

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2004

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

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

Commission File Number 1-6659

**AQUA AMERICA, INC. (formerly Philadelphia Suburban Corporation)**

(Exact name of registrant as specified in its charter)

**Pennsylvania**

(State or other jurisdiction of  
incorporation or organization)

**23-1702594**

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

**762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania**

(Address of principal executive offices)

**19010 -3489**

(Zip Code)

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

---

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 28, 2004.

93,012,163.

**Part I – Financial Information**  
**Item 1. – Financial Statements**

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

Assets	June 30, 2004	December 31, 2003
Property, plant and equipment, at cost	\$ 2,530,123	\$ 2,302,304
Less accumulated depreciation	530,051	478,013
Net property, plant and equipment	2,000,072	1,824,291
Current assets:		
Cash and cash equivalents	12,406	10,757
Accounts receivable and unbilled revenues, net	67,575	62,320
Inventory, materials and supplies	7,196	5,841
Prepayments and other current assets	5,572	5,051
Total current assets	92,749	83,969
Regulatory assets	98,898	98,761
Deferred charges and other assets, net	51,729	34,277
Funds restricted for construction activity	23,382	28,438
	\$ 2,266,830	\$ 2,069,736
<b>Liabilities and Stockholders' Equity</b>		
Stockholders' equity:		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 93,673,802 and 93,270,424 in 2004 and 2003	\$ 46,837	\$ 46,635
Capital in excess of par value	419,062	413,008
Retained earnings	222,097	210,915
Minority interest	1,029	912
Treasury stock, 665,576 and 681,384 shares in 2004 and 2003	(12,149)	(12,611)
Accumulated other comprehensive income	—	171
Total stockholders' equity	676,876	659,030
Long-term debt, excluding current portion	770,505	696,666
Commitments	—	—
Current liabilities:		
Current portion of long-term debt	41,120	39,386
Loans payable	151,672	96,459
Accounts payable	13,075	32,321
Accrued interest	11,408	11,126
Accrued taxes	15,128	16,779
Other accrued liabilities	40,091	35,930
Total current liabilities	272,494	232,001
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	197,153	190,395
Customers' advances for construction	74,164	72,500
Other	13,697	9,419
Total deferred credits and other liabilities	285,014	272,314
Contributions in aid of construction	261,941	209,725
	\$ 2,266,830	\$ 2,069,736

See notes to consolidated financial statements on page 6 of this report.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

	Six Months Ended June 30,	
	2004	2003
Operating revenues	\$ 206,292	\$ 163,868
Costs and expenses:		
Operations and maintenance	86,314	61,693
Depreciation	27,180	22,811
Amortization	1,919	1,362
Taxes other than income taxes	13,962	10,266
	<u>129,375</u>	<u>96,132</u>
Operating income	76,917	67,736
Other expense (income):		
Interest expense, net	23,238	21,263
Allowance for funds used during construction	(1,333)	(876)
Gain on sale of other assets	(476)	(220)
	<u>21,429</u>	<u>20,167</u>
Income before income taxes	55,488	47,569
Provision for income taxes	22,042	19,005
Net income	33,446	28,564
Dividends on preferred stock	—	5
	<u>33,446</u>	<u>28,569</u>
Net income available to common stock	\$ 33,446	\$ 28,559
Net income	\$ 33,446	\$ 28,564
Other comprehensive income (loss), net of tax:		
Unrealized gain on securities	59	149
Reclassification adjustment for gains reported in net income	(230)	(11)
	<u>(171)</u>	<u>138</u>
Comprehensive income	\$ 33,275	\$ 28,702
Net income per common share:		
Basic	\$ 0.36	\$ 0.33
Diluted	\$ 0.36	\$ 0.33
Average common shares outstanding during the period:		
Basic	92,793	85,494
Diluted	93,828	86,404
Cash dividends declared per common share	\$ 0.24	\$ 0.224

See notes to consolidated financial statements on page 6 of this report.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

	Three Months Ended June 30,	
	2004	2003
Operating revenues	\$ 106,524	\$ 83,379
Costs and expenses:		
Operations and maintenance	44,483	31,029
Depreciation	13,506	11,464
Amortization	1,249	650
Taxes other than income taxes	6,813	4,946
	<u>66,051</u>	<u>48,089</u>
Operating income	40,473	35,290
Other expense (income):		
Interest expense, net	11,436	10,651
Allowance for funds used during construction	(724)	(500)
Gain on sale of other assets	(26)	(165)
	<u>29,787</u>	<u>25,304</u>
Income before income taxes	29,787	25,304
Provision for income taxes	11,916	10,067
	<u>17,871</u>	<u>15,237</u>
Net income	17,871	15,237
Dividends on preferred stock	—	2
	<u>17,871</u>	<u>15,235</u>
Net income available to common stock	\$ 17,871	\$ 15,235
Net income	\$ 17,871	\$ 15,237
Other comprehensive income (loss), net of tax:		
Unrealized gain on securities	—	102
Reclassification adjustment for gains reported in net income	—	(11)
	<u>17,871</u>	<u>15,328</u>
Comprehensive income	\$ 17,871	\$ 15,328
Net income per common share:		
Basic	\$ 0.19	\$ 0.18
Diluted	\$ 0.19	\$ 0.18
Average common shares outstanding during the period:		
Basic	92,899	86,054
Diluted	93,848	87,018
Cash dividends declared per common share	\$ 0.12	\$ 0.112

See notes to consolidated financial statements on page 6 of this report.

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

	June 30, 2004	December 31, 2003
Stockholders' equity:		
Common stock, \$.50 par value	\$ 46,837	\$ 46,635
Capital in excess of par value	419,062	413,008
Retained earnings	222,097	210,915
Minority interest	1,029	912
Treasury stock	(12,149)	(12,611)
Accumulated other comprehensive income	—	171
<b>Total stockholders' equity</b>	<b>676,876</b>	<b>659,030</b>
Long-term debt:		
Long-term debt of subsidiaries (substantially secured by utility plant):		
Interest Rate Range		
0.00% to 2.49%	18,443	16,868
2.50% to 2.99%	29,526	18,913
3.00% to 3.49%	17,678	5,618
3.50% to 3.99%	2,400	2,800
4.00% to 4.99%	8,135	8,135
5.00% to 5.49%	137,875	110,875
5.50% to 5.99%	89,260	76,260
6.00% to 6.49%	124,360	119,360
6.50% to 6.99%	42,000	42,000
7.00% to 7.49%	44,317	46,716
7.50% to 7.99%	25,000	23,000
8.00% to 8.49%	25,118	17,500
8.50% to 8.99%	9,000	9,000
9.00% to 9.49%	53,805	53,805
9.50% to 9.99%	42,748	43,242
10.00% to 10.50%	6,000	6,000
	675,665	600,092
Notes payable, 6.05%, due 2006	960	960
Unsecured notes payable, 4.87%, due 2023	135,000	135,000
	811,625	736,052
Current portion of long-term debt	41,120	39,386
Long-term debt, excluding current portion	770,505	696,666
<b>Total capitalization</b>	<b>\$ 1,447,381</b>	<b>\$ 1,355,696</b>

See notes to consolidated financial statements on page 6 of this report.

