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, 2011

OR

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

Commission File number 1-6659

AQUA AMERICA, INC.

(a Pennsylvania corporation)

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

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

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

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

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

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

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

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

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (do not check if smaller reporting company)	Smaller reporting company	☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2011: $3,017,105,779

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, 2011, 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 10, 2012: 138,876,626

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of registrant's 2011 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 10, 2012 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 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; 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 2011 Annual Report to Shareholders incorporated by reference herein and made a part hereof.

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

- changes in general economic, business, credit and financial market conditions;
- changes in governmental laws, regulations and policies, including those dealing with taxation, the environment, health and water quality, and public utility regulation;
- changes 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.

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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 approximately 3 million people in Pennsylvania, Texas, North Carolina, Ohio, Illinois, New Jersey, New York, Florida, Indiana, Virginia, Maine, and Georgia. Our largest operating subsidiary, Aqua Pennsylvania, Inc., accounted for approximately 56% of our operating revenues for 2011 and as of December 31, 2011, 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 11 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, and certain other non-regulated water and wastewater services.

In December 2010, we entered into definitive agreements to purchase all of American Water Works Company, Inc.'s water and wastewater operations in Texas, which serve approximately 5,300 customers, and to sell our regulated water and wastewater operations in Missouri, which served approximately 3,900 customers. The sale of our utility operations in Missouri closed in May 2011, concluding our regulated utility operations in Missouri, and in June 2011, we completed our acquisition of American Water Works Company, Inc.'s regulated operations in Texas.

In July 2011, we entered into a definitive agreement to sell our operations in Maine, which served approximately 16,000 customers, to Connecticut Water Service, Inc. The sale of our regulated water operations in Maine closed in January 2012, concluding our regulated operations in Maine. Also, in July 2011, we entered into a definitive agreement to purchase all of American Water Works Company, Inc.'s water and wastewater operations in Ohio, which serves approximately 57,000 customers, and to simultaneously sell our water operations in New York, which served approximately 51,000 customers. This transaction is conditioned, among other things, on the receipt of regulatory approvals, and is expected to close in the first half of 2012. In February 2012, the Public Utilities Commission of Ohio approved the Company's purchase in Ohio. The completion of this transaction will conclude our regulated operations in New York. The operating results, cash flows, and financial position of the Company's Maine and New York subsidiaries have been presented in the Company's consolidated financial statements as discontinued operations. Further, in 2011, one of the Company's subsidiaries entered into a joint venture with a third-party investor for the construction and operation of a private pipeline system to supply fresh water to certain natural gas well drilling operations in Pennsylvania. The initial segment is anticipated to be operational in the first half of 2012 and marks an expansion of our growth venture in serving the clean water needs of drillers in the shale oil and gas drilling industry.

Aqua America, which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, Inc., formerly known as Philadelphia Suburban Water Company. In the early 1990s we embarked on a growth through acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of New York Water Service Corporation in 2007. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry and has extended our regulated operations from southeastern Pennsylvania to include our current operations in 11 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, but is included within our Regulated segment as it provides services similar to our regulated utility subsidiaries.

The following table reports our operating revenues by principal state for the Regulated segment and Other for the year ended December 31, 2011:

	Operating Revenues (000's)	Operating Revenues (%)
Pennsylvania	$ 397,137	55.8%
Texas	63,559	8.9%
Ohio	46,489	6.5%
Illinois	45,924	6.5%
North Carolina	45,544	6.4%
Other states (a)	143,517	20.2%
	742,170	
Less discontinued operations (b)	42,726	6.0%
Regulated segment total	699,444	98.3%
Other	12,512	1.7%
Consolidated	$ 711,956	100.0%

(a) Includes our operating subsidiaries in the following states: New Jersey, New York, Indiana, Florida, Virginia, Maine, Missouri, and Georgia. In May 2011, the sale of our utility operations in Missouri closed concluding our regulated utility operations in Missouri.

(b) Includes our operating subsidiaries in New York and Maine.

Information concerning revenues, net income, identifiable assets and related financial information of the Regulated segment and Other for 2011, 2010, and 2009 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 2011 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K. The information from these sections of our 2011 Annual Report to Shareholders is incorporated by reference herein.

The following table summarizes our operating revenues, by utility customer class, for the Regulated segment and Other for the year ended December 31, 2011:

	Operating Revenues (000's)	Operating Revenues (%)
Residential water	$ 448,831	63.0%
Commercial water	111,210	15.6%
Fire protection	31,219	4.4%
Industrial water	22,406	3.1%
Other water	41,278	5.8%
Water	654,944	91.9%
Wastewater	75,352	10.6%
Other utility	11,874	1.8%
	742,170	
Less discontinued operations (a)	42,726	6.0%
Regulated segment total	699,444	98.3%
Other	12,512	1.7%
Consolidated	$ 711,956	100.0%

(a) Includes our operating subsidiaries in New York and Maine.

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 a 0.50% decrease in water consumption would result in a decrease in annual residential water revenue of approximately $2,000,000, and would likely be offset partially 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 2011, 2010, 2009, 2008, and 2007, the utility customer growth rate due to acquisitions and other growth ventures (excluding dispositions) was 1.0%, 1.0%, 1.0%, 2.0%, and 2.6%, respectively. In 2008, our net customer count declined by 3,838 customers, or 0.4%, due to the sale or relinquishment of two utility systems, pursuant to our plan to evaluate and dispose of underperforming utility operations and one system that was turned over to the local city through condemnation. Overall, for the five-year period of 2007 through 2011, our utility customer base increased at an annual compound rate of 0.8%. If the number of customers associated with utility system dispositions during the past five years was excluded from the January 1, 2007 utility customer base, the annual compound growth rate would have been 1.5% for that same period.

Acquisitions and Water Sale Agreements

According to the U.S. Environmental Protection Agency ("EPA"), approximately 85% of the U.S. population obtained its water from community water systems, and 15% of the U.S. population obtained 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 9 million people, to small systems, where a few customers share a common well. In the states where we operate, we believe there are approximately 22,000 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 8,600 wastewater facilities in operation or planned in the 12 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, 2011, we completed 86 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 shale oil and gas drilling industry with a current focus on the clean water needs of drillers.

Water Supplies, Water Facilities and Wastewater 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-one surface water treatment plants located in five 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.

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.

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:

State	Regulatory Commission
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
New York	New York Public Service Commission
Florida	Florida Public Service Commission
Indiana	Indiana Utility Regulatory Commission
Virginia	Virginia State Corporation Commission
Maine	Maine Public Utilities Commission

Our water and wastewater operations are comprised of 106 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 some form of consolidated rates for the rate divisions in that state, and two states currently permit us to fully consolidate state-wide rate filings within either our water or wastewater operations.

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 two 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, New York, and Indiana, allow for the use of infrastructure rehabilitation surcharges, and in New Jersey, regulators have proposed a rulemaking to implement an infrastructure rehabilitation surcharge in 2012. 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 9% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective in final rates or when a utility's earnings exceed a regulatory benchmark. Infrastructure rehabilitation surcharges provided revenues of $16,103,000 in 2011, $14,207,000 in 2010, and $16,900,000 in 2009.

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.

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. 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 on the amount of certain microbial and chemical contaminants and radionuclides allowable 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.

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, and we are filtering all over our surface water sources.

The EPA promulgated the Long Term 2 Enhanced Surface Water Treatment Rule and a Stage 2 Disinfection/Disinfection By-product Rule in January 2006. These rules resulted in additional one-time costs for special monitoring of approximately $600,000 over a five-year period from 2007 to 2011. All monitoring has been completed, and none of the results have exceeded levels that would require modification of the methods of water treatment currently being used.

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 to achieve compliance. The 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 Ground Water Rule in all of our operating states 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. Improvements to address the issue at these facilities will be completed in 2012 at a total estimated cost of less than $500,000. Excluding the two wells acquired in Texas, all of our wells are in compliance with the arsenic limit rule.

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. 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 the agreements previously cited are included in our capital program, are expected to be approximately 1% of our planned five-year capital budget, and are expected to be recoverable in rates.

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 $2,000,000, 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. One more project is budgeted to be completed in 2012.

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 three 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. Construction is planned during the two-year period from 2016 to 2017. Expenditures in the aggregate during the five-year period from 2012 to 2016 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, 2011, we employed a total of 1,615 full-time employees. Our subsidiaries are parties to 11 labor agreements with labor unions covering 514 employees. The labor agreements expire at various times between May 2012 and April 2015, with the exception of our labor agreement with Local 32BJ of the Service Employees International Union ("SEIU"), covering 287 employees of Aqua Pennsylvania, working in our southeastern Pennsylvania operations, which expired on September 30, 2011. After bargaining to impasse, the Company implemented its last, best and final offer to the union. Local 32BJ has filed an unfair labor practice charge against Aqua Pennsylvania with the National Labor Relations Board challenging the Company's implementation of its last, best and final offer.

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.

Our Internet Web site address is 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.

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. 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, or 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 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 of rate increases may be decreased as a result of changes in income tax laws regarding tax-basis depreciation as it applies to our capital 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.

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.

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 67 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, or results of operations.

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

We are obligated to comply with debt covenants under some of our loan and debt agreements. Failure to comply with covenants under our credit facilities could result in an event of default, which if not cured or waived, could result in us being required to repay or finance these borrowings before their due date, limit future borrowings, cause 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. 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.

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 revenues and earnings.

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 revenues and earnings 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.

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;
- 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, 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, or 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, and possible 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 hazardous substances in our water supplies or other environmental damage. Our insurance policies may not be sufficient to cover the costs of these claims.

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.

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

Approximately 30% of our workforce is unionized under 11 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 relations matters 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 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 results of operations and financial condition. 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, or 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 are vulnerable to damage or interruption from:

- power loss, computer systems failures, and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of data;
- computer viruses;
- intentional security breaches, 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 operating results.

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, or results of operations.

Item 1B. Unresolved Staff Comments.

None.

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 our net property, plant and equipment, in thousands of dollars, as of December 31, 2011 in the principal states where we operate:

	Net Property, Plant and Equipment	
Pennsylvania	$ 2,245,864	62.2%
North Carolina	257,604	7.1%
Illinois	246,659	6.8%
Texas	218,257	6.0%
Ohio	216,761	6.0%
Other (a)	540,597	15.0%
	3,725,742	
Less discontinued operations (b)	112,816	3.1%
Consolidated	$ 3,612,926	100.0%

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

(b) Includes our operating subsidiaries in New York and Maine.

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, Inc., 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 2011, refer to our respective 2011 10-Q filings for disclosure of the conclusion of these legal proceedings.

The City of Fort Wayne, Indiana (the "City") authorized the acquisition by eminent domain of the northern portion of the utility system of one of the Company's operating subsidiaries in Indiana. In 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 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 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.

A lawsuit filed by a husband and wife who lived in a house abutting a percolation pond at a wastewater treatment plant owned by one of the Company's subsidiaries, Aqua Utilities Florida, Inc., in Pasco County, Florida has been dismissed by the plantiffs. 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 lawsuit with the same court making similar allegations against our subsidiary with respect to the operation of the facility. No trial date has been set for this lawsuit, but some of these plaintiffs testified in the trial of the original lawsuit in which all allegations were resolved in the Company's favor. 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.

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 of $364,000 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 has contested the appropriateness of calculating 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 intends to seek indemnification from the seller for this matter for the amount proposed.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Our common stock is traded on the New York Stock Exchange under the ticker symbol WTR. As of February 10, 2012, there were approximately 26,650 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
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
2010					
Dividend paid per common share	$ 0.145	$ 0.145	$ 0.145	$ 0.155	$ 0.590
Dividend declared per common share	0.145	0.145	0.300	—	0.590
Price range of common stock					
—high	17.88	18.73	20.99	22.97	22.97
—low	16.45	16.52	17.38	20.20	16.45

We have paid common dividends consecutively for 67 years. Effective August 2, 2011, our Board of Directors authorized an increase of 6.5% in the December 1, 2011 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 2011, the annualized dividend rate increased to $0.66 per share. This is the 21st dividend increase in the past 20 years and the thirteenth 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 66.5% 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, 2011:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs (2)
October 1-31, 2011	1,288	$ 21.93	—	548,278
November 1-30, 2011	5,978	$ 22.35	—	548,278
December 1-31, 2011	—	$ —	—	548,278
Total	7,266	$ 22.27	—	548,278

(1) These amounts consist of shares we purchased from our employees who elected to pay the exercise price of their stock options (and then hold shares of the stock) upon exercise by delivering to us (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 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 2011 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 2011 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed rate, long-term debt. Such exposure is typically related to financings between utility rate increases, since generally our rate increases include a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2011, the debt maturities by period, in thousands of dollars, and the weighted average interest rate for long-term debt are as follows:

	2012	2013	2014	2015	2016	Thereafter	Total	Fair Value
Long-term debt:								
Fixed rate	$42,553	$34,849	$86,088	$63,690	$35,314	$1,215,842	$1,478,336	$1,554,199
Variable rate	38,212	—	—	—	—	—	38,212	38,212
Total	$80,765	$34,849	$86,088	$63,690	$35,314	$1,215,842	$1,516,548	$1,592,411
Weighted average interest rate*	2.91%	5.22%	5.15%	5.20%	4.79%	5.28%	5.17%	

* Weighted average interest rate of 2012 long-term debt maturity is as follows: fixed rate debt of 5.30% and variable rate debt of 0.48%.

Included in the table above, as of December 31, 2011, is $40.7 million of fixed rate long-term debt associated with discontinued operations.

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, 2011, our carrying value of certain investments, in thousands of dollars, was $3,832, which reflects the market value of such investments and is in excess of our original cost.

Item 8. Financial Statements and Supplementary Data

Information appearing under the captions "Consolidated Statements of Income and 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 2011 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 2011 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

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

None.

Item 9A. Controls and Procedures

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

(b) Management's Report on Internal Control Over Financial Reporting – The information appearing in the section captioned "Management's Report on Internal Control Over Financial Reporting" from the portions of our 2011 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 2011 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 2011 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 "Investor Relations / Corporate Governance" section of our Internet Web site, at 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 10, 2012, 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.

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:

Name	Age	Position with Aqua America, Inc. (1)
Nicholas DeBenedictis	66	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, Inc. (July 1992 to present); President, Philadelphia Suburban Water Company (February 1995 to January 1999) (2)
Roy H. Stahl	59	Chief Administrative Officer, General Counsel (February 2007 to present), and Secretary (June 2001 to present); Executive Vice President and General Counsel (May 2000 to February 2007); Senior Vice President and General Counsel (April 1991 to May 2000) (3)
David P. Smeltzer	53	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) (4)
Christopher H. Franklin	47	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) (5)
Karl M. Kyriss	61	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) (6)
Robert A. Rubin	49	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) (7)

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

(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) From January 1984 to August 1985, Mr. Stahl was Corporate Counsel, from August 1985 to May 1988 he was Vice President – Administration and Corporate Counsel of Aqua America, Inc., and from May 1988 to April 1991 he was Vice President and General Counsel of Aqua America, Inc.

(4) Mr. Smeltzer was Vice President – Controller of Philadelphia Suburban Water Company from March, 1986 to March 1991.

(5) Mr. Franklin was Director of Public Affairs from January 1993 to February 1997.

(6) Mr. Kyriss was Vice President - Northeast Region of American Water Works Services Company from 1997 to 2003.

(7) 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 10, 2012, 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 10, 2012, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

Securities Authorized for Issuance under Equity Compensation Plans – The following table provides information for our equity compensation plans as of December 31, 2011:

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Equity compensation plans approved by security holders	3,558,886 (1)	$ 20.03 (2)	4,085,027
Equity compensation plans not approved by security holders	0	0	0
Total	3,558,886	$ 20.03	4,085,027

(1) Consists of 3,376,960 shares issuable upon exercise of outstanding options, 137,584 shares issuable upon conversion of outstanding performance share units, and 44,342 shares issuable upon conversion of outstanding restricted share units.

(2) Calculated based upon outstanding options of 3,376,960 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 10, 2012, 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 10, 2012, 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, 2011 and 2010

Consolidated Statements of Income and Comprehensive Income – 2011, 2010, and 2009

Consolidated Statements of Cash Flows – 2011, 2010, and 2009

Consolidated Statements of Capitalization – December 31, 2011 and 2010

Consolidated Statements of Equity – 2011, 2010, and 2009

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 27, 2012

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	David P. Smeltzer
Nicholas DeBenedictis Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)	David P. Smeltzer Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Robert A. Rubin	Mary C. Carroll
Robert A. Rubin Senior Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)	Mary C. Carroll Director
Richard H. Glanton	Lon R. Greenberg
Richard H. Glanton Director	Lon R. Greenberg Director
William P. Hankowsky	Wendell F. Holland
William P. Hankowsky Director	Wendell F. Holland Director
Mario Mele	Ellen T. Ruff
Mario Mele Director	Ellen T. Ruff Director
Richard L. Smoot	Andrew J. Sordoni III
Richard L. Smoot Director	Andrew J. Sordoni III Director

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EXHIBIT INDEX

Exhibit No.	Description
2.1	Stock Purchase Agreement, dated as of July 26, 2011, by and between Aqua America, Inc. and Connecticut Water Service, Inc. (35) (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. (35) (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. (35) (Exhibit 2.3)
3.1	Restated Articles of Incorporation as of December 9, 2004 (16) (Exhibit 3.1)
3.2	Bylaws, as amended effective as of October 5, 2010 (32) (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 November1, 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 (10) (Exhibit 4.27)
4.8	Thirty-fourth Supplemental Indenture, dated as of October 15, 2001 (12) (Exhibit 4.21)
4.9	Thirty-fifth Supplemental Indenture, dated as of January 1, 2002 (12) (Exhibit 4.22)
4.10	Thirty-sixth Supplemental Indenture, dated as of June 1, 2002 (13) (Exhibit 4.23)
4.11	Thirty-seventh Supplemental Indenture, dated as of December 15, 2002 (14) (Exhibit 4.23)
4.12	Note Purchase Agreement among the note purchasers and Philadelphia Suburban Corporation, dated July 31, 2003 (15) (Exhibit 4.27)
4.13	Thirty-eighth Supplemental Indenture, dated as of November 15, 2004 (21) (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 (12) (Exhibit 4.31)
4.16	Forty-first Supplemental Indenture, dated as of January 1, 2007 (25) (Exhibit 4.1)
4.17	Forty-second Supplemental Indenture, dated as of December 1, 2007 (25) (Exhibit 4.36)
4.18	Forty-third Supplemental Indenture, dated as of December 1, 2008 (27) (Exhibit 4.37)
4.19	Forty-fourth Supplemental Indenture, dated as of July 1, 2009 (28) (Exhibit 4.38)
4.20	Forty-fifth Supplemental Indenture, dated as of October 15, 2009 (31) (Exhibit 4.39)
4.21	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 (33) (Exhibit 4.34)
4.22	Forty-sixth Supplemental Indenture, dated as of October 15, 2010 (33) (Exhibit 4.35)
4.23	1994 Equity Compensation Plan, as amended by Amendment effective August 5, 2003* (17) (Exhibit 10.5)

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Exhibit No.	Description
4.24	Placement Agency Agreement between Philadelphia Suburban Water Company and PaineWebber Incorporated dated as of March 30, 1995 (6) (Exhibit 10.12)
4.25	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
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 (9) (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 (9) (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 (10) (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 (12) (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 (11) (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 (14) (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 (14) (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 (14) (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 (14) (Exhibit 10.45)
10.11	Aqua America, Inc. 2004 Equity Compensation Plan as amended by Amendment effective February 22, 2007* (25) (Exhibit 10.29)
10.12	2010 Annual Cash Incentive Compensation Plan* (33) (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* (18) (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 (25) (Exhibit 10.34)
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)

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Exhibit No.	Description
10.17	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 21, 2005 (12) (Exhibit 10.37)
10.18	Aqua America, Inc. Dividend Reinvestment and Direct Stock Purchase Plan* (26)
10.19	Aqua America, Inc. Amended and Restated Employee Stock Purchase Plan* (12) (Exhibit 10.39)
10.20	Non-Employee Directors' Compensation for 2011* (33) (Exhibit 10.22)
10.21	Non-Employee Directors' Compensation for 2012*
10.22	Bond Purchase Agreement among the Chester County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 21, 2006 (24) (Exhibit 10.2)
10.23	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 4, 2008 (27) (Exhibit 10.35)
10.24	Aqua America, Inc. 2004 Equity Compensation Plan (amended and restated as of January1, 2009)* (27) (Exhibit 10.36)
10.25	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Nicholas DeBenedictis* (27) (Exhibit 10.37)
10.26	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Roy H. Stahl* (27) (Exhibit 10.38)
10.27	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and David P. Smeltzer* (27) (Exhibit 10.39)
10.28	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Karl M. Kyriss* (27) (Exhibit 10.40)
10.29	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Christopher H. Franklin* (27) (Exhibit 10.41)
10.30	Change in Control and Severance Agreement between Aqua America, Inc. and Nicholas DeBenedictis* (27) (Exhibit 10.42)
10.31	Change in Control Agreement between Aqua America, Inc. and Roy H. Stahl* (27) (Exhibit 10.43)
10.32	Change in Control Agreement between Aqua America, Inc. and David P. Smeltzer* (27) (Exhibit 10.44)
10.33	Change in Control Agreement between Aqua America, Inc. and Karl M. Kyriss* (27) (Exhibit 10.45)
10.34	Change in Control Agreement between Aqua America, Inc. and Christopher H. Franklin* (27) (Exhibit 10.46)
10.35	Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (as amended and restated effective January 1, 2008)* (27) (Exhibit 10.47)
10.36	Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis (as amended and restated effective January 1, 2008)* (27) (Exhibit 10.48)
10.37	Amendment 2008-1 to the Aqua America, Inc. Deferred Compensation Plan Master Trust Agreement dated as of December 15, 2008* (27) (Exhibit 10.50)

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Exhibit No.	Description
10.38	Aqua America, Inc. 2009 Executive Deferral Plan, As Amended and Restated Effective January 1, 2009* (26) (Exhibit 4.1)
10.39	Aqua America, Inc. 2009 Omnibus Equity Compensation Plan* (29) (Exhibit 99.1)
10.40	Aqua America, Inc. 2009 Omnibus Equity Compensation Plan, As Amended Effective February 25, 2011 * (33) (Exhibit 10.42)
10.41	Employment agreement dated January 31, 2010, between Aqua America, Inc. and Nicholas DeBenedictis * (30) (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)* (31) (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)* (30) (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)* (31) (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)* (30) (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 (28) (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 (31) (Exhibit 10.59)
10.48	Restricted Stock Grant Agreement made by Aqua America, Inc. to Nicholas DeBenedictis dated January 31, 2010* (30) (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 (33) (Exhibit 10.51)
10.50	2011 Annual Cash Incentive Compensation Plan* (34) (Exhibit 10.52)
10.51	2012 Annual Cash Incentive Compensation Plan*
10.52	Form of Performance Share Unit Grant Agreement for Chief Executive Officer* (34) (Exhibit 10.53)
10.53	Form of Performance Share Unit Grant Agreement for other Executive Officers* (34) (Exhibit 10.54)
10.54	Form of Restricted Stock Unit Grant Agreement for Chief Executive Officer* (34) (Exhibit 10.55)
10.55	Form of Restricted Stock Unit Grant Agreement for other Executive Officers* (34) (Exhibit 10.56)
10.56	Amendment to employment agreement effective as of December 6, 2011, between Aqua America, Inc. and Nicholas DeBenedictis *
10.57	Restricted Stock Grant Agreement made by Aqua America, Inc. to Nicholas DeBenedictis dated December 6, 2011*
10.58	Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (as amended and restated effective January 1, 2011)*

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Exhibit No.	Description
10.59	Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas Debenedictis (as amended and restated effective January 1, 2011)*
13.1	Selected portions of Annual Report to Shareholders for the year ended December 31, 2011 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 2011.
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.

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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 Form 8-K filed August 7, 1997.

(9) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.

(10) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1999.

(11) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2001.

(12) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2005.

(13) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.

(14) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2002.

(15) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.

(16) Filed as an Exhibit to Form 8-K filed December 9, 2004.

(17) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2003.

(18) Filed as Appendix C to definitive Proxy Statement dated April 2, 2004.

(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 Annual Report on Form 10-K for the year ended December 31, 2006.

(22) Filed as an Exhibit to Form 8-K filed March 7, 2005.

(23) Filed as a Registration Statement on Form S-3 on August 8, 2008.

(24) Filed an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

(25) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2007.

(26) Filed as a Registration Statement on Form S-8 on December 10, 2008.

(27) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2008.

(28) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.

(29) Filed as a Registration Statement on Form S-8 on June 11, 2009.

(30) Filed as an Exhibit to Form 8-K filed on February 4, 2010.

(31) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2009.

(32) Filed as an Exhibit to Form 8-K filed on October 7, 2010.

(33) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 21, 2010

(34) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.

(35) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 2011.

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT is made as of this 28th day of November, 2011, 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 certain Banks are parties to a Credit Agreement, dated as of November 30, 2010 (the "Credit Agreement"), pursuant to which those 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 change the Commitments of certain Banks, add The Huntington National Bank ("Huntington") as an additional Bank under the Credit Agreement, 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 28, 2011 (the "Effective Date") the Credit Agreement is hereby amended as follows:

(a) The definitions of "Fee Letters," "Governmental Authority" and "Termination Date" in Section 1.1 are hereby amended and restated to read in full as follows:

""Fee Letters": collectively, the two letters from the Agent to the Borrower dated November 19, 2010 and the letter from the Agent to the Borrower dated October 24, 2011, in each case regarding certain fees payable by the Borrower.

"Governmental Authority": shall mean the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank) and any group or body charged with setting financial accounting or regulatory capital rules or standards (including, without limitation, the Financial Accounting Standards Board, the Bank for International Settlements or the Basel Committee on Banking Supervision or any successor or similar authority to any of the foregoing).

