

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2004

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

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

Commission File Number 1-6659

AQUA AMERICA, INC. (formerly Philadelphia Suburban Corporation)

(Exact name of registrant as specified in its charter)

Pennsylvania

23-1702594

(State or other jurisdiction of incorporation or organization)

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

762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania

19010-3489

(Address of principal executive offices)

(Zip Code)

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

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

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

Yes X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 29, 2004.

92,845,523.

Part I - Financial Information
Item 1. Financial Statements

AQUA AMERICA, INC. AND SUBSIDIARIES

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

(UNAUDITED)

Assets	March 31, 2004	December 31, 2003
Property, plant and equipment, at cost	\$ 2,331,546	\$ 2,302,304
Less accumulated depreciation	489,821	478,013
Net property, plant and equipment	1,841,725	1,824,291
Current assets:		
Cash and cash equivalents	13,668	10,757
Accounts receivable and unbilled revenues, net	58,452	62,320
Inventory, materials and supplies	6,239	5,841
Prepayments and other current assets	5,132	5,051
Total current assets	83,491	83,969
Regulatory assets	98,133	98,761
Deferred charges and other assets, net	33,467	34,277
Funds restricted for construction activity	23,922	28,438
	\$ 2,080,738	\$ 2,069,736
Liabilities and Stockholders' Equity		
Stockholders' equity:		
Common stock at \$.50 par value, authorized 100,000,000 shares, issued 93,510,877 and 93,270,424 in 2004 and 2003	\$ 46,756	\$ 46,635
Capital in excess of par value	416,649	413,008
Retained earnings	215,370	210,915
Minority interest	971	912
Treasury stock, 677,370 and 681,384 shares in 2004 and 2003	(12,464)	(12,611)
Accumulated other comprehensive income	-	171
Total stockholders' equity	667,282	659,030
Long-term debt, excluding current portion	686,312	696,666
Commitments	-	-
Current liabilities:		
Current portion of long-term debt	32,394	39,386
Loans payable	127,451	96,459
Accounts payable	11,593	32,321
Accrued interest	9,212	11,126
Accrued taxes	19,681	16,779
Other accrued liabilities	37,952	35,930
Total current liabilities	238,283	232,001
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	193,788	190,395
Customers' advances for construction	72,043	72,500
Other	10,923	9,419
Total deferred credits and other liabilities	276,754	272,314
Contributions in aid of construction	212,107	209,725
	\$ 2,080,738	\$ 2,069,736

See notes to consolidated financial statements on page 5 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(In thousands, except per share amounts)

(UNAUDITED)

	Three Months Ended March 31,	
	2004	2003
Operating revenues	\$ 99,768	\$ 80,489
Costs and expenses:		
Operations and maintenance	41,831	30,664
Depreciation	13,674	11,347
Amortization	670	712
Taxes other than income taxes	7,149	5,320
	63,324	48,043
Operating income	36,444	32,446

Other expense (income):		
Interest expense, net	11,802	10,612
Allowance for funds used during construction	(609)	(376)
Gain on sale of other assets	(450)	(55)
	-----	-----
Income before income taxes	25,701	22,265
Provision for income taxes	10,126	8,938
	-----	-----
Net income	15,575	13,327
Dividends on preferred stock	-	3
	-----	-----
Net income available to common stock	\$ 15,575	\$ 13,324
	=====	=====
Net income	\$ 15,575	\$ 13,327
Other comprehensive income (loss), net of tax:		
Unrealized gain on securities	59	47
Reclassification adjustment for gains reported in net income	(230)	-
	-----	-----
Comprehensive income	\$ 15,404	\$ 13,374
	=====	=====
Net income per common share:		
Basic	\$ 0.17	\$ 0.16
	=====	=====
Diluted	\$ 0.17	\$ 0.16
	=====	=====
Average common shares outstanding		
during the period:		
Basic	92,688	84,971
	-----	-----
Diluted	93,806	85,733
	=====	=====