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

	Six Months Ended June 30,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 33,446	\$ 28,564
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	29,099	24,173
Deferred income taxes	5,308	4,106
Gain on sale of other assets	(457)	(204)
Net increase in receivables, inventory and prepayments	(7,295)	(594)
Net increase (decrease) in payables, accrued interest, accrued taxes and other accrued liabilities	795	(8,655)
Other	2,341	(2,067)
<b>Net cash flows from operating activities</b>	<b>63,237</b>	<b>45,323</b>
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of \$1,333 and \$876	(80,491)	(58,562)
Acquisitions of water and wastewater systems	(65,889)	(114)
Proceeds from the sale of other assets	1,252	164
Net decrease in funds restricted for construction activity	5,056	7,523
Other	(374)	(302)
<b>Net cash flows used in investing activities</b>	<b>(140,446)</b>	<b>(51,291)</b>
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	7,095	4,401
Repayments of customers' advances	(1,646)	(972)
Net proceeds (repayments) of short-term debt	34,008	(5,804)
Proceeds from long-term debt	94,694	10,566
Repayments of long-term debt	(39,038)	(21,147)
Proceeds from issuing common stock	6,047	39,353
Repurchase of common stock	(37)	(687)
Dividends paid on preferred stock	—	(5)
Dividends paid on common stock	(22,265)	(19,051)
Other	—	(1)
<b>Net cash flows from financing activities</b>	<b>78,858</b>	<b>6,653</b>
Net increase in cash and cash equivalents	1,649	685
Cash and cash equivalents at beginning of period	10,757	5,915
<b>Cash and cash equivalents at end of period</b>	<b>\$ 12,406</b>	<b>\$ 6,600</b>

See notes to consolidated financial statements on page 6 of this report.

**AQUA AMERICA, INC. AND SUBSIDIARIES**

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

**Note 1 Basis of Presentation**

The accompanying consolidated balance sheet and statement of capitalization of Aqua America, Inc. at June 30, 2004, the consolidated statements of income and comprehensive income for the six months and quarter ended June 30, 2004 and 2003, and the consolidated statements of cash flow for the six months ended June 30, 2004 and 2003, are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present fairly the consolidated financial position, the consolidated results of operations, and the consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Aqua America Annual Report on Form 10-K for the year ended December 31, 2003 and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2004. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year.

**Note 2 Acquisitions**

Pursuant to our strategy to grow through acquisitions, on June 1, 2004, the Company completed its acquisition of the capital stock of Heater Utilities, Inc. ("Heater") for \$48,000 in cash and the assumption of long-term debt of \$19,219 and short-term debt of \$8,500. The acquired operation provides water and wastewater service to over 50,000 customers in the areas of suburban Raleigh, Charlotte, Gastonia and Fayetteville, North Carolina. The results of Heater have been included in our consolidated financial statements beginning June 1, 2004. For the fiscal year ended December 31, 2003, Heater had operating revenues of \$19,489. Under the purchase method of accounting, the purchase price is allocated to the net tangible and intangible assets based upon their estimated fair values at the date of the acquisition. The Company is in the process of obtaining third-party valuations of these assets, and thus has not completed the allocation of the purchase price. The preliminary purchase price allocation is as follows:

	<u>June 1, 2004</u>
Property, plant and equipment, net	\$ 99,907
Current assets	4,133
Other long-term assets	2,864
Goodwill	15,714
	<u>122,618</u>
Total assets acquired	122,618
Current liabilities	3,063
Loans payable	8,500
Long-term debt	19,219
Other long-term liabilities	43,836
	<u>74,618</u>
Total liabilities assumed	74,618
Net assets acquired	<u>\$ 48,000</u>

**AQUA AMERICA, INC. AND SUBSIDIARIES**

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

As of June 1, 2004, the Company recorded goodwill of \$15,714 which is reported in the consolidated balance sheet as deferred charges and other assets. A substantial portion of goodwill is expected to be deductible for tax purposes. The purchase price was arrived at through arms-length negotiations with the seller and is consistent with the multiples paid in other comparable transactions. Aqua America considered important regulatory, strategic and valuation considerations in arriving at the final purchase price. Through the North Carolina Utilities Commission approval process, a mechanism has been developed through which the Company could recover up to 66.7% of the goodwill through customer rates in the future upon achieving certain objectives. The Company intends to pursue these objectives to facilitate a timely recognition of this premium in customer rates.

On June 30, 2004, the Company acquired certain utility assets of Florida Water Services Corporation, comprised of 63 water and wastewater systems located in central Florida for \$13,820 in cash, which is less than the book value of these assets. In accordance with Florida procedures, the completed acquisition remains subject to regulatory approval by the Florida Public Service Commission and may take up to a year to obtain the necessary approval. The Commission's review process might result in an adjustment of the final purchase price based on the Commission's determination of plant investment for the systems. The final purchase price is not expected to result in the recognition of goodwill.

On July 31, 2003, Aqua America completed its acquisition of four operating water and wastewater subsidiaries of AquaSource, Inc. (a subsidiary of DQE, Inc.), including selected, integrated operating and maintenance contracts and related assets (individually and collectively the acquisition is referred to as "AquaSource") for \$190,717 in cash, as adjusted pursuant to the purchase agreement based on working capital at closing. The final purchase price will be determined through an arbitration process and is expected to be within the range of \$178,428 to \$191,792. We expect the arbitration process to conclude during the third quarter of 2004. The results of AquaSource have been included in our consolidated financial statements beginning August 1, 2003. The acquired operations of AquaSource serve over 130,000 water and wastewater customer accounts in eleven states (including the Connecticut and Kentucky operations which were sold).

The following supplemental pro forma information is presented to illustrate the effects of the AquaSource acquisition, which was completed on July 31, 2003, on the historical operating results for the six and three months ended June 30, 2003 as if the acquisition had occurred at the beginning of the respective periods:

	Six Months Ended June 30, 2003	Three Months Ended June 30, 2003
Operating revenues	\$ 198,150	\$ 101,037
Net income	\$ 31,657	\$ 16,997
Net income per common share:		
Basic	\$ 0.35	\$ 0.19
Diluted	\$ 0.35	\$ 0.18



**AQUA AMERICA, INC. AND SUBSIDIARIES**

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

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

**Note 3 Disposition**

In July 2004, the Company sold its only operation located in Kentucky, which was acquired as part of the AquaSource transaction. The sale price approximates our investment in this operation. The operation represented approximately 0.1% of the operations acquired from AquaSource, Inc.

**Note 4 Long-term Debt and Loans Payable**

In May 2004, an unsecured note of \$70,000 was issued by Aqua America. Interest under this note is based, at the borrower's option, on either a defined base rate or an adjusted London Interbank Offered Rate corresponding to the interest period selected. The proceeds of this financing were used to fund acquisitions and to refinance existing debt.