"Termination Date": the earlier of (a) November 26, 2012 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."

(b) The following new definitions of "Change in Law", "Excluded Taxes", "FATCA", "Foreign Bank", "Law", "Other Taxes" and "Taxes" are hereby added to Section 1.1 in the appropriate alphabetical order:

""Change in Law": the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any Law, (b) any change in any Law or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of Law) by any Governmental Authority; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, regulations, guidelines, interpretations or directives thereunder or issued in connection therewith (whether or not having the force of Law) and (y) all requests, rules, regulations, guidelines, interpretations or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities (whether or not having the force of Law), in each case pursuant to Basel III, shall in each case be deemed to be a Change in Law regardless of the date enacted, adopted, issued, promulgated or implemented.

"Excluded Taxes": has the meaning assigned to such term in subsection 2.12(a).

"FATCA" shall mean Sections 1471 through 1474 of the Code, as of the date of this Agreement and any regulations or official interpretations thereof.

"Foreign Bank": any Bank that is not created or organized under the Laws of the United States, any State thereof or the District of Columbia.

"Law": any law (including common law), constitution, statute, treaty, regulation, rule, ordinance, opinion, release, ruling, order, injunction, writ, decree, bond, judgment, authorization or approval, lien or award by or settlement agreement with any Governmental Authority.

"Other Taxes": has the meaning assigned to such term in subsection 2.12(b).

"Taxes": has the meaning assigned to such term in subsection 2.12(a)."

(c) Subsection 2.6(b) is hereby amended and restated to read in full as follows:

"(b) Subject to the provisions of Section 2.7, each Eurodollar Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Eurodollar Rate for the Interest Period in effect for such Loan plus seventy (70) basis points (0.70%)."

(d) Section 2.11 is hereby amended and restated to read in full as follows:

"2.11 Requirements of Law. (a) In the event that any Change in Law shall:

(i) subject any Bank to any tax of any kind whatsoever with respect to this Agreement, any Note or Eurodollar Loan made by it, or change the basis of taxation of payments to such Bank in respect thereof (except for Taxes or Other Taxes covered by Section 2.12 and the imposition of, or any change in the rate of, any Excluded Tax payable by any Bank);

(ii) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Bank (except any reserve requirement reflected in the Eurodollar Rate); or

(iii) impose on any Bank or the London interbank market any other condition, cost or expense affecting this Agreement or any Eurodollar Loan made by such Bank;

and the result of any of the foregoing shall be to increase the cost to such Bank of making, converting to, continuing or maintaining any Eurodollar Loan (or of maintaining its obligation to make any such Loan), or to increase the cost to such Bank, or to reduce the amount of any sum received or receivable by such Bank hereunder (whether of principal, interest or any other amount) then, upon request of such Bank, the Borrower will pay to such Bank, such additional amount or amounts as will compensate such Bank, for such additional costs incurred or reduction suffered; provided, that the Borrower shall not be liable for any such amounts incurred or suffered by such Bank more than 180 days prior to the date of such Bank's notification to the Borrower. If any Bank becomes entitled to claim any additional amounts pursuant to this subsection, it shall as promptly as practicable notify the Borrower, through the Agent, of the event by reason of which it has become so entitled. A certificate explaining and detailing any additional amounts payable pursuant to this subsection submitted by such Bank, through the Agent, to the Borrower shall be conclusive in the absence of clearly demonstrable error. If any such amount paid by the Borrower to such Bank is subsequently determined not to have been due and is refunded to such Bank, such Bank will reimburse the Borrower for amounts paid in respect of such refunded amount. This covenant shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

(b) If any Bank determines that any Change in Law affecting such Bank or any lending office of such Bank or such Bank's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on such Bank's capital or on the capital of such Bank's holding company, if any, as a consequence of this Agreement, the Commitment of such Bank or the Loans made by, or participations in Swing Loans held by, such Bank, to a level below that which such Bank or such Bank's holding company could have achieved but for such Change in Law (taking into consideration such Bank's policies and the policies of such Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Bank, such additional amount or amounts as will compensate such Bank or such Bank's holding company for any such reduction suffered. If any Bank becomes entitled to claim any additional amounts pursuant to this subsection, it shall as promptly as practicable notify the Borrower, through the Agent, of the event by reason of which it has become so entitled. A certificate explaining and detailing any additional amounts payable pursuant to this subsection submitted by such Bank, through the Agent, to the Borrower shall be conclusive in the absence of clearly demonstrable error. This covenant shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

(c) Each Bank agrees that it will use reasonable efforts in order to avoid or to minimize, as the case may be, the payment by the Borrower of any additional amount under subsections 2.11(a) and (b); provided, however, that no Bank shall be obligated to incur any expense, cost or other amount in connection with utilizing such reasonable efforts. Notwithstanding any other provision of this Section 2.11, no Bank shall apply the provisions of subsections 2.11(a) or (b) hereof with respect to the Borrower if it shall not at the time be the general policy or practice of the Bank exercising its rights hereunder to apply the provisions similar to those of this Section 2.11 to other borrowers in substantially similar circumstances under substantially comparable provisions of other credit agreements."

(e) Section 2.12 is hereby amended and restated to read in full as follows:

“2.12 Taxes. (a) All payments made by the Borrower under this Agreement and the Notes shall be made free and clear of, and without deduction for any present or future taxes, levies, imposts, deductions, charges, or withholdings, and all liabilities with respect thereto, including any interest, additions to tax or penalties applicable thereto (other than Excluded Taxes) (all such non-excluded taxes, levies, imposts, duties, charges, fees, deductions and withholdings being hereinafter called “Taxes”). If the Borrower shall be required by Law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Agent and each Bank receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall timely pay the full amount deducted to the relevant tax authority or other authority in accordance with applicable Law. As used herein, the term “Excluded Taxes” shall mean, with respect to the Agent, any Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (i) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the Laws of which such recipient is organized or in which its principal office is located or, in the case of any Bank, in which its applicable lending office is located, (ii) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located and (iii) in the case of a Foreign Bank, any withholding tax (including under FATCA) that is imposed on amounts payable to such Foreign Bank at the time such Foreign Bank becomes a party hereto (or designates a new lending office), except to the extent that such Foreign Bank (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.12.

(b) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges, or similar levies which arise from any payment made hereunder, under the Notes or under any other Loan Document or from the execution, delivery, or registration of, or otherwise with respect to, this Agreement, any Note or any other Loan Document (hereinafter referred to as “Other Taxes”).

(c) The Borrower shall indemnify the Agent and each Bank for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this subsection) paid by the Agent or any Bank and any liability (including penalties, interest, and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within 30 days from the date the Agent or a Bank makes written demand therefor accompanied by a certificate explaining and detailing any such Taxes or Other Taxes paid by the Agent or such Bank which shall be conclusive in the absence of demonstrable error.

(d) Within 30 days after the date of any payment of any Taxes or Other Taxes by the Borrower, if available, the Borrower shall furnish to the Agent and each Bank, at its address referred to herein, the original or a certified copy of a receipt evidencing payment thereof.

(e) If as a result of a payment by the Borrower of Taxes or Other Taxes pursuant to subsections 2.12(a), (b) or (c) the Agent or a Bank receives a tax benefit or tax savings such as by receiving a credit against, refund of, or reduction in Taxes or Other Taxes which the Agent or such Bank would not have received but for the payment by the Borrower of such Taxes or Other Taxes, then the Agent or such Bank shall promptly pay to the Borrower the amount of such credit, refund, reduction or any other similar item. Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in subsections 2.12(a) through (d) shall survive the payment in full of principal and interest hereunder and under any instrument delivered hereunder.

(f) Each Foreign Bank agrees that it will deliver to the Borrower and the Agent on or prior to the Closing Date in the case of each initial Bank and on or prior to the effective date of the Assignment and Acceptance pursuant to which it becomes a Bank in the case of each other Bank and on or prior to the date on which any such form or certification expires or becomes obsolete, after the occurrence of any event requiring a change in the most recent form or certification previously delivered by it pursuant to this subsection (f), and from time to time, if requested by the Borrower or the Agent, two completed originals of each of the following, as applicable; (A) Forms W-8ECI (claiming exemption from U.S. withholding tax because the income is effectively connected with a U.S. trade or business), W-8BEN (claiming exemption from, or a reduction of, U.S. withholding tax under an income tax treaty) and/or W-8IMY (together with appropriate forms, certifications and supporting statements) or any successor forms, (B) in the case of a Foreign Bank claiming exemption under Sections 871(h) or 881(c) of the Code, Form W-8BEN (claiming exemption from U.S. withholding tax under the portfolio interest exemption) or any successor form and a certificate in form and substance acceptable to the Borrower and the Agent. Such Bank shall certify, in the case of a Form W-8ECI, W-8BEN or W-8IMY, that it is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes. If a payment made to a Foreign Bank would be subject to U.S. Federal withholding tax imposed by FATCA if such Bank were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Sections 1471(b) or 1472(b) of the Code, as applicable), such Bank shall deliver to the Borrower and the Agent, at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Agent, such documentation prescribed by applicable law (including any notice described in Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Borrower or the Agent as may be necessary for the Borrower or the Agent, as the case may be, to comply with their obligations under FATCA, to determine whether such Bank has or has not complied with such Bank's obligations under FATCA or to determine the amount to deduct and withhold from such payment. If any form provided by a Foreign Bank at the time such Bank first becomes a party to this Agreement indicates a United States interest withholding rate in excess of zero, withholding tax at such rate shall be considered excluded from "Taxes" as defined in subsection 2.12(a). Each Bank shall deliver to the Borrower and the Agent, with respect to Taxes imposed by any Governmental Authority other than the United States of America, similar forms, if available (or the information that would be contained in similar forms if such forms were available), to the forms which are required to be provided under this subsection with respect to Taxes of the United States of America.

(g) Notwithstanding the foregoing subsections 2.12(a) through (e), the Borrower shall not be required to pay any additional amounts to any Bank in respect of United States withholding or backup withholding tax pursuant to such subsections if (i) the obligation to pay such additional amounts would not have arisen but for a failure by such Bank to comply with the requirements of subsection 2.12(f) (other than by reason of a change in Law) or (ii) such Bank shall not have furnished the Borrower with such forms and documentation described in subsection 2.12(f) and shall not have taken such other steps as reasonably may be available to it under applicable tax laws and any applicable tax treaty or convention to obtain an exemption from, or reduction (to the lowest applicable rate) of, such United States withholding tax."

(f) Section 2.13 is hereby amended by adding the following additional sentence at the end thereof:

"For the purpose of calculation of all amounts payable to a Bank under this Section, each Bank shall be deemed to have actually funded its relevant Eurodollar Loan or Swing Line Loan through the purchase of a deposit bearing interest at the Eurodollar Rate or the applicable rate on such Swing Line Loan, as the case may be, in an amount equal to the amount of that Eurodollar Loan or Swing Line Loan, as the case may be, and having a maturity comparable to the relevant Interest Period or applicable period for such Eurodollar Loan or Swing Line Loan; provided, however, that each Bank may fund each of its Eurodollar Loans and the Swing Line Bank may fund its Swing Line Loans in any manner it sees fit, and the foregoing assumptions shall be utilized only for the calculation of amounts payable under this Section."

(g) Section 3.18 is hereby amended and restated to read in full as follows:

“3.18 Labor Matters. The Borrower has not, within the last five years, suffered any strikes, walkouts, work stoppages or other labor difficulty involving a material number of employees which in any case had a Material Adverse Effect, and to the best of the Borrower’s knowledge, there are no such events which could reasonably be expected to have a Material Adverse Effect now threatened.”

(h) To give effect to the joinder of Huntington as a party to the Credit Agreement as provided in Section 3 and the reallocation of the Total Commitment, Schedule I to the Credit Agreement is hereby amended and replaced with Schedule I attached hereto, and the Commitment of each Bank shall be as set forth on such Schedule I.

3. Joinder of Huntington. Effective on the Effective Date, Huntington hereby joins in and becomes a party to the Credit Agreement with a Commitment of $10,000,000, agrees to be bound by the provisions of the Credit Agreement and shall have the rights and obligations of a Bank thereunder and under any other document issued in connection therewith. Huntington hereby makes and agrees to be bound by all of the representations, warranties and agreements set forth in subsection 9.6(c) of the Agreement as if it were an assignee of its Commitment under the provisions of Section 9.6.

4. Replacement and Additional Notes. Concurrently with the execution and delivery of this Agreement, Borrower shall execute and deliver to Huntington a Revolving Credit Note in the face amount of $10,000,000 and to each of the other Banks a replacement Revolving Credit Note in the amount of its Commitment as set forth on Schedule I attached hereto, in each case in the form of Exhibit B-1 to the Credit Agreement. Each such replacement Revolving Credit Note shall evidence any outstanding Revolving Credit Loans of such Bank and upon receipt thereof the existing Revolving Credit Note of each such Bank shall be cancelled and returned to Borrower.

5. Adjusting Payments. Prior to the Effective Date Agent shall notify each Bank as to the adjusting payments which will be required to be made to the outstanding Revolving Credit Loans of each Bank in order to give effect to the changes in the Commitments of certain Banks pursuant to the provisions of Sections 2(g) and 3 above so that after such adjusting payments are made each Bank’s outstanding Revolving Credit Loans evidenced by such Bank’s Revolving Credit Note shall be in an amount equal to its Commitment Percentage of all outstanding Revolving Credit Loans. On the Effective Date each Bank agrees to pay to the other Banks the amounts, if any, specified by Agent in such notice.

6. 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.

7. 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.

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

(a) The representations and warranties made in the Credit Agreement, as amended by this Agreement, are true and correct in all material respects as of the date hereof;

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

(c) This Agreement and the replacement and additional Revolving Credit Notes have 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.

9. 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) The additional Revolving Credit Note to Huntington and the replacement Revolving Credit Notes to the other Banks;

(iii) 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 replacement and additional Revolving Credit Notes and the other documents and transactions contemplated hereby;

(iv) 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

(v) Such additional documents, certificates and information as Agent or Banks may require pursuant to the terms hereof or otherwise reasonably request.

(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 (after giving effect to the adjustment in the Commitments provided herein).

10. 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 or 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.

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 Smeltzer
Title: 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 Callaghan
Title: Vice President

CITIZENS BANK OF PENNSYLVANIA

By: Leslie Broderick
Title: Senior Vice President

THE HUNTINGTON NATIONAL BANK

By: W. Christopher Kohler
Title: Senior Vice President

Schedule I

Bank and Commitment Information

Bank	Commitment	Swing Line Commitment
PNC Bank, National Association 1600 Market Street Philadelphia, PA 19103 Attention: Meredith Jermann	$ 50,000,000	$ 10,000,000
TD Bank, N. A. 1701 Route 70 East Cherry Hill, NJ 08034 Attention: Jack Callaghan	$ 20,000,000	N/A
Citizens Bank of Pennsylvania 610 W. Germantown Avenue Plymouth Meeting, PA 19462 Attention: Leslie Broderick	$ 20,000,000	N/A
The Huntington National Bank 310 Grant Street, 4th Floor Pittsburgh, PA 15219 Attention: Chris Kohler	$ 10,000,000	N/A

Exhibit 10.21

Non-Employee Directors' Compensation for 2012

At its regularly scheduled meeting on December 6, 2011, the Board of Directors of Aqua America, Inc., upon the recommendation of its Executive Compensation Committee, approved the following directors' compensation for 2012 for the non-employee directors of Aqua America, Inc.: (1) an annual cash retainer of $33,000; (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.

Exhibit 10.51

AQUA AMERICA, INC.
and SUBSIDIARIES
2012 ANNUAL CASH INCENTIVE COMPENSATION PLAN

BACKGROUND

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

MANAGEMENT INCENTIVE PROGRAM

Performance Measures

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

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

- The after-tax net income from continuing operations or earnings before interest, taxes and depreciation ("EBITD") for the applicable company or business unit relative to its annual budget will be the primary measure for the company's performance. The measurement to be used as the Company Factor (financial factor, thresholds and weighting by applicable business unit) for each participant will be established by the Executive Compensation Committee for those participants whose annual incentive compensation is determined by the Committee and by the Chairman of the Company for all other participants. Each year a "Target Net Income" or "Target EBITD" level will be established for the applicable company or business unit. Portions of the Company Factor may be tied to the financial targets of more than one company or business unit for some participants whose responsibilities involve more than one company or business unit. For purposes of the Plan, the Target Net Income or EBITD may differ from the budgeted net income or EBITD level. The applicable company's or business unit's final net income or EBITD may exclude the impact of any unbudgeted extraordinary gains or losses as a result of changes in accounting principles and the financial results may be adjusted for other factors as deemed appropriate by the Executive Compensation Committee for those participants whose annual incentive compensation is determined by the Committee, and by the Chairman of the Company for the other participants.

- The threshold level of performance is set at 75 percent of the Target Net Income or Target EBITD. If the final net income or EBITD for the applicable company or business unit for the year is less than 75 percent of the Target Net Income or Target EBITD, the Company Factor for that company or business unit will be set at 0%. No additional bonus will be earned for results exceeding 110 percent of the Target Net Income or EBITD.

- Each individual's performance and achievement of his or her objectives will also be evaluated and factored into the bonus calculation (the "Individual Factor"). Performance objectives for each participant are established each year and are primarily directed toward customer growth, improving customer service, controlling costs and improving efficiencies and productivity. Each objective has specific performance measures that are used to determine the level of achievement for each objective. A participant's target Individual Factor should be no more than 90 points, with the possibility of additional points up to 110 points being awarded for measurable performance above the participant's targeted performance level. Participants must achieve at least 70 points for their Individual Factor to be eligible for a bonus award under the Plan.

Participation

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

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

Compliance

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

Recovery of Incentive Compensation

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

Company Factor

- Company performance will be measured on the following schedule:

	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.

Sample Calculations

Example 1

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

Calculation:

Target Bonus	x	Individual Factor	x	Company Factor	=	Individual Bonus Earned
$7,000	x	100%	x	90%	=	$ 6,300

Example 2

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

Calculation:

Target Bonus	x	Individual Factor	x	Company Factor	=	Individual Bonus Earned
$7,000	x	90%	x	70%	=	$ 4,410

Example 3

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

Calculation:

Individual Target Bonus	x	Company Factor	x	Individual Factor	=	Bonus Earned
$7,000	x	100%	x	0	=	$ 0

Example 4

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

Calculation:

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

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.

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.

Exhibit 10.56

AMENDMENT
TO
EMPLOYMENT AGREEMENT

THIS AMENDMENT is entered into by and between **NICHOLAS DEBENEDICTIS,** a resident of the Commonwealth of Pennsylvania ("Executive") and **AQUA AMERICA, INC.,** a corporation organized under the laws of the Commonwealth of Pennsylvania ("Company") as of this 6th day of December, 2011 ("Effective Date").

WITNESSETH:

WHEREAS, the Company and the Executive entered into an Employment Agreement as of January 31, 2010 (the "Agreement"); and

WHEREAS, the Agreement provides that it may be amended or modified by a written instrument signed by the parties to the Agreement; and

WHEREAS, the Agreement provides that the parties may mutually agree in writing to renew the term of employment under the Agreement for successive one-year or partial year periods at the end of the Initial Term (as defined therein) or any renewal term.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, and intending to be legally bound, the parties, subject to the terms and conditions set forth herein, agree to amend the Agreement in the manner set forth below.

1. Section 1 shall be revised to read as follows:

> 1. **Employment and Term.** Executive hereby agrees to continue his service as Chief Executive Officer of the Company from the Commencement Date hereof through June 30, 2015 (the "Initial Term"), and Company hereby agrees to retain Executive as Chief Executive Officer through the Initial Term. By executing the Agreement the Company confirms that the Board of Directors has approved this Agreement. The parties may mutually agree in writing to renew the term of employment under this Agreement for successive one-year or partial year periods at the end of the Initial Term or any renewal term. This Agreement shall terminate at the end of the Initial Term or, in the event of renewal, at the end of the extended term, unless terminated earlier as provided in this Agreement. The Initial Term and, if the period of employment is extended, such successive periods of employment, subject to earlier termination of employment as provided in this Agreement, are collectively referred to herein as the "Term."

2. Section 2 shall be revised to read as follows:

> 2. **Duties.** During the Term, Executive will have the title of Chief Executive Officer of the Company. Executive shall report exclusively to and receive instructions from Company's Board of Directors and shall have such duties and responsibilities customary for the position of chief executive officer of public companies similarly situated. While serving as Chief Executive Officer, Executive shall have full authority and discretion relating to the general and day-to-day management of the affairs of the Company, including, but not limited to, finances and other financial matters, compensation matters (other than with respect to the compensation of Executive, himself, and the other executive officers of the Company, and other than long-term compensation of employees, which shall be determined by the Executive Compensation Committee or the Board of Directors), personnel matters (other than such matters that relate to Executive himself), operating and capital budgeting, operations, intellectual property, investor relations, retention of professionals and strategic planning and implementation. While serving as Chief Executive Officer, Executive will have authority over the President and such other officers as the Board of Directors may designate. Executive will be the most senior executive officer of the Company and all other executives and businesses of the Company will report to Executive or his designee. The foregoing language shall not be construed so as to limit the duties and responsibilities of the Board of Directors as described in the Company's Articles of Incorporation and Bylaws.

3. The first two sentences of Section 3 shall be revised to read as follows:

> Executive shall serve the Company faithfully and shall devote his reasonable best efforts and substantially all of his business time, attention, skill and efforts to the performance of the duties required by or appropriate for his position as Chief Executive Officer. In furtherance of the foregoing, and not by way of limitation, for so long as Executive remains Chief Executive Officer of the Company, Executive shall not directly or indirectly engage in any other business or charitable activities or pursuits, except for those arising from positions held as of the date of the December 6, 2011 Amendment as set forth on Appendix A or such other activities as would not materially interfere with Executive's ability to carry out his duties under this Agreement and are identified by Executive to the Board of Directors as described in the following sentence.

4. Section 8(c) is amended to read as follows:

(c) If the Company or Executive terminates Executive's employment and this Agreement for any reason (including without limitation death or Disability), Executive (or his estate in the event of his death) shall receive any accrued but unpaid salary and accrued vacation under this Agreement, any applicable vesting of the Stock Award under this Section 8 or Section 8A below, any benefits that may be payable according to the terms of the Change in Control and Severance Agreement as amended and restated as of December 31, 2008 between Executive and the Company (the "Change in Control and Severance Agreement"), if applicable, and any vested benefits under Company benefit plans. Nothing in this Agreement is intended to modify the terms of the Change in Control and Severance Agreement.

5. A new Section 8A shall be added immediately following Section 8 to read as follows:

8A. <u>2011 Performance-Based Stock Award</u>

(a) In addition to the Stock Award under Section 8 of the Agreement, as an inducement for Executive to continue in employment with the Company for the Initial Term and devote significant effort to increase shareholder value, Executive shall be granted fifty thousand (50,000) shares of common stock of the Company in the form of a performance-based stock award (the "2011 Stock Award") under the Omnibus Plan, effective as of the date of the December 6, 2011 Amendment. The shares shall be earned based on achievement of Company performance goals based on increases in operating income for 2012, 2013 or 2014 (the "Performance Goals") and, with respect to the shares scheduled to vest in 2015, the Executive's satisfactory efforts with respect to the Chief Executive Officer's plan for succession (the "Succession Plan") as determined by the Compensation Committee. The Executive Compensation Committee of the Board of Directors shall certify attainment of the Performance Goals within 60 days after the end of the calendar year for which the Performance Goals are met (the "Certification Date"). Vesting shall be as follows:

(i) If the Performance Goals are met for 2012, one-half (1/2) of the shares shall become vested on January 31, 2014 and one-half (1/2) of the shares shall become vested on January 31, 2015, subject to continued employment through the applicable vesting date and, with respect to any vesting in 2015, subject to satisfactory efforts with respect to the Succession Plan.

(ii) If the Performance Goals are not met for 2012 but are met for 2013, one-half (1/2) of the shares shall become vested on the 2014 Certification Date, and one-half (1/2) of the shares shall become vested on January 31, 2015, subject to continued employment through the applicable vesting date and, with respect to any vesting in 2015, subject to satisfactory efforts with respect to the Succession Plan.

(ii) If the Performance Goals are not met for 2012 and are not met for 2013, but the Performance Goals are met for 2014, all of the shares shall become vested on the 2015 Certification Date, subject to continued employment through that date, and subject to satisfactory efforts with respect to the Succession Plan.

All shares issued upon vesting of the 2011 Stock Award under this subsection (a) or subsection (b) below shall be subject to a transfer restriction under which the net shares issued upon vesting (after share withholding for applicable taxes) may not be transferred by Executive for two years after the applicable vesting date. The Board of Directors may waive the transfer restriction under appropriate circumstances, and the transfer restriction will automatically lapse in the event of Executive's death or a Change in Control (as defined in the Omnibus Plan).

(b) If the Company terminates Executive's employment without Cause or Executive terminates employment for Good Reason, before the 2015 Certification Date, any unvested shares of the 2011 Stock Award shall become fully vested if the Performance Goals are met for any of the calendar years 2012, 2013 or 2014.

(c) If Executive dies while employed by the Company, or Executive's employment is terminated on account of Disability, any unvested shares of the 2011 Stock Award shall become vested in full upon Executive's death or termination of employment on account of Disability. If Executive's employment is terminated for Cause or if Executive voluntarily terminates employment without Good Reason, any unvested shares of the 2011 Stock Award will be forfeited.