See notes to consolidated financial statements on page 5 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES

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

(UNAUDITED)

	March 31, 2004	December 31, 2003
	-----	-----
Stockholders' equity:		
Common stock, \$.50 par value	\$ 46,756	\$ 46,635
Capital in excess of par value	416,649	413,008
Retained earnings	215,370	210,915
Minority interest	971	912
Treasury stock	(12,464)	(12,611)
Accumulated other comprehensive income	-	171
	-----	-----
Total stockholders' equity	667,282	659,030
	-----	-----
Long-term debt:		
Long-term debt of subsidiaries (substantially secured by utility plant):		
Interest Rate Range		
0.00% to 2.49%	18,669	16,868
2.50% to 2.99%	22,291	18,913
3.00% to 3.49%	5,587	5,618
3.50% to 3.99%	2,800	2,800
4.00% to 4.99%	8,135	8,135
5.00% to 5.49%	110,875	110,875
5.50% to 5.99%	66,260	76,260
6.00% to 6.49%	119,360	119,360
6.50% to 6.99%	42,000	42,000
7.00% to 7.49%	34,716	46,716
7.50% to 7.99%	23,000	23,000
8.00% to 8.49%	17,500	17,500
8.50% to 8.99%	9,000	9,000
9.00% to 9.49%	53,805	53,805
9.50% to 9.99%	42,748	43,242
10.00% to 10.50%	6,000	6,000
	-----	-----
Notes payable, 6.05%, due 2006	582,746	600,092
	960	960

Unsecured notes payable, 4.87%, due 2023	135,000	135,000
	-----	-----
Current portion of long-term debt	718,706	736,052
	32,394	39,386
	-----	-----
Long-term debt, excluding current portion	686,312	696,666
	-----	-----
Total capitalization	\$ 1,353,594	\$ 1,355,696
	=====	=====

See notes to consolidated financial statements on page 5 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW  
(In thousands of dollars)

(UNAUDITED)

	Three Months Ended	
	March 31,	
	2004	2003
	-----	-----
Cash flows from operating activities:		
Net income	\$ 15,575	\$ 13,327
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	14,344	12,059
Deferred income taxes	3,595	1,865
Gain on sale of other assets	(450)	(55)
Net (increase) decrease in receivables, inventory and prepayments	(178)	744
Net decrease in payables, accrued interest, accrued taxes and other accrued liabilities	(653)	(6,883)
Other	736	(1,511)
	-----	-----
Net cash flows from operating activities	32,969	19,546
	-----	-----
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of \$609 and \$376	(29,134)	(24,001)
Acquisitions of water and wastewater systems	(1,277)	(11)
Proceeds from the sale of other assets	1,215	60
Net decrease in funds restricted for construction activity	4,516	2,775
Other	(231)	(130)
	-----	-----
Net cash flows used in investing activities	(24,911)	(21,307)
	-----	-----
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	1,712	1,361
Repayments of customers' advances	(676)	(742)
Net proceeds of short-term debt	18,935	22,117
Proceeds from long-term debt	5,689	24
Repayments of long-term debt	(23,041)	(11,050)
Proceeds from issuing common stock	3,433	2,665
Repurchase of common stock	(79)	(105)
Dividends paid on preferred stock	-	(3)
Dividends paid on common stock	(11,120)	(9,512)
Other	-	(173)
	-----	-----
Net cash flows from financing activities	(5,147)	4,582
	-----	-----
Net increase in cash and cash equivalents	2,911	2,821
Cash and cash equivalents at beginning of period	10,757	5,915
	-----	-----
Cash and cash equivalents at end of period	\$ 13,668	\$ 8,736
	=====	=====

See notes to consolidated financial statements on page 5 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES

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

Note 1 Basis of Presentation

The accompanying consolidated balance sheet and statement of

capitalization of Aqua America, Inc. at March 31, 2004, the consolidated statements of income and comprehensive income for the three months ended March 31, 2004 and 2003, and the consolidated statements of cash flow for the three months ended March 31, 2004 and 2003, are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present fairly the consolidated financial position, the consolidated results of operations, and the consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Aqua America Annual Report on Form 10-K for the year ended December 31, 2003. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year.