In May 2004, our Pennsylvania operating subsidiary issued \$87,000 of long-term debt with a weighted-average maturity of 13.7 years and a weighted-average interest rate of approximately 5.1%. The proceeds of these issuances were used to refinance short-term borrowings and to fund long-term debt maturities.

**AQUA AMERICA, INC. AND SUBSIDIARIES**

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

**Note 5 Stockholders' Equity**

In May 2004, Aqua America's shareholders approved an increase in the number of shares of common stock authorized, par value \$0.50 per share, from 100,000,000 shares to 300,000,000 shares.

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

	2004	2003
Balance at January 1,	\$ 171	\$ 63
Unrealized holding gain arising during the period, net of tax of \$32 in 2004 and \$79 in 2003	59	149
Less: reclassification adjustment for gains included in net income, net of tax of \$173 in 2004 and \$5 in 2003	(230)	(11)
Other comprehensive income (loss), net of tax	(171)	138
Balance at June 30,	\$ —	\$ 201

**Note 6 Net Income per Common Share**

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

	Six Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Average common shares outstanding during the period for Basic computation	92,793	85,494	92,899	86,054
Dilutive effect of employee stock options	1,035	910	949	964
Average common shares outstanding during the period for Diluted computation	93,828	86,404	93,848	87,018

**AQUA AMERICA, INC. AND SUBSIDIARIES**

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

For the quarter and six months ended June 30, 2004, employee stock options outstanding to purchase 581,900 shares of common stock were excluded from the calculation of diluted net income per share as the options' exercise price was greater than the average market price of the Company's common stock during those periods. For the quarter ended June 30, 2003, employee stock options outstanding to purchase 97,500 shares of common stock were excluded from the calculation of diluted net income per share as the options' exercise price was greater than the average market price of the Company's common stock during this period.

**Note 7 Stock-Based Compensation**

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

	Six Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Net income available to common stock, as reported:	\$ 33,446	\$ 28,559	\$ 17,871	\$ 15,235
Add: stock-based employee compensation expense included in reported net income, net of tax	168	152	136	117
Less: pro forma expense related to stock options granted, net of tax effects	(1,082)	(963)	(593)	(522)
Pro forma	<u>\$ 32,532</u>	<u>\$ 27,748</u>	<u>\$ 17,414</u>	<u>\$ 14,830</u>
Basic net income per share:				
As reported	\$ 0.36	\$ 0.33	\$ 0.19	\$ 0.18
Pro forma	0.35	0.32	0.19	0.17
Diluted net income per share:				
As reported	\$ 0.36	\$ 0.33	\$ 0.19	\$ 0.18
Pro forma	0.35	0.32	0.19	0.17

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

**AQUA AMERICA, INC. AND SUBSIDIARIES**

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

**Note 8 Pension Plans and Other Postretirement Benefits**

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

	Pension Benefits			
	Six Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Service cost	\$ 1,871	\$ 1,018	\$ 941	\$ 509
Interest cost	4,136	2,526	2,071	1,263
Expected return on plan assets	(3,931)	(2,182)	(2,000)	(1,091)
Amortization of transition obligation (asset)	(91)	(58)	(46)	(29)
Amortization of prior service cost	181	110	95	55
Amortization of actuarial loss	429	360	220	180
Amortization of regulatory asset	—	—	—	—
Capitalized costs	(524)	(114)	(287)	(69)
Net periodic benefit cost	<u>\$ 2,071</u>	<u>\$ 1,660</u>	<u>\$ 994</u>	<u>\$ 818</u>

	Other Postretirement Benefits			
	Six Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Service cost	\$ 456	\$ 420	\$ 224	\$ 210
Interest cost	734	726	370	363
Expected return on plan assets	(429)	(390)	(216)	(195)
Amortization of transition obligation (asset)	316	342	159	171
Amortization of prior service cost	(22)	(24)	(11)	(12)
Amortization of actuarial loss	47	26	25	13
Amortization of regulatory asset	68	68	34	34
Capitalized costs	(321)	(303)	(172)	(159)
Net periodic benefit cost	<u>\$ 849</u>	<u>\$ 865</u>	<u>\$ 413</u>	<u>\$ 425</u>

Aqua America previously disclosed in its financial statements for the year ended December 31, 2003, that it expected to contribute \$5,371 to Aqua America's defined benefit pension plan. Aqua America contributed \$1,300 in April 2004 and again in July 2004; and expects to contribute the following amounts: \$1,471 in September 2004 and \$1,300 in October 2004. We are currently evaluating the impact of the Pension Funding Equity Act enacted in April 2004 on our projected funding. See Footnote 10 for a discussion of the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

**AQUA AMERICA, INC. AND SUBSIDIARIES**

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

**Note 9 Water and Wastewater Rates**

In April 2004, the Company's operating subsidiary in Illinois was granted a rate increase intended to increase annual revenues by approximately \$2,261. In June 2004, the Company's operating subsidiary in New Jersey was granted a rate increase intended to increase annual revenues by approximately \$1,047.

On July 23, 2004, the Pennsylvania Public Utility Commission voted to award the Company's operating subsidiary in Pennsylvania a \$13,800 base rate increase. The rates in effect at the time of the filing included \$11,200 in Distribution System Improvement Charges ("DSIC") at 5.0%. Consequently, the total base rates will increase by \$25,000 and the DSIC will be reset to zero. The increase is expected to take effect in early to mid-August 2004.

In May 2004, the Company's operating subsidiary in Texas filed an application with the Texas Commission on Environmental Quality to increase rates by \$11,920 over a multi-year period. The application seeks to increase annual revenues in phases and is accompanied by a plan to defer and amortize a portion of the Company's depreciation, operating and other tax expenses over a similar multi-year period, such that the annual impact on operating income approximates the requested amount. The application is currently pending before the Commission and a final ruling is anticipated by May 2005. In July 2004, the Texas Commission on Environmental Quality authorized the Company's operating subsidiary to bill its customers for the requested rates and implement the plan beginning in August 2004. The additional revenue billed and collected prior to the final ruling are subject to refund based on the outcome of the ruling. The revenue recognized and the expenses deferred reflect an estimate of the final outcome of the ruling.

**Note 10 Recent Accounting Pronouncements**

In May 2004, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." When adopted, FSP 106-2 will supersede FSP 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," which was issued in January 2004 and permitted a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Act until more authoritative guidance on the accounting for the federal subsidy was issued. The Company elected the one-time deferral allowed under FSP 106-1 and as a result any measures of the accumulated postretirement benefit obligation and net periodic

**AQUA AMERICA, INC. AND SUBSIDIARIES**

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

postretirement benefit cost in the consolidated financial statements and footnotes for the period ended June 30, 2004 did not reflect the effects of the Act. FSP 106-2 requires the Company to assess the impact of the federal subsidy on the accumulated postretirement benefit obligation and net periodic postretirement benefit cost. FSP 106-2 is effective beginning in the Company's quarter ending September 30, 2004. The Company is currently evaluating the effect of the adoption of FSP 106-2 and has not yet determined the effect of adoption on its results of operations and financial position.