6. Sections 9(c)(ii) and (iii) shall be revised to read as follows:

(ii) any significant involuntary reduction of the authority, duties, responsibilities or reporting relationships held by Executive as Chief Executive Officer of the Company;

(iii) any involuntary removal of Executive from the employment grade, compensation level or officer position as Chief Executive Officer that Executive holds with the Company, except in connection with promotions to higher office;

7. Appendix A shall be revised to read as follows:

Appendix A

Business and Charitable Activities

Business

1. Board of Directors of Exelon Corporation
2. Board of Directors of P.H. Glatfelter Company
3. Board of Directors of Harleysville Mutual Insurance Company
4. Board of Directors of Independence Blue Cross
5. Advisory Board – PNC Bank of Southeast Pennsylvania
6. Board of Advisors – Pennoni Associates

Charitable/Civic

1. Board of Trustees of Drexel University
2. The Philadelphia Convention and Visitors Bureau
3. The Greater Philadelphia Chamber of Commerce
4. The Greater Philadelphia Tourism and Marketing Board
5. Pennsylvania Business Roundtable
6. National Association of Water Companies
7. Board of Trustees of the Pennsylvania Society

In all respects not amended, the Agreement is hereby ratified and confirmed.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed the day and year first written above.

Attest:

/s/ Maria Gordiany
Assistant Secretary

AQUA AMERICA, INC.

By: /s/ Roy H. Stahl
Chief Administrative Officer

By: /s/ Nicholas DeBenedictis
NICHOLAS DEBENEDICTIS

Exhibit 10.57

AQUA AMERICA, INC.
2009 OMNIBUS EQUITY COMPENSATION PLAN

RESTRICTED STOCK GRANT AGREEMENT

Date of Grant: December 6, 2011

This Restricted Stock Grant Agreement (the "Agreement") evidences the grant made by Aqua America, Inc., a Pennsylvania corporation (the "Corporation"), to Nicholas DeBenedictis, a key employee of the Corporation or one of its subsidiaries (the "Grantee"), under the terms and provisions of the Aqua America, Inc. 2009 Omnibus Equity Compensation Plan, as amended (the "Plan").

WHEREAS, pursuant to the Plan, the Board of Directors of the Corporation (the "Board") has empowered its Executive Compensation Committee (the "Committee") to grant shares of Common Stock subject to certain restrictions (the "Restricted Stock") to eligible persons in accordance with the terms and provisions of the Plan; and

WHEREAS, the Committee has determined that the Grantee is an eligible person as contemplated by the Plan and has determined that it would be in the best interests of the Corporation to grant to the Grantee as of the date of grant specified above (the "Date of Grant") shares of Restricted Stock;

WHEREAS, the Corporation and the Grantee have entered into an Amendment dated as of December 6, 2011 to the Employment Agreement dated as of January 31, 2010 between the Corporation and the Grantee (the "Employment Agreement"), which Amendment provides for this grant of Restricted Stock.

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

1. Restricted Stock Grant.

Subject to the terms and conditions hereinafter set forth, the Corporation, with the approval and at the direction of the Committee, hereby grants to the Grantee 50,000 shares of Common Stock (the "Granted Shares"). Subject to the Grantee's signifying acceptance of this grant (in the manner indicated in Section 2 below), the Corporation shall cause a certificate or certificates representing the Granted Shares to be issued to Grantee (the "Initial Share Certificates"), which shall be registered in the name of the Grantee, and which shall bear the following restrictive legend, in addition to such other legends as the Corporation may deem necessary or desirable:

> The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the Aqua America, Inc. 2009 Omnibus Equity Compensation Plan and an Agreement entered into between the registered owner and Aqua America, Inc. Copies of such Plan and Agreement are on file at the offices of Aqua America, Inc., 762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania 19010.

2. Acceptance by Grantee; Escrow Agent.

The Grantee shall signify acceptance of the Granted Shares by delivering to the Secretary of the Corporation, as escrow agent for the Corporation (the "Escrow Agent"): (i) an executed copy of this Agreement and (ii) the number of forms of stock power designated by the Secretary of the Corporation, each signed in blank for completion by the Escrow Agent at the time of any subsequent transfer of any or all of the Granted Shares pursuant to this Agreement. The signature of the Grantee on each such stock power shall be guaranteed in a manner acceptable to the Corporation's transfer agent. Upon receipt from the Grantee of the foregoing items, the Escrow Agent shall notify the proper officers of the Corporation and such officers promptly shall deposit the Initial Share Certificates with the Escrow Agent, to be held in accordance with the terms of this Agreement.

3. Restrictions.

(a) Restriction Period. The Granted Shares are subject to forfeiture until they vest in accordance with this Section 3(a) or Section 3(e) below. The forfeiture restrictions on the Granted Shares shall lapse on specified dates described below (each, a "Vesting Date") based on achievement of the Performance Goals (as set forth in the attached Exhibit A) (the "Performance Goals"), the Grantee's continued satisfactory efforts with respect to the Corporation's Chief Executive Officer plan for succession (the "Plan for Succession") as determined under Section 3(b) below, and the Grantee's continued service with the Corporation and its subsidiaries, as follows:

(i) If the Performance Goals are met for calendar year 2012, the forfeiture restrictions on 1/2 of the Granted Shares shall lapse on January 31, 2014, and the forfeiture restrictions on 1/2 of the Granted Shares shall lapse on January 31, 2015, subject to the Grantee's continued employment with the Corporation and its subsidiaries through the applicable Vesting Date and subject to Section 3(b) below.

(ii) If the Performance Goals are not met for calendar year 2012 but the Performance Goals are met for 2013, the forfeiture restrictions on 1/2 of the Granted Shares shall lapse on the 2014 Certification Date (as defined below), and the forfeiture restrictions on 1/2 of the Granted Shares shall lapse on January 31, 2015, subject to the Grantee's continued employment with the Corporation and its subsidiaries through the applicable Vesting Date and subject to Section 3(b) below.

(iii) If the Performance Goals are not met for calendar year 2012 and are not met for calendar year 2013, but the Performance Goals are met for calendar year 2014, the forfeiture restrictions on all of the Granted Shares shall lapse on the 2015 Certification Date, subject to the Grantee's continued employment with the Corporation and its subsidiaries through the 2015 Certification Date and subject to Section 3(b) below.

(iv) If the Performance Goals are not met for any of calendar years 2012, 2013 and 2014, the Granted Shares shall not vest and shall be forfeited on the 2015 Certification Date.

(iii) The period beginning on the Date of Grant and ending on the applicable Vesting Date during which all or a portion of the Granted Shares actually remain subject to forfeiture is referred to in this Agreement as the "Restriction Period" for such portion of the Granted Shares. The Committee shall certify attainment of the Performance Goals within 60 days after the end of the calendar year for which the Performance Goals are met, and the date of such certification is referred to as the "Certification Date." The calendar years 2012 through 2014 are referred to as the "Performance Period."

(b) Plan for Succession. If the Performance Goals are met for the 2012, 2013 or 2014 calendar year, the Committee shall determine, in its sole discretion, in 2015, on or before the 2015 Certification Date (or by January 31, 2015 if there is no 2015 Certification Date because the Performance Goals were met for 2012 or 2013), whether the Grantee has made satisfactory efforts with respect to the Plan for Succession. The Committee's determination with respect to the Plan for Succession shall be subject to ratification by the Board. If the Committee determines that the Grantee has made satisfactory efforts with respect to the Plan for Succession, the Granted Shares shall vest as described in Section 3(a) subject to attainment of the Performance Goals and continued employment. Notwithstanding anything in this Agreement to the contrary, if the Committee determines in 2015 that the Grantee has not made satisfactory efforts with respect to the Plan for Succession, the Granted Shares that otherwise would have vested in 2015 pursuant to Section 3(a) shall not vest and shall be forfeited as of the date of the Committee's determination. Any Granted Shares that actually vest in 2014 pursuant to Section 3(a) shall not be affected by the Plan for Succession.

(c) Forfeiture Restrictions on Granted Shares.

(i) The Granted Shares are subject to forfeiture until they vest in accordance with Section 3(a) or Section 3(e). Except as provided in Section 3(e)(i) or 3(e)(ii), upon the termination of the Grantee's employment with the Corporation or any of its subsidiaries during the Restriction Period, the Grantee shall immediately forfeit all of the Granted Shares as to which the forfeiture restrictions have not lapsed on or before the effective date of such termination. For purposes of this Agreement, the effective date of termination of the Grantee's employment shall be the first day on which the Grantee is no longer a regular full-time employee of the Corporation or any of its subsidiaries. The Committee may, however, pursuant to Section 3(e)(iv) provide for complete or partial exceptions to the requirement of employment as it deems equitable.

(ii) Upon any forfeiture described in this Agreement, the Grantee hereby authorizes the Escrow Agent to immediately transfer all such forfeited shares to the Corporation.

(iii) At no time during the Restriction Period shall the Grantee sell, assign, transfer, pledge or otherwise dispose of any portion of the Granted Shares as to which the forfeiture restrictions under this Agreement have not lapsed. Any attempt to assign, transfer, pledge or dispose of the Granted Shares contrary to the provisions hereof, and the levy or any execution, attachment or similar process upon the Granted Shares, shall be null and void and without effect.

(d) Restrictions on Transfer After Applicable Vesting Date.

(i) After Granted Shares vest on a Vesting Date under Section 3(a) or upon termination of employment under Section 3(e)(i), such Granted Shares shall be subject to the transfer restriction described in this Section 3(d). The net number of Granted Shares (after share withholding for applicable taxes) that vest upon a Vesting Date under Section 3(a) or upon termination of employment under Section 3(e)(i) shall be subject to the following transfer restriction for the two-year period following the applicable Vesting Date under Section 3(a) or the Grantee's termination date under Section 3(e)(i), as applicable: the Grantee shall not sell, assign, transfer, pledge or otherwise dispose of any portion of such Granted Shares, and any attempt to assign, transfer, pledge or dispose of such Granted Shares contrary to the provisions hereof, and the levy or any execution, attachment or similar process upon such Granted Shares, shall be null and void and without effect.

(ii) The Compensation Committee may waive the transfer restriction under this Section 3(d) under appropriate circumstances, in its sole discretion, and such transfer restriction shall automatically lapse in the event of the Grantee's death or a Change in Control (as defined in the Plan).

(e) Lapse of Forfeiture Restrictions on Certain Terminations of Employment.

(i) If the Corporation terminates the Grantee's employment without Cause (as defined in the Employment Agreement) or the Grantee terminates employment for Good Reason (as defined in the Employment Agreement) while the Granted Shares remain outstanding, the forfeiture restrictions on any unvested Granted Shares shall lapse on the Grantee's termination date if the Performance Goals have been met for a preceding calendar year in the Performance Period or shall lapse on the applicable Certification Date if the Performance Goals are met for the calendar year in which the Grantee's termination date occurs or a subsequent calendar year in the Performance Period. The transfer restrictions imposed on the Granted Shares shall continue in effect according to Section 3(d).

(ii) Notwithstanding any determinations by the Committee, upon (1) the death of Grantee, (2) the termination of employment of the Grantee due to Disability (as defined in the Employment Agreement), or (3) a Change of Control of the Corporation, the forfeiture restrictions under Section 3(c) shall immediately lapse on the Granted Shares that have not been forfeited prior to such date. Except in the event of the Grantee's death or a Change in Control, the transfer restrictions imposed on the Granted Shares shall continue in effect according to Section 3(d).

(iii) Notwithstanding any other provision hereof, the Committee may, as it deems equitable in its sole discretion, accelerate the date on which the forfeiture restrictions shall lapse with respect to any of the Granted Shares which have not previously been forfeited by the Grantee, subject to achievement of the Performance Goals.

(f) Delivery of Unrestricted Share Certificates. Promptly after the date on which the applicable restrictions lapse with respect to the Granted Shares, the Escrow Agent shall (1) cancel the certificate representing such Granted Shares then held by the Escrow Agent in the Grantee's name, and (2) issue and deliver to the Grantee a share certificate in the Grantee's name, which does not bear the restrictive legend recited in Section 1 hereof, but which may bear any other restrictive legend that the Corporation may then deem necessary or desirable, for the number of Granted Shares.

(g) Non-assignability of Rights. No rights of the Grantee under this Agreement may be assigned or transferred by the Grantee, except, in the event of the death of the Grantee, by will or by the laws of descent or distribution. Any attempt to assign, transfer, pledge or dispose of any Granted Shares which are then subject to the forfeiture or transfer restrictions hereof or any rights of the Grantee hereunder shall be contrary to the provisions hereof, and the levy of any execution, attachment or similar process upon such Granted Shares, shall be null and void and without effect.

4. Voting of Shares; Dividends.

Effective as of the date on which the Grantee signifies acceptance of the Granted Shares, as described in Section 2 hereof, the Grantee (and in the event of the Grantee's death, his heirs or successors) shall be entitled to vote all of the Granted Shares and to receive any dividends payable to stockholders of record on and after the date of such acceptance; provided, however, that neither the Grantee nor any successors shall have any dividend or voting rights or any other rights whatsoever with respect to any Granted Shares which are forfeited under this Agreement, on and after the date of forfeiture.

5. Adjustment of and Changes in Common Stock of the Corporation.

In the event of a reorganization, recapitalization, change of shares, stock split, spin-off, stock dividend, reclassification, subdivision or combination of shares, merger, consolidation, rights offering, or any other change in the corporate structure or shares of the Corporation, the Committee shall make such adjustment as it deems appropriate in the number and kind of shares that constitute the Granted Shares.

6. Non-Transferability of Grants.

During the Grantee's lifetime, only the Grantee or any guardian or legal representative of the Grantee, may exercise rights with respect to the Granted Shares. Such persons may not transfer those rights except by will or the laws of descent and distribution or, if permitted under Rule 16b-3 of the Exchange Act and if permitted in any specific case by the Committee in their sole discretion, pursuant to a qualified domestic relations order as defined under the Code or Title I of ERISA or the rules thereunder. The Granted Shares shall not be subject to attachment, execution or other similar process. In the event of any attempt by the Grantee to alienate, assign, pledge, hypothecate or otherwise dispose of the Granted Shares or of any right hereunder, except as provided for herein, or in the event of the levy of any attachment, execution or similar process upon the rights or interest hereby conferred, the Corporation may terminate the Granted Shares by notice to the Grantee and the Escrow Agent is authorized to immediately utilize the stock powers delivered by the Grantee pursuant to Section 2 hereof and to transfer all such forfeited shares to the Corporation.

7. Employment Not Affected.

Neither the grant of the Granted Shares nor the lapse of the applicable restrictions thereon shall be construed as granting to the Grantee any right with respect to continuance of employment by the Corporation or any of its subsidiaries. Except as may otherwise be limited by a written agreement between the Corporation or any of its subsidiaries and the Grantee, the right of the Corporation or any parent or subsidiary to terminate at will the Grantee's employment with it at any time (whether by dismissal, discharge, or otherwise) is specifically reserved and such right is acknowledged by the Grantee.

8. Withholding of Tax.

Whenever shares of Common Stock are to be delivered to the Grantee or other authorized person, the Corporation shall be entitled to require as a condition of such delivery that the Grantee or such other person remit to the Grantee's employer or, in appropriate cases, agree to remit to such employer when due, an amount sufficient to satisfy all federal, state and local withholding tax requirements relating thereto. Unless the Committee determines otherwise, the tax withholding obligations required with respect to the Granted Shares shall be satisfied by withholding Granted Shares up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

9. Amendment of Grant.

The Agreement may be amended by the Committee at any time (i) if it determines, in its sole discretion, that amendment is necessary or advisable in the light of any addition to or change in the Internal Revenue Code or regulations issued thereunder, or any federal or state securities law or other law or regulation, which change occurs after the grant of Restricted Stock and by its terms retroactively applies to such grant of Restricted Stock and (ii) with the consent of the Grantee. Any such amendment shall be in writing and signed by the Corporation and the Grantee.

10. Notice.

Any notice to the Corporation provided for in this instrument shall be addressed to it in care of its Secretary, and any notice to the Grantee shall be addressed to the Grantee at the current address shown on the payroll of the Corporation or any subsidiary. Except as otherwise provided herein, any notice shall be deemed to be duly given if and when (i) hand delivered, (ii) properly addressed and posted by registered or certified mail, postage prepaid or (iii) sent by a recognized express courier service.

11. Incorporation of Plan by Reference.

This grant of Restricted Stock is made pursuant to the terms of the Plan. The terms of the Plan as in effect on the date hereof and as the Plan may be amended from time to time are incorporated herein by reference, and the Agreement shall in all respects be interpreted in accordance therewith. The Committee shall interpret and construe the grant of Restricted Stock, and its decision shall be conclusive and binding upon any questions arising hereunder.

12. Governing Law.

The validity, construction, interpretation and effect of this instrument shall exclusively be governed by and determined in accordance with the law of the Commonwealth of Pennsylvania.

13. Non-compete and Non-Solicitation Agreement.

(a) In consideration for the grant of Restricted Stock made to Grantee under the terms of this Agreement, Grantee agrees that during the term of Grantee's employment with the Corporation or one or more of its direct or indirect subsidiaries ("Employer") and for a twelve (12) month period beginning on the date that Grantee's employment with Employer ceases for any reason (the "Termination Date"), Grantee shall not directly or indirectly, (i) accept employment with, (ii) own, manage, operate, join, control, solicit, finance, or participate in the ownership, management, operation, acquisition, control or financing of, (iii) be connected as a partner, principal, agent, representative, consultant or otherwise with, or (iv) use or permit Grantee's name to be used in connection with, any business or enterprise engaged directly or indirectly in any business or enterprise engaged in a geographic area within 50 miles of any location from which the Corporation or any of its subsidiaries is operating on the Termination Date (the "Geographic Area"), in any business that is competitive to a business from which the Corporation and any of its subsidiaries, taken as a whole from all geographic area, derived at least ten percent of its respective annual gross revenues for the twelve (12) months preceding the Termination Date.

(b) In consideration for the grant of Restricted Stock made to Grantee under the terms of this Agreement, Grantee agrees that during a twelve (12) month period beginning on the date that Grantee's employment with Employer ceases for any reason, Grantee shall not

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

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

(c) Grantee acknowledges, agrees and represents that the type and periods of restrictions imposed in this Section 13 are fair and reasonable, and that such restrictions are intended solely to protect the legitimate interests of Employer, rather than to prevent Grantee from earning a livelihood. Grantee recognizes that Employer competes or may compete in the Restricted Territory and that Grantees access to confidential information makes it necessary for Employer to restrict Grantee's post-employment activities in the Restricted Territory. Grantee further represent that: (i) Grantee is familiar with the covenants not to compete and not to solicit set forth in this Agreement, (ii) Grantee is fully aware of his obligations hereunder, including, without limitation, the length of time, scope and geographic coverage of these covenants, (iii) Grantee finds the length of time, scope and geographic coverage of these covenants to be reasonable, and (iv) Grantee is receiving valuable and sufficient consideration for Grantee's covenants not to compete and not to solicit.

(d) The parties to this Agreement acknowledge and agree that any breach by the Grantee of any of the covenants or agreements contained in this Section 13 will result in irreparable injury to the Corporation for which money damages could not adequately compensate the Corporation and therefore, in the event of any such breach, the Corporation shall be entitled (in addition to any other rights and remedies which it may have at law or in equity) to have an injunction issued by any competent court enjoining and restraining the Grantee and any other person involved therein from continuing such breach without posting a bond. The existence of any claim or cause of action which the Grantee may have against the Corporation or any other person shall not constitute a defense or bar to the enforcement of such covenants. If any portion of the covenants or agreements contained in this Section 13 is construed to be invalid or unenforceable, the other portions of such covenants or agreements shall not be affected and shall be given full force and effect without regard to the invalid or unenforceable portion to the fullest extent possible. If any covenant or agreement in this Section 13 is held to be unenforceable because of the duration or scope thereof, then the court making such determination shall have the power to reduce the duration and limit the scope thereof, and the covenant or agreement shall then be enforceable in its reduced form. In addition to other actions that may be taken by the Corporation, if the Grantee breaches any of the covenants or agreements contained in this Section 13, the Grantee will forfeit all outstanding Granted Shares, and all outstanding Granted Shares (whether or not vested), shall immediately terminate.

GRANTEE	AQUA AMERICA, INC.
By: /s/ Nicholas DeBenedictis	By: /s/ Roy H. Stahl
Grantee	Chief Administrative Officer

EXHIBIT A

Performance Goals

The Performance Goals for the Granted Shares are that there be a year over year increase in the Corporation's Operating Income for any one of the calendar years in the Performance Period, as follows:

- The Corporation's Operating Income for the 2012 calendar year is greater than the Corporation's Operating Income for the 2011 calendar year; or
- The Corporation's Operating Income for the 2013 calendar year is greater than the Corporation's Operating Income for the 2012 calendar year; or
- The Corporation's Operating Income for the 2014 calendar year is greater than the Corporation's Operating Income for the 2013 calendar year.

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

Exhibit 10.58

AQUA AMERICA, INC.
SUPPLEMENTAL PENSION BENEFIT PLAN FOR SALARIED EMPLOYEES

(As Amended and Restated Effective January 1, 2011)

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AQUA AMERICA, INC.
SUPPLEMENTAL PENSION BENEFIT PLAN FOR SALARIED EMPLOYEES

(As Amended and Restated Effective January 1, 2011)

WHEREAS, Aqua America, Inc. (the "Company") maintains the Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (the "Plan") for the benefit of a select group of management and highly compensated employees; and

WHEREAS, the Company desires to amend the Plan to incorporate amendments to the restatement of the Plan which was effective January 1, 2008 and to provide that the benefit hereunder shall be determined without regard to any reduction under Section 3.2(h) of Part A of the Retirement Plan;

NOW, THEREFORE, effective January 1, 2011, except as otherwise provided herein, Aqua America, Inc. hereby amends and restates the Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees as follows:

ARTICLE I

DEFINITIONS

Throughout this Plan, except where the context otherwise requires, words in the singular shall be construed as including words in the plural and words in the plural as including words in the singular and words importing the masculine gender shall be construed as including the feminine, and the following words and expressions have the following meanings:

1.1 "Board" means the Board of Directors of the Company.

1.2 "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any regulations issued thereunder.

1.3 "Committee" means the Retirement and Employee Benefits Committee.

1.4 "Company" means Aqua America, Inc., a Pennsylvania corporation.

1.5 "Normal Retirement Date" means the first day of the month coincident with or next following the date on which a Participant attains his Normal Retirement Age, as defined in the Retirement Plan.

1.6 "Participant" means a salaried employee of the Company who is a participant under the Retirement Plan (or any successor or replacement plan) and whose benefit payable under Part A or Part C of the Retirement Plan is reduced as a result of the limitation under section 401(a)(17) or section 415 of the Code, or whose benefit payable under Part A of the Retirement Plan is reduced as a result of the provisions of Section 3.2(h) of Part A or as a result of the deferral of compensation under the Aqua America, Inc. Executive Deferral Plan.

1.7 “Plan” means this Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees, previously known as the Aqua America, Inc. Excess Benefit Plan for Salaried Employees.

1.8 “Retirement Plan“ means the Retirement Income Plan for Aqua America, Inc. and Subsidiaries.

1.9 “Retirement Plan Benefit“ means the accrued benefit payable to a Participant as determined under the terms of the Retirement Plan.

1.10 “Retirement Plan Surviving Spouse Benefit“ means the Surviving Spouse Benefit determined pursuant to the terms of the Retirement Plan in the event of the death of the Participant at any time prior to commencement of payment of his Retirement Plan Benefit.

1.11 “Separation from Service“ means a Participant’s termination of employment with the Company and all affiliated companies considered a single employer with the Company as provided under Code section 409A and guidance issued thereunder, and, effective January 1, 2009, Treas. Reg. §1.409A-1(h) and any successor thereto. The default rules of Treas. Reg. §1.409A-1(h) shall apply except for purposes of determining if the level of bona fide services will permanently decrease from the average level of bona fide services performed over the immediately preceding 36-month period (or full period of service, if shorter). In applying such rules, 33-1/3% shall be substituted for 20%.

1.12 “Specified Employee“ means an employee as defined in Code section 409A(a)(2)(B)(i) and guidance issued thereunder and, effective January 1, 2009, Treas. Reg. §1.409A-1(i) or any successor thereto and as determined in accordance with the methodology adopted by the Company in accordance with such regulation and set forth in the written policy entitled “Aqua America, Inc. Key Employee Determination Process for purposes of Section 409A,” which is incorporated herein by reference.

1.13 “Supplemental Benefit“ means the total benefit payable to a Participant pursuant to this Plan.

1.14 “Supplemental Surviving Spouse Benefit“ means the Surviving Spouse Benefit payable to a Surviving Spouse pursuant to this Plan.

1.15 “Surviving Spouse“ means a person who qualifies as a surviving spouse under the Retirement Plan.

1.16 “Surviving Spouse Benefit“ means, except as otherwise provided in Section 3.2(d), the survivor annuity payable to the Surviving Spouse determined as if the Participant had retired on the later of the day prior to his death or on the date of his earliest retirement age (having survived to such date), with an immediate joint and survivor annuity. The survivor annuity percentage shall be 75% with respect to Participants in Part A of the Retirement Plan and with respect to Participants in Part C of the Retirement Plan who are Designated Participants as defined in such Part C and 50% with respect to all other Participants in Part C of the Retirement Plan. A Surviving Spouse Benefit shall be determined in the form of a single life annuity (based on such survivor annuity) for the life of the Surviving Spouse commencing on the later of the Participant’s date of death or earliest retirement age. Earliest retirement age shall have the same meaning as under the Retirement Plan.

ARTICLE II

ELIGIBILITY

2.1 Eligibility of a Participant. A Participant who is eligible to receive a Retirement Plan Benefit, the amount of which is reduced, or would be reduced as provided in Section 1.6, by reason of the application of the limitations on benefits imposed by application to the Retirement Plan of sections 401(a)(17) or 415 of the Code or by reason of the deferral of compensation under the Aqua America, Inc. Executive Deferral Plan, shall be eligible to receive a Supplemental Benefit.

