 from the date hereof) until the principal hereof shall become due and payable, at the rate of 3.85% per annum, payable semiannually in like coin or currency on the 1st day of June and the 1st day of December in each year, commencing June 1, 2013 and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of 5.85% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Forty-seventh Supplemental Indenture referred to herein) be calculated on the basis of a 360-day year of twelve 30-day months and be paid to the person in whose name this bond (or a bond or bonds in exchange for which this bond was issued) is registered at the close of business on the 15<sup>th</sup> day of the calendar month preceding the month in which the interest payment date occurs whether or not such day is a business day (a "Record Date") and principal, premium, if any, and interest on this bond shall be paid by the Company in accordance with written payment instructions of the registered owner delivered to the Company on or before such record date.

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This bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by an Indenture of Mortgage (herein called the "Indenture") dated as of January 1, 1941, executed by the Philadelphia Suburban Water Company (now Aqua Pennsylvania, Inc., f/k/a Pennsylvania Suburban Water Company, as successor by merger) to The Pennsylvania Company for Insurances on Lives and Granting Annuities (succeeded as trustee by The Bank of New York Mellon Trust Company, N.A.), as Trustee (the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and premium, if any, and interest on this bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This bond is one of the bonds described in the Forty-seventh Supplemental Indenture (the "Forty-seventh Supplemental Indenture") dated as of October 15, 2012, and designated therein as "First Mortgage Bond, 3.85% Series due 2047" (the "Bonds").

Concurrently herewith the Company is issuing its "First Mortgage Bond, 3.79% Series due 2041" in the aggregate principal amount of \$40,000,000 and its "First Mortgage Bond, 3.80% Series due 2042" in the aggregate principal amount of \$20,000,000.

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

The Company may, at its option, upon notice as provided below, redeem at any time all, or from time to time any part of, the Bonds, in an amount not less than 10% of the aggregate principal amount of the Bonds then outstanding in the case of a partial redemption, at 100% of the principal amount so redeemed, together with interest accrued thereon to the date of such redemption, plus the Make-Whole Amount (as defined in the Forty-seventh Supplemental Indenture) determined for the redemption date with respect to such principal amount of each bond then outstanding.

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Any redemption shall be effected by notice mailed to the registered owners thereof, as provided in the Indenture, at least thirty (30) days and not more than forty-five (45) days before the redemption date, all on the conditions and in the manner provided in the Indenture. Each such notice shall specify such date (which shall be a Business Day (as defined in the Forty-seventh Supplemental Indenture)), the aggregate principal amount of the Bonds to be redeemed on such date, the principal amount of each bond held by such holder to be redeemed (determined in accordance with Article I, Section 3 of the Forty-seventh Supplemental Indenture), and the interest to be paid on the redemption date with respect to such principal amount being redeemed, and shall be accompanied by a certificate of the chief financial officer, principal accounting officer, treasurer or comptroller (each, for purposes of this bond, a "Senior Financial Officer") of the Company as to the estimated Make-Whole Amount due in connection with such redemption (calculated as if the date of such notice were the date of the redemption), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Bonds a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified redemption date.

If this bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the redemption date. In the event of redemption of this bond in part only, a new bond for the unredeemed portion hereof shall be issued in the name of the holder hereof upon the surrender hereof.

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

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

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

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

This bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until The Bank of New York Mellon Trust Company, N. A., as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

This bond shall be deemed to be a contract and shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania (excluding laws governing conflicts of law).

IN WITNESS WHEREOF, Aqua Pennsylvania, Inc. has caused this bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this bond to be dated \_\_\_\_\_.

AQUA PENNSYLVANIA, INC.

Attest:

\_\_\_\_\_  
Assistant Secretary

By \_\_\_\_\_  
(Vice) President

[Form of Trustee's Certificate]

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

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

By: \_\_\_\_\_  
Authorized Officer

[Form of Certificate of Transfer]

(To be delivered with a Certificated Bond to the Trustee)

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

(please print or typewrite name and address including postal zip code of assignee and insert Taxpayer Identification No.)

this bond and all rights hereunder, hereby irrevocably constituting and appointment attorney to transfer this bond the books of the Company with full power of substitution in the premises.

CERTIFICATE OF TRANSFER

(The following is not required for sales or other transfers of this bond to or through the Company or a placement agent).

In connection with any transfer of this bond occurring prior to the date which is two years after the later of (a) the date of original issue of this bond, or (b) the last date the Company or any of its affiliates was the beneficial owner of this bond, the undersigned confirms that:

- This bond is being transferred by the undersigned to a transferee that is, or that the undersigned reasonably believes to be, a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933, as amended) pursuant to the exemption from registration under the Securities Act of 1933, as amended, provided by Rule 144A thereunder.

If the foregoing box is not checked, then, so long as the accompanying bond shall bear a legend on its face restricting resales and other transfers thereof (except in the case of a resale or other transfer made (i) to a placement agent referred to in such legend or to the Company or (ii) through a placement agent or by a placement agent acting as principal to a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, in a transaction approved by a placement agent) the Trustee shall not be obligated to register this bond in the name of any person other than the registered owner hereof.

Dated:

NOTICE: The signature of the beneficial owner to this assignment must correspond with the name as written on the face of this bond in every particular, without alteration or enlargement or any change whatsoever.

TO BE COMPLETED BY PURCHASER IF THE BOX ABOVE IS CHECKED:

The undersigned represents and warrants that it is a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the registered owner is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated:

NOTICE: To be executed by an officer.

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and;

WHEREAS, all acts and things necessary to make the bonds, when executed by the Company and authenticated and delivered by the Trustee as in this Forty-seventh Supplemental Indenture provided and issued by the Company, valid, binding and legal obligations of the Company, and this Forty-seventh Supplemental Indenture a valid and enforceable supplement to said Original Indenture, have been done, performed and fulfilled, and the execution of this Forty-seventh Supplemental Indenture has been in all respects duly authorized:

NOW, THEREFORE, THIS FORTY-SEVENTH SUPPLEMENTAL INDENTURE WITNESSETH: That, in order to secure the payment of the principal and interest of all bonds issued under the Original Indenture and all indentures supplemental thereto, according to their tenor and effect, and according to the terms of the Original Indenture and of any indenture supplemental thereto, and to secure the performance of the covenants and obligations in said bonds and in the Original Indenture and any indenture supplemental thereto respectively contained, and to provide for the proper issuing, conveying and confirming unto the Trustee, its successors in said trust and its and their assigns forever, upon the trusts and for the purposes expressed in the Original Indenture and in any indenture supplemental thereto, all and singular the estates, property and franchises of the Company thereby mortgaged or intended so to be, the Company, for and in consideration of the premises and of the sum of One Dollar (\$1.00) in hand paid by the Trustee to the Company upon the execution and delivery of this Forty-seventh Supplemental Indenture, receipt whereof is hereby acknowledged, and of other good and valuable consideration, has granted, bargained, sold, aliened, enfeoffed, released and confirmed and by these presents does grant, bargain, sell, alien, enfeoff, release and confirm unto The Bank of New York Mellon Trust Company, N. A. as Trustee, and to its successors in said trust and its and their assigns forever:

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

I.

REAL ESTATE AND WATER RIGHTS.

The real estate described in the deeds from the grantors named in Exhibit B hereto, dated and recorded as therein set forth, and any other real estate and water rights acquired since the date of the Forty-sixth Supplemental Indenture.

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II.

BUILDINGS AND EQUIPMENT.

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

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

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

III.

FRANCHISES AND RIGHTS OF WAY.

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

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IV.

AFTER ACQUIRED PROPERTY.

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

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

EXCEPTING AND RESERVING, HOWEVER, certain premises, not used or useful in the supplying of water by the Company, expressly excepted and reserved from the lien of the Original Indenture and not subject to the terms thereof.

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

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



TO HAVE AND TO HOLD, all and singular the property, rights, privileges and franchises hereby conveyed, transferred or pledged or intended so to be unto the Trustee and its successors in the trust heretofore and hereby created, and its and their assigns forever.

IN TRUST NEVERTHELESS, for the equal pro rata benefit and security of each and every entity who may be or become the holders of bonds and coupons secured by the Original Indenture or by any indenture supplemental thereto, or both, without preference, priority or distinction as to lien or otherwise of any bond or coupon over or from any other bond or coupon, so that each and every of said bonds and coupons issued or to be issued, of whatsoever series, shall have the same right, lien and privilege under the Original Indenture and all indentures supplemental thereto and shall be equally secured hereby and thereby, with the same effect as if said bonds and coupons had all been made, issued and negotiated simultaneously on the date thereof; subject, however, to the provisions with reference to extended, transferred or pledged coupons and claims for interest contained in the Original Indenture and subject to any sinking or improvement fund or maintenance deposit provisions, or both, for the benefit of any particular series of bonds.

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

## ARTICLE I.

### Form, Authentication and Delivery of the Bonds; Redemption Provisions

SECTION 1. There shall be a sixty-second series limited in aggregate principal amount of \$40,000,000 designated as "Aqua Pennsylvania, Inc., First Mortgage Bond, 3.79% Series due 2041", a sixty-third series of bonds limited in aggregate principal amount to \$20,000,000 designated as "Aqua Pennsylvania, Inc., First Mortgage Bond, 3.80% Series due 2042" and a sixty-fourth series of bonds limited in aggregate principal amount to \$20,000,000 designated as "Aqua Pennsylvania, Inc., First Mortgage Bond, 3.85% Series due 2047".

Interest on each Series of the Bonds shall be payable semiannually on June 1 and December 1 (each an "Interest Payment Date") in each year commencing June 1, 2013. Each Bond shall be dated the date of its authentication and shall bear interest from the interest payment date next preceding the date of the authentication of such Bond (or if such Bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if such Bond is authenticated on or prior to the record date for the first interest payment date for the Bonds, in which case it shall bear interest from the date of original issuance of the Bonds); provided, however, that, if at the time of authentication of any Bond, interest on the predecessor Bond of such Bond is in default, such Bond shall bear interest from the date to which interest has been paid, or, if no interest has been paid, from the date of original issuance thereof. The 3.79% Series due 2041 shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on December 1, 2041 and shall bear interest at the rate of 3.79% per annum. The 3.80% Series due 2042 shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on December 1, 2042 and shall bear interest at the rate of 3.80% per annum. The 3.85% Series due 2047 shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on December 1, 2047 and shall bear interest at the rate of 3.85% per annum. Any payment of principal of or interest on any Bond that is due on a date other than a Business Day (as defined below) shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; provided that if the maturity date of any Bond is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day. As used herein, "Business Day" means any day other than a Saturday or Sunday, on which the Trustee, any paying agent or banks in New York, New York are not required or authorized by law or executive order to close.

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The Bonds shall be issuable only as registered bonds without coupons, shall be in the form hereinabove recited, in the minimum denomination of \$100,000 or any integral multiple of \$1,000 in excess thereof, shall be lettered "R", and shall bear such numbers as the Company may reasonably require.

The principal of, and interest on the Bonds shall be payable as provided in the form of Bond, and shall be payable, along with interest on the Bonds, in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts; each installment of interest shall be paid by bank wire transfer of immediately available funds pursuant to instructions and conditions incorporated in an agreement between such person and the Trustee or the Company.

The person in whose name any Bond is registered at the close of business on any Record Date with respect to any Interest Payment Date shall be entitled to receive the interest payable on such Interest Payment Date notwithstanding the cancellation of such Bond upon any transfer or exchange subsequent to the Record Date and prior to such Interest Payment Date; provided, however, that if and to the extent the Company shall default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the persons in whose names outstanding Bonds are registered at the close of business on a subsequent Record Date established by notice given by mail by or on behalf of the Company to the holders of Bonds not less than fifteen (15) days preceding such subsequent Record Date, such Record Date to be not less than ten (10) days preceding the date of payment of such defaulted interest. The term "Record Date" as used in this Section 1 with respect to any regular Interest Payment Date shall mean the fifteenth (15<sup>th</sup>) day of the calendar month preceding such Interest Payment Date.

Exchange of any Bonds shall be effected in accordance with the applicable provisions of Sections 7, 8 and 9 of Article II of the Original Indenture.

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The text of the Bonds and of the certificate of the Trustee upon such Bonds shall be, respectively, substantially of the tenor and effect hereinbefore recited.

SECTION 2. The Company may redeem the Bonds prior to maturity only as provided in this Section and upon payment of the redemption price specified in this Section. The Company may, at its option, upon notice as provided below, redeem at any time all, or from time to time any part of, the Bonds, in an amount not less than 10% of the aggregate principal amount of the Bonds then outstanding in the case of a partial redemption, at 100% of the principal amount so redeemed, together with interest accrued thereon to the date of such redemption, plus the Make-Whole Amount (as defined below) determined for the redemption date with respect to such principal amount of each Bond then outstanding. The Company will give each holder of Bonds and the Trustee written notice of each optional redemption under this Section 2 not less than 30 days and not more than 45 days prior to the date fixed for such prepayment. Each such notice shall specify such date (which shall be a Business Day), the aggregate principal amount of the Bonds to be redeemed on such date, the principal amount of each Bond held by such holder to be redeemed (determined in accordance with Section 3 below), and the interest to be paid on the redemption date with respect to such principal amount being redeemed, and shall be accompanied by a certificate of the chief financial officer, principal accounting officer, treasurer or comptroller (each, for purposes of this Article I, a "Senior Financial Officer") of the Company as to the estimated Make-Whole Amount due in connection with such redemption (calculated as if the date of such notice were the date of the redemption), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Bonds and the Trustee a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified redemption date.

The term "Make-Whole Amount" means, with respect to any Bond, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Bond over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Bond, the principal of such Bond that is to be prepaid pursuant to this Section 2.

"Discounted Value" means, with respect to the Called Principal of any Bond, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on such Bond is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Bond, 0.50% over the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on the run U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date.

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In the case of each determination under clause (i) or clause (ii), as the case may be, of the preceding paragraph, such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the applicable U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the applicable U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Bond.

“Remaining Average Life” means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

“Remaining Scheduled Payments” means, with respect to the Called Principal of any Bond, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of such Bond, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to this Section 2.

“Settlement Date” means, with respect to the Called Principal of any Bond, the date on which such Called Principal is to be redeemed pursuant to this Section 2.

SECTION 3. In the case of each partial redemption of the Bonds, the principal amount of the Bonds to be redeemed shall be allocated among all of the Bonds at the time outstanding in proportion, as nearly as practicable, to their respective unpaid principal amounts thereof.

SECTION 4. Any redemption of the Bonds shall be effected in accordance with the provisions of Article V of the Original Indenture.

SECTION 5. All Bonds deemed to have been paid in full as provided in Section 2 and 3 of this Article I of this Forty-seventh Supplemental Indenture shall be surrendered to the Trustee for cancellation, and the Trustee shall forthwith cancel the same and, in accordance with applicable laws and regulations and the Trustee’s policies and procedures, and on the written request of the Company, deliver the same to the Company. Any Bond paid in full, whether at maturity or earlier redemption, shall be surrendered to the Company and cancelled and shall not be reissued, and no Bond shall be issued in lieu of the principal amount of such Bond paid at maturity or redemption. In case part of an outstanding Bond shall be deemed to have been partially paid as provided in said Section 2 or Section 3, upon presentation of such Bond at the designated office of the Trustee, the Trustee shall make a notation thereon of the payment of the portion of the principal amount of such Bond so deemed to have been paid unless the registered owner shall elect to surrender such Bond to the Trustee, in which case the Company shall execute and the Trustee shall authenticate and deliver, without charge to the registered owner, Bonds in such authorized denominations as shall be specified by the registered owner for the unpaid balance of the principal amount of such outstanding Bond. The holder of a Bond that has been partially paid, shall not be required to surrender such Bond to the Trustee or the Company; provided, however, prior to any sale or other disposition of any Bond by a holder thereof, such holder will either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Bond to the Company in exchange for a new Bond or Bonds pursuant to Article II of the Original Indenture.

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SECTION 6. The 3.79% Series due 2041 in the aggregate principal amount of \$40,000,000, the 3.80% Series due 2042 in the aggregate principal amount of \$20,000,000 and the 3.85% Series due 2047 in the aggregate principal amount of \$20,000,000 may be issued under the provisions of Article IV of the Original Indenture and may forthwith be executed by the Company and delivered to the Trustee and shall be authenticated by the Trustee and delivered to or upon the order of the Company, upon receipt by the Trustee of the resolutions, certificates, opinions or other instruments or all of the foregoing required to be delivered upon the issue of bonds pursuant to the provisions of the Original Indenture

## ARTICLE II.

### Maintenance or Improvement Deposit.

SECTION 1. The Company covenants that it will deposit with the Trustee on or before the March 1 next occurring after the bonds of the bonds of the 9.93% Series due 2013 cease to be outstanding, or on or before the next March 1 next occurring after the bonds of the 9.97% Series due 2018 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.29% Series due 2026 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.17% Series due 2021 cease to be outstanding, or on or before the March 1 next occurring after the bonds of any of the Subseries of the 1995 Medium Term Note Series issued under the Twenty-Ninth Supplemental Indenture (consisting of the 7.72% Subseries A due 2025 and the 6.89% Subseries C due 2015) shall cease to be outstanding, or on or before March 1 next occurring after the bonds of any of the Subseries of the 1999 Medium Term Note Series issued under the Thirty-Third Supplemental Indenture (consisting of the 8.26% Subseries F due 2022, the 8.32% Subseries I due 2022, the 8.14% Subseries J due 2025, the 5.08% Subseries O due 2015, the 5.17% Subseries P due 2017, the 5.751% Subseries Q due 2019, the 5.751% Subseries R due 2019, the 6.06% Subseries S due 2027, the 6.06% Subseries T due 2027 and the 5.98% Subseries U due 2028) cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.35% Series due 2031 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.55% Series due 2032 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.15% Series due 2032 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.05% Series due 2039 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2036 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2037 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2038 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2035 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2040 cease to be outstanding or on or before March 1 next occurring after the bonds of the 5.00% Series due 2041 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.25% Series due 2042 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.25% Series due 2043 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 6.25% Series due 2017 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 6.75% Series due 2018 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2033 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2034 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2039 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2040 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 4.75% Series due 2040 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 4.50% Series due 2042 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2043 cease to be outstanding, whichever is latest, and on or before March 1 in each year thereafter if and so long as any of the Bonds are outstanding, an amount in cash (the "Maintenance or Improvement Deposit") equal to 9% of the Gross Operating Revenues of the Company during the preceding calendar year less, to the extent that the Company desires to take such credits, the following:

- (a) the amount actually expended for maintenance during such calendar year; and

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(b) the Cost or Fair Value, whichever is less, of Permanent Additions acquired during such calendar year which at the time of taking such credit constitute Available Permanent Additions; and

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

SECTION 2. The Company covenants that it will on or before March 1 in each year, beginning with the first deposit made with the Trustee under the provisions of Section 1 of this Article, as long as any of the Bonds are outstanding, deliver to the Trustee the following:

(A) An Officers' Certificate, which shall state:

(i) The amount of the Gross Operating Revenues for the preceding calendar year;

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- (ii) 9% of such Gross Operating Revenues;
- (iii) The amount actually expended by the Company for maintenance during such calendar year;
- (iv) The amount set forth in subparagraph (xii) of each Officers' Certificate delivered to the Trustee pursuant to the provisions of this Section during the preceding five calendar years (specifying each such Officers' Certificate), after deducting from each such amount the aggregate of (a) the Cost or Fair Value, whichever is less, of all Permanent Additions represented by such amount which have ceased to be Available Permanent Additions; and (b) any part of such amount for which the Company has previously taken credit against any Maintenance or Improvement Deposit (specifying the Officers' Certificate in which such credit was taken); and (c) any part of such amount for which the Company then desires to take credit against the Maintenance or Improvement Deposit;
- (v) An amount which shall be the aggregate of all amounts set forth pursuant to the provisions of clause (c) of the foregoing subparagraph (iv);
- (vi) The Cost or Fair Value, whichever is less, of Available Permanent Additions acquired by the Company during the preceding calendar year;
- (vii) That part of the amount set forth in subparagraph (vi) which the Company desires to use as a credit against the Maintenance or Improvement Deposit;
- (viii) The amount of cash payable to the Trustee under the provisions of Section 1 of this Article, which shall be the amount by which the amount set forth in subparagraph (ii) hereof exceeds the sum of the amounts set forth in subparagraphs (iii), (v) and (vii) hereof;
- (ix) The sum of all amounts charged on the books of the Company against any reserve for retirement or depreciation during the preceding calendar year representing the aggregate of the Cost when acquired of any part of the Company's plants and property of the character described in the granting clauses hereof which has been permanently retired or abandoned;
- (x) The aggregate of the amounts set forth in subparagraphs (v) and (vii) hereof;
- (xi) The amount by which the amount set forth in subparagraph (x) exceeds the amount set forth in subparagraph (ix), being the amount required to be deducted from the Cost or Fair Value of Available Permanent Additions in order to determine a Net Amount of Available Permanent Additions pursuant to the provisions of Section 9 of Article I of the Original Indenture;

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- (xii) The amount set forth in subparagraph (vi) after deducting the amount, if any, set forth in subparagraph (vii); and
  - (xiii) That all conditions precedent to the taking of the credit or credits so requested by the Company have been complied with.

(B) In the event that the Officers' Certificate delivered to the Trustee pursuant to the provisions of paragraph (A) of this Section shall state, pursuant to the requirements of subparagraph (vi), the Cost or Fair Value of Available Permanent Additions acquired by the Company during the preceding calendar year, the documents specified in paragraphs 2, 3, 5, 6 and 7 of subdivision (B) of Section 3 of Article IV of the Original Indenture.

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

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

- (a) A Resolution requesting such payment; and
- (b) The documents specified in paragraphs 2, 5, 6 and 7 of subdivision (B) of Section 3 of Article IV of the Original Indenture, with such modifications, additions and omissions as may be appropriate in the light of the purposes for which they are used.

### ARTICLE III.

#### Covenants of the Company.

SECTION 1. The Company hereby covenants and agrees with the Trustee, for the benefit of the Trustee and all the present and future holders of the Bonds, that the Company will pay the principal of and premium, if any, of and interest on all bonds issued or to be issued as aforesaid under and secured by the Original Indenture as hereby supplemented, as well as all bonds which may be hereafter issued in exchange or substitution therefor, and will perform and fulfill all of the terms, covenants and conditions of the Original Indenture and of this Forty-seventh Supplemental Indenture with respect to the additional bonds to be issued under the Original Indenture as hereby supplemented.



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SECTION 2. The Company covenants and agrees that so long as any of the Bonds are outstanding (a) the Company will not make any Stock Payment if, after giving effect thereto, its retained earnings, computed in accordance with generally accepted accounting principles consistently applied, will be less than the sum of (i) Excluded Earnings, if any, since December 31, 1998, and (ii) \$20,000,000; (b) Stock Payments made more than forty (40) days after the commencement, and prior to the expiration, of any Restricted Period shall not exceed 65% of the Company's Net Income during such Restricted Period; and (c) the Company will not authorize a Stock Payment if there has occurred and is continuing an event of default under subsections (a) or (b) of Section 1 of Article XI of the Original Indenture.

For the purposes of this Section 2 the following terms shall have the following meanings:

"Capitalization" shall mean the sum of (i) the aggregate principal amount of all Debt at the time outstanding, (ii) the aggregate par or stated value of all capital stock of the Company of all classes at the time outstanding, (iii) premium on capital stock, (iv) capital surplus, and (v) retained earnings.

"Debt" means (i) all indebtedness, whether or not represented by bonds, debentures, notes or other securities, for the repayment of money borrowed, (ii) all deferred indebtedness for the payment of the purchase price of property or assets purchased (but Debt shall not be deemed to include customer advances for construction or any bonds issued under the Indenture which are not Outstanding Bonds), (iii) leases which have been or, in accordance with generally accepted accounting principles, should be recorded as capital leases and (iv) guarantees of the obligations of another of the nature described in clauses (i), (ii) or (iii) which have been or, in accordance with generally accepted accounting principles, should be recorded as debt.

"Determination Date" shall mean the last day of each calendar quarter. Any calculation with respect to any Determination Date shall be based on the Company's balance sheet as of such date.

"Excluded Earnings" shall mean 35% of the Company's Net Income during any Restricted Period.

"Net Income" for any particular Restricted Period shall mean the amount of net income properly attributable to the conduct of the business of the Company for such period, as determined in accordance with generally accepted accounting principles consistently applied, after payment of or provision for taxes on income for such period.

"Outstanding Bonds" shall mean bonds which are outstanding within the meaning indicated in Section 20 of Article I of the Original Indenture except that, in addition to the bonds referred to in clauses (a), (b) and (c) of said Section 20, said term shall not include bonds for the retirement of which sufficient funds have been deposited with the Trustee with irrevocable instructions to apply such funds to the retirement of such bonds at a specified time, which may be either the maturity thereof or a specified redemption date, whether or not notice of redemption shall have been given.

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“Restricted Period” shall mean a period commencing on any Determination Date on which the total Debt of the Company is, or as the result of any Stock Payment then declared or set aside and to be made thereafter will be, more than 70% of Capitalization, and continuing until the third consecutive Determination Date on which the total Debt of the Company does not exceed 70% of Capitalization.

“Stock Payment” shall mean any payment in cash or property (other than stock of the Company) to any holder of shares of any class of capital stock of the Company as such holder, whether by dividend or upon the purchase, redemption, conversion or other acquisition of such shares, or otherwise.

SECTION 3. The Company covenants and agrees that so long as any of the Bonds are outstanding neither the Company nor any subsidiary of the Company will, directly or indirectly, lend or in any manner extend its credit to, or indemnify, or make any donation or capital contribution to, or purchase any security of, any corporation which directly or indirectly controls the Company, or any subsidiary or affiliate (other than an affiliate which is a subsidiary of the Company) of any such corporation.

#### ARTICLE IV.

##### The Trustee.

SECTION 1. The Trustee hereby accepts the trust hereby declared and provided, and agrees to perform the same upon the terms and conditions in the Original Indenture, as supplemented by this Forty-seventh Supplemental Indenture.

SECTION 2. Subject to the provisions of Article XIII of the Original Indenture, the Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through and consult with attorneys, agents, officers or employees selected by the Trustee in its sole discretion. The Trustee shall be entitled to advice of counsel concerning all matters of trusts hereof and the duties hereunder and may in all cases pay such reasonable compensation to all such attorneys, agents, officers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act or refrain from acting and rely upon and be free from all liability for so relying upon the opinion or advice of any attorney (who may be the attorney or attorneys for the Company) and shall be free from all liability for any action taken or not taken in reliance on such opinion or advice. The Trustee may act and rely on written opinions of experts employed by the Trustee and such advice shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by the Trustee hereunder in good faith and in reliance thereon. The Trustee shall not be responsible for any loss or damage resulting from any action or non-action in good faith taken in reliance upon such opinion or advice. The Trustee shall not be bound to confirm, verify or make any investigation into the facts or matters stated in any financial or other statements, resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order or other paper or document furnished pursuant to the terms hereof.

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SECTION 3. Before the Trustee shall be required to foreclose on, or to take control or possession of, the real property or leasehold interest (the "Premises") which may be the subject of any mortgage or mortgages for which the Trustee is mortgagee in connection with the issuance of the Bonds, the Trustee shall be indemnified and held harmless by the holders and/or beneficial owners of the Bonds from and against any and all expense, loss, or liability that may be suffered by the Trustee in connection with any spill, leak or release which may have occurred on or invaded the Premises or any contamination by any Hazardous Substance (as such terms are hereinafter defined), whether caused by the Company or any other person or entity, including, but not limited to, (1) any and all reasonable expenses that the Trustee may incur in complying with any of the Environmental Statutes (hereinafter defined), (2) any and all reasonable costs that the Trustee may incur in studying or remedying any spill, leak or release which may have occurred on or invaded the Premises or any contamination, (3) any and all fines or penalties assessed upon the Trustee by reason of such contamination, (4) any and all loss of value of the Premises or the improvements thereon by reason of such contamination, and (5) any and all legal fees and costs reasonably incurred by the Trustee in connection with any of the foregoing. As used in this Section, contamination by any Hazardous Substance shall include contamination arising from the presence, creation, production, collection, treatment, disposal, discharge, release, storage, transport, or transfer of any Hazardous Substance at or from the Premises or any improvements thereon. As used in this Section, the term "Hazardous Substance" shall mean petroleum hydrocarbons or any substance which (a) constitutes a hazardous waste or substance under any applicable federal, state or local law, rule, order or regulation now or hereafter adopted; (b) constitutes a "hazardous substance" as such term is defined under the Comprehensive Environmental Response, Compensation and Liability Act, as amended (42 U.S.C. §9601 et seq.) and the regulations issued thereunder and any comparable state or local law or regulation; (c) constitutes a "hazardous waste" under the Resource Conservation and Recovery Act, (42 U.S.C. §6991) and the regulations issued thereunder and any comparable state or local law or regulation; (d) constitutes a pollutant, contaminant, chemical or industrial, toxic or hazardous substance or waste as such terms are defined under the Federal Clean Water Act, as amended (33 U.S.C. §1251 et seq.), the Toxic Substances Control Act, as amended (15 U.S.C. § 2601 et seq.), or any comparable state or local laws or regulations; (e) exhibits any of the characteristics enumerated in 40 C.F.R. Sections 261.20-261.24, inclusive; (f) those extremely hazardous substances listed in Section 302 of the Superfund Amendments and Reauthorization Act of 1986 (Public Law 99-499, 100 Stat. 1613) which are present in threshold planning or reportable quantities as defined under such act; (g) toxic or hazardous chemical substances which are present in quantities which exceed exposure standards as those terms are defined under Sections 6 and 8 of the Occupational Safety and Health Act, as amended (29 U.S.C. §§655 and 657 and 29 C.F.R. Part 1910, subpart 2); and (h) any asbestos, petroleum-based products, or any substance contained within or released from any underground or aboveground storage tanks. As used in this Section, the term "Environmental Statutes" shall mean the statutes, laws, rules, orders and regulations referred to in (a) through (g) inclusive in the preceding.

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ARTICLE V.

Miscellaneous.

SECTION 1. This instrument is executed and shall be construed as an indenture supplemental to the Original Indenture, and shall form a part thereof, and except as hereby supplemented, the Original Indenture and the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth, Eighteenth, Nineteenth, Twentieth, Twenty-First, Twenty-Second, Twenty-Third, Twenty-Fourth, Twenty-Fifth, Twenty-Sixth, Twenty-Seventh, Twenty-Eighth, Twenty-Ninth, Thirtieth, Thirty-First, Thirty-Second, Thirty-Third, Thirty-Fourth, Thirty-Fifth, Thirty-Sixth, Thirty-Seventh, Thirty-Eighth, Thirty-Ninth, Fortieth, Forty-first, Forty-second, Forty-third, Forty-fourth, Forty-fifth and Forty-sixth Supplemental Indentures are hereby confirmed. All references in this Forty-seventh Supplemental Indenture to the Original Indenture shall be deemed to refer to the Original Indenture as heretofore amended and supplemented, and all terms used herein and not specifically defined herein shall be taken to have the same meaning as in the Original Indenture, as so amended, except in the cases where the context clearly indicates otherwise.

SECTION 2. Any notices to the Trustee under this Forty-seventh Supplemental Indenture shall be delivered to the Trustee by registered or certified mail, hand delivery or other courier or express delivery service (with receipt confirmed) or by telecopy (with receipt confirmed) at the following address:

The Bank of New York Mellon Trust Company, N. A.  
Global Corporate Trust  
1735 Market Street, 6<sup>th</sup> Floor  
AIM No: 193-0650  
Philadelphia, PA 19103  
Attention: Judy Wisniewski  
Telephone: 215-553-6941  
Fax: 215-553-6915

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

SECTION 3. All recitals in this Forty-seventh Supplemental Indenture are made by the Company only and not by the Trustee; and all of the provisions contained in the Original Indenture in respect of the rights, privileges, immunities, powers and duties of the Trustee shall be applicable in respect hereof as fully and with like effect as if set forth herein in full.

SECTION 4. Although this Forty-seventh Supplemental Indenture is dated for convenience and for the purpose of reference as of October 15, 2012, the actual date or dates of execution hereof by the Company and the Trustee are as indicated by their respective acknowledgments annexed hereto.

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SECTION 5. In order to facilitate the recording or filing of this Forty-seventh Supplemental Indenture, the same may be simultaneously executed in several counterparts, each of which shall be deemed to be an original and such counterparts shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF the parties hereto have caused their corporate seals to be hereunto affixed and their authorized officers have hereto affixed their signatures, and their authorized officers have duly attested the execution hereof, as of the day first above written.

[CORPORATE SEAL]

AQUA PENNSYLVANIA, INC.,  
as successor by merger to  
Philadelphia Suburban Water Company

Attest: Maria Gordiany

By: Diana MoyKelly

[CORPORATE SEAL]

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

Attest: M. Callahan  
Authorized Officer

By: Lawrence M. Kusch  
Name: Lawrence M. Kusch  
Title: Authorized Signer

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

The Bank of New York Mellon Trust Company, N. A.  
Global Corporate Trust  
1735 Market Street, 6<sup>th</sup> Floor  
AIM No: 193-0650  
Philadelphia, PA 19103  
Attention: Judy Wisniewski  
Telephone: 215-553-6941  
Fax: 215-553-6915

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

By: Lawrence M. Kusch  
Name: Lawrence M. Kusch  
Title: Authorized Signer

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COMMONWEALTH OF PENNSYLVANIA:

COUNTY OF MONTGOMERY:

On the 26<sup>th</sup> day of October, 2012 before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared Diana MoyKelly, who acknowledged himself/herself to be the Treasurer of Aqua Pennsylvania, Inc., a corporation, and that she as such Treasurer, being authorized to do so, executed the foregoing Forty-seventh Supplemental Indenture as and for the act and deed of said corporation and for the uses and purposes therein mentioned, by signing the name of the corporation by himself as such officer.

In Witness Whereof I hereunto set my hand and official seal.

[NOTARIAL SEAL]

Jacqueline Peyreferry



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STATE OF ILLINOIS

COUNTY OF COOK

On the 26<sup>th</sup> day of October, 2012 before me, the Subscriber, a Notary Public for the State of Illinois, personally appeared Lawrence M. Kusch, who acknowledged himself to be an Authorized Signer of The Bank of New York Mellon Trust Company, N.A., a national banking association, and that he as such Authorized Signer, being authorized to do so, executed the foregoing Forty-seventh Supplemental Indenture as and for the act and deed of said national banking association and for the uses and purposes therein mentioned by signing the name of said national banking association by himself as such officer.

In Witness Whereof I hereunto set my hand and official seal.

[NOTARIAL SEAL]

T. Mosterd

**EXHIBIT A**

**OUTSTANDING FIRST MORTGAGE BONDS**

Division	Structure	Interest Rate	Issue Date	Maturity Date	Original Amount	Balance (incl. CP) @ 09/30/12
Aqua Pa	Tax Exempt	5.35%	11/01/01	10/01/31	30,000,000	30,000,000
Aqua Pa	Tax Exempt	5.55%	06/01/02	09/01/32	25,000,000	25,000,000
Roaring Creek	Tax Exempt	5.05%	11/30/04	10/01/39	14,000,000	14,000,000
Aqua Pa	Tax Exempt	5.15%	06/26/02	09/01/32	25,000,000	25,000,000
Aqua Pa	Tax Exempt	5.00%	05/19/05	11/01/36	21,770,000	21,770,000
Aqua Pa	Tax Exempt	5.00%	05/19/05	11/01/37	24,165,000	24,165,000
Aqua Pa	Tax Exempt	5.00%	05/19/05	11/01/38	25,375,000	25,375,000
Aqua Pa	Tax Exempt	5.00%	12/28/05	02/01/35	24,675,000	24,675,000
Aqua Pa	Tax Exempt	5.00%	01/16/07	02/01/40	23,915,000	23,915,000
Aqua Pa	Tax Exempt	5.00%	01/16/07	02/01/41	23,915,000	23,915,000
Aqua Pa	Tax Exempt	5.25%	12/20/07	07/01/42	24,830,000	24,830,000
Aqua Pa	Tax Exempt	5.25%	12/20/07	07/01/43	24,830,000	24,830,000
Aqua Pa	Tax Exempt	6.25%	12/18/08	10/01/17	9,000,000	9,000,000
Aqua Pa	Tax Exempt	6.75%	12/18/08	10/01/18	13,000,000	13,000,000
Aqua Pa	Tax-Exempt	5.00%	07/18/09	10/01/39	58,000,000	58,000,000
Aqua Pa	Tax-Exempt	5.00%	11/17/09	11/15/40	62,165,000	62,165,000
Aqua Pa	Tax-Exempt	4.75%	11/17/09	11/15/40	12,520,000	12,520,000
Aqua Pa	Tax-Exempt	5.00%	11/17/10	12/01/33	25,910,000	25,910,000
Aqua Pa	Tax-Exempt	5.00%	11/17/10	12/01/34	19,270,000	19,270,000
Aqua Pa	Tax-Exempt	4.50%	11/17/10	12/01/42	15,000,000	15,000,000
Aqua Pa	Tax-Exempt	5.00%	11/17/10	12/01/43	81,205,000	81,205,000
					<u>583,545,000</u>	
Aqua Pa	Taxable	6.89%	12/19/95	12/15/15	12,000,000	12,000,000
Aqua Pa	Taxable	7.72%	05/19/95	05/15/25	15,000,000	15,000,000
Shenango	Taxable	8.14%	11/01/95	11/01/25	4,000,000	4,000,000
Susquehanna	Taxable	8.26%	11/01/92	11/01/22	1,500,000	1,500,000
Shenango	Taxable	8.32%	11/01/92	11/01/22	3,500,000	3,500,000
Aqua Pa	Taxable	9.17%	11/01/91	09/15/21	8,000,000	3,600,000
Aqua Pa	Taxable	9.29%	11/01/91	09/15/26	12,000,000	12,000,000
Aqua Pa	Taxable	9.93%	06/01/88	06/01/13	5,000,000	5,000,000
Aqua Pa	Taxable	9.97%	06/01/88	06/01/18	5,000,000	5,000,000
Aqua Pa	Taxable	5.08%	05/10/04	05/15/15	20,000,000	20,000,000
Aqua Pa	Taxable	5.17%	05/10/04	05/10/17	7,000,000	7,000,000
Aqua Pa	Taxable	5.751%	05/10/04	05/15/19	15,000,000	15,000,000
Aqua Pa	Taxable	5.751%	05/10/04	05/15/19	5,000,000	5,000,000
Aqua Pa	Taxable	6.06%	05/10/04	05/10/27	15,000,000	15,000,000
Aqua Pa	Taxable	6.06%	05/10/04	05/15/27	5,000,000	5,000,000
Aqua Pa	Taxable	5.98%	05/10/04	05/15/28	3,000,000	3,000,000
					<u>131,600,000</u>	
<b>TOTAL FIRST MORTGAGE BONDS</b>					<u>719,545,000</u>	<u>715,145,000</u>

**EXHIBIT B**

**RECORDING INFORMATION**

**BUCKS, CHESTER, DELAWARE AND MONTGOMERY COUNTIES**

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Original	2/20/41	496	1	H-13.Vol.307	20	1034	1	1625	1
First Supplemental	8/26/48	632	1	F-16.Vol.380	200	1668	169	2031	257
Second Supplemental	7/1/52	768	438	18.Vol.425	186	1962	376	2360	517
Third Supplemental	11/25/53	895	1	18.Vol.442	325	2052	1	2493	1
Fourth Supplemental	1/9/56	1089	155	Z-20.Vol.499	1	2199	1	2722	425
Fifth Supplemental	3/20/57	1181	316	B-22.Vol.536	601	2294	50	2850	335
Sixth Supplemental	5/9/58	1254	1	G-23	201	2380	039	2952	289
Seventh Supplemental	9/25/59	1332	509	B-25	109	2442	1	3090	249
Eighth Supplemental	5/9/61	—	—	Z-26	17	2526	312	—	—
Eighth Supplemental	5/10/61	1409	225	—	—	—	—	3249	289
Ninth Supplemental	4/10/62	1458	372	G-28	126	2581	463	3307	169
Tenth Supplemental	3/19/64	1568	1	M-30	967	2976	1043	3310	237
Eleventh Supplemental	11/4/66	1655	695	Q-32	6682	762	223	3549	129
Twelfth Supplemental	1/23/68	1691	531	N-33	219	2792	708	3542	315
Thirteenth Supplemental	7/2/70	1763	1167	D-35	80	2850	301	3687	23
Fourteenth Supplemental	11/5/70	1774	331	K-35	713	2858	3113	700	548
Fifteenth Supplemental	12/11/72	1869	196	O-37	998	2926	550	3786	96
Sixteenth Supplemental	5/28/75	1979	14	E-44	77	3005	511	4010	307
Seventeenth Supplemental	12/18/77	2072	683	L-51	1	3072	43	5002	436
Eighteenth Supplemental	4/29/77	2082	567	B-52	344	3078	728	5003	291
Nineteenth Supplemental	6/23/80	2303	714	J-62	92	3261	293	5030	502
Twentieth Supplemental	8/2/83	2487	370	D-72	1	96	810	5662	1045
Twenty-First Supplemental	8/27/85	2690	806	54	550	—	—	5864	1347
Twenty-First Supplemental	8/28/85	—	—	—	—	264	159	—	—

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Twenty-Second Supplemental	4/22/86	2774	160	263	275	326	592	5944	360
Twenty-Third Supplemental	4/1/87	2960	693	—	—	—	—	—	—
Twenty-Third Supplemental	4/2/87	—	—	680	337	447	1807	6115	602
Twenty-Fourth Supplemental	7/25/88	3199	1095	1224	389	0593	0585	6324	143
Twenty-Fifth Supplemental	1/12/90	0136	0250	1848	205	731	1571	6538	376
Twenty-Sixth Supplemental	11/8/91	369	2190	2660	205	894	2241	6780	891
Twenty-Seventh Supplemental	6/29/92	0487	1829	3055	182	0969	2023	6918	302
Twenty-Eighth Supplemental	4/22/93	0652	1335	3542	1542	1081	0852	7112	0539
Twenty-Ninth Supplemental	3/30/95	1045	1872	3875	1368	1349	0829	7561	1155
Thirtieth Supplemental	8/30/95	1111	0798	3932	0471	1393	2255	7631	0689
Thirty-First Supplemental	7/11/97	1421	2196	4201	2133	1607	138	7968	779
Thirty-Second Supplemental	10/6/99	1939	421	4646	642	1936	1207	8548	1067
Thirty-Third Supplemental	11/30/99	1970	1573	4675	1272	1936	1207	85898	317
Thirty-Fourth Supplemental	10/31/01	2471	1207	5101	2142	2288	0174	9225	761
Thirty-Fifth Supplemental	1/10/02	2541	765	5152	818	2329	1019	9314	1079
Thirty-Sixth Supplemental	6/5/02	2731	1881	5296	356	2448	1862	9593	1416
Thirty-Seventh Supplemental				12/31/02		12/31/02		12/30/02	
	12/27/02	3036	1425	B-5514	1552	02631	0294	10018	0204
Thirty-Eighth Supplemental				11/23/04		11/22/04		11/22/04	
	11/9/04	4196	1557	B-6342	800	B-3348	1698	B-00020	0237
Thirty-Ninth Supplemental			1471	5/19/05	1375		0939		0688
	5/18/05	4441	#2005066104	6496	#10534807	03487	32005044507	0020	2005069126
Fortieth Supplemental				12/23/05	897	12/23/05	2206	12/29/05	
	12/27/05	4768	1853	6720	#10608829	03687	#2005123053	11689	1156
Forty-first Supplemental			1290	1/12/07	820	1/11/07		1/30/07	00329
	1/11/07	5250	#2007004610	7058	#10720615	04002	2257	0225	#2007005061