**AQUA AMERICA, INC. AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**(In thousands of dollars, except per share amounts)**  
**(UNAUDITED)**

Forward-looking Statements

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

General Information

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

*Nature of Operations* – Aqua America, Inc. ("we" or "us"), a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to more than 2.5 million people in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York and South Carolina. Our largest operating subsidiary, Aqua Pennsylvania, Inc. – formerly Pennsylvania Suburban Water Company, provides water or wastewater services to approximately 1.3 million people in the suburban areas north and west of the City of Philadelphia and in 20 other counties in Pennsylvania. Our other subsidiaries provide similar services in 12 other states. In addition, we provide water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our operating companies' service territories. We are the largest U.S.-based publicly-traded water utility based on number of people served.

**AQUA AMERICA, INC. AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**  
**(In thousands of dollars, except per share amounts)**  
**(UNAUDITED)**

Financial Condition

During the first half of 2004, we had \$80,491 of capital expenditures, acquired water and wastewater systems for \$65,889, repaid \$1,646 of customer advances for construction and repaid debt and made sinking fund contributions and other loan repayments of \$39,038. The capital expenditures were related to improvements to treatment plants, new and rehabilitated water mains, customer service lines and hydrants, in addition to well and booster improvements.

During the first half of 2004, the proceeds from the issuance of long-term debt, proceeds from the issuance of common stock, internally generated funds and available working capital were used to fund the cash requirements discussed above and to pay dividends. In May 2004, an unsecured note of \$70,000 was issued by Aqua America and the proceeds of this financing were used to fund acquisitions, and to refinance existing debt. In May 2004, our Pennsylvania operating subsidiary issued \$87,000 of long-term debt with a weighted-average maturity of 13.7 years and a weighted-average interest rate of 5.1%. The proceeds of these issuances were used to refinance short-term borrowings and to fund long-term debt maturities.

At various times during the first half of 2004, our operating subsidiaries issued long-term notes payable in aggregate of \$8,326 at various interest rates. In connection with the Heater acquisition completed in June 2004, \$19,219 of long-term debt was assumed with a weighted-average interest rate of 7.7% that is due in various years. At June 30, 2004, we had short-term lines of credit of \$256,500, of which \$113,844 was available. Effective with the December 1, 2004 payment, Aqua America has increased the quarterly cash dividend on common stock from \$.12 per share to \$0.13 per share.

On June 1, 2004, the Company completed its acquisition of the capital stock of Heater Utilities, Inc. for \$48,000 in cash and the assumption of long-term debt of \$19,219 and short-term debt of \$8,500 which resulted in a preliminary recognition of goodwill of \$15,714. Through the North Carolina Utilities Commission approval process, a mechanism has been developed through which the Company could recover up to 66.7% of the goodwill through customer rates in the future upon achieving certain objectives. The Company intends to pursue these objectives to facilitate a timely recognition of this premium in customer rates. The acquired operation provides water and wastewater service to over 50,000 customers in the areas of suburban Raleigh, Charlotte, Gastonia and Fayetteville, North Carolina. On June 30, 2004, the Company acquired certain utility assets of Florida Water Services Corporation, comprised of 63 water and wastewater systems located in central Florida for \$13,820 in cash, which is less than the book value of these assets. In accordance with Florida procedures, the completed acquisition remains subject to regulatory approval by the Florida Public Service Commission and may take up to a year to obtain the necessary approval. The Commission's review process might result in an adjustment of the final purchase price based on the Commission's determination of plant investment for the system. The final purchase price is not expected to result in the recognition of goodwill.

Management believes that internally generated funds along with existing credit facilities and the proceeds from the issuance of long-term debt and common stock will be adequate to meet our financing requirements for the balance of the year and beyond.



**AQUA AMERICA, INC. AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)  
(In thousands of dollars, except per share amounts)**

Results of Operations

Analysis of First Six Months of 2004 Compared to First Six Months of 2003

Revenues for the first six months increased \$42,424 or 25.9% primarily due to additional water and sewer revenues of \$35,300 associated with a larger customer base due to acquisitions, principally the AquaSource acquisition which closed in July 2003 and the Heater acquisition which closed in June 2004, and additional revenues from the infrastructure rehabilitation surcharge in Pennsylvania of \$2,840.

Operations and maintenance expenses increased by \$24,621 or 39.9% primarily due to the additional operating costs associated with acquisitions, principally the AquaSource acquisition, increased pension costs, additional professional services fees, and higher water production expenses.

Depreciation expense increased \$4,369 or 19.2% reflecting the utility plant placed in service since the second quarter of 2003, including the assets acquired through system acquisitions.

Amortization increased \$557 due to the amortization of the costs associated with, and other costs being recovered in, various rate filings.

Taxes other than income taxes increased by \$3,696 or 36.0% due to the additional taxes associated with the AquaSource acquisition and an increase in state taxes other than income.

Interest expense increased by \$1,975 or 9.3% primarily due to additional borrowings to finance the AquaSource acquisition and capital projects, offset partially by decreased interest rates on borrowings due to the refinancing of certain existing debt issues.

Allowance for funds used during construction ("AFUDC") increased by \$457 primarily due to an increase in the average balance of utility plant construction work in progress, to which AFUDC is applied. The increase in construction work in progress is associated with additional capital projects in progress, including projects associated with the AquaSource acquisition.

Gain on sale of other assets totaled \$476 in the first half of 2004 and \$220 in the first half of 2003. The change is due to an increase in the gain on sale of marketable securities of \$387 and a decrease in the gain on the sale of land realized of \$131 as compared to the same period in 2003.

Our effective income tax rate was 39.7% in the first half of 2004 and 40.0% in the first half of 2003. The change was due to an increase in our tax-deductible expenses.

Net income available to common stock for the first six months increased by \$4,887 or 17.1%, in comparison to the same period in 2003 primarily as a result of the factors described above. On a diluted per share basis, earnings increased \$.03 or 9.1% reflecting the change in net income and an 8.6% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the 6,868,750 additional shares issued in the May and August 2003 share offerings.

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

Analysis of Second Quarter of 2004 Compared to Second Quarter of 2003

Revenues for the quarter increased \$23,145 or 27.8% primarily due to additional water and sewer revenues of \$19,200 associated with a larger customer base due to acquisitions, primarily the AquaSource acquisition which closed in July 2003 and the Heater acquisition which closed in June 2004, increased water consumption, and additional revenues from the infrastructure rehabilitation surcharge in Pennsylvania of \$1,256.

Operations and maintenance expenses increased by \$13,454 or 43.4% primarily due to the additional operating costs associated with acquisitions, principally the AquaSource and Heater acquisitions, and increased pension costs.

Depreciation expense increased \$2,042 or 17.8% reflecting the utility plant placed in service since the second quarter of 2003, including the assets acquired through system acquisitions.

Amortization increased \$599 due to the amortization of the costs associated with, and other costs being recovered in, various rate filings.

Taxes other than income taxes increased by \$1,867 or 37.7% due to the additional taxes associated with the AquaSource acquisition and an increase in state taxes other than income.