2.2 Eligibility of a Surviving Spouse. The Surviving Spouse of a Participant described in Section 2.1 who dies prior to the time specified in Section 4.1 shall be eligible to receive a Supplemental Surviving Spouse Benefit.

ARTICLE III

SUPPLEMENTAL BENEFIT

3.1 Amount. The Supplemental Benefit payable to an eligible Participant shall be a monthly amount equal to the excess of (a) over (b) below:

(a) the monthly amount of the Retirement Plan Benefit (expressed in the form of a single life annuity commencing at Participant's Normal Retirement Date or, if later, the date of determination) to which the Participant would have been entitled under the Retirement Plan, if such Benefit were computed without giving effect to any deferrals of compensation made under the Aqua America, Inc. Executive Deferral Plan, to the limitations on benefits imposed by sections 401(a)(17) or 415 of the Code or to any reduction imposed under Section 3.2(h) of Part A of the Retirement Plan;

(b) the monthly amount of the Retirement Plan Benefit (expressed in the form of a single life annuity commencing at Participant's Normal Retirement Date or, if later, the date of determination) payable to the Participant under the Retirement Plan.

3.2 Time and Form of Payment.

(a) Default Form and Time of Payment. Subject to Section 3.2(e), unless an optional time and form of payment under Section 3.2(b) is elected as provided under Section 3.2(c) or a transfer election is made as provided under Section 3.2(d), the actuarial equivalent present value of the Participant's Supplemental Benefit shall be paid to him in one lump sum payment on the first day of the month following the later of the Participant's Separation from Service and attainment of age 55 (or February 1, 2009, if later). Present value for purposes of this Section 3.2(a) shall be determined using the discount and mortality assumptions prescribed under FAS 87 for accounting valuation purposes for the year in which distribution occurs.

(b) Optional Forms and Times of Payment. A Participant may elect any of the following forms in lieu of a lump sum payment: a single life annuity; a joint and survivor annuity with a survivor annuity equal to 50%, 66-2/3%, 75% or 100% of the amount paid during the joint lives; or a term certain single life annuity with a 10-year term, or if the Participant participates in Part A of the Retirement Plan or participates in Part C of the Retirement Plan as a Designated Participant (as defined in Part C), also a 5-year term or a 15-year term. Instead of commencement of payment (or payment in the event of a lump sum) at the later of Separation from Service or the date the Participant attains age 55, a Participant may elect the later of Separation from Service or the date of attainment of a designated age after age 55. All payments shall commence on the first day of the month following the later of the Participant's Separation from Service or the date of attainment of the designated age, subject to Section 3.2(e) and Section 3.2(c)(ii).

(c) Election.

(i) During 2007 and 2008, a Participant may elect an optional form and/or time of payment as provided under Section 3.2(b), provided such election is made prior to the calendar year in which such amounts would otherwise be paid and such election does not cause such amounts to be paid in the year the election is made. An election under this Section 3.2(c) shall be made in writing, on the form prescribed by the Committee, and filed with the Committee. All elections are irrevocable upon submission to the Committee.

(ii) Effective on and after January 1, 2009, any election shall not be effective for 12 months, must be made 12 months before the amounts would be paid or commence to be paid, and must delay payment or commencement of payment at least five years unless the election changes an annuity form of payment to an actuarially equivalent annuity form of payment without changing the date payment commences. All elections are irrevocable upon submission to the Committee.

(d) One-Time Election to Transfer Benefit. A Participant may make a one-time, irrevocable election to elect, in lieu of the payments described in Section 3.2(a) and Section 3.2(b), to have the actuarial equivalent present value of the Supplemental Benefit transferred to the Participant's Separation Distribution Account under the Aqua America, Inc. Executive Deferral Plan on the later of the date the Participant attains age 55 or the date of the Participant's Separation from Service. Notwithstanding the foregoing, in the event of the Participant's death prior to such transfer, a transfer of the actuarial equivalent present value of the Supplemental Surviving Spouse Benefit shall be made as of the later of the date the Participant would have attained age 55 or the Participant's Separation from Service due to death, provided there is a Surviving Spouse and provided in the event of the Participant's death prior to age 55 that such Spouse survives to the date the Participant would have attained age 55. Any amounts so transferred to the Aqua America, Inc. Executive Deferral Plan shall be distributed in accordance with the provisions of that Plan, including an effective election made under that Plan. An election under this Section 3.2(d) shall be made in writing, on the form prescribed by the

Committee, shall be submitted to the Committee on or prior to December 31, 2008, shall be irrevocable upon submission to the Committee, and no further election regarding time and form of payment shall be available under this Plan. Present value for purposes of this Section 3.2(d) shall be determined using the discount and mortality assumptions prescribed under FAS 87 for accounting valuation purposes for the year in which transfer occurs. Notwithstanding the foregoing, or any other provision of this Plan to the contrary, with respect to the participation of Nicholas DeBenedictis in the event of his Separation from Service due to death after age 55, the Supplemental Surviving Spouse Benefit to be transferred to the Aqua America, Inc. Executive Deferral Plan shall be an amount equal to the actuarial equivalent present value of the Supplemental Benefit that would have been transferred to such Executive Deferral Plan had Mr. DeBenedictis retired on the day prior to the day of his death.

(e) Six Month Payment Delay. Notwithstanding any provision of the Plan to the contrary, any payment of Supplemental Benefits due as a result of Separation from Service to a Participant who is a Specified Employee which would otherwise be paid or commence to be paid prior to the six-month anniversary of such Separation from Service shall be delayed until the first business day following the six-month anniversary of Separation from Service (or, if earlier, the date of such Participant's death). Any annuity payments otherwise payable during such six-month period shall accumulate and be paid in one lump sum on such delayed payment date. If payment is due in one lump sum upon Separation from Service, the actuarial equivalent present value shall be determined as provided in Section 3.2(a) as of the date of Separation from Service and shall be credited with interest during such six month delay using the first segment rate as determined under Code section 417(e)(3)(D).

(f) Timing of Payment. Payment or commencement of payment of Supplemental Benefits is treated as made on the date specified if payment is made at such date or a later date in the same taxable year or, if later, by the 15th day of the third calendar month following the specified date and the Participant is not permitted, directly or indirectly, to designate the taxable year of payment.

3.3 Payment of Small Amounts. Notwithstanding any other provision of the Plan, if the present value of the Supplemental Benefit payable under this Plan does not exceed $5,000, such Supplemental Benefit shall be paid in one lump sum on the payment date or commencement date otherwise specified under the terms of this Plan, provided such payment results in the termination and liquidation of the Participant's entire interest under this Plan and any other plan required to be aggregated with this Plan under Treas. Reg. §1.409A-1(c)(2) or any successor thereto. Present value for purposes of this Section 3.4 shall be determined using the discount and mortality assumptions specified in Section 3.2(a).

3.4 Adjustment of Supplemental Benefit. The Supplemental Benefit payable hereunder shall be subject to the same actuarial adjustments and adjustments for early or delayed commencement as under the Retirement Plan except as otherwise specifically provided herein. For avoidance of doubt, the Supplemental Benefit as of any date after the Participant's Normal Retirement Date shall be the greater of (i) the Supplemental Benefit as of the Participant's Normal Retirement Date increased by one-half of one percent (1/2%) per month, for a Participant in Part A of the Retirement Plan for the period from his Normal Retirement Date to the date of determination or the Actuarial Equivalent of the Supplemental Benefit as of Normal Retirement Date for a Participant in Part C of the Retirement Plan, or (ii) the Supplemental Benefit calculated as of the date of determination.

3.5 Coordination with SERP Benefit. Notwithstanding the foregoing provisions of this Plan, the Supplemental Benefit of Nicholas DeBenedictis who also participates in the Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis (the "SERP") shall be paid at the same time and in the same form as the benefit under the SERP.

ARTICLE IV

SUPPLEMENTAL SURVIVING SPOUSE BENEFIT

4.1 Amount. If a Participant has not made the election provided under Section 3.2(d) and dies prior to the later of (A) his Separation from Service or (B) his attainment of an age designated as the trigger for payment under Section 3.2(c) under circumstances in which a Retirement Plan Surviving Spouse Benefit is payable (or would have been payable if the Participant's Retirement Plan Benefit had not commenced) to his Surviving Spouse, then a Supplemental Surviving Spouse Benefit is payable as provided herein.

4.2 Time and Form of Payment.

(a) Default Form and Time of Payment. Unless an optional time and form of payment under Section 4.2(b) is elected as provided under Section 4.2(c), the Supplemental Surviving Spouse Benefit shall be paid in one lump sum payment on the first day of the second month following the date of the Participant's death or if later, the date the Participant would have attained age 55. Present value for purposes of this Section 4.2(a) shall be determined using the discount and mortality assumptions prescribed under FAS 87 for accounting valuation purposes for the year in which distribution occurs.

(b) Optional Form and Times of Payment. A Participant may elect a single life annuity instead of a lump sum with respect to payment of the Supplemental Surviving Spouse Benefit. Instead of commencement of payment (or payment in the event of a lump sum) at the later of death or the date the Participant would have attained age 55, a Participant may elect the later of the date of death or the date of attainment of a designated age after age 55. All payments shall commence on the first day of the second month following the later of the Participant's death or the date the Participant would have attained age 55.

(c) Election. A Participant may elect an optional form and/or time of payment as provided under Section 4.2(c), provided such election is made prior to the calendar year in which such Supplemental Surviving Spouse Benefit would otherwise be paid and such election does not cause such Benefit to be paid in the year the election is made. Effective on and after January 1, 2009, any election shall not be effective for 12 months and must be made 12 months before the Supplemental Surviving Spouse Benefit would be paid or commence to be paid. All elections are irrevocable upon submission to the Committee.

(d) Timing of Payment. Payment or commencement of payment of a Supplemental Surviving Spouse Benefit is treated as made on the date specified if payment is made at such date or a later date in the same taxable year or, if later, by the 15th day of the third calendar month following the specified date and neither the Participant nor the Surviving Spouse is permitted, directly or indirectly, to designate the taxable year of payment.

4.3 Payment of Small Amounts. Notwithstanding any other provision of the Plan, if the present value of the Supplemental Surviving Spouse Benefit payable under this Plan does not exceed $5,000, such Supplemental Surviving Spouse Benefit shall be paid in one lump sum on the payment date or commencement date otherwise specified under the terms of this Plan, provided such payment results in the termination and liquidation of the Participant's entire interest under this Plan and any other plan required to be aggregated with this Plan under Treas. Reg. §1.409A-1(c)(2) or any successor thereto. Present value for purposes of this Section 4.3 shall be determined using the discount and mortality assumptions specified in Section 4.2(a).

4.4 Adjustment of Supplemental Benefit. The Supplemental Surviving Spouse Benefit payable hereunder shall be subject to the same actuarial adjustments and adjustments for early or delayed commencement as under the Retirement Plan except as otherwise specifically provided herein.

4.5 Coordination with SERP Benefit. Notwithstanding the foregoing provisions of this Plan, the benefit under this Plan of Nicholas DeBenedictis who also participates in the Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis (the "SERP") shall be paid at the same time and in the same form as his benefits under the SERP.

ARTICLE V

ADMINISTRATION

5.1 Administration by the Committee. The Committee shall be responsible for the general operation and administration of the Plan and for carrying out the provisions thereof.

5.2 General Powers of Administration. All provisions set forth in the Retirement Plan with respect to the administrative powers and duties of the Committee, expenses of administration, and procedures for filing claims shall also be applicable with respect to the Plan. The Committee shall be entitled to rely conclusively upon all tables, valuations, certificates, opinions and reports furnished by any actuary, accountant, controller, counsel or other person employed or engaged by the Company with respect to the Retirement Plan.

ARTICLE VI

AMENDMENT OR TERMINATION

6.1 Amendment or Termination. The Company intends the Plan to be permanent but reserves the right to amend or terminate the Plan when, in the sole opinion of the Company, such amendment or termination is advisable. Any such amendment or termination shall be made pursuant to a resolution of the Board and shall be effective as of the date of such resolution.

6.2 Effect of Amendment or Termination. No amendment or termination of the Plan shall directly or indirectly deprive any current or former Participant or Surviving Spouse of all or any portion of any Supplemental Benefit or Supplemental Surviving Spouse Benefit, payment of which has commenced prior to the effective date of such amendment or termination or which would be payable if the Participant terminated employment for any reason, including death, on such effective date.

ARTICLE VII

GENERAL PROVISIONS

7.1 Funding. The Plan at all times shall be entirely unfunded and no provision shall at any time be made with respect to segregating any assets of the Company for payment of any benefits hereunder. No Participant, Surviving Spouse or any other person shall have any interest in any particular assets of the Company by reason of the right to receive a benefit under the Plan and any such Participant, Surviving Spouse or other person shall have only the rights of a general unsecured creditor of the Company with respect to any right under the Plan.

7.2 General Conditions. Except as otherwise expressly provided herein, all terms and conditions of the Retirement Plan applicable to a Retirement Plan Benefit or a Retirement Plan Surviving Spouse Benefit shall also be applicable to a Supplemental Benefit or a Supplemental Surviving Spouse Benefit payable hereunder. Any Retirement Plan Benefit or Retirement Plan Surviving Spouse Benefit, or any other benefit payable under the Retirement Plan, shall be paid solely in accordance with the terms and conditions of the Retirement Plan and nothing in this Plan shall operate or be construed in any way to modify, amend or affect the terms and provisions of the Retirement Plan.

7.3 No Guarantee of Benefits. Nothing contained in the Plan shall constitute a guarantee by the Company or any other entity or person that the assets of the Company will be sufficient to pay any benefit hereunder.

7.4 No Enlargement of Employee Rights. No Participant or Surviving Spouse shall have any right to a benefit under the Plan except in accordance with the terms of the Plan. Establishment of the Plan shall not be construed to give any Participant the right to be retained in the service of the Company.

7.5 Spendthrift Provision. No interest of any person or entity in, or right to receive a benefit under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor may such interest or right to receive a benefit be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims for alimony, support, separate maintenance and claims in bankruptcy proceedings.

7.6 Applicable Law. The Plan is intended to comply with Code section 409A and guidance issued thereunder and shall be administered and interpreted consistent therewith and otherwise shall be construed under the laws of the Commonwealth of Pennsylvania other than its laws respecting choice of laws, to the extent not otherwise preempted by Federal law.

7.7 Incapacity of Recipient. If any person entitled to a benefit payment under the Plan is deemed by the Company to be incapable of personally receiving and giving a valid receipt for such payment, then, unless and until claim therefor shall have been made by a duly appointed guardian or other legal representative of such person, the Company may provide for such payment or any part thereof to be made to any other person or institution then contributing toward or providing for the care and maintenance of such person. Any such payment shall be a payment for the account of such person and a complete discharge of any liability of the Company and the Plan therefor.

7.8 Corporate Successors. The Plan shall not be automatically terminated by a transfer or sale of assets of the Company or by the merger or consolidation of the Company into or with any other corporation or other entity, but the Plan shall be continued after such sale, merger or consolidation only if and to the extent that the transferee, purchaser or successor entity agrees to continue the Plan. In the event that the Plan is not continued by the transferee, purchaser or successor entity, then the Plan shall terminate, subject to the provisions of Section 6.2, and distribution shall continue to be made in accordance with the foregoing provisions of the Plan.

7.9 Current Address. Each Participant shall keep the Company informed of his current address and the current address of his spouse. The Company shall not be obligated to search for the whereabouts of any person.

7.10 Limitations on Liability. Notwithstanding any of the preceding provisions of the Plan, neither the Company nor any individual acting as an employee or agent of the Company shall be liable to any Participant, former Participant, Surviving Spouse or any other person for any claim, loss, liability or expense incurred in connection with the Plan.

IN WITNESS WHEREOF, Aqua America, Inc. has caused these presents to be duly executed, under seal, as of this 4th day of October , 2011.

Attest:	AQUA AMERICA, INC.
/s/ Maria Gordiany_	By: /s/ Roy H. Stahl
Assistant Secretary	Chief Administrative Officer, General Counsel and Secretary

[Corporate Seal]

Exhibit 10.59

AQUA AMERICA, INC.
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN
FOR NICHOLAS DEBENEDICTIS

(As Amended and Restated Effective January 1, 2011)

TABLE OF CONTENTS

AQUA AMERICA, INC.
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN
FOR NICHOLAS DEBENEDICTIS

(As Amended and Restated Effective January 1, 2008)

WHEREAS, Aqua America, Inc. (the “Company”) maintains the Aqua America, Inc. Supplemental Executive Retirement Plan (the “Plan”) for Nicholas DeBenedictis, Chairman and Chief Executive Officer of the Company; and

WHEREAS, the Company desires to amend the Plan to incorporate amendments to the restatement of the Plan which was effective January 1, 2008 and to provide that the benefit hereunder shall be determined without regard to any reduction under Section 3.2(h) of Part A of the Retirement Plan;

NOW, THEREFORE, effective January 1, 2011, except as otherwise provided herein, Aqua America, Inc. hereby amends and restates the Plan as follows:

ARTICLE I

DEFINITIONS

1.1 “Board“ shall mean the Board of Directors of the Company.

1.2 “Code“ shall mean the Internal Revenue Code of 1986, as amended from time to time, and any regulations issued thereunder.

1.3 “Committee“ shall mean the Retirement and Employee Benefits Committee.

1.4 “Company“ shall mean Aqua America, Inc., a Pennsylvania corporation.

1.5 “Normal Retirement Date“ shall mean the first day of the month coincident with or next following the date on which the Participant attains his Normal Retirement Age, as defined in the Retirement Plan.

1.6 “Participant“ shall mean Nicholas DeBenedictis.

1.7 “Plan“ shall mean this Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis.

1.8 “Retirement” shall mean Separation from Service on or after age 65.

1.9 “Retirement Plan“ shall mean the Retirement Income Plan for Aqua America, Inc. and Subsidiaries.

1.10 "Retirement Plan Benefit" shall mean the accrued benefit payable to the Participant as determined under the terms of the Retirement Plan.

1.11 "Retirement Plan Surviving Spouse Benefit" shall mean the Surviving Spouse Benefit determined pursuant to the terms of the Retirement Plan in the event of the death of the Participant at any time prior to commencement of payment of his Retirement Plan Benefit.

1.12 "Separation from Service" shall mean the Participant's termination of employment with the Company and all affiliated companies considered a single employer with the Company as provided under Code section 409A and guidance issued thereunder and, effective January 1, 2009, Treas. Reg. §1.409A-1(h) and any successor thereto. The default rules of Treas. Reg. §1.409A-1(h) shall apply except for purposes of determining if the level of bona fide services will permanently decrease from the average level of bona fide services performed over the immediately preceding 36-month period (or full period of service, if shorter). In applying such rules, 33-1/3% shall be substituted for 20%.

1.13 "Specified Employee" shall mean an employee as defined in Code section 409A(a)(2)(B)(i) and guidance issued thereunder and, effective January 1, 2009, Treas. Reg. §1.409A-1(i) or any successor thereto and as determined in accordance with the methodology adopted by the Company in accordance with such regulation and set forth in the written policy entitled "Aqua America, Inc. Key Employee Determination Process for purposes of Section 409A," which is incorporated herein by reference.

1.14 "Supplemental Excess Benefit" shall mean the total benefit payable to the Participant under this Plan.

1.15 "Supplemental Excess Surviving Spouse Benefit" shall mean the Surviving Spouse Benefit payable to a Surviving Spouse pursuant to this Plan with respect to Supplemental Excess Benefits.

1.16 "Supplemental Benefit" shall mean the benefit, if any, payable to the Participant under the Supplemental Pension Plan.

1.17 "Supplemental Pension Plan" shall mean the Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees.

1.18 "Surviving Spouse" shall mean a person who qualifies as a surviving spouse under the Retirement Plan.

1.19 "Surviving Spouse Benefit" shall mean, except as otherwise provided in Section 2.3(d), the survivor annuity payable to the Surviving Spouse determined as if the Participant had retired on the later of the day prior to his death or on the date of his earliest retirement age (having survived to such date), with an immediate joint and 75% survivor annuity. A Surviving Spouse Benefit shall be determined in the form of a single life annuity (based on such 75% survivor annuity) for the life of the Surviving Spouse commencing on the later of the Participant's date of death or earliest retirement age. Earliest retirement age shall have the same meaning as under the Retirement Plan.

ARTICLE II

SUPPLEMENTAL EXCESS BENEFIT

2.1 Calculation of Benefit.

(a) Retirement. The Supplemental Excess Benefit payable to the Participant under this Plan upon his Retirement shall be equal to (i) the monthly amount of the benefit that would be payable under the Retirement Plan (expressed in the form of a single life annuity commencing at the Participant's Normal Retirement Date or, if later, the date of determination) if the Participant were fully vested in his benefit under the Retirement Plan, calculated as if the Participant had 25 Years of Service under the Retirement Plan on the date of Retirement and had not deferred any compensation under the Aqua America, Inc. Executive Deferral Plan, and without taking into account the limitations of sections 401(a)(17) and 415 of the Code or any reduction imposed under Section 3.2(h) of Part A of the Retirement Plan, less (ii) the monthly amount of the Retirement Plan Benefit (expressed in the form of a single life annuity commencing at the Participant's Normal Retirement Date or, if later, the date of determination) payable to the Participant under the Retirement Plan and the monthly amount of the Supplemental Benefit (expressed in the form of a single life annuity commencing at the Participant's Normal Retirement Date or, if later, the date of determination) payable to the Participant under the Supplemental Pension Plan.

(b) Separation from Service Prior to Retirement. The Supplemental Excess Benefit payable to the Participant under this Plan upon his Separation from Service for any reason prior to age 65 shall be equal to (i) the benefit that would be payable under the Retirement Plan (expressed in the form of a single life annuity commencing at the Participant's Normal Retirement Date or, if later, the date of determination) if the Participant were fully vested in his benefit under the Retirement Plan, calculated as if the Participant were credited with two years of benefit service for each of the first seven years of his actual service with the Company, plus one year of benefit service for each year of actual service after the seventh year of service, and had not deferred any compensation under the Aqua America, Inc. Executive Deferral Plan, and without taking into account the limitations of sections 401(a)(17) and 415 of the Code or any reduction imposed under Section 3.2(h) of Part A of the Retirement Plan, less (ii) the monthly amount of the Retirement Plan Benefit (expressed in the form of a single life annuity commencing at the Participant's Normal Retirement Date or, if later, the date of determination) payable to the Participant under the Retirement Plan and the monthly amount of the Supplemental Benefit (expressed in the form of a single life annuity commencing at the Participant's Normal Retirement Date or, if later, the date of determination) payable to the Participant under the Supplemental Pension Plan.

2.2 Surviving Spouse Benefit. If the Participant has not made the election provided under Section 2.3(d) and dies prior to the later of (A) his Separation from Service or (B) his attainment of an age designated as the trigger for payment under Section 2.3(c), then a Surviving Spouse Benefit is payable to his Surviving Spouse as provided herein. If the Participant is entitled, or would be entitled except for the fact that he has not retired from the Company, to a Supplemental Excess Benefit under Section 2.1(a), the Surviving Spouse Benefit shall be determined with respect to the Supplemental Excess Benefit as calculated under Section 2.1(a). In all other cases, the Surviving Spouse Benefit shall be determined with respect to the Supplemental Excess Benefit as calculated under Section 2.1(b).

2.3 Time and Form of Payment.

(a) Default Form and Time of Payment. Subject to Section 2.3(e), unless an optional form of payment under Section 2.3(b) is elected as provided under Section 2.3(c) or a transfer election is made as provided under Section 2.3(d), the actuarial equivalent present value of the Participant's Supplemental Excess Benefit shall be paid in one lump sum payment on the first day of the month following the later of the Participant's Separation from Service and attainment of age 55 (or February 1, 2009, if later). Present value for purposes of this Section 2.3(a) shall be determined using the discount and mortality assumptions prescribed under FAS 87 for accounting valuation purposes for the year in which distribution occurs.

(b) Optional Forms and Times of Payment. The Participant may elect any of the following forms in lieu of a lump sum payment: a single life annuity; a joint and survivor annuity with a survivor annuity equal to 50%, 66-2/3%, 75% or 100% of the amount paid during the joint lives; or a term certain single life annuity with a 5-year term, a 10-year term or a 15-year term. Instead of commencement of payment (or payment in the event of a lump sum) at the later of Separation from Service or the date the Participant attains age 55, the Participant may elect the later of Separation from Service or the date of attainment of a designated age after age 55. All payments shall commence on the first day of the month following the later of Separation from Service or the date the Participant attains the designated age, subject to Section 2.3(e) and Section 2.3(c)(ii).

(c) Election.

(i) During 2007 and 2008, the Participant may elect an optional form of payment as provided under Section 2.3(b), provided such election is made prior to the calendar year in which such benefits would otherwise be paid and such election does not cause such benefits to be paid in the year the election is made. All elections are irrevocable upon submission to the Committee.

(ii) Following 2008, any election shall not be effective for 12 months, must be made 12 months before the benefits would be paid or commence to be paid and must delay payment or commencement of payment at least five years unless the election changes an annuity form of payment to an actuarially equivalent annuity form of payment without changing the date payment commences. All elections are irrevocable upon submission to the Committee.