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Forty-second Supplemental	12/13/07	#2007119080		12/13/07	2091	12/13/07	1166	12/17/07	02498-02544
Forty-third Supplemental			2131	12/08/08	1527	12/08/08		12/08/08	2585
	12/08/08	5961	#2008099812	7556	#10889672	4466	1185	12504	#2008115955
Forty-fourth Supplemental			2032	07/13/09	1563	07/09/09	1919	07/14/09	894
	07/14/09	6158	2009057188	7720	#10943667	4579	#2009042911	12659	#2009075197
Forty-fifth Supplemental				11/12/09		11/12/09		11/12/09	
	11/12/09	6266	1759	7808	255	4654	767	12735	2281
Forty-sixth Supplemental						11/09/10		11/15/10	
	11/09/10	Instr.#2010079859		11/09/10	673	4833	1240	12958	587

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**BERKS COUNTY**

<u>Indenture</u>	<u>Date of Recording</u>	<u>Book</u>	<u>Page</u>
Original	8/16/99	3113	707
Thirty-Second Supplemental	10/6/99	3132	1510
Thirty-Third Supplemental	11/30/99	3149	1260
Thirty-Fourth Supplemental	10/31/01	3421	896
Thirty-Fifth Supplemental	1/10/02	3461	417
Thirty-Sixth Supplemental	6/4/02	3544	1357
Thirty-Seventh Supplemental	12/30/02	3664	0001
Thirty-Eighth Supplemental	11/30/04	4197	988
Thirty-Ninth Supplemental	5/18/05	04583	1017
Fortieth Supplemental	02/09/06	04782	1916
Forty-first Supplemental	1/11/07	05054	0013
Forty-second Supplemental			1398
	12/13/07	05272	#2007073573
Forty-third Supplemental	12/09/08	Instr. #200805825	
Forty-fourth Supplemental	07/14/09	Instr. #2009033415	
Forty-fifth Supplemental	11/12/09	Instr. #2009053102	
Forty-sixth Supplemental	11/12/10	Instr. #2010044820	

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

Indenture	Bradford		Columbia		Lawrence			Mercer	
	Date of Recording	Instrument No.	Date of Recording	Instrument No.	Date of Recording	Book	Page	Date of Recording	Instrument No.
Thirty-Fifth Supplemental	12/21/01	200115497				1688	744		
Thirty-Sixth Supplemental	07/04/02	200207151							
Thirty-Seventh Supplemental	12/30/02	200216472							
Thirty-Eighth Supplemental	11/22/04	200415112	11/30/04	200413567	11/24/04	1992	0291	11/24/04	2004020435
Thirty-Ninth Supplemental							200		
Fortieth Supplemental	5/16/05	200504827	5/18/05	200505042	5/16/2005	2032	#005488	5/13/05	2005-7340
							0934		2005-
Forty-first Supplemental	12/23/05	200594992	12/23/05	200513981	12/27/05	2088	#015325	12/27/05	00020320
									2007-
Forty-second Supplemental	1/12/07	200700440	1/17/07	200700636	1/11/07	2007	000466	1/12/07	00000583
									2007
Forty-third Supplemental	12/18/07	200714762	12/20/07	200712896	12/17/07	2007	013275	12/14/07	00016849
									2008
Forty-fourth Supplemental	12/10/08	200821178	12/11/08	200812596	12/12/08	2008	00014552	12/12/08	00014552
									2009
Forty-fifth Supplemental	07/09/09	200914068	07/10/09	200906468	07/14/09	2009	005608	07/09/09	00007283
									2009
Forty-sixth	11/12/09	200924720	11/12/09	200910768	11/13/09	2009	009439	11/12/09	00012159
									2010
	11/04/10	201025652	11/12/10	201010292	11/08/10	2010	009211	11/05/10	11283

Indenture	Northumberland			Pike			Schuylkill			Wayne		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Thirty-Fifth Supplemental		1404	246		1909	2328		1413	1		1911	1
Thirty-Sixth Supplemental		1445	028					1584	0259			
Thirty-Seventh Supplemental	12/30/02	1500	911	12/30/02	1959	2447	12/27/02	2022	1006	12/30/02	2136	148
Thirty-Eighth Supplemental	11/22/04	1714	748	11/23/04	2081	1757	11/24/04	2126	569	11/23/04	2658	252
Thirty-Ninth Supplemental	5/18/05	1761	50	5/17/05	2109	2201			1871-1919		Vol.	1
Fortieth Supplemental		#200509076			#200500008491		5/18/05	2150	#200500010263	5/16/05	2769	#200500004960
Forty-first Supplemental	12/27/05	1828	571	12/27/05	2151	1334	12/23/05	2184	875	12/27/05	2944	243
Forty-second Supplemental	1/11/07	1933	634	1/12/07	2214	472-515	1/11/07	2238	798-840	1/16/07	3216	229-272
Forty-third Supplemental	12/17/07	2024	953	12/19/07	2261	175	12/18/07	2285	473	12/18/07	3433	1
Forty-fourth Supplemental	07/14/09	2160	680	07/14/09	2313	2050	07/10/09	2344	842	07/10/09	3777	204
Forty-fifth Supplemental	11/12/09	Instr. #200917348		11/13/09	2323	2637	11/12/09	2356	1104	11/12/09	3888	185
Forty-sixth	11/08/10	Instr. #201016325		11/04/10	2349	1850	11/08/10	2386	2411	11/08/10	4127	9



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

Indenture	ADAMS			CARBON			CUMBERLAND			FOREST		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Thirty-Eighth												
Supplemental	11/23/04	3781	1	11/30/04	200416309		11/22/04	2004047145		11/29/04	231	306
Thirty-Ninth						689						345
Supplemental	5/19/05	3970	54	5/18/05	1330	#200505926	5/13/05	1907	0247	5/16/05	234	#478
Fortieth												
Supplemental	12/28/05	4261	162	12/27/05	1408	576	12/27/05	1935	3233	12/27/05	0238	0304
Forty-first			2081			548						0362
Supplemental	1/11/07	4707	#2007000007	1/12/07	1540	#200700596	1/11/07	1979	0482	1/09/07	0244	#2007000022
Forty-second			223			261						219
Supplemental	12/17/07	5062	200700023048	12/18/07	1650	#200715671	12/14/07	200746336		12/18/07	250	#2007-1339
Forty-third			110			864						548
Supplemental	12/10/08	5312	200800020691	12/11/08	1735	#7520A3.03	12/11/08	200839447		12/08/08	255	#200800142
Forty-fourth			643			883						
Supplemental	07/13/09	5390	200900011159	07/10/09	1778	#200905920	07/10/09	200924123		07/13/09	258	466
Forty-fifth												
Supplemental	11/13/09	5431	12	11/12/09	1805	605	11/13/09	200938300		11/13/09	260	659
Forty-sixth												
Supplemental	11/09/10	2010-00011579		11/08/10	1873	355	11/08/10	201032542		11/15/10	266	855

Indenture	JUNIATA			LACKAWANNA			LUZERNE			MONROE		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Recording	Book	Page
Thirty-Eighth Supplemental	11/22/04	345	1047	11/29/04	#200441665		11/23/04	3004	294775	11/24/04	2208	7674
Thirty-Ninth Supplemental			0049						117727			8444
	5/13/05	354	#2005-1512	5/16/05	#200512642		5/17/05	3005	#5637329	5/18/05	2225	#200521128
Fortieth Supplemental									349088			9105
	12/22/05	0365	1028	12/23/05	#20536270		12/28/05	3005	#5677739	12/27/05	2252	#200560314
Forty-first Supplemental	1/09/07	385	0188	1/12/07	#200701277		1/16/07	3007	13425	11/06/07	2320	4708
Forty-second Supplemental			0847						328532			4362
	12/13/07	401	#20073981	12/17/07	#200734133		12/17/07	3007	#5799531	12/17/07	2323	#200745976
Forty-third Supplemental			356						262977			263
	12/08/08	418	#2008004757	12/11/08	#200829528		12/11/08	3008	#5850129	12/08/08	2346	#200834800
Forty-fourth Supplemental									137259			6497
	07/13/09	428	403	07/10/09	#200917720		07/14/09	3009	#5877023	07/14/09	2356	#200917344
Forty-fifth Supplemental	11/13/09	Instr. #2009003349		11/12/09	#200928049		11/12/09	3009	#225655	11/13/09	2362	5600
Forty-sixth			Instr. # 2010-									
	11/09/10		002859	11/05/10	2010-22001		11/12/10	3010	205710	11/08/10	2378	5023

Indenture	NORTHAMPTON			SNYDER			SUSQUEHANNA			WYOMING		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Thirty-Eighth Supplemental	11/22/04	2004-1	452932	11/24/04	631	0001	11/24/04	Instr.		11/24/04	0513	0774
Thirty-Ninth Supplemental			182906			135		Instr.				
	5/17/05	2005-1	#2005026917	5/17/05	650	#2005028880	5/16/05	#200504384		5/18/05	0522	1289
Fortieth Supplemental								Instr.			0536	
	12/23/05	2005-1	521563	12/27/05	677	684	12/22/05	#200512620		12/22/05	#2005004922	0748
Forty-first Supplemental			25009			734		Instr.				
	1/19/07	2007-1	#2007003204	1/11/07	724	#200700240	1/10/07	#200700387		1/10/07	0558	0959
Forty-second Supplemental			446608			178		Instr.				
	12/17/07	2007-1	#2007057981	12/18/07	763	#200707447	12/17/07	#200713519		12/18/07	#2007	5154
Forty-third Supplemental						217		Instr.				
	12/09/08	2008-1	320419	12/12/08	803	#220807546	12/09/08	#200818392		12/10/08	#2008	6990
Forty-fourth Supplemental			177314			786		Instr.				
	07/10/09	2009-1	#2009024436	07/14/09	827	#200904115	07/09/09	#200911054		07/10/09	#2009	4233
Forty-fifth Supplemental								Instr.				
	11/12/09	2009-1	#284944	11/12/09		#200906458	11/13/09	#2009016907		11/12/09	#2009	9004
Forty-sixth								Instr. #				
	11/08/10	Instr. #	2010034053	11/08/10	#201006057		11/3/10	201019526		11/03/10	2010	10427

**LEHIGH AND CRAWFORD COUNTIES**

Indenture	LEHIGH			CRAWFORD		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Forty-first Supplemental			177			
	1/10/07	7390692		1/11/07	856	#200700000444
Forty-second Supplemental			577			
	12/14/07	7455854		12/14/07	905	#200700015228
Forty-third Supplemental			860			
	12/09/08	2008001239		12/10/08	948	#200800012935
Forty-fourth Supplemental			685			
	07/10/09	2009027356		07/13/09	971	#200900006196
Forty-fifth Supplemental			1277			
	11/13/09	2009044872		11/12/09	986	
Forty-sixth			753			
	11/10/10	2010037955		11/16/10	1027	

CLARION, VENANGO AND WARREN COUNTIES

Indenture	CLARION			VENANGO			WARREN		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Forty-third Supplemental			0674			184			4
Forty-fourth Supplemental	07/10/09	0790	#2009-3120	07/13/09	544	#2009003193	07/09/09	1921	#2009-2683
Forty-fifth Supplemental	11/12/09	Instr. #2009-5388		11/12/09	Instr. #2009005802		11/13/09	1953	188
Forty-sixth	11/08/10	Instr. #2010-005233		11/05/10	597	625	11/5/10	2043	94

**Non-Employee Directors' Compensation for 2013**

At its regularly scheduled meeting on December 10, 2012, the Board of Directors of Aqua America, Inc., upon the recommendation of its Executive Compensation Committee, approved the following directors' compensation for 2013 for the non-employee directors of Aqua America, Inc.: (1) an annual cash retainer of \$40,000; (2) an annual cash retainer for the Chair of the Executive Compensation Committee of \$7,500; (3) an annual cash retainer for the Chair of the Audit Committee of \$10,000; (4) an annual cash retainer for the Chair of the Corporate Governance Committee, who also serves as the lead independent directors, of \$10,000; (5) a meeting fee of \$1,500 for each meeting of the Board of Directors; (5) a meeting fee of \$1,500 per meeting for meetings of the Board Committees; and (6) an annual stock grant to directors of \$50,000, rounded to the nearest 100 shares payable on the first of the month following the Annual Meeting of Shareholders. All directors are reimbursed for reasonable expenses incurred in connection with attendance at Board or Committee meetings.

**AGREEMENT**

THIS amended and restated Agreement made as of the **1st day of March, 2011**, by and between, Aqua America, Inc., a Pennsylvania corporation (“Aqua America”), and **Christopher P. Luning** (the “Executive”).

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

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

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

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

WHEREAS, the Company and Executive desire to amend and restate the Prior Change in Control Agreement at this time to comply with the requirements of section 409A of the Internal Revenue Code of 1986, as amended, and the final regulations issued thereunder.

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

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

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

(b) “Base Compensation” shall mean the Executive’s current base annual salary, plus the greater of the Executive’s target bonus for the year in which the Executive incurs a Termination of Employment, or the last actual bonus paid to the Executive under the Annual Cash Incentive Compensation Plan (or any successor plan maintained by Aqua America), in all capacities with Aqua America and its Subsidiaries or Affiliates. The Executive’s Base Compensation shall be determined prior to reduction for salary deferred by the Executive under any deferred compensation plan of Aqua America and its Subsidiaries or Affiliates, or otherwise.

(c) A Person shall be deemed the “Beneficial Owner” of any securities: (i) that such Person or any of such Person’s Affiliates or Associates, directly or indirectly, has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the “Beneficial Owner” of securities tendered pursuant to a tender or exchange offer made by such Person or any of such Person’s Affiliates or Associates until such tendered securities are accepted for payment, purchase or exchange; (ii) that such Person or any of such Person’s Affiliates or Associates, directly or indirectly, has the right to vote or dispose of or has “beneficial ownership” of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act), including without limitation pursuant to any agreement, arrangement or understanding, whether or not in writing; provided, however, that a Person shall not be deemed the “Beneficial Owner” of any security under this clause (ii) as a result of an oral or written agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding (A) arises solely from a revocable proxy given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the General Rules and Regulations under the Exchange Act, and (B) is not then reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or (iii) that are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person (or any of such Person’s Affiliates or Associates) has any agreement, arrangement or understanding (whether or not in writing) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to clause (ii) above) or disposing of any voting securities of Aqua America; provided, however, that nothing in this Section 1(c) shall cause a Person engaged in business as an underwriter of securities to be the “Beneficial Owner” of any securities acquired through such Person’s participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

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

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

(f) "Change in Control" shall mean:

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

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

(iii) there occurs a sale of 50% or more of the aggregate assets or earning power of Aqua America and its subsidiaries, or its liquidation is approved by a majority of its shareholders or Aqua America is merged into or is merged with an unrelated entity such that following the merger the shareholders of Aqua America no longer own more than 50% of the resultant entity.



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

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

(h) "Good Reason Termination" shall mean, except as otherwise provided in the last paragraph of this subsection (h), a Termination of Employment as a result of one or more of the following events, without the Executive's written consent to the event:

- (i) any action or inaction that constitutes a material breach by Aqua America (or any successor thereto) of this Agreement;
- (ii) a material diminution of the authority, duties or responsibilities of the Executive held immediately prior to the Change in Control;
- (iii) a material diminution in the Executive'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 executive officers of Aqua America; or
- (iv) a material change in the geographic location at which the Executive must perform services under this Agreement, which, for purposes of this Agreement, means a requirement that the Executive be based at any office or location which is located more than fifty (50) miles from the Executive's primary place of employment immediately prior to the Change in Control on other than on a temporary basis (less than 6 months).

(v) a material diminution in the authority, duties, or responsibilities of the supervisor to whom the service provider is required to report, including a requirement that a service provider report to a corporate officer or employee instead of reporting directly to the board of directors of a corporation (or similar governing body with respect to an entity other than a corporation).

(vi) a material diminution in the budget over which the service provider retains authority.

A Termination of Employment after any of the foregoing events shall be a Good Reason Termination only if the Executive provides written notice to Aqua America of the existence of such event within ninety (90) days after the initial occurrence of such event, and Aqua America fails to remedy the event within thirty (30) days following the receipt of such notice.

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

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

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

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

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

3. Severance Compensation upon Termination. Subject to the provisions of Section 11 and Section 23 hereof, in the event of the Executive's involuntary Termination of Employment for any reason other than Cause or in the event of a Good Reason Termination, in either event within two years after a Change in Control, Aqua America shall pay to the Executive, upon the execution of a release in the form required by Aqua America of its terminating executives prior to the Change in Control, a single lump sum cash payment in an amount equal to **two (2) times** the Executive's Base Compensation, plus a pro-rata share of the Executive's target bonus Executive under the Annual Cash Incentive Compensation Plan (or any successor plan maintained by Aqua America) based on the portion of the calendar year elapsed at the time of the Executive's Termination of Employment, subject to required employment taxes and deductions. Such payment shall be made to the Executive within 60 days following the Executive's Termination of Employment.

4. Other Payments and Benefits. The payment due under Section 3 hereof shall be in addition to and not in lieu of any payments or benefits, due to the Executive under any other plan, policy or program of Aqua America, and its Subsidiaries or Affiliates; provided, however, that an Executive shall not be eligible for benefits under any severance or stay-on bonus plan maintained by Aqua America, or any of its Subsidiaries or Affiliates, if the Executive is entitled to receive benefits under this Agreement as a result of a Termination of Employment within two years following a Change in Control. In addition, if the Executive is entitled to a payment under Section 3 hereof, the Executive shall be entitled to

(a) an amount equal to (i) **twenty-four (24) months** of the COBRA rate in effect at the Executive's Termination of Employment, plus (ii) an additional amount which, after reduction for applicable income and employment taxes owed with respect to such additional amount, equals the income and employment taxes payable with respect to the amount described in clause (i), which shall be paid in a single lump sum at the time the benefit under Section 3 is paid; and

(b) fully-paid executive level reasonable outplacement services from the provider or the Executive's choice for **six (6) months** following the Termination Date. All reimbursements paid to the Executive for purposes of outplacement services shall be made or provided in accordance with Treas. Reg. §1.409A-1(b)(9)(v)(A).

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

#### 6. Enforcement.

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

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

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

8. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in or rights under any benefit, bonus, incentive or other plan or program provided by Aqua America, or any of its Subsidiaries or Affiliates, and for which the Executive may qualify. Notwithstanding any provision of this Agreement to the contrary, an Executive shall not be eligible for benefits under any severance or stay-on bonus plan maintained by Aqua America, or any of its Subsidiaries or Affiliates, if the Executive is entitled to receive benefits under this Agreement as a result of a Termination of Employment within two years following a Change in Control. The provisions of this Agreement may require a variance from the terms and conditions of certain compensation or bonus plans under circumstances where such plans would not provide for payment thereof in order to obtain the maximum benefits for the Executive. It is the specific intention of the parties that the provisions of this Agreement shall supersede any provisions to the contrary in such plans, and such plans shall be deemed to have been amended to correspond with this Agreement without further action by Aqua America.

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

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

11. Certain Reduction of Payments.

(a) In the event that it shall be determined that any payment or distribution in the nature of compensation (within the meaning of section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would constitute an "excess parachute payment" within the meaning of section 280G of the Code, the aggregate present value of the Payments under the Agreement shall be reduced (but not below zero) to the Reduced Amount (defined below), provided that the reduction shall be made only if the Accounting Firm (described below) determines that the reduction will provide the Executive with a greater net after-tax benefit than would no reduction. The "Reduced Amount" shall be an amount expressed in present value which maximizes the aggregate present value of Payments under this Agreement without causing any Payment under this Agreement to be subject to the Excise Tax (defined below), determined in accordance with section 280G(d)(4) of the Code. The term "Excise Tax" means the excise tax imposed under section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax. The Company shall reduce the Payments under this Agreement by first reducing Payments that are not payable in cash and then by reducing cash Payments. Any Payment reductions made pursuant to this subsection (a) shall be nondiscretionary and made in the manner that (i) least reduces economic value to the Executive and (ii) amounts payable at different times with the same value shall be reduced pro-rata. Only amounts payable under this Agreement shall be reduced pursuant to this subsection (b). All determinations to be made under this subsection (b) shall be made by an independent certified public accounting firm selected by Aqua America immediately prior to the Change in Control (the "Accounting Firm"), which shall provide its determinations and any supporting calculations both to Aqua America and the Executive within 60 days of the Change in Control. Any such determination by the Accounting Firm shall be binding upon Aqua America and the Executive. All of the fees and expenses of the Accounting Firm in performing the determinations referred to in this subsection (b) shall be borne solely by Aqua America.

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

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

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

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

If to Aqua America, to:

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

If to the Executive, to:

**Christopher P. Luning**

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

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

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

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

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

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

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

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



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

23. Section 409A of the Code.

(a) Compliance. This Agreement shall be interpreted to avoid any penalty sanctions under section 409A of the Code. If any payment or benefit cannot be provided or made at the time specified herein without incurring sanctions under section 409A, then such benefit or payment shall be provided in full at the earliest time thereafter when such sanctions will not be imposed. For purposes of section 409A of the Code, all payments to be made upon a Termination of Employment under this Agreement may only be made upon a "separation from service" under section 409A of the Code, each payment made under this Agreement shall be treated as a separate payment and the right to a series of installment payments under this Agreement is to be treated as a right to a series of separate payments. In no event shall the Executive, directly or indirectly, designate the calendar year of any payments to be made to him under this Agreement. All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Treas. Reg. § 1.409A-3(i)(1)(iv), including, where applicable, the requirement that (i) any reimbursement is for expenses incurred during the Executive's lifetime (or during a shorter period of time specified in this Agreement), (ii) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during a calendar year may not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year, (iii) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the year in which the expense is incurred, and (iv) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit.

(b) Payment Delay. To the maximum extent permitted under section 409A of the Code, severance payments payable under this Agreement are intended to comply with the "short-term deferral exception" under Treas. Reg. § 1.409A-1(b)(4), and any remaining amount is intended to comply with the "separation pay exception" under Treas. Reg. § 1.409A-1(b)(9)(iii); provided, however, any amount payable to the Executive during the six-month period following the Executive's Termination of Employment that does not qualify within either of the foregoing exceptions and is deemed as deferred compensation subject to the requirements of section 409A of the Code, then such amount shall hereinafter be referred to as the "Excess Amount." If at the time of the Executive's Termination of Employment, the Executive is a "specified employee" (as defined in section 409A of the Code and determined in the sole discretion of Aqua America in accordance with Aqua America's "specified employee" determination policy), then Aqua America shall postpone the commencement of the payment of the portion of the Excess Amount that is payable within the six-month period following the Executive's Termination of Employment for six months following the Executive's Termination of Employment. The delayed Excess Amount shall be paid in a lump sum to the Executive within thirty (30) days following the date that is six (6) months following the Executive's Termination of Employment, and any amount payable to the Executive after the expiration of such six (6) month period under this Agreement shall continue to be paid to the Executive in accordance with the terms of this Agreement. If the Executive dies during such six-month period and prior to the payment of the portion of the Excess Amount that is required to be delayed on account of section 409A of the Code, such Excess Amount shall be paid to the personal representative of the Executive's estate within thirty (30) days after the Executive's death, and any amounts not delayed shall be paid to the personal representative of the Executive's estate in accordance with the terms of this Agreement.

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

ATTEST:

AQUA AMERICA, INC.

Maria Gordiany

By Roy H. Stahl

Secretary

EXECUTIVE

Tracy McGonigle

Christopher P. Luning

Witness

**SECOND AMENDMENT TO CREDIT AGREEMENT**

THIS SECOND AMENDMENT TO CREDIT AGREEMENT is made as of this 26<sup>th</sup> day of November, 2012, by and among AQUA PENNSYLVANIA, INC., a Pennsylvania corporation ("Borrower"), the several banks which are parties to this Agreement (each a "Bank" and collectively, "Banks") and PNC BANK, NATIONAL ASSOCIATION in its capacity as agent for Banks (in such capacity, "Agent").

**BACKGROUND**

A. Borrower, Agent and Banks are parties to a Credit Agreement, dated as of November 30, 2010 (the "Credit Agreement"), pursuant to which Banks agreed to make revolving credit loans to Borrower in an aggregate outstanding amount of up to \$100,000,000 (the "Loans"). The Loans are evidenced by Borrower's Revolving Credit Notes in the aggregate principal face amount of \$100,000,000 (the "Notes").

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

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

**AGREEMENT**

1. **Terms**. Capitalized terms used herein and not otherwise defined herein shall have the meanings given to such terms in the Credit Agreement.
2. **Amendments to Credit Agreement**. Effective on November 26, 2012 (the "Effective Date") the Credit Agreement is hereby amended as follows:
  - (a) The definitions of "**Anti-Terrorism Law**" and "**Termination Date**" in Section 1.1 are hereby amended and restated to read in full as follows:

““**Anti-Terrorism Laws**”: any Laws relating to terrorism or money laundering, including Executive Order No. 13224, the USA Patriot Act, the Laws comprising or implementing the Bank Secrecy Act, and the Laws administered by the United States Treasury Department's Office of Foreign Asset Control (as any of the foregoing Laws may from time to time be amended, renewed, extended, or replaced).”

““**Termination Date**”: the earlier of (a) November 25, 2013 or any later date to which the Termination Date shall have been extended pursuant to subsection 2.8(d) hereof and (b) the date the Commitments are terminated as provided herein.”

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(b) The following new definitions of “Compliance Authority”, “Covered Entity”, “Reportable Compliance Event”, “Sanctioned Country” and “Sanctioned Person” are hereby added to Section 1.1 in the appropriate alphabetical order:

““Compliance Authority”: each and all of the (a) U.S. Treasury Department/Office of Foreign Assets Control, (b) U.S. Treasury Department/Financial Crimes Enforcement Network, (c) U.S. State Department/Directorate of Defense Trade Controls, (d) U.S. Commerce Department/Bureau of Industry and Security, (e) U.S. Internal Revenue Service, (f) U.S. Justice Department and (g) U.S. Securities and Exchange Commission.”

““Covered Entity”: the Borrower, its Affiliates and Subsidiaries, Guarantors, all owners of the foregoing, and all brokers or other agents of the Borrower acting in any capacity in connection with the Loans.”

““Reportable Compliance Event” means that any Covered Entity becomes a Sanctioned Person, or is indicted, arraigned, investigated or custodially detained, or receives an inquiry from regulatory or law enforcement officials, in connection with any Anti-Terrorism Law or any predicate crime to any Anti-Terrorism Law, or self-discovers facts or circumstances implicating any aspect of its operations with the actual or possible violation of any Anti-Terrorism Law.”

““Sanctioned Country”: a country subject to a sanctions program maintained by any Compliance Authority.”

““Sanctioned Person”: any individual person, group, regime, entity or thing listed or otherwise recognized as a specially designated, prohibited, sanctioned or debarred person or entity, or subject to any limitations or prohibitions (including but not limited to the blocking of property or rejection of transactions), under any order or directive of any Compliance Authority or otherwise subject to, or specially designated under, any sanctions program maintained by any Compliance Authority.”

(c) Section 3.21 is hereby amended and restated to read in full as follows:

“3.21 Anti-Money Laundering/International Trade Law Compliance. No Covered Entity (i) is a Sanctioned Person; (ii) has any of its assets in a Sanctioned Country in violation of any law, regulation, order or directive enforced by any Compliance Authority or has any assets in the possession, custody or control of a Sanctioned Person; or (iii) does business in or with, or derives any of its operating income from investments in or transactions with, any Sanctioned Country or Sanctioned Person in violation of any law, regulation, order or directive enforced by any Compliance Authority. In addition to the foregoing, the Borrower represents and warrants that (i) the proceeds of the Loans will not be used to fund any operations in, finance any investments or activities in, or, make any payments to, a Sanctioned Country or Sanctioned Person in violation of any law, regulation, order or directive enforced by any Compliance Authority; (ii) the funds used to repay the Loans are not derived from any unlawful activity; and (iii) each Covered Entity is in compliance with, and no Covered Entity engages in any dealings or transactions prohibited by, any laws of the United States, including but not limited to any Anti-Terrorism Laws.”

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(d) Section 5.7 is hereby amended by deleting the conjunction “and” from the end of subsection (d), substituting “;and” in place of the period at the end of subsection (e) and adding a new subsection (f) to read as follows:

“(f) the occurrence of a Reportable Compliance Event.”

(e) Section 5.12 is hereby amended and restated to read in full as follows:

“5.12 Anti-Terrorism Laws. Neither the Borrower nor any other Covered Entity is or shall be (i) a Person with whom any Lender is restricted from doing business under Executive Order No. 13224 or any other Anti-Terrorism Law, (ii) engaged in any business involved in making or receiving any contribution of funds, goods or services to or for the benefit of such a Person or in any transaction that evades or avoids, or has the purpose of evading or avoiding, the prohibitions set forth in any Anti-Terrorism Law, or (iii) otherwise in violation of any Anti-Terrorism Law. The Borrower shall deliver to Agent any certification or other evidence requested from time to time by Agent in its sole discretion, confirming Borrower’s and each other Covered Entity’s compliance with this Section 5.12.”

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

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

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

(a) The representations and warranties made in the Credit Agreement are true and correct in all material respects as of the date hereof; provided, however, that for purposes of the representations in Section 3.1 thereof, the annual and quarterly financial information referred to in such Section shall be deemed to be the most recent such information furnished to each Bank;

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

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

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

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

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

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

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(b) After giving effect to this Amendment, the representations and warranties set forth in the Credit Agreement shall be true and correct in all material respects on and as of the date hereof.

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

(d) Borrower shall have paid to Agent for the benefit of Banks an additional fee of \$100,000 to be distributed to Banks pro rata in accordance with their Commitments.

7. Miscellaneous.

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

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

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

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

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

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

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

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

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

AQUA PENNSYLVANIA, INC.

By: David P. Smeltzer  
Title: Executive Vice President, Chief Financial Officer

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

By: Meredith Jermann  
Title: Vice President

TD BANK, N.A.

By: John T. Callaghan  
Title: Vice President

CITIZENS BANK OF PENNSYLVANIA

By: Leslie D. Broderick  
Title: Senior Vice President

THE HUNTINGTON NATIONAL BANK

By: Chad A. Lowe  
Title: Vice President



Execution Version

AQUA PENNSYLVANIA, INC.

\$40,000,000 First Mortgage Bonds, 3.79% Series due 2041

\$20,000,000 First Mortgage Bonds, 3.80% Series due 2042

\$20,000,000 First Mortgage Bonds, 3.85% Series due 2047

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BOND PURCHASE AGREEMENT

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Dated as of November 8, 2012

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AQUA PENNSYLVANIA, INC.  
762 West Lancaster Avenue  
Bryn Mawr, Pennsylvania 19010-3489

\$40,000,000 First Mortgage Bonds, 3.79% Series due 2041

\$20,000,000 First Mortgage Bonds, 3.80% Series due 2042

\$20,000,000 First Mortgage Bonds, 3.85% Series due 2047

November 8, 2012

To Each of The Purchasers Listed in  
Schedule A Hereto:

Ladies and Gentlemen:

Aqua Pennsylvania, Inc., a corporation organized under the laws of the Commonwealth of Pennsylvania (the "*Company*"), agrees with each of the purchasers whose names appear at the end hereof (each, a "*Purchaser*" and, collectively, the "*Purchasers*") as follows:

SECTION 1. AUTHORIZATION OF BONDS.

The Company will authorize the issue and sale of (i) \$40,000,000 aggregate principal amount of its First Mortgage Bonds, 3.79% Series due 2041 (the "*Series A Bonds*"), (ii) \$20,000,000 aggregate principal amount of its First Mortgage Bonds, 3.80% Series due 2042 (the "*Series B Bonds*"), and (iii) \$20,000,000 aggregate principal amount of its First Mortgage Bonds, 3.85% Series due 2047 (the "*Series C Bonds*" and together with the Series A Bonds and Series B Bonds, the "*Bonds*") and such term includes any such notes issued in substitution therefor. The Bonds will be issued under and secured by that certain Indenture of Mortgage dated as of January 1, 1941, from the Company (as successor by merger to the Philadelphia Suburban Water Company), as grantor, to The Bank of New York Trust Company, N.A., as successor trustee (the "*Trustee*") (the "*Original Indenture*"), as previously amended and supplemented by Forty-six supplemental indentures and as further supplemented by the Forty-seventh Supplemental Indenture dated as of October 15, 2012 (such Forty-seventh Supplemental Indenture being referred to herein as the "*Supplement*") which will be substantially in the form attached hereto as Exhibit A, with such changes therein, if any, as shall be approved by the Purchasers and the Company. The Original Indenture, as supplemented and amended by the aforementioned forty-six supplemental indentures and the Supplement, and as further supplemented or amended according to its terms, is hereinafter referred to as the "*Indenture*". Certain capitalized and other terms used in this Agreement are defined in Schedule B; and references to a "*Schedule*" or an "*Exhibit*" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement. Terms used herein but not defined herein shall have the meanings set forth in the Indenture.

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SECTION 2. SALE AND PURCHASE OF BONDS.

Subject to the terms and conditions of this Agreement, the Company will issue and sell to each Purchaser and each Purchaser will purchase from the Company, at the Closing provided for in Section 3, Bonds in the principal amount and in the series specified opposite such Purchaser's name in Schedule A at the purchase price of 100% of the principal amount thereof. The Purchasers' obligations hereunder are several and not joint obligations and no Purchaser shall have any liability to any Person for the performance or non-performance of any obligation by any other Purchaser hereunder.

SECTION 3. CLOSING.

The execution and delivery of this Agreement and the sale and purchase of the Bonds to be purchased by each Purchaser shall occur at the offices of Chapman and Cutler LLP, 111 West Monroe Street, Chicago, Illinois 60603, at 10:00 a.m., Chicago time, at a closing (the "Closing") on November 13, 2012 or on such other Business Day thereafter on or prior to November 30, 2012 as may be agreed upon by the Company and the Purchasers. At the Closing the Company will deliver to each Purchaser the Bonds to be purchased by such Purchaser in the form of one or more Bonds in each series to be purchased by such Purchaser, as applicable, in such denominations as such Purchaser may request (with a minimum denomination of \$100,000 for each Bond), dated the date of the Closing and registered in such Purchaser's name (or in the name of its nominee), against delivery by such Purchaser to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for Account Number: 8559742757, Account Name: Aqua Pennsylvania, Inc., at PNC Bank, N.A., Philadelphia, Pennsylvania, ABA Number 031-000053. If at the Closing the Company shall fail to tender such Bonds to any Purchaser as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to such Purchaser's satisfaction, such Purchaser shall, at its election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Purchaser may have by reason of such failure or such nonfulfillment.

SECTION 4. CONDITIONS TO CLOSING.

Each Purchaser's obligation to execute and deliver this Agreement and to purchase and pay for the Bonds to be sold to such Purchaser prior to or at the Closing is subject to the fulfillment to such Purchaser's satisfaction at the Closing of the following conditions:

*Section 4.1. Representations and Warranties.* The representations and warranties of the Company in this Agreement shall be correct when made and at the time of the Closing.

*Section 4.2. Performance; No Default.* The Company shall have performed and complied with all agreements and conditions contained in each Financing Agreement required to be performed or complied with by the Company prior to or at the Closing, and after giving effect to the issue and sale of the Bonds (and the application of the proceeds thereof as contemplated by Section 5.14), no Default or Event of Default shall have occurred and be continuing.

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*Section 4.3. Compliance Certificates.* The Company shall have performed and complied with all agreements and conditions contained in the Indenture which are required to be performed or complied with by the Company for the issuance of the Bonds. In addition the Company shall have delivered the following certificates:

(a) *Officer's Certificate.* The Company shall have delivered to such Purchaser (i) an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in Section 4 of this Agreement have been fulfilled, and (ii) copies of all certificates and opinions required to be delivered to the Trustee under the Indenture in connection with the issuance of the Bonds under the Indenture, in each case, dated the date of the Closing.

(b) *Secretary's Certificate.* The Company shall have delivered to such Purchaser a certificate of its Secretary or Assistant Secretary, dated the date of the Closing, certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of this Agreement, the Bonds and the Supplement.

(c) *Certification of Indenture.* Each Purchaser shall have received a composite copy of the Indenture (together with all amendments and supplements thereto), certified by the Company as of the date of the Closing, exclusive of property exhibits, recording information and the like.

*Section 4.4. Opinions of Counsel.* Such Purchaser shall have received opinions in form and substance satisfactory to such Purchaser, dated the date of the Closing (a) from Christopher P. Luning, counsel for the Company, covering the matters set forth in Exhibit 4.4(a) and covering such other matters incident to the transactions contemplated hereby as such Purchaser or its counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Purchasers) and (b) from Dilworth Paxson, LLP, special counsel to the Company, covering the matters set forth in Exhibit 4.4(b) and covering such other matters incident to the transactions contemplated hereby as the Purchaser or the Purchaser's counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Purchasers), and (c) from Chapman and Cutler LLP, the Purchasers' special counsel in connection with such transactions, substantially in the form set forth in Exhibit 4.4(c) and covering such other matters incident to such transactions as such Purchaser may reasonably request. The Company hereby directs its counsel to deliver the opinions required by this Section 4.4 and understands and agrees that each Purchaser will and hereby is authorized to rely on such opinions.



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*Section 4.5. Purchase Permitted by Applicable Law, Etc.* On the date of the Closing such Purchaser's purchase of Bonds shall (a) be permitted by the laws and regulations of each jurisdiction to which such Purchaser is subject, without recourse to provisions (such as section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (b) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (c) not subject such Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date of the Closing. If requested by such Purchaser, such Purchaser shall have received an Officer's Certificate certifying as to such matters of fact as such Purchaser may reasonably specify to enable such Purchaser to determine whether such purchase is so permitted.

*Section 4.6. Sale of Bonds.* Contemporaneously with the Closing, the Company shall sell to each Purchaser and each Purchaser shall purchase the Bonds to be purchased by it at the Closing as specified in Schedule A.

*Section 4.7. Payment of Special Counsel Fees.* Without limiting the provisions of Section 12.2, the Company shall have paid on or before the Closing the reasonable fees, reasonable charges and reasonable disbursements of the Purchasers' special counsel referred to in Section 4.4(c) to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing.

*Section 4.8. Private Placement Number.* A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the SVO) shall have been obtained for each series of Bonds.

*Section 4.9. Changes in Corporate Structure.* The Company shall not have changed its jurisdiction of incorporation or organization, as applicable, or been a party to any merger or consolidation or succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in Schedule 5.5.

*Section 4.10. Funding Instructions.* At least three Business Days prior to the date of the Closing, each Purchaser shall have received written instructions signed by a Responsible Officer on letterhead of the Company confirming the information specified in Section 3 including (a) the name and address of the transferee bank, (b) such transferee bank's ABA number and (c) the account name and number into which the purchase price for the Bonds is to be deposited.

*Section 4.11. Proceedings and Documents.* All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be reasonably satisfactory to such Purchaser and its special counsel, and such Purchaser and its special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Purchaser or such special counsel may reasonably request.

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*Section 4.12. Execution and Delivery and Filing and Recording of the Supplement.* The Supplement shall have been duly executed and delivered by the Company, and the Company shall have filed, or delivered for recordation, the Supplement in all locations in Pennsylvania (and financing statements in respect thereof shall have been filed, if necessary) in such manner and in such places as is required by law (and no other instruments are required to be filed) to establish, preserve, perfect and protect the direct security interest and mortgage Lien of the Trust Estate created by the Indenture on all mortgaged and pledged property of the Company referred to in the Indenture as subject to the direct mortgage Lien thereof and the Company shall have delivered satisfactory evidence of such filings and recordings.

*Section 4.13. Regulatory Approvals.* The issue and sale of the Bonds shall have been duly authorized by an order of the Pennsylvania Public Utility Commission and such order shall be in full force and effect on the Closing Date and all appeal periods, if any, applicable to such order shall have expired. The Company shall deliver satisfactory evidence that orders have been obtained approving the issuance of the Bonds from the Pennsylvania Public Utility Commission or that the Pennsylvania Public Utility Commission shall have waived jurisdiction thereof and such approval or waiver shall not be contested or subject to review, or that the Pennsylvania Public Utility Commission does not have jurisdiction.

SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to each Purchaser that:

*Section 5.1. Organization; Power and Authority.* The Company is a corporation duly organized, validly existing and subsisting under the laws of the Commonwealth of Pennsylvania, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement, the Bonds and the Supplement (and had the corporate power and authority to execute and deliver the Indenture at the time of execution and delivery thereof) and to perform the provisions of the Financing Agreements.

*Section 5.2. Authorization, Etc.* Each Financing Agreement has been duly authorized by all necessary corporate action on the part of the Company, and each Financing Agreement (other than the Supplement and the Bonds) constitutes, and when the Supplement is executed and delivered by the Company and the Trustee and when the Bonds are executed, issued and delivered by the Company, authenticated by the Trustee and paid for by the Purchasers, the Supplement and each Bond will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its respective terms, except as such enforceability may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

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*Section 5.3. Disclosure.* This Agreement and the documents, certificates or other writings delivered to the Purchasers by or on behalf of the Company in connection with the transactions contemplated hereby, including the Private Placement Memorandum (including the documents incorporated therein by reference) dated October 11, 2012, and the financial statements listed in Schedule 5.5 (collectively, the "*Disclosure Documents*"), taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Since December 31, 2011, there has been no change in the financial condition, operations, business or properties of the Company or any of its Subsidiaries except changes that individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect. There is no fact known to management of the Company that, in the reasonable judgment of management of the Company, could be expected to have a Material Adverse Effect that has not been set forth herein or in the other documents, certificates and other writings delivered to the Purchaser by the Company specifically for use in connection with the transactions contemplated hereby.

*Section 5.4. Organization and Ownership of Shares of Subsidiaries.* (a) Schedule 5.4 contains a complete and correct list of the Company's Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien.

(c) Each Subsidiary identified in Schedule 5.4 is duly incorporated and is validly subsisting as a corporation under the laws of the Commonwealth of Pennsylvania, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

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*Section 5.5. Financial Statements; Material Liabilities.* The Company has delivered to each Purchaser copies of the financial statements of the Company and its Subsidiaries listed on Schedule 5.5. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates specified in such financial statements and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments). The Company does not have any Material liabilities that are not disclosed on such financial statements or otherwise disclosed in the Disclosure Documents.

*Section 5.6. Compliance with Laws, Other Instruments, Etc.* The execution, delivery and performance by the Company of each Financing Agreement (including the prior execution and delivery of the Indenture), will not (a) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien, other than the Lien created under the Indenture, in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other Material agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (b) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (c) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary, except for any such default, breach, contravention or violation which would not reasonably be expected to have a Material Adverse Effect.

*Section 5.7. Governmental Authorizations, Etc.* No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement, the Bonds and the Supplement, other than approval of the Pennsylvania Public Utility Commission, which has been obtained and is in full force and effect and final and is non-appealable.