Interest expense increased by \$785 or 7.4% primarily due to additional borrowings to finance the AquaSource acquisition and capital projects, offset partially by decreased interest rates on borrowings due to the refinancing of certain existing debt issues.

Allowance for funds used during construction ("AFUDC") increased by \$224 primarily due to an increase in the average balance of utility plant construction work in progress, to which AFUDC is applied. The increase in construction work in progress is associated with additional capital projects in progress, including projects associated with the AquaSource acquisition.

Gain on sale of other assets totaled \$26 in the second quarter of 2004 and \$165 in the second quarter of 2003. The change is primarily due to a decrease in the gain on sale of land as compared to the second quarter of 2003.

Our effective income tax rate was 40.0% in the second quarter of 2004 and 39.8% in the second quarter of 2003. The change was due to a decrease in our tax-deductible expenses.

**AQUA AMERICA, INC. AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)  
(In thousands of dollars, except per share amounts)**

Net income available to common stock for the quarter increased by \$2,636 or 17.3%, in comparison to the same period in 2003 primarily as a result of the factors described above. On a diluted per share basis, earnings increased \$.01 or 5.6% reflecting the change in net income and a 7.8% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the 6,868,750 additional shares issued in the May and August 2003 share offerings.

Impact of Recent Accounting Pronouncements

In May 2004, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." When adopted, FSP 106-2 will supersede FSP 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," which was issued in January 2004 and permitted a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Act until more authoritative guidance on the accounting for the federal subsidy was issued. The Company elected the one-time deferral allowed under FSP 106-1 and as a result any measures of the accumulated postretirement benefit obligation and net periodic postretirement benefit cost in the consolidated financial statements and footnotes for the period ended June 30, 2004 did not reflect the effects of the Act. FSP 106-2 requires the Company to assess the impact of the federal subsidy on the accumulated postretirement benefit obligation and net periodic postretirement benefit cost. FSP 106-2 is effective beginning in the Company's quarter ending September 30, 2004. The Company is currently evaluating the effect of the adoption of FSP 106-2 and has not yet determined the effect of adoption on its results of operations and financial position.

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

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

**Item 4. Controls and Procedures**

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

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

**Part II. Other Information**

**Item 1. Legal Proceedings**

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

**AQUA AMERICA, INC. AND SUBSIDIARIES**

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

The following table summarizes Aqua America's purchases of its common stock for the quarter ending June 30, 2004:

Period	Issuer Purchases of Equity Securities			
	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)
April 1-30, 2004	164	\$ 21.23	—	411,209
May 1-31, 2004	139	\$ 20.65	—	411,209
June 1-30, 2004	—	\$ —	—	411,209
<b>Total</b>	<b>303</b>	<b>\$ 20.96</b>	<b>—</b>	<b>411,209</b>

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

(2) On August 5, 1997, our Board of Directors authorized a common stock repurchase program that was publicly announced on August 7, 1997, for up to 870,282 shares. No repurchases have been made under this program since 2000. The program has no fixed expiration date. The number of shares authorized for purchase was adjusted as a result of the stock splits effected in the form of stock distributions since the authorization date.

**AQUA AMERICA, INC. AND SUBSIDIARIES**

**Item 4. Results of Vote of Security Holders**

The Annual Meeting of Shareholders of Aqua America, Inc. was held on May 20, 2004 at the Springfield Country Club, 400 West Sproul Road, Springfield, Pennsylvania, pursuant to the Notice sent on or about April 9, 2004 to all shareholders of record at the close of business on March 29, 2004. At that meeting the following nominees were elected as directors of Aqua America, Inc. for terms expiring in the year 2007 and received the votes set forth after their names below:

<u>Name of Nominee</u>	<u>For</u>	<u>Withheld</u>
Richard L. Smoot	74,221,242	2,631,408
William P. Hankowsky	75,766,298	1,086,352
John E. Menario	75,099,191	1,753,459

Since the Board of Directors is divided into three classes with one class elected each year to hold office for a three-year term, the term of office for the following directors continued after the Annual Meeting: Mary C. Carroll; Nicholas DeBenedictis; G. Fred DiBona, Jr.; Richard H. Glanton, Esq.; and John F. McCaughan. Mr. Menario and Mr. McCaughan will reach the Company's mandatory retirement age for directors of 70 in 2005 and will serve until the end of 2005.

Proposal II (to approve an Amendment to Aqua America, Inc.'s Articles of Incorporation increasing the authorized shares of Aqua America, Inc.'s Common Stock, par value \$.50 per share, from 100,000,000 to 300,000,000 shares) received the following votes:

<u>For</u>	<u>Against</u>	<u>Abstain</u>
59,414,406	16,743,035	695,209

Proposal III (to approve Aqua America, Inc.'s 2004 Equity Compensation Plan) received the following votes:

<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Votes</u>
45,248,997	6,527,524	1,727,852	23,348,277

**AQUA AMERICA, INC. AND SUBSIDIARIES**

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
4.26	Credit Agreement dated as of May 28, 2004 between Aqua America, Inc. and PNC Bank, National Association.
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934.
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934.
32.1	Certification of Chief Executive Officer, pursuant 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.

(b) Reports on Form 8-K

Current Report on Form 8-K furnished on May 5, 2004, responding to Item 7 and Item 12. (Related to the Company's issuance of a press release on May 5, 2004 announcing its first quarter 2004 earnings).

Current Report on Form 8-K filed on May 12, 2004, responding to Item 4. (On May 6, 2004, the Company, as the Plan Sponsor of the Aqua America, Inc. Employees 401(k) Savings Plan and Trust, dismissed PricewaterhouseCoopers LLP as the independent public accounts for the plan and engaged Beard Miller Company LLP to serve as the independent public accountants for the plan. The engagement of Beard Miller Company LLP relates only to the audit of the Plan's financial statements. PricewaterhouseCoopers LLP will continue to act as the independent accountants with respect to the Company's financial statements.).

Current Report on Form 8-K/A filed on June 9, 2004 as Amendment No. 1 to the Form 8-K filed May 12, 2004, responding to Item 7. (Related to the replacement of Exhibit 16.1).

**SIGNATURES**

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

August 4, 2004

AQUA AMERICA, INC.

---

Registrant

NICHOLAS DEBENEDICTIS

---

Nicholas DeBenedictis  
Chairman and President

DAVID P. SMELTZER

---

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



## CREDIT AGREEMENT

THIS CREDIT AGREEMENT (this "Agreement") dated as of May 28, 2004, by and among AQUA AMERICA, INC., a Pennsylvania corporation (the "Borrower"), the several banks and other financial institutions from time to time parties to this Agreement (the "Banks"), PNC BANK, NATIONAL ASSOCIATION, a national banking association, as administrative agent (in such capacity, the "Agent"), and PNC CAPITAL MARKETS, INC., as lead arranger (in such capacity, the "Lead Arranger").

## BACKGROUND

The Borrower has requested that the Banks make Loans (that term and certain other terms are defined in Section 1.1 hereof) to the Borrower, and the Banks severally have agreed to make such Loans on the terms and conditions herein contained. Proceeds of the Loans will be used by the Borrower to finance the acquisition of the stock of Heater Utilities, Inc. (the "Heater Acquisition"), the costs of other Permitted Acquisitions and to repay certain outstanding indebtedness.