(d) One-Time Election to Transfer Benefit. The Participant may make a one-time, irrevocable election to elect, in lieu of the payments described in Section 2.3(a) and Section 2.3(c), to have the actuarial equivalent present value of the Supplemental Excess Benefit under this Plan and the Supplemental Benefit under the Supplemental Pension Plan transferred to the Participant's Separation Distribution Account under the Aqua America, Inc. Executive Deferral Plan on the later of the date the Participant attains age 55 or the date of his Separation from

Service. Notwithstanding the foregoing, in the event of the Participant's death prior to such transfer, a transfer of the actuarial equivalent present value of the Supplemental Excess Surviving Spouse Benefit shall be made as of the later of the date the Participant would have attained age 55 or the Participant's Separation from Service due to death, provided there is a Surviving Spouse and provided in the event of the Participant's death prior to age 55 that such Spouse survives to the date the Participant would have attained age 55. Any amount so transferred to the Aqua America, Inc. Executive Deferral Plan shall be distributed in accordance with the provisions of that Plan. An election under this Section 2.3(d) shall be made in writing, on the form prescribed by the Committee, shall be submitted to the Committee on or prior to December 31, 2008, shall be irrevocable upon submission to the Committee, and no further election shall be available under this Plan. Present value for purposes of this Section 2.3(d) shall be determined using the discount and mortality assumptions prescribed under FAS 87 for accounting valuation purposes for the year in which transfer occurs. Notwithstanding the foregoing, or any other provision of this Plan to the contrary, in the event of the Participant's Separation from Service due to death after age 55, the Supplemental Excess Surviving Spouse Benefit to be transferred to the Aqua America, Inc. Executive Deferral Plan shall be an amount equal to the actuarial equivalent present value of the Supplemental Excess Benefit that would have been transferred to such Executive Deferral Plan had the Participant retired on the day prior to the day of his death.

(e) Six Month Payment Delay. Notwithstanding any provision of the Plan to the contrary, if the Participant is a Specified Employee, any payment of a Benefit due as a result of Separation from Service which would otherwise be paid or commence to be paid prior to the six-month anniversary of such Separation from Service shall be delayed until the first business day following the six-month anniversary of Separation from Service (or, if earlier, the date of such Participant's death). Any annuity payments otherwise payable during such six-month period shall accumulate and be paid in one lump sum on such delayed payment date. If payment is due in one lump sum upon Separation from Service, the actuarial equivalent present value shall be determined as provided in Section 2.3(a) as of the date of Separation from Service and shall be credited with interest during such six month delay using the first segment rate as determined under Code section 417(e)(3)(D).

2.4 Time and Form of Payment of Supplemental Excess Surviving Spouse Benefit.

(a) Default Form and Time of Payment. Unless an optional form of payment under Section 2.4(b) is elected as provided under Section 2.4(c), the Supplemental Excess Surviving Spouse Benefit shall be paid in one lump sum payment on the first day of the second month following the date of the Participant's death or, if later, the date the Participant would have attained age 55. Present value for purposes of this Section 2.4(a) shall be determined using the discount and mortality assumptions prescribed under FAS 87 for accounting valuation purposes for the year in which distribution occurs.

(b) Optional Form and Times of Payment. The Participant may elect a single life annuity instead of a lump sum with respect to payment of the Supplemental Excess Surviving Spouse Benefit. All payments shall commence on the first day of the second month following the Participant's death or, if later, the date the Participant would have attained age 55.

(c) Election. During 2007 and 2008, the Participant may elect an optional form of payment as provided under Section 2.4(c), provided such election is made prior to the calendar year in which such Supplemental Excess Surviving Spouse Benefit would otherwise be paid and such election does not cause such benefit to be paid in the year the election is made. Following 2008, any election shall not be effective for 12 months and must be made 12 months before the Supplemental Excess Surviving Spouse Benefit would be paid or commence to be paid. All elections are irrevocable upon submission to the Committee.

2.5 Adjustment of Benefits. The Supplemental Excess Benefit and the Supplemental Excess Surviving Spouse Benefit payable hereunder shall be subject to the same actuarial adjustments and adjustments for early or delayed commencement as under the Retirement Plan except as otherwise specifically provided herein. For avoidance of doubt, the Supplemental Excess Benefit as of any date after the Participant's Normal Retirement Date shall be the greater of (i) the Supplemental Excess Benefit as of the Participant's Normal Retirement Date increased by one-half of one percent (1/2%) per month, as set forth under the Retirement Plan for the period from his Normal Retirement Date to the date of determination or (ii) the Supplemental Excess Benefit calculated as of the date of determination.

2.6 Coordination with Supplemental Pension Plan Benefit. The benefits of Nicholas DeBenedictis under the Supplemental Pension Plan shall be paid at the same time and in the same form as his benefits under this Plan.

2.7 Timing of Payment. Payment or commencement of payment of benefits is treated as made on the date specified if payment is made at such date or a later date in the same taxable year or, if later, by the 15th day of the third calendar month following the specified date and the Participant (or, in the case of the Supplemental Excess Surviving Spouse Benefit, the Surviving Spouse) is not permitted, directly or indirectly, to designate the taxable year of payment.

ARTICLE III

AMENDMENT AND TERMINATION

3.1 Reservation of Right to Amend or Terminate. The Company intends the Plan to be permanent but reserves the right to amend or terminate the Plan when, in the sole opinion of the Company, such amendment or termination is advisable. Any such amendment or termination shall be made pursuant to a resolution of the Board of Directors of the Company and shall be effective as of the date of the resolution.

3.2 Effect of Amendment or Termination. No amendment or termination of the Plan shall directly or indirectly deprive the Participant or Surviving Spouse of all or any portion of any Supplemental Excess Benefit or Supplemental Excess Surviving Spouse Benefit payment of which has commenced prior to the effective date of such amendment or termination or which would be payable if the Participant terminated employment for any reason, including death, on such effective date.

ARTICLE IV

MISCELLANEOUS

4.1 No Creation of Employment Rights. Nothing contained herein will confer upon the Participant the right to be retained in the service of the Company nor limit the rights of the Company to discharge or otherwise discipline the Participant.

4.2 Funding. The Plan at all times shall be entirely unfunded and no provision shall at any time be made with respect to segregating any assets of the Company for payment of any benefits hereunder. Neither the Participant nor any other person shall have any interest in any particular assets of the Company by reason of the right to receive a benefit under the Plan and the Participant or other person shall have only the rights of a general unsecured creditor of the Company with respect to any rights under the Plan. Nothing contained in the Plan shall constitute a guarantee by the Company or any other entity or person that the assets of the Company will be sufficient to pay any benefit hereunder.

4.3 Spendthrift Provision. No benefit payable under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge prior to actual receipt thereof by the Participant; and any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge prior to such receipt shall be void; and the Company shall not be liable in any manner for or subject to the debts, contracts, liabilities, engagements or torts of any person entitled to any benefit under the Plan.

4.4 Administration. The Committee shall be responsible for the general operation and administration of the Plan and for carrying out the provisions thereof. All provisions set forth in the Retirement Plan with respect to the administrative powers and duties of the Committee, expenses of administration and procedures for filing claims shall also be applicable with respect to this Plan. The Committee shall be entitled to rely conclusively upon all tables, valuations, certificates, opinions and reports furnished by any actuary, accountant, controller, counsel or other person employed or engaged by the Company with respect to the Retirement Plan.

4.5 General Conditions. Except as otherwise expressly provided herein, all terms and conditions of the Retirement Plan applicable to a Retirement Plan Benefit or a Retirement Plan Surviving Spouse Benefit shall also be applicable to a Supplemental Excess Benefit or a Supplemental Excess Surviving Spouse Benefit payable hereunder. Any Retirement Plan Benefit or Retirement Plan Surviving Spouse Benefit, or any other benefit payable under the Retirement Plan, shall be paid solely in accordance with the terms and conditions of the Retirement Plan and nothing in this Plan shall operate or be construed in any way to modify, amend or affect the terms and provisions of the Retirement Plan.

4.6 Applicable Law. The Plan is intended to comply with Code section 409A and guidance issued thereunder and shall be administered and interpreted consistent therewith and otherwise shall be construed under the laws of the Commonwealth of Pennsylvania, other than its laws respecting choice of laws, to the extent not otherwise preempted by Federal law.

IN WITNESS WHEREOF, Aqua America, Inc. has caused these presents to be duly executed, under seal, as of this _4th day of _October , 2011.

Attest:	AQUA AMERICA, INC.
/s/ Maria Gordiany	By: /s/ Roy H. Stahl
Assistant Secretary	Chief Administrative Officer, General Counsel and Secretary

[Corporate Seal]

Exhibit 13.1

SELECTED PORTIONS OF ANNUAL REPORT TO SHAREHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2011

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;
- opportunities for future acquisitions, the success of pending acquisitions and the impact of future acquisitions;
- acquisition-related costs and synergies;
- 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; 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;
- 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;
- 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 approximately 3.0 million people in Pennsylvania, Texas, North Carolina, Ohio, Illinois, New Jersey, New York, Florida, Indiana, Virginia, Maine, and Georgia. Our largest operating subsidiary, Aqua Pennsylvania, Inc., accounted for approximately 56% of our operating revenues for 2011 and, as of December 31, 2011, 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 11 other states. In addition, we provide water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our utility companies' service territories, as well as sludge hauling, septage and grease services, backflow prevention services, and certain other non-regulated water and wastewater services.

In July 2011, we entered into a definitive agreement to sell our operations in Maine, which served approximately 16,000 customers, to Connecticut Water Service, Inc. The sale of our operations in Maine closed on January 1, 2012, concluding our regulated operations in Maine. Also, in July 2011, we entered into a definitive agreement to purchase all of American Water Works Company, Inc.'s water and wastewater operations in Ohio (the "Ohio acquisition"), which serve approximately 57,000 customers, and to simultaneously sell our water operations in New York, which serve approximately 51,000 customers. This transaction is conditioned, among other things, on the receipt of regulatory approvals, and is expected to close in the first half of 2012. In February 2012, the Public Utilities Commission of Ohio approved the Company's purchase in Ohio. The completion of this transaction will conclude our regulated operations in New York. The operating results, cash flows, and financial position of our Maine and New York subsidiaries have been presented in the Company's consolidated financial statements as discontinued operations.

In December 2010, we entered into definitive agreements to purchase all of American Water Works Company, Inc.'s water and wastewater operations in Texas, which serve approximately 5,300 customers, and to sell our regulated water and wastewater operations in Missouri, which served approximately 3,900 customers. The sale of our utility operations in Missouri closed in May 2011, concluding our regulated utility operations in Missouri, and in June 2011, we completed the acquisition of American Water Works Company, Inc.'s regulated operations in Texas.

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, Inc., formerly known as Philadelphia Suburban Water Company. In the early 1990s, we embarked on a growth through acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of New York Water Service Corporation in 2007. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry and has extended our regulated operations from southeastern Pennsylvania to include our current operations in 11 other states.

In 2010 and 2011, consistent with our strategy to focus our resources on states where we have critical mass to improve our economies of scale, we exited or signed agreements to exit operations in four states: South Carolina, Missouri, Maine, and New York. In related transactions, with respect to the sale of our Missouri operations, and with respect to the planned sale of our New York operations, we acquired additional utility systems (and customers) in Texas and have agreed to acquire additional utility systems (and customers) in Ohio.

In 2011, one of our subsidiaries entered into a joint venture with a third-party investor for the construction and operation of a private pipeline system to supply fresh water to certain natural gas well drilling operations in Pennsylvania. The initial segment is anticipated to be operational in the first half of 2012 and marks an expansion of our growth venture in serving the clean water needs of drillers in the shale oil and gas 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 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 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. We may consider in evaluating which states to focus our growth and investment strategy whether those states provide for consolidated rates and infrastructure rehabilitation surcharge mechanisms, which promote efficiency in processing rate cases.

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 and insurance and claims costs), capital, taxes, energy, materials and compliance with environmental regulations. 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 the 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 106 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 some form of consolidated rates for the rate divisions in that state, and two states currently permit us to fully consolidate rate filings statewide. Our Aqua Pennsylvania subsidiary is currently in an active rate proceeding proposing an aggregate annualized rate increase of $38,600. In addition, we currently have eleven active rate proceedings in six of our twelve states proposing an aggregate annualized rate increase of $30,148.

Revenue Surcharges – Five states in which we operate water utilities, and two 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. Even during periods of moderate inflation, as has been experienced in 2011, 2010, and 2009, the effects of inflation on our operating results are noticeable. Two states allow annual inflationary index filings to help offset the effects of inflation on our operating costs.

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 customer-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 qualified and trained workforce, which we strive to retain by treating employees fairly and providing our employees with development and growth opportunities.

In June 2011, we completed our acquisition of approximately fifty-one water and five wastewater systems in Texas serving approximately 5,300 customers. In addition to our Texas acquisition, during 2011, we completed 8 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. During 2009, we completed 18 acquisitions and other growth ventures which, along with the organic growth in our existing systems, represent 8,458 new customers.

In addition to acquisitions, from time to time, we sell utility systems or relinquish ownership in systems through condemnation. In February 2008, through a condemnation proceeding, we turned over the northern portion of our Fort Wayne, Indiana system representing 10,921 customers. In 2010 and 2011, consistent with our strategy to evaluate our individual utility systems, we exited or signed agreements to exit operations in four states: South Carolina, Missouri, Maine, and New York. In related transactions, with respect to the sale of our Missouri operations, and with respect to the planned sale of our New York operations, we acquired additional utility systems (and customers) in Texas and have agreed to acquire additional utility systems (and customers) in Ohio. In December 2010 we sold our utility systems in South Carolina, in May 2011 we sold our Missouri utility systems, and in January 2012 we sold our Maine utility systems. 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 2011 we sold three utility systems representing 2,179 customers, in 2009 we sold two utility systems representing 561 customers, in 2008 we sold two utility systems representing 11,598 customers, and in 2007 we sold three utility systems representing 1,350 customers.

We believe that utility acquisitions will continue to be the primary source 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 22,000 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 8,600 wastewater facilities in operation or planned in the 12 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 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 acquisitions or otherwise. 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 degree 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 shale oil and gas drilling industry with a current focus on serving the clean 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 decline in 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, 2011, our operating revenues were derived principally from the following states: 56% in Pennsylvania, 9% in Texas, 7% in Ohio, 7% in Illinois, and 6% in North Carolina.

Performance Measures Considered by Management

We consider the following financial measures (and the period to period changes in these financial measures) to be the fundamental basis by which we evaluate our operating results: earnings per share, operating revenues, income from continuing operations, net income attributable to common shareholders and the dividend rate on common stock. In addition, we consider other key measures in evaluating our utility business performance within our Regulated segment: our number of utility customers, the ratio of operations and maintenance expense compared to operating revenues (this percentage is termed "operating expense ratio" or "efficiency ratio"); return on revenues (income from continuing operations divided by operating revenues); and return on equity (net income attributable to common shareholders divided by Aqua America stockholders' equity). We review these measurements regularly and compare them to historical periods, to our operating budget as approved by the Aqua America, Inc. 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. During the past five years, our operating expense ratio has been 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, capital, and taxes. The revenue portion of the efficiency ratio can be impacted by the timeliness of rate relief and recovery of and 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 or conservation trends. In addition, the efficiency ratio is impacted by the timing of the recovery in rates of our capital investments, and the return earned on those capital investments.
- ***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 on-site septic tank pumping and sludge hauling services. 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.

(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,	2011 (a)	2010	2009 (b)	2008 (c)	2007 (d)
Utility customers:					
Residential water	808,136	804,704	796,926	791,929	796,591
Commercial water	39,725	39,272	38,781	38,334	37,330
Industrial water	1,257	1,415	1,270	1,299	1,317
Other water	16,792	16,262	17,191	16,466	16,509
Wastewater	100,226	101,317	99,269	97,512	97,631
	966,136	962,970	953,437	945,540	949,378
Less discontinued operations	66,498	66,509	66,270	66,360	66,198
Total utility customers—continuing operations	899,638	896,461	887,167	879,180	883,180
Operating revenues:					
Residential water	$448,831	$431,178	$392,054	$374,572	$360,542
Commercial water	111,210	105,294	94,149	90,062	85,553
Industrial water	22,406	21,550	19,437	19,873	19,548
Other water	72,497	70,428	70,374	58,504	58,274
Wastewater	75,352	73,939	70,226	58,873	52,891
Other utility	11,874	12,118	12,665	13,278	12,935
	742,170	714,507	658,905	615,162	589,743
Less discontinued operations	42,726	42,634	37,247	37,071	36,029
Regulated segment total	699,444	671,873	621,658	578,091	553,714
Other	12,512	11,565	11,634	11,810	12,756
Consolidated	$711,956	$683,438	$633,292	$589,901	$566,470
Operations and maintenance expense	$270,516	$264,647	$254,335	$246,484	$238,891
Income from continuing operations	$144,762	$118,197	$100,150	$ 93,568	$ 89,887
Net income attributable to common shareholders	$143,069	$123,975	$104,353	$ 97,918	$ 95,014
Capital expenditures	$330,585	$316,385	$273,159	$259,946	$232,410
Operating Statistics					
Selected operating results as a percentage of operating revenues:					
Operations and maintenance	38.0%	38.7%	40.2%	41.8%	42.2%
Depreciation and amortization	15.7%	17.0%	17.5%	15.4%	14.9%
Taxes other than income taxes	6.1%	6.2%	6.2%	6.2%	6.6%
Interest expense, net	10.9%	10.7%	10.5%	11.2%	11.3%
Income from continuing operations	20.3%	17.3%	15.8%	15.9%	15.9%
Return on average Aqua America stockholders' equity	11.8%	10.9%	9.6%	9.6%	10.0%
Effective tax rate	32.9%	39.2%	39.3%	39.8%	38.9%

(a) 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.

(b) 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.

(c) 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.

(d) Net income attributable to common shareholders includes the gain of $657 ($1,095 pre-tax) realized on the sale of a utility system. The gain is reported in the 2007 consolidated statement of income as a reduction to operations and maintenance expense.

(In thousands of dollars, except per share amounts)

RESULTS OF OPERATIONS

Our income from continuing operations has grown at an annual compound rate of approximately 9.8% during the five-year period ended December 31, 2011. During the past five years, operating revenues grew at a compound rate of 6.3% and total expenses, exclusive of income taxes, grew at a compound rate of 5.8%.

Operating Segments

We have identified thirteen operating segments and we have one reportable segment based on the following:

- Twelve segments are composed of our water and wastewater regulated utility operations in the twelve 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.

- One segment is not quantitatively significant to be reportable and is composed of the businesses that provide sludge hauling, septage and grease services, backflow prevention services, and certain other non-regulated water and wastewater services. This segment is 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.

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, 2011, 2010, and 2009:

	2011			2010		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	$ 699,592	$ 12,364	$ 711,956	$ 672,020	$ 11,418	$ 683,438
Operations and maintenance expense	258,236	12,280	270,516	253,005	11,642	264,647
Taxes other than income taxes	41,916	1,772	43,688	40,827	1,495	42,322
Earnings (losses) before interest, taxes,depreciation and amortization	$ 399,440	$ (1,688)	397,752	$ 378,188	$ (1,719)	376,469
Depreciation and amortization			111,942			116,122
Operating income			285,810			260,347
Interest expense, net of AFUDC			70,606			68,528
Gain on sale of other assets			(649)			(2,547)
Provision for income taxes			71,091			76,169
Income from continuing operations			144,762			118,197
(Loss) income from discontinued operations,net of income taxes of $10,913 and $3,925, respectively			(1,693)			5,778
Net income			$ 143,069			$ 123,975

	2009		
	Regulated	Other and Eliminations	Consolidated
Operating revenues	$ 621,808	$ 11,484	$ 633,292
Operations and maintenance expense	243,724	10,611	254,335
Taxes other than income taxes	36,183	3,383	39,566
Earnings (losses) before interest, taxes, depreciation and amortization	$ 341,901	$ (2,510)	339,391
Depreciation and amortization			111,111
Operating income			228,280
Interest expense, net of AFUDC			63,720
Gain on sale of other assets			(464)
Provision for income taxes			64,874
Income from continuing operations			100,150
Income from discontinued operations net of income taxes of $2,968			4,203
Net income			$ 104,353

(In thousands of dollars, except per share amounts)

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

In addition to reporting "income from continuing operations", a U.S. GAAP financial measure, we are presenting below "income from continuing operations before net state income tax benefit associated with 100% bonus depreciation" and "income from continuing operations per common share before net state income tax benefit associated with 100% bonus depreciation", which are considered non-GAAP financial measures. The Company is providing disclosure of the reconciliation of these non-GAAP financial measures to their most comparable GAAP financial measures. The Company believes that the non-GAAP financial measures provide investors the ability to measure the Company's financial operating performance excluding the expected one year only (2011) net state income tax benefit associated with 100% bonus depreciation to be more indicative of the Company's ongoing performance, and is more comparable to measures reported by other water companies not primarily doing business in Pennsylvania. The Company further believes that the presentation of these non-GAAP financial measures is useful to investors as a more meaningful way to compare the Company's operating performance against its historical financial results and to assess the underlying profitability of our core business. As currently enacted, 100% bonus depreciation is in effect for qualifying capital additions placed in service from September 8, 2010 through December 31, 2011.

	Year Ended December 31,	
	2011	2010
Income from continuing operations (GAAP financial measure)	$144,762	$118,197
Less: Net state income tax benefit associated with 100% bonus depreciation	14,800	—
Income from continuing operations before net state income tax benefit associated with 100% bonus depreciation (Non-GAAP financial measure)	$129,962	$118,197
Income from continuing operations per common share (GAAP financial measure):		
Basic	$ 1.05	$ 0.86
Diluted	$ 1.04	$ 0.86
Income from continuing operations per common share before net state income tax benefit associated with 100% bonus depreciation (Non-GAAP financial measure):		
Basic	$ 0.94	$ 0.86
Diluted	$ 0.94	$ 0.86
Average common shares outstanding:		
Basic	138,182	136,948
Diluted	138,689	137,296

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 $40,407 in 2011, $33,331 in 2010, and $55,066 in 2009. Negatively impacting our revenue growth 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 an increase in water conservation awareness by our customers. Positively impacting our revenue growth in 2010 was an increase in customer water consumption as compared to 2009, which is largely due to favorable weather conditions in many of our service territories during 2010 that increased water usage. Further impacting the consumption comparison is the unfavorable weather conditions experienced in 2009 in our service territories that reduced water usage in 2009. The number of customers increased at an annual compound rate of 0.7% over the past three years. If adjusted for the utility system dispositions over the past three years, the annual compound customer growth rate would have been 0.9%. Acquisitions in our Regulated segment have provided additional water and wastewater revenues of approximately $3,960 in 2011, $2,614 in 2010, and $4,637 in 2009.

On November 17, 2011 our operating subsidiary in Pennsylvania filed an application with the Pennsylvania Public Utility Commission ("PAPUC") designed to increase water rates by $38,600 or 9.40% on an annual basis. The Company anticipates a final order to be issued by August 2012. The amount of the final rate increase cannot be predicted at this time.

On June 17, 2010, the PAPUC granted the Company's operating subsidiary in 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 Distribution System Improvement Charges ("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 ("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 is expected to conclude with the issuance of an order in the second quarter of 2012. However, based on the Company's review of the rate proceeding during the third quarter of 2011, a revenue reserve was removed and additional operating revenues of $3,098 were recognized. As of December 31, 2011, to date we have recognized $7,735 of revenue that is subject to refund based on the outcome of the final commission order. Based on the Company's review of the present circumstances, a reserve is not considered necessary for the revenue recognized to date.

Our operating subsidiaries, excluding the Pennsylvania water award discussed above, received rate increases representing estimated annualized revenues of $6,311 in 2011 resulting from twelve rate decisions, $15,055 in 2010 resulting from twelve rate decisions, and $15,595 in 2009 resulting from six rate decisions. Revenues from these increases realized in the year of grant were approximately $3,312 in 2011, $4,261 in 2010, and $11,366 in 2009. As of December 31, 2011, excluding our Pennsylvania operating subsidiary, our operating subsidiaries currently have filed eleven rate requests, which are being reviewed by the state regulatory commissions, proposing an aggregate increase of $30,148 in annual revenues. During 2012, we intend to file seven additional rate requests proposing an aggregate of approximately $3,085 of increased annual revenues; the timing and extent to which our rate increase requests may be granted will vary by state.

Currently, Pennsylvania, Illinois, Ohio, New York, and Indiana allow for the use of infrastructure rehabilitation surcharges, and in New Jersey, regulators are proposing creating a rulemaking to implement an infrastructure rehabilitation surcharge in 2012. 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 9% 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 $15,937 in 2011, $14,043 in 2010, and $16,448 in 2009.

Our Regulated segment also includes certain non-regulated operating revenues of $10,906 in 2011, $11,262 in 2010, and $11,841 in 2009. These operating revenues are associated with contract operations that are integral to 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, and certain other non-regulated water and wastewater services of $12,512 in 2011, $11,565 in 2010, and $11,634 in 2009.

Operations and Maintenance Expenses – Operations and maintenance expenses totaled $270,516 in 2011, $264,647 in 2010, and $254,335 in 2009. 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.

Operations and maintenance expenses increased by $5,869 or 2.2%, primarily due to increased water production costs of $3,697, increases in operating costs associated with acquired utility systems and other growth ventures of $2,893, an increase in post-retirement benefits expenses of $1,971, increases in fuel costs for our service vehicles of $1,064, 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 $2,090, 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.

Operations and maintenance expenses increased in 2010 as compared to 2009 by $10,312 or 4.1%, primarily due to the write-off of previously deferred regulatory expenses of $2,210, increases in operating costs associated with acquisitions of $1,690, the absence of the June 2009 gain on sale of a utility system of $1,009, which had the effect of reducing operations and maintenance expense in 2009, a write-off of capitalized costs of $715, increases in fuel costs for our service vehicles of $678, and normal increases in other operating costs. Offsetting these increases was a decrease in bad debt expense of $1,024. In the consolidated statement of income for 2009, the gain on sale of utility system is reported as a component of operations and maintenance expense.