*Section 5.8. Litigation; Observance of Statutes and Orders.* (a) There are no actions, suits, investigations or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

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(b) Neither the Company nor any Subsidiary is (i) in default under any term of any agreement or instrument to which it is a party or by which it is bound, (ii) in violation of any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority naming or referring to the Company or any Subsidiary or (iii) in violation of any applicable law, or, to the knowledge of the Company, any ordinance, rule or regulation of any Governmental Authority (including, without limitation, Environmental Laws the USA Patriot Act or any of the other laws and regulations that are referred to in Section 5.16), which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

*Section 5.9. Taxes.* The Company and its Subsidiaries have filed all income tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments payable by them, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (i) the amount of which is not individually or in the aggregate Material or (ii) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The charges, accruals, and reserves on the books of the Company and its Subsidiaries in respect of federal, state or other taxes for all fiscal periods are adequate. The Federal income tax liabilities of the Company and its Subsidiaries have been finally determined (whether by reason of completed audits or the statute of limitations having run) for all fiscal years up to and including the fiscal year ended December 31, 2008 and all amount owing in respect of such audit have been paid.

*Section 5.10. Title to Property; Leases.* The Company and its Subsidiaries have good and sufficient title to their respective Material properties, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement or the Indenture, except for those defects in title and Liens that, individually or in the aggregate, would not have a Material Adverse Effect. All Material leases are valid and subsisting and are in full force and effect in all material respects.

*Section 5.11. Licenses, Permits, Etc.* The Company and its Subsidiaries own or possess all licenses, permits, franchises, certificates of conveyance and necessity, authorizations, patents, copyrights, proprietary software, service marks, trademarks and trade names, or rights thereto, that are Material, without known conflict with the rights of others, except for those conflicts that, individually or in the aggregate, would not have a Material Adverse Effect.

*Section 5.12. Compliance with ERISA.* (a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in section 3 of ERISA), and no event, transaction or condition has occurred or exists that would reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to section 401(a)(29) or 412 of the Code or section 4068 of ERISA, other than such liabilities or Liens as would not be individually or in the aggregate Material.

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(b) The present value of the aggregate benefit liabilities under each of the Plans (other than Multiemployer Plans), determined as of January 1, 2012 based on such Plan's actuarial assumptions as of that date for funding purposes as documented in such Plan's actuarial valuation reports dated October 2012 and November 2012, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities by more than \$5,000,000 in the case of any single Plan and by more than \$5,000,000 in the aggregate for all Plans. The term "benefit liabilities" has the meaning specified in section 4001 of ERISA and the terms "current value" and "present value" have the meaning specified in section 3 of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected postretirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(e) The execution and delivery of this Agreement and the issuance and sale of the Bonds hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section 4975(c)(1)(A)-(D) of the Code. The representation by the Company to each Purchaser in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of such Purchaser's representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Bonds to be purchased by such Purchaser.

*Section 5.13. Private Offering by the Company.* Neither the Company nor anyone acting on the Company's behalf has offered the Bonds or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than the Purchasers and not more than twenty (20) other Institutional Investors, each of which has been offered the Bonds in connection with a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Bonds to the registration requirements of Section 5 of the Securities Act.

*Section 5.14. Use of Proceeds; Margin Regulations.* The Company will apply the proceeds of the sale of the Bonds to repay existing indebtedness and for general corporate purposes and in compliance with all laws referenced in Section 5.16. No part of the proceeds from the sale of the Bonds hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Margin stock does not constitute more than 2% of the value of the consolidated assets of the Company and its Subsidiaries and the Company does not have any present intention that margin stock will constitute more than 2% of the value of such assets. As used in this Section, the terms "margin stock" and "purpose of buying or carrying" shall have the meanings assigned to them in said Regulation U.

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*Section 5.15. Existing Debt.* Except as described therein, Schedule 5.15(a) sets forth a complete and correct list of all outstanding Debt of the Company and its Subsidiaries as of September 30, 2012, since which date except as described therein there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Debt of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Debt of the Company or any Subsidiary and no event or condition exists with respect to any Debt of the Company or any Subsidiary, the outstanding principal amount of which exceeds \$5,000,000 that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Debt to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Without limiting the representation in Section 5.6, the Company is not a party to, or otherwise subject to any provision contained in, any instrument evidencing Debt of the Company or any Subsidiary, any agreement relating thereto or any other agreement (including, but not limited to, its charter or other organizational document) which limits the amount of, or otherwise imposes restrictions on the incurring of, Debt evidenced by the Bonds, except as specifically indicated in Schedule 5.15(b).

*Section 5.16. Foreign Assets Control Regulations, Etc.* (a) Neither the Company nor any Controlled Entity is (i) a Person whose name appears on the list of Specially Designated Nationals and Blocked Persons published by the Office of Foreign Assets Control, U.S. Department of Treasury (“OFAC”) or a Person that is otherwise subject to an OFAC Sanctions Program (an “OFAC Listed Person”) or (ii) a department, agency or instrumentality of, or is otherwise controlled by or acting on behalf of, directly or indirectly, (x) any OFAC Listed Person or (y) any Person, entity, organization, foreign country or regime that is subject to any OFAC Sanctions Program (each OFAC Listed Person and each other Person, entity, organization and government of a country described in clause (ii), a “Blocked Person”).

(b) No part of the proceeds from the sale of the Bonds hereunder constitutes or will constitute funds obtained on behalf of any Blocked Person or will otherwise be used, directly by the Company or indirectly through any Controlled Entity, in connection with any investment in, or any transactions or dealings with, any Blocked Person or for investment in the Iranian energy sector (as defined in Section 201 (1) of CISADA).

(c) To the Company’s knowledge after making due inquiry, neither the Company nor any Controlled Entity (i) is under investigation by any Governmental Authority for, or has been charged with, or convicted of, money laundering, drug trafficking, terrorist-related activities or other money laundering predicate crimes under any applicable law (collectively, “Anti-Money Laundering Laws”), (ii) has been assessed civil penalties under any Anti-Money Laundering Laws or (iii) has had any of its funds seized or forfeited in an action under any Anti-Money Laundering Laws. The Company has taken reasonable measures appropriate to the circumstances (in any event as required by applicable law) to ensure that the Company and each Controlled Entity is and will continue to be in compliance with all applicable current and future Anti-Money Laundering Laws.

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(d) No part of the proceeds from the sale of the Bonds hereunder will be used, directly or indirectly, for any improper payments to any governmental official or employee, political party, official of a political party, candidate for political office, official of any public international organization or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage. The Company has taken reasonable measures appropriate to the circumstances (in any event as required by applicable law) to ensure that the Company and each Controlled Entity is and will continue to be in compliance with all applicable current and future anti-corruption laws and regulations.

*Section 5.17. Status under Certain Statutes.* Neither the Company nor any Subsidiary is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 2005, as amended, the ICC Termination Act of 1995, as amended, or subject to rate regulation under the Federal Power Act, as amended.

*Section 5.18. Environmental Matters.* Neither the Company nor any Subsidiary has knowledge of any claim or has received any notice of any claim, and no proceeding has been instituted of which it has received notice, raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them, or other assets, alleging damage to the environment or any violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed to the Purchaser in writing:

(a) neither the Company nor any Subsidiary has knowledge of any facts which would give rise to any claim, public or private, for violation of Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties or to other assets now or formerly owned, leased or operated by any of them or their use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect;

(b) neither the Company nor any of its Subsidiaries has stored any Hazardous Materials on real properties now or formerly owned, leased or operated by any of them or has disposed of any Hazardous Materials in each case in a manner contrary to any Environmental Laws and in any manner that could reasonably be expected to result in a Material Adverse Effect; and



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(c) all buildings on all real properties now owned, leased or operated by the Company or any of its Subsidiaries are in compliance with applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

*Section 5.19. Lien of Indenture.* The Indenture (and for avoidance of doubt including the Supplement) constitutes a direct and valid Lien upon the Trust Estate, subject only to the exceptions referred to in the Indenture and Permitted Liens, and will create a similar Lien upon all properties and assets acquired by the Company after the date hereof which are required to be subjected to the Lien of the Indenture, when acquired by the Company, subject only to the exceptions referred to in the Indenture and Permitted Liens, and subject, further, as to real property interests, to the recordation of a supplement to the Indenture describing such after-acquired property; the descriptions of all such properties and assets contained in the granting clauses of the Indenture are correct and adequate for the purposes of the Indenture; the Indenture has been duly recorded as a mortgage and deed of trust of real estate, and any required filings with respect to personal property and fixtures subject to the Lien of the Indenture have been duly made in each place in which such recording or filing is required to protect, preserve and perfect the Lien of the Indenture; and all taxes and recording and filing fees required to be paid with respect to the execution, recording or filing of the Indenture, the filing of financing statements related thereto and similar documents and the issuance of the Bonds have been paid.

*Section 5.20. Filings.* No action, including any filings, registration or notice, is necessary or advisable in Pennsylvania or any other jurisdictions to ensure the legality, validity and enforceability of the Financing Agreements, except such action as has been previously taken, which action remains in full force and effect. No action, including any filing, registration or notice, is necessary or advisable in Pennsylvania or any other jurisdiction to establish or protect for the benefit of the Trustee and the holders of Bonds, the security interest and Liens purported to be created under the Indenture and the priority and perfection thereof and the other Financing Agreements, except such action as has been previously taken, which action remains in full force and effect.

SECTION 6. REPRESENTATIONS OF THE PURCHASERS.

*Section 6.1. Purchase for Investment.* Each Purchaser severally represents that it is purchasing the Bonds for its own account or for one or more separate accounts maintained by such Purchaser or for the account of one or more pension or trust funds and not with a view to the distribution thereof, provided that the disposition of such Purchaser's or their property shall at all times be within such Purchaser's or their control. Each Purchaser understands that the Bonds have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Bonds.

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*Section 6.2. Source of Funds.* Each Purchaser severally represents that at least one of the following statements is an accurate representation as to each source of funds (a “*Source*”) to be used by such Purchaser to pay the purchase price of the Bonds to be purchased by such Purchaser hereunder:

(a) the Source is an “insurance company general account” (as the term is defined in the United States Department of Labor’s Prohibited Transaction Exemption (“*PTE*”) 95-60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the National Association of Insurance Commissioners (the “*NAIC Annual Statement*”)) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Purchaser’s state of domicile; or

(b) the Source is a separate account that is maintained solely in connection with such Purchaser’s fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(c) the Source is either (i) an “insurance company pooled separate account,” (within the meaning of PTE 90-1) or (ii) a “bank collective investment fund” (within the meaning of the PTE 91-38) and, except as disclosed by such Purchaser to the Company in writing pursuant to this clause (c), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(d) the Source constitutes assets of an “investment fund” (within the meaning of Part VI(b) of PTE 84-14 (the “*QPAM Exemption*”)) managed by a “qualified professional asset manager” or “QPAM” (within the meaning of Part VI(a) of the QPAM Exemption); no employee benefit plan’s assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an “affiliate” (within the meaning of Section VI(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM; the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied; neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of “control” in Section VI(e) of the QPAM Exemption) owns a 10% or more interest in the Company; and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this clause (d); or

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(e) the Source constitutes assets of a “plan(s)” (within the meaning of Section IV(h) of PTE 96-23 (the “*INHAM Exemption*”)) managed by an “in-house asset manager” or “INHAM” (within the meaning of Part IV(a) of the INHAM Exemption); the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied; neither the INHAM nor a person controlling or controlled by the INHAM (applying the definition of “control” in Section IV(d) of the INHAM Exemption) owns a 10% or more interest in the Company and (i) the identity of such INHAM and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (e); or

(f) the Source is a governmental plan; or

(g) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (g); or

(h) the Source does not include “plan assets” of any employee benefit plan, other than a plan exempt from the coverage of Title I of ERISA.

As used in this Section 6.2, the terms “*employee benefit plan*,” “*governmental plan*,” and “*separate account*” shall have the respective meanings assigned to such terms in section 3 of ERISA.

SECTION 7. INFORMATION AS TO COMPANY.

*Section 7.1. Financial and Business Information.* The Company shall deliver to each holder of Bonds that is an Institutional Investor:

(a) *Quarterly Statements* — within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of income, changes in shareholders’ equity and cash flows of the Company and its Subsidiaries, for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter, setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments, *provided* that the delivery within the time period specified above of the Company’s said financial statements, prepared in accordance with the requirements therefor and filed with the Municipal Securities Rulemaking Board on the Electronic Municipal Market Access (“*EMMA*”) database shall be deemed to satisfy the requirements of this Section 7.1(a);

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(b) *Annual Statements* — within 120 days after the end of each fiscal year of the Company, duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by an opinion thereon of independent public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, *provided* that the delivery within the time period specified above of the Company's said financial statements, prepared in accordance with the requirements therefor and filed with the Municipal Securities Rulemaking Board on the EMMA database shall be deemed to satisfy the requirements of this Section 7.1(b);

(c) *SEC and Other Reports* — promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to its public securities holders generally, and (ii) each regular or periodic report, each registration statement that shall have become effective (without exhibits except as expressly requested by such holder), and each final prospectus and all amendments thereto filed by the Company or any Subsidiary with the SEC, *provided* that the delivery within the time period specified above of the Company's said financial statements, prepared in accordance with the requirements therefor and filed with the Municipal Securities Rulemaking Board on the EMMA database shall be deemed to satisfy the requirements of this Section 7.1(c);

(d) *Notice of Default or Event of Default* — promptly, and in any event within five days after a Responsible Officer becomes aware of the existence of any Default or Event of Default, a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

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(e) *ERISA Matters* — promptly, and in any event within five days after a Responsible Officer becomes aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan (other than any Multiemployer Plan) that is subject to Title IV of ERISA, any reportable event, as defined in section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof and on the date of the Closing; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any such Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, would reasonably be expected to have a Material Adverse Effect;

(f) *Notices from Governmental Authority* — promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary from any federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect;

(g) *Requested Information* — with reasonable promptness, following the receipt by the Company of a written request by such holder of Bonds, the names and contact information of holders of the outstanding bonds issued under the Indenture (i.e. the bonds in which the Company or a trustee is required to keep in a register and that are not publicly traded) of which the Company has knowledge and the principal amount of the outstanding bonds issued under the Indenture owed to each holder (unless disclosure of such names, contact information or holdings is prohibited by law), and such data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations under any Financing Agreement as from time to time may be reasonably requested by such holder of Bonds; and

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(h) *Deliveries to Trustee* — promptly, and in any event within five days after delivery to the Trustee, a copy of any deliveries to be made by the Company to the Trustee, including without limitation the annual report delivered to the Trustee pursuant to Article VIII, Section 12 of the Indenture.

*Section 7.2 Officer's Certificate.* Each set of financial statements delivered to a holder of Bonds pursuant to Section 7.1(a) or Section 7.1(b) shall be accompanied by a certificate of a Senior Financial Officer (which, in the case of financial statements filed with the Municipal Securities Rulemaking Board on the EMMA database, shall be by separate concurrent delivery of such certificate to each holder of Bonds) setting forth a statement that such Senior Financial Officer has reviewed the relevant terms hereof and of the Indenture and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

*Section 7.3. Visitation.* The Company shall permit the representatives of each holder of Bonds that is an Institutional Investor:

(a) *No Default* — if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and, with the consent of the Company (which consent will not be unreasonably withheld), to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times during normal business hours and as often as may be reasonably requested in writing; and

(b) *Default* — if a Default or Event of Default then exists, at the expense of the Company to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such reasonable times and as often as may be requested.

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SECTION 8. PURCHASE OF BONDS

The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Bonds except (a) upon the payment or prepayment of the Bonds in accordance with the terms of this Agreement and the Bonds or (b) pursuant to a written offer to purchase any outstanding Bonds made by the Company or an Affiliate pro rata to the holders of the Bonds upon the same terms and conditions. Any such offer shall provide each holder with sufficient information to enable it to make an informed decision with respect to such offer, and shall remain open for at least 15 Business Days. If the holders of more than 10% of the principal amount of the Bonds then outstanding accept such offer, the Company shall promptly notify the remaining holders of such fact and the expiration date for the acceptance by holders of Bonds of such offer shall be extended by the number of days necessary to give each such remaining holder at least 10 Business Days from its receipt of such notice to accept such offer. The Company will promptly cancel all Bonds acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Bonds pursuant to any provision of this Agreement and no Bonds may be issued in substitution or exchange for any such Bonds.

SECTION 9. AFFIRMATIVE COVENANTS.

The Company covenants that so long as any of the Bonds are outstanding:

*Section 9.1. Compliance with Law.* Without limiting Section 10.4, the Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, ERISA, Environmental Laws, the USA Patriot Act and the other laws and regulations that are referred to in Section 5.16, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

*Section 9.2. Insurance.* The Company will cause each of its Subsidiaries to maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

*Section 9.3. Maintenance of Properties.* The Company will cause each of its Subsidiaries to maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, *provided* that this Section shall not prevent any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company and such Subsidiary has concluded that such discontinuance would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

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*Section 9.4. Payment of Taxes.* The Company will cause each of its Subsidiaries to file all income tax or similar tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies payable by any of them, to the extent the same have become due and payable and before they have become delinquent, provided that any Subsidiary does not need to pay any such tax, assessment, charge or levy if (a) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of such Subsidiary or (b) the nonpayment of all such taxes, assessments, charges and levies in the aggregate would not reasonably be expected to have a Material Adverse Effect.

*Section 9.5. Corporate Existence, Etc.* The Company will at all times preserve and keep in full force and effect the corporate existence of each of its Subsidiaries (unless merged into the Company or a wholly-owned Subsidiary) and all rights and franchises of its Subsidiaries unless, in the good faith judgment of the Company or such Subsidiary, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise would not, individually or in the aggregate, have a Material Adverse Effect.

*Section 9.6. Books and Records.* The Company will, and will cause each of its Subsidiaries to, maintain proper books of record and account in conformity with GAAP and all applicable requirements of any Governmental Authority having legal or regulatory jurisdiction over the Company or such Subsidiary.

SECTION 10. NEGATIVE COVENANTS.

The Company covenants that so long as any of the Bonds are outstanding:

*Section 10.1. Transactions with Affiliates.* The Company will not and will not permit any Subsidiary to enter into directly or indirectly any Material transaction or Material group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or another Subsidiary), except pursuant to the reasonable requirements of the Company's or such Subsidiary's business.

*Section 10.2. Merger, Consolidation, Etc.* The Company will not consolidate with or merge with any other Person or convey, transfer or lease all or substantially all of its assets in a single transaction or series of transactions to any Person unless:



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(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease all or substantially all of the assets of the Company as an entirety, as the case may be, shall be a solvent corporation or limited liability company organized and existing under the laws of the United States or any State thereof (including the District of Columbia), and, if the Company is not such corporation or limited liability company, such corporation or limited liability company shall have executed and delivered to each holder of any Bonds its assumption of the due and punctual performance and observance of each covenant and condition of the Financing Agreements (pursuant to such agreements and instruments as shall be reasonably satisfactory to the Required Holders), and the Company shall have caused to be delivered to each holder of Bonds an opinion of nationally recognized independent counsel, to the effect that all agreements or instruments effecting such assumption are enforceable in accordance with their terms and comply with the terms hereof; and

(b) immediately before and immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing.

No such conveyance, transfer or lease of substantially all of the assets of the Company shall have the effect of releasing the Company or any successor corporation or limited liability company that shall theretofore have become such in the manner prescribed in this Section 10.2 from its liability under the Financing Agreements.

*Section 10.3. Line of Business.* The Company will not engage in any business if, as a result, the general nature of the business in which the Company and its Subsidiaries, taken as a whole, would then be engaged would be substantially changed from the general nature of the business in which the Company and its Subsidiaries, taken as whole, is engaged on the date of this Agreement.

*Section 10.4. Terrorism Sanctions Regulations.* The Company will not and will not permit any Controlled Entity to (a) become a Blocked Person or (b) have any investments in or engage in any dealings or transactions with any Blocked Person except in accordance with applicable law and in a manner where such investments, transactions or dealings would not cause the purchase, holding or receipt of any payment or exercise of any rights in respect of any Bond by the holder thereof to be in violation of any laws or regulations administered by OFAC.

#### SECTION 11. PAYMENTS ON BONDS.

*Section 11.1. Home Office Payment.* So long as any Purchaser or its nominee shall be the holder of any Bond, and notwithstanding anything contained in the Indenture or in such Bond to the contrary, the Company will pay all sums becoming due on such Bond for principal, Make-Whole Amount or premium, if any, and interest by the method and at the address specified for such purpose below such Purchaser's name in Schedule A, or by such other method or at such other address as such Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Bond or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Bond, such Purchaser shall surrender such Bond for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Article II of the Indenture. Prior to any sale or other disposition of any Bond held by a Purchaser or its nominee, such Purchaser will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Bond to the Company in exchange for a new Bond or Bonds pursuant to Article II of the Indenture. The Company will afford the benefits of this Section 11.1 to any Institutional Investor that is the direct or indirect transferee of any Bond purchased by a Purchaser under this Agreement and that has made the same agreement relating to such Bond as the Purchasers have made in this Section 11.1.

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SECTION 12. REGISTRATION; EXCHANGE; EXPENSES, ETC.

*Section 12.1. Registration of Bonds.* The Company shall cause the Trustee to keep a register for the registration and registration of transfers of Bonds in accordance with Article XIII, Section 9 of the Indenture.

*Section 12.2. Transaction Expenses.* Whether or not the transactions contemplated hereby are consummated, the Company will pay all reasonable costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required by the Required Holders, local or other counsel) incurred by the Purchasers and each other holder of a Bond in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of any Financing Agreement (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under any Financing Agreement or in responding to any subpoena or other legal process or informal investigative demand issued in connection with any Financing Agreement, or by reason of being a holder of any Bond, (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated by any Financing Agreement and (c) the costs and expenses incurred in connection with the initial filing of any Financing Agreement and all related documents and financial information with the SVO, provided that such costs and expenses under this clause (c) shall not exceed \$5,000 for the Bonds. The Company will pay, and will save each Purchaser and each other holder of a Bond harmless from, all claims in respect of any fees, costs or expenses if any, of brokers and finders (other than those, if any, retained by a Purchaser or other holder in connection with its purchase of the Bonds).

*Section 12.3. Survival.* The obligations of the Company under this Section 12 will survive the payment or transfer of any Bond, the enforcement, amendment or waiver of any provision of any Financing Agreement, and the termination of any Financing Agreement.

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SECTION 13. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement, the purchase or transfer by any Purchaser of any Bond or portion thereof or interest therein and the payment of any Bond, and may be relied upon by any subsequent holder of a Bond, regardless of any investigation made at any time by or on behalf of such Purchaser or any other holder of a Bond. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, the Financing Agreements embody the entire agreement and understanding between each Purchaser and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

SECTION 14. AMENDMENT AND WAIVER.

*Section 14.1. Requirements.* This Agreement and the Bonds may be amended, and the observance of any term hereof or of the Bonds may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (i) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5, 6 or 19 hereof, or any defined term, will be effective as to any holder of Bonds unless consented to by such holder of Bonds in writing, and (ii) no such amendment or waiver may, without the written consent of all of the holders of Bonds at the time outstanding affected thereby, (A) subject to the provisions of the Indenture relating to acceleration, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest (if such change results in a decrease in the interest rate) or of the Make-Whole Amount on, the Bonds, (B) change the percentage of the principal amount of the Bonds the holders of which are required to consent to any such amendment or waiver, or (C) amend any of Sections 8, 14 or 18.

*Section 14.2. Solicitation of Holders of Bonds.*

(a) *Solicitation.* The Company will provide each holder of the Bonds (irrespective of the amount of Bonds then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Bonds. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 14 to each holder of outstanding Bonds promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Bonds.

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(b) *Payment.* The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise (other than legal fees or other related expenses), or grant any security or provide other credit support, to any holder of Bonds as consideration for or as an inducement to the entering into by any holder of Bonds or any waiver or amendment of any of the terms and provisions hereof unless such remuneration is concurrently paid, or security is concurrently granted or other credit support concurrently provided, on the same terms, ratably to each holder of Bonds then outstanding even if such holder did not consent to such waiver or amendment.

(c) *Consent in Contemplation of Transfer.* Any consent made pursuant to this Section 14 by the holder of any Bond that has transferred or has agreed to transfer such Bond to the Company, any Subsidiary or any Affiliate of the Company and has provided or has agreed to provide such written consent as a condition to such transfer shall be void and of no force or effect except solely as to such holder, and any amendments effected or waivers granted or to be effected or granted that would not have been or would not be so effected or granted but for such consent (and the consents of all other holders of Bonds that were acquired under the same or similar conditions) shall be void and of no force or effect except solely as to such transferring holder.

*Section 14.3. Binding Effect, Etc.* Any amendment or waiver consented to as provided in this Section 14 applies equally to all holders of Bonds and is binding upon them and upon each future holder of any Bond and upon the Company without regard to whether such Bond has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Bond nor any delay in exercising any rights hereunder or under any Bond shall operate as a waiver of any rights of any holder of such Bond. As used herein, the term “this Agreement” and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

*Section 14.4. Bonds Held by Company, Etc.* Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Bonds then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Bonds, or have directed the taking of any action provided herein or in the Bonds to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Bonds then outstanding, Bonds directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

SECTION 15. NOTICES.

All notices and communications provided for hereunder shall be in writing and sent (a) by telecopy if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to any Purchaser or its nominee, to such Purchaser or nominee at the address specified for such communications in Schedule A, or at such other address as such Purchaser or nominee shall have specified to the Company in writing,

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(ii) if to any other holder of any Bond, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010-3489, or at such other address as the Company shall have specified to the holder of each Bond in writing, or

(iv) if to the Trustee, to The Bank of New York Mellon Trust Company, N.A., as Trustee, 1735 Market Street, 6th Floor, AIM No.: 193-0650, Philadelphia, PA 19103, or at such other address as the Trustee shall have specified to the Company and each other party hereto in writing.

Notices under this Section 15 will be deemed given only when actually received.

SECTION 16. INDEMNIFICATION.

The Company hereby agrees to indemnify and hold the Purchasers harmless from, against and in respect of any and all loss, liability and expense (including reasonable attorneys' fees) arising from any misrepresentation or nonfulfillment of any undertaking on the part of the Company under this Agreement. The indemnification obligations of the Company under this Section 16 shall survive the execution and delivery of this Agreement, the delivery of the Bonds to the Purchasers and the consummation of the transactions contemplated herein.

SECTION 17. REPRODUCTION OF DOCUMENTS.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by any Purchaser at the Closing (except the Bonds themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to any Purchaser, may be reproduced by such Purchaser by any photographic, photostatic, electronic, digital, or other similar process and such Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Purchaser in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 17 shall not prohibit the Company or any other holder of Bonds from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

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SECTION 18. CONFIDENTIAL INFORMATION.

For the purposes of this Section 18, “*Confidential Information*” means information delivered to any Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Purchaser as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any person acting on such Purchaser’s behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Purchaser under Section 7.1 of this Agreement or under the Indenture that are otherwise publicly available. Each Purchaser will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser, provided that such Purchaser may deliver or disclose Confidential Information to (i) its directors, trustees, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by Bonds), (ii) its financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 18, (iii) any other holder of any Bond, (iv) any Institutional Investor to which it sells or offers to sell such Bond or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 18), (v) any Person from which it offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 18), (vi) any federal or state or provincial regulatory authority having jurisdiction over such Purchaser, (vii) the NAIC or the SVO or, in each case, any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser’s investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Purchaser is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under any Financing Agreement. Each holder of a Bond, by its acceptance of a Bond, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 18 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Bond of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this Section 18.

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In the event that as a condition to receiving access to information relating to the Company or its Subsidiaries in connection with the transactions contemplated by or otherwise pursuant to this Agreement, any Purchaser or holder of a Bond is required to agree to a confidentiality undertaking (whether through EMMA, another secure website, a secure virtual workspace or otherwise) which is different from this Section 18, this Section 18 shall not be amended thereby and, as between such Purchaser or such holder and the Company, this Section 18 shall supersede any such other confidentiality undertaking.

SECTION 19. MISCELLANEOUS.

*Section 19.1. Successors and Assigns.* All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Bond) whether so expressed or not.

*Section 19.2. Accounting Terms.* All accounting terms used herein which are not expressly defined in this Agreement have the meanings respectively given to them in accordance with GAAP. Except as otherwise specifically provided herein, (a) all computations made pursuant to this Agreement shall be made in accordance with GAAP, and (b) all financial statements shall be prepared in accordance with GAAP. For purposes of determining compliance with the financial covenants contained in the Financing Agreements, if any, any election by the Company to measure Debt using fair value (as permitted by Financial Accounting Standards Board Accounting Standards Codification Topic No. 825-10-25 – *Fair Value Option*, International Accounting Standard 39 – *Financial Instruments: Recognition and Measurement* or any similar accounting standard) shall be disregarded and such determination shall be made as if such election had not been made and such Debt shall be valued at not less than 100% of the principal amount thereof.

*Section 19.3. Severability.* Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

*Section 19.4. Construction, Etc.* Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

For the avoidance of doubt, all Schedules and Exhibits attached to this Agreement shall be deemed to be a part hereof.

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*Section 19.5. Counterparts.* This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

*Section 19.6. Governing Law.* This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the Commonwealth of Pennsylvania excluding choice-of-law principles of the law of such State that would permit the application of the laws of a jurisdiction other than such State.

*Section 19.7. Jurisdiction and Process; Waiver of Jury Trial.*

(a) The Company irrevocably submits to the non-exclusive jurisdiction of any Pennsylvania State or federal court sitting in Philadelphia, Pennsylvania, over any suit, action or proceeding arising out of or relating to this Agreement or the Bonds. To the fullest extent permitted by applicable law, the Company irrevocably waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the jurisdiction of any such court, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(b) The Company consents to process being served by or on behalf of any holder of Bonds in any suit, action or proceeding of the nature referred to in Section 19.7(a) by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, return receipt requested, to it at its address specified in Section 15 or at such other address of which such holder shall then have been notified pursuant to said Section. The Company agrees that such service upon receipt (i) shall be deemed in every respect effective service of process upon it in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by applicable law, be taken and held to be valid personal service upon and personal delivery to it. Notices hereunder shall be conclusively presumed received as evidenced by a delivery receipt furnished by the United States Postal Service or any reputable commercial delivery service.

(c) Nothing in this Section 19.7 shall affect the right of any holder of a Bond to serve process in any manner permitted by law, or limit any right that the holders of any of the Bonds may have to bring proceedings against the Company in the courts of any appropriate jurisdiction or to enforce in any lawful manner a judgment obtained in one jurisdiction in any other jurisdiction.

(d) The parties hereto hereby waive trial by jury in any action brought on or with respect to this Agreement, the Bonds or any other document executed in connection herewith or therewith.



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*Section 19.8. Payments Due on Non-Business Days.* Anything in this Agreement or the Bonds to the contrary notwithstanding (but without limiting the requirement in Section 8.4 that the notice of any optional prepayment specify a Business Day as the date fixed for such prepayment), any payment of principal of or Make-Whole Amount or interest on any Bond that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; provided that if the maturity date of any Bond is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day.

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If you are in agreement with the foregoing, please sign the form of agreement on a counterpart of this Bond Purchase Agreement and return it to the Company, whereupon this Agreement shall become a binding agreement between you and the Company.

Very truly yours,

AQUA PENNSYLVANIA, INC.

By David P. Smeltzer

Name: David P. Smeltzer

Its: Executive Vice President,  
Chief Financial Officer

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Accepted as of the date first written above.

TEACHERS INSURANCE AND ANNUITY ASSOCIATION  
OF AMERICA

By Joseph R. Cantey Jr.

Name: Josep R. Cantey Jr.

Title: Director

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Accepted as of the date first written above.

JOHN HANCOCK LIFE INSURANCE COMPANY  
(U.S.A.)

By Pradeep Killamsetty  
Name: Pradeep Killamsetty  
Title: Director

JOHN HANCOCK LIFE INSURANCE COMPANY OF  
NEW YORK

By Pradeep Killamsetty  
Name: Pradeep Killamsetty  
Title: Director

JOHN HANCOCK LIFE & HEALTH INSURANCE COMPANY

By Pradeep Killamsetty  
Name: Pradeep Killamsetty  
Title: Director

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Accepted as of the date first written above.

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY

By: Delaware Investment Advisers, a series of Delaware  
Management Business Trust, Attorney in Fact

By Bradley S. Ritter  
Name: Bradley S. Ritter  
Title: Senior Vice President

LINCOLN LIFE & ANNUITY COMPANY OF NEW YORK

By: Delaware Investment Advisers, a series of Delaware  
Management Business Trust, Attorney in Fact

By Bradley S. Ritter  
Name: Bradley S. Ritter  
Title: Senior Vice President

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Accepted as of the date first written above.

NEW YORK LIFE INSURANCE COMPANY

By Jessica L. Maizel  
Name: Jessica L. Maizel  
Title: Corporate Vice President

NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION

By: New York Life Investment Management LLC, Its  
Investment Manager

By Jessica L. Maizel  
Name: Jessica L. Maizel  
Title: Directory

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Accepted as of the date first written above.

MINNESOTA LIFE INSURANCE COMPANY  
UNITEDHEALTHCARE INSURANCE COMPANY  
AMERICAN REPUBLIC INSURANCE COMPANY  
WESTERN FRATERNAL LIFE ASSOCIATION

By: Advantus Capital Management, Inc.

By James F. Geiger

Name: James F. Geiger

Title: Vice President

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INFORMATION RELATING TO PURCHASERS

NAME OF AND ADDRESS OF PURCHASER	SERIES OF BONDS	PRINCIPAL AMOUNT OF BONDS TO BE PURCHASED
<b>TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA</b>	A	\$17,000,000
8500 Andrew Carnegie Boulevard Charlotte, North Carolina 28262	B	\$ 6,000,000

**Payments**

All payments on or in respect of the Bonds shall be made in immediately available funds on the due date by electronic funds transfer, through the Automated Clearing House System, to:

JPMorgan Chase Bank, N.A.  
ABA # 021-000-021  
Account Number: 900-9-000200  
Account Name: TIAA  
For Further Credit to the Account Number: G07040  
Reference (**Series A Bonds**): PPN: 03842\* AE6/Aqua Pennsylvania, Inc.  
Maturity Date: December 1, 2041/Interest Rate: 3.79%/P&I Breakdown  
Reference: (**Series B Bonds**): PPN: 03842\* AF3/Aqua Pennsylvania, Inc.  
Maturity Date: December 1, 2042/Interest Rate: 3.80%/P&I Breakdown

**Payment Notices**

All notices with respect to payments and prepayments of the Bonds shall be sent to:

Teachers Insurance and Annuity Association of America  
730 Third Avenue  
New York, New York 10017  
Attention: Securities Accounting Division  
Phone: (212) 916-5504  
Email: [jpiperato@tiaa-cref.org](mailto:jpiperato@tiaa-cref.org) or [mwolfe@tiaa-cref.org](mailto:mwolfe@tiaa-cref.org)

*With a copy to:*

JPMorgan Chase Bank, N.A.  
P.O. Box 35308  
Newark, New Jersey 07101

SCHEDULE A  
(to Bond Purchase Agreement)



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*And to:*

Teachers Insurance and Annuity Association of America  
8500 Andrew Carnegie Boulevard  
Charlotte, North Carolina 28262  
Attention: Global Private Markets  
Telephone: (704) 988-4349 (Ho Young Lee)  
(704) 988-1000 (General Number)  
Facsimile: (704) 988-4916  
Email: hlee@tiaa-cref.org

Contemporaneous written confirmation of any electronic funds transfer shall be sent to the above addresses setting forth (1) the full name, private placement number, interest rate and maturity date of the Bonds, (2) allocation of payment between principal, interest, Make-Whole Amount, other premium or any special payment and (3) the name and address of the bank from which such electronic funds transfer was sent.

**Other Notices and Communications**

All other notices and communications shall be delivered or mailed to:

Teachers Insurance and Annuity Association of America  
8500 Andrew Carnegie Boulevard  
Charlotte, North Carolina 28262  
Attention: Global Private Markets  
Telephone: (704) 988-4349 (Ho Young Lee)  
(704) 988-1000 (General Number)  
Facsimile: (704) 988-4916  
Email: hlee@tiaa-cref.org

**Physical Delivery of Bonds**

JPMorgan Chase Bank, N.A.  
4 Chase Metrotech Center  
3<sup>rd</sup> Floor  
Brooklyn, New York 11245-0001  
Attention: Physical Receive Department  
For TIAA A/C #G07040

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 13-1624203

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NAME OF AND ADDRESS OF PURCHASER	SERIES OF BONDS	PRINCIPAL AMOUNT OF BONDS TO BE PURCHASED
<b>JOHN HANCOCK LIFE INSURANCE COMPANY (U.S.A.)</b>	A	\$ 12,000,000
c/o John Hancock Financial Services	B	\$ 6,000,000
197 Clarendon Street		
Boston, Massachusetts 02116		

**Payments**

All payments to be by bank wire transfer of immediately available funds to:

Bank Name:	Bank of New York Mellon
ABA Number:	011001234
Account Number:	JPPF1001002
Account Name:	US PP Collector F008
For Further Credit to:	DDA Number 000048771
On Order of:	Aqua Pennsylvania, Inc.

**Notices**

All notices with respect to payments, prepayments (scheduled and unscheduled, whether partial or in full) and maturity shall be sent to:

John Hancock Financial Services	and	John Hancock Financial Services
197 Clarendon Street		197 Clarendon Street
Boston, MA 02116		Boston, MA 02116
Attention: US Securities Operations, C-4		Attention: Investment Administration, C-4
Fax Number: (617) 572-0628		Fax Number: (617) 572-5495
Email: bossecops@jhancock.com		Email: InvestmentAdministration@jhancock.com

All notices and communication with respect to compliance reporting, financial statements and related certifications shall be sent to:

John Hancock Financial Services  
197 Clarendon Street  
Boston, MA 02116  
Attention: Bond and Corporate Finance, C-2  
Fax Number: (617) 572-0040  
Email: powerteam@jhancock.com

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All other notices shall be sent to:

John Hancock Financial Services  
197 Clarendon Street  
Boston, MA 02116  
Attention: Investment Law, C-3  
Fax Number: (617) 572-9269

and John Hancock Financial Services  
197 Clarendon Street  
Boston, MA 02116  
Attention: Bond and Corporate Finance, C-2  
Fax Number: (617) 572-0040

Registered Name of Securities: John Hancock Life Insurance Company (U.S.A.)

Taxpayer I.D. Number: 01-0233346

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NAME OF AND ADDRESS OF PURCHASER	SERIES OF BONDS	PRINCIPAL AMOUNT OF BONDS TO BE PURCHASED
<b>JOHN HANCOCK LIFE INSURANCE COMPANY OF NEW YORK</b> c/o John Hancock Financial Services 197 Clarendon Street Boston, Massachusetts 02116	A	\$ 3,000,000

**Payments**

All payments to be by bank wire transfer of immediately available funds to:

Bank Name:	Bank of New York Mellon
ABA Number:	011001234
Account Number:	JPPF1001002
Account Name:	US PP Collector F008
For Further Credit to:	DDA Number 000048771
On Order of:	Aqua Pennsylvania, Inc.

**Notices**

All notices with respect to payments, prepayments (scheduled and unscheduled, whether partial or in full) and maturity shall be sent to:

John Hancock Financial Services 197 Clarendon Street Boston, MA 02116 Attention: US Securities Operations, C-4 Fax Number: (617) 572-0628 Email: bossecops@jhancock.com	and John Hancock Financial Services 197 Clarendon Street Boston, MA 02116 Attention: Investment Administration, C-4 Fax Number: (617) 572-5495 Email: InvestmentAdministration@jhancock.com
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All notices and communication with respect to compliance reporting, financial statements and related certifications shall be sent to:

John Hancock Financial Services  
197 Clarendon Street  
Boston, MA 02116  
Attention: Bond and Corporate Finance, C-2  
Fax Number: (617) 572-0040  
Email: powerteam@jhancock.com

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All other notices shall be sent to:

John Hancock Financial Services  
197 Clarendon Street  
Boston, MA 02116  
Attention: Investment Law, C-3  
Fax Number: (617) 572-9269

and John Hancock Financial Services  
197 Clarendon Street  
Boston, MA 02116  
Attention: Bond and Corporate Finance, C-2  
Fax Number: (617) 572-0040

Registered Name of Securities: John Hancock Life Insurance Company of New York

Taxpayer I.D. Number: 13-3646501

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NAME OF AND ADDRESS OF PURCHASER	SERIES OF BONDS	PRINCIPAL AMOUNT OF BONDS TO BE PURCHASED
<b>JOHN HANCOCK LIFE &amp; HEALTH INSURANCE COMPANY</b> c/o John Hancock Financial Services 197 Clarendon Street Boston, Massachusetts 02116	A	\$ 2,000,000

**Payments**

All payments to be by bank wire transfer of immediately available funds to:

Bank Name:	Bank of New York Mellon
ABA Number:	011001234
Account Number:	JPPF1001002
Account Name:	US PP Collector F008
For Further Credit to:	DDA Number 000048771
On Order of:	Aqua Pennsylvania, Inc.

**Notices**

All notices with respect to payments, prepayments (scheduled and unscheduled, whether partial or in full) and maturity shall be sent to:

John Hancock Financial Services 197 Clarendon Street Boston, MA 02116 Attention: US Securities Operations, C-4 Fax Number: (617) 572-0628 Email: bossecops@jhancock.com	and	John Hancock Financial Services 197 Clarendon Street Boston, MA 02116 Attention: Investment Administration, C-4 Fax Number: (617) 572-5495 Email: InvestmentAdministration@jhancock.com
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All notices and communication with respect to compliance reporting, financial statements and related certifications shall be sent to:

John Hancock Financial Services  
197 Clarendon Street  
Boston, MA 02116  
Attention: Bond and Corporate Finance, C-2  
Fax Number: (617) 572-0040  
Email: powerteam@jhancock.com

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All other notices shall be sent to:

John Hancock Financial Services  
197 Clarendon Street  
Boston, MA 02116  
Attention: Investment Law, C-3  
Fax Number: (617) 572-9269

and John Hancock Financial Services  
197 Clarendon Street  
Boston, MA 02116  
Attention: Bond and Corporate Finance, C-2  
Fax Number: (617) 572-0040

Registered Name of Securities: John Hancock Life & Health Insurance Company

Taxpayer I.D. Number: 13-3072894

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NAME OF AND ADDRESS OF PURCHASER	SERIES OF BONDS	PRINCIPAL AMOUNT OF BONDS TO BE PURCHASED
<b>THE LINCOLN NATIONAL LIFE INSURANCE COMPANY</b>	C	\$ 7,000,000
c/o Delaware Investment Advisers	C	\$ 5,000,000
2005 Market Street, Mail Stop 41-104		
Philadelphia, Pennsylvania 19103		
Attention: Fixed Income Private Placements		
Private Placement Fax: (215) 255-1654		

**Payments**

All principal and interest payments on or in respect of the Bonds shall be made in immediately available funds via Fed Wire to:

The Bank of New York Mellon  
One Wall Street, New York, New York 10286  
ABA #021000018  
BNF Account #: IOC566  
Attention: Private Placement P & I Dept.  
Further Credit: The Lincoln National Life Insurance Company  
FFC Account #: (insert The Bank of New York Mellon acct # listed below)  
REF: PPN #03842\* AGI / SECURITY DESC / PAYT REASON

For Further Credit Account Numbers Listed Below:

BOND AMOUNT	SERIES	LINCOLN ACCOUNT NAME	CUSTODY NUMBER
\$5,000,000	C	Lincoln Nat'l Life Ins Co Seg 16	216625
\$7,000,000	C	Lincoln Nat'l Life Ins Co Seg 10	215714

**Notices**

All notices of payments on or in respect of the Bonds and written confirmation of each such payment to be addressed to:

Delaware Investment Advisers  
2005 Market Street, Mail Stop 41-104  
Philadelphia, Pennsylvania 19103  
Attention: Fixed Income Private Placements  
Private Placement Fax: (215) 255-1654



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With notices of **PAYMENT ONLY**:

Lincoln Financial Group  
1300 South Clinton Street, 5C-00  
Fort Wayne, Indiana 46802  
Attention: K. Estep — Investment Accounting  
Investment Accounting Fax: (260) 455-2622

and

The Bank of New York Mellon  
P. O. Box 19266  
Newark, New Jersey 07195  
Attention: Private Placement P&I Department  
Reference: Acct Name/PPN #03842\* AG1

All other notices and communications to be addressed as first provided above.