Note 2

#### Acquisitions

In April 2004, Aqua America's Florida operating subsidiary entered into a purchase agreement with Florida Water Services Corporation, a subsidiary of ALLETE, Inc., to acquire the utility assets of 63 water and wastewater systems located in central Florida. The purchase agreement provides for a cash purchase price of \$13,820. The acquisition is scheduled to close in mid-2004 and is subject to regulatory approval by the Florida Public Service Commission. The Commission's review process might result in an adjustment of the final purchase price based on the Commission's determination of plant investment for the system. In addition to this agreement, Aqua America's Florida operating subsidiary entered into a second purchase agreement with the same parties that allows it to acquire an additional nine water and wastewater systems for \$4,180 in cash subject to the outcome of a previously negotiated right of first refusal by Florida Water Services Corporation with a nearby municipality.

In November 2003, Aqua America entered into a purchase agreement with ALLETE Water Services, Inc., a subsidiary of ALLETE, Inc., to acquire the capital stock of Heater Utilities, Inc., which owns water and wastewater systems located in North Carolina. The purchase agreement provides for a cash purchase price of \$48,000 and the assumption of approximately \$28,000 in debt, reflecting an acquisition premium of approximately \$18,000. The Company intends to seek the ability to recover a portion of this premium through customer rates via the North Carolina Utilities Commission approval process. The acquisition, which is subject to regulatory approval, is expected to close in mid-2004. This acquisition will add approximately 50,000 customers in the areas of suburban Raleigh, Charlotte, Gastonia and Fayetteville, North Carolina.

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#### AQUA AMERICA, INC. AND SUBSIDIARIES

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

On July 31, 2003, Aqua America completed its acquisition of four operating water and wastewater subsidiaries of AquaSource, Inc. (a subsidiary of DQE, Inc.), including selected, integrated operating and maintenance contracts and related assets (individually and collectively the acquisition is referred to as "AquaSource") for \$190,717 in cash, as adjusted pursuant to the purchase agreement for the completion of a closing balance sheet and the finalization of working capital. The final purchase price will be determined through an arbitration process and is expected to be within the range

of \$178,700 to \$193,717. We expect the arbitration process to conclude by the third quarter of 2004. The results of AquaSource have been included in our consolidated financial statements beginning August 1, 2003. The acquired operations of AquaSource serve over 130,000 water and wastewater customer accounts in eleven states (including the Connecticut operations which were sold in October 2003).

The following supplemental pro forma information is presented to illustrate the effects of the AquaSource acquisition, which was completed on July 31, 2003, on the historical operating results for the three months ended March 31, 2003 as if the acquisition had occurred at the beginning of the period:

Operating revenues	\$ 97,113
Net income	\$ 14,659
Net income per common share:	
Basic	\$ 0.16
Diluted	\$ 0.16

The supplemental information is not necessarily representative of the actual results that may have occurred for these periods or of the results that may occur in the future. This information does not reflect the effects of recent rate increases or cost savings that may result from the acquisition, such as the effects of a reduction in administrative costs. This information is based upon the historical operating results of AquaSource for periods prior to the acquisition date of July 31, 2003 as provided to Aqua America by AquaSource, Inc. and DQE, Inc. management.