Depreciation and Amortization Expenses – Depreciation expense was $106,671 in 2011, $104,307 in 2010, and $99,424 in 2009, 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 $5,271 in 2011, $11,815 in 2010, and $11,687 in 2009, and has decreased 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 $43,688 in 2011, $42,322 in 2010, and $39,566 in 2009. 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. The increase in 2010 is primarily due to an increase in gross receipts, excise and franchise taxes of $1,222 attributed to an increase in 2010 revenue, an increase in other taxes of $969 largely due to an increase in taxes assessed resulting from the pumping of ground water in Texas, and an increase in capital stock taxes for our operating subsidiary in Pennsylvania of $469.

Interest Expense, net – Net interest expense was $77,802 in 2011, $73,391 in 2010, and $66,343 in 2009. Interest income of $759 in 2011, $1,290 in 2010, and $1,148 in 2009 was netted against interest expense. 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. Net interest expense increased in 2010 primarily due to additional borrowings to finance capital projects and acquisitions. The increase in 2010 was offset partially by the effects of decreased interest rates on long-term debt. Interest income decreased in 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. Interest income increased slightly in 2010 as a result of higher 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 5.16% at December 31, 2011, 5.13% at December 31, 2010, and 5.24% at December 31, 2009.

Allowance for Funds Used During Construction – The allowance for funds used during construction (AFUDC) was $7,196 in 2011, $4,863 in 2010, and $2,623 in 2009, 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 increase in 2011 and 2010 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 $649 in 2011, $2,547 in 2010, and $464 in 2009, and consisted of gains on properties and marketable securities sales. Gain on sale of properties totaled $291 in 2011, $440 in 2010, and $464 in 2009. Gain on sale of marketable securities totaled $358 in 2011, $2,107 in 2010, and $0 in 2009. The gain realized on the following sales of utility systems was reported in the consolidated statement of income as a component of the line titled operations and maintenance expense: 2011 gains on sales of $5,058, and a 2009 gain on sale of $1,009.

Income Taxes – Our effective income tax rate was 32.9% in 2011, 39.2% in 2010, and 39.3% in 2009. 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. The decrease in the effective tax rate for 2010 was primarily due to an increase in the tax deduction claimed for depreciable assets for one of our operating subsidiaries.

Summary – Operating income was $285,810 in 2011, $260,347 in 2010, and $228,280 in 2009, income from continuing operations was $144,762 in 2011, $118,197 in 2010, and $100,150 in 2009, income or (loss) from discontinued operations was $(1,693) in 2011, $5,778 in 2010, and $4,203 in 2009, and net income attributable to common shareholders was $143,069 in 2011, $123,975 in 2010, and $104,353 in 2009.

Diluted income from continuing operations per share was $1.04 in 2011, $0.86 in 2010, and $0.74 in 2009, diluted (loss) or income from discontinued operations per share was $(0.01) in 2011, $0.04 in 2010, and $0.03 in 2009, and diluted net income per share was $1.03 in 2011, $0.90 in 2010, and $0.77 in 2009. 2011 income from continuing operations per common share adjusted to exclude the net state income tax benefit associated with 100% bonus depreciation, a non-GAAP financial measure, would have been $0.94 per diluted share or increased by $0.08, as compared to 2010.

The changes in the per share income from continuing operations in 2011 and 2010 over the previous years were due to the aforementioned changes and impacted by a 1.0% increase in the average number of common shares outstanding during 2011 and a 0.9% increase in the average number of common shares outstanding during 2010. The increase in the number of shares outstanding in 2011 is primarily a result of the additional shares sold or issued through our dividend reinvestment plan and equity compensation plan. The increase in the number of shares outstanding in 2010 is primarily a result of the additional shares sold or issued through our dividend reinvestment plan, equity compensation plan, employee stock purchase plan, and the full-year impact in 2010 of the additional shares issued in August 2009 in connection with an acquisition.

Income from discontinued operations for 2011 decreased by $7,471 or $0.05 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. Income from discontinued operations for 2010 increased by $1,575 or $0.01 per diluted share, in comparison to 2009 primarily as a result of rate increases implemented in our New York and Maine operating subsidiaries.

(In thousands of dollars, except per share amounts)

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.

Fourth Quarter Results – The following table provides our fourth quarter results:

	Three Months Ended December 31, 2011	2010
Operating revenues	$172,700	$168,435
Operations and maintenance	69,981	66,464
Depreciation	26,713	26,672
Amortization	936	2,571
Taxes other than income taxes	10,562	10,161
	108,192	105,868
Operating income	64,508	62,567
Interest expense, net	19,345	18,973
Allowance for funds used during construction	(1,486)	(968)
Gain on sale of other assets	(174)	(253)
Income before income taxes	46,823	44,815
Provision for income taxes	14,818	17,491
Income from continuing operations	32,005	27,324
Income from discontinued operations,net of income taxes of $952 and $1,049	2,000	1,534
Net income	$ 34,005	$ 28,858

The increase in operating revenues was a result of additional revenues of $5,048 from an increase in water and wastewater rates implemented in various operating subsidiaries, an increase in infrastructure rehabilitation surcharge revenue and other surcharges and credits of $2,874, and additional wastewater and water revenues of $1,330 associated with a larger customer base due to acquisitions, offset by a decrease in customer water consumption largely due to unfavorable weather conditions in many of our service territories during the fourth quarter of 2011, as well as an increase in water conservation awareness by our customers. The higher operations and maintenance expense is due primarily to $1,121 of additional operating costs associated with acquisitions, an increase in water production costs of $674, and normal increases in other operating expenses. Amortization expense decreased primarily due to the additional expense recognized in the fourth quarter of 2010 of $1,680 resulting from the recovery of our costs associated with a completed rate filing in Texas. The increase in other taxes is primarily due to increases in property taxes of $225. Interest expense increased by $372 primarily due to additional borrowings to finance capital projects, offset partially by decreased interest rates on fixed-rate long-term debt. Allowance for funds used during construction increased by $518 primarily due to an increase in the average balance of proceeds held from tax-exempt bond issuances that are restricted to funding certain capital projects. Gain on sale of other assets decreased by $79 principally due to the timing of sales of land and other property. Our effective income tax rate was 31.6% in the fourth quarter of 2011, and 39.0% in the fourth quarter of 2010. The effective income tax rate decreased as a result of the recognition in 2011 of the net state income tax benefit of $3,607 associated with 100% bonus depreciation for qualifying capital additions. Income from discontinued operations increased by $466 primarily due to the cessation of depreciation for the long-lived assets associated with our discontinued operations of $1,065.

(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, 2011 were as follows:

	Net Operating Cash Flows	Common Dividends	Capital Expenditures	Acquisitions
2007	$ 183,678	$ 63,763	$ 232,410	$ 24,562
2008	214,950	68,504	259,646	14,659
2009	252,542	74,729	273,159	3,373
2010	253,443	80,907	316,385	8,625
2011	357,621	87,133	330,585	8,515
	$1,262,234	$375,036	$1,412,185	$ 59,734

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 $31,031 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 $260,958, and have refunded $25,242 of customer 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 2012 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 2011. The 2012 capital program is expected to include $127,639 for infrastructure rehabilitation surcharge-qualified projects. Our planned capital program includes spending for infrastructure rehabilitation that qualifies for infrastructure rehabilitation surcharge mechanisms, and should these mechanisms be discontinued for any reason, which is not anticipated, we would re-evaluate the magnitude of this portion our capital program. Our 2012 capital program, along with $80,765 of sinking fund obligations and debt maturities, and $166,455 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 2013 through 2016, 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 $1,104,000. 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 $219,941 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.

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.

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 percent bonus depreciation for qualifying capital additions through 2012 and a 100 percent expensing allowance for qualifying capital additions placed in service after September 8, 2010 through 2011. A substantial portion of our capital expenditures qualifies for 50 percent bonus depreciation or the 100 percent 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. During periods when bonus depreciation or 100% expensing allowances are in effect, we expect the following impacts:

- Federal income tax payments may be significantly reduced or eliminated, and our net operating cash flows are expected to be favorably impacted.
- A larger portion of our capital needs may be funded from internally-generated funds, which may reduce the need to issue additional debt or equity to fund utility capital expenditures.
- An increase in deferred taxes due to the difference between tax and book expenses, including depreciation.
- In general, our water base rate increases seek to recover, and to earn a return on, capital investments that we make for improving or replacing our utility plant and infrastructure. During periods when bonus depreciation or 100% expensing is permitted, the increased or new deferred taxes could cause the rate of growth in our rate base, on which we earn a return in rate proceedings, to be lower than previously experienced. As a result, the amount of rate increases may be decreased in the future.
- We may generate federal net operating loss carry forwards of a significant amount, for which we would need to assess the likelihood of realization in future years.
- In the event a state tax jurisdiction elects to recognize the Federal bonus depreciation or 100% expensing allowances, and the state regulatory commission affords flow-through recognition treatment, our state income tax expense would be reduced by the amount of the associated net state tax benefit, and our effective income tax rate would also be reduced.

Acquisitions

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. ("American Water") to purchase all of the stock of the subsidiary that holds American Water's regulated water and wastewater operations in Ohio for cash of approximately $88,000 at closing plus certain assumed liabilities, including debt of approximately $16,000. American Water's Ohio operations serve approximately 57,000 customers. The purchase price is subject to certain adjustments at closing, and closing is conditioned upon the closing of the Company's sale of its regulated water operations in New York to American Water, and is subject to applicable regulatory approvals. In February 2012, the Public Utilities Commission of Ohio approved the Company's purchase in Ohio. The transaction will be accounted for as a business combination and is expected to close in the first half of 2012. The Ohio acquisition will be financed primarily from the proceeds from the January 1, 2012 sale of our Maine subsidiary, the planned sale of our New York subsidiary, and by the issuance of long-term and/or short-term debt. During the past five years, we have expended cash of $59,734 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 shale oil and gas drilling industry. We included the operating results of these acquisitions in our consolidated financial statements beginning on the respective acquisition dates. 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 Company's acquisition in Texas was accretive to the Company's results of operations, however, the pro forma effect of the business acquired is 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 9 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. During 2007, we completed 26 acquisitions of water and wastewater systems in ten of the states in which we operate. The 2007 acquisitions were completed for $24,562 in cash.

In September 2011, one of our subsidiaries entered into a joint venture with a third-party for the construction and operation of a private pipeline system to supply fresh water to certain natural gas well drilling operations in the Marcellus Shale in north-central Pennsylvania. The initial 18-mile segment is estimated to cost $24,000 and is anticipated to be operational in the first half of 2012. This project marks an expansion of our growth venture in serving the clean water needs of the drillers in the shale oil and gas drilling industry. The joint venture has entered into a water sale agreement with a shale drilling company and negotiations continue with other area drilling companies. As of December 31, 2011, our investment totaled $5,087 and we anticipate making the balance of our $12,000 investment in the first half of 2012. This investment has been or is expected to be financed through the issuance of short-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 included in deferred charges and other assets and is carried at cost, including subsequent capital contributions or distributions, plus our equity in undistributed earnings or losses since the formation. Since shale drilling requires a large quantity of fresh water in order to extract gas, we are continuing to hold exploratory discussions with other shale drilling companies about their needs for fresh water supply.

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.

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 and 2011, in accordance with our strategy to focus our resources on states where we have critical mass to improve our economies of scale, we exited or signed agreements to exit four states: South Carolina, Missouri, Maine, and New York. With respect to the sale of our systems in Missouri and the planned sale of our systems in New York, we acquired additional utility systems in Texas and entered into an agreement to acquire additional utility systems in Ohio.

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 approximately $17,500. On January 1, 2012, we completed the sale for net proceeds of $35,726, subject to certain adjustments. This subsidiary was included in the Regulated segment, and as of December 31, 2011, the carrying amount of Maine's assets and liabilities were $61,350 and $44,269, respectively. The proceeds were used to 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 cash of approximately $42,000 at closing plus certain assumed liabilities, including debt of approximately $23,000. This subsidiary is included in the Regulated segment, and as of December 31, 2011, the carrying amount of New York's assets and liabilities were $110,888 and $70,610, respectively. The Company's New York operations serve approximately 51,000 customers. The purchase price is subject to certain adjustments at closing, and closing is conditioned upon the closing of the Company's acquisition of American Water's regulated water and wastewater operations in Ohio, and is subject to applicable regulatory approvals. The sale is expected to close in the first half of 2012. The completion of this transaction will conclude the Company's operations in New York.

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.

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.

In December 2007, we sold a water utility system for net proceeds of $1,498, 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 2007 of a gain on the sale of these assets, net of expenses, of $1,095. The gain is reported in the 2007 consolidated statement of income as a reduction to operations and maintenance expense. This utility system represented approximately 0.01% 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 system 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.

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 business or a strategic 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 $768,330 of long-term debt and obtained other short-term borrowings during the past five years. At December 31, 2011, we have a $95,000 long-term revolving credit facility that expires in May 2012, of which $17,600 was designated for letter of credit usage, $39,188 was available for borrowing and $38,212 of borrowings was outstanding at December 31, 2011. We have begun discussions on the terms of a multi-year renewal with our lenders, and we believe that we will be able to renew the facility on terms that are acceptable to us. In addition, we had short-term lines of credit of $164,500, which include a short-term line of credit associated with discontinued operations of $4,000, of which $56,728 was available. We did not renew one of our credit lines in the amount of $2,500, which expired on July 1, 2011, as it was no longer needed. 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 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 2011, 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.

At the end of February 2012, we intend to renew our 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 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.

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 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. The balance remaining available for use under the acquisition shelf registration as of December 31, 2011 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 (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 2011 dividend payment, holders of 14.0% 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 2,994,676 original issue shares of common stock for net proceeds of $55,851 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.

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, 2011, 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.

(In thousands of dollars, except per share amounts)

Contractual Obligations

The following table summarizes our contractual cash obligations as of December 31, 2011:

		Payments Due By Period			
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt (a)	$1,516,548	$ 80,765	$120,937	$ 99,004	$1,215,842
Interest on fixed-rate, long-term debt (b)	1,260,839	78,222	147,405	132,827	902,385
Operating leases (c)	27,213	3,386	4,954	2,694	16,179
Unconditional purchase obligations (d)	99,088	11,025	24,544	25,338	38,181
Other purchase obligations (e)	42,117	42,117	—	—	—
Pension and other postretirement benefit plans' obligations (f)	22,218	18,948	3,270	—	—
Other obligations (g)	33,363	12,757	1,825	5,397	13,384
Total (h)	$3,001,386	$247,220	$302,935	$265,260	$2,185,971

(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.

(h) Included in the table above, as of December 31, 2011, is $75,351 of contractual cash obligations associated with discontinued operations.

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 2026 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.

(In thousands of dollars, except per share amounts)

Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed rate, long-term debt. Such exposure is typically related to financings between utility rate increases, because generally our rate increases provide a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2011, the debt maturities by period and the weighted average interest rate for long-term debt are as follows:

	2012	2013	2014	2015	2016	Thereafter	Total	Fair Value
Long-term debt:								
Fixed rate	$42,553	$34,849	$86,088	$63,690	$35,314	$1,215,842	$1,478,336	$1,554,199
Variable rate	38,212	—	—	—	—	—	38,212	38,212
Total	$80,765	$34,849	$86,088	$63,690	$35,314	$1,215,842	$1,516,548	$1,592,411
Weighted average interest rate*	2.91%	5.22%	5.15%	5.20%	4.79%	5.28%	5.17%	

* Weighted average interest rate of 2012 long-term debt maturity is as follows: fixed rate debt of 5.30% and variable rate debt of 0.48%.

Included in the table above, as of December 31, 2011, is $40,662 of long-term debt associated with discontinued operations.

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, 2011, our carrying value of certain investments was $3,832, which reflects the market value of such investments and is in excess of our original cost.

Capitalization

The following table summarizes our capitalization during the past five years:

December 31,	2011	2010	2009	2008	2007
Long-term debt*	54.8%	57.0%	56.6%	54.3%	55.9%
Aqua America stockholders' equity	45.2%	43.0%	43.4%	45.7%	44.1%
	100.0%	100.0%	100.0%	100.0%	100.0%

* Includes current portion, as well as our borrowings under a variable rate revolving credit agreement of $38,212 at December 31, 2011 and $65,000 at December 31, 2010.

Over the past five years, the changes in the capitalization ratios primarily resulted from the issuance of common stock, and the issuance of debt to finance our acquisitions and capital program. 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 67 years. Effective August 2, 2011, our Board of Directors authorized an increase of 6.5% in the December 1, 2011 quarterly dividend over the dividend we paid in the previous quarter. As a result of this authorization, beginning with the dividend payment in December 2011, the annualized dividend rate increased to $0.66 per share from $0.62 per share. This is the 21st dividend increase in the past 20 years and the 13th 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 66.5% 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.

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 using the 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 2011 concluded that the estimated fair value of each reporting unit 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 2011 pension expense by $793 and the pension liabilities by $8,742. The present values of Aqua America's future pension and other post-retirement obligations were determined using discount rates of 5.00% at December 31, 2011, and 5.75% at December 31, 2010. Our expense under these plans is determined using the discount rate as of the beginning of the year, which was 5.75% for 2011, and will be 5.00% for 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 2011 pension expense by $418. For 2011, we used a 7.75% expected return on assets assumption which will remain unchanged for 2012. 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.

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 2012 our pension contribution is expected to approximate $19,306. 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 2012, our funding of other post-retirement benefit plans are expected to approximate $2,912.

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. These differences result in the recognition of a deferred tax asset or liability on our consolidated balance sheet and require us to make judgments regarding the probability of the ultimate tax impact of the various transactions we enter into. Based on these judgments, we may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realization of future tax benefits. Actual income taxes could vary from these estimates and changes in these estimates can increase income tax expense in the period that these changes in estimates occur.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

We describe the impact of recent accounting pronouncements in Note 1 – Summary of Significant Accounting Policies, of the consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Report On Internal Control Over Financial Reporting

Management of Aqua America, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In assessing the effectiveness of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. As a result of management's assessment and based on the criteria in the framework, management has concluded that, as of December 31, 2011, the Company's internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ Nicholas DeBenedictis	/s/ David P. Smeltzer
Nicholas DeBenedictis	David P. Smeltzer
Chairman, President and Chief Executive Officer	*Executive Vice President and Chief Financial Officer*

February 27, 2012

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 income and 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, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 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, 2011, 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 27, 2012

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)
Years ended December 31, 2011, 2010, and 2009

	2011	2010	2009
Operating revenues	$711,956	$683,438	$633,292
Operating costs and expenses:			
Operations and maintenance	270,516	264,647	254,335
Depreciation	106,671	104,307	99,424
Amortization	5,271	11,815	11,687
Taxes other than income taxes	43,688	42,322	39,566
	426,146	423,091	405,012
Operating income	285,810	260,347	228,280
Other expense (income):			
Interest expense, net	77,802	73,391	66,343
Allowance for funds used during construction	(7,196)	(4,863)	(2,623)
Gain on sale of other assets	(649)	(2,547)	(464)
Income from continuing operations before income taxes	215,853	194,366	165,024
Provision for income taxes	71,091	76,169	64,874
Income from continuing operations	144,762	118,197	100,150
Discontinued operations:			
Income from discontinued operations before income taxes	9,220	9,703	7,171
Provision for income taxes	10,913	3,925	2,968
(Loss) income from discontinued operations	(1,693)	5,778	4,203
Net income attributable to common shareholders	$143,069	$123,975	$104,353
Net income attributable to common shareholders	$143,069	$123,975	$104,353
Other comprehensive income, net of tax:			
Unrealized holding (loss) gain on investments	(10)	1,588	289
Reclassification adjustment for (gains) losses reported in net income	(233)	(1,369)	5
Comprehensive income	$142,826	$124,194	$104,647
Income from continuing operations per share:			
Basic	$ 1.05	$ 0.86	$ 0.74
Diluted	$ 1.04	$ 0.86	$ 0.74
(Loss) income from discontinued operations per share:			
Basic	$ (0.01)	$ 0.04	$ 0.03
Diluted	$ (0.01)	$ 0.04	$ 0.03
Net income per common share:			
Basic	$ 1.04	$ 0.91	$ 0.77
Diluted	$ 1.03	$ 0.90	$ 0.77
Average common shares outstanding during the period:			
Basic	138,182	136,948	135,816
Diluted	138,689	137,296	136,129
Cash dividends declared per common share	$ 0.63	$ 0.59	$ 0.55

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, 2011 and 2010

	2011	2010
Assets		
Property, plant and equipment, at cost	$4,648,128	$4,322,260
Less: accumulated depreciation	1,035,202	964,903
Net property, plant and equipment	3,612,926	3,357,357
Current assets:		
Cash and cash equivalents	8,204	5,934
Accounts receivable and unbilled revenues, net	81,056	78,170
Income tax receivable	—	33,600
Deferred income taxes	37,758	—
Inventory, materials and supplies	11,186	9,912
Prepayments and other current assets	10,011	10,403
Assets of discontinued operations held for sale	172,238	163,499
Total current assets	320,453	301,518
Regulatory assets	242,292	187,977
Deferred charges and other assets, net	56,900	62,610
Funds restricted for construction activity	88,905	135,086
Goodwill	26,944	27,918
	$4,348,420	$4,072,466
Liabilities and Equity		
Aqua America stockholders' equity:		
Common stock at $.50 par value, authorized 300,000,000 shares,issued 139,525,580 and 138,449,039 in 2011 and 2010	$ 69,762	$ 69,223
Capital in excess of par value	686,106	664,369
Retained earnings	508,334	452,470
Treasury stock, at cost, 710,482 and 673,472 shares in 2011 and 2010	(13,145)	(12,307)
Accumulated other comprehensive income	256	499
Total Aqua America stockholders' equity	1,251,313	1,174,254
Noncontrolling interest	504	572
Total Equity	1,251,817	1,174,826
Long-term debt, excluding current portion	1,395,457	1,491,370
Commitments and contingencies (See Note 9)	—	—
Current liabilities:		
Current portion of long-term debt	80,429	28,087
Loans payable	107,771	89,668
Accounts payable	68,299	44,051
Accrued interest	14,564	15,550
Accrued taxes	16,209	18,283
Other accrued liabilities	23,522	24,037
Liabilities of discontinued operations held for sale	114,879	103,599
Total current liabilities	425,673	323,275
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	601,764	456,298
Customers' advances for construction	66,198	65,250
Regulatory liabilities	41,344	33,431
Other	122,038	93,565
Total deferred credits and other liabilities	831,344	648,544
Contributions in aid of construction	444,129	434,451
	$4,348,420	$4,072,466

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, 2011 and 2010

		2011	2010
Aqua America stockholders' equity:			
Common stock, $.50 par value		$ 69,762	$ 69,223
Capital in excess of par value		686,106	664,369
Retained earnings		508,334	452,470
Treasury stock, at cost		(13,145)	(12,307)
Accumulated other comprehensive income		256	499
Total Aqua America stockholders' equity		1,251,313	1,174,254
Noncontrolling interest		504	572
Total Equity		1,251,817	1,174,826
Long-term debt:			
Long-term debt of subsidiaries (substantially secured by utility plant):			
Interest Rate Range	**Maturity Date Range**		
0.00% to 0.99%	2012 to 2034	6,777	6,632
1.00% to 1.99%	2012 to 2035	30,030	22,758
2.00% to 2.99%	2019 to 2031	12,798	13,461
3.00% to 3.99%	2016 to 2030	26,593	26,548
4.00% to 4.99%	2020 to 2043	367,226	367,854
5.00% to 5.99%	2012 to 2043	429,128	429,663
6.00% to 6.99%	2015 to 2036	63,253	78,232
7.00% to 7.99%	2012 to 2025	28,995	30,155
8.00% to 8.99%	2021 to 2025	33,957	34,260
9.00% to 9.99%	2013 to 2026	38,447	44,694
10.4%	2018	6,000	6,000
		1,043,204	1,060,257
Notes payable to bank under revolving credit agreement, variable rate, due May 2012		38,212	65,000
Unsecured notes payable:			
Notes ranging from 4.62% to 4.87%, due 2013 through 2024		193,000	193,000
Notes ranging from 5.01% to 5.95%, due 2014 through 2037		242,132	242,132
		1,516,548	1,560,389
Less: long-term debt of discontinued operations		40,662	40,932
		1,475,886	1,519,457
Current portion of long-term debt		80,429	28,087
Long-term debt, excluding current portion		1,395,457	1,491,370
Total capitalization		$ 2,647,274	$ 2,666,196

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, 2008	$68,026	$623,407	$379,778	$(12,751)	$ (14)	$ 2,181	$1,060,627
Net income	—	—	104,353	—	—	39	104,392
Purchase of subsidiary shares from noncontrolling interest	—	—	—	—	—	(1,660)	(1,660)
Other comprehensive income:							
Unrealized holding gain on investments, net of income tax of $156	—	—	—	—	289	—	289
Reclassification adjustment for losses reported in net income, net of income tax of $2	—	—	—	—	5	—	5
Dividends	—	—	(74,729)	—	—	—	(74,729)
Stock issued for acquisitions (164,052 shares)	82	2,827	—	—	—	—	2,909
Sale of stock (732,229 shares)	348	10,627	—	917	—	—	11,892
Repurchase of stock (15,137 shares)	—	—	—	(304)	—	—	(304)
Equity Compensation Plan (70,000 shares)	35	(35)	—	—	—	—	0
Exercise of stock options (165,686 shares)	83	1,609	—	—	—	—	1,692
Share-based compensation	—	3,677	—	—	—	—	3,677
Employee stock plan tax benefits	—	674	—	—	—	—	674
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:							
Unrealized holding gain on investments, net of income tax of $855	—	—	—	—	1,588	—	1,588
Reclassification adjustment for gain reported in net income, net of income tax of $737	—	—	—	—	(1,369)	—	(1,369)
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
Share-based compensation	—	4,031	—	—	—	—	4,031
Employee stock plan tax benefits	—	594	—	—	—	—	594
Balance at December 31, 2010	$69,223	$664,369	$452,470	$(12,307)	$ 499	$ 572	$1,174,826
Net income	—	—	143,069	—	—	14	143,083
Purchase of subsidiary shares from noncontrolling interest	—	—	—	—	—	(82)	(82)
Other comprehensive income:							—
Unrealized holding loss on investments, net of income tax of $5	—	—	—	—	(10)	—	(10)
Reclassification adjustment for gain reported in net income, net of income tax of $125	—	—	—	—	(233)	—	(233)
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
Share-based compensation	—	3,964	(72)	—	—	—	3,892
Employee stock plan tax benefits	—	(573)	—	—	—	—	(573)
Balance at December 31, 2011	$69,762	$686,106	$508,334	$(13,145)	$ 256	$ 504	$1,251,817