NOW, THEREFORE, the parties hereto, in consideration of their mutual covenants and agreements herein set forth and for other consideration, the receipt and sufficiency of which is hereby acknowledged and intending to be legally bound hereby, covenant and agree as follows:

## SECTION 1. DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

"Affiliate": any Person (other than a Subsidiary, or an officer, director or employee of the Borrower who would not be an Affiliate but for such Person's status as an officer, director and/or employee) which, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, the Borrower, and any member, director, officer or employee of any such Person or any Subsidiary of the Borrower. For purposes of this definition, "control" shall mean the power, directly or indirectly, either to (i) vote 5% or more of the securities having ordinary voting power for the election of directors of such Person or (ii) direct or in effect cause the direction of the management and policies of such Person whether by contract or otherwise.

"Agreement": this Credit Agreement, as amended, supplemented or otherwise modified from time to time.

"Anti-Terrorism Laws": any Laws relating to terrorism or money laundering, including Executive Order No. 13224, and the USA Patriot Act.

"Applicable Margin": 40 basis points (.40%).

"AquaSource Entities": Aqua Utilities, Inc., AquaSource Development Company, Aqua Indiana, Inc. and AquaSource Operations, Inc.

"Assignment and Acceptance": an assignment and acceptance entered into by a Bank and an assignee, and acknowledged by the Agent, in the form of Exhibit B or such other form as shall be approved by the Agent.

"Base Rate": for any day, a rate per annum (rounded upwards, if necessary, to the next 1/100th of 1%) equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Open Rate in effect on such day plus one half of one percent (0.5%). If for any reason the Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Open Rate for any reason, including the inability or failure of the Agent to obtain sufficient quotations in accordance with the definition of such term, the Base Rate shall be determined without

regard to clause (b) of the first sentence of this definition until the circumstances giving rise to such inability no longer exist. Any change in the Base Rate due to a change in the Prime Rate or the Federal Funds Open Rate shall be effective on the effective date of such change in the Prime Rate or the Federal Funds Open Rate, as the case may be.

"Base Rate Loan": any portion of a Loan bearing interest at a rate determined by reference to the Base Rate.

"Blocked Person": has the meaning assigned to such term in Section 3.21.

"Borrower": as defined in the heading of this Agreement.

"Business Day": a day other than a Saturday, Sunday or other day on which commercial banks in Philadelphia, Pennsylvania are authorized or required by law to close; provided, however, that, when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London Interbank Market.

"Capital Lease": at any time, a lease with respect to which the lessee is required to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"Capital Stock": any and all shares, interests, participations or other equivalents (however designated and whether newly issued or reissued from treasury shares) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants or options to purchase any of the foregoing.

"Change of Control": an event or series of events by which (a) any "person" or "group" (as such terms are defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder), is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under such Exchange Act, except that a Person shall be deemed to have "beneficial ownership" of all shares that any such Person has the right to acquire without condition, other than passage of time, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 50% of the total voting power of the then outstanding Voting Stock of the Borrower, or (b) from and after the date hereof, individuals who on the date hereof constitute the Board of Directors of the Borrower (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of the Borrower was approved by a vote of a majority of the directors then still in office who were either directors on the date hereof or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of the Borrower then in office.

2

"Closing": as defined in Section 4.2.

"Closing Date": as defined in Section 4.2.

"Code": the Internal Revenue Code of 1986, as amended from time to time.

"Commitment": as to any Bank, the obligation of such Bank to make a Loan to the Borrower hereunder in the principal amount not to exceed the amount set forth opposite such Bank's name on Schedule I.

"Commonly Controlled Entity": an entity, whether or not incorporated, which is under common control with the Borrower within the meaning of Section 4001 of ERISA or is part of a group which includes the Borrower and which is treated as a single employer under Section 414 of the Code.

"Consolidated EBIT": for any period, Consolidated Net Income for such period, plus the amount of income taxes and interest expense deducted from earnings in determining such Consolidated Net Income.

"Consolidated Funded Debt": at any time, all Debt of the Borrower determined on a consolidated basis consisting of, without duplication (a) borrowed money Debt, including without limitation capitalized lease obligations; (b) reimbursement obligations in respect of letters of credit, bank guarantees and the like; and (c) Debt in the nature of a Contingent Obligation, whether or not required to be reflected on a balance sheet of the Borrower in accordance with GAAP.

"Consolidated Interest Expense": for any period, the amount of cash interest expense deducted from earnings of the Borrower in determining Consolidated Net Income for such period in accordance with GAAP.

"Consolidated Net Income": for any fiscal period, net earnings (or loss) after income and other taxes computed on the basis of income of the Borrower for such period determined on a consolidated basis in accordance with GAAP, but excluding:

3

(a) the amount of any extraordinary items included in such calculation of net earnings (or loss);

(b) any gain or loss resulting from the write-up or write-off of fixed assets;

(c) earnings of any Subsidiary accrued prior to the date it became a Subsidiary;

(d) earnings of any Person, substantially all assets of which have been acquired in any manner, realized by such Person prior to the date of such acquisition; and

(e) any gain arising from the acquisition of any Securities of the Borrower or any Subsidiary thereof.

"Consolidated Shareholders' Equity": at a particular date, the net book value of the shareholders' equity of the Borrower as would be shown on a consolidated balance sheet at such time determined in accordance with GAAP.

"Consumers Water Entities": Consumers Indiana Water Co., Aqua Ohio, Inc., Aqua Maine, Inc., Aqua Illinois, Inc. and Aqua New Jersey, Inc.

"Contingent Obligation": with respect to any Person (for the purpose of this definition, the "Obligor") any obligation (except the endorsement in the ordinary course of business of instruments for deposit or collection) of the Obligor guaranteeing or in effect guaranteeing any indebtedness of any other Person (for the purpose of this definition, the "Primary Obligor") in any manner, whether directly or indirectly, including (without limitation) indebtedness incurred through an agreement, contingent or otherwise, by the Obligor:

(a) to purchase such indebtedness of the Primary Obligor or any Property or assets constituting security therefor;

(b) to advance or supply funds

(i) for the purpose of payment of such indebtedness (except to the extent such indebtedness otherwise appears on Borrower's balance sheet as indebtedness); or

(ii) to maintain working capital or other balance sheet condition or any income statement condition of the Primary Obligor or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation; or

(c) to lease Property or to purchase Securities or

other Property or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of the Primary Obligor to make payment of the indebtedness or obligation.

4

For purposes of computing the amount of any Contingent Obligation, in connection with any computation of indebtedness or other liability, it shall be assumed that, without duplication, the indebtedness or other liabilities of the Primary Obligor that are the subject of such Contingent Obligation are direct obligations of the issuer of such Obligation.