Note 3 Disposition

The Company has an agreement for the sale of its only regulated operation located in Kentucky, which was acquired as part of the AquaSource transaction. The sale price approximates our investment in this operation. The transaction is expected to occur in 2004. The operation represents approximately 0.1% of the operations acquired from AquaSource, Inc.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

Note 4 Stockholders' Equity

Aqua America reports other comprehensive income in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." The following table summarizes the activity of accumulated other comprehensive income:

	2004	2003
	-----	-----
Balance at January 1,	\$ 171	\$ 63
Unrealized holding gain arising during the period, net of tax of \$32 in 2004 and \$25 in 2003	59	47
Less: reclassification adjustment for gains included in net income, net of tax of \$173 in 2004	(230)	-
	-----	-----
Other comprehensive income (loss), net of tax	(171)	47
	-----	-----
Balance at March 31,	\$ -	\$ 110
	=====	=====

Note 5 Net Income per Common Share

Basic net income per common share is based on the weighted

average number of common shares outstanding. Diluted net income per common share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock options is included in the computation of Diluted net income per common share. The following table summarizes the shares, in thousands, used in computing Basic and Diluted net income per common share:

	Three Months Ended March 31,	
	2004	2003
Average common shares outstanding during the period for Basic computation	92,688	84,971
Dilutive effect of employee stock options	1,118	762
Average common shares outstanding during the period for Diluted computation	93,806	85,733

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AQUA AMERICA, INC. AND SUBSIDIARIES

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

Note 6 Stock-Based Compensation

Aqua America accounts for stock-based compensation using the intrinsic value method in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense related to granting of stock options has been recognized in the financial statements for stock options that have been granted. Pursuant to the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, pro forma net income available to common stock and earnings per share are presented in the following table as if compensation cost for stock options was determined as of the grant date under the fair value method:

	Three Months Ended March 31,	
	2004	2003
Net income available to common stock, as reported:	\$ 15,575	\$ 13,324
Add: stock-based employee compensation expense included in reported net income, net of tax	32	35
Less: pro forma expense related to stock options granted, net of tax effects	(489)	(440)
Pro forma	\$ 15,118	\$ 12,919
Basic net income per share:		
As reported	\$ 0.17	\$ 0.16
Pro forma	0.16	0.15
Diluted net income per share:		
As reported	\$ 0.17	\$ 0.16
Pro forma	0.16	0.15

The fair value of options at the date of grant was estimated using the Black-Scholes option-pricing model.

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AQUA AMERICA, INC. AND SUBSIDIARIES

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

Note 7 Pension Plans and Other Postretirement Benefits

The Company maintains a qualified, defined benefit plan, nonqualified pension plans and other postretirement benefit plans for certain of its employees. The net periodic benefit cost is based on estimated values provided by independent actuaries. The following table provides the components of net periodic benefit costs for the three months ended March 31:

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
Service cost	\$ 930	\$ 509	\$ 232	\$ 210
Interest cost	2,065	1,263	364	363
Expected return on plan assets	(1,931)	(1,091)	(213)	(195)
Amortization of transition obligation (asset)	(45)	(29)	157	171
Amortization of prior service cost	86	55	(11)	(12)
Amortization of actuarial loss	209	180	22	13
Amortization of regulatory asset	-	-	34	34
Capitalized costs	(237)	(45)	(149)	(144)
Net periodic benefit cost	\$ 1,077	\$ 842	\$ 436	\$ 440

Aqua America previously disclosed in its financial statements for the year ended December 31, 2003, that it expected to contribute \$5,371 to Aqua America's defined benefit pension plan. We made no contributions to the plan in the three months ended March 31, 2004. In April 2004, Aqua America contributed \$1,300 and expects to contribute the following amounts: \$2,771 in the third quarter of 2004 and \$1,300 in the fourth quarter of 2004. We are currently evaluating the impact of the Pension Funding Equity Act enacted in April 2004 on our projected funding. See Footnote 9 for a discussion of the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

Note 8 Water and Wastewater Rates

In April 2004, the Company's operating subsidiary in Illinois was granted a rate increase intended to increase total revenues by approximately \$2,261 on an annual basis.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