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, 2011, 2010, and 2009

	2011	2010	2009
Cash flows from operating activities:			
Net income attributable to common shareholders	$ 143,069	$ 123,975	$ 104,353
(Loss) income from discontinued operations	(1,693)	5,778	4,203
Income from continuing operations	144,762	118,197	100,150
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:			
Depreciation and amortization	111,942	116,122	111,111
Deferred income taxes	74,142	72,000	43,710
Provision for doubtful accounts	5,203	4,715	5,739
Share-based compensation	3,851	3,927	3,502
Gain on sale of utility system	(5,058)	—	(1,009)
Gain on sale of other assets	(649)	(2,547)	(464)
Net increase in receivables, inventory and prepayments	(6,831)	(3,817)	(606)
Net increase (decrease) in payables, accrued interest, accrued taxes and other accrued liabilities	795	(19,227)	(6,042)
Decrease (increase) in income tax receivable	33,600	(33,600)	—
Other	(4,136)	(2,327)	(3,549)
Operating cash flows from continuing operations	357,621	253,443	252,542
Operating cash flows from discontinued operations, net	9,226	9,649	5,298
Net cash flows from operating activities	366,847	263,092	257,840
Cash flows from investing activities:			
Property, plant and equipment additions, including allowance for funds used during construction of $7,196, $4,863, and $2,623	(330,585)	(316,385)	(273,159)
Acquisitions of utility systems and other, net	(8,515)	(8,625)	(3,373)
Release of funds previously restricted for construction activity	46,330	92,984	99,599
Additions to funds restricted for construction activity	(149)	(145,157)	(129,600)
Net proceeds from the sale of utility systems and other assets	13,404	4,605	2,163
Proceeds from note receivable	5,289	3,713	920
Investment in joint venture	(5,087)	—	—
Other	(946)	(6,304)	(4,135)
Investing cash flows used in continuing operations	(280,259)	(375,169)	(307,585)
Investing cash flows used in discontinued operations, net	(4,645)	(8,283)	(12,329)
Net cash flows used in investing activities	(284,904)	(383,452)	(319,914)
Cash flows from financing activities:			
Customers’ advances and contributions in aid of construction	4,329	8,045	3,112
Repayments of customers' advances	(3,686)	(7,545)	(2,547)
Net proceeds (repayments) of short-term debt	18,103	62,237	(52,103)
Proceeds from long-term debt	52,513	272,754	194,225
Repayments of long-term debt	(96,072)	(160,750)	(20,654)
Change in cash overdraft position	14,503	(6,976)	4,284
Proceeds from issuing common stock	12,607	12,530	11,892
Proceeds from exercised stock options	6,603	5,678	1,692
Share-based compensation windfall tax benefits	—	386	130
Repurchase of common stock	(1,163)	(770)	(304)
Dividends paid on common stock	(87,133)	(80,907)	(74,729)
Financing cash flows (used in) from continuing operations	(79,396)	104,682	64,998
Financing cash flows (used in) from discontinuing operations, net	(277)	(257)	4,001
Net cash flows (used in) from financing activities	(79,673)	104,425	68,999
Net increase (decrease) in cash and cash equivalents	2,270	(15,935)	6,925
Cash and cash equivalents at beginning of year	5,934	21,869	14,944
Cash and cash equivalents at end of year	$ 8,204	$ 5,934	$ 21,869
Cash paid during the year for:			
Interest, net of amounts capitalized	$ 71,592	$ 68,908	$ 63,437
Income taxes	$ 5,583	$ 49,883	$ 19,029

See Note 1 – Summary of Significant Accounting Policies-Customers’ Advances for Construction, Note 2 – Acquisitions, 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.

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, New York, Florida, Indiana, Virginia, Maine, and Georgia. Our largest operating subsidiary, Aqua Pennsylvania, Inc., accounted for approximately 56% of our operating revenues for 2011 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 11 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, and certain other non-regulated water and wastewater services.

In December 2010, the Company entered into definitive agreements to purchase all of American Water Works Company, Inc’s regulated water and wastewater operations in Texas, which serves approximately 5,300 customers, and to sell the Company’s regulated water and wastewater operations in Missouri, which served approximately 3,900 customers, to American Water Works Company, Inc. The sale of our regulated utility operations in Missouri closed in May 2011, concluding our regulated utility operations in Missouri, and in June 2011, we completed our acquisition of American Water Works Company, Inc’s regulated operations in Texas.

In July 2011, the Company entered into a definitive agreement to sell its operations in Maine, which served approximately 16,000 customers, to Connecticut Water Service, Inc. The sale of our regulated water operations in Maine closed on January 1, 2012, concluding the Company’s operations in Maine. Also, in July 2011, the Company entered into a definitive agreement to purchase all of American Water Works Company, Inc’s regulated water and wastewater operations in Ohio (the “Ohio acquisition”), which serves approximately 57,000 customers, and to simultaneously sell our operations in New York, which serves approximately 51,000 customers. This transaction is conditioned, among other things, on the receipt of regulatory approvals, and is expected to close in the first half of 2012. In February 2012, the Public Utilities Commission of Ohio approved the Company’s purchase in Ohio. The completion of this transaction will conclude our operations in New York. The operating results, cash flows, and financial position of the Company’s New York and Maine subsidiaries have been presented in the Company’s consolidated financial statements as discontinued operations. Unless specifically noted, the financial information presented in the notes to consolidated financial statements reflects the Company’s continuing operations.

The company has identified thirteen operating segments and has one reportable segment named the Regulated segment. The reportable segment is comprised of twelve 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, one operating segment is not quantitatively significant to be reportable and is comprised of the businesses that provide sludge hauling, septage and grease services, backflow prevention services, and certain other non-regulated water and wastewater services. This segment is 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.

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 $10,906 in 2011, $11,262 in 2010, and $11,841 in 2009. In addition to the non-regulated revenues included in the Regulated segment operating revenues, the Company has other non-regulated revenues of $12,512 in 2011, $11,565 in 2010, and $11,634 in 2009.

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, 2011, utility plant includes a net credit acquisition adjustment of $38,240, which is generally being amortized from 2 to 20 years, except where not permitted or appropriate. Amortization of the acquisition adjustments totaled $3,150 in 2011, $3,460 in 2010, and $3,176 in 2009.

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, 2011, $17,267 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, 2011, $13,668 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.

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 2011 was $352, and was $0 for 2010 and 2009, respectively. 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 $22,810 and $8,307 at December 31, 2011 and 2010, 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.

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.

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.

(In thousands of dollars, except per share amounts)

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, 2011, in conjunction with the timing of our annual strategic business plan, and concluded that the estimated fair value of each reporting unit 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, 2009	$26,736	$4,121	$ 30,857
Goodwill acquired during year	432	—	432
Reclassifications to utility plant acquisition adjustment	(1,722)	—	(1,722)
Other	(1,649)	—	(1,649)
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

Included within the Company's discontinued operations as of December 31, 2011 and 2010 is $12,316 of goodwill, respectively.

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. The reclassification of goodwill to discontinued operations represents goodwill associated with the Company's New York operations held for sale.

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 the 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.

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 $20,823, $16,523, and $49,957 in 2011, 2010, and 2009, 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;
- 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, 2011 and 2010.

Recent Accounting Pronouncements – In September 2011, the FASB issued revised accounting guidance for accounting for intangible assets, 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. The Company will adopt the provisions of the revised guidance as of January 1, 2012, 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.

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 Works Company, Inc. ("American Water") to purchase all of the stock of the subsidiary that holds American Water's regulated water and wastewater operations in Ohio for cash of approximately $88,000 at closing plus certain assumed liabilities, including debt of approximately $16,000. American Water's Ohio operations serve approximately 57,000 customers. The purchase price is subject to certain adjustments at closing, and closing is conditioned upon the closing of the Company's sale of its regulated water operations in New York to American Water, and is subject to applicable regulatory approvals. In February 2012, the Public Utilities Commission of Ohio approved the Company's purchase in Ohio. The transaction will be accounted for as a business combination and is expected to close in the first half of 2012.

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 $1,826. The pro forma effect of the business 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 $226. The pro forma effect of the businesses acquired in 2011 is not material to the Company's results of operations.

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 $2,709 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.

During 2009, the Company completed 18 acquisitions or other growth ventures in various states. The total purchase price of $6,282 for the systems acquired in 2009 consisted of $3,373 in cash, and the issuance of 164,052 shares of the Company's common stock. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were $2,552 in 2011, $2,242 in 2010, and $1,176 in 2009. The pro forma effect of the businesses acquired in 2009 is not material to the Company's results of operations.

Note 3 – Discontinued Operations and Other Dispositions

Discontinued 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 approximately $17,500. On January 1, 2012, the Company completed the sale for net proceeds of $35,726, subject to certain adjustments. This subsidiary was included in the Regulated segment, and as of December 31, 2011, the carrying amount of Maine's assets and liabilities were $61,350 and $44,269, respectively. 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 cash of approximately $42,000 at closing plus certain assumed liabilities, including debt of approximately $23,000. This subsidiary is included in the Regulated segment, and as of December 31, 2011, the carrying amount of New York's assets and liabilities were $110,888 and $70,610, respectively. 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 serve approximately 51,000 customers. The purchase price is subject to certain adjustments at closing, and closing is conditioned upon the closing of the Company's acquisition of American Water's regulated water and wastewater operations in Ohio, and is subject to applicable regulatory approvals. The sale is expected to close in the first half of 2012. The completion of this transaction will conclude the Company's regulated operations in New York.

(In thousands of dollars, except per share amounts)

Based on an assessment of the sale prices and the carrying values of the Company's planned dispositions of its Maine and New York operations, there is no anticipated impairment of our long-lived assets or goodwill expected to be recognized as a result of the sale agreements. However, in the third quarter of 2011, the Company recognized an estimated loss on disposition of $1,254 primarily due to the cessation of depreciation in its New York operations.

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 income, consolidated statements of cash flow, and consolidated balance sheets as discontinued operations.

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

	Years Ended December 31,		
	2011	2010	2009
Operating revenues	$42,726	$42,634	$37,247
Total operating expenses	29,963	30,905	28,068
Operating income	12,763	11,729	9,179
Estimated loss on disposition	1,254	—	—
Other expenses, net	2,289	2,026	2,008
Income from discontinued operations before income taxes	9,220	9,703	7,171
Provision for income taxes	10,913	3,925	2,968
(Loss) income from discontinued operations	$ (1,693)	$ 5,778	$ 4,203

(In thousands of dollars, except per share amounts)

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

	December 31, 2011	December 31, 2010
Property, plant and equipment, at cost	$169,527	$165,935
Less: accumulated depreciation	56,711	55,492
Net property, plant and equipment	112,816	110,443
Current assets	10,423	8,858
Regulatory assets	34,396	29,399
Goodwill	12,316	12,316
Other assets	2,287	2,483
Assets of discontinued operations held for sale	172,238	163,499
Long-term debt, excluding current portion	40,326	40,606
Current liabilities	7,088	4,039
Deferred income taxes and investment tax credits	23,570	22,407
Contributions in aid of construction	9,967	9,656
Other liabilities	33,928	26,891
Liabilities of discontinued operations held for sale	114,879	103,599
Net assets	$ 57,359	$ 59,900

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.

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 concluded 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.

In June 2009, the Company 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 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 the Company's total assets.

(In thousands of dollars, except per share amounts)

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.

Note 4 – Property, Plant and Equipment

	December 31, 2011	December 31, 2010	Approximate range of remaining lives
Utility plant and equipment:			
Mains and accessories	$2,060,650	$1,884,896	25 to 97 years
Services, hydrants, treatment plants and reservoirs	1,254,870	1,162,314	5 to 88 years
Operations structures and water tanks	229,295	216,342	13 to 70 years
Miscellaneous pumping and purification equipment	577,472	553,351	5 to 90 years
Meters, data processing, transportation and operating equipment	571,525	544,531	4 to 88 years
Land and other non-depreciable assets	88,696	107,430	—
Utility plant and equipment	4,782,508	4,468,864	
Utility construction work in progress	65,079	54,228	—
Net utility plant acquisition adjustment	(39,367)	(41,447)	0 to 20 years
Non-utility plant and equipment	9,435	6,550	0 to 21 years
	4,817,655	4,488,195	
Less discontinued operations	169,527	165,935	
Total property, plant and equipment	$4,648,128	$4,322,260	

(In thousands of dollars, except per share amounts)

Note 5 – Accounts Receivable

	December 31, 2011	December 31, 2010
Billed utility revenue	$52,554	$53,314
Unbilled utility revenue	34,346	34,490
Other	8,105	3,120
	95,005	90,924
Less allowance for doubtful accounts	4,896	5,043
	90,109	85,881
Less discontinued operations, net	9,053	7,711
Net accounts receivable	$81,056	$78,170

The Company's utility customers are located principally in the following states: 45% in Pennsylvania, 9% in Ohio, 9% in North Carolina, 7% in Texas, 6% in Illinois, 6% in New Jersey, 5% in New York, 4% in Florida, and 4% in Indiana. No single customer accounted for more than one percent of the Company's operating revenues during the years ended December 31, 2011, 2010, or 2009. The following table summarizes the changes in the Company's allowance for doubtful accounts:

	2011	2010	2009
Balance at January 1,	$ 5,043	$ 5,662	$ 6,356
Amounts charged to expense	5,189	4,821	5,924
Accounts written off	(6,461)	(6,475)	(7,832)
Recoveries of accounts written off	1,125	1,035	1,214
	4,896	5,043	5,662
Less discontinued operations	337	526	595
Balance at December 31,	$ 4,559	$ 4,517	$ 5,067

(In thousands of dollars, except per share amounts)

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, 2011		December 31, 2010	
	Regulatory Assets	Regulatory Liabilities	Regulatory Assets	Regulatory Liabilities
Income taxes	$105,070	$ 1,881	$ 78,203	$ 1,928
Utility plant retirement costs	21,975	16,828	27,720	14,969
Postretirement benefits	132,038	25,365	93,338	18,009
Water tank painting	4,653	—	4,731	—
Fair value adjustment of long-term debt assumed in acquisition	1,540	162	1,751	236
Rate case filing expenses & other	11,412	3,352	11,633	779
	276,688	47,588	217,376	35,921
Less discontinued operations	34,396	6,244	29,399	2,490
	$242,292	$ 41,344	$187,977	$ 33,431

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.

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, 2011 and 2010 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.

The Company recorded a fair value adjustment for fixed rate, long-term debt assumed in acquisitions that matures in various years ranging from 2012 to 2035. The regulatory asset or liability results from the rate setting process continuing to recognize the historical interest cost of the assumed debt.

(In thousands of dollars, except per share amounts)

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, 2011	2010	2009
Current:			
Federal	$ (1,207)	$ (8,123)	$11,081
State	(1,844)	12,292	10,072
	(3,051)	4,169	21,153
Deferred:			
Federal	78,399	70,322	42,336
State	(4,257)	1,678	1,385
	74,142	72,000	43,721
Total tax expense	$71,091	$76,169	$64,874

The statutory Federal tax rate is 35% and for states with a corporate net income tax, the state corporate net income tax rates range from 5% to 9.99% for all years presented.

The reasons for the differences between amounts computed by applying the statutory Federal income tax rate to income before income tax expense for the Company's continuing operations are as follows:

	Years Ended December 31, 2011	2010	2009
Computed Federal tax expense at statutory rate	$75,549	$68,028	$57,758
State income taxes, net of federal tax benefit	(3,966)	9,081	7,447
Increase in tax expense for depreciation expense to be recovered in future rates	551	210	395
Stock-based compensation	(366)	(54)	381
Deduction for Aqua America common dividends paid under employee benefit plan	(345)	(374)	(293)
Amortization of deferred investment tax credits	(340)	(333)	(267)
Domestic Production Credit	—	—	(609)
Other, net	8	(389)	62
Actual income tax expense	$71,091	$76,169	$64,874

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. 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.

(In thousands of dollars, except per share amounts)

The following table provides the components of the net deferred tax liability from continuing operations:

	December 31, 2011	December 31, 2010
Deferred tax assets:		
Customers' advances for construction	$ 17,650	$ 17,080
Costs expensed for book not deducted for tax, principally accrued expenses	900	8,344
Utility plant acquisition adjustment basis differences	11,614	14,176
Postretirement benefits	36,141	24,659
Tax loss carryfoward	47,860	12,575
Other	2,183	1,679
	116,348	78,513
Less valuation allowance	9,331	9,601
	107,017	68,912
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	584,628	463,012
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates,the effect of temporary differences	43,710	30,732
Tax effect of regulatory asset for postretirement benefits	36,141	24,659
Deferred investment tax credit	6,544	6,807
	671,023	525,210
Net deferred tax liability	$564,006	$456,298

At December 31, 2011 and 2010, the Company recorded Federal net operating loss ("NOL") carryforwards of $76,064 and $21,194, respectively. The Company believes the Federal NOL carryforwards are more likely than not to be recovered and require no valuation allowance. The Company's Federal NOL carryforwards do not begin to expire until 2030 and 2031, respectively.

In 2011, as a result of the Company's Federal cumulative net operating loss of $97,258, 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 net operating loss, the Company will recognize a windfall tax benefit of $588.

At December 31, 2011 and 2010, the Company recorded state net operating loss ("NOL") carryforwards of $76,491 and $67,533, respectively, a portion of which are offset by a valuation allowance because the Company does not believe these NOL's are more likely than not to be realized. The state NOL carryforwards do not begin to expire until 2022 and 2021 respectively.

On October 5, 2011, the Company received from the Internal Revenue Service its 2010 income tax refund of $33,600. The refund resulted from a substantial portion of the Company's capital expenditures qualifying for either bonus depreciation or the 100% expensing allowance.

(In thousands of dollars, except per share amounts)

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 believes its income tax filing positions and deductions will be sustained under both Federal and state audits and it believes it does not have significant uncertain tax positions that, in the event of adjustment, will result in a material effect on its results of operations or financial position, and 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, 2011, the Company's Federal income tax returns for all years through 2007 have been closed. The Federal income tax return for tax year 2008 has been settled through examination. Tax years 2009, 2010, and 2011 remain open to Federal examination. The statute remains open for the Company's state income tax returns for tax years 2008, 2009, and 2010 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,		
	2011	2010	2009
Property	$27,785	$27,314	$23,952
Capital Stock	3,559	3,458	2,989
Gross receipts, excise and franchise	10,124	10,121	8,899
Payroll	7,130	6,889	6,906
Other	6,017	5,185	5,335
	54,615	52,967	48,081
Less discontinued operations	10,927	10,645	8,515
Total taxes other than income	$43,688	$42,322	$39,566

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:

2012	2013	2014	2015	2016	Thereafter
$2,613	$1,981	$1,448	$871	$345	$398

(In thousands of dollars, except per share amounts)

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 $729 of annual lease payments for land is due, and the aggregate of the years remaining approximates $15,778. The Company leases treatment plants to other parties under lease agreements that require payments to the Company of:

2012	2013	2014	2015	2016	Thereafter
$494	$ 494	$ 488	$ 460	$ 460	$ 3,602

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 2016 are expected to average $12,095 and the aggregate of the years remaining approximates $38,181.

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: $884 in 2012, $903 in 2013, $923 in 2014, $943 in 2015, $964 in 2016, and $13,385 thereafter. In addition, as of December 31, 2011, the estimated capital expenditures required under legal and binding long-term contracts are approximately $11,873 in 2012 and $3,500 in 2015.

Rent expense under operating leases, purchased water expense, and water treatment expenses under these agreements were as follows:

	Years Ended December 31,		
	2011	2010	2009
Operating lease expense	$ 4,441	$ 4,227	$ 4,111
Purchased water under long-term agreements	14,507	13,621	12,894
Water treatment expenseunder contractual agreement	865	777	691

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, 2011, the aggregate amount of $11,198 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, 2011, estimates that approximately $1,651 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.
- 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. No trial date has been set for this matter, but some of these plaintiffs testified in the trial of the other matter in which all allegations were resolved in the Company's favor. 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.
- In 2010, one of the Company's subsidiaries acquired in 2008, received from the United States Environmental Protection Agency and the United States Department of Justice a proposed penalty related to sanitary sewer overflows of $364. The Company's subsidiary has contested the appropriateness of calculating 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 intends to seek indemnification from the seller for this matter.

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.

(In thousands of dollars, except per share amounts)

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, 2011 and 2010. The supplemental indentures with respect to certain issues of the First Mortgage Bonds restrict the ability of Aqua Pennsylvania, Inc. 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, 2011, approximately $580,000 of Aqua Pennsylvania's retained earnings of approximately $600,000 and approximately $135,000 of the retained earnings of approximately $145,000 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	2012	2013	2014	2015	2016	Thereafter
0.00% to 0.99%	$ 367	$ 367	$ 365	$ 368	$ 366	$ 4,944
1.00% to 1.99%	2,177	2,469	2,336	2,292	2,206	18,550
2.00% to 2.99%	805	819	836	864	884	8,590
3.00% to 3.99%	2,105	2,173	2,247	2,325	2,397	15,346
4.00% to 4.99%	233	21,839	27,246	258	11,065	499,585
5.00% to 5.99%	31,447	499	51,604	44,069	16,817	526,824
6.00% to 6.99%	—	—	—	12,000	—	51,253
7.00% to 7.99%	1,115	447	379	409	442	26,203
8.00% to 8.99%	244	349	376	405	437	32,146
9.00% to 9.99%	4,060	5,887	700	700	700	26,400
10.00% to 10.99%	—	—	—	—	—	6,000
Total	$42,553	$34,849	$86,089	$63,690	$35,314	$1,215,841

Included in the table above, as of December 31, 2011, is $40,662 of long-term debt associated with discontinued operations.

In November 2010, Aqua Pennsylvania, Inc. issued $141,385 of tax-exempt bonds, secured by a supplement to its first mortgage indenture, of which $25,910 is due in 2033, $19,270 in 2034, $15,000 in 2042, and $81,205 in 2043 with yields of 5.00%, 5.05%, 4.75%, and 4.60%, respectively. The proceeds will be used to refinance existing debt, and are restricted to funding certain capital projects during the period 2010 through 2013. As of December 31, 2011, the trustee for one issue held $88,871 pending construction of the projects to be financed with the issue and is reported in the consolidated balance sheet as funds restricted for construction activity. In June 2010, the Company issued $70,000 of senior unsecured notes, of which $15,000 is due in 2021, $20,000 in 2024, and $35,000 in 2028 with interest rates of 4.62%, 4.83%, and 5.22%, respectively.

The weighted average cost of long-term debt at December 31, 2011 and 2010 was 5.17% and 5.14%, respectively. The weighted average cost of fixed rate long-term debt at December 31, 2011 and 2010 was 5.30% and 5.36%, respectively.

The Company has a five-year $95,000 unsecured revolving credit facility with four banks that expires in May 2012. Included within this facility is a swing-line commitment of $15,000 that is used to fund bank overdraft positions. Funds borrowed under this agreement are classified as current portion of long-term debt and are used to provide working capital. As of December 31, 2011, the Company has the following sublimits and available capacity under the credit facility: $20,000 letter of credit sublimit, $2,399 of letters of credit available capacity, $5,212 borrowed under the swing-line commitment, and $33,000 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 0.45% and 0.51%, and the average borrowing was $53,473 and $64,581, during 2011 and 2010, respectively.

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 2011, 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 2011, Aqua Pennsylvania renewed its $100,000 364-day unsecured revolving credit facility with three banks. The funds borrowed under this agreement are classified as loans payable and used to provide working capital. As of December 31, 2011 and 2010, funds borrowed under the agreement were $84,030 and $58,277. 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 1.01% and 1.44%, and the average borrowing was $80,235 and $37,539, during 2011 and 2010, respectively. The maximum amount outstanding at the end of any one month was $92,143 and $65,676 in 2011 and 2010, respectively.

At December 31, 2011 and 2010, the Company had other combined short-term lines of credit of $64,500 and $67,000, respectively, which includes a short-term line of credit associated with discontinued operations of $4,000 and $6,500, respectively. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. As of December 31, 2011 and 2010, funds borrowed under the short-term lines of credit were $23,741 and $31,391, respectively. The average borrowing under the lines was $15,795 and $25,884 during 2011 and 2010, respectively. The maximum amount outstanding at the end of any one month was $26,741 and $32,431 in 2011 and 2010. 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 2011 and 2010 was 1.96% and 1.84%, respectively.

Interest Income – Interest income of $759, $1,290, and $1,148 was netted against interest expense on the consolidated statement of income for the years ended December 31, 2011, 2010, and 2009, respectively. The total interest cost was $78,561, $74,681, and $67,491 in 2011, 2010, and 2009, including amounts capitalized of $7,195, $4,863, and $2,623, respectively.