"Contractual Obligation": as to any Person, any provision of any Security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"Debt": with respect to any Person, at any time, without duplication, all of (i) its liabilities for borrowed money, (ii) liabilities secured by any Lien existing on property owned by such Person (whether or not such liabilities have been assumed), (iii) its liabilities in respect to Capital Leases; (iv) its liabilities under Contingent Obligations; and (v) all other obligations which are required by GAAP to be shown as liabilities on its balance sheet but excluding (x) deferred taxes and other deferred or long-term liabilities and other amounts not in respect of borrowed money; (y) the aggregate amount of accounts receivable sold, factored or otherwise transferred for value without recourse (other than for breach of representations) and (z) current trade accounts payable incurred in the ordinary course of business.

"Debt to Capitalization Ratio" for any period, the ratio of (i) Consolidated Funded Debt to (ii) Total Capitalization.

"Default": any of the events specified in Section 7, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition precedent therein set forth, has been satisfied.

"Distribution": in respect of any corporation, (a) dividends, distributions or other payments on account of any capital stock of the corporation (except distributions in common stock of such corporation); (b) the redemption or acquisition of such stock or of warrants, rights or other options to purchase such stock (except when solely in exchange for common stock of such corporation); and (c) any payment on account of, or the setting apart of any assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of any share of any class of capital stock of such corporation or any warrants or options to purchase any such stock.

"Dollars" and "\$": dollars in lawful currency of the United States of America.

"Environmental Laws": any and all applicable foreign, Federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees or binding requirements of any Governmental Authority, or binding Requirement of Law (including common law) regulating, relating to or imposing liability or standards of conduct concerning protection of the environment, as now or may at any time hereafter be in effect.

5

"Equity Issuance": the issuance of any common or preferred equity and any issuance of both primary shares or shares re-issued from treasury stock, including any convertible or other hybrid financing having substantially the same effect.

"ERISA": the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Eurocurrency Reserve Requirements": for any day as applied to a Eurodollar Loan, the aggregate (without duplication) of the rates (expressed as a decimal fraction) of reserve requirements in effect on such day (including, without limitation, basic, supplemental, marginal and emergency reserves under any regulations of the Board of Governors of the Federal Reserve System or other Governmental Authority having jurisdiction with respect thereto) dealing with reserve requirements prescribed for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of such Board) maintained by a member bank of such System.

"Eurodollar Base Rate": with respect to any Eurodollar Loans for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) equal to the rate determined by the Agent in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the London interbank offered rates of interest per annum for Dollars quoted by the British Bankers' Association as set forth on the Moneyline Telerate Service (or its appropriate successor, or if the British Bankers' Association or its successor ceases to provide such quotes, a comparable replacement determined by the Agent) display page 3750 (or such other display page on the Moneyline Telerate Service as may replace such display page 3750), at approximately 11:00 a.m., London time, two Business Days prior to the first day of such Interest Period for an amount approximately equal in principal amount to the amount of such Eurodollar Loans and having a borrowing date and a maturity comparable to such Interest Period.

"Eurodollar Loan": any portion of a Loan bearing interest at a rate determined by reference to the Eurodollar Rate in accordance with the provisions of Section 2.

"Eurodollar Rate": with respect to each Interest Period pertaining to a Eurodollar Loan, a rate per annum determined in accordance with the following formula (rounded upward to the nearest 1/100th of 1%):

Eurodollar Base Rate  
-----  
1.00 - Eurocurrency Reserve Requirements

"Event of Default": any of the events specified in Section 7, provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Executive Order No. 13224": Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001, as the same has been, or shall hereafter be, renewed, extended, amended or replaced.

"Federal Funds Effective Rate": for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for the day of such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it.

"Federal Funds Open Rate": for any day, the rate per annum determined by the Agent in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the Open Rate for federal funds transactions as of the opening of business for federal funds transactions among members of the Federal Reserve System arranged by federal funds brokers on such day, as quoted by Garvin Guybutler, any successor entity thereto, or any other broker selected by the Agent, as set forth on the applicable Telerate display page; provided, however, that if such day is not a Business Day, the Federal Funds Open Rate for such day shall be the Open Rate on the immediately preceding Business Day, or if no such rate shall be quoted by a federal funds broker at such time, such other rate as determined by the Agent in accordance with its usual procedures.

"Fee Letter": the letter dated May 14, 2004, from the Agent and the Lead Arranger to the Borrower relating to the payment of certain fees and expenses in connection with the transactions contemplated hereby, as amended, supplemented or otherwise modified from time to time.

"Fees": as defined in subsection 2.3(a).

"GAAP": at any time with respect to the determination of the character or amount of any asset or liability or item of income or expense, or any consolidation or other accounting computation, generally accepted accounting principles as applied to the public utility industry, as such principles shall be in effect on the date of, or at the end of the period covered by, the financial statements from which such asset, liability, item of income, or item of expense, is derived, or, in the case of any such computation, as in effect on the date when such computation is required to be determined, subject to Section 1.3(b).

"Governmental Authority": any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Insolvency": with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of Section 4245 of ERISA.

"Insolvent": pertaining to a condition of Insolvency.

"Interest Coverage Ratio": at the date of determination, the ratio of Consolidated EBIT to Consolidated Interest Expense, in each case for the prior four (4) consecutive fiscal quarters.

7

"Interest Payment Date": (a) as to any Base Rate Loan, the last day of each month, (b) as to any Eurodollar Loan having an Interest Period of three months or less, the last day of such Interest Period, and (c) as to any Eurodollar Loan having an Interest Period longer than three months, each day which is three months, or a whole multiple thereof, after the first day of such Interest Period and the last day of such Interest Period.

"Interest Period": with respect to any Eurodollar Loan:

(a) initially the period commencing on the conversion date with respect to such Eurodollar Loan and ending one, three or six months thereafter, as selected by the Borrower in its notice of conversion, given with respect thereto; and

(b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Loan and ending one, three or six months thereafter, as selected by the Borrower by irrevocable notice to the Agent not less than three Business Days prior to the last day of the then current Interest Period with respect thereto;

provided that, the foregoing provisions relating to Interest Periods are subject to the following:

(i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month;

(iii) an Interest Period that otherwise would extend

beyond the Maturity Date shall end on the Maturity Date; and

(iv) the Borrower shall select Interest Periods so as not to require a payment or prepayment of any Eurodollar Loan during an Interest Period for such Eurodollar Loan.

"Investments": investments (by loan or extension of credit, purchase, advance, guaranty, capital contribution or otherwise) made in cash or by delivery of Property, by the Borrower (i) in any Person, whether by acquisition of stock or other ownership interest, indebtedness or other obligation or Security, or by loan, advance or capital contribution, or (ii) in any Property or (iii) any agreement to do any of the foregoing.

"Lien": any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or other security interest or any preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement and any Capital Lease having substantially the same economic effect as any of the foregoing).

8

"Loan": the term loan made by each Bank to the Borrower pursuant to Section 2.1 hereof and "Loans" shall be the collective reference to all such term loans.

"Loan Advance Termination Date": as defined in subsection 2.1(b).

"Loan Documents": this Agreement and the Notes and any other instruments, certificates or documents delivered or contemplated to be delivered hereunder or in connection herewith.