**Physical Delivery**

The Bank of New York Mellon  
Attn: Free Receive Department  
Contact Person: Anthony Saviano, Dept. Manager (Telephone 212-635-6764)  
One Wall Street, 3rd Floor  
New York, NY 10286

*(in cover letter reference note amt, acct name, and bank acct #)*

Please fax copy of cover letter to:  
Karen Costa – The Bank of New York Mellon - Fax #: (315) 414-5017

With a copy to: Deborah Hayes  
Lincoln Financial Group  
100 North Greene Street  
Greensboro, NC 27401  
Deborah.Hayes@lfg.com

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 35-0472300

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NAME OF AND ADDRESS OF PURCHASER	SERIES OF BONDS	PRINCIPAL AMOUNT OF BONDS TO BE PURCHASED
<b>LINCOLN LIFE &amp; ANNUITY COMPANY OF NEW YORK</b> c/o Delaware Investment Advisers 2005 Market Street, Mail Stop 41-104 Philadelphia, Pennsylvania 19103 Attention: Fixed Income Private Placements Private Placement Fax: (215) 255-1654	C	\$ 3,000,000

**Payments**

All principal and interest payments on or in respect of the Bonds shall be made in immediately available funds via Fed Wire to:

NORTHERN CHGO/Trust  
801 South Canal St., Chicago, IL 60607  
ABA #: 071000152  
Credit Wire Account #: 5186041000  
Attention: Income / Dividend  
For further credit to Custody Account #: 26-24503  
For: Lincoln Life & Annuity Company of New York  
Ref: Aqua Pennsylvania, Inc.; PPN 03842\* AG1, Rate, Maturity, P=\$, I=\$

For Further Credit Account Numbers Listed Below:

BOND AMOUNT	SERIES	LINCOLN ACCOUNT NAME	CUSTODY NUMBER
\$3,000,000	C	Lincoln Life & Annuity Company of New York Seg 11	26-24503

**Notices**

All notices of payments on or in respect of the Bonds and written confirmation of each such payment to be addressed to:

Delaware Investment Advisers  
2005 Market Street, Mail Stop 41-104  
Philadelphia, Pennsylvania 19103  
Attention: Fixed Income Private Placements  
Private Placement Fax: (215) 255-1654

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With notices of **PAYMENT ONLY**:

Lincoln Financial Group  
1300 South Clinton Street, 5C-00  
Fort Wayne, Indiana 46802  
Attention: K. Estep — Investment Accounting  
Investment Accounting Fax: (260) 455-2622

and

The Northern Trust Company  
801 South Canal Street  
Income Collections C-4S  
Attention: Viola Nash / Oscell Owens  
Chicago, IL 60607  
Fax: 312-630-8179  
REF Account: 26-24503 & Lincoln Life & Annuity Co of New York & PPN #03842\* AG1

All other notices and communications to be addressed as first provided above.

**Physical Delivery**

The Northern Trust Company of New York  
Attn: Wanda Leshone Ross (Telephone 312-557-9507)  
Trade Securities Processing, C1N  
801 South Canal Street  
Chicago, IL 60607  
Ref: Acct #26-24503 & Lincoln Life & Annuity Co of New York

*(in cover letter reference Bond amount, acct name, and custody acct #)*

With a copy to: Deborah Hayes  
Lincoln Financial Group  
100 North Greene Street  
Greensboro, NC 27401  
Deborah.Hayes@lfg.com

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 22-0832760

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NAME OF AND ADDRESS OF PURCHASER	SERIES OF BONDS	PRINCIPAL AMOUNT OF BONDS TO BE PURCHASED
<b>NEW YORK LIFE INSURANCE COMPANY</b>	B	\$ 4,800,000
c/o New York Life Investment Management LLC	C	\$ 3,000,000
51 Madison Avenue 2nd Floor, Room 208 New York, New York 10010 Attention: Fixed Income Investors Group, Private Finance, 2 <sup>nd</sup> Floor Fax Number: (212) 447-4122		

**Payments**

All payments by wire or intrabank transfer of immediately available funds to:

JPMorgan Chase Bank  
New York, New York 10019  
ABA #021-000-021  
Credit: New York Life Insurance Company  
General Account No. 008-9-00687

With sufficient information (including issuer, PPN number, interest rate, maturity and whether payment is of principal, premium, or interest) to identify the source and application of such funds.

**Notices**

All notices of payments, written confirmations of such wire transfers and any audit confirmation:

New York Life Insurance Company  
c/o New York Life Investment Management LLC  
51 Madison Avenue  
2nd Floor, Room 208  
New York, New York 10010-1603  
Attention: Securities Operations, Private Group, 2nd Floor  
Fax Number: (908) 840-3385

with a copy sent electronically to:

FIIGLibrary@nylim.com  
TraditionalPVtOps@nylim.com

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Any changes in the foregoing payment instructions shall be confirmed by e-mail to [NYLIMWireConfirmation@nylim.com](mailto:NYLIMWireConfirmation@nylim.com) prior to becoming effective.

All other notices and communications to be addressed as first provided above, with a copy sent electronically to: [FIIGLibrary@nylim.com](mailto:FIIGLibrary@nylim.com) and [TraditionalPVtOps@nylim.com](mailto:TraditionalPVtOps@nylim.com), and with a copy of any notices regarding defaults or Events of Default under the operative documents to: Attention: Office of the General Counsel, Investment Section, Room 1016, Fax Number: (212) 576-8340.

**Physical Delivery**

New York Life Investment Management LLC  
51 Madison Avenue, 10th Floor  
New York, NY 10010  
Attn: Matthew DelRosso, *Vice President and Assistant General Counsel*  
Phone: (212) 576-7976

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 13-5582869

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NAME OF AND ADDRESS OF PURCHASER	SERIES OF BONDS	PRINCIPAL AMOUNT OF BONDS TO BE PURCHASED
<b>NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION</b>	B	\$3,200,000
	C	\$2,000,000
c/o New York Life Investment Management LLC 51 Madison Avenue 2nd Floor, Room 208 New York, New York 10010-1603 Attention: Fixed Income Investors Group, Private Finance, 2 <sup>nd</sup> Floor Fax Number: (212) 447-4122		

**Payments**

All payments by wire or intrabank transfer of immediately available funds to:

JPMorgan Chase Bank  
New York, New York  
ABA #021-000-021  
Credit: New York Life Insurance and Annuity Corporation  
General Account No. 323-8-47382

With sufficient information (including issuer, PPN number, interest rate, maturity and whether payment is of principal, premium, or interest) to identify the source and application of such funds.

**Notices**

All notices of payments, written confirmations of such wire transfers and any audit confirmation:

New York Life Insurance and Annuity Corporation  
c/o New York Life Investment Management LLC  
51 Madison Avenue  
2nd Floor, Room 208  
New York, New York 10010-1603  
Attention: Securities Operation, Private Group, 2nd Floor  
Fax Number: (908) 840-3385

with a copy sent electronically to:

FIIGLibrary@nylim.com  
TraditionalPVtOps@nylim.com

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Any changes in the foregoing payment instructions shall be confirmed by e-mail to [NYLIMWireConfirmation@nylim.com](mailto:NYLIMWireConfirmation@nylim.com) prior to becoming effective.

All other notices and communications to be addressed as first provided above, with a copy sent electronically to: [FIIGLibrary@nylim.com](mailto:FIIGLibrary@nylim.com) and [TraditionalPVtOps@nylim.com](mailto:TraditionalPVtOps@nylim.com), and with a copy of any notices regarding defaults or Events of Default under the operative documents to: Attention: Office of the General Counsel, Investment Section, Room 1016, Fax Number: (212) 576-8340.

**Physical Delivery**

New York Life Investment Management LLC  
51 Madison Avenue, Room 1016M  
New York, NY 10010  
Attn: Rebecca Strutton, *Director and Associate General Counsel*  
Phone: (212) 576-4825

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 13-3044743

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NAME OF AND ADDRESS OF PURCHASER	SERIES OF BONDS	PRINCIPAL AMOUNT OF BONDS TO BE PURCHASED
<b>UNITEDHEALTHCARE INSURANCE COMPANY</b> c/o Advantus Capital Management Inc. 400 Robert Street North St. Paul, Minnesota 55101	A	\$2,000,000

**Payments**

Private Placement payments and all other payments shall be made by wire transfer of immediately available funds pursuant to instructions to be delivered to the Company prior to Closing.

**Notices**

All notices and statements should be sent electronically via Email to:  
privateplacements@advantuscapital.com

If Email is unavailable or if the Email is returned for any reason (including receipt of a message that the Email is undeliverable), such notice and statements should be sent to the following address:

UnitedHealthcare Insurance Company  
c/o Advantus Capital Management, Inc.  
400 Robert Street North  
St. Paul, Minnesota 55101  
Attn: Client Administrator

**Physical Delivery**

The Bonds should be delivered in accordance with instructions furnished to lender counsel, Chapman and Cutler LLP.

Name of Nominee in which Bonds are to be issued: ELL & Co.

Taxpayer I.D. Number: 36-2739571



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NAME OF AND ADDRESS OF PURCHASER	SERIES OF BONDS	PRINCIPAL AMOUNT OF BONDS TO BE PURCHASED
<b>MINNESOTA LIFE INSURANCE COMPANY</b> c/o Advantus Capital Management Inc. 400 Robert Street North St. Paul, Minnesota 55101	A	\$1,500,000

**Payments**

Private Placement payments and all other payments shall be made by wire transfer of immediately available funds pursuant to instructions to be delivered to the Company prior to Closing.

**Notices**

All notices and statements should be sent electronically via Email to:  
privateplacements@advantuscapital.com

If Email is unavailable or if the Email is returned for any reason (including receipt of a message that the Email is undeliverable), such notice and statements should be sent to the following address:

Minnesota Life Insurance Company  
c/o Advantus Capital Management, Inc.  
400 Robert Street North  
St. Paul, Minnesota 55101  
Attn: Client Administrator

**Physical Delivery**

Advantus Capital Management, Inc.  
Attention: Kathleen Posus  
400 Robert Street North  
St. Paul, Mnesota 55101

Name of Nominee in which Bonds are to be issued: None

Taxpayer I.D. Number: 41-0417830

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NAME OF AND ADDRESS OF PURCHASER	SERIES OF BONDS	PRINCIPAL AMOUNT OF BONDS TO BE PURCHASED
<b>AMERICAN REPUBLIC INSURANCE COMPANY</b> c/o Advantus Capital Management Inc. 400 Robert Street North St. Paul, Minnesota 55101	A	\$1,000,000

**Payments**

Private Placement payments and all other payments shall be made by wire transfer of immediately available funds pursuant to instructions to be delivered to the Company prior to Closing.

**Notices**

All notices and statements should be sent electronically via Email to:  
privateplacements@advantuscapital.com

If Email is unavailable or if the Email is returned for any reason (including receipt of a message that the Email is undeliverable), such notice and statements should be sent to the following address:

American Republic Insurance Company  
c/o Advantus Capital Management, Inc.  
400 Robert Street North  
St. Paul, Minnesota 55101  
Attn: Client Administrator

**Physical Delivery**

The Bonds should be delivered in accordance with instructions furnished to lender counsel, Chapman and Cutler LLP.

Name of Nominee in which Bonds are to be issued: Wells Fargo Bank N.A. FBO American Republic Insurance Company

Taxpayer I.D. Number: 42-0113630

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NAME OF AND ADDRESS OF PURCHASER	SERIES OF BONDS	PRINCIPAL AMOUNT OF BONDS TO BE PURCHASED
<b>CATHOLIC UNITED FINANCIAL</b> c/o Advantus Capital Management Inc. 400 Robert Street North St. Paul, Minnesota 55101	A	\$1,000,000

**Payments**

Private Placement payments and all other payments shall be made by wire transfer of immediately available funds pursuant to instructions to be delivered to the Company prior to Closing.

**Notices**

All notices and statements should be sent electronically via Email to:  
privateplacements@advantuscapital.com

If Email is unavailable or if the Email is returned for any reason (including receipt of a message that the Email is undeliverable), such notice and statements should be sent to the following address:

Catholic United Financial  
c/o Advantus Capital Management, Inc.  
400 Robert Street North  
St. Paul, Minnesota 55101  
Attn: Client Administrator

**Physical Delivery**

The Bonds should be delivered in accordance with instructions furnished to lender counsel, Chapman and Cutler LLP.

Name of Nominee in which Bonds are to be issued: Wells Fargo Bank N.A. FBO Catholic  
United Financial

Taxpayer I.D. Number: 41-0182070

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NAME OF AND ADDRESS OF PURCHASER	SERIES OF BONDS	PRINCIPAL AMOUNT OF BONDS TO BE PURCHASED
<b>WESTERN FRATERNAL LIFE ASSOCIATION</b> c/o Advantus Capital Management Inc. 400 Robert Street North St. Paul, Minnesota 55101	A	\$500,000

**Payments**

Private Placement payments and all other payments shall be made by wire transfer of immediately available funds pursuant to instructions to be delivered to the Company prior to Closing.

**Notices**

All notices and statements should be sent electronically via Email to:  
privateplacements@advantuscapital.com

If Email is unavailable or if the Email is returned for any reason (including receipt of a message that the Email is undeliverable), such notice and statements should be sent to the following address:

Western Fraternal Life Association  
c/o Advantus Capital Management, Inc.  
400 Robert Street North  
St. Paul, Minnesota 55101  
Attn: Client Administrator

**Physical Delivery**

The Bonds should be delivered in accordance with instructions furnished to lender counsel, Chapman and Cutler LLP.

Name of Nominee in which Bonds are to be issued: Hubb & Co.

Taxpayer I.D. Number: 42-0594470

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**DEFINED TERMS**

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

“*Affiliate*” means, at any time, and with respect to any Person, any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person. As used in this definition, “*Control*” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an “*Affiliate*” is a reference to an Affiliate of the Company.

“*Anti-Money Laundering Laws*” is defined in Section 5.16(c).

“*Blocked Person*” is defined in Section 5.16(a).

“*Bonds*” is defined in Section 1.

“*Business Day*” means for the purposes of any provision of this Agreement, any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York or Philadelphia, Pennsylvania are required or authorized to be closed.

“*Capital Lease*” means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

“*Capital Lease Obligation*” means, with respect to any Person and a Capital Lease, the amount of the obligation of such Person as the lessee under such Capital Lease which would, in accordance with GAAP, appear as a liability on a balance sheet of such Person.

“*CISADA*” means the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, United States Public Law 111195, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

“*Closing*” is defined in Section 3.

“*Closing Date*” is the date of the Closing.

“*Code*” means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

“*Company*” means Aqua Pennsylvania, Inc., a corporation existing under the laws of the Commonwealth of Pennsylvania.

SCHEDULE B  
(to Bond Purchase Agreement)

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“*Controlled Entity*” means any of the Subsidiaries of the Company and any of their or the Company’s respective Controlled Affiliates. As used in this definition, “Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“*Debt*” means, with respect to any Person, without duplication,

(a) its liabilities for borrowed money;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable and other accrued liabilities arising in the ordinary course of business but including, without limitation, all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) its Capital Lease Obligations;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all non-contingent liabilities in respect of reimbursement agreements or similar agreements in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions;

(f) Swaps of such Person; and

(g) Guaranties of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Debt of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

“*Default*” means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

“*EMMA*” is defined in Section 7.1(a).

“*Environmental Laws*” means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to Hazardous Materials.

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“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

“ERISA Affiliate” means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under section 414 of the Code.

“Event of Default” is defined in the Indenture.

“Financing Agreements” means this Agreement, the Indenture (including without limitation the Supplement), and the Bonds.

“GAAP” means generally accepted accounting principles as in effect from time to time in the United States of America.

“Governmental Authority” means:

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any other jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

“Guaranty” means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any Debt, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such Debt or obligation or any property constituting security therefor primarily for the purpose of assuring the owner of such Debt or obligation of the ability of any other Person to make payment of the Debt or obligation;

(b) to advance or supply funds (i) for the purchase or payment of such Debt or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such Debt or obligation;

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(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such Debt or obligation of the ability of any other Person to make payment of the Debt or obligation; or

(d) otherwise to assure the owner of such Debt or obligation against loss in respect thereof.

In any computation of the Debt or other liabilities of the obligor under any Guaranty, the Debt or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor, *provided* that the amount of such Debt outstanding for purposes of this Agreement shall not exceed the maximum amount of Debt that is the subject of such Guaranty.

*“Hazardous Material”* means any and all pollutants, toxic or hazardous wastes or other substances that might pose a hazard to health and safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage or filtration of which is or shall be restricted, prohibited or penalized by any applicable law including, but not limited to, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum, petroleum products, lead based paint, radon gas or similar restricted, prohibited or penalized substances.

*“holder”* is defined in the Indenture.

*“Indenture”* is defined in Section 1.

*“Institutional Investor”* means (a) any Purchaser of a Bond, (b) any holder of a Bond holding (together with one or more of its affiliates) more than 5% of the aggregate principal amount of the Bonds then outstanding, (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form, and (d) any Related Fund of any holder of any Bond.

*“Lien”* means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

*“Make-Whole Amount”* is defined in the Supplement.

*“Material”* means material in relation to the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole.

*“Material Adverse Effect”* means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, (b) the ability of the Company to perform its obligations under this Agreement, the Bonds or the Indenture or (c) the validity or enforceability of any Financing Agreement.



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“*Multiemployer Plan*” means any Plan that is a “multiemployer plan” (as such term is defined in section 4001(a)(3) of ERISA).

“*NAIC*” means the National Association of Insurance Commissioners or any successor thereto.

“*OFAC*” is defined in Section 5.16(a).

“*OFAC Listed Person*” is defined in Section 5.16(a).

“*OFAC Sanctions Program*” means all laws, regulations, Executive Orders and any economic or trade sanction that OFAC is responsible for administering and enforcing, including, without limitation 31 CFR Subtitle B, Chapter V, as amended, along with any enabling legislation; the Bank Secrecy Act; Trading with the Enemy Act; and any similar laws, regulations or orders adopted by any State within the United States. A list of economic and trade sanctions administered by OFAC may be found at <http://www.ustreas.gov/offices/enforcement/ofac/programs/>.

“*Officer’s Certificate*” means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

“*Original Indenture*” is defined in Section 1.

“*PBGC*” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

“*Permitted Liens*” shall have the meaning assigned to such term in the Indenture.

“*Person*” means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, business entity or Governmental Authority.

“*Plan*” means an “employee benefit plan” (as defined in section 3(2) of ERISA) subject to Title I of ERISA that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

“*property*” or “*properties*” means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

“*PTE*” is defined in Section 6.2(a).

“*Purchaser*” is defined in the first paragraph of this Agreement.

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“*Related Fund*” means, with respect to any holder of any Bond, any fund or entity that (i) invests in Securities or bank loans, and (ii) is advised or managed by such holder, the same investment advisor as such holder or by an affiliate of such holder or such investment advisor.

“*Required Holders*” means, at any time, the holders of at least 51% in principal amount of the Bonds at the time outstanding (exclusive of Bonds then owned by the Company or any of its Affiliates).

“*Responsible Officer*” means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

“*SEC*” means the Securities and Exchange Commission of the United States, or any successor thereto.

“*Securities*” or “*Security*” shall have the meaning specified in Section 2(1) of the Securities Act.

“*Securities Act*” means the Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

“*Senior Financial Officer*” means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

“*Source*” is defined in Section 6.2.

“*Subsidiary*” means, as to any Person, any other Person in which such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such second Person, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries (unless such partnership or joint venture can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries. Unless the context otherwise clearly requires, any reference to a “Subsidiary” is a reference to a Subsidiary of the Company.

“*Supplement*” is defined in Section 1.

“*SVO*” means the Securities Valuation Office of the NAIC or any successor to such Office.

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“*Swaps*” means, with respect to any Person, payment obligations with respect to interest rate swaps, currency swaps and similar obligations obligating such Person to make payments, whether periodically or upon the happening of a contingency. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended fiscal quarter of such Person, based on the assumption that such Swap had terminated at the end of such fiscal quarter, and in making such determination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

“*Trust Estate*” is defined in Section 1.

“*Trustee*” is defined in the Indenture.

“*UCC*” means, the Uniform Commercial Code as enacted and in effect from time to time in the state whose laws are treated as applying to the Trust Estate.

“*USA Patriot Act*” means United States Public Law 107-56, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

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**AQUA PENNSYLVANIA, INC.  
SUBSIDIARIES OF THE COMPANY,  
OWNERSHIP OF SUBSIDIARY STOCK**

<u>Company Name</u>	<u>State of Incorporation</u>	<u>% of Ownership (Direct &amp; Indirect)</u>
Aqua Pennsylvania, Inc.	Pennsylvania	100%
1. Little Washington Wastewater Company	Pennsylvania	100%
2. The Hawley Water Company*	Pennsylvania	90%
3. Honesdale Consolidated Water Company	Pennsylvania	100%

\* Partially owned by minority shareholders

SCHEDULE 5.4  
(to Bond Purchase Agreement)

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**FINANCIAL STATEMENTS**

1. Aqua Pennsylvania, Inc. Consolidated Financial Statements as of and for the year ended Dec 31, (2008, 2009, 2010, 2011) (audited)
2. Aqua Pennsylvania, Inc. Report for Quarter Ended September 30, 2012 (June 30, 2012 and March 31, 2012)

SCHEDULE 5.5  
(to Bond Purchase Agreement)

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**SCHEDULE 5.15(A)**  
**EXISTING DEBT**  
**AQUA PENNSYLVANIA, INC. AND SUBSIDIARIES**  
**EXISTING DEBT AS OF SEPTEMBER 30, 2012**

		<u>Outstanding Balance</u>
Unsecured Note	5.50%	\$ 2,132,180
Unsecured Note	5.64%	4,584,000
Unsecured Note	5.64%	4,489,000
Unsecured Note	5.64%	5,466,000
Unsecured Note	5.64%	5,461,000
Unsecured Note	5.66%	40,000,000
Unsecured Note	5.95%	10,000,000
Unsecured Note	5.95%	10,000,000
Unsecured Note	5.95%	10,000,000
Unsecured Note	5.95%	10,000,000
Note	9.00%	346,934
<b>Total Unsecured</b>		<b><u>102,479,114</u></b>
Tax Exempt	5.35%	30,000,000
Tax Exempt	5.55%	25,000,000
Tax Exempt	5.05%	14,000,000
Tax Exempt	5.15%	25,000,000
Tax Exempt	5.00%	21,770,000
Tax Exempt	5.00%	24,165,000
Tax Exempt	5.00%	25,375,000
Tax Exempt		532,273
Tax Exempt	5.00%	24,675,000
Tax Exempt		247,737
Tax Exempt	5.00%	23,915,000
Tax Exempt	5.00%	23,915,000
Tax Exempt		1,800,265
Tax Exempt	5.25%	24,830,000
Tax Exempt	5.25%	24,830,000
Tax Exempt		292,197
Tax Exempt	6.25%	9,000,000
Tax Exempt	6.75%	13,000,000

SCHEDULE 5.15(a)  
(to Bond Purchase Agreement)

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		<b>Outstanding Balance</b>
Tax Exempt		(102,000)
Tax Exempt	5.00%	58,000,000
Tax Exempt		(1,807,863)
Tax Exempt	5.00%	62,165,000
Tax Exempt		552,917
Tax Exempt	4.75%	12,520,000
Tax Exempt		(270,606)
Tax Exempt	5.00%	25,910,000
Tax Exempt	5.00%	19,270,000
Tax Exempt		(123,286)
Tax Exempt	4.50%	15,000,000
Tax Exempt		(578,400)
Tax Exempt	5.00%	81,205,000
Tax Exempt		2,439,426
<b>Total Tax Exempt</b>		<b><u>586,527,660</u></b>
Pennvest - Aqua PA	1.372%	674,598
Pennvest - Aqua PA	1.274%	1,141,126
Pennvest - Aqua PA	1.274%	414,173
Pennvest - Aqua PA	1.559%	892,831
Pennvest - Aqua PA	1.274%	1,011,622
Pennvest - Aqua PA	1.274%	335,855
Pennvest - Aqua PA	1.000%	2,745,105
Pennvest - Aqua PA	1.000%	1,165,812
Pennvest - Aqua PA	4.047%	407,310
Pennvest - Aqua PA	3.631%	84,963
Pennvest - Aqua PA	4.047%	197,445
Pennvest - Aqua PA	1.000%	86,678
Pennvest - Aqua PA	3.550%	2,688,639
Pennvest - Aqua PA	1.350%	223,518
Pennvest - Aqua PA	3.631%	221,216
Pennvest - Aqua PA	4.050%	624,508
Pennvest - Aqua PA	3.030%	685,296

SCHEDULE 5.15(a)  
(to Bond Purchase Agreement)

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		<b>Outstanding Balance</b>
Pennvest - Aqua PA	3.46%	5,773,898
Pennvest - Aqua PA	2.77%	481,909
Pennvest - Aqua PA	1.39%	2,005,080
Pennvest - Aqua PA	4.05%	359,202
Pennvest - Aqua PA	3.79%	1,264,201
Pennvest - Aqua PA	3.81%	723,034
Pennvest - Aqua PA	3.43%	867,167
Pennvest - Aqua PA	2.77%	1,129,700
Pennvest - Aqua PA	3.47%	4,159,574
Pennvest - Aqua PA	3.43%	238,274
Pennvest - Aqua PA	2.56%	1,762,192
Pennvest - Aqua PA	1.28%	942,031
Pennvest - Aqua PA	1.28%	1,117,561
Pennvest - Aqua PA	1.27%	394,193
Pennvest - Aqua PA	2.27%	1,250,833
Pennvest - Aqua PA	1.27%	1,281,563
Pennvest - Aqua PA	1.27%	947,997
Pennvest - Aqua PA	1.27%	735,332
Pennvest - Aqua PA	2.46%	1,563,102
Pennvest - Aqua PA	1.27%	164,554
Pennvest - Aqua PA	1.00%	6,731,642
Pennvest - Aqua PA	3.33%	430,865
Pennvest - Aqua PA	2.73%	3,394,743
Pennvest - Aqua PA	1.36%	1,550,734
Pennvest - Aqua PA	1.27%	983,514
Pennvest - Aqua PA	1.00%	410,835
Pennvest - Aqua PA	1.39%	227,080
Pennvest - Aqua PA	1.39%	211,079
Pennvest - Aqua PA	1.94%	785,735
Pennvest - Aqua PA	3.47%	5,699,846
Pennvest - Aqua PA	1.39%	1,399,041
Pennvest - Aqua PA	1.00%	434,430
Pennvest - Aqua PA	1.39%	1,531,269
Pennvest - Aqua PA	2.57%	1,831,417

SCHEDULE 5.15(a)  
(to Bond Purchase Agreement)



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		<b>Outstanding Balance</b>
Pennvest - Aqua PA	1.27%	1,535,782
<b>Total Pennvest - Aqua PA</b>		<b><u>67,920,103</u></b>
FMB	5.08%	20,000,000
FMB	5.17%	7,000,000
FMB	5.75%	15,000,000
FMB	5.75%	5,000,000
FMB	5.98%	3,000,000
FMB	6.06%	15,000,000
FMB	6.06%	5,000,000
FMB	6.89%	12,000,000
FMB	7.72%	15,000,000
FMB	8.14%	4,000,000
FMB	8.26%	1,500,000
FMB	8.32%	3,500,000
FMB	9.17%	3,600,000
FMB	9.29%	12,000,000
FMB	9.93%	5,000,000
FMB	9.97%	5,000,000
<b>Total FMB</b>		<b><u>131,600,000</u></b>
Pennvest - LWW	1.00%	1,227,188
Pennvest - LWW	1.00%	263,278
Pennvest - LWW	1.00%	678,282
Pennvest - LWW	1.00%	351,037
Pennvest - LWW	1.35%	165,106
Pennvest - LWW	2.77%	288,397
Pennvest - LWW	3.34%	20,021
Pennvest - LWW	1.00%	902,322
<b>Total Pennvest - LWW*</b>		<b><u>3,895,631</u></b>

\* Little Washington Wastewater Company

SCHEDULE 5.15(a)  
(to Bond Purchase Agreement)

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	<u>Outstanding Balance</u>
PNC Revolver	85,209,274
<b>Total Short Term Debt</b>	<b><u>85,209,274</u></b>
<b>Total Aqua Pennsylvania, Inc. Debt</b>	<b>\$ 977,631,782</b>

SCHEDULE 5.15(a)  
(to Bond Purchase Agreement)

**SCHEDULE 5.15(b)**

**AQUA PENNSYLVANIA, INC. AND SUBSIDIARIES  
DEBT ISSUANCE LIMITATIONS**

Indenture of Mortgage dated as of January 1, 1941 of Aqua Pennsylvania, Inc. as Supplemented and Amended  
\$100 million Revolving Credit Agreement among Aqua Pennsylvania, Inc. and PNC Bank,  
National Association as Agent as Amended and Dated as of November 28, 2011  
Aqua Pennsylvania, Inc. \$40,000,000 5.95% Senior Notes dated March 31, 2006  
Aqua Pennsylvania, Inc. \$20,000,000 5.64% Senior Notes dated September 29, 2006  
Aqua Pennsylvania, Inc. \$2,132,180 5.50% Senior Notes dated May 1, 2007  
Aqua Pennsylvania, Inc. \$40,000,000 5.66% Senior Notes dated December 28, 2007

SCHEDULE 5.15(b)  
(to Bond Purchase Agreement)

**[FORM OF SUPPLEMENT]**

[SEE ATTACHED]

EXHIBIT A  
(to Bond Purchase Agreement)

**FORM OF OPINION OF SPECIAL COUNSEL**

**TO THE COMPANY**

[SEE ATTACHED]

EXHIBIT 4.4(a)(i)  
(to Bond Purchase Agreement)

**FORM OF OPINION OF GENERAL COUNSEL**

**TO THE COMPANY**

[SEE ATTACHED]

EXHIBIT 4.4(a)(ii)  
(to Bond Purchase Agreement)

**FORM OF OPINION OF SPECIAL COUNSEL  
TO THE PURCHASERS**

[DELIVERED TO PURCHASERS ONLY]

EXHIBIT 4.4(b)  
(to Bond Purchase Agreement)

**AQUA AMERICA, INC.  
and SUBSIDIARIES**

**ANNUAL CASH INCENTIVE COMPENSATION PLAN**  
**(Adopted February 26, 2013)**

**BACKGROUND**

In 1989, the Company and its compensation consultant conducted a feasibility study to determine whether the Company should implement an incentive compensation plan. The study was prompted by the positive experience of other investor-owned water companies with incentive compensation.

The study included interviews with executives and an analysis of competitive compensation levels. Based on the results, the compensation consultant recommended that the Company's objectives and competitive practice supported the adoption of an annual incentive plan (the "Plan"). The Company has had a cash incentive compensation plan in place since 1990 and management and the Board of Directors believe it has had a positive effect on the Company's operations, aiding employees, shareholders (higher earnings) and customers (better service and controlling expenses).

The Plan has two components — a Management Incentive Program and an Employee Recognition ("Chairman's Award") Program.

The Plan is designed to provide an appropriate incentive to the officers, managers and certain other key employees of the Company. The Management Incentive Program covers officers, managers and certain key employees of Aqua America, Inc., and its subsidiaries.

Individual subsidiaries of the Company may adopt separate annual cash incentive plans with the approval of the subsidiary's Board of Directors.

All incentive awards under the Plan shall be paid by March 15 of the calendar year following the calendar year in which such awards are earned.

**MANAGEMENT INCENTIVE PROGRAM**

**Performance Measures**

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



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

The after-tax net income or earnings before interest, taxes and depreciation ("EBITD") for the applicable company or business unit relative to its annual budget will be the primary measure for the company's performance. The measurement to be used as the Company Factor (financial factor, thresholds and weighting by applicable business unit) for each participant will be established by the Executive Compensation Committee for those participants whose annual incentive compensation is determined by the Committee and by the Chairman of the Company for all other participants. Each year a "Target Net Income" or "Target EBITD" level will be established for the applicable company or business unit. Portions of the Company Factor may be tied to the financial targets of more than one company or business unit for some participants whose responsibilities involve more than one company or business unit. For purposes of the Plan, the Target Net Income or EBITD may differ from the budgeted net income or EBITD level. The applicable company's or business unit's final net income or EBITD may exclude the impact of any unbudgeted extraordinary gains or losses as a result of changes in accounting principles and the financial results may be adjusted for other factors as deemed appropriate by the Executive Compensation Committee for those participants whose annual incentive compensation is determined by the Committee, and by the Chairman of the Company for the other participants.

The threshold level of performance is set at 75 percent of the Target Net Income or Target EBITD. If the final net income or EBITD for the applicable company or business unit for the year is less than 75 percent of the Target Net Income or Target EBITD, the Company Factor for that company or business unit will be set at 0%. No additional bonus will be earned for results exceeding 110 percent of the Target Net Income or EBITD.

Each individual's performance and achievement of his or her objectives will also be evaluated and factored into the bonus calculation (the "Individual Factor"). Performance objectives for each participant are established each year and are primarily directed toward customer growth, improving customer service, controlling costs and improving efficiencies and productivity. Each objective has specific performance measures that are used to determine the level of achievement for each objective. A participant's target Individual Factor should be no more than 90 points, with the possibility of additional points up to 110 points being awarded for measurable performance above the participant's targeted performance level. Participants must achieve at least 70 points for their Individual Factor to be eligible for a bonus award under the Plan. The Executive Compensation Committee may establish a different method of calculating the Individual Factor for the Chief Executive Officer, although the minimum points to be eligible and the maximum points that can be awarded will be the same as for other participants.

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## Participation

Eligible participants consist of officers, managers and certain key employees.

Participation in the Management Incentive Program will be determined each year. Each participant will be assigned a “Target Bonus Percentage” ranging from 5 to 75 percent depending on duties and responsibilities. The Executive Compensation Committee will approve the Target Bonus Percentage for the CEO and the senior officers designated by the Committee each year.

The Target Bonus Percentage for each participant will be applied to their base salary.

Actual bonuses may range from 0, if the company’s financial results fall below the minimum threshold or the participant does not make sufficient progress toward achieving his or her objectives (i.e. performance measure points totaling less than 70 points), to 187.5 percent if performance — both Company and individual — is rated at the maximum.

New employees who are hired into a position that is eligible to participate in the Management Incentive Plan, will normally be eligible to receive a portion of the bonus calculated in accordance with this Plan that is pro-rated based on the number of full calendar months between the new employee’s hire date and the end of the calendar year.

Employees who would otherwise be eligible to participate in this Management Incentive Plan, but who leave employment with the company, either voluntarily (other than for retirement), or involuntarily, prior to the end of the Company’s fiscal year will not receive a bonus for the year in which their employment terminates.

If an employee who would otherwise be eligible to participate in this Management Incentive Plan dies, the company will pay the deceased employee’s estate a portion of the bonus the deceased employee would otherwise have been entitled to assuming a 100% Company Factor and 100% Individual Factor, but pro-rated for the number of full calendar months the employee completed before his or her death.

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

**Compliance**

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

**Incentive Award Recoupment Policy**

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

Further, any Incentive Award Recoupment Policy as may be adopted from time to time by the Company's Board of Directors will apply to the incentive compensation awarded under this Plan to any of the individuals covered by such Policy.

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**Company Factor**

Company performance will be measured on the following schedule:

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

The actual Company Factor should be calculated by interpolation between the points shown in the table above.

Regardless of the Company rating resulting from this Schedule, the Executive Compensation Committee retains the authority to determine the final Company Factor for participants whose annual incentive compensation is determined by the Committee and by the Chairman of the Company for the other participants under the Plan.

**Individual Factor**

Individual performance will be measured on the following scale:

Performance Measure Points	Individual Factor
0 - 69	0%
70	70%
80	80%
90	90%
100	100%
110	110%

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

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**Sample Calculations**

## Example 1

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

Calculation:

										Individual Bonus Earned
<u>Target Bonus</u>	x		<u>Individual Factor</u>	x		<u>Company Factor</u>	=			<u>        </u>
\$7,000	x		100%	x		90%	=			<u>\$6,300</u>

## Example 2

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

Calculation:

										Individual Bonus Earned
<u>Target Bonus</u>	x		<u>Individual Factor</u>	x		<u>Company Factor</u>	=			<u>        </u>
\$7,000	x		90%	x		70%	=			<u>\$4,410</u>

## Example 3

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

Calculation:

										Bonus Earned
<u>Individual Target Bonus</u>	x		<u>Company Factor</u>	x		<u>Individual Factor</u>	=			<u>        </u>
\$7,000	x		100%	x		0	=			\$0

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Example 4

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

Calculation:

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

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

1. In addition to the Management Incentive Program, the Company maintains an Employee Recognition Program known as the Chairman’s Award program to reward non-union employees who are not eligible for the management bonus plan for superior performance that contains costs, improves efficiency and productivity of the workforce and better serves our customers. Awards may also be made for a special action or heroic deed, or for a project that positively impacts the performance or image of the Company. Awards are entirely discretionary and may or may not be awarded to any individual employee. The availability of Awards is also contingent upon the Company’s meeting certain metrics of successful performance.
2. Awards may be made from an annual pool designated by the Chairman of Aqua America with the approval of the Executive Compensation Committee. Unused funds will not be carried over to the next year. If financial performance warrants, management may request special Awards under the program. The individual Award calculation and the distribution of Chairman’s Awards to non-management employees are solely at the discretion of the officer to whom the employee reports and the Chairman of Aqua America. No Chairman’s Award(s) granted to non-management employees in prior years should be construed as a guaranty of future awards.
3. In general, the company or business unit must achieve at least 90% of its EBITD or net income objective for the year to be eligible for the full amount of the pool created for Chairman’s Awards for that company or business unit for the year. Chairman’s Awards will not be made to employees of a company or business unit that does not achieve at least 75% of its EBITD or net income objective for the year, however, the Chairman may approve a pool of up to 50% of the annual pool that would otherwise be available for that company or business unit for awards to the eligible employees of that company or business unit if the company or business unit achieves between 75% and 89.9% of its EBITD or net income target.
4. Awards may be made throughout the year, however, no more than one-third of a company’s Chairman’s Award pool may be awarded until the company’s final EBITD or net income for the year is determined.
5. Nominations for employees to receive Chairman’s Awards will be made to the applicable officer and should include documentation on the reasons for the recommendations. The applicable officer will review the nominations and forward their recommendations to the Chairman of Aqua America. The applicable officer has complete discretion to choose to recommend an Award or not, depending on factors and considerations deemed by the officer as relevant. Moreover, the Chairman may exercise his own discretion to determine if any individual employee will receive an Award.
6. The Chairman will determine the individuals to actually receive a bonus and the amount. The maximum award to any one employee is \$10,000.

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7. An employee must be actively employed by the Company at the end of the fiscal year in order to be eligible to be considered to receive a Chairman's Award, unless the award is made to the eligible employee during the year.
  8. All Chairman's Awards under the Employee Recognition Program shall be paid by March 15 of the calendar year following the calendar year in which such awards are earned.
  9. The Employee Recognition Program is intended to comply with the short-term deferral rule set forth in the regulations under section 409A of the Code, in order to avoid application of section 409A to the Plan. If and to the extent that any payment under this Employee Recognition Program is deemed to be deferred compensation subject to the requirements of section 409A, this Employee Recognition Program shall be administered so that such payments are made in accordance with the requirements of section 409A.



SELECTED PORTIONS OF ANNUAL REPORT TO SHAREHOLDERS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

**FORWARD-LOOKING STATEMENTS**

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

- recovery of capital expenditures and expenses in rates;
- projected capital expenditures and related financing requirements;
- the availability and cost of capital financing;
- dividend payment projections;
- future financing plans;
- future pension contributions;
- the impact of changes in income tax laws regarding tax-basis depreciation on capital additions, and repair tax deductions;
- our determination of what qualifies as a capital cost versus a repair expense tax deduction;
- opportunities for future acquisitions, the success of pending acquisitions and the impact of future acquisitions;
- acquisition-related costs and synergies;
- the sale of water and wastewater divisions;
- the capacity of our water supplies, water facilities and wastewater facilities;
- the impact of geographic diversity on our exposure to unusual weather;
- the impact of conservation awareness of customers and more efficient plumbing fixtures and appliances on water usage;
- the availability and cost of key production necessities, including power, chemicals and purchased water or wastewater services;
- the availability of qualified personnel;
- the return performance of our defined benefit pension plan assets;
- general economic conditions;
- the impact of federal and/or state tax policies and the regulatory treatment of the effects of those policies; and
- the impact of accounting pronouncements and income taxation policies.

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

- changes in general economic, business, credit and financial market conditions;
- changes in government laws regulations and policies, including those dealing with taxation, the environment, health and water quality, and public utility regulation;
- our determination of what qualifies for a repair expense tax deduction
- the decisions of governmental and regulatory bodies, including decisions on rate increase requests;
- our ability to file rate cases on a timely basis to minimize regulatory lag;
- changes in environmental conditions, including those that result in water use restrictions;
- abnormal weather conditions, including the effects of climate change;
- changes in, or unanticipated, capital requirements;

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AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)  
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- changes in our credit rating or the market price of our common stock;
- our ability to integrate businesses, technologies or services which we may acquire;
- our ability to manage the expansion of our business;
- the extent to which we are able to develop and market new and improved services;
- the effect of the loss of major customers;
- our ability to retain the services of key personnel and to hire qualified personnel as we expand;
- increasing difficulties in obtaining insurance and increased cost of insurance;
- cost overruns relating to improvements or the expansion of our operations;
- changes in accounting pronouncements;
- civil disturbance or terroristic threats or acts; and
- litigation and claims.

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

## OVERVIEW

### The Company

Aqua America, Inc. is the holding company for regulated utilities providing water or wastewater services to what we estimate to be almost 3.0 million people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Florida, Indiana, Virginia, and Georgia. Our largest operating subsidiary, Aqua Pennsylvania, Inc. ("Aqua Pennsylvania"), accounted for approximately 55% of our operating revenues and a larger percentage of our net income for 2012, and, as of December 31, 2012, provided water or wastewater services to approximately one-half of the total number of people we serve located in the suburban areas in counties north and west of the City of Philadelphia and in 25 other counties in Pennsylvania. Our other subsidiaries provide similar services in nine other states. In addition, we provide water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our utility companies' service territories, as well as sludge hauling, septage and grease services, backflow prevention services, certain other non-regulated water and wastewater services, and non-utility raw water supply services for firms in the natural gas and oil drilling industry.