Note 9 Recent Accounting Pronouncements

In January 2004, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." FSP 106-1, which was effective for the Company's consolidated financial statements for the year ended December 31, 2003, permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a



one-time election to defer accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). In accordance with FSP 106-1, the Company made a one-time election to defer the recognition of the impact on FSP No. 106-1 accounting. Any measures of the accumulated postretirement benefit obligation and net periodic postretirement benefit cost in the consolidated financial statements and footnotes for the period ended March 31, 2004 did not reflect the effects of the Act. Currently, specific authoritative accounting guidance for the federal subsidy is pending and that guidance when issued may require the Company to change previously reported information. The Company is currently investigating the impacts of the adoption of FSP 106-1's initial recognition, measurement and disclosure provisions on its consolidated financial statements.

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

### 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 Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report contain, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address, among other things: our use of cash; projected capital expenditures; liquidity; possible acquisitions and other growth ventures; the completion of various construction projects; the projected effects of recent accounting pronouncements; the final purchase price for AquaSource; the expected completion and timing of completion of the Heater and the Florida Water Services acquisitions; the regulatory approval of the Florida Water Services acquisition; the projected annual value of rate increases, as well as information contained elsewhere in this report where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans" or similar expressions. These statements are based on a number of assumptions concerning future events, and are subject to a number of uncertainties and other factors, many of which are outside our control. Actual results may differ materially from such statements for a number of reasons, including the effects of regulation, abnormal weather, changes in capital requirements and funding, acquisitions, and our ability to assimilate acquired operations. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

##### General Information

Name Change - On January 16, 2004, Philadelphia Suburban Corporation changed its corporate name to Aqua America, Inc. In addition, we have changed our ticker symbol from PSC to WTR on the New York Stock Exchange and Philadelphia Stock Exchange effective as of the opening of trading on January 20, 2004.

Nature of Operations - Aqua America, Inc. ("we" or "us"), a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to approximately 2.5 million people in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. Our largest operating subsidiary, Aqua Pennsylvania, Inc. - formerly Pennsylvania Suburban Water Company, provides water or wastewater services to approximately 1.3 million people in the suburban areas north and west of the City of Philadelphia and in 20 other counties in Pennsylvania. Our other subsidiaries provide similar services in 13 other states. In addition, we provide water and wastewater service through operating and maintenance contracts with municipal authorities

and other parties close to our operating companies' service territories. We are the largest U.S.-based publicly-traded water utility based on number of people served.

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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)

Financial Condition

During the quarter, we had \$29,134 of capital expenditures, repaid \$676 of customer advances for construction and repaid debt and made sinking fund contributions and other loan repayments of \$23,041. The capital expenditures were related to improvements to treatment plants, new and rehabilitated water mains, customer service lines and hydrants, in addition to well and booster improvements.

During the quarter, the proceeds from the issuance of long-term debt, proceeds from the issuance of common stock, internally generated funds and available working capital were used to fund the cash requirements discussed above and to pay dividends. At various times during the first quarter of 2004, our operating subsidiaries issued long-term notes payable in aggregate of \$5,689 at various interest rates. At March 31, 2004, we had short-term lines of credit of \$178,000, of which \$53,408 was available. In May 2004, our Pennsylvania operating subsidiary intends to issue long-term debt of approximately \$87,000 and use the proceeds to refinance short-term borrowings and to fund long-term debt maturities.

In April 2004, our Florida operating subsidiary entered into a purchase agreement with Florida Water Services Corporation, a subsidiary of ALLETE, Inc., to acquire the utility assets of 63 water and wastewater systems located in central Florida. The purchase agreement provides for a cash purchase price of \$13,820. The acquisition is scheduled to close in mid-2004 and is subject to regulatory approval by the Florida Public Service Commission. The Commission's review process might result in an adjustment of the final purchase price based on the Commission's determination of plant investment for the system. In addition to this agreement, Aqua America's Florida operating subsidiary entered into a second purchase agreement with the same parties that allows it to acquire an additional nine water and wastewater systems for \$4,180 in cash subject to the outcome of a previously negotiated right of first refusal by Florida Water Services Corporation with a nearby municipality.