(In thousands of dollars, except per share amounts)

Note 11 – Fair Value of Financial Instruments

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

	December 31,	
	2011	2010
Carrying amount	$1,516,548	$1,560,389
Estimated fair value	1,592,411	1,483,816

Included within the Company's discontinued operations as of December 31, 2011 and 2010 is long-term debt of $40,662 and $40,932, respectively. The fair value of the Company's long-term debt as of December 31, 2011 and 2010 for its discontinued operation is $43,068 and $40,612, respectively. The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The Company's customers' advances for construction have a carrying value of $66,198 and $65,250 at December 31, 2011 and 2010, 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 2026 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Note 12 – Stockholders' Equity

At December 31, 2011, 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,		
	2011	2010	2009
Shares outstanding	138,815,098	137,775,567	136,486,339
Treasury shares	710,482	673,472	662,410

At December 31, 2011, the Company had 1,738,619 shares of authorized but unissued Series Preferred Stock, $1.00 par value.

At the end of February 2012, the Company intends to renew 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. During 2009, 164,052 shares of common stock totaling $2,909 were issued by the Company to acquire a water system. The balance remaining available for use under the acquisition shelf registration as of December 31, 2011 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 2011, 2010, and 2009, under the dividend reinvestment portion of the Plan, 588,745, 670,538, and 695,544 original issue shares of common stock were sold providing the Company with proceeds of $12,304, $11,966, and $11,337, respectively.

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, 2011, 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 other comprehensive income is reported in the consolidated statements of income and comprehensive income. The Company reports its unrealized gains 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,		
	2011	2010	2009
Average common shares outstanding during the period for basic computation	138,182	136,948	135,816
Effect of dilutive securities:			
Employee stock based compensation	507	348	313
Average common shares outstanding during the period for diluted computation	138,689	137,296	136,129

For the years ended December 31, 2011, 2010, and 2009, employee stock options to purchase 926,300, 2,024,151, and 2,694,837 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 $9.01 and $8.52 at December 31, 2011 and 2010, 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

(In thousands of dollars, except per share amounts)

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, 2011, 4,266,953 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.

Included within the Company's stock-based compensation for the years ended December 31, 2011, 2010, and 2009 is $113, $104, and $102, respectively, of stock-based compensation associated with discontinued operations.

Performance Share Units – During 2011, the Company granted performance share units. There were no grants in 2010 or 2009. 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 year ended December 31, 2011, the Company recorded stock-based compensation related to PSUs as a component of operations and maintenance expense of $991, and recorded an income tax benefit of $403. The following table summarizes nonvested PSU transactions for the year ended December 31, 2011:

	Number of Share Units	Weighted Average Fair Value
Nonvested share units at beginning of period	—	$ —
Granted	109,375	24.38
Performance criteria adjustment	30,773	24.38
Forfeited	(2,564)	24.38
Vested	—	—
Share unit awards issued	—	—
Nonvested share units at end of period	137,584	$ 24.38

(In thousands of dollars, except per share amounts)

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:

	Year ended December 31, 2011
Expected term (years)	3.0
Risk-free interest rate	1.2%
Expected volatility	29.7%
Grant date fair value per performance share unit	$ 24.38

As of December 31, 2011, $2,296 of unrecognized compensation costs related to PSUs is expected to be recognized over a weighted average period of approximately 2 years.

Restricted Stock Units – A restricted stock unit ("RSU") represents the right to receive a share of the Company's common stock and are 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, 2011, the Company recorded stock-based compensation related to awards of RSUs as a component of operations and maintenance expense of $347, and recorded an income tax benefit of $143. 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, 2011:

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

As of December 31, 2011, $638 of unrecognized compensation costs related to restricted stock units is expected to be recognized over a weighted average period of approximately 1.7 years.

(In thousands of dollars, except per share amounts)

Stock Options – The following table provides compensation costs for stock-based compensation:

	Years ended December 31,		
	2011	2010	2009
Stock-based compensation within operations and maintenance expense	$1,437	$2,064	$2,531
Income tax benefit	709	766	483
Capitalized compensation costs within property plant and equipment	—	—	74

There were no stock options granted during the year ended December 31, 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.

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:

	Years ended December 31,	
	2010	2009
Expected term (years)	6.0	5.3
Risk-free interest rate	2.8%	2.2%
Expected volatility	26.7%	31.3%
Dividend yield	3.3%	3.0%
Grant date fair value per option	$3.49	$4.37

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.

(In thousands of dollars, except per share amounts)

The following table summarizes stock option transactions for the year ended December 31, 2011:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Options:				
Outstanding, beginning of year	3,839,197	$ 19.54		
Granted	—	—		
Forfeited	(13,908)	18.62		
Expired	(23,839)	23.02		
Exercised	(424,490)	15.56		
Outstanding, end of year	3,376,960	$ 20.03	4.9	$10,698
Exercisable, end of year	2,893,668	$ 20.38	4.5	$ 8,691

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,		
	2011	2010	2009
Intrinsic value of options exercised	$3,071	$2,700	$1,393
Fair value of options vested	2,077	2,373	2,266

The following table summarizes information about the options outstanding and options exercisable as of December 31, 2011:

	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	218,365	0.9	$ 12.48	218,365	$ 12.48
$13.00 – 16.99	394,259	2.0	15.70	394,259	15.70
$17.00 – 19.99	1,378,659	6.2	18.24	895,367	18.43
$20.00 – 22.99	459,377	6.2	20.18	459,377	20.18
$23.00 – 27.99	484,500	5.1	23.26	484,500	23.26
$28.00 – 29.99	441,800	4.2	29.46	441,800	29.46
	3,376,960	4.9	$ 20.03	2,893,668	$ 20.38

As of December 31, 2011, there was $674 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 10 months.

(In thousands of dollars, except per share amounts)

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, 2011	2010	2009
Stock-based compensation within operations and maintenance expense	$1,833	$1,967	$1,072
Income tax benefit	753	808	441

The following table summarizes nonvested restricted stock transactions for the year ended December 31, 2011:

	Number of Shares	Weighted Average Fair Value
Nonvested shares at beginning of period	233,387	$ 17.62
Granted	66,000	22.21
Vested	(88,704)	18.60
Forfeited	(2,694)	17.23
Nonvested shares at end of period	207,989	$ 18.66

The following table summarizes the value of restricted stock awards:

	Years ended December 31, 2011	2010	2009
Intrinsic value of restricted stock awards vested	$2,020	$1,147	$ 746
Fair value of restricted stock awards vested	1,650	1,270	887
Weighted average fair value of restricted stock awards granted	22.21	17.19	18.47

As of December 31, 2011, $2,090 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, 2011 was $4,586. The aggregate intrinsic value of restricted stock is based on the number of 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

(In thousands of dollars, except per share amounts)

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.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

	Pension Benefits	Other Post-retirement Benefits
Years:		
2012	$ 9,933	$ 1,605
2013	10,692	1,797
2014	11,520	2,069
2015	12,302	2,275
2016	13,110	2,520
2017 - 2021	79,950	15,761

(In thousands of dollars, except per share amounts)

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		Post-retirement Benefits	
	2011	2010	2011	2010
Change in benefit obligation:				
Benefit obligation at January 1,	$234,891	$217,837	$47,772	$41,477
Service cost	4,626	4,527	1,236	1,130
Interest cost	13,547	12,857	2,761	2,442
Actuarial loss	22,503	10,927	3,925	3,595
Plan participants' contributions	—	—	219	173
Benefits paid	(8,958)	(12,145)	(1,227)	(1,045)
Plan amendments	416	630	—	—
Curtailments	(1,057)	—	—	—
Settlements	—	258	—	—
	265,968	234,891	54,686	47,772
Less discontinued operations	28,881	25,432	4,497	3,816
Benefit obligation at December 31,	237,087	209,459	50,189	43,956
Change in plan assets:				
Fair value of plan assets at January 1,	159,151	138,599	29,673	26,524
Actual return on plan assets	(1,903)	19,565	554	2,652
Employer contributions	17,329	13,132	1,825	1,351
Benefits paid	(8,958)	(12,145)	(994)	(854)
	165,619	159,151	31,058	29,673
Less discontinued operations	16,707	13,627	2,927	2,934
Fair value of plan assets at December 31,	148,912	145,524	28,131	26,739
Funded status of plan:				
Net amount recognized at December 31,	$ 88,175	$ 63,935	$22,058	$17,217

(In thousands of dollars, except per share amounts)

The Company’s pension plans had an accumulated benefit obligation of $209,893 and $184,786 at December 31, 2011 and 2010, respectively. The following table provides the net liability recognized on the consolidated balance sheets at December 31,:

	Pension Benefits		Other Post-retirement Benefits	
	2011	2010	2011	2010
Current liability	$ (217)	$ (242)	$ —	$ —
Noncurrent liability	(87,958)	(63,693)	(22,058)	(17,217)
Net liability recognized	$(88,175)	$(63,935)	$(22,058)	$(17,217)

At December 31, 2011 and 2010, 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	
	2011	2010
Projected benefit obligation	$ 237,087	$ 209,459
Fair value of plan assets	148,912	145,524

	Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2011	2010
Accumulated benefit obligation	$ 209,893	$ 184,786
Fair value of plan assets	148,912	145,524

(In thousands of dollars, except per share amounts)

The following table provides the components of net periodic benefit costs for the years ended December 31,:

	Pension Benefits			Other Post-retirement Benefits		
	2011	2010	2009	2011	2010	2009
Service cost	$ 4,626	$ 4,527	$ 4,349	$ 1,236	$ 1,130	$ 1,080
Interest cost	13,547	12,857	12,524	2,761	2,442	2,288
Expected return on plan assets	(12,973)	(11,258)	(9,316)	(2,031)	(1,869)	(1,688)
Amortization of transition obligation (asset)	—	—	(182)	104	104	104
Amortization of prior service cost	198	189	151	(268)	(268)	(279)
Amortization of actuarial loss	4,076	4,408	5,152	836	619	587
Amortization of regulatory asset	—	—	—	137	137	137
Curtailment loss	100	—	—	27	—	—
Settlement loss	—	929	586	—	—	—
Capitalized costs	(3,645)	(3,416)	(2,721)	(700)	(508)	(363)
	5,929	8,236	10,543	2,102	1,787	1,866
Less discontinued operations	1,149	2,167	2,157	197	19	283
Net periodic benefit cost	$ 4,780	$ 6,069	$ 8,386	$ 1,905	$ 1,768	$ 1,583

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, 2011 and 2010. 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	
	2011	2010	2011	2010
Net actuarial loss	$91,964	$59,718	$17,883	$13,317
Prior service cost (credit)	1,072	954	(961)	(1,229)
Transition obligation (asset)	—	—	77	208
	93,036	60,672	16,999	12,296
Less discontinued operations	8,475	4,372	1,911	836
Total recognized in regulatory assets	$84,561	$56,300	$15,088	$11,460

The estimated net actuarial loss, prior service cost and transition asset for the Company's pension plans that will be amortized in 2012 from the regulatory assets into net periodic benefit cost are $7,142, $216, 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 2012 from regulatory assets into net periodic benefit cost are $1,207, $268, and $77, 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.

(In thousands of dollars, except per share amounts)

The significant assumptions related to the Company's pension and other post-retirement benefit plans are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2011	2010	2011	2010
Weighted Average Assumptions Used to Determine Benefit Obligations as of December 31,				
Discount rate	5.00%	5.75%	5.00%	5.75%
Rate of compensation increase	4.0-4.5%	4.0-4.5%	4.0%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Benefit Obligations as of December 31,				
Health care cost trend rate	n/a	n/a	8.5%	9.0%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2019	2019
Weighted Average Assumptions Used to Determine Net Periodic Benefit Costs for Years Ended December 31,				
Discount rate	5.75%	5.91%	5.75%	5.91%
Expected return on plan assets	7.75%	8.0%	5.17-7.75%	5.33-8.0%
Rate of compensation increase	4.0 - 4.5%	4.0 - 4.5%	4.0%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Net Periodic Benefit Costs for Years Ended December 31,				
Health care cost trend rate	n/a	n/a	9.0%	8.0%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2019	2016

n/a – Assumption is not applicable to pension benefits.

(In thousands of dollars, except per share amounts)

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	$ 3,303	$ (2,828)
Effect on aggregate service and interest cost components of net periodic post-retirement health-care benefit cost	$ 199	$ (169)

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 2011 pension expense by $793 and the pension liabilities by $8,742.

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 2011 pension expense by $418. For 2011, the Company used a 7.75% expected return on assets assumption which will remain unchanged for 2012. 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:

	2012 Target Allocation	Percentage of Plan Assets at December 31,	
		2011	2010
Asset Class:			
Equity securities	50 to 75%	66%	70%
Debt securities	25 to 50%	24%	24%
Cash	0%	10%	6%
Total	100%	100%	100%

(In thousands of dollars, except per share amounts)

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
Equity securities (a)				
Common stocks	$106,380	$106,380	$ —	$ —
Mutual funds	3,604	3,604	—	—
Debt securities (b)				
U.S. Treasury and government agency bonds	14,631	—	14,631	—
Corporate and foreign bonds	9,682	—	9,682	—
Mutual funds	15,490	15,490	—	—
Cash (c)	15,832	—	15,832	—
Total pension assets	$165,619	$125,474	$40,145	$ —

The fair value of the Company's pension plans' assets at December 31, 2010 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
Equity securities (a)				
Common stocks	$100,913	$100,913	$ —	$ —
Mutual funds	10,746	10,746	—	—
Debt securities (b)				
U.S. Treasury and government agency bonds	12,807	—	12,807	—
Corporate and foreign bonds	11,171	—	11,171	—
Mutual funds	14,045	14,045	—	—
Cash (c)	9,469	—	9,469	—
Total pension assets	$159,151	$125,704	$33,447	$ —

(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 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 $10,610 or 6.4% and $10,496 or 6.6% of total pension plans' assets as of December 31, 2011 and 2010, respectively.

(In thousands of dollars, except per share amounts)

The changes in the fair value for the pension assets valued using significant unobservable inputs (Level 3) for the years ended December 31, 2011 and 2010 was due to the following:

	2011	2010
Balance at January 1,	$—	$ 1,271
Actual return on plan assets:		
Relating to assets still held at the reporting date	—	—
Relating to assets sold during the period	—	7
Purchases, sales, and settlements	—	(1,278)
Transfers to / from level 3	—	—
Balance at December 31,	$—	$ —

The asset allocation for the Company's other post-retirement benefit plans and the target allocation by asset class are as follows:

	2012 Target Allocation	Percentage of Plan Assets at December 31, 2011	2010
Asset Class:			
Equity securities	50 to 75%	56%	60%
Debt securities	25 to 50%	34%	33%
Cash	0%	10%	7%
Total	100%	100%	100%

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
Equity securities (a)				
Common stocks	$11,311	$11,311	$ —	$ —
Mutual funds	6,190	6,190	—	—
Debt securities (b)				
U.S. Treasury and government agency bonds	4,653	—	4,653	—
Corporate and foreign bonds	4,462	—	4,462	—
Mutual funds	1,347	1,347	—	—
Cash (c)	3,095	—	3,095	—
Total other post-retirement assets	$31,058	$18,848	$12,210	$ —

(In thousands of dollars, except per share amounts)

The fair value of the Company's other post-retirement benefit plans' assets at December 31, 2010 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
Equity securities (a)				
Common stocks	$11,424	$11,424	$ —	$ —
Mutual funds	6,320	6,320	—	—
Debt securities (b)				
U.S. Treasury and government agency bonds	4,751	—	4,751	—
Corporate and foreign bonds	3,972	—	3,972	—
Mutual funds	1,100	1,100		—
Cash (c)	2,106	—	2,106	—
Total other post-retirement assets	$29,673	$18,844	$10,829	$ —

(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 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 2012 our pension contribution is expected to be approximately $19,306. The Company's funding of its PBOP cost during 2012 is expected to approximate $2,912.

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 $2,631, $2,155, and $2,095, for the years ended December 31, 2011, 2010, and 2009, respectively.

Note 16 – Water and Wastewater Rates

On November 17, 2011 the Company's operating subsidiary in Pennsylvania filed an application with the Pennsylvania Public Utility Commission ("PAPUC") designed to increase water rates by $38,600 or 9.40% on an annual basis. The Company anticipates a final order to be issued by August 2012.

On June 17, 2010, the PAPUC granted the Company's operating subsidiary in 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 Distribution System Improvement Charges ("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 ("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 is expected to conclude with the issuance of an order in the second quarter of 2012. However, based on the Company's review of the rate proceeding during the third quarter of 2011, a revenue reserve was removed and additional operating revenues were recognized of $3,098. As of December 31, 2011, to date we have recognized $7,735 of revenue that is subject to refund based on the outcome of the final commission order. Based on the Company's review of the present circumstances, a reserve is not considered necessary for the revenue recognized to date.

The Company's operating subsidiaries, excluding the Pennsylvania water award discussed above, were allowed annual rate increases of $6,311 in 2011, $15,055 in 2010, and $15,595 in 2009, represented by twelve, twelve, and six rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately $3,312, $4,261, and $11,366 in 2011, 2010, and 2009, respectively.

Five states in which the Company operates permit water utilities, and in two 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, New York, and Indiana allow for the use of infrastructure rehabilitation surcharges, and in New Jersey, regulators have proposed a rulemaking to implement an infrastructure rehabilitation surcharge in 2012. 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 9% 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 2011, 2010, and 2009 of $15,937, $14,043, and $16,448, respectively.

Note 17 – Segment Information

The Company has thirteen operating segments and one reportable segment. The Regulated segment, the Company's single reportable segment, is comprised of twelve 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.

One operating segment is included within the other category below. This segment is not quantitatively significant and is comprised of the Company's businesses that provide sludge hauling, septage and grease services, backflow prevention services, and certain other non-regulated water and wastewater services. In addition to this segment, 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.

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

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

	As of or For the Year Ended December 31, 2011			As of or For the Year Ended December 31, 2010		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	$ 699,592	$ 12,364	$ 711,956	$ 672,020	$ 11,418	$ 683,438
Operations and maintenance expense	258,236	12,280	270,516	253,005	11,642	264,647
Depreciation	108,166	(1,495)	106,671	105,571	(1,264)	104,307
Operating income	286,046	(236)	285,810	260,905	(558)	260,347
Interest expense, net of AFUDC	66,322	4,284	70,606	64,538	3,990	68,528
Income tax	73,185	(2,094)	71,091	77,435	(1,266)	76,169
Income (loss) from continuing operations	146,771	(2,009)	144,762	119,340	(1,143)	118,197
Capital expenditures	329,210	1,375	330,585	315,977	408	316,385
Total assets	4,186,639	161,781	4,348,420	3,989,926	82,540	4,072,466
Goodwill	22,823	4,121	26,944	23,797	4,121	27,918

	As of or For the Year Ended December 31, 2009		
	Regulated	Other and Eliminations	Consolidated
Operating revenues	$ 621,808	$ 11,484	$ 633,292
Operations and maintenance expense	243,724	10,611	254,335
Depreciation	100,941	(1,517)	99,424
Operating income	229,237	(957)	228,280
Interest expense, net of AFUDC	63,268	452	63,720
Income tax	65,484	(610)	64,874
Income from continuing operations	100,923	(773)	100,150
Capital expenditures	271,815	1,344	273,159
Total assets	3,674,194	75,668	3,749,862
Goodwill	26,736	4,121	30,857

(In thousands of dollars, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2011					
Operating revenues	$163,615	$178,313	$197,328	$172,700	$711,956
Operations and maintenance expense	63,731	66,765	70,039	69,981	270,516
Operating income	60,920	72,623	87,759	64,508	285,810
Income from continuing operations	30,646	36,595	45,516	32,005	144,762
(Loss) income from discontinuing operations	(295)	995	(4,393)	2,000	(1,693)
Net income attributable to common shareholders	30,351	37,590	41,123	34,005	143,069
Basic income from continuing operations per common share	0.22	0.26	0.33	0.23	1.05
Diluted income from continuing operations per common share	0.22	0.26	0.33	0.23	1.04
Basic (loss) income from discontinuing operations per common share	0.00	0.01	(0.03)	0.01	(0.01)
Diluted (loss) income from discontinuing operations per common share	0.00	0.01	(0.03)	0.01	(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
2010					
Operating revenues	$152,793	$168,733	$193,477	$168,435	$683,438
Operations and maintenance expense	63,909	65,432	68,842	66,464	264,647
Operating income	50,303	64,088	83,389	62,567	260,347
Income from continuing operations	21,609	28,894	40,370	27,324	118,197
(Loss) income from discontinuing operations	(98)	961	3,381	1,534	5,778
Net income attributable to common shareholders	21,511	29,855	43,751	28,858	123,975
Basic income from continuing operations per common share	0.16	0.21	0.29	0.20	0.86
Diluted income from continuing operations per common share	0.16	0.21	0.29	0.20	0.86
Basic (loss) income from discontinuing operations per common share	0.00	0.01	0.02	0.01	0.04
Diluted (loss) income from discontinuing operations per common share	0.00	0.01	0.02	0.01	0.04
Basic net income per common share	0.16	0.22	0.32	0.21	0.91
Diluted net income per common share	0.16	0.22	0.32	0.21	0.90
Dividend paid per common share	0.145	0.145	0.145	0.155	0.590
Dividend declared per common share	0.145	0.145	0.300	—	0.590
Price range of common stock					
—high	17.88	18.73	20.99	22.97	22.97
—low	16.45	16.52	17.38	20.20	16.45

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 2011 of $0.165 was declared in August 2011, and the cash dividend paid in December 2010 of $0.155 was declared in August 2010.

Summary of Selected Financial Data (Unaudited) | Aqua America, Inc. and Subsidiaries

(in thousands of dollars, except per share amounts)

Years ended December 31,	2011	2010	2009	2008	2007
PER COMMON SHARE:					
Income from continuing operations					
Basic	1.05	0.86	0.74	0.70	0.68
Diluted	1.04	0.86	0.74	0.69	0.67
(Loss) income from discontinuing operations					
Basic	(0.01)	0.04	0.03	0.03	0.04
Diluted	(0.01)	0.04	0.03	0.03	0.04
Net income					
Basic	$ 1.04	$ 0.91	$ 0.77	$ 0.73	$ 0.72
Diluted	1.03	0.90	0.77	0.73	0.71
Cash dividends declared and paid	0.63	0.59	0.55	0.51	0.48
Return on average Aqua America stockholders' equity	11.8%	10.9%	9.6%	9.6%	10.0%
Book value at year end	$ 9.01	$ 8.52	$ 8.12	$ 7.82	$ 7.32
Market value at year end	22.05	22.48	17.51	20.59	21.20
INCOME STATEMENT HIGHLIGHTS:					
Operating revenues	$ 711,956	$ 683,438	$ 633,292	$ 589,901	$ 566,470
Depreciation and amortization	111,942	116,122	111,111	90,558	84,442
Interest expense, net (a)	77,802	73,391	66,343	66,055	64,232
Income from continuing operations before income taxes	215,853	194,366	165,024	155,351	147,163
Provision for income taxes	71,091	76,169	64,874	61,783	57,276
Income from continuing operations	144,762	118,197	100,150	93,568	89,887
(Loss) income from discontinuing operations	(1,693)	5,778	4,203	4,350	5,127
Net income attributable to common shareholders	143,069	123,975	104,353	97,918	95,014
BALANCE SHEET HIGHLIGHTS:					
Total assets	$4,348,420	$4,072,466	$3,749,862	$3,486,339	$3,216,136
Property, plant and equipment, net	3,612,926	3,357,357	3,109,788	2,887,574	2,688,083
Aqua America stockholders' equity	1,251,313	1,174,254	1,108,904	1,058,446	976,298
Long-term debt, including current portion	1,475,886	1,519,457	1,404,930	1,217,815	1,201,308
Total debt	1,583,657	1,609,125	1,432,361	1,297,349	1,257,996
ADDITIONAL INFORMATION:					
Operating cash flows from continuing operations	$ 357,621	$ 253,443	$ 252,542	$ 214,950	$ 183,678
Capital additions	330,585	316,385	273,159	259,646	232,410
Net cash expended for acquisitions of utility systems and other	8,515	8,625	3,373	14,659	24,562
Dividends on common stock	87,133	80,907	74,729	68,504	63,763
Number of utility customers served (b) (c)	966,136	962,970	953,437	945,540	949,378
Number of shareholders of common stock	26,744	27,274	27,984	28,565	28,286
Common shares outstanding (000)	138,815	137,776	136,486	135,370	133,400
Employees (full-time) (c)	1,615	1,632	1,632	1,638	1,585

(a) Net of allowance for funds used during construction and interest income.

(b) 2008 was impacted by the loss of 22,519 utility customers associated with two utility systems disposed of.

(c) Includes continuing and discontinued operations.

Exhibit 21.1

AQUA AMERICA, INC. AND SUBSIDIARIES

The following table lists the significant subsidiaries and other active subsidiaries of Aqua America, Inc. at December 31, 2011:

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 Maine, Inc. (Maine)
Aqua North Carolina, Inc. (North Carolina)
Aqua Texas, Inc. (Texas)
Aqua Indiana, Inc. (Indiana)
Aqua Virginia, Inc. (Virginia)
Aqua Utilities Florida, Inc. (Florida)
Aqua New York, Inc. (New York)
Aqua Georgia, Inc. (Georgia)

Exhibit 23.1

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, 333-104290, 333-122900, 333-130400, 333-152885, 333-156058, and 333-176117), 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, and 333-159897) of Aqua America, Inc. of our report dated February 27, 2012 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 27, 2012

Exhibit 31.1

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 27, 2012

Nicholas DeBenedictis

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer

Exhibit 31.2

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 27, 2012

David P. Smeltzer
David P. Smeltzer
Executive Vice President and Chief Financial Officer

Exhibit 32.1

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

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Nicholas DeBenedictis
Nicholas DeBenedictis
Chairman, President and Chief Executive Officer
February 27, 2012

Exhibit 32.2

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, 2011 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Smeltzer, 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 27, 2012