In January 2012, we sold our regulated water operations in Maine, which served approximately 16,000 customers, to Connecticut Water Services, Inc. In May 2012, we acquired all of American Water Works Company, Inc.'s ("American Water") regulated water and wastewater operations in Ohio, which served approximately 59,000 customers, and simultaneously sold our water operations in New York to American Water Works Company, Inc., which served approximately 51,000 customers. These transactions concluded our regulated operations in Maine and New York. In September 2012, we began to market for sale our water and wastewater operations in Florida, which serve approximately 38,000 customers, and our single wastewater treatment facility in Georgia. In December 2012, we entered into a definitive agreement to sell 80 of our water and wastewater systems in Florida to the Florida Governmental Utility Authority. These 80 water and wastewater systems represent approximately 56% of our total customers served in Florida. This transaction is expected to close in the first half of 2013. In addition, we are holding discussions with interested parties for the sale of the remainder of our Florida water and wastewater operations. The operating results, cash flows, and financial position of the Company's Maine, New York, Florida, and Georgia subsidiaries have been presented in the Company's consolidated financial statements as discontinued operations. During the second quarter of 2011, we acquired all of American Water Works Company, Inc.'s regulated water and wastewater operations in Texas, which served approximately 5,300 customers, and sold our regulated water and wastewater operations in Missouri to American Water Works Company, Inc., which served approximately 3,900 customers and concluded our regulated utility operations in Missouri.

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## AQUA AMERICA, INC. AND SUBSIDIARIES

### Management's Discussion and Analysis of Financial Condition and Results of Operations (continued) (In thousands of dollars, except per share amounts)

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

Beginning in 2010, and continuing into 2013, 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 2012, we sold our utility operations in Maine and New York, in 2011, we sold our utility operations in Missouri and in 2010 we sold our utility operations in South Carolina. In connection with the sale of our New York and Missouri utility operations, we acquired additional utility systems (and customers) in Ohio and Texas, two of the larger states in Aqua America's portfolio. Initiated in 2012, and concluding in 2013, we began to market for sale our Florida utility operations and our wastewater treatment facility in Georgia, and these sales should conclude in 2013.

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 certain 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 and oil drilling industry.

#### **Industry Mission**

The mission of the investor-owned water utility industry is to provide quality and reliable water service at reasonable rates to customers, while earning a fair return for shareholders. A number of challenges face the industry, including:

- strict environmental, health and safety standards;
- aging utility infrastructure and the need for substantial capital investment;
- economic regulation by state, and/or, in some cases, local government;
- declining consumption per customer as a result of conservation; and
- the impact of weather and sporadic drought conditions on water sales demand.

#### **Economic Regulation**

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

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**Rate Case Management Capability** – We strive to achieve the industry's mission by effective planning and efficient use of our resources. We maintain a rate case management capability to pursue timely and adequate returns on the capital investments that we make in improving or replacing water mains, treatment plants, information technology systems, and other infrastructure. This capital investment represents our assets used and useful in providing utility service, and is commonly referred to as rate base. Timely, adequate rate relief is important to our continued profitability and in providing a fair return to our shareholders, and thus providing access to capital markets to help fund these investments. Accordingly, the objective of our rate case management strategy is to provide that the rates of our utility operations reflect, to the extent practicable, the timely recovery of increases in costs of operations (primarily labor and employee benefits, electricity, chemicals, maintenance expenses, insurance and claims costs, and costs to comply with environmental regulations), capital, and taxes. In pursuing our rate case strategy, we consider the amount of utility plant additions and replacements made since the previous rate decision, the changes in the cost of capital, changes in our capital structure and changes in operating and other costs. Based on these assessments, our utility operations periodically file rate increase requests with their respective state regulatory commissions or local regulatory authorities. In general, as a regulated enterprise, our water and wastewater rates are established to provide full recovery of utility operating costs, taxes, interest on debt used to finance capital investments and a return on equity used to finance capital investments. Our ability to recover our expenses in a timely manner and earn a return on equity employed in the business determines the profitability of the Company.

Our water and wastewater operations are composed of 66 rate divisions, each of which requires a separate rate filing for the evaluation of the cost of service and recovery of investments in connection with the establishment of tariff rates for that rate division. When feasible and beneficial to our utility customers, we will seek approval from the applicable state regulatory commission to consolidate rate divisions to achieve a more even distribution of costs over a larger customer base. Eight of the states in which we operate permit us to file a revenue requirement using some form of consolidated rates for some or all of the rate divisions in that state. As of December 31, 2012, we have two active rate proceedings in two of our ten states proposing an aggregate annualized rate increase of \$9,188.

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

**Effects of Inflation** – Recovery of the effects of inflation through higher water and wastewater rates is dependent upon receiving adequate and timely rate increases. However, rate increases are not retroactive and often lag increases in costs caused by inflation. On occasion, our regulated utility companies may enter into rate settlement agreements that provide certain stay-out provisions which require us to wait for a period of time to file the next base rate increase request. These stay-out provisions may result in regulatory lag whereby inflationary increases in expenses may not yet be reflected in rates, or a gap may exist between when a capital project is completed and the start of its recovery in rates. Even during periods of moderate inflation, as has been experienced in 2012, 2011, and 2010, the effects of inflation can have a negative impact on our operating results.

**Growth-Through-Acquisition Strategy**

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

In May 2012, we completed our acquisition of American Water's water and wastewater operations in Ohio serving approximately 59,000 customers. In addition to our Ohio acquisition, during 2012, we completed 16 acquisitions and other growth ventures, which along with the organic growth in our existing system represent 11,070 new customers. In June 2011, we completed our acquisition of approximately 51 water and five wastewater systems in Texas serving approximately 5,300 customers. In addition to our Texas acquisition, during 2011, we completed eight acquisitions and other growth ventures, which along with the organic growth in our existing systems represent 3,962 new customers. During 2010, we completed 23 acquisitions and other growth ventures, which along with the organic growth in our existing systems, represent 9,931 new customers.

In addition to acquisitions, from time to time, we sell utility systems or relinquish ownership in systems through condemnation. In 2010, 2011, and 2012, consistent with our strategy to evaluate our individual utility systems, we divested our operations in four states: South Carolina in December 2010, Missouri in May 2011, Maine in January 2012, and New York in May 2012. In related transactions, with respect to the sale of our Missouri operations, and with respect to the sale of our New York operations, we acquired additional utility systems (and additional customers) in Texas and in Ohio, which resulted in a net increase in customers of approximately 10,000. In addition to the dispositions mentioned above, pursuant to our plan to evaluate and dispose of underperforming utility systems, we sold the following utility systems: in 2012 we sold two utility systems representing 1,139 customers and in 2011 we sold three utility systems representing 2,179 customers.

We believe that utility acquisitions, organic growth, and expansion of our non-regulated business will continue to be the primary sources of customer growth for us. With approximately 53,000 community water systems in the U.S., 83% of which serve less than 3,300 customers, the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). In the states where we operate, we believe there are approximately 19,000 community water systems of widely-varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the U.S. Environmental Protection Agency's ("EPA") most recent survey of wastewater treatment facilities (which includes both government-owned and privately-owned facilities) in 2008, there are approximately 15,000 such facilities in the nation serving approximately 74% of the U.S. population. The remaining population represents individual homeowners with their own treatment facilities; for example, community on-lot disposal systems and septic tank systems. The vast majority of wastewater facilities are government-owned rather than privately-owned. The EPA survey also indicated that there are approximately 7,400 wastewater facilities in operation or planned in the 10 states where we operate.

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Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)  
(In thousands of dollars, except per share amounts)

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

- the benefits of economies of scale;
- the increasing cost and complexity of environmental regulations;
- the need for substantial capital investment;
- the need for technological and managerial expertise;
- limited access to cost-effective financing; and
- the monetizing of public assets to support the financial condition of municipalities.

We are actively exploring opportunities to expand our water and wastewater utility operations through regulated acquisitions or otherwise, such as the management of publicly-owned facilities in a public-private partnership. We intend to continue to pursue acquisitions of government-owned and privately-owned water and wastewater systems of all sizes that provide services in areas near our existing service territories or in new service areas. It is our intention to focus on growth opportunities in states where we have critical mass, which allows us to improve economies of scale through spreading our fixed costs over more customers – this cost efficiency should enable us to lessen the size of future rate increases. We continue to explore opportunities for the acquisition of non-regulated water and wastewater service businesses that are located near our existing markets, to grow our existing revenue base. We are also seeking other potential business opportunities, including growth opportunities provided by the natural gas and oil drilling industry with a current focus on serving the raw water needs of drillers.

**Sendout**

“Sendout” represents the quantity of treated water delivered to our distribution systems. We use sendout as an indicator of customer demand. Weather conditions tend to impact water consumption, particularly in our northern service territories during the late spring and summer months when discretionary and recreational use of water is at its highest. Consequently, a higher proportion of annual operating revenues are realized in the second and third quarters. In general during this period, an extended period of hot and dry weather increases water consumption, while above-average rainfall and cool weather decreases water consumption. Conservation efforts, construction codes that require the use of low-flow plumbing fixtures, as well as mandated water use restrictions in response to drought conditions can reduce water consumption. We believe an increase in conservation awareness by our customers, including the increased use of more efficient plumbing fixtures and appliances, may result in a long-term structural trend of declining water usage per customer. These gradual long-term changes are normally taken into account by the regulatory commissions in setting rates, whereas significant short-term changes in water usage, resulting from drought warnings, water use restrictions, or extreme weather conditions, may not be fully reflected in the rates we charge between rate proceedings.

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

The geographic diversity of our utility customer base reduces the effect on Aqua America of our exposure to extreme or unusual weather conditions in any one area of our service territory. During the year ended December 31, 2012, our operating revenues were derived principally from the following states: 55% in Pennsylvania, 10% in Ohio, 9% in Texas, 7%, in Illinois, and 6% in North Carolina.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)  
(In thousands of dollars, except per share amounts)**Performance Measures Considered by Management**

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

Our operating expense ratio is one measure that we use to evaluate our operating efficiency and management effectiveness of our regulated operations. Our operating expense ratio is affected by a number of factors, including the following:

- **Regulatory lag** – Our rate filings are designed to provide for the recovery of increases in costs of operations (primarily labor and employee benefits, electricity, chemicals, maintenance expenses, insurance and claim costs, and costs to comply with environmental regulations), capital, and taxes. The revenue portion of the efficiency ratio can be impacted by the timeliness of recovery of, and the return on capital investments. The efficiency ratio is further influenced by regulatory lag (increases in operations and maintenance expenses not yet recovered in rates or a gap between the time that a capital project is completed and the start of its cost recovery in rates), or decreases in operating revenues without a commensurate decrease in operations and maintenance expense, such as changes in customer water consumption as impacted by adverse weather conditions, conservation trends, or as a result of utility rates incorporating the effects of income tax benefits derived from deducting repair expenses for tax purposes that are capitalized for book purposes in Aqua Pennsylvania and forgoing operating revenue increases. During periods of inflation, our operations and maintenance expenses may increase, impacting the efficiency ratio, as a result of regulatory lag since our rate cases may not be filed timely nor are they retroactive.
- **Acquisitions** – In general, acquisitions of smaller undercapitalized utility systems in certain areas may initially increase our operating expense ratio if the operating revenues generated by these operations are accompanied by a higher ratio of operations and maintenance expenses as compared to other operational areas of the company that are more densely populated and have integrated operations. In these cases, the acquired operations are characterized as having relatively higher operating costs to fixed capital costs, in contrast to the majority of the Aqua America operations, which generally consist of larger, interconnected systems, with higher fixed capital costs (utility plant investment) and lower operating costs per customer. We operate subsidiary companies that provide sludge hauling, septage and grease services, backflow prevention services, certain other non-regulated water and wastewater services, and non-utility raw water supply services for firms in the natural gas and oil drilling industry. The cost-structure of these businesses differs from our utility companies in that, although they generate free cash flow, these businesses have a much higher ratio of operations and maintenance expenses to operating revenues and a lower capital investment and, consequently, a lower ratio of fixed capital costs versus operating revenues in contrast to our regulated operations. As a result, the ratio of operating income compared to operating revenues is not comparable between the businesses. The non-regulated wastewater and septage service business is not a component of our Regulated segment.

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



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)

**Consolidated Selected Financial and Operating Statistics**

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

Years ended December 31,	2012 (a)	2011 (b)	2010	2009 (c)	2008 (d)
<b>Utility customers:</b>					
Residential water	778,350	723,649	719,812	712,619	707,456
Commercial water	39,079	35,078	34,649	34,261	33,684
Industrial water	1,374	1,213	1,226	1,222	1,247
Other water	16,730	15,762	15,376	16,242	15,549
Wastewater	95,044	84,978	86,108	84,041	82,370
<b>Total utility customers</b>	<b>930,577</b>	<b>860,680</b>	<b>857,171</b>	<b>848,385</b>	<b>840,306</b>
<b>Operating revenues:</b>					
Residential water	\$447,338	\$408,904	\$391,922	\$356,265	\$342,436
Commercial water	117,992	105,837	99,632	89,520	85,485
Industrial water	25,015	21,576	20,716	18,723	19,141
Other water	70,776	64,970	63,222	64,039	51,968
Wastewater	68,225	62,780	62,156	58,577	50,241
Other utility	10,538	10,712	10,973	11,139	11,994
<b>Regulated segment total</b>	<b>739,884</b>	<b>674,779</b>	<b>648,621</b>	<b>598,263</b>	<b>561,265</b>
Other	17,876	12,512	11,565	11,634	11,810
<b>Consolidated</b>	<b>\$757,760</b>	<b>\$687,291</b>	<b>\$660,186</b>	<b>\$609,897</b>	<b>\$573,075</b>
Operations and maintenance expense	\$271,843	\$256,743	\$250,989	\$239,905	\$231,666
Income from continuing operations	\$184,087	\$141,683	\$116,379	\$ 98,440	\$ 95,729
Net income attributable to common shareholders	\$196,563	\$143,069	\$123,975	\$104,353	\$ 97,918
Capital expenditures	\$347,985	\$325,808	\$308,134	\$266,190	\$252,498
<b>Operating Statistics</b>					
Selected operating results as a percentage of operating revenues:					
Operations and maintenance	35.9%	37.4%	38.0%	39.3%	40.4%
Depreciation and amortization	15.4%	15.8%	16.9%	17.6%	15.2%
Taxes other than income taxes	6.3%	6.0%	6.1%	6.1%	6.1%
Interest expense, net	10.3%	11.3%	11.1%	10.9%	11.5%
Income from continuing operations	24.3%	20.6%	17.6%	16.1%	16.7%
Return on Aqua America stockholders' equity	14.2%	11.4%	10.6%	9.4%	9.3%
Ratio of capital expenditures to depreciation expense	3.1	3.2	3.1	2.8	3.1
Effective tax rate	26.6%	32.8%	39.2%	39.3%	39.6%

- (a) 2012 utility customers were impacted by the addition of 65,577 utility customers associated with utility systems acquired. See Results of Operations – Income Taxes for a discussion of the effective tax rate change for 2012.
- (b) Net income attributable to common shareholders includes the gain of \$3,035 (\$5,058 pre-tax) realized on the sale of utility systems. The gain is reported in the 2011 consolidated statement of income as a reduction to operations and maintenance expense.
- (c) Net income attributable to common shareholders includes the gain of \$605 (\$1,009 pre-tax) realized on the sale of a utility system. The gain is reported in the 2009 consolidated statement of income as a reduction to operations and maintenance expense.
- (d) 2008 utility customers were impacted by the loss of 22,519 utility customers associated with the utility systems disposed of. Net income includes the gain of \$2,427 (\$4,118 pre-tax) realized on the sale of a utility system. The gain is reported in the 2008 consolidated statement of income as a reduction to operations and maintenance expense.

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AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)  
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**RESULTS OF OPERATIONS**

Our income from continuing operations has grown at an annual compound rate of approximately 14.9% and our net income has grown at an annual compound rate of approximately 15.6% during the five-year period ended December 31, 2012. During the past five years, operating revenues grew at a compound rate of 6.6% and total expenses, exclusive of income taxes, grew at a compound rate of 4.9%.

**Operating Segments**

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

- Ten segments are composed of our water and wastewater regulated utility operations in the ten states where we provide these services. These operating segments are aggregated into one reportable segment since each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution and/or wastewater collection methods, and the nature of the regulatory environment. Our single reportable segment is named the Regulated segment. Two of our operating segments have been classified as discontinued operations, and are excluded from the Regulated segment disclosure of our results of continuing operations.
- Two segments are not quantitatively significant to be reportable and are composed of the businesses that provide sludge hauling, septage and grease services, backflow prevention services, certain other non-regulated water and wastewater services, and non-utility raw water supply services for firms in the natural gas and oil drilling industry. These segments are included as a component of "other," in addition to corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include certain general and administrative expenses, and interest expense.

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)*

Unless specifically noted, the following discussion and analysis provides information on our consolidated results of continuing operations. The following table provides the Regulated segment and consolidated information for the years ended December 31, 2012, 2011, and 2010:

	2012			2011		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$740,030	\$ 17,730	\$757,760	\$674,927	\$ 12,364	\$687,291
Operations and maintenance expense	259,847	11,996	271,843	243,137	13,606	256,743
Taxes other than income taxes	45,450	1,954	47,404	39,677	1,772	41,449
Earnings (losses) before interest, taxes, depreciation and amortization	<u>\$434,733</u>	<u>\$ 3,780</u>	438,513	<u>\$392,113</u>	<u>\$ (3,014)</u>	389,099
Depreciation and amortization			116,996			108,300
Operating income			321,517			280,799
Interest expense, net of AFUDC			73,615			70,654
Gain on sale of other assets			(1,090)			(649)
Equity earnings in joint venture			(1,976)			—
Provision for income taxes			66,881			69,111
Income from continuing operations			184,087			141,683
Income from discontinued operations, net of income taxes of \$8,017 and \$12,893, respectively			12,476			1,386
Net income			<u>\$196,563</u>			<u>\$143,069</u>

	2010		
	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$648,768	\$ 11,418	\$660,186
Operations and maintenance expense	238,093	12,896	250,989
Taxes other than income taxes	38,652	1,495	40,147
Earnings (losses) before interest, taxes, depreciation and amortization	<u>\$372,023</u>	<u>\$ (2,973)</u>	369,050
Depreciation and amortization			111,716
Operating income			257,334
Interest expense, net of AFUDC			68,562
Gain on sale of other assets			(2,547)
Provision for income taxes			74,940
Income from continuing operations			116,379
Income from discontinued operations net of income taxes of \$5,154			7,596
Net income			<u>\$123,975</u>

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AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)  
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**Consolidated Results**

**Operating Revenues** – The growth in revenues over the past three years is a result of increases in water and wastewater rates and in our customer base. Rate increases implemented during the past three years have provided additional operating revenues of approximately \$39,987 in 2012, \$37,988 in 2011, and \$32,503 in 2010. Negatively impacting our revenue growth in 2012 was a slight decline in water consumption as compared to the prior year and in 2011 was a decrease in customer water consumption largely due to unfavorable weather conditions in many of our service territories during the third quarter of 2011, as well as increases in water conservation awareness by our customers. The number of customers increased at an annual compound rate of 0.5% over the past three years due to acquisitions and organic growth, offset by dispositions. If adjusted for the utility system dispositions over the past three years, the annual compound customer growth rate would have been 2.9%. Acquisitions in our Regulated segment have provided additional water and wastewater revenues of approximately \$28,296 in 2012, \$3,960 in 2011, and \$2,579 in 2010.

On June 7, 2012, the Pennsylvania Public Utility Commission (“PAPUC”) granted Aqua Pennsylvania a water rate increase designed to increase water rates by \$16,700 on an annual basis. The rates in effect at the time of the filing included \$27,449 in Distribution System Improvement Charges (“DSIC”) or 7.5% above prior base rates. Consequently, the total base rates increased by \$44,149 since the last base rate increase, and the DSIC was reset to zero. In addition, the rate case settlement provides for the flow-through accounting treatment of certain income tax benefits if Aqua Pennsylvania changes 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 which resulted in the net recognition of 2012 income tax benefits of \$33,565 which reduced income tax expense and flowed-through to net income in the fourth quarter of 2012. In addition, the income tax benefits of \$111,397 for qualifying capital expenditures made prior to 2012 have been deferred as of December 31, 2012 and, based on the settlement agreement, a ten year amortization of the income tax benefits is expected to reduce income tax expense beginning in 2013. Also, as a result of the repair change, the fourth quarter 2012 DSIC of 2.82% for Aqua Pennsylvania’s water customers was reset to zero beginning January 1, 2013, and Aqua Pennsylvania will not file a water base rate case in 2013.

On June 17, 2010, the PAPUC granted Aqua Pennsylvania a water rate increase designed to increase total operating revenues by \$23,600, on an annualized basis. The rates in effect at the time of the filing included \$24,256 in DSIC or 7.5% above prior base rates. Consequently, the total base rates increased by \$47,856 since the last base rate increase, and the DSIC was reset to zero.

In February 2012, two of the Company’s operating divisions in Texas began to bill interim rates in accordance with authorization from the Texas Commission on Environmental Quality (the “TCEQ”). The additional revenue billed and collected prior to the TCEQ’s final ruling is subject to refund based on the outcome of the rate case. As of December 31, 2012, the Company had billed revenue of \$4,758, which is subject to refund based on the outcome of the TCEQ’s final ruling. Based on the Company’s review of the present circumstances, a reserve of \$1,665 has been established for the billings to date.

In October 2010, the Company’s operating subsidiary in Texas began to bill interim rates for one of its divisions in accordance with authorization from the Texas Commission on Environmental Quality (“TCEQ”). The additional revenue billed and collected prior to the TCEQ’s final ruling is subject to refund based on the outcome of the rate case. The rate case concluded with the issuance of an order on May 20, 2012, and no refunds of revenue previously billed and collected were required.

Our operating subsidiaries, excluding the Pennsylvania and Texas water awards discussed above, received rate increases representing estimated annualized revenues of \$11,774 in 2012 resulting from eight rate decisions, \$6,311 in 2011 resulting from twelve rate decisions, and \$13,834 in 2010 resulting from eleven rate decisions. Revenues from these increases realized in the year of grant were approximately \$7,605 in 2012, \$3,312 in 2011, and \$4,515 in 2010. As of December 31, 2012, our operating subsidiaries currently have filed two rate requests, which are being reviewed by the state regulatory commissions, proposing an aggregate increase of \$9,188 in annual revenues. During 2013, we intend to file ten additional rate requests proposing an aggregate of approximately \$13,147 of increased annual revenues; the timing and extent to which our rate increase requests may be granted will vary by state.

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AQUA AMERICA, INC. AND SUBSIDIARIES

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Currently, Pennsylvania, Ohio, Illinois, and Indiana allow for the use of infrastructure rehabilitation surcharges, and in June 2012 regulators approved a rulemaking to implement an infrastructure rehabilitation surcharge for regulated water utilities in New Jersey; as a result, our New Jersey subsidiary is in the process of implementing an infrastructure rehabilitation surcharge for 2013. In Pennsylvania, this mechanism is referred to as a DSIC. The rate increases under these surcharge mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. Infrastructure rehabilitation surcharges are capped as a percentage of base rates, generally at 5% to 12.75% of base rates, and are reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. Infrastructure rehabilitation surcharges provided revenues of \$15,911 in 2012, \$15,937 in 2011, and \$14,044 in 2010.

In 2012, Aqua Pennsylvania decided to adopt the repair tax accounting change on Aqua America's 2012 federal income tax return to be filed in September 2013. The change, which was contemplated under our subsidiary's June 2012 rate order, allows a tax deduction for certain qualifying utility asset improvements that was formerly capitalized and depreciated for book and tax purposes. As a result of Aqua Pennsylvania's implementing this tax accounting change, the DSIC will be suspended for 2013 for Aqua Pennsylvania due to the anticipated earnings level to be achieved. This tax accounting change and its flow-through treatment under the Pennsylvania rate order will offset the impact of the 2013 DSIC suspension through a reduction in income tax expense.

Our Regulated segment also includes certain non-regulated operating revenues of \$10,538 in 2012, \$10,712 in 2011, and \$10,973 in 2010. These operating revenues are associated with contract operations that are integrated into the regulated utility business and operations. These amounts vary over time according to the level of activity associated with the utility contract operations.

In addition to the Regulated segment operating revenues, we had other non-regulated revenues that were primarily associated with non-regulated wastewater, sludge hauling, septage and grease services, backflow prevention services, operating and maintenance contracts, certain other non-regulated water and wastewater services, and non-utility raw water supply services for firms in the natural gas and oil drilling industry of \$17,876 in 2012, \$12,512 in 2011, and \$11,565 in 2010.

**Operations and Maintenance Expenses** – Operations and maintenance expenses totaled \$271,843 in 2012, \$256,743 in 2011, and \$250,989 in 2010. Most elements of operating costs are subject to the effects of inflation and changes in the number of customers served. Several elements are subject to the effects of changes in water consumption, weather and the degree of water treatment required due to variations in the quality of the raw water. The principal elements of operating costs are labor and employee benefits, electricity, chemicals, maintenance expenses and insurance and claims costs. Electricity and chemical expenses vary in relationship to water consumption, raw water quality, and price changes. Maintenance expenses are sensitive to extremely cold weather, which can cause water mains to rupture, resulting in additional costs to repair the affected main.

Operation and maintenance expenses increased in 2012 as compared to 2011 by \$15,100 or 5.9%, primarily due to increases in operating costs associated with acquired utility systems and other growth ventures of \$13,080, the effect of the gains on the sales of our utility system recognized during 2011 of \$5,058, an increase in insurance expense of \$2,677, an increase in post-retirement benefits expenses of \$2,217, an increase in stock-based compensation of \$1,684, and normal increases in other operating costs. Offsetting these increases were decreases in water production costs of \$5,732, and the effect of the recognition of a regulatory asset resulting from a completed rate case which reduced operations and maintenance expense by \$3,356. The decrease in water production costs results primarily from a decrease in the contractual rate of one of our purchased water contracts, and the non-renewal of another purchased water contract.

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AQUA AMERICA, INC. AND SUBSIDIARIES

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Operations and maintenance expenses increased in 2011 as compared to 2010 by \$5,754 or 2.3%, primarily due to increased water production costs of \$3,313, increases in operating costs associated with acquired utility systems and other growth ventures of \$2,893, an increase in post-retirement benefits expenses of \$1,975, increases in fuel costs for our service vehicles of \$1,016, and normal increases in other operating costs. Offsetting these increases were the gains on the sales of our utility systems recognized during 2011 of \$5,058, the effect of the write-off in 2010 of previously deferred regulatory expenses of \$2,210, decreased insurance expense of \$1,893, and reduced expenses of \$1,462 associated with the disposition of utility systems. The increase in water production costs is primarily due to an increase in the cost of purchased water. In the consolidated statement of income for 2011, the gain on sale of utility system is reported as a component of operations and maintenance expense.

**Depreciation and Amortization Expenses** – Depreciation expense was \$111,767 in 2012, \$103,412 in 2011, and \$100,606 in 2010, and has increased principally as a result of the significant capital expenditures made to expand and improve our utility facilities, and our acquisitions of new utility systems.

Amortization expense was \$5,229 in 2012, \$4,888 in 2011, and \$11,110 in 2010, and increased in 2012 primarily due to the amortization of costs associated with, and other costs being recovered in, various rate filings. The decrease in 2011 is primarily due to the amortization recognized in 2010 of \$6,739 resulting from the completion of the recovery through a surcharge of our costs associated with our rate filing in Texas and the amortization of the costs associated with, and other costs being recovered in, various rate filings. Expenses associated with filing rate cases are deferred and amortized over periods that generally range from one to three years.

**Taxes Other than Income Taxes** – Taxes other than income taxes totaled \$47,404 in 2012, \$41,449 in 2011, and \$40,147 in 2010. The increase in 2012 is primarily due to an increase in property taxes of \$4,932, gross receipts, excise and franchise taxes of \$652, and payroll taxes of \$526 resulting primarily from our Ohio acquisition, offset by a decrease in capital stock taxes of \$363 for Aqua Pennsylvania. The increase in 2011 is primarily due to an increase in other taxes of \$942 largely due to an increase in taxes assessed resulting from the pumping of ground water in Texas.

**Interest Expense, net** – Net interest expense was \$77,757 in 2012, \$77,804 in 2011, and \$73,393 in 2010. Interest income of \$372 in 2012, \$757 in 2011, and \$1,288 in 2010 was netted against interest expense. Net interest expense decreased in 2012 primarily due to a decline in short-term interest rates and the refinancing of existing debt at lower interest rates. Net interest expense increased in 2011 primarily due to the full-year impact of \$141,385 in tax exempt bonds issued in November 2010 by Aqua Pennsylvania. Interest income decreased in 2012 and 2011 due to lower investment rates and lower balances on the proceeds from the issuance of tax-exempt bonds held by trustees pending the draw-down for projects financed with the issuances. The interest income earned on the proceeds from the issuance of tax-exempt bonds is capitalized through our allowance for funds used during construction, a reduction to net interest expense. The weighted average cost of long-term debt was 4.81% at December 31, 2012, 5.17% at December 31, 2011, and 5.13% at December 31, 2010.

**Allowance for Funds Used During Construction** – The allowance for funds used during construction (AFUDC) was \$4,142 in 2012, \$7,150 in 2011, and \$4,831 in 2010, and has varied over the years as a result of changes in the average balance of utility plant construction work in progress (CWIP), to which AFUDC is applied, changes in the AFUDC rate which is based predominantly on short-term interest rates, and changes in the average balance of the proceeds held from tax-exempt bond issuances that are restricted to funding certain capital projects. The decrease in 2012 is due to a decrease in the average balance of proceeds held from tax-exempt bond issuances that are restricted to funding certain capital projects. The increase in 2011 is due to an increase in the average balance of proceeds held from tax-exempt bond issuances that are restricted to funding certain capital projects.

**Gain on Sale of Other Assets** – Gain on sale of other assets totaled \$1,090 in 2012, \$649 in 2011, and \$2,547 in 2010, and consisted of gains on properties and marketable securities sales. Gain on sale of properties totaled \$630 in 2012, \$291 in 2011, and \$440 in 2010. Gain on sale of marketable securities totaled \$460 in 2012, \$358 in 2011, and \$2,107 in 2010.

**Equity Earnings in Joint Venture** – Equity earnings in joint venture of \$1,976 reflect our earnings in serving the raw water needs of firms in the natural gas and oil exploration industry.

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AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

*(In thousands of dollars, except per share amounts)*

**Income Taxes** – Our effective income tax rate was 26.6% in 2012, 32.8% in 2011, and 39.2% in 2010. The decrease in the effective tax rate for 2012 was primarily due to the change in the Company's repair tax accounting method for repair expenditures at Aqua Pennsylvania which resulted in a \$33,565 net reduction to 2012 income tax expense recognized in the fourth quarter of 2012. The decrease in the effective tax rate for 2011 was primarily due to the recognition in 2011 of the net state income tax benefit of \$14,800 associated with 100% bonus depreciation for qualifying capital additions.

**Summary** – Operating income was \$321,517 in 2012, \$280,799 in 2011, and \$257,334 in 2010, income from continuing operations was \$184,087 in 2012, \$141,683 in 2011, and \$116,379 in 2010, income from discontinued operations was \$12,476 in 2012, \$1,386 in 2011, and \$7,596 in 2010, and net income attributable to common shareholders was \$196,563 in 2012, \$143,069 in 2011, and \$123,975 in 2010.

Diluted income from continuing operations per share was \$1.32 in 2012, \$1.02 in 2011, and \$0.85 in 2010, diluted income from discontinued operations per share was \$0.09 in 2012, \$0.01 in 2011, and \$0.06 in 2010, and diluted net income per share was \$1.40 in 2012, \$1.03 in 2011, and \$0.90 in 2010.

The changes in the per share income from continuing operations in 2012 and 2011 over the previous years were due to the aforementioned changes and impacted by a 0.9% increase in the average number of common shares outstanding during 2012 and a 1.0% increase in the average number of common shares outstanding during 2011. The increase in the number of shares outstanding in 2012 and 2011 is primarily a result of the additional shares sold or issued through our dividend reinvestment plan and equity compensation plan.

Income from discontinued operations for 2012 increased by \$11,090 or \$0.08 per diluted share, in comparison to 2011 primarily as a result of the recognition in 2012 of the gain on sale of our Maine operating subsidiary, of \$17,699 (\$10,821 after-tax), the effect of the income tax expense recognized in 2011 of \$7,253 for the additional deferred tax liability that arose from the difference between the stock and tax basis of the Company's investment in its New York and Maine operating subsidiaries, a reduction in interest expense, net of tax, of \$1,120 as a result of debt assumed in 2012 by the acquirer(s) in the sale of our New York and Maine operating subsidiaries, offset by charges incurred from the disposal of our New York subsidiary of \$2,090, and an asset impairment recognized in 2012, net of tax, of \$852. Income from discontinued operations for 2011 decreased by \$6,210 or \$0.04 per diluted share, in comparison to 2010 primarily as a result of the income tax expense recognized in 2011 of \$7,253 for the additional deferred tax liabilities that arise from the difference between the stock and tax basis of the Company's investment in its discontinued operations, and an estimated loss on disposition recognized in 2011 of \$1,254 primarily due to the cessation of depreciation for our New York operations.

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

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(In thousands of dollars, except per share amounts)

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

	Three Months Ended December 31,	
	2012	2011
Operating revenues	\$187,481	\$166,793
Operations and maintenance	72,179	66,502
Depreciation	29,031	25,767
Amortization	1,456	847
Taxes other than income taxes	12,704	10,018
	<u>115,370</u>	<u>103,134</u>
Operating income	72,111	63,659
Interest expense, net	19,373	19,344
Allowance for funds used during construction	(658)	(1,461)
Gain on sale of other assets	(264)	(174)
Equity earnings in joint venture	(1,045)	—
Income before income taxes	54,705	45,950
Provision for income taxes	(10,429)	14,444
Income from continuing operations	65,134	31,506
Income from discontinued operations, net of income taxes of \$259 and \$1,326	1,421	2,499
Net income	<u>\$ 66,555</u>	<u>\$ 34,005</u>

The increase in operating revenues was a result of additional revenues of \$15,866 from an increase in water and wastewater rates implemented in various operating subsidiaries, and additional wastewater and water revenues of \$9,718 associated with a larger customer base due to acquisitions, offset by a decrease in customer water consumption largely due to unfavorable weather conditions primarily in our Pennsylvania service territories during the fourth quarter of 2012, as well as an increase in water conservation awareness by our customers. The higher operations and maintenance expense is due primarily to \$4,185 of additional operating costs associated with acquisitions, the effect of the gain on sale in the fourth quarter of 2011 of our utility system in North Carolina of \$1,112, an increase in insurance expense of \$825, and normal increases in other operating expenses, offset by a decrease in water production costs of \$1,574. Depreciation expense increased primarily due to the utility plant placed in service since December 31, 2011. Amortization expense increased primarily due to the amortization of costs associated with, and other costs being recovered in, various rate filings. The increase in other taxes is primarily due to increases in property taxes of \$1,735, gross receipts, excise and franchise taxes of \$713, and payroll taxes of \$271, primarily due to our acquisition in Ohio. Allowance for funds used during construction decreased by \$803 primarily due to a decrease in the average balance of proceeds held from tax-exempt bond issuances that are restricted to funding certain capital projects. Gain on sale of other assets decreased by \$90 principally due to the timing of sales of land and other property. Equity earnings in joint venture of \$1,045 reflect our earnings in serving the raw water needs of firms in the natural gas and oil exploration industry. The provision for income taxes was reduced in the fourth quarter of 2012 by the 2012 net tax benefits recognized of \$33,565 resulting from our change in tax method of accounting associated with the repair change, offset partially by the recognition in 2011 of the net state income tax benefit of \$3,607 associated with 100% bonus depreciation for qualifying capital additions. The impact of the repair tax accounting method change reduced the fourth quarter income tax expense, as the change was made in December 2012, and the amount recognized represents the full year 2012 impact. Income from discontinued operations decreased by \$1,078 primarily due to the sale of our Maine and New York subsidiaries in the first half of 2012.



AQUA AMERICA, INC. AND SUBSIDIARIES

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*(In thousands of dollars, except per share amounts)*

**FINANCIAL CONDITION**

**Consolidated Cash Flow and Capital Expenditures**

Net operating cash flows from continuing operations, dividends paid on common stock, capital expenditures used in continuing operations, including allowances for funds used during construction, and expenditures for acquiring water and wastewater systems for our continuing operations for the five years ended December 31, 2012 were as follows:

	Net Operating Cash Flows	Common Dividends	Capital Expenditures	Acquisitions
2008	\$ 206,742	\$ 68,504	\$ 252,498	\$ 14,659
2009	244,318	74,729	266,190	3,373
2010	244,717	80,907	308,134	8,625
2011	352,041	87,133	325,808	8,515
2012	377,485	93,423	347,985	121,248
	<u>\$1,425,303</u>	<u>\$404,696</u>	<u>\$1,500,615</u>	<u>\$156,420</u>

Included in capital expenditures for the five-year period are: expenditures for the modernization and replacement of existing treatment plants, new water mains and customer service lines, rehabilitation of existing water mains and hydrants, and water meters. During this five-year period, we received \$25,849 of customer advances and contributions in aid of construction to finance new water mains and related facilities that are not included in the capital expenditures presented in the above table. In addition, during this period, we have made sinking fund contributions and repaid debt in the amount of \$353,097, and have refunded \$25,763 of customers' advances for construction. Common dividends increased during the past five years as a result of annual increases in the common dividends declared and paid and increases in the number of shares outstanding during the period.

Our planned 2013 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to continue at similar levels as 2012. The 2013 capital program is expected to include \$170,000 for infrastructure rehabilitation surcharge-qualified projects. Our planned capital program includes spending for infrastructure rehabilitation that may qualify for infrastructure rehabilitation surcharge mechanisms, and should these mechanisms be discontinued for any reason, which is not anticipated, we may re-evaluate the magnitude of this portion of our capital program. Beginning January 1, 2013, Aqua Pennsylvania reset its water DSIC to zero resulting from the change in its tax method of accounting for repair expense deductions as described below. Although we may not be currently eligible to use a DSIC with our Aqua Pennsylvania water customers in 2013, we intend to use the income tax savings derived from the repair change to continue to maintain a similar capital investment program as 2012. Our planned 2013 capital program in Pennsylvania is estimated to be \$239,000, a portion of which is expected to be eligible as a repair deduction for federal income tax purposes. Our overall 2013 capital program, along with \$45,038 of sinking fund obligations and debt maturities, and \$158,648 of other contractual cash obligations, as reported in the section captioned "Contractual Obligations", has been or is expected to be financed through internally-generated funds, our revolving credit facilities, the issuance of equity, and the issuance of long-term debt.

Future utility construction in the period 2014 through 2017, including recurring programs, such as the ongoing replacement or rehabilitation of water meters, water mains, water treatment plant upgrades, storage facility renovations, and additional transmission mains to meet customer demands, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to require aggregate expenditures of approximately \$1,200,000. We anticipate that less than one-half of these expenditures will require external financing with debt and the additional issuance of common stock through our dividend reinvestment and stock purchase plans. We expect to refinance \$323,282 of sinking fund obligations and debt maturities during this period as they become due with new issues of long-term debt, internally-generated funds, and our revolving credit facilities. The estimates discussed above do not include any amounts for possible future acquisitions of water systems or the financing necessary to support them.

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AQUA AMERICA, INC. AND SUBSIDIARIES

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Our primary sources of liquidity are cash flows from operations (including the allowed deferral of federal income tax payments), borrowings under various short-term lines of credit and other credit facilities, and customer advances and contributions in aid of construction. Our cash flow from operations, or internally-generated funds, is impacted by the timing of rate relief, water consumption, and changes in federal tax laws with respect to accelerated tax depreciation or deductions for utility construction projects. We fund our capital and acquisition programs through internally-generated funds, supplemented by short-term borrowings. Over time, we partially repay or pay-down our short-term borrowings with long-term debt and proceeds from the issuance of common stock. The ability to finance our future construction programs, as well as our acquisition activities, depends on our ability to attract the necessary external financing and maintain internally-generated funds. Rate orders permitting compensatory rates of return on invested capital and timely rate adjustments will be required by our operating subsidiaries to achieve an adequate level of earnings and cash flow to enable them to secure the capital they will need to operate and to maintain satisfactory debt coverage ratios.

In December 2012, we changed our tax method of accounting as permitted under Internal Revenue Service ("IRS") regulations for certain qualifying utility system repairs in Aqua Pennsylvania effective with the tax year ended December 31, 2012 and for prior tax years. The repair tax accounting method was changed to permit the expensing of certain utility asset improvement costs that were previously being capitalized and depreciated for book and tax purposes (the "repair change"). The repair change was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission to Aqua Pennsylvania ("settlement agreement") which provides for flow-through accounting treatment of certain income tax benefits resulting from the repair change. As a result of this settlement agreement, the net 2012 income tax benefits of \$33,565 reduced income tax expense and increased net income in the fourth quarter of 2012, and the income tax benefits of \$111,397 for qualifying capital expenditures made prior to 2012 ("catch-up adjustment") have been deferred as of December 31, 2012 and, based on the settlement agreement, a ten year amortization of the income tax benefits is expected to reduce income tax expense beginning in 2013. The repair change resulted in a significant reduction in our effective income tax rate, a net reduction in income tax expense of \$33,565 recognized in the fourth quarter of 2012 for the tax year 2012 impact, and reduced the amount of taxes currently payable resulting in a tax refund expected of \$14,802 on tax payments made prior to the repair change. The catch-up adjustment resulted in a \$88,476 decrease to current taxes payable (resulting in a significant decrease in taxes paid); a \$190,389 increase to regulatory liabilities which is expected to be amortized over the next ten years; and an increase to both deferred tax liabilities and regulatory assets representing the appropriate book/tax basis difference on capital additions.

Our planned 2013 capital program is projected to continue at a similar level compared to 2012, and the repair tax deduction is anticipated to continue at a similar level in 2013 and beyond. Our 2013 earnings will be impacted by the following factors in Aqua Pennsylvania: the repair tax deduction in 2013 is expected to decrease income tax expense by a similar amount as 2012, and the ten year amortization of the catch-up adjustment is also expected to reduce income tax expense; offset by the effect on operating revenue as a result of the DSIC being reset to zero beginning January 1, 2013 and remaining at that level in 2013, and the effect of regulatory lag as we will not be filing a request for a base rate increase until after 2013. In addition, we are beginning to evaluate the use of a repair change in other states where we operate, although the rate treatment afforded such change is not expected to have a direct impact on income tax expense.

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AQUA AMERICA, INC. AND SUBSIDIARIES

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The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the "Tax Relief Act") was enacted on December 17, 2010 and provided for an extension of 50% bonus depreciation for qualifying capital additions through 2012 and a 100% expensing allowance for qualifying capital additions placed in service after September 8, 2010 through 2011. A substantial portion of our capital expenditures qualified for 50% bonus depreciation or the 100% expensing allowance. As a result of the Tax Relief Act, the Company's Federal income tax payments were eliminated for tax year 2011 and our net operating cash flows were favorably impacted. In addition, we received a Federal income tax refund in the amount of \$33,600 in October 2011 relating to our 2010 tax return. In the first quarter of 2011, one of our state tax jurisdictions announced that it would recognize the 100% expensing allowance beginning after September 8, 2010 and in 2011. As a result of this guidance and the flow-through treatment afforded by that state's regulatory commission, the net state tax benefit reduced our state income tax expense in 2011 by \$14,800, reduced our effective income tax rate, and increased our earnings by \$0.107 per share. The American Tax Relief Act of 2012 was enacted on January 2, 2013 and provided for an extension of the 50% bonus depreciation for qualifying capital additions for tax year 2013.