In November 2003, we entered into a purchase agreement with ALLETE Water Services, Inc. a subsidiary of ALLETE, Inc., to acquire the capital stock of Heater Utilities, Inc., which owns water and wastewater systems in North Carolina. The purchase agreement provides for a cash purchase price of \$48,000 and the assumption of approximately \$28,000 in debt, reflecting an acquisition premium of approximately \$18,000. We intend to seek the ability to recover a portion of this premium through customer rates via the North Carolina Utilities Commission approval process. The acquisition, which is subject to regulatory approval, is expected to close in mid-2004. It is our intention to fund the acquisition at closing with cash from a combination of short-term debt, long-term debt and/or the issuance of our common stock.

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 meet our financing requirements for the balance of the year and beyond.

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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)

Results of Operations

Analysis of First Quarter of 2004 Compared to First Quarter of 2003

Revenues for the quarter increased \$19,279 or 24.0% primarily due to additional water and sewer revenues of \$15,400 associated with the larger customer base due to the AquaSource acquisition, which closed in July 2003, and additional revenues from the infrastructure rehabilitation surcharge in Pennsylvania of \$1,584.

Operations and maintenance expenses increased by \$11,167 or 36.4% primarily due to the additional operating costs associated with acquisitions, principally the AquaSource acquisition, increased pension costs, and higher water production expenses.

Depreciation expense increased \$2,327 or 20.5% reflecting the utility plant placed in service since the first quarter of 2003, including the assets acquired through system acquisitions.

Amortization decreased \$42 due to the amortization of the costs associated with, and other costs being recovered in, various rate filings.

Taxes other than income taxes increased by \$1,829 or 34.4% due to the additional taxes associated with the AquaSource acquisition and an increase in state taxes.

Interest expense increased by \$1,190 or 11.2% primarily due to additional borrowings to finance the AquaSource acquisition and capital projects, offset partially by decreased interest rates on borrowings due to refinancing of certain existing debt issues.

Allowance for funds used during construction ("AFUDC") increased by \$233 primarily due to an increase in the average balance of utility plant construction work in progress, to which AFUDC is applied. The increase in construction work in progress is associated with additional capital projects in progress, including projects associated with the AquaSource acquisition.

Gain on sale of other assets totaled \$450 in the first quarter of 2004 and \$55 in the first quarter of 2003. The change is due to an increase in the gain on sale of marketable securities as compared to the first quarter of 2003.

Our effective income tax rate was 39.4% in the first quarter of 2004 and 40.1% in the first quarter of 2003. The change was due to a decrease in our tax-deductible expenses.

Net income available to common stock for the quarter increased by \$2,251 or 16.9%, in comparison to the same period in 2003 primarily as a result of the factors described above. On a diluted per share basis, earnings increased \$.01 or 6.3% reflecting the change in net income and a 9.4% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the 6,868,750 additional shares issued in the May and August 2003 share offerings.

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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)

Impact of Recent Accounting Pronouncements

In January 2004, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." FSP 106-1, which was effective for our consolidated financial statements for the year ended December 31, 2003, permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). In accordance with FSP 106-1, we made a one-time election to defer the recognition of the impact on FSP No. 106-1 accounting. Any measures of the accumulated postretirement benefit obligation and net periodic postretirement benefit cost in the consolidated financial statements and footnotes for the period ended March 31, 2004 did not reflect the effects of the Act. Currently, specific authoritative accounting guidance for the federal subsidy is pending and that guidance when issued may require the Company to change previously reported information. We are currently

investigating the impacts of the adoption of FSP 106-1's initial recognition, measurement and disclosure provisions on our consolidated financial statements.