**Acquisitions**

During the past five years, we have expended cash of \$156,420 and issued 289,775 shares of common stock, valued at \$4,909 at the time of the acquisition, related to the acquisition of utility systems, both water and wastewater utilities, as well as certain investments in the natural gas and oil drilling industry. As part of the Company's growth-through-acquisition strategy, in July 2011, the Company entered into a definitive agreement with American Water Works Company, Inc. to purchase all of the stock of the subsidiary that held American Water's regulated water and wastewater operations in Ohio. American Water's Ohio operations served approximately 59,000 customers. On May 1, 2012, the Company completed its acquisition of American Water's water and wastewater operations in Ohio. The total purchase price at closing consisted of \$102,154 in cash plus certain assumed liabilities, including debt of \$14,281, as adjusted pursuant to the purchase agreement based on book value at closing. The transaction has been accounted for as a business combination. The Ohio acquisition was financed primarily from the proceeds from the January 1, 2012 sale of our Maine subsidiary, the May 1, 2012 sale of our New York subsidiary, and by the issuance of long-term and/or short-term debt. In addition to our Ohio acquisition, during 2012, we completed 16 acquisitions of water and wastewater utility systems for \$19,094 in cash in six of the states in which we operate.

In June 2011, the Company completed its acquisition of approximately 51 water and five wastewater systems in Texas serving approximately 5,300 customers. The total purchase price consisted of \$6,245 in cash. The Company's acquisitions in Ohio and Texas were accretive to the Company's results of operations, however, the pro forma effect of the businesses acquired are not material to the Company's results of operations. In addition to our Texas acquisition, during 2011, we completed eight acquisitions of water and wastewater utility systems for \$2,270 in cash in three of the states in which we operate. During 2010, we completed 23 acquisitions of water and wastewater utility systems in six of the states in which we operate. The 2010 acquisitions were completed for \$8,625 in cash. During 2009, we completed 18 acquisitions of water and wastewater systems in five of the states in which we operate, including expanding our operations into one new state. The 2009 acquisitions were completed for \$3,373 in cash and the issuance of 164,052 shares of common stock valued at \$2,909 at the time of the acquisition. During 2008, we completed nine acquisitions of water and wastewater systems in four of the states in which we operate. The 2008 acquisitions were completed for \$14,659 in cash and the issuance of 125,723 shares of common stock valued at \$2,000 at the time of the acquisition.

We included the operating results of these acquisitions in our consolidated financial statements beginning on the respective acquisition dates.

We continue to hold acquisition discussions with several water and wastewater systems. Our typical acquisitions are expected to be financed with short-term debt with subsequent repayment from the proceeds of long-term debt, retained earnings, or equity issuances.

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Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)  
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In September 2011, one of our subsidiaries entered into a joint venture with a firm that operates natural gas pipelines and processing plants for the construction and operation of a private pipeline system to supply raw water to certain natural gas well drilling operations in the Marcellus Shale in north-central Pennsylvania. The initial 18-mile pipeline commenced operations in the second quarter of 2012. The initial pipeline system is being expanded for an additional 38 miles with a permitted intake on the Susquehanna River, which will extend the pipeline to additional drillers. The total cost of the pipeline is estimated to cost \$114,000. This project marks an expansion of our growth venture in serving the raw water needs of firms in the natural gas and oil exploration industry. The joint venture has entered into water sale agreements with natural gas drilling companies and negotiations continue with other area drilling companies. As of December 31, 2012, our capital contributions since inception totaled \$38,943. This investment has been or is expected to be financed through the issuance of long-term debt. Our 49% investment in this joint venture is as an unconsolidated affiliate and is accounted for under the equity method of accounting. Our investment is carried at cost, including capital contributions or distributions and our equity in earnings since the commencement of the system's operations. Since natural gas drilling requires a large quantity of raw water in order to extract gas, we are continuing to hold exploratory discussions with other natural gas drilling companies about their needs for raw water supply.

#### Dispositions

We routinely review and evaluate areas of our business and operating divisions and, over time, may sell certain utility systems or portions of systems. In 2010, 2011, and 2012, in accordance with our strategy to focus our resources on states where we have critical mass to improve our economies of scale and expect future economic growth, we sold or signed agreements to exit or sell water and wastewater systems in five states: South Carolina, Missouri, Maine, New York, and Florida. With respect to the sale of our systems in Missouri and the sale of our systems in New York, we acquired additional utility systems in Texas and in Ohio.

In December 2012, the Company entered into a definitive agreement to sell 80 of its water and wastewater systems in Florida to the Florida Governmental Utility Authority for cash at closing of \$49,200, which is subject to certain adjustments. These 80 water and wastewater systems represent approximately 56% of our customers served in Florida. This transaction is expected to close in the first half of 2013. In addition, we are holding discussions with interested parties for the sale of the remainder of our Florida water and wastewater operations.

In July 2011, the Company entered into a definitive agreement with Connecticut Water Service, Inc. to sell its operations in Maine, which served approximately 16,000 customers, for cash at closing plus certain assumed liabilities, including debt of \$17,364. On January 1, 2012, we completed the sale for net proceeds of \$36,870, and recognized a gain on sale of \$17,699 (\$10,821 after-tax). The sale of our Maine operations concluded our regulated operations in Maine. The proceeds were used to finance a portion of our acquisition of American Water's Ohio subsidiary, pay-down a portion of our short-term debt, and other general corporate purposes.

In July 2011, the Company entered into a definitive agreement with American Water to sell its operations in New York for its book value at closing plus certain assumed liabilities, including debt of approximately \$23,000. On May 1, 2012, the Company completed the sale for net proceeds of \$36,688 in cash as adjusted pursuant to the sale agreement based on book value at closing. The Company's New York operations served approximately 51,000 customers. The sale of our New York operations concluded our regulated operations in New York. The proceeds were used to finance a portion of our acquisition of American Water's Ohio subsidiary, pay-down a portion of our short-term debt, and other general corporate purposes.

In June 2011, we sold a water and wastewater utility system for net proceeds of \$4,106. The sale resulted in the recognition of a gain on the sale, net of expenses, of \$2,692, and is reported in the consolidated statement of income as a reduction to operations and maintenance expense. The utility system represented approximately 0.03% of Aqua America's total assets. In May 2011, we sold our regulated water and wastewater operations in Missouri for net proceeds of \$3,225, resulting in a small gain on sale. The sale of our utility operations in Missouri represented approximately 0.07% of Aqua America's total assets. In January 2011, we sold a water and wastewater utility system for net proceeds of \$3,118. The sale resulted in the recognition of a gain on the sale, net of expenses, of \$2,452. The utility system represented approximately 0.01% of Aqua America's total assets. The gain is reported in the consolidated statement of income as a reduction to operations and maintenance expense.

In December 2010, we sold a wastewater utility system for net proceeds of \$120. The utility system represented less than 0.01% of Aqua America's total assets.

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AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)  
*(In thousands of dollars, except per share amounts)*

In June 2009, we sold a water and wastewater utility system for net proceeds of \$1,601, which was in excess of the book value for these assets. The proceeds were used to pay-down short-term debt and the sale resulted in the recognition in 2009 of a gain on the sale of these assets, net of expenses of \$1,009. The gain is reported in the 2009 consolidated statement of income as a reduction to operations and maintenance expense. These utility systems represented approximately 0.02% of Aqua America's total assets.

In August 2008, we sold a water and wastewater utility system for net proceeds of \$10,500, which consisted of \$1,900 in cash and the issuance of a note receivable of \$8,600 that bears interest at 7.25% and provides for semi-annual principal and interest payments, which was paid off in 2011. The sale resulted in the recognition of a gain on the sale of these assets, net of expenses, of \$4,118. The gain is reported in the consolidated statement of income as a reduction to operations and maintenance expense. These utility systems represented approximately 0.20% of Aqua America's total assets.

The City of Fort Wayne, Indiana (the "City") has authorized the acquisition by eminent domain of the northern portion of the utility water and wastewater systems of one of the operating subsidiaries in Indiana. In January 2008, we reached a settlement with the City to transition the northern portion of the system in February 2008 upon receipt of the City's initial valuation payment of \$16,911. The settlement agreement specifically stated that the final valuation of the northern portion of our system will be determined through a continuation of the legal proceedings that were filed challenging the City's valuation. On February 12, 2008, we turned over the northern portion of our system to the City upon receipt of the initial valuation payment. The proceeds received are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. Once the contingency is resolved and the asset valuation is finalized, through the finalization of the litigation between the Company and the City of Fort Wayne, the amounts deferred will be recognized in our consolidated income statement. On March 16, 2009, oral argument was held on certain procedural aspects with respect to the valuation evidence that may be presented and whether we are entitled to a jury trial. On October 12, 2010, the Wells County Indiana Circuit Court ruled that we are 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. We disagreed with the Court's decision and, as such, requested that the Wells County Indiana Circuit Court certify those issues for an interim appeal. The Wells County Indiana Circuit Court granted that request, and on March 7, 2011, the Indiana Court of Appeals granted the Company's request to review the decision of those issues on appeal. On July 6, 2011, we filed our appeal with the Indiana Court of Appeals. On January 13, 2012, the Indiana Court of Appeals reached a decision denying the Company's appeal. On February 10, 2012, we filed a petition for transfer requesting that the Indiana Supreme Court review the matter. That petition is currently pending. We are evaluating our legal options with respect to this decision. Depending upon the outcome of all of the legal proceedings, we may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The northern portion of the utility system relinquished represents approximately 0.40% of our 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 utility system assets located in the southwest section of the City and, if negotiations with Fort Wayne officials were to fail, to condemn certain of the Company's utility system 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. The Company will continue to evaluate all of its legal options.

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

The Company is routinely involved in other legal matters, including both asserted and unasserted legal claims, during the ordinary course of business. See Note 9 – Commitments and Contingencies for a discussion of the Company's legal matters. It is not always possible for management to make a meaningful estimate of the potential loss or range of loss associated with such litigation. Also, unanticipated changes in circumstances and/or revisions to the assessed probability of the outcomes of legal matters could result in expenses being incurred in future periods as well as an increase in actual cash required to resolve the legal matter.

**Sources of Capital**

Since net operating cash flow plus advances and contributions in aid of construction have not been sufficient to fully fund cash requirements, we issued approximately \$635,068 of long-term debt and obtained other short-term borrowings during the past five years. At December 31, 2012, we have a \$150,000 long-term revolving credit facility that expires in March 2017, of which \$19,356 was designated for letter of credit usage, \$30,644 was available for borrowing and \$100,000 of borrowings was outstanding at December 31, 2012. In addition, we have short-term lines of credit of \$160,500, of which \$80,117 was available. These short-term lines of credit are subject to renewal on an annual basis. Although we believe we will be able to renew these facilities, there is no assurance that they will be renewed, or what the terms of any such renewal will be. The United States credit and liquidity crisis that occurred in 2008 and 2009 caused substantial volatility in capital markets, including credit markets and the banking industry, generally reduced the availability of credit from financing sources, and could reoccur in the future. If in the future, our credit facilities are not renewed or our short-term borrowings are called for repayment, we would have to seek alternative financing sources; however, there can be no assurance that these alternative financing sources would be available on terms acceptable to us. In the event we are not able to obtain sufficient capital, we may need to reduce our capital expenditures and/or reduce our dividend, and our ability to pursue acquisitions that we may rely on for future growth could be impaired.

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

We are obligated to comply with covenants under some of our loan and debt agreements. These covenants contain a number of restrictive financial covenants, which among other things limit, subject to certain exceptions, the Company's ratio of consolidated total indebtedness to consolidated total capitalization, and require a minimum level of earnings coverage over interest expense. During 2012, we were in compliance with our debt covenants under our credit facilities. Failure to comply with our debt covenants could result in an event of default, which could result in us being required to repay or finance our borrowings before their due date, possibly limiting our future borrowings, and increasing our borrowing costs.

In February 2012, we renewed our universal shelf registration, which expired in December 2011, through a filing with the Securities and Exchange Commission ("SEC") which allows for the potential future offer and sale by us, from time to time, in one or more public offerings, of an indeterminate amount of our common stock, preferred stock, debt securities, and other securities specified therein at indeterminate prices. The Company's Board of Directors has authorized the Company to issue up to \$500,000 of our common stock, preferred stock, debt securities, and other securities specified therein under this universal shelf registration statement. No issues have been completed to date under this shelf registration statement.

In addition, we have a shelf registration statement filed with the SEC to permit the offering from time to time of shares of common stock and shares of preferred stock in connection with acquisitions. During 2012, 2011, and 2010, we did not issue any shares under the acquisition shelf registration. During 2009, we issued 164,052 shares of common stock totaling \$2,909 to acquire a water system. During 2008, we issued 125,723 shares of common stock totaling \$2,000 to acquire a wastewater system. The balance remaining available for use under the acquisition shelf registration as of December 31, 2012 is 1,904,487 shares. We will determine the form and terms of any securities issued under these shelf registrations at the time of issuance.

We offer a Dividend Reinvestment and Direct Stock Purchase Plan (the "Plan") that provides a convenient and economical way to purchase shares of Aqua America, Inc. Under the direct stock purchase portion of the Plan, shares are sold throughout the year. The dividend reinvestment portion of the Plan offers a 5% discount on the purchase of shares of common stock with reinvested dividends. As of the December 2012 dividend payment, holders of 13.6% of the common shares outstanding participated in the dividend reinvestment portion of the Plan. The shares issued under the Plan are either original issue shares or shares purchased by the Company's transfer agent in the open-market. During the past five years, we have sold 3,109,425 original issue shares of common stock for net proceeds of \$58,963 through the dividend reinvestment portion of the Plan, and we used the proceeds to invest in our operating subsidiaries, to repay short-term debt, and for general corporate purposes.

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)  
(In thousands of dollars, except per share amounts)

The Board of Directors has authorized us to purchase our common stock, from time to time, in the open market or through privately negotiated transactions. We have not purchased any shares under this authorization since 2000. As of December 31, 2012, 548,278 shares remain available for repurchase. Funding for future stock purchases, if any, is not expected to have a material impact on our financial position.

**Off-Balance Sheet Financing Arrangements**

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

**Contractual Obligations**

The following table summarizes our contractual cash obligations as of December 31, 2012:

	Total	Payments Due By Period			
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt (a)	\$1,588,992	\$ 45,038	144,906	\$178,376	\$1,220,672
Interest on fixed-rate, long-term debt (b)	1,192,744	75,028	140,895	131,252	845,569
Operating leases (c)	24,112	3,195	4,360	1,782	14,775
Unconditional purchase obligations (d)	90,592	11,996	25,177	20,593	32,826
Other purchase obligations (e)	32,076	32,076	—	—	—
Pension and other postretirement benefit plans' obligations (f)	18,829	18,829	—	—	—
Other obligations (g)	38,052	17,524	5,859	1,992	12,677
<b>Total</b>	<b>\$2,985,397</b>	<b>\$203,686</b>	<b>\$321,197</b>	<b>\$333,995</b>	<b>\$2,126,519</b>

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

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)  
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In addition to these obligations, we pay refunds on customers' advances for construction over a specific period of time based on operating revenues related to developer-installed water mains or as new customers are connected to and take service from such mains. After all refunds are paid, any remaining balance is transferred to contributions in aid of construction. The refund amounts are not included in the above table because the refund amounts and timing are dependent upon several variables, including new customer connections, customer consumption levels and future rate increases, which cannot be accurately estimated. Portions of these refund amounts are payable annually through 2027 and amounts not paid by the contract expiration dates become non-refundable.

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

**Market Risk**

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed rate, long-term debt. Such exposure is typically related to financings between utility rate increases, because generally our rate increases provide a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2012, the debt maturities by period and the weighted average interest rate for long-term debt are as follows:

	2013	2014	2015	2016	2017	Thereafter	Total	Fair Value
<b>Long-term debt:</b>								
Fixed rate	\$45,038	\$86,419	\$58,487	\$35,607	\$ 42,769	\$1,220,672	\$1,488,992	\$1,602,997
Variable rate	—	—	—	—	100,000	—	100,000	100,000
Total	<u>\$45,038</u>	<u>\$86,419</u>	<u>\$58,487</u>	<u>\$35,607</u>	<u>\$142,769</u>	<u>\$1,220,672</u>	<u>\$1,588,992</u>	<u>\$1,702,997</u>
Weighted average interest rate*	5.37%	5.17%	5.21%	4.85%	2.33%	5.08%	4.81%	

\* Weighted average interest rate of 2017 long-term debt maturity is as follows: fixed rate debt of 5.08% and variable rate debt of 1.15%.

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for the "available for sale" marketable equity securities. As of December 31, 2012, our carrying value of certain investments, which reflects market value was \$494.

**Capitalization**

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

December 31,	2012	2011	2010	2009	2008
<b>Long-term debt*</b>	53.4%	54.8%	57.0%	56.6%	54.3%
Aqua America stockholders' equity	46.6%	45.2%	43.0%	43.4%	45.7%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

\* Includes current portion, as well as our borrowings under a variable rate revolving credit agreement of \$100,000 at December 31, 2012 and \$38,212 at December 31, 2011.



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AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)  
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Over the past five years, the changes in the capitalization ratios primarily resulted from the issuance of common stock, the issuance of debt to finance our acquisitions and capital program, growth in net income, and the declaration of dividends. It is our goal to maintain an equity ratio adequate to support the current Standard and Poor's corporate credit rating of "A+" and the senior secured debt rating of "AA-" for Aqua Pennsylvania, our largest operating subsidiary.

**Dividends on Common Stock**

We have paid common dividends consecutively for 68 years. Effective August 2, 2012, our Board of Directors authorized an increase of 6.1% in the December 1, 2012 quarterly dividend over the dividend we paid in the previous quarter. As a result of this authorization, beginning with the dividend payment in December 2012, the annualized dividend rate increased to \$0.70 per share from \$0.66 per share. This is the 22<sup>nd</sup> dividend increase in the past 21 years and the 14<sup>th</sup> consecutive year that we have increased our dividend in excess of five percent. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1 and December 1, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, our common dividends paid have averaged 60.8% of net income attributable to common shareholders.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our financial condition and results of operations are impacted by the methods, assumptions, and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to our financial condition or results of operations, and require estimates or other judgments of matters of uncertainty. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the financial statements. We believe our most critical accounting policies include revenue recognition, the use of regulatory assets and liabilities, the valuation of our long-lived assets, which consist primarily of utility plant in service, regulatory assets, and goodwill, our accounting for post-retirement benefits, and our accounting for income taxes. We have discussed the selection and development of our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

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

In some operating divisions, we commence the billing of our utility customers, under new rates, upon authorization from the respective regulatory commission and before the final commission rate order is issued. The revenue recognized reflects an estimate based on our judgment of the final outcome of the commission's ruling. We monitor the applicable facts and circumstances regularly, and revise the estimate as required. The revenue billed and collected prior to the final ruling is subject to refund based on the commission's final ruling.

**Regulatory Assets and Liabilities** – We defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in our rates charged for water or wastewater service. In the event that our assessment as to the probability of the inclusion in the rate-making process is incorrect, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

**Valuation of Long-Lived Assets, Goodwill and Intangible Assets** – We review our long-lived assets for impairment, including utility plant in service. We also review regulatory assets for the continued application of the FASB's accounting guidance for regulated operations. Our review determines whether there have been changes in circumstances or events that have occurred that require adjustments to the carrying value of these assets. Adjustments to the carrying value of these assets would be made in instances where their inclusion in the rate-making process is unlikely.

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AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)  
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We test the goodwill attributable to each of our reporting units for impairment at least annually on July 31, or more often, if certain circumstances indicate a possible impairment may exist. We evaluate goodwill for impairment by assessing qualitative economic factors, using discounted cash flow methodologies, transaction values for other comparable companies, and other valuation techniques for all of our reporting units with goodwill balances. The evaluation requires significant management judgment and estimates that are based on budgets, general strategic business plans, historical trends and other data and relevant factors. If changes in circumstances or events occur, or estimates and assumptions that were used in our impairment test change, we may be required to record an impairment charge for goodwill. Based on our comparison of the estimated fair value of each reporting unit to their respective carrying amounts, the impairment test performed in 2012 concluded that the estimated fair value of each reporting unit, which has goodwill recorded, was substantially in excess of the reporting unit's respective carrying amounts, indicating that none of our goodwill was impaired.

**Accounting for Post-retirement Benefits** – We maintain qualified defined benefit pension plans and plans that provide for certain post-retirement benefits other than pensions. Accounting for pensions and other post-retirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by our employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from our actuarial consultant, who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other post-retirement benefit expense that we recognize.

Our discount rate assumption was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to provide for the projected benefit payments of the plan. The selected bond portfolio was derived from a universe of Aa-graded corporate bonds, all of which were noncallable (or callable with make-whole provisions), and have at least \$50,000 in outstanding value. The discount rate was then developed as the single rate that equates the market value of the bonds purchased to the discounted value of the plan's benefit payments. Our pension expense and liability (benefit obligations) increases as the discount rate is reduced. A 25 basis-point reduction in this assumption would have increased 2012 pension expense by \$887 and the pension liabilities by \$8,956. The present values of Aqua America's future pension and other post-retirement obligations were determined using discount rates of 4.17% at December 31, 2012 and 5.00% at December 31, 2011. Our expense under these plans is determined using the discount rate as of the beginning of the year, which was 5.00% for 2012, and will be 4.17% for 2013. In 2012, our pension benefits were re-measured as of May 1, 2012 to reflect the pension benefits assumed in our Ohio acquisition. The expense for 2012 was determined using a 5.00% discount rate for the period January 1, 2012 – April 30, 2012 and 4.70% for the period May 1, 2012 – December 31, 2012.

Our expected return on assets is determined by evaluating the asset class return expectations with our advisors as well as actual, long-term, historical results of our asset returns. The Company's market-related value of plan assets is equal to the fair value of the plan assets as of the last day of its fiscal year, and is a determinant for the expected return on assets, which is a component of net pension expense. Our pension expense increases as the expected return on assets decreases. A 25-basis-point reduction in this assumption would have increased 2012 pension expense by \$449. For 2012, we used a 7.75% expected return on assets assumption and will lower this assumption to 7.50% for the calculation of pension expense for 2013. The expected return on assets is based on a targeted allocation of 50% to 75% equities and 25% to 50% fixed income. We believe that our actual long-term asset allocation on average will approximate the targeted allocation. Our targeted allocation is driven by the investment strategy to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories.

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AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)  
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Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and our funding policy, during 2013 our pension contribution is expected to approximate \$15,954. Future years' contributions will be subject to economic conditions, plan participant data and the funding rules in effect at such time as the funding calculations are performed, though we expect future changes in the amount of contributions and expense recognized to be generally included in customer rates. During 2013, our funding of other post-retirement benefit plans are expected to approximate \$2,875.

**Accounting for Income Taxes** – We estimate the amount of income tax payable or refundable for the current year and the deferred income tax liabilities and assets that results from estimating temporary differences resulting from the treatment of certain items, such as depreciation, for tax and financial statement reporting. Generally, these differences result in the recognition of a deferred tax asset or liability on our consolidated balance sheet and require us to make judgments regarding the probability of the ultimate tax impact of the various transactions we enter into. Based on these judgments, we may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realization of future tax benefits. Our determination of what qualifies as a capital cost versus a repair expense tax deduction as it relates to our repair tax accounting method change beginning in 2012 is subject to subsequent adjustment and may result from IRS audit determinations or preparation of our final income tax return, and could impact the tax benefits that have already been recognized. Actual income taxes could vary from these estimates and changes in these estimates can increase income tax expense in the period that these changes in estimates occur.

**IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS**

We describe the impact of recent accounting pronouncements in Note 1 – Summary of Significant Accounting Policies, of the consolidated financial statements.

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AQUA AMERICA, INC. AND SUBSIDIARIES

**Management's Report On Internal Control Over Financial Reporting**

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

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

In assessing the effectiveness of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework*. As a result of management's assessment and based on the criteria in the framework, management has concluded that, as of December 31, 2012, the Company's internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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/s/ Nicholas DeBenedictis

Nicholas DeBenedictis

*Chairman, President and Chief Executive Officer*

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/s/ David P. Smeltzer

David P. Smeltzer

*Executive Vice President and Chief Financial Officer*

February 28, 2013

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**Report of Independent Registered Public Accounting Firm**

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of net income, of comprehensive income, of capitalization, of equity and of cash flows present fairly, in all material respects, the financial position of Aqua America, Inc. and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we consider necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Philadelphia, Pennsylvania  
February 28, 2013

AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF NET INCOME  
(In thousands of dollars, except per share amounts)  
Years ended December 31, 2012, 2011 and 2010

	2012	2011	2010
Operating revenues	\$757,760	\$687,291	\$660,186
Operating costs and expenses:			
Operations and maintenance	271,843	256,743	250,989
Depreciation	111,767	103,412	100,606
Amortization	5,229	4,888	11,110
Taxes other than income taxes	47,404	41,449	40,147
	<u>436,243</u>	<u>406,492</u>	<u>402,852</u>
Operating income	321,517	280,799	257,334
Other expense (income):			
Interest expense, net	77,757	77,804	73,393
Allowance for funds used during construction	(4,142)	(7,150)	(4,831)
Gain on sale of other assets	(1,090)	(649)	(2,547)
Equity earnings in joint venture	(1,976)	—	—
Income from continuing operations before income taxes	250,968	210,794	191,319
Provision for income taxes	66,881	69,111	74,940
Income from continuing operations	184,087	141,683	116,379
Discontinued operations:			
Income from discontinued operations before income taxes	20,493	14,279	12,750
Provision for income taxes	8,017	12,893	5,154
Income from discontinued operations	12,476	1,386	7,596
Net income attributable to common shareholders	<u>\$196,563</u>	<u>\$143,069</u>	<u>\$123,975</u>
Income from continuing operations per share:			
Basic	<u>\$ 1.32</u>	<u>\$ 1.03</u>	<u>\$ 0.85</u>
Diluted	<u>\$ 1.32</u>	<u>\$ 1.02</u>	<u>\$ 0.85</u>
Income from discontinued operations per share:			
Basic	<u>\$ 0.09</u>	<u>\$ 0.01</u>	<u>\$ 0.06</u>
Diluted	<u>\$ 0.09</u>	<u>\$ 0.01</u>	<u>\$ 0.06</u>
Net income per common share:			
Basic	<u>\$ 1.41</u>	<u>\$ 1.04</u>	<u>\$ 0.91</u>
Diluted	<u>\$ 1.40</u>	<u>\$ 1.03</u>	<u>\$ 0.90</u>
Average common shares outstanding during the period:			
Basic	<u>139,361</u>	<u>138,182</u>	<u>136,948</u>
Diluted	<u>139,934</u>	<u>138,689</u>	<u>137,296</u>
Cash dividends declared per common share	<u>\$ 0.67</u>	<u>\$ 0.63</u>	<u>\$ 0.59</u>

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(In thousands of dollars)  
Years ended December 31, 2012, 2011 and 2010

	2012	2011	2010
Net income attributable to common shareholders	\$196,563	\$143,069	\$123,975
Other comprehensive income, net of tax:			
Unrealized holding gain (loss) on investments (1)	198	(10)	1,588
Reclassification adjustment for gain reported in net income (2)	(339)	(233)	(1,369)
Comprehensive income	<u>\$196,422</u>	<u>\$142,826</u>	<u>\$124,194</u>

(1) amounts are net of tax of \$106, \$5, and \$855 for the twelve months ended December 31, 2012, 2011, and 2010, respectively

(2) amounts are net of tax of \$182, \$125, and \$738 for the twelve months ended December 31, 2012, 2011, and 2010, respectively

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In thousands of dollars, except per share amounts)  
December 31, 2012 and 2011

	2012	2011
<b>Assets</b>		
Property, plant and equipment, at cost	\$5,050,400	\$4,517,966
Less: accumulated depreciation	<u>1,114,237</u>	<u>987,024</u>
Net property, plant and equipment	<u>3,936,163</u>	<u>3,530,942</u>
<b>Current assets:</b>		
Cash and cash equivalents	5,521	8,204
Accounts receivable and unbilled revenues, net	92,921	75,546
Income tax receivable	16,082	—
Deferred income taxes	37,818	37,758
Inventory, materials and supplies	11,757	11,014
Prepayments and other current assets	10,372	9,775
Assets of discontinued operations held for sale	<u>86,423</u>	<u>263,061</u>
Total current assets	<u>260,894</u>	<u>405,358</u>
Regulatory assets	521,264	240,032
Deferred charges and other assets, net	49,852	51,152
Investment in joint venture	38,620	5,087
Funds restricted for construction activity	23,572	88,905
Goodwill	<u>28,152</u>	<u>26,944</u>
	<u>\$4,858,517</u>	<u>\$4,348,420</u>
<b>Liabilities and Equity</b>		
<b>Aqua America stockholders' equity:</b>		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 140,943,621 and 139,525,580 in 2012 and 2011	\$ 70,472	\$ 69,762
Capital in excess of par value	718,482	686,106
Retained earnings	611,303	508,334
Treasury stock, at cost, 776,355 and 710,482 shares in 2012 and 2011	(14,668)	(13,145)
Accumulated other comprehensive income	<u>115</u>	<u>256</u>
Total Aqua America stockholders' equity	<u>1,385,704</u>	<u>1,251,313</u>
Noncontrolling interest	188	504
Total Equity	<u>1,385,892</u>	<u>1,251,817</u>
Long-term debt, excluding current portion	1,543,954	1,395,457
Commitments and contingencies (See Note 9)	—	—
<b>Current liabilities:</b>		
Current portion of long-term debt	45,038	80,429
Loans payable	80,383	107,771
Accounts payable	55,506	67,595
Accrued interest	14,026	14,563
Accrued taxes	28,214	16,694
Other accrued liabilities	27,360	22,595
Liabilities of discontinued operations held for sale	<u>23,637</u>	<u>137,171</u>
Total current liabilities	<u>274,164</u>	<u>446,818</u>
<b>Deferred credits and other liabilities:</b>		
Deferred income taxes and investment tax credits	723,367	596,644
Customers' advances for construction	71,595	66,198
Regulatory liabilities	241,363	41,344
Other	<u>157,978</u>	<u>121,986</u>
Total deferred credits and other liabilities	<u>1,194,303</u>	<u>826,172</u>
Contributions in aid of construction	<u>460,204</u>	<u>428,156</u>
	<u>\$4,858,517</u>	<u>\$4,348,420</u>

See accompanying notes to consolidated financial statements.



AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CAPITALIZATION  
(In thousands of dollars, except per share amounts)  
December 31, 2012 and 2011

	2012	2011
Aqua America stockholders' equity:		
Common stock, \$.50 par value	\$ 70,472	\$ 69,762
Capital in excess of par value	718,482	686,106
Retained earnings	611,303	508,334
Treasury stock, at cost	(14,668)	(13,145)
Accumulated other comprehensive income	115	256
<b>Total Aqua America stockholders' equity</b>	<b>1,385,704</b>	<b>1,251,313</b>
Noncontrolling interest	188	504
<b>Total Equity</b>	<b>1,385,892</b>	<b>1,251,817</b>
Long-term debt:		
Long-term debt of subsidiaries (substantially secured by utility plant):		
	Interest Rate Range	Maturity Date Range
	0.00% to 0.99%	2024 to 2031
	2,884	2,733
	1.00% to 1.99%	2014 to 2035
	27,251	28,355
	2.00% to 2.99%	2024 to 2031
	17,120	12,124
	3.00% to 3.99%	2016 to 2047
	107,477	26,593
	4.00% to 4.99%	2020 to 2043
	367,657	367,226
	5.00% to 5.99%	2014 to 2043
	320,729	407,229
	6.00% to 6.99%	2015 to 2036
	64,903	59,883
	7.00% to 7.99%	2022 to 2027
	35,660	28,995
	8.00% to 8.99%	2021 to 2025
	19,632	24,957
	9.00% to 9.99%	2013 to 2026
	34,547	38,447
	10.00% to 10.99%	2018
	6,000	6,000
	1,003,860	1,002,542
Notes payable to bank under revolving credit agreement, variable rate, due March 2017	100,000	38,212
Unsecured notes payable:		
Notes at 3.57% due 2027	50,000	—
Notes ranging from 4.62% to 4.87%, due 2013 through 2024	193,000	193,000
Notes ranging from 5.01% to 5.95%, due 2014 through 2037	242,132	242,132
	1,588,992	1,475,886
Current portion of long-term debt	45,038	80,429
Long-term debt, excluding current portion	1,543,954	1,395,457
<b>Total capitalization</b>	<b>\$2,929,846</b>	<b>\$2,647,274</b>

See accompanying notes to consolidated financial statements.

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

	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
Balance at December 31, 2009	68,574	642,786	409,402	(12,138)	280	560	1,109,464
Net income	—	—	123,975	—	—	12	123,987
Other comprehensive income, net of income tax of \$118	—	—	—	—	219	—	219
Dividends	—	—	(80,907)	—	—	—	(80,907)
Sale of stock (701,919 shares)	335	11,594	—	601	—	—	12,530
Repurchase of stock (42,443 shares)	—	—	—	(770)	—	—	(770)
Equity Compensation Plan (195,056 shares)	97	(97)	—	—	—	—	0
Exercise of stock options (434,696 shares)	217	5,461	—	—	—	—	5,678
Stock-based compensation	—	4,031	—	—	—	—	4,031
Employee stock plan tax benefits	—	594	—	—	—	—	594
Balance at December 31, 2010	<u>\$69,223</u>	<u>\$664,369</u>	<u>\$452,470</u>	<u>\$(12,307)</u>	<u>\$ 499</u>	<u>\$ 572</u>	<u>\$1,174,826</u>
Net income	—	—	143,069	—	—	14	143,083
Purchase of subsidiary shares from noncontrolling interest	—	—	—	—	—	(82)	(82)
Other comprehensive loss, net of income tax of \$130	—	—	—	—	(243)	—	(243)
Dividends	—	—	(87,133)	—	—	—	(87,133)
Sale of stock (603,166 shares)	295	11,987	—	325	—	—	12,607
Repurchase of stock (51,431 shares)	—	—	—	(1,163)	—	—	(1,163)
Equity Compensation Plan (63,306 shares)	32	(32)	—	—	—	—	—
Exercise of stock options (424,490 shares)	212	6,391	—	—	—	—	6,603
Stock-based compensation	—	3,964	(72)	—	—	—	3,892
Employee stock plan tax benefits	—	(573)	—	—	—	—	(573)
Balance at December 31, 2011	<u>\$69,762</u>	<u>\$686,106</u>	<u>\$508,334</u>	<u>\$(13,145)</u>	<u>\$ 256</u>	<u>\$ 504</u>	<u>\$1,251,817</u>
Net income	—	—	196,563	—	—	17	196,580
Purchase of subsidiary shares from noncontrolling interest	—	—	—	—	—	(333)	(333)
Other comprehensive loss, net of income tax of \$76	—	—	—	—	(141)	—	(141)
Dividends	—	—	(93,423)	—	—	—	(93,423)
Sale of stock (580,874 shares)	285	12,610	—	295	—	—	13,190
Repurchase of stock (77,355 shares)	—	—	—	(1,818)	—	—	(1,818)
Equity Compensation Plan (15,212 shares)	8	(8)	—	—	—	—	—
Exercise of stock options (833,437 shares)	417	14,181	—	—	—	—	14,598
Stock-based compensation	—	5,593	(171)	—	—	—	5,422
Balance at December 31, 2012	<u>\$70,472</u>	<u>\$718,482</u>	<u>\$611,303</u>	<u>\$(14,668)</u>	<u>\$ 115</u>	<u>\$ 188</u>	<u>\$1,385,892</u>

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands of dollars)  
Years ended December 31, 2012, 2011, and 2010

	2012	2011	2010
<b>Cash flows from operating activities:</b>			
Net income attributable to common shareholders	\$ 196,563	\$ 143,069	\$ 123,975
Income from discontinued operations	12,476	1,386	7,596
Income from continuing operations	<u>184,087</u>	<u>141,683</u>	<u>116,379</u>
<b>Adjustments to reconcile income from continuing operations to net cash flows from operating activities:</b>			
Depreciation and amortization	116,996	108,300	111,716
Deferred income taxes	77,563	72,110	70,229
Provision for doubtful accounts	4,805	4,854	4,156
Share-based compensation	5,550	3,852	3,871
Gain on sale of utility system	—	(5,058)	—
Gain on sale of other assets	(1,090)	(649)	(2,547)
Net increase in receivables, inventory and prepayments	(7,543)	(3,864)	(4,745)
Net increase (decrease) in payables, accrued interest, accrued taxes and other accrued liabilities	13,641	421	(18,415)
(Increase) decrease in income tax receivable	(16,082)	33,600	(33,600)
Other	(442)	(3,208)	(2,327)
Operating cash flows from continuing operations	377,485	352,041	244,717
Operating cash flows (used in) from discontinued operations, net	<u>(9,078)</u>	<u>14,806</u>	<u>18,375</u>
Net cash flows from operating activities	<u>368,407</u>	<u>366,847</u>	<u>263,092</u>
<b>Cash flows from investing activities:</b>			
Property, plant and equipment additions, including allowance for funds used during construction of \$4,142, \$7,150, and \$4,831	(347,985)	(325,808)	(308,134)
Acquisitions of utility systems and other, net	(121,248)	(8,515)	(8,625)
Release of funds previously restricted for construction activity	67,498	46,330	92,984
Additions to funds restricted for construction activity	(2,165)	(149)	(145,157)
Net proceeds from the sale of utility systems and other assets	3,819	13,404	4,605
Proceeds from note receivable	—	5,289	3,713
Investment in joint venture	(33,856)	(5,087)	—
Other	(1,512)	(946)	(6,304)
Investing cash flows used in continuing operations	(435,449)	(275,482)	(366,918)
Investing cash flows from (used in) discontinued operations, net	<u>70,774</u>	<u>(9,422)</u>	<u>(16,534)</u>
Net cash flows used in investing activities	<u>(364,675)</u>	<u>(284,904)</u>	<u>(383,452)</u>
<b>Cash flows from financing activities:</b>			
Customers' advances and contributions in aid of construction	7,033	3,558	6,568
Repayments of customers' advances	(6,064)	(3,686)	(7,545)
Net proceeds (repayments) of short-term debt	(27,388)	18,103	62,237
Proceeds from long-term debt	300,109	52,513	272,754
Repayments of long-term debt	(202,203)	(96,072)	(160,750)
Change in cash overdraft position	(10,929)	14,503	(6,976)
Proceeds from issuing common stock	13,190	12,607	12,530
Proceeds from exercised stock options	14,598	6,603	5,678
Share-based compensation windfall tax benefits	—	—	386
Repurchase of common stock	(1,464)	(1,163)	(770)
Dividends paid on common stock	(93,423)	(87,133)	(80,907)
Financing cash flows (used in) from continuing operations	<u>(6,541)</u>	<u>(80,167)</u>	<u>103,205</u>
Financing cash flows from discontinuing operations, net	126	494	1,220
Net cash flows (used in) from financing activities	<u>(6,415)</u>	<u>(79,673)</u>	<u>104,425</u>
Net (decrease) increase in cash and cash equivalents	(2,683)	2,270	(15,935)
Cash and cash equivalents at beginning of year	8,204	5,934	21,869
Cash and cash equivalents at end of year	<u>\$ 5,521</u>	<u>\$ 8,204</u>	<u>\$ 5,934</u>
<b>Cash paid during the year for:</b>			
Interest, net of amounts capitalized	<u>\$ 74,152</u>	<u>\$ 71,640</u>	<u>\$ 68,942</u>
Income taxes	<u>\$ 9,319</u>	<u>\$ 5,431</u>	<u>\$ 49,800</u>

See Note 1 - Summary of Significant Accounting Policies-Customers' Advances for Construction, Note 10 - Long-term Debt and Loans Payable, and Note 14 - Employee Stock and Incentive Plan for a description of non-cash activities.

See accompanying notes to consolidated financial statements.

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AQUA AMERICA, INC. AND SUBSIDIARIES

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

**Note 1 – Summary of Significant Accounting Policies**

**Nature of Operations** – Aqua America, Inc. (“Aqua America” or the “Company”) is the holding company for regulated utilities providing water or wastewater services in Pennsylvania, Texas, North Carolina, Ohio, Illinois, New Jersey, Florida, Indiana, Virginia, and Georgia. Our largest operating subsidiary, Aqua Pennsylvania, Inc. (“Aqua Pennsylvania”), accounted for approximately 55% of our operating revenues and a larger percentage of our net income for 2012, and provided water or wastewater services to customers in the suburban areas north and west of the City of Philadelphia and in 25 other counties in Pennsylvania. The Company’s other subsidiaries provide similar services in nine other states. In addition, the Company provides water and wastewater services through operating and maintenance contracts with municipal authorities and other parties close to our utility companies’ service territories as well as sludge hauling, septage and grease services, backflow prevention services, certain other non-regulated water and wastewater services, and non-utility raw water supply services for firms in the natural gas and oil drilling industry.

In January 2012, we sold our regulated water operations in Maine, which served approximately 16,000 customers, to Connecticut Water Services, Inc. In May 2012, we acquired all of American Water Works Company, Inc.’s (“American Water”) water and wastewater operations in Ohio, which serve approximately 59,000 customers, and simultaneously sold our water operations in New York, which served approximately 51,000 customers. These transactions concluded our regulated operations in Maine and New York. In September 2012, we began to market for sale our water and wastewater operations in Florida, which serve approximately 38,000 customers, and our wastewater treatment facility in Georgia. In December 2012, the Company entered into a definitive agreement to sell 80 of its water and wastewater systems in Florida to the Florida Governmental Utility Authority. These 80 water and wastewater systems represent approximately 56% of our customers served in Florida. This transaction is expected to close in the first half of 2013. In addition, we are holding discussions with interested parties for the sale of the remainder of our Florida water and wastewater operations. The operating results, cash flows, and financial position of the Company’s Maine, New York, Florida, and Georgia subsidiaries have been presented in the Company’s consolidated financial statements as discontinued operations. During the second quarter of 2011, we acquired all of American Water’s water and wastewater operations in Texas, which serve approximately 5,300 customers, and sold our regulated water and wastewater operations in Missouri, which served approximately 3,900 customers and concluded our regulated utility operations in Missouri. Unless specifically noted, the financial information presented in the notes to consolidated financial statements reflects the Company’s continuing operations.

The company has identified twelve operating segments and has one reportable segment named the Regulated segment. The reportable segment is comprised of ten operating segments for our water and wastewater regulated utility companies which are organized by the states where we provide these services. These operating segments are aggregated into one reportable segment since each of the Company’s operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment. In addition, two operating segments are not quantitatively significant to be reportable and are comprised of the businesses that provide sludge hauling, septage and grease services, backflow prevention services, certain other non-regulated water and wastewater services, and non-utility raw water supply services for firms in the natural gas and oil drilling industry. These segments are included as a component of “other,” in addition to corporate costs that have not been allocated to the Regulated segment and intersegment eliminations.

**Regulation** – Most of the operating companies that are regulated public utilities are subject to regulation by the regulatory commissions of the states in which they operate. The respective regulatory commissions have jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters. Some of the operating companies that are regulated public utilities are subject to rate regulation by county or city government. Regulated public utilities follow the Financial Accounting Standards Board’s (“FASB”) accounting guidance for regulated operations, which provides for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. The regulatory assets or liabilities are then relieved as the cost or credit is reflected in rates.

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AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

**Use of Estimates in Preparation of Consolidated Financial Statements** – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Basis of Presentation** – The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated. Certain prior period amounts have been reclassified, including reporting discontinued operations (see Note 3), to conform to the current period presentation.

**Recognition of Revenues** – Revenues include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the latest billing to the end of the accounting period. Non-regulated revenues are recognized when services are performed and are primarily associated with septage services, and operating and maintenance contracts. The Company's Regulated segment includes non-regulated revenues that totaled \$10,538 in 2012, \$10,712 in 2011, and \$10,973 in 2010. In addition to the non-regulated revenues included in the Regulated segment operating revenues, the Company has other non-regulated revenues of \$17,876 in 2012, \$12,512 in 2011, and \$11,565 in 2010.

**Property, Plant and Equipment and Depreciation** – Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads and, for certain utility plant, allowance for funds used during construction. Water systems acquired are recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost, less applicable accumulated depreciation, and the purchase price is recorded as an acquisition adjustment within utility plant as permitted by the applicable regulatory jurisdiction. At December 31, 2012, utility plant includes a net credit acquisition adjustment of \$31,347, which is generally being amortized from 2 to 52 years, except where not permitted or appropriate. Amortization of the acquisition adjustments totaled \$2,858 in 2012, \$2,741 in 2011, and \$3,060 in 2010.

Utility expenditures for maintenance and repairs, including major maintenance projects and minor renewals and betterments, are charged to operating expenses when incurred in accordance with the system of accounts prescribed by the regulatory commissions of the states in which the company operates. The cost of new units of property and betterments are capitalized. Utility expenditures for water main cleaning and relining of pipes are deferred and recorded in net property, plant and equipment in accordance with the FASB's accounting guidance for regulated operations. As of December 31, 2012, \$4,978 of these costs have been incurred since the last rate proceeding and the Company expects to recover these costs in future rates.

The cost of software upgrades and enhancements are capitalized if they result in added functionality which enable the software to perform tasks it was previously incapable of performing. Certain information technology costs associated with major system installations, conversions and improvements, such as software training, data conversion and business process reengineering costs, are deferred as a regulatory asset if the Company expects to recover these costs in future rates. If these costs are not deferred, then these costs are charged to operating expenses when incurred. As of December 31, 2012, \$13,089 of these costs have been deferred, since the last rate proceeding, as a regulatory asset, and the deferral is reported as a component of net property, plant and equipment.

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

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AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
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The straight-line remaining life method is used to compute depreciation on utility plant. Generally, the straight-line method is used with respect to transportation and mechanical equipment, office equipment and laboratory equipment.

Long-lived assets of the Company, which consist primarily of Utility Plant in Service and regulatory assets, are reviewed for impairment when changes in circumstances or events occur. There has been no change in circumstances or events that have occurred that require adjustments to the carrying values of these assets.

**Allowance for Funds Used During Construction** – The allowance for funds used during construction (“AFUDC”) represents the capitalized cost of funds used to finance the construction of utility plant. In general, AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction, contributions in aid of construction, or certain state-revolving fund loans. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. The amount of AFUDC related to equity funds in 2012 was \$188, 2011 was \$318, and was \$0 for 2010. No interest was capitalized by our non-regulated businesses.

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

The Company had a book overdraft for certain of its disbursement cash accounts of \$11,881 and \$22,810 at December 31, 2012 and 2011, respectively. A book overdraft represents transactions that have not cleared the bank accounts at the end of the period. The Company transfers cash on an as-needed basis to fund these items as they clear the bank in subsequent periods. The balance of the book overdraft is reported as accounts payable and the change in the book overdraft balance is reported as cash flows from financing activities, due to our ability to fund the overdraft with the Company’s credit facility.

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

**Regulatory Assets, Deferred Charges and Other Assets** – Deferred charges and other assets consist of financing expenses, other costs and marketable securities. Deferred bond issuance expenses are amortized over the life of the related issues. Call premiums related to the early redemption of long-term debt, along with the unamortized balance of the related issuance expense, are deferred and amortized over the life of the long-term debt used to fund the redemption as the Company has received or expects to receive rate recovery of these costs. Other costs, for which the Company has received or expects to receive prospective rate recovery, are deferred as a regulatory asset and amortized over the period of rate recovery in accordance with the FASB’s accounting guidance for regulated operations. See Note – 6 Regulatory Assets and Liabilities for further information regarding the Company’s regulatory assets.

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

**Investment in Joint Venture** – The Company uses the equity method of accounting to account for our 49% investment in a joint venture with a firm that operates natural gas pipelines and processing plants for the construction and operation of a private pipeline system to supply raw water to certain natural gas well drilling operations in the Marcellus Shale in north-central Pennsylvania, which commenced operations in the second quarter of 2012. Our initial investment is carried at cost. Subsequently, the carrying amount of our investment is adjusted to reflect capital contributions or distributions, and our equity in earnings since the commencement of the system’s operations. Our share of equity earnings in the joint venture is reported in the consolidated statements of net income as equity earnings in joint venture. During 2012 we received distributions of \$2,744.

AQUA AMERICA, INC. AND SUBSIDIARIES  
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**Funds Restricted for Construction Activity** – The proceeds received from certain financings for construction and capital improvement of utility facilities are held in escrow until the designated expenditures are incurred. These amounts are reported as funds restricted for construction activity and are expected to be released over time as the capital projects are funded.

**Goodwill** – Goodwill represents the excess cost over the fair value of net tangible and identifiable intangible assets acquired through acquisitions. Goodwill is not amortized but is tested for impairment annually, or more often, if circumstances indicate a possible impairment may exist. The Company tested the goodwill attributable to each of our reporting units for impairment as of July 31, 2012, in conjunction with the timing of our annual strategic business plan, and concluded that the estimated fair value of each reporting unit, which has goodwill recorded, was substantially in excess of the reporting unit's respective carrying amounts, indicating that none of the Company's goodwill was impaired. The following table summarizes the changes in the Company's goodwill:

	Regulated Segment	Other	Consolidated
Balance at December 31, 2010	\$23,797	\$4,121	\$ 27,918
Goodwill acquired during year	1,531	—	1,531
Reclassifications to utility plant acquisition adjustment	(1,573)	—	(1,573)
Other	(932)	—	(932)
Balance at December 31, 2011	22,823	4,121	26,944
Goodwill acquired during year	1,679	—	1,679
Reclassifications to utility plant acquisition adjustment	(496)	—	(496)
Other	25	—	25
Balance at December 31, 2012	\$24,031	\$4,121	\$ 28,152

Included within the Company's assets of discontinued operations held for sale as of December 31, 2011 is \$12,316 of goodwill, and as of December 31, 2012 there was no goodwill associated with the Company's assets of discontinued operations held for sale.

The reclassification of goodwill to utility plant acquisition adjustment results from a mechanism approved by the applicable regulatory 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.

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

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AQUA AMERICA, INC. AND SUBSIDIARIES  
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In December 2012, the Company changed its tax method of accounting for certain qualifying utility system repairs in Aqua Pennsylvania effective with the tax year ended December 31, 2012 and for prior tax years. The tax accounting method was changed to permit the expensing of certain utility asset improvement costs that were previously being capitalized and depreciated for book and tax purposes (the “repair change”). The repair change was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission to Aqua Pennsylvania (“settlement agreement”) which provides for flow-through accounting treatment of certain income tax benefits resulting from the repair change. The repair change for 2012 results in a significant reduction in the effective income tax rate, a reduction in income tax expense, and reduces the amount of taxes currently payable. For qualifying capital expenditures made prior to 2012, the resulting tax benefits have been deferred as of December 31, 2012 and, based on the settlement agreement, beginning in 2013, a ten year amortization of the income tax benefits is expected to reduce future income tax expense.

**Customers’ Advances for Construction and Contributions in Aid of Construction** – Water mains, other utility property or, in some instances, cash advances to reimburse the Company for its costs to construct water mains or other utility property, are contributed to the Company by customers, real estate developers and builders in order to extend utility service to their properties. The value of these contributions is recorded as customers’ advances for construction. Non-cash property, in the form of water mains and wastewater systems, has been received, generally from developers, as advances or contributions of \$27,212, \$20,823, and \$16,035 in 2012, 2011, and 2010, respectively. Over time, the amount of non-cash contributed property will vary based on the timing of the contribution of the non-cash property and the volume of non-cash contributed property received in connection with development in our service territories. The Company makes refunds on these advances over a specific period of time based on operating revenues related to the property, or as new customers are connected to and take service from the main. After all refunds are made, any remaining balance is transferred to contributions in aid of construction. Contributions in aid of construction include direct non-refundable contributions and the portion of customers’ advances for construction that become non-refundable.

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

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

**Stock-Based Compensation** – The Company records compensation expense in the financial statements for stock-based awards based on the grant date fair value of those awards. Stock-based compensation expense includes an estimate for pre-vesting forfeitures and is recognized over the requisite service periods of the awards on a straight-line basis, which is generally commensurate with the vesting term.

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

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



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AQUA AMERICA, INC. AND SUBSIDIARIES  
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- 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 for the years ended December 31, 2012 and 2011.

**Recent Accounting Pronouncements** – In February 2013, the FASB issued updated accounting guidance to improve the reporting of reclassifications out of accumulated other comprehensive income (“AOCI”). The update requires an entity to present information about the amounts reclassified from AOCI in their financial statements in either a single note or parenthetically on the face of the financial statements. The updated guidance is effective prospectively for reporting periods beginning after December 15, 2012. The Company will adopt the provisions of the updated guidance for its quarterly reporting period beginning January 1, 2013, 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.

In September 2011, the FASB issued revised accounting guidance for accounting for goodwill, which is intended to reduce the cost and complexity of the annual goodwill impairment test by permitting an entity the option of performing a qualitative assessment to determine whether further impairment testing is necessary. The revised guidance is effective for annual periods beginning after December 15, 2011. In the third quarter of 2012, the Company adopted the provisions of the revised guidance for its 2012 annual goodwill impairment test, and the adoption of the revised guidance did not have an impact on the Company's consolidated results of operations or consolidated financial position.

In May 2011, the FASB issued updated accounting guidance related to fair value measurements and disclosures that result in common fair value measurements and disclosures between U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. This new guidance amends current fair value measurement and disclosure guidance to increase transparency around valuation inputs and investment categorization. This guidance is effective for interim and annual periods beginning on January 1, 2012 and is required to be applied prospectively. The adoption of this guidance in the first quarter of 2012 did not have a significant 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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**Note 2 – Acquisitions**

As part of the Company's growth-through-acquisition strategy, in July 2011, the Company entered into a definitive agreement with American Water to purchase all of the stock of the subsidiary that holds American Water's regulated water and wastewater operations in Ohio. American Water's Ohio operations served approximately 59,000 customers. On May 1, 2012, the Company completed its acquisition of American Water's water and wastewater operations in Ohio. The total purchase price at closing consisted of \$102,154 in cash plus certain assumed liabilities, including debt of \$14,281, as adjusted pursuant to the purchase agreement based on book value at closing. The transaction has been accounted for as a business combination. In the fourth quarter of 2012, the Company reduced the amount of goodwill recognized from the acquisition by \$10,575 primarily as a result of a tax election allowing the acquisition to be treated as an asset purchase. The Company has included the results of its acquisition in Ohio in our consolidated financial statements as part of our Regulated segment since the date of acquisition. The operating revenue and earnings included in the consolidated financial statements of the Company during the period owned by the Company was \$27,981 and \$3,265, respectively. The pro forma impact of the Company's Ohio acquisition was not material to our results of operations for the years ended December 31, 2012, 2011, and 2010, respectively, and to our financial condition as of December 31, 2012 and 2011, respectively. The preliminary purchase price allocation is as follows:

	May 1, 2012
Property, plant and equipment, net	\$119,595
Current assets	6,852
Other long-term assets	7,525
Goodwill	1,679
Total assets acquired	<u>135,651</u>
Current liabilities	3,409
Long-term debt, excluding current portion	14,233
Other long-term liabilities	15,855
Total liabilities assumed	<u>33,497</u>
Net assets acquired	<u>\$102,154</u>

In addition to the Company's acquisition in Ohio, during 2012, the Company completed 16 acquisitions of water and wastewater utility systems in various states. The total purchase price consisted of \$19,094 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were \$1,527. The pro forma effect of the businesses acquired is not material to the Company's results of operations.

In June 2011, the Company completed its acquisition of approximately fifty-one water and five wastewater systems in Texas serving approximately 5,300 customers. The total purchase price consisted of \$6,245 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were \$3,245 in 2012 and \$1,826 in 2011. The pro forma effect of the businesses acquired is not material to the Company's results of operations.

In addition to the Company's acquisition in Texas, during 2011, the Company completed eight acquisitions of water and wastewater utility systems in various states. The total purchase price consisted of \$2,270 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were \$644 in 2012 and \$226 in 2011. The pro forma effect of the businesses acquired in 2011 is not material to the Company's results of operations.

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AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
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During 2010, the Company completed 23 acquisitions or other growth ventures in various states. The total purchase price consisted of \$8,625 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were \$2,998 in 2012, \$2,709 in 2011 and \$778 in 2010. The pro forma effect of the businesses acquired in 2010 is not material to the Company's results of operations.

**Note 3 – Discontinued Operations and Other Dispositions**

**Discontinued Operations** – In September 2012, the Company began to market for sale its water and wastewater operations in Florida, which serve approximately 38,000 customers, and the Company's waste water treatment facility in Georgia. In December 2012, the Company entered into a definitive agreement to sell 80 of its water and wastewater systems in Florida to the Florida Governmental Utility Authority for cash at closing of \$49,200, which is subject to certain adjustments. These 80 systems represent approximately 56% of our customers served in Florida. This transaction is expected to close in the first half of 2013. In addition, we are holding discussions with interested parties for the sale of the remainder of our Florida water and wastewater operations. The Company has accounted for these operations as business held for sale. The sale of the Company's water and wastewater operations in Florida and Georgia will conclude the Company's operations in these states.

In July 2011, the Company entered into a definitive agreement with Connecticut Water Service, Inc. to sell its operations in Maine, which served approximately 16,000 customers, for cash at closing plus certain assumed liabilities, including debt of \$17,364. On January 1, 2012, the Company completed the sale for net proceeds of \$36,870, and recognized a gain on sale of \$17,699 (\$10,821 after-tax). In 2011, the Company recognized additional income tax expense of \$4,008 for the additional deferred tax liabilities that arise from the difference between the stock and tax basis of the Company's investment in its Aqua Maine subsidiary.

In July 2011, the Company entered into a definitive agreement with American Water to sell its operations in New York for its book value at closing plus certain assumed liabilities, including debt of approximately \$23,000. On May 1, 2012, the Company completed the sale for net proceeds of \$36,688 in cash as adjusted pursuant to the sale agreement based on book value at closing. In 2012, the Company recognized a loss on sale of \$2,736 (\$1,874 after-tax), resulting from charges incurred from the sale. In 2011, the Company recognized additional income tax expense of \$3,245 for the additional deferred tax liabilities that arise from the difference between the stock and tax basis of the Company's investment in its Aqua New York subsidiary. The Company's New York operations served approximately 51,000 customers.

The operating results, cash flows, and financial position of the Company's subsidiaries named above have been presented in the Company's consolidated statements of net income, consolidated statements of cash flow, and consolidated balance sheets as discontinued operations.

AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
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A summary of discontinued operations presented in the consolidated statements of net income includes the following:

	Years Ended December 31,		
	2012	2011	2010
Operating revenues	\$ 31,458	\$67,391	\$65,886
Total operating expenses	24,286	49,617	51,144
Operating income	7,172	17,774	14,742
Other (income) expense:			
Gain on sale	(17,699)	—	—
Loss on sale	2,981	—	—
Other expenses, net	1,397	3,495	1,992
Income from discontinued operations before income taxes	20,493	14,279	12,750
Provision for income taxes	8,017	12,893	5,154
Income from discontinued operations	<u>\$ 12,476</u>	<u>\$ 1,386</u>	<u>\$ 7,596</u>

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

	December 31,	
	2012	2011
Property, plant and equipment, at cost	\$128,463	\$299,689
Less: accumulated depreciation	48,856	104,889
Net property, plant and equipment	79,607	194,800
Current assets	4,656	16,341
Regulatory assets	2,034	36,656
Goodwill	—	12,316
Other assets	126	2,948
Assets of discontinued operations held for sale	86,423	263,061
Long-term debt, excluding current portion	—	40,326
Current liabilities	2,074	8,235
Deferred income taxes and investment tax credits	5,166	28,690
Contributions in aid of construction	15,560	25,940
Other liabilities	837	33,980
Liabilities of discontinued operations held for sale	23,637	137,171
Net assets	<u>\$ 62,786</u>	<u>\$125,890</u>

**Other Dispositions** – The following dispositions have not been presented as discontinued operations in the Company’s consolidated financial statements as the Company does not believe that disclosure of the following disposed water and wastewater utility systems as discontinued operations is meaningful to the reader of the financial statements for making investment decisions either individually or in the aggregate. The gains disclosed below are reported in the consolidated statements of net income as a reduction to operations and maintenance expense.

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AQUA AMERICA, INC. AND SUBSIDIARIES  
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In June 2011, the Company sold a water and wastewater utility system for net proceeds of \$4,106. The sale resulted in the recognition of a gain on the sale, net of expenses, of \$2,692, and is reported in the consolidated statement of income as a reduction to operations and maintenance expense. The utility systems represented approximately 0.03% of the Company's total assets.

In May 2011, the Company sold its regulated water and wastewater operations in Missouri for net proceeds of \$3,225. This sale of the Company's Missouri operations included its regulated utility operations in Missouri. The sale of the Company's utility operations in Missouri represented approximately 0.07% of the Company's total assets.

In January 2011, the Company sold a water and wastewater utility system for net proceeds of \$3,118. The sale resulted in the recognition of a gain on the sale of these assets, net of expenses, of \$2,452. The gain is reported in the consolidated statement of income as a reduction to operations and maintenance expense. The utility system represented approximately 0.01% of the Company's total assets.

In December 2010, the Company sold a wastewater utility system for net proceeds of \$120. The utility system represented less than 0.01% of the Company's total assets.

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. In January 2008, the Company reached a settlement with the City to transition the northern portion of the system in February 2008 upon receipt of the City's initial valuation payment of \$16,911. The settlement agreement specifically stated that the final valuation of the northern portion of the Company's system will be determined through a continuation of the legal proceedings that were filed challenging the City's valuation. On February 12, 2008, the Company turned over the northern portion of the system to the City upon receipt of the initial valuation payment. The proceeds received by the Company are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. The net book value of the assets relinquished 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 of Fort Wayne, the amounts deferred will be recognized in the Company's consolidated income statement. On March 16, 2009, oral argument was held on certain procedural aspects with respect to the valuation evidence that may be presented and whether the Company is entitled to a jury trial. On October 12, 2010, the Wells County Indiana Circuit Court ruled that the Company is not entitled to a jury trial, and that the Wells County judge should review the City of Fort Wayne Board of Public Works' assessment based upon a "capricious, arbitrary or an abuse of discretion" standard. The Company disagreed with the Court's decision and 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 denying the Company's appeal. On February 10, 2012, the Company filed a petition for transfer requesting that the Indiana Supreme Court review the matter. That petition is currently pending. The Company continues to evaluate its legal options with respect to this decision. Depending upon the outcome of all of the legal proceeding the Company may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The northern portion of the utility system relinquished represents approximately 0.40% 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 the Company's utility system located in the southwest section of the City and, if negotiations with Fort Wayne officials were to fail, to condemn the Company's utility system. 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. The Company will continue to evaluate all of its legal options.

AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
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**Note 4 – Property, Plant and Equipment**

	December 31,		Approximate Range of Useful Lives	Weighted Average Useful Life
	2012	2011		
Utility plant and equipment:				
Mains and accessories	\$2,190,078	\$1,984,171	25 to 92 years	75 years
Services, hydrants, treatment plants and reservoirs	1,275,221	1,165,983	5 to 85 years	47 years
Operations structures and water tanks	233,743	213,368	14 to 70 years	48 years
Miscellaneous pumping and purification equipment	594,687	507,035	5 to 145 years	36 years
Meters, data processing, transportation and operating equipment	573,899	529,160	3 to 78 years	23 years
Land and other non-depreciable assets	95,436	81,421	—	—
Utility plant and equipment	4,963,064	4,481,138		
Utility construction work in progress	107,944	61,232	—	—
Net utility plant acquisition adjustment	(31,347)	(33,839)	0 to 52 years	22 years
Non-utility plant and equipment	10,739	9,435	0 to 25 years	5 years
Total property, plant and equipment	<u>\$5,050,400</u>	<u>\$4,517,966</u>		

**Note 5 – Accounts Receivable**

	December 31,	
	2012	2011
Billed utility revenue	\$54,294	\$47,311
Unbilled utility revenue	33,590	29,361
Other	9,358	3,359
	97,242	80,031
Less allowance for doubtful accounts	4,321	4,485
Net accounts receivable	<u>\$92,921</u>	<u>\$75,546</u>

The Company's utility customers are located principally in the following states: 47% in Pennsylvania, 16% in Ohio, 10% in North Carolina, 8% in Texas, and 7% in Illinois. No single customer accounted for more than one percent of the Company's regulated operating revenues during the years ended December 31, 2012, 2011, and 2010. The following table summarizes the changes in the Company's allowance for doubtful accounts:

	2012	2011	2010
Balance at January 1,	\$ 4,485	\$ 4,367	\$ 4,790
Amounts charged to expense	4,805	4,854	4,156
Accounts written off	(5,939)	(5,780)	(5,489)
Recoveries of accounts written off	970	1,044	910
Balance at December 31,	<u>\$ 4,321</u>	<u>\$ 4,485</u>	<u>\$ 4,367</u>

AQUA AMERICA, INC. AND SUBSIDIARIES  
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**Note 6 – Regulatory Assets and Liabilities**

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts recovered from customers in advance of incurring the costs. Except for income taxes, regulatory assets and regulatory liabilities are excluded from the Company's rate base and do not earn a return. The components of regulatory assets and regulatory liabilities are as follows:

	December 31, 2012		December 31, 2011	
	Regulatory Assets	Regulatory Liabilities	Regulatory Assets	Regulatory Liabilities
Income taxes	\$348,359	\$192,551	\$102,726	\$ 1,706
Utility plant retirement costs	16,976	19,936	21,975	15,845
Post-retirement benefits	139,139	28,795	100,640	22,961
Water tank painting	2,836	—	4,420	—
Fair value adjustment of long-term debt assumed in acquisition	4,739	—	1,540	162
Rate case filing expenses & other	9,215	81	8,731	670
	<u>\$521,264</u>	<u>\$241,363</u>	<u>\$240,032</u>	<u>\$41,344</u>

Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to certain differences between tax and book depreciation expense, are recognized in the rate setting process on a cash or flow-through basis and will be recovered as they reverse. Amounts include differences that arise between certain utility asset improvement costs capitalized for book and deducted as a repair expense for tax purposes.

The regulatory liability for the repair tax accounting change catch-up represents the tax benefits anticipated to be realized on the Company's 2012 tax return, which has not yet flowed-through as a reduction to income tax expense due to the ten year amortization period which is expected to begin in 2013. This amortization period was stipulated in a June 2012 rate order issued to Aqua Pennsylvania.

The regulatory asset for utility plant retirement costs, including cost of removal, represents costs already incurred that are expected to be recovered in future rates over a five year recovery period. The regulatory liability for utility plant retirement costs represents amounts recovered through rates during the life of the associated asset and before the costs are incurred.

Post-retirement benefits include pension and other post-retirement benefits. A regulatory asset has been recorded at December 31, 2012 and 2011 for the costs that would otherwise be charged to stockholders' equity for the underfunded status of the Company's pension and other post-retirement benefit plans. The regulatory asset related to pension costs includes deferred net pension expense in excess of amounts funded which the Company believes will be recoverable in future years as pension funding is required. The regulatory asset related to post-retirement benefits other than pensions represents costs that were deferred between the time that the accrual method of accounting for these benefits was adopted in 1993 and the recognition of the accrual method in the Company's rates as prescribed in subsequent rate filings. Amortization of the amount deferred for post-retirement benefits other than pensions began in 1994 and is currently being recovered in rates.

Expenses associated with water tank painting are deferred and amortized over a period of time as approved in the regulatory process. Water tank painting costs are generally being amortized over a period ranging from 5 to 17 years.

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The Company recorded a fair value adjustment for fixed rate, long-term debt assumed in acquisitions that matures in various years ranging from 2022 to 2029. The regulatory asset or liability results from the rate setting process continuing to recognize the historical interest cost of the assumed debt.

The regulatory asset related to rate case filing expenses represents the costs associated with filing for rate increases that are deferred and amortized over periods that generally range from one to five years. Other represents costs incurred by the Company for which it has received or expects to receive rate recovery.

The regulatory asset related to the costs incurred for information technology software projects and water main cleaning and relining projects are described in Note 1 – Summary of Significant Accounting Policies – Property, Plant and Equipment and Depreciation.

**Note 7 – Income Taxes**

The provision for income taxes for the Company's continuing operations consists of:

	Years Ended December 31,		
	2012	2011	2010
<b>Current:</b>			
Federal	\$(13,854)	\$ (936)	\$ (7,437)
State	3,172	(2,063)	12,148
	<u>(10,682)</u>	<u>(2,999)</u>	<u>4,711</u>
<b>Deferred:</b>			
Federal	67,743	76,479	68,644
State	9,820	(4,369)	1,585
	<u>77,563</u>	<u>72,110</u>	<u>70,229</u>
<b>Total tax expense</b>	<u>\$ 66,881</u>	<u>\$69,111</u>	<u>\$74,940</u>

The statutory Federal tax rate is 35% and for states with a corporate net income tax, the state corporate net income tax rates range from 5% to 9.99% for all years presented.



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The reasons for the differences between amounts computed by applying the statutory Federal income tax rate to income before income tax expense for the Company's continuing operations are as follows:

	Years Ended December 31,		
	2012	2011	2010
Computed Federal tax expense at statutory rate	\$ 87,839	\$73,778	\$66,962
Decrease in tax expense related to repair tax accounting change	(28,948)	—	—
State income taxes, net of federal tax benefit	8,445	(4,180)	8,926
Increase in tax expense for depreciation expense to be recovered in future rates	361	551	210
Stock-based compensation	(386)	(355)	(67)
Deduction for Aqua America common dividends paid under employee benefit plan	(387)	(345)	(374)
Amortization of deferred investment tax credits	(420)	(340)	(333)
Other, net	377	2	(384)
<b>Actual income tax expense</b>	<b>\$ 66,881</b>	<b>\$69,111</b>	<b>\$74,940</b>

In December 2012, the Company changed its tax method of accounting for certain qualifying utility system repairs in Aqua Pennsylvania effective with the tax year ended December 31, 2012 and for prior tax years. The tax accounting method was changed to permit the expensing of certain utility asset improvement costs that were previously being capitalized and depreciated for book and tax purposes (the "repair change"). The repair change was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission to Aqua Pennsylvania ("settlement agreement") which provides for flow-through accounting treatment of certain income tax benefits resulting from the repair change. As a result of this settlement agreement, the net 2012 income tax benefits of \$33,565 reduced income tax expense and flowed-through to net income in the fourth quarter of 2012, and the income tax benefits of \$111,397 for qualifying capital expenditures made prior to 2012 ("catch-up adjustment") have been deferred as of December 31, 2012 and, based on the settlement agreement, a ten year amortization of the income tax benefits is expected to reduce income tax expense beginning in 2013. The repair change resulted in a significant reduction in the effective income tax rate, a net reduction in income tax expense of \$33,565 in the fourth quarter of 2012 for the tax year 2012 impact, and reduced the amount of taxes currently payable resulting in a tax refund expected of \$14,802 on tax payments made prior to the repair change. The catch-up adjustment resulted in a \$88,476 decrease to current taxes payable; a \$190,389 increase to regulatory liabilities which it expected to be amortized over the next ten years; an increase to both deferred tax liabilities and regulatory assets representing the appropriate book/tax basis difference on capital additions.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was enacted on December 17, 2010 and provided for a 100 percent expensing allowance for qualifying capital additions placed in service after September 8, 2010 through tax year 2011, and extended 50 percent bonus depreciation for qualifying capital additions for tax year 2012. In February 2011, one of the Company's state tax jurisdictions issued guidance that it would recognize the 100% expensing allowance in the 2011 tax year. As a result of this guidance and the flow-through treatment afforded by that state's regulatory commission, the net state income tax benefit reduced the Company's 2011 state income tax expense by \$14,800 and reduced the Company's effective state income tax rate. The American Tax Relief Act of 2012 was enacted on January 1, 2013 and provided for an extension of the 50% bonus depreciation for qualifying capital additions for tax year 2013.

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The following table provides the components of the net deferred tax liability from continuing operations:

	December 31,	
	2012	2011
<b>Deferred tax assets:</b>		
Customers' advances for construction	\$ 26,820	\$ 17,650
Costs expensed for book not deducted for tax, principally accrued expenses	13,124	1,105
Utility plant acquisition adjustment basis differences	12,496	11,614
Post-retirement benefits	35,955	36,141
Tax loss carryforward	111,452	47,860
Other	2,360	2,183
	<u>202,207</u>	<u>116,553</u>
Less valuation allowance	7,506	8,639
	<u>194,701</u>	<u>107,914</u>
<b>Deferred tax liabilities:</b>		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	772,006	580,405
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	66,361	43,710
Tax effect of regulatory asset for post-retirement benefits	35,955	36,141
Deferred investment tax credit	5,928	6,544
	<u>880,250</u>	<u>666,800</u>
<b>Net deferred tax liability</b>	<u>\$685,549</u>	<u>\$558,886</u>

At December 31, 2012 and 2011, the Company recorded Federal net operating losses ("NOL") of \$118,327 and \$76,064, respectively. The Company believes the Federal NOLs are more likely than not to be recovered and require no valuation allowance. The Company's Federal NOLs do not begin to expire until 2031 and 2032, respectively. As of December 31, 2012, the cumulative NOL is \$215,585.

In 2012 and 2011, as a result of the Company's Federal cumulative NOLs the Company ceased recognizing the windfall tax benefit associated with stock-based compensation, because the deduction did not reduce income taxes payable. Upon realization of the Company's Federal NOLs, the Company will recognize a windfall tax benefit of \$2,121.

At December 31, 2012 and 2011, the Company recorded state NOLs of \$249,895 and \$79,391, respectively, a portion of which are offset by a valuation allowance because the Company does not believe these NOLs are more likely than not to be realized. The state NOLs do not begin to expire until 2021. As of December 31, 2012, the cumulative NOL is \$375,299.

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The Company has analyzed filing positions in its Federal and state jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. The Company's determination of what qualifies as a capital cost versus repair expense as it relates to the repair tax change will likely be reviewed upon audit by the IRS and could be subject to subsequent adjustment. The Company believes its income tax filing positions and deductions will be sustained under both Federal and state audits and it believes it does not have uncertain tax positions that, in the event of adjustment, will result in a material effect on its results of operations or financial position. The Company does not have a reserve for uncertain tax positions. The Company has elected to recognize accrued interest and penalties related to uncertain tax positions as income tax expense. As of December 31, 2012, the Company's Federal income tax returns for all years through 2008 have been closed. Tax years 2009 through 2012 remain open to Federal examination, and tax years 2010 and 2011 are currently under examination. The statute remains open for the Company's state income tax returns for tax years 2009 through 2012 in the various states the Company's conducts business in. There is currently an Illinois state income tax audit underway for tax years 2008 and 2009.

**Note 8 – Taxes Other than Income Taxes**

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

	Years Ended December 31,		
	2012	2011	2010
Property	\$21,550	\$16,618	\$16,573
Capital Stock	3,196	3,559	3,458
Gross receipts, excise and franchise	10,060	9,408	9,450
Payroll	6,967	6,441	6,185
Other	5,631	5,423	4,481
Total taxes other than income	<u>\$47,404</u>	<u>\$41,449</u>	<u>\$40,147</u>

**Note 9 – Commitments and Contingencies**

The following disclosures reflect commitments and contingencies for the Company's continuing operations.

**Commitments** – The Company leases motor vehicles, buildings and other equipment under operating leases that are noncancelable. The future annual minimum lease payments due are as follows:

2013	2014	2014	2015	2016	2017	Thereafter
\$2,568	\$ 1,925	\$ 1,925	\$ 1,191	\$ 483	\$ 131	\$ 476

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The Company leases parcels of land on which treatment plants and other facilities are situated and adjacent parcels that are used for watershed protection. The operating leases are noncancelable, expire between 2014 and 2051 and contain certain renewal provisions. Certain leases are subject to an adjustment every five years based on changes in the Consumer Price Index. Subject to the aforesaid adjustment, during each of the next five years, an average of \$608 of annual lease payments for land is due, and the aggregate of the years remaining approximates \$14,299. The Company leases treatment plants to other parties under lease agreements that require payments to the Company of:

2013	2014	2015	2016	2017	Thereafter
\$494	\$494	\$496	\$507	\$507	\$3,466

The Company maintains agreements with other water purveyors for the purchase of water to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2026. The estimated annual commitments related to such purchases through 2017 are expected to average \$11,553 and the aggregate of the years remaining approximates \$32,826.

The Company has entered into purchase obligations, in the ordinary course of business, that include agreements for water treatment processes at certain of its wells in a small number of its divisions. The 20 year term agreement provides for the use of treatment equipment and media used in the treatment process and are subject to adjustment based on changes in the Consumer Price Index. The future contractual cash obligation related to these agreements is: \$924 in 2013, \$944 in 2014, \$964 in 2015, \$985 in 2016, \$1,006 in 2017 and \$12,677 thereafter. In addition, as of December 31, 2012, the estimated capital expenditures required under legal and binding long-term contracts are approximately \$16,600 in 2013 and \$3,950 in 2015.

Rent expense under operating leases, purchased water expense, and water treatment expenses under these agreements were as follows:

	Years Ended December 31,		
	2012	2011	2010
Operating lease expense	\$ 3,850	\$ 3,553	\$ 3,631
Purchased water under long-term agreements	11,796	14,507	13,621
Water treatment expense under contractual agreement	897	865	777

**Contingencies** – The Company is routinely involved in various disputes, claims, lawsuits and other regulatory and legal matters, including both asserted and unasserted legal claims, in the ordinary course of business. The status of each such matter, referred to herein as a loss contingency, is reviewed and assessed in accordance with applicable accounting rules regarding the nature of the matter, the likelihood that a loss will be incurred, and the amounts involved. As of December 31, 2012, the aggregate amount of \$13,238 is accrued for loss contingencies and is reported in the Company’s consolidated balance sheet as other accrued liabilities and other liabilities. These accruals represent management’s best estimate of probable loss (as defined in the accounting guidance) for loss contingencies or the low end of a range of losses if no single probable loss can be estimated. For some loss contingencies, the Company is unable to estimate the amount of the probable loss or range of probable losses. While the final outcome of these loss contingencies cannot be predicted with certainty, and unfavorable outcomes could negatively impact the Company, at this time in the opinion of management, the final resolution of these matters are not expected to have a material adverse effect on the Company’s financial position, results of operations or cash flows. Further, Aqua America has insurance coverage for certain of these loss contingencies, and as of December 31, 2012, estimates that approximately \$1,865 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. The Company is involved in the following condemnation proceedings and legal matters, as described below:

- Refer to Note 3 – Discontinued Operations and Other Dispositions for a discussion of the Company’s challenge to the valuation of the northern portion of its Fort Wayne, Indiana utility system that was turned over to the City of Fort Wayne, Indiana in February 2008.

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- In 2006, a lawsuit was filed by two occupants of a house abutting a wastewater treatment plant facility owned by the Company's subsidiary in Florida. The lawsuit, as amended, alleged the plaintiffs sustained bodily injury and property damage due to the design, operation and maintenance of the plant. In January 2011, a trial was held which resulted in the judicial dismissal of the count for strict liability and jury verdicts in favor of the Company on the remaining counts. In June 2011, the plaintiffs agreed to dismiss their appeals and to release all claims against the Company's subsidiary and the Company, which resulted in the conclusion of the original plaintiffs' litigation against the Company's subsidiary. In the third quarter of 2008, approximately thirty-five additional plaintiffs, associated with approximately eight other nearby homes, and represented by the same counsel as the original plaintiffs, filed a separate lawsuit making similar allegations against our Florida subsidiary with respect to the operation of the facility. The court has severed the litigation so that the plaintiffs will be grouped by the houses in which they lived and a separate trial will be held for each of the households. Some of these plaintiffs testified in the trial of the original lawsuit in which all allegations were resolved in the Company's favor. The claims from the first of these households are expected to go to trial in May 2013. The Company continues to assess these matters and any potential losses, which based on the outcome of the litigation may or may not be covered by the Company's insurance coverage. At this time, the Company believes that the estimated amount of any potential losses would not be material to the Company's consolidated results of operations or consolidated financial condition.
- One of the Company's subsidiaries acquired in 2008 had entered into a Consent Decree with the United States Environmental Protection Agency and received from the United States Department of Justice a proposed civil penalty related to alleged violations, which is currently estimated to be approximately \$254. The Company's subsidiary had contested the appropriateness of earlier calculations of the proposed penalty based on sanitary sewer violations occurring prior to the acquisition of the subsidiary and the amount of the proposed penalty. A reserve has been accrued for this loss contingency as it is judged to be probable and the amount is estimable. 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 has retained a portion of those shares in an amount anticipated to cover penalty amounts and attendant costs, continued to withhold a designated amount of shares to cover contingent increases, and released a certain number of shares to the sellers.

Although the results of legal proceedings cannot be predicted with certainty, there are no other pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of its properties is the subject that are material or are expected to have a material effect on the Company's financial position, results of operations or cash flows.

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**Note 10 – Long-term Debt and Loans Payable**

**Long-term Debt** – The consolidated statements of capitalization provide a summary of long-term debt as of December 31, 2012 and 2011. The supplemental indentures with respect to certain issues of the First Mortgage Bonds restrict the ability of Aqua Pennsylvania and certain other operating subsidiaries of the Company to declare dividends, in cash or property, or repurchase or otherwise acquire the stock of these companies. As of December 31, 2012, approximately \$701,000 of Aqua Pennsylvania’s retained earnings of approximately \$721,000 and approximately \$114,000 of the retained earnings of approximately \$121,000 of certain other subsidiaries were free of these restrictions. Certain supplemental indentures also prohibit Aqua Pennsylvania and certain other subsidiaries of the Company from making loans to, or purchasing the stock of, the Company.

Sinking fund payments are required by the terms of certain issues of long-term debt. Excluding amounts due under the Company’s revolving credit agreement, the future sinking fund payments and debt maturities of the Company’s long-term debt are as follows:

Interest Rate Range	2013	2014	2015	2016	2017	Thereafter
0.00% to 0.99%	\$ 190	\$ 193	\$ 193	\$ 191	\$ 195	\$ 1,922
1.00% to 1.99%	2,350	2,320	2,257	2,139	102,004	16,181
2.00% to 2.99%	1,133	1,164	1,201	1,230	1,259	11,133
3.00% to 3.99%	2,345	2,420	2,508	2,581	2,682	144,941
4.00% to 4.99%	21,888	27,301	310	11,124	11,138	488,896
5.00% to 5.99%	10,499	51,566	38,504	16,763	14,937	430,592
6.00% to 6.99%	—	—	12,000	—	8,903	44,000
7.00% to 7.99%	317	379	409	442	478	33,635
8.00% to 8.99%	269	376	405	437	473	17,672
9.00% to 9.99%	6,047	700	700	700	700	25,700
10.00% to 10.99%	—	—	—	—	—	6,000
Total	<u>\$45,038</u>	<u>\$86,419</u>	<u>\$58,487</u>	<u>\$35,607</u>	<u>\$142,769</u>	<u>\$1,220,672</u>

In November 2012, Aqua Pennsylvania issued \$80,000 of first mortgage bonds, secured by a supplement to its first mortgage indenture, of which \$40,000 is due in 2041, \$20,000 is due in 2042, and \$20,000 is due in 2047 with interest rates of 3.79%, 3.80%, and 3.85% respectively. The proceeds were used to refinance higher coupon first mortgage bonds and pay down our revolving credit facility.

In June 2012, the Company issued \$50,000 of senior unsecured notes due in 2027 with an interest rate of 3.57%. The proceeds were used to fund the Company’s capital expenditures.

As of December 31, 2012, the trustee for one issue held \$23,010 pending construction of the projects to be financed with the issue of tax-exempt bonds in 2010 which is reported in the consolidated balance sheet as funds restricted for construction activity.

The weighted average cost of long-term debt at December 31, 2012 and 2011 was 4.81% and 5.17%, respectively. The weighted average cost of fixed rate long-term debt at December 31, 2012 and 2011 was 5.06% and 5.30%, respectively.

In March 2012, the Company entered into a five-year \$150,000 unsecured revolving credit facility with three banks that expires in March 2017. Included within this facility is a \$15,000 sublimit for daily demand loans. Funds borrowed under this facility are classified as long-term debt and are used to provide working capital. The Company’s \$150,000 unsecured revolving credit facility replaced the Company’s prior \$95,000 unsecured revolving credit facility, which expired in May 2012. As of December 31, 2012, the Company has the following sublimits and available capacity under the credit facility: \$25,000 letter of credit sublimit, \$5,644 of letters of credit available capacity, \$0 borrowed under the swing-line commitment, and \$100,000 of funds borrowed under the agreement. Interest under this facility is based at the Company’s option, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. A facility fee is charged on the total commitment amount of the agreement. Under this facility the average cost of borrowings was 0.85% and 0.45%, and the average borrowing was \$68,609 and \$53,473, during 2012 and 2011, respectively.

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The Company is obligated to comply with covenants under some of its loan and debt agreements. These covenants contain a number of restrictive financial covenants, which among other things limit, subject to certain exceptions, the Company's ratio of consolidated total indebtedness to consolidated total capitalization, and require a minimum level of earnings coverage over interest expense. During 2012, the Company was in compliance with its debt covenants under its credit facilities. Failure to comply with the Company's debt covenants could result in an event of default, which could result in the Company being required to repay or finance its borrowings before their due date, possibly limiting the Company's future borrowings, and increasing its borrowing costs.

**Loans Payable** – In November 2012, Aqua Pennsylvania renewed its \$100,000 364-day unsecured revolving credit facility with four banks. The funds borrowed under this agreement are classified as loans payable and used to provide working capital. As of December 31, 2012 and 2011, funds borrowed under the agreement were \$70,902 and \$84,030, respectively. Interest under this facility is based, at the borrower's option, on the prime rate, an adjusted federal funds rate, an adjusted London Interbank Offered Rate corresponding to the interest period selected, an adjusted Euro-Rate corresponding to the interest period selected or at rates offered by the banks. This agreement restricts short-term borrowings of Aqua Pennsylvania. A commitment fee of 0.10% is charged on the total commitment amount of Aqua Pennsylvania's revolving credit agreement. The average cost of borrowing under the facility was 0.94% and 1.01%, and the average borrowing was \$78,525 and \$80,235, during 2012 and 2011, respectively. The maximum amount outstanding at the end of any one month was \$89,973 and \$92,143 in 2012 and 2011, respectively.

At December 31, 2012 and 2011, the Company had other combined short-term lines of credit of \$60,500. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. As of December 31, 2012 and 2011, funds borrowed under the short-term lines of credit were \$9,481 and \$23,741, respectively. The average borrowing under the lines was \$15,583 and \$15,795 during 2012 and 2011, respectively. The maximum amount outstanding at the end of any one month was \$22,941 and \$26,741 in 2012 and 2011. Interest under the lines is based at the Company's option, depending on the line, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. The average cost of borrowings under all lines during 2012 and 2011 was 1.83% and 1.96%, respectively.

**Interest Income** – Interest income of \$372, \$757, and \$1,288 was netted against interest expense on the consolidated statement of income for the years ended December 31, 2012, 2011, and 2010, respectively. The total interest cost was \$78,129, \$78,561, and \$74,681 in 2012, 2011, and 2010, including amounts capitalized of \$4,142, \$7,150, and \$4,831, respectively.