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AQUA AMERICA, INC. AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest and equity prices. There have been no significant changes in our exposure to market risks since December 31, 2003. Refer to Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2003 for additional information.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Changes in Internal Control over Financial Reporting

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

Part II. Other Information

Item 1. Legal Proceedings

There are no pending legal proceedings to which we or any of our subsidiaries is a party or to which any of their properties is the subject that are expected to have a material effect on our financial position, results of operations or cash flows.

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AQUA AMERICA, INC. AND SUBSIDIARIES

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchase of Equity Securities

The following table summarizes Aqua America's purchases of its common stock for the quarter ending March 31, 2004:

Issuer Purchases of

Equity Securities

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs (2)
-----	-----	-----	-----	-----
January 1-31, 2004	158	\$ 22.03	-	411,209
February 1-29, 2004	272	\$ 22.00	-	411,209
March 3-31, 2004	3,245	\$ 21.45	-	411,209
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Total	3,675	\$ 21.51	-	411,209
	=====	=====	=====	=====

- (1) These amounts consist of shares we purchased from our employees who elected to pay the exercise price of their stock options upon exercise by delivering to us (and, thus, selling) shares of Aqua America common stock in accordance with the terms of our equity compensation plans that were previously approved by our shareholders and disclosed in our proxy statements. This feature of our equity compensation plan is available to all employees who receive option grants under the plan. We purchased these shares at their fair market value, as determined by reference to the closing price of our common stock on the day prior to the option exercise.
- (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 870,282 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. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
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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 18 U.S.C. Section 1350.
- 32.2 Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.

(b) Reports on Form 8-K

Current Report on Form 8-K filed on January 16, 2004, responding to Item 5, Other Events. (Related to the Company changing its corporate name to Aqua America, Inc. and changing the ticker symbol for its common stock on the New York Stock Exchange and Philadelphia Stock Exchange to WTR).

Current Report on Form 8-K furnished on February 4, 2004, responding to Item 9, Regulation FD Disclosure. (Related to the Company's issuance of a press release on February 4, 2004 announcing its fourth quarter 2003 earnings).

Current Report on Form 8-K filed on February 25, 2004, responding to Item 5, Other Events. (Related to the Company entering into a First Amended and Restated Rights Agreement with Equiserve Trust Company, N.A., as Rights Agent, to amend certain of the provisions of its Rights Agreement, dated as of March 1, 1998).

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SIGNATURES

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

May 5, 2004

AQUA AMERICA, INC.

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Registrant

NICHOLAS DEBENEDICTIS

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Nicholas DeBenedictis  
Chairman and President

DAVID P. SMELTZER

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David P. Smeltzer  
Senior Vice President - Finance  
and Chief Financial Officer



Certification

I, Nicholas DeBenedictis, Chairman, President and Chief Executive Officer of Aqua America, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aqua America, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we 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 quarterly report is being prepared;
  - b. 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
  - c. 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2004

NICHOLAS DEBENEDICTIS

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Nicholas DeBenedictis  
Chairman, President and Chief Executive Officer



Certification

I, David P. Smeltzer, Senior Vice President - Finance and Chief Financial Officer of Aqua America, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aqua America, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we 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 quarterly report is being prepared;
  - b. 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
  - c. 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2004

DAVID P. SMELTZER

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David P. Smeltzer  
Senior Vice President - Finance  
and Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2004 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:

- (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

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Nicholas DeBenedictis  
Chairman, President and Chief Executive Officer  
May 5, 2004

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.1 is expressly and specifically incorporated by reference in any such filing.

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to Aqua America, Inc. and will be retained by Aqua America, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2004 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Smeltzer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

DAVID P. SMELTZER

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David P. Smeltzer  
Senior Vice President - Finance and Chief Financial Officer  
May 5, 2004

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.2 is expressly and specifically incorporated by reference in any such filing.

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to Aqua America, Inc. and will be retained by Aqua America, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.