**Note 11 – Fair Value of Financial Instruments**

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

The fair value of funds restricted for construction activity and loans payable are determined based on their carrying amount and utilizing level 1 methods and assumptions. As of December 31, 2012 and 2011, the carrying amount of the Company's funds restricted for construction activity was \$23,572 and \$88,905, respectively, which equates to their estimated fair value. As of December 31, 2012 and 2011, the carrying amount of the Company's loans payable was \$80,383 and \$107,771, respectively, which equates to their estimated fair value. The fair value of cash and cash equivalents, which is comprised of a money market fund, is determined based on the net asset value per unit utilizing level 2 methods and assumptions. As of December 31, 2012 and 2011, the carrying amounts of the Company's cash and cash equivalents was \$5,521 and \$8,204, which equates to their fair value.

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The carrying amount and estimated fair value of the Company's long-term debt are as follows:

	December 31,	
	2012	2011
Carrying amount	\$1,588,992	\$1,475,886
Estimated fair value	1,702,997	1,549,343

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 \$71,595 and \$66,198 at December 31, 2012 and 2011, respectively. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2027 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

**Note 12 – Stockholders' Equity**

At December 31, 2012, the Company had 300,000,000 shares of common stock authorized; par value \$0.50. Shares outstanding and treasury shares held were as follows:

	December 31,		
	2012	2011	2010
Shares outstanding	140,167,266	138,815,098	137,775,567
Treasury shares	776,355	710,482	673,472

At December 31, 2012, the Company had 1,738,619 shares of authorized but unissued Series Preferred Stock, \$1.00 par value.

In February 2012, the Company renewed its universal shelf registration, which expired in December 2011, through a filing with the Securities and Exchange Commission ("SEC") to allow for the potential future sale by the Company, from time to time, in one or more public offerings, of an indeterminate amount of our common stock, preferred stock, debt securities and other securities specified therein at indeterminate prices.

The Company has a shelf registration statement filed with the SEC to permit the offering from time to time of shares of common stock and shares of preferred stock in connection with acquisitions. The balance remaining available for use under the acquisition shelf registration as of December 31, 2012 is 1,904,487 shares. The form and terms of any securities issued under these shelf registrations will be determined at the time of issuance.

The Company has a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that allows reinvested dividends to be used to purchase shares of common stock at a five percent discount from the current market value. Under the direct stock purchase program, shares are purchased by investors at market price. The shares issued under the Plan are either original issue shares or shares purchased by the Company's transfer agent in the open-market. During 2012, 2011, and 2010, under the dividend reinvestment portion of the Plan, 569,392, 588,745, and 670,538 original issue shares of common stock were sold providing the Company with proceeds of \$12,921, \$12,304, and \$11,966, respectively.



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The Board of Directors has authorized the Company to purchase its common stock, from time to time, in the open market or through privately negotiated transactions. The Company has not repurchased any shares under this authorization since 2000. As of December 31, 2012, 548,278 shares remain available for repurchase.

The Company's accumulated other comprehensive income is reported in the stockholders' equity section of the consolidated balance sheets, the consolidated statements of equity, and the related components of other comprehensive income are reported in the consolidated statements of comprehensive income. The Company reports its unrealized gains or losses on investments as other comprehensive income and accumulated other comprehensive income. The Company recorded a regulatory asset for its underfunded status of its pension and post-retirement benefit plans that would otherwise be charged to other comprehensive income, as it anticipates recovery of its costs through customer rates.

**Note 13 – Net Income per Common Share and Equity per Common Share**

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

	Years ended December 31,		
	2012	2011	2010
Average common shares outstanding during the period for basic computation	139,361	138,182	136,948
Effect of dilutive securities:			
Employee stock based compensation	573	507	348
Average common shares outstanding during the period for diluted computation	<u>139,934</u>	<u>138,689</u>	<u>137,296</u>

For the years ended December 31, 2012, 2011, and 2010, employee stock options to purchase 427,452, 926,300, and 2,024,151 shares of common stock, respectively, were excluded from the calculations of diluted net income per share as the calculated proceeds from the options' exercise were greater than the average market price of the Company's common stock during these periods.

Equity per common share was \$9.89 and \$9.01 at December 31, 2012 and 2011, respectively. These amounts were computed by dividing Aqua America stockholders' equity by the number of shares of common stock outstanding at the end of each year.

**Note 14 – Employee Stock and Incentive Plan**

Under the Company's 2009 Omnibus Equity Compensation Plan (the "2009 Plan"), as approved by the Company's shareholders to replace the 2004 Equity Compensation Plan (the "2004 Plan"), stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to employees, non-employee directors, and consultants and advisors. The 2009 Plan authorizes 5,000,000 shares for issuance under the plan. A maximum of 50% of the shares available for issuance under the 2009 Plan may be issued as stock awards or share units and the maximum number of shares that may be subject to grants under the Plan to any one individual in any one year is 200,000. Shares issued under the 2009 Plan may be original issue shares, the issuance of treasury shares, or shares purchased by the Company in the open-market. Awards under the 2009 Plan are made by a committee of the Board of Directors. At December 31, 2012, 4,261,530 shares underlying stock option and restricted stock awards were still available for grant under the 2009 Plan. No further grants may be made under the 2004 plan.

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**Performance Share Units** – During 2012 and 2011, the Company granted performance share units. There were no grants in 2010. A performance share unit (“PSU”) represents the right to receive a share of the Company’s common stock if specified performance goals are met over the three year performance period specified in the grant, subject to certain exceptions through the three year vesting period. Each grantee is granted a target award of PSUs, and may earn between 0% and 200% of the target amount depending on the Company’s performance against the performance goals, which consist of the following metrics: 25% of the PSUs will be earned based on the Company’s total shareholder return (“TSR”) compared to the TSR for the companies listed in the Standard and Poor’s Midcap Utilities Index (a market-based condition), 25% of the PSUs will be earned based on the Company’s TSR compared to the TSR for a specific peer group of six other investor-owned water companies (a market-based condition), and 50% of the PSUs will be earned based on the Company’s three-year compound annual growth rate (“CAGR”) in earnings per share (“EPS”) compared to a target EPS CAGR of 5% (a performance-based condition). During the years ended December 31, 2012 and 2011, the Company recorded stock-based compensation related to PSUs as a component of operations and maintenance expense of \$2,552 and \$943, and recorded an income tax benefit of \$1,040 and \$384. The following table summarizes nonvested PSU transactions for the year ended December 31, 2012:

	Number of Share Units	Weighted Average Fair Value
Nonvested share units at beginning of period	137,584	\$ 24.38
Granted	127,950	23.89
Performance criteria adjustment	79,635	23.52
Forfeited	(13,944)	23.87
Vested	—	—
Share unit awards issued	—	—
Nonvested share units at end of period	<u>331,225</u>	<u>\$ 23.52</u>

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A portion of the fair value of PSUs was estimated at the grant date based on the probability of satisfying the market-based conditions using the Monte Carlo valuation method. The portion of the fair value of the PSUs associated with performance-based conditions was based on the fair market value of the Company's stock at the grant date, regardless of whether the market-based condition is satisfied. The fair value of each PSU grant is amortized into compensation expense on a straight-line basis over their respective vesting periods, which range from 24 to 36 months. The accrual of compensation costs is based on our estimate of the final expected value of the award, and is adjusted as required 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. The following table provides the assumptions used in the pricing model for the grant and the resulting grant date fair value of PSUs:

	Years ended December 31,	
	2012	2011
Expected term (years)	3.0	3.0
Risk-free interest rate	0.4%	1.2%
Expected volatility	22.1%	29.7%
Grant date fair value per performance share unit	\$23.89	\$24.38

As of December 31, 2012, \$4,210 of unrecognized compensation costs related to PSUs is expected to be recognized over a weighted average period of approximately 1.9 years. The aggregate intrinsic value of PSUs as of December 31, 2012 was \$8,420. The aggregate intrinsic value of PSUs is based on the number of nonvested share units and the market value of the Company's common stock as of the period end date.

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**Restricted Stock Units** – A restricted stock unit (“RSU”) represents the right to receive a share of the Company’s common stock and is valued based on the fair market value of the Company’s stock on the date of grant. RSUs are eligible to be earned at the end of a specified restricted period, generally three years, beginning on the date of grant, in some cases, subject to the achievement of certain performance conditions. During the year ended December 31, 2012 and 2011, the Company recorded stock-based compensation related to awards of RSUs as a component of operations and maintenance expense of \$634 and \$342, and recorded an income tax benefit of \$262 and \$142. 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 summarizes nonvested RSU transactions for the year ended December 31, 2012:

	Number of Stock Units	Weighted Average Fair Value
Nonvested stock units at beginning of period	44,342	\$ 22.21
Granted	37,850	22.49
Vested	(11,000)	22.21
Forfeited	(2,724)	22.24
Nonvested stock units at end of period	<u>68,468</u>	<u>\$ 22.36</u>

As of December 31, 2012, \$795 of unrecognized compensation costs related to RSUs is expected to be recognized over a weighted average period of approximately 1.7 years. The intrinsic value of vested RSUs as of December 31, 2012 was \$247. The aggregate intrinsic value of RSUs as of December 31, 2012 was \$1,740. The aggregate intrinsic value of RSUs is based on the number of nonvested stock units and the market value of the Company’s common stock as of the period end date.

**Stock Options** – The following table provides compensation costs for stock-based compensation:

	Years ended December 31,		
	2012	2011	2010
Stock-based compensation within operations and maintenance expense	\$612	\$1,361	\$1,944
Income tax benefit	580	673	726

There were no stock options granted during the year ended December 31, 2012 and 2011. During the second quarter of 2011, the Company changed its estimation assumptions related to its historical stock option forfeitures which resulted in a favorable adjustment to compensation expense of \$644 and additional income tax expense of \$52.

The Company estimates forfeitures in calculating compensation expense instead of recognizing these forfeitures and the resulting reduction in compensation expense as they occur. The estimate of forfeitures will be adjusted over the vesting period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. The recording of compensation expense for share-based compensation has no impact on net cash flows and results in the reclassification on the consolidated cash flow statements of related tax benefits from cash flows from operating activities to cash flows from financing activities to the extent these tax benefits exceed the associated compensation cost.

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Options under the plans were issued at the closing market price of the stock on the day of the grant. Options are exercisable in installments of 33% annually, starting one year from the date of the grant and expire 10 years from the date of the grant. The fair value of each option is amortized into compensation expense on a straight-line basis over their respective 36 month vesting period, net of estimated forfeitures. The fair value of options was estimated at the grant date using the Black-Scholes option-pricing model, which relies on assumptions that require management's judgment. The following table provides the assumptions used in the pricing model for grants and the resulting grant date fair value of stock options granted in the periods reported:

	Year ended December 31, 2010
Expected term (years)	6.0
Risk-free interest rate	2.8%
Expected volatility	26.7%
Dividend yield	3.3%
Grant date fair value per option	\$ 3.49

Historical information was the principal basis for the selection of the expected term and dividend yield. The expected volatility is based on a weighted average combination of historical and implied volatilities over a time period that approximates the expected term of the option. The risk-free interest rate was selected based upon the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option.

The following table summarizes stock option transactions for the year ended December 31, 2012:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
<b>Options:</b>				
Outstanding, beginning of year	3,376,960	\$20.03		
Granted	—	—		
Forfeited	(9,015)	17.60		
Expired	(37,226)	24.25		
Exercised	(833,437)	17.51		
Outstanding, end of year	<u>2,497,282</u>	<u>\$20.81</u>	<u>4.2</u>	<u>\$13,243</u>
Exercisable, end of year	<u>2,354,533</u>	<u>\$21.03</u>	<u>4.0</u>	<u>\$12,061</u>

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The intrinsic value of stock options is the amount by which the market price of the stock on a given date, such as at the end of the period or on the day of exercise, exceeded the closing market price of stock on the date of grant. The following table summarizes the aggregate intrinsic value of stock options exercised and the fair value of stock options which became vested:

	Years ended December 31,		
	2012	2011	2010
Intrinsic value of options exercised	\$5,547	\$3,071	\$2,700
Fair value of options vested	1,318	2,077	2,373

The following table summarizes information about the options outstanding and options exercisable as of December 31, 2012:

	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Range of prices:					
\$10.00 - 12.99	65,437	0.2	\$12.48	65,437	\$12.48
\$13.00 - 16.99	232,439	1.2	16.15	232,439	16.15
\$17.00 - 19.99	1,057,617	5.2	18.18	914,868	18.35
\$20.00 - 22.99	339,055	5.2	20.18	339,055	20.18
\$23.00 - 27.99	375,282	4.2	23.26	375,282	23.26
\$28.00 - 29.99	427,452	3.2	29.46	427,452	29.46
	<u>2,497,282</u>	<u>4.2</u>	<u>\$20.81</u>	<u>2,354,533</u>	<u>\$21.03</u>

As of December 31, 2012, there was \$30 of total unrecognized compensation cost related to nonvested stock options granted under the plans. The cost is expected to be recognized over a weighted average period of approximately 1 month.

**Restricted Stock** – Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. Restricted stock awards result in compensation expense which is equal to the fair market value of the stock on the date of the grant and is amortized ratably over the restriction period. The Company expects forfeitures of restricted stock to be de minimis.

The following table provides compensation costs for stock-based compensation:

	Years ended December 31,		
	2012	2011	2010
Stock-based compensation within operations and maintenance expense	\$1,739	\$1,800	\$1,927
Income tax benefit	721	740	793

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The following table summarizes nonvested restricted stock transactions for the year ended December 31, 2012:

	Number of Shares	Weighted Average Fair Value
Nonvested shares at beginning of period	207,989	\$ 18.66
Granted	17,600	23.09
Vested	(105,473)	18.80
Forfeited	(2,388)	17.25
Nonvested shares at end of period	<u>117,728</u>	<u>\$ 19.23</u>

The following table summarizes the value of restricted stock awards:

	Years ended December 31,		
	2012	2011	2010
Intrinsic value of restricted stock awards vested	\$2,384	\$2,020	\$1,147
Fair value of restricted stock awards vested	1,971	1,650	1,270
Weighted average fair value of restricted stock awards granted	23.09	22.21	17.19

As of December 31, 2012, \$707 of unrecognized compensation costs related to restricted stock is expected to be recognized over a weighted average period of approximately 1.0 years. The aggregate intrinsic value of restricted stock as of December 31, 2012 was \$2,993. The aggregate intrinsic value of restricted stock is based on the number of nonvested shares of restricted stock and the market value of the Company's common stock as of the period end date.

**Note 15 – Pension Plans and Other Post-retirement Benefits**

The Company maintains qualified, defined benefit pension plans that cover a substantial portion of its full-time employees who were hired prior to April 1, 2003. Retirement benefits under the plans are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund the plans annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations over time. To offset certain limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Supplemental Pension Benefit Plan for Salaried Employees in order to prevent certain employees from being penalized by these limitations. The Company also has non-qualified Supplemental Executive Retirement Plans for certain current and retired employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow. Employees hired after April 1, 2003 may participate in a defined contribution plan that provides a Company matching contribution on amounts contributed by participants and an annual profit-sharing contribution based upon a percentage of the eligible participants' compensation.

In addition to providing pension benefits, the Company offers certain Post-retirement Benefits other than Pensions ("PBOPs") to employees hired before April 1, 2003 and retiring with a minimum level of service. These PBOPs include continuation of medical and prescription drug benefits, or a cash contribution toward such benefits, for eligible retirees and life insurance benefits for certain eligible retirees. The Company funds its gross PBOP cost through various trust accounts. The benefits of retired officers and certain other retirees are paid by the Company and not from plan assets due to limitations imposed by the Internal Revenue Code.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Years:	Pension Benefits	Other Post-retirement Benefits
2013	\$10,574	\$ 1,557
2014	11,478	1,782
2015	12,420	1,940
2016	13,356	2,173
2017	14,314	2,394
2018 - 2022	84,914	14,142

The changes in the benefit obligation and fair value of plan assets, the funded status of the plans and the assumptions used in the measurement of the company's benefit obligation are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2012	2011	2012	2011
<b>Change in benefit obligation:</b>				
Benefit obligation at January 1,	\$237,087	209,459	50,189	43,956
Service cost	4,920	4,127	1,309	1,092
Interest cost	12,728	12,052	2,482	2,414
Actuarial loss	34,750	19,000	5,218	3,701
Plan participants' contributions	—	—	199	219
Benefits paid	(9,329)	(7,967)	(1,160)	(1,193)
Plan amendments	—	416	(392)	—
Acquisition	23,652	—	5,188	—
Settlements	(731)	—	—	—
<b>Benefit obligation at December 31,</b>	<b><u>303,077</u></b>	<b><u>237,087</u></b>	<b><u>63,033</u></b>	<b><u>50,189</u></b>
<b>Change in plan assets:</b>				
Fair value of plan assets at January 1,	148,912	145,524	28,131	26,739
Actual return on plan assets	17,153	(1,871)	2,019	562
Employer contributions	15,256	13,226	1,905	1,790
Benefits paid	(9,329)	(7,967)	(941)	(960)
Acquisition	18,823	—	2,940	—
Settlements	(731)	—	—	—
<b>Fair value of plan assets at December 31,</b>	<b><u>190,084</u></b>	<b><u>148,912</u></b>	<b><u>34,054</u></b>	<b><u>28,131</u></b>
<b>Funded status of plan:</b>				
Net amount recognized at December 31,	<b><u>\$112,993</u></b>	<b><u>\$ 88,175</u></b>	<b><u>\$28,979</u></b>	<b><u>\$22,058</u></b>



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The Company's pension plans had an accumulated benefit obligation of \$267,400 and \$210,511 at December 31, 2012 and 2011, respectively. The following table provides the net liability recognized on the consolidated balance sheets at December 31,:

	Pension Benefits		Other Post-retirement Benefits	
	2012	2011	2012	2011
Current liability	\$ 222	\$ 217	\$ —	\$ —
Noncurrent liability	<u>112,771</u>	<u>87,958</u>	<u>28,979</u>	<u>22,058</u>
Net liability recognized	<u>\$112,993</u>	<u>\$88,175</u>	<u>\$28,979</u>	<u>\$22,058</u>

At December 31, 2012 and 2011, the Company's pension plans had benefit obligations in excess of its plan assets. The following tables provide the projected benefit obligation, the accumulated benefit obligation and fair market value of the plan assets as of December 31,:

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2012	2011
Projected benefit obligation	\$303,077	\$237,087
Fair value of plan assets	190,084	148,912

	Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2012	2011
Accumulated benefit obligation	\$267,400	\$210,511
Fair value of plan assets	190,084	148,912

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The following table provides the components of net periodic benefit costs for the years ended December 31,:

	Pension Benefits			Other Post-retirement Benefits		
	2012	2011	2010	2012	2011	2010
Service cost	\$ 4,920	\$ 4,127	\$ 4,008	\$ 1,309	\$ 1,092	\$ 1,016
Interest cost	12,728	12,052	11,386	2,482	2,414	2,151
Expected return on plan assets	(13,588)	(11,731)	(10,206)	(1,950)	(1,689)	(1,540)
Amortization of transition obligation (asset)	—	—	—	—	104	104
Amortization of prior service cost	277	253	245	(299)	(268)	(268)
Amortization of actuarial loss	6,568	3,578	3,852	1,024	783	638
Amortization of regulatory asset	—	—	—	69	137	137
Settlement loss	304	—	—	90	—	—
Capitalized costs	(3,696)	(3,499)	(3,216)	(671)	(668)	(470)
Net periodic benefit cost	<u>\$ 7,513</u>	<u>\$ 4,780</u>	<u>\$ 6,069</u>	<u>\$ 2,054</u>	<u>\$ 1,905</u>	<u>\$ 1,768</u>

The Company records the underfunded status of its pension and other post-retirement benefit plans on its consolidated balance sheets and records a regulatory asset for these costs that would otherwise be charged to stockholders' equity, as the Company anticipates recoverability of the costs through customer rates. The Company's pension and other post-retirement benefit plans were underfunded at December 31, 2012 and 2011. Changes in the plans' funded status will affect the assets and liabilities recorded on the balance sheet. Due to the Company's regulatory treatment, the recognition of the funded status is recorded as a regulatory asset pursuant to the FASB's accounting guidance for regulated operations.

The following table provides the amounts recognized in regulatory assets that have not been recognized as components of net periodic benefit cost as of December 31,:

	Pension Benefits		Other Post-retirement Benefits	
	2012	2011	2012	2011
Net actuarial loss	\$106,980	\$83,008	\$21,315	\$15,937
Prior service cost (credit)	1,297	1,554	(977)	(923)
Transition obligation (asset)	—	—	—	74
Total recognized in regulatory assets	<u>\$108,277</u>	<u>\$84,562</u>	<u>\$20,338</u>	<u>\$15,088</u>

The estimated net actuarial loss, prior service cost and transition asset for the Company's pension plans that will be amortized in 2013 from the regulatory assets into net periodic benefit cost are \$8,064, \$229, and \$0, respectively. The estimated net actuarial loss, prior service credit and transition obligation for the Company's other post-retirement benefit plans that will be amortized in 2013 from regulatory assets into net periodic benefit cost are \$1,382, \$299, and \$0, respectively.

Accounting for pensions and other post-retirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from the Company's actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other post-retirement benefit expense that the Company recognizes.

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The significant assumptions related to the Company's benefit obligations are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2012	2011	2012	2011
<b>Weighted Average Assumptions Used to Determine Benefit Obligations as of December 31,</b>				
Discount rate	4.17%	5.0%	4.17%	5.0%
Rate of compensation increase	4.0-4.5%	4.0-4.5%	4.0%	4.0%
<b>Assumed Health Care Cost Trend Rates Used to Determine Benefit Obligations as of December 31,</b>				
Health care cost trend rate	n/a	n/a	8.0%	8.5%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2019	2019

*n/a – Assumption is not applicable to pension benefits.*

The significant assumptions related to the Company's net periodic benefit costs are as follows:

	Pension Benefits			Other Post-retirement Benefits		
	2012	2011	2010	2012	2011	2010
<b>Weighted Average Assumptions Used to Determine Net Periodic Benefit Costs for Years Ended December 31,</b>						
Discount rate	5.0%	5.75%	5.91%	5.0%	5.75%	5.91%
Expected return on plan assets	7.75%	7.75%	8.0%	5.17-7.75%	5.17-7.75%	5.33-8.0%
Rate of compensation increase	4.0-4.5%	4.0-4.5%	4.0-4.5%	4.0%	4.0%	4.0%
<b>Assumed Health Care Cost Trend Rates Used to Determine Net Periodic Benefit Costs for Years Ended December 31,</b>						
Health care cost trend rate	n/a	n/a	n/a	8.5%	9.0%	8.0%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	n/a	5.0%	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	n/a	n/a	n/a	2019	2019	2016

*n/a – Assumption is not applicable to pension benefits.*

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Assumed health-care trend rates have a significant effect on the expense and liabilities for other post-retirement benefit plans. The health care trend rate is based on historical rates and expected market conditions. A one-percentage point change in the assumed health-care cost trend rates would have the following effects:

	1-Percentage- Point Increase	1-Percentage- Point Decrease
Effect on the health-care component of the accrued other post-retirement benefit obligation	\$ 4,009	\$ (3,713)
Effect on aggregate service and interest cost components of net periodic post-retirement health-care benefit cost	\$ 186	\$ (185)

The Company's discount rate assumption was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to provide for the projected benefit payments of the plan. The selected bond portfolio was derived from a universe of Aa-graded corporate bonds, all of which were noncallable (or callable with make-whole provisions), and have at least \$50,000 in outstanding value. The discount rate was then developed as the single rate that equates the market value of the bonds purchased to the discounted value of the plan's benefit payments. The Company's pension expense and liability (benefit obligations) increases as the discount rate is reduced. A 25 basis-point reduction in this assumption would have increased 2012 pension expense by \$887 and the pension liabilities by \$8,956.

The Company's expected return on assets is determined by evaluating the asset class return expectations with its advisors as well as actual, long-term, historical results of our asset returns. The Company's market related value of plan assets is equal to the fair value of the plan assets as of the last day of its fiscal year, and is a determinant for the expected return on assets which is a component of net pension expense. The Company's pension expense increases as the expected return on assets decreases. A 25 basis-point reduction in this assumption would have increased 2012 pension expense by \$449. For 2012, the Company used a 7.75% expected return on assets assumption and will lower this assumption to 7.50% for the calculation of pension expense for 2013. The Company believes its actual long-term asset allocation on average will approximate the targeted allocation. The Company's investment strategy is to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories. Investment returns are compared to benchmarks that include the S&P 500 Index, the Barclays Capital Intermediate Government/Credit Index, and a combination of the two indices. The Pension Committee meets semi-annually to review plan investments and management monitors investment performance quarterly through a performance report prepared by an external consulting firm.

The Company's pension plan asset allocation and the target allocation by asset class are as follows:

Asset Class:	2013 Target Allocation	Percentage of Plan Assets at December 31,	
		2012	2011
Equity securities	50 to 75%	64%	66%
Debt securities	25 to 50%	23%	24%
Cash	0%	13%	10%
Total	100%	100%	100%

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The fair value of the Company's pension plans' assets at December 31, 2012 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
<b>Equity securities (a)</b>				
Common stocks	\$121,902	\$121,902	\$ —	\$ —
Mutual funds	898	898	—	—
<b>Debt securities (b)</b>				
U.S. Treasury and government agency bonds	12,156	—	12,156	—
Corporate and foreign bonds	5,975	—	5,975	—
Mutual funds	24,928	24,928	—	—
Cash (c)	24,225	—	24,225	—
<b>Total pension assets</b>	<u>\$190,084</u>	<u>\$147,728</u>	<u>\$42,356</u>	<u>\$ —</u>

The fair value of the Company's pension plans' assets at December 31, 2011 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
<b>Equity securities (a)</b>				
Common stocks	\$ 95,909	\$ 95,909	\$ —	\$ —
Mutual funds	3,507	3,507	—	—
<b>Debt securities (b)</b>				
U.S. Treasury and government agency bonds	14,236	—	14,236	—
Corporate and foreign bonds	4,898	—	4,898	—
Mutual funds	15,072	15,072	—	—
Cash (c)	15,290	—	15,290	—
<b>Total pension assets</b>	<u>\$148,912</u>	<u>\$114,488</u>	<u>\$34,424</u>	<u>\$ —</u>

- (a) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in mutual funds, which invest in common stocks, are valued using the net asset value per unit as obtained from quoted market prices for the mutual funds.
- (b) Investments in U.S. Treasury and government agency bonds and corporate and foreign bonds are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market information to value the fixed income securities. Investments in mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices in active markets for the mutual fund.
- (c) Cash is comprised of money market funds, which are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.

Equity securities include Aqua America, Inc. common stock in the amounts of \$12,596 or 6.6% and \$10,610 or 6.4% of total pension plans' assets as of December 31, 2012 and 2011, respectively.

AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

The asset allocation for the Company's other post-retirement benefit plans and the target allocation by asset class are as follows:

Asset Class:	2013 Target Allocation	Percentage of Plan Assets at December 31,	
		2012	2011
Equity securities	50 to 75%	46%	56%
Debt securities	25 to 50%	26%	34%
Cash	0%	28%	10%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The fair value of the Company's other post-retirement benefit plans' assets at December 31, 2012 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
<b>Equity securities (a)</b>				
Common stocks	\$ 9,170	\$ 9,170	\$ —	\$ —
Mutual funds	6,465	6,465	—	—
<b>Debt securities (b)</b>				
U.S. Treasury and government agency bonds	4,751	—	4,751	—
Corporate and foreign bonds	2,735	—	2,735	—
Mutual funds	1,398	1,398	—	—
<b>Cash (c)</b>	<b>9,535</b>	<b>—</b>	<b>9,535</b>	<b>—</b>
<b>Total other post-retirement assets</b>	<b>\$34,054</b>	<b>\$17,033</b>	<b>\$17,021</b>	<b>\$ —</b>

AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

The fair value of the Company's other post-retirement benefit plans' assets at December 31, 2011 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
<b>Equity securities (a)</b>				
Common stocks	\$ 9,010	\$ 9,010	\$ —	\$ —
Mutual funds	6,524	6,524	—	—
<b>Debt securities (b)</b>				
U.S. Treasury and government agency bonds	4,904	—	4,904	—
Corporate and foreign bonds	3,042	—	3,042	—
Mutual funds	1,420	1,420	—	—
Cash (c)	3,231	—	3,231	—
<b>Total other post-retirement assets</b>	<b>\$28,131</b>	<b>\$16,954</b>	<b>\$11,177</b>	<b>\$ —</b>

- (a) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in mutual funds, which invest in common stocks, are valued using the net asset value per unit as obtained from quoted market prices for the mutual funds.
- (b) Investments in U.S. Treasury and government agency bonds and corporate and foreign bonds are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market information to value the fixed income securities. Investments in mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices in active markets for the mutual fund.
- (c) Cash is comprised of money market funds, which are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and the Company's funding policy, during 2013 our pension contribution is expected to be approximately \$15,954. The Company's funding of its PBOP cost during 2013 is expected to approximate \$2,875.

The Company has 401(k) savings plans that cover substantially all employees. The Company makes matching contributions that are initially invested in Aqua America, Inc. common stock based on a percentage of an employee's contribution, subject to certain limitations. Participants may diversify their Company matching account balances into other investments offered under the 401(k) savings plans. The Company's matching contribution and annual profit-sharing contribution, recorded as compensation expense, was \$2,741, \$2,496, and \$2,035, for the years ended December 31, 2012, 2011, and 2010, respectively.

**Note 16 – Water and Wastewater Rates**

On June 7, 2012, the Pennsylvania Public Utility Commission granted Aqua Pennsylvania a water rate increase designed to increase total operating revenues by \$16,700, on an annualized basis. The rates in effect at the time of the filing included \$27,449 in Distribution System Improvement Charges ("DSIC") or 7.5% above prior base rates. Consequently, the total base rates increased by \$44,149 since the last base rate increase and the DSIC was reset to zero. In addition, the rate case settlement provides for flow-through accounting treatment of certain income tax benefits if the Company changes its tax accounting method to permit the expensing of certain utility asset improvement costs that were previously being capitalized and depreciated for tax purposes (the "repair change"). In December 2012, Aqua Pennsylvania implemented the repair change which resulted in the net recognition of 2012 income tax benefits of \$33,565 which reduced income tax expense as it was flowed-through to net income in the fourth quarter of 2012. In addition, the income tax benefits of \$111,397 for qualifying capital expenditures made prior to 2012 have been deferred as of December 31, 2012 and, based on the settlement agreement, a ten year amortization of the income tax benefits is expected to reduce income tax expense beginning in 2013. As a result of the repair change, the fourth quarter 2012 DSIC of 2.82% for Aqua Pennsylvania's water customers was reset to zero beginning January 1, 2013, and Aqua Pennsylvania will not file a water base rate case in 2013.

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AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

In February 2012, two of the Company's operating subsidiaries in Texas began to bill interim rates in accordance with authorization from the Texas Commission on Environmental Quality ("TCEQ"). The additional revenue billed and collected prior to the TCEQ's final ruling is subject to refund based on the outcome of the rate case. As of December 31, 2012, the Company had billed revenue of \$4,758, which is subject to refund based on the outcome of the TCEQ's final ruling. Based on the Company's review of the present circumstances, a reserve of \$1,665 has been established for the billings to date.

On June 17, 2010, the PAPUC granted Aqua Pennsylvania a water rate increase designed to increase total operating revenues by \$23,600, on an annualized basis. The rates in effect at the time of the filing included \$24,256 in DSIC or 7.5% above prior base rates. Consequently, the total base rates increased by \$47,856 since the last base rate increase and the DSIC was reset to zero.

In October 2010, the Company's operating subsidiary in Texas began to bill interim rates for one of its divisions in accordance with authorization from the Texas Commission on Environmental Quality. The additional revenue billed and collected prior to the TCEQ's final ruling is subject to refund based on the outcome of the rate case. The rate case concluded with the issuance of an order on May 20, 2012, and no refunds of revenue previously billed and collected were required.

The Company's operating subsidiaries, excluding the Pennsylvania water and Texas awards discussed above, were allowed annual rate increases of \$11,774 in 2012, \$6,311 in 2011, and \$13,834 in 2010, represented by eight, twelve, and twelve rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately \$7,605, \$3,312, and \$4,515 in 2012, 2011, and 2010, respectively.

Five states in which the Company operates permit water utilities, and in three states wastewater utilities, to add a surcharge to their water or wastewater bills to offset the additional depreciation and capital costs related to infrastructure system replacement and rehabilitation projects completed and placed into service between base rate filings. Currently, Pennsylvania, Illinois, Ohio, and Indiana allow for the use of infrastructure rehabilitation surcharges, and in June 2012, regulators have approved a rulemaking to implement an infrastructure rehabilitation surcharge for regulated water utilities in New Jersey; as a result, the Company's operating subsidiary in New Jersey is in the process of implementing an infrastructure rehabilitation surcharge for 2013. These surcharge mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped as a percentage of base rates, generally at 5% to 12.75% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. Infrastructure rehabilitation surcharges provided revenues in 2012, 2011, and 2010 of \$15,911, \$15,938, and \$14,044, respectively.



AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

**Note 17 – Segment Information**

The Company has twelve operating segments and one reportable segment. The Regulated segment, the Company’s single reportable segment, is comprised of ten operating segments representing our water and wastewater regulated utility companies which are organized by the states where we provide water and wastewater services. These operating segments are aggregated into one reportable segment since each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment. Two of our operating segments have been classified as discontinued operations, and are excluded from the Regulated segment disclosure of our continuing operations.

Two operating segments are included within the other category below. These segments are not quantitatively significant and are comprised of the Company’s businesses that provide sludge hauling, septage and grease services, backflow prevention services, certain other non-regulated water and wastewater services, and non-utility raw water supply services for firms in the natural gas and oil drilling industry. In addition to these segments, other is comprised of other business activities not included in the reportable segment, including corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include certain general and administrative expenses, and interest expense.

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

	2012			2011		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$ 740,030	\$ 17,730	\$ 757,760	\$ 674,927	\$ 12,364	\$ 687,291
Operations and maintenance expense	259,847	11,996	271,843	243,137	13,606	256,743
Depreciation	113,139	(1,372)	111,767	104,681	(1,269)	103,412
Operating income (loss)	316,602	4,915	321,517	282,587	(1,788)	280,799
Interest expense, net of AFUDC	67,433	6,182	73,615	64,990	5,664	70,654
Income tax	66,821	60	66,881	72,336	(3,225)	69,111
Income (loss) from continuing operations	182,769	1,318	184,087	145,493	(3,810)	141,683
Capital expenditures	346,676	1,309	347,985	324,433	1,375	325,808
Total assets	4,566,327	292,190	4,858,517	4,183,758	164,662	4,348,420
Goodwill	24,031	4,121	28,152	22,823	4,121	26,944
	2010					
	Regulated	Other and Eliminations	Consolidated			
Operating revenues	\$ 648,768	\$ 11,418	\$ 660,186			
Operations and maintenance expense	238,093	12,896	250,989			
Depreciation	101,644	(1,038)	100,606			
Operating income (loss)	259,372	(2,038)	257,334			
Interest expense, net of AFUDC	63,170	5,392	68,562			
Income tax	77,318	(2,378)	74,940			
Income (loss) from continuing operations	119,292	(2,913)	116,379			
Capital expenditures	307,726	408	308,134			
Total assets	3,986,819	85,647	4,072,466			
Goodwill	23,797	4,121	27,918			

Selected Quarterly Financial Data (Unaudited)  
Aqua America, Inc. and Subsidiaries  
(In thousands of dollar, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
<u>2012</u>					
Operating revenues	\$164,024	\$191,690	\$214,565	\$187,481	\$757,760
Operations and maintenance expense	64,825	63,571	71,268	72,179	271,843
Operating income	61,839	87,032	100,535	72,111	321,517
Income from continuing operations	26,889	41,780	50,284	65,134	184,087
Income/(loss) from discontinuing operations	11,015	(335)	375	1,421	12,476
Net income attributable to common shareholders	37,904	41,445	50,659	66,555	196,563
Basic income from continuing operations per common share	0.19	0.30	0.36	0.47	1.32
Diluted income from continuing operations per common share	0.19	0.30	0.36	0.46	1.32
Basic income (loss) from discontinued operations per common share	0.08	(0.00)	0.00	0.01	0.09
Diluted income (loss) from discontinued operations per common share	0.08	(0.00)	0.00	0.01	0.09
Basic net income per common share	0.27	0.30	0.36	0.48	1.41
Diluted net income per common share	0.27	0.30	0.36	0.47	1.40
Dividend paid per common share	0.165	0.165	0.165	0.175	0.670
Dividend declared per common share	0.165	0.165	0.340	—	0.670
Price range of common stock					
- high	22.75	25.17	26.93	25.94	26.93
- low	21.06	21.52	24.06	24.15	21.06
<u>2011</u>					
Operating revenues	\$157,576	\$171,839	\$191,083	\$166,793	\$687,291
Operations and maintenance expense	60,379	63,360	66,502	66,502	256,743
Operating income	59,216	71,222	86,702	63,659	280,799
Income from continuing operations	29,597	35,719	44,861	31,506	141,683
Income/(loss) from discontinuing operations	754	1,871	(3,738)	2,499	1,386
Net income attributable to common shareholders	30,351	37,590	41,123	34,005	143,069
Basic income from continuing operations per common share	0.21	0.26	0.32	0.23	1.03
Diluted income from continuing operations per common share	0.21	0.26	0.32	0.23	1.02
Basic income (loss) from discontinued operations per common share	0.01	0.01	(0.03)	0.02	0.01
Diluted income (loss) from discontinued operations per common share	0.01	0.01	(0.03)	0.02	0.01
Basic net income per common share	0.22	0.27	0.30	0.25	1.04
Diluted net income per common share	0.22	0.27	0.30	0.24	1.03
Dividend paid per common share	0.155	0.155	0.155	0.165	0.630
Dividend declared per common share	0.155	0.155	0.320	—	0.630
Price range of common stock					
- high	23.79	23.28	22.74	22.52	23.79
- low	21.56	21.03	19.28	20.16	19.28

High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape. The cash dividend paid in December 2012 of \$0.175 was declared in August 2012, and the cash dividend paid in December 2011 of \$0.165 was declared in August 2011.

Summary of Selected Financial Data (Unaudited)  
Aqua America, Inc. and Subsidiaries  
(In thousands of dollars, except per share amounts)

Years ended December 31,	2012	2011	2010	2009	2008
<b>PER COMMON SHARE:</b>					
Income from continuing operations					
Basic	\$ 1.32	\$ 1.03	\$ 0.85	\$ 0.72	\$ 0.71
Diluted	1.32	1.02	0.85	0.72	0.71
Income from discontinuing operations					
Basic	0.09	0.01	0.06	0.04	0.02
Diluted	0.09	0.01	0.06	0.04	0.02
Net income					
Basic	1.41	1.04	0.91	0.77	0.73
Diluted	1.40	1.03	0.90	0.77	0.73
Cash dividends declared and paid	0.67	0.63	0.59	0.55	0.51
Return on Aqua America stockholders' equity	14.2%	11.4%	10.6%	9.4%	9.3%
Book value at year end	\$ 9.89	\$ 9.01	\$ 8.52	\$ 8.12	\$ 7.82
Market value at year end	25.42	22.05	22.48	17.51	20.59
<b>INCOME STATEMENT HIGHLIGHTS:</b>					
Operating revenues	\$ 757,760	\$ 687,291	\$ 660,186	\$ 609,897	\$ 573,075
Depreciation and amortization	116,996	108,300	111,716	107,118	87,151
Interest expense, net (a)	77,757	77,804	73,393	66,345	65,986
Income from continuing operations before income taxes	250,968	210,794	191,319	162,066	158,441
Provision for income taxes	66,881	69,111	74,940	63,626	62,712
Income from continuing operations	184,087	141,683	116,379	98,440	95,729
Income from discontinued operations	12,476	1,386	7,596	5,913	2,189
Net income attributable to common shareholders	196,563	143,069	123,975	104,353	97,918
<b>BALANCE SHEET HIGHLIGHTS:</b>					
Total assets	\$4,858,517	\$4,348,420	\$4,072,466	\$3,749,862	\$3,486,339
Property, plant and equipment, net	3,936,163	3,530,942	3,276,517	3,032,916	2,815,985
Aqua America stockholders' equity	1,385,704	1,251,313	1,174,254	1,108,904	1,058,446
Long-term debt, including current portion	1,588,992	1,475,886	1,519,457	1,404,930	1,217,815
Total debt	1,669,375	1,583,657	1,609,125	1,432,361	1,297,349
<b>ADDITIONAL INFORMATION:</b>					
Operating cash flows from continuing operations	\$ 377,485	\$ 352,041	\$ 244,717	\$ 244,318	\$ 206,742
Capital additions	347,985	325,808	308,134	266,190	252,498
Net cash expended for acquisitions of utility systems and other	121,248	8,515	8,625	3,373	14,659
Dividends on common stock	93,423	87,133	80,907	74,729	68,504
Number of utility customers served (b)	968,357	966,163	962,970	953,437	945,540
Number of shareholders of common stock	26,216	26,744	27,274	27,984	28,565
Common shares outstanding (000)	140,167	138,815	137,776	136,486	135,370
Employees (full-time) (b)	1,619	1,615	1,632	1,632	1,638

(a) Net of allowance for funds used during construction and interest income.

(b) Includes continuing and discontinued operations.

AQUA AMERICA, INC. AND SUBSIDIARIES

The following table lists the significant subsidiaries and other active subsidiaries of Aqua America, Inc. at December 31, 2012:

Aqua Pennsylvania, Inc. (Pennsylvania)  
Aqua Resources, Inc. (Delaware)  
Aqua Services, Inc. (Pennsylvania)  
Aqua Infrastructure, LLC (Pennsylvania)  
Aqua Ohio, Inc. (Ohio)  
Aqua Illinois, Inc. (Illinois)  
Aqua New Jersey, Inc. (New Jersey)  
Aqua North Carolina, Inc. (North Carolina)  
Aqua Texas, Inc. (Texas)  
Aqua Indiana, Inc. (Indiana)  
Aqua Virginia, Inc. (Virginia)  
Aqua Utilities Florida, Inc. (Florida)  
Aqua Georgia, Inc. (Georgia)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-61772, 333-42275, 333-122900, 333-152885, 333-176117, and 333-179743), on Form S-4 (No. 333-93243), and on Form S-8 (Nos. 033-52557, 033-53689, 333-70859, 333-81085, 333-61768, 333-107673, 333-116776, 333-126042, 333-148206, 333-156047, 333-159897, and 333-181389) of Aqua America, Inc. of our report dated February 28, 2013 relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP  
Philadelphia, Pennsylvania  
February 28, 2013

CERTIFICATION

I, Nicholas DeBenedictis, certify that:

1. I have reviewed this annual report on Form 10-K of Aqua America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this 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: February 28, 2013

Nicholas DeBenedictis  
Nicholas DeBenedictis  
Chairman, President and Chief Executive Officer

## CERTIFICATION

I, David P. Smeltzer, certify that:

1. I have reviewed this annual report on Form 10-K of Aqua America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this 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: February 28, 2013

David P. Smeltzer

David P. Smeltzer

Executive Vice President and Chief Financial Officer

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2012 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nicholas DeBenedictis, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Nicholas DeBenedictis

Nicholas DeBenedictis  
Chairman, President and Chief Executive Officer  
February 28, 2013



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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2012 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Smeltzer, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

David P. Smeltzer

David P. Smeltzer  
Executive Vice President and Chief Financial Officer  
February 28, 2013