"Material Adverse Effect": a material adverse effect on (a) the validity or enforceability of this Agreement or any other Loan Document, (b) the business, prospects, Property, assets, financial condition, results of operations or prospects of the Borrower, (c) the ability of the Borrower duly and punctually to pay its Debts and perform its obligations hereunder, or (d) the ability of the Agent or any of the Banks, to the extent permitted, to enforce their legal remedies pursuant to this Agreement or any other Loan Document.

"Materials of Environmental Concern": any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any Environmental Law, including, without limitation, asbestos, polychlorinated biphenyls, and ureaformaldehyde insulation.

"Maturity Date": May 26, 2005.

"Moody's": Moody's Investors Service, Inc.

"Multiemployer Plan": a Plan which is a multiemployer plan as defined in Section 4001(a) (3) of ERISA.

"Net Proceeds": (a) with respect to any Equity Issuance by the Borrower, the net amount equal to (i) the aggregate amount received in cash in connection with such sale or issuance minus (ii) the reasonable fees, commissions and other out-of-pocket expenses incurred by the Borrower in connection with such sale or issuance; and (b) with respect to the incurrence by the Borrower of any indebtedness for borrowed money (other than under operating lines of credit), the net amount equal to (i) the aggregate amount received in cash from the incurrence of such indebtedness minus (ii) the sum of (A) the principal amount of any Debt which is promptly repaid in connection with such incurrence (i.e., a refinancing) and (B) the reasonable fees, commissions and other out-of-pocket expenses incurred by the Borrower payable in connection with such incurrence to Persons other than an Affiliate of the Borrower.

"Note": a promissory note of the Borrower in the form of

Exhibit A issued to a Bank, as the same may be amended, supplemented or otherwise modified from time to time and "Notes" shall be the collective reference to all such promissory notes issued to the Banks.

9

"Participant": as defined in Section 9.6(f).

"PBGC": the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA.

"Permitted Acquisition": an acquisition by the Borrower of the stock or assets of a Person engaged in businesses similar or incidental or ancillary to Borrower's or any Subsidiary's existing business, provided that at least 30 days prior to the consummation of any such acquisition for which cash consideration paid by the Borrower (including the assumption of Debt in connection therewith) exceeds \$25,000,000, no Default or Event of Default shall exist or would exist if such acquisition were consummated on such date (assuming for purposes of the covenants contained in Section 6.1 that pro forma adjustments are made to the financial statements of the Borrower reflecting such acquisition; provided, that historical EBIT of the Person to be acquired (or the assets of which are to be acquired) shall be included for purposes of calculating such covenant compliance only if historical financial statements of such Person are received by the Agent at least 30 days prior to the consummation of such acquisition), and the Borrower shall have delivered to the Agent a certificate of a Responsible Officer showing calculations in reasonable detail demonstrating such pro forma compliance with the covenants contained in Section 6.1, and provided further, that any such acquisition for which cash consideration paid by the Borrower (including the assumption of Debt in connection therewith) exceeds \$50,000,000, shall also have been consented to by the Required Banks.

"Permitted Investments": Investments in:

- (a) one or more Subsidiaries thereof;
  - (b) current assets arising from the sale or purchase of goods and services in the ordinary course of business of the Borrower;
  - (c) direct obligations of the United States of America, or any agency or instrumentality thereof or obligations guaranteed by the United States of America, provided that such obligations mature within one (1) year from the date of acquisition thereof;
  - (d) certificates of deposit, time deposits or banker's acceptances, maturing within one (1) year from the date of acquisition, with banks or trust companies organized under the laws of the United States, the unsecured long-term debt obligations of which are rated "A3" or higher by Moody's or "A-" or higher by S&P, and issued, or in the case of banker's acceptance, accepted, by a bank or trust company having capital, surplus and undivided profits aggregating at least \$250,000,000;
- 10
- (e) commercial paper given the highest rating by either S&P or Moody's maturing not more than 270 days from the date of creation thereof;
  - (f) mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 that hold themselves out as "money market funds"; and
  - (g) other loans, advances and investments not exceeding in the aggregate \$5,000,000 at any one time outstanding.

"Person": an individual, partnership, corporation, business



trust, joint stock company, limited liability company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"Plan": at a particular time, any employee benefit plan which is covered by ERISA and in respect of which the Borrower or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"PNC": PNC Bank, National Association, a national banking association.

"Prime Rate": the rate of interest per annum announced from time to time by PNC as its prime rate in effect at its principal office in Philadelphia, Pennsylvania; each change in the Prime Rate shall be effective on the date such change is announced as effective.

"Property": any interest in any kind of property or asset, whether real, personal or mixed, and whether tangible or intangible.

"Pro-Rata Percentage": as to any Bank at any time, the proportion (expressed as a percentage) that such Bank's Commitment bears to the Total Commitment or, at any time after the Loans have been made, the percentage which the amount of such Bank's outstanding Loan constitutes of the aggregate amount of the Loans of the Banks then outstanding.

"Purchase Agreement": that certain Stock Purchase Agreement dated as of November 20, 2003, between the Borrower and Allete Water Services, Inc., as the same may be amended, supplemented or otherwise modified from time to time.

"Purchase Money Security Interest": Liens upon tangible personal property securing loans to the Borrower or deferred payments by the Borrower for the purchase of such tangible personal property, in each case securing amounts which do not exceed the purchase price of the property subject to such security interests.

"Regulation U": Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect, and all official rulings and interpretations thereunder or thereof.

11

"Regulation X": Regulation X of the Board of Governors of the Federal Reserve System as from time to time in effect, and all official rulings and interpretations thereunder or thereof.

"Reorganization": with respect to any Multiemployer Plan, the condition that such plan is in reorganization within the meaning of Section 4241 of ERISA.

"Reportable Event": any of the events set forth in Section 4043(b) of ERISA, except to the extent that notice thereof has been waived by the PBGC.

"Required Banks": at any time, (a) Banks whose Pro Rata Percentages aggregate at least 51%, or (b) if there are only two Banks which have outstanding Loans, both Banks.

"Requirement of Law": as to any Person, the Certificate of Incorporation, By-Laws, Operating Agreement or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Responsible Officer": the chief financial officer, treasurer or controller of the Borrower.

"S&P": Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

"Security": "security" as defined in Section 2(1) of the Securities Act of 1933, as amended.

"Single Employer Plan": any Plan which is covered by Title IV of ERISA, but which is not a Multiemployer Plan.

"Solvent": as to any Person, as of the time of determination, the financial condition under which the following conditions are satisfied:

(a) the fair market value of the assets of such Person will exceed the debts and liabilities, subordinated, contingent or otherwise, of such Person;

(b) the present fair saleable value of the Property of such Person will be greater than the amount that will be required to pay the probable liability of such Person on its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured;

(c) such Person will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and

12

(d) such Person will not have unreasonably small capital with which to conduct the businesses in which it is engaged as such businesses are then conducted and are proposed to be conducted after the date thereof.

"Subordinated Debt": at any time, all Debt of the Borrower subordinated to all of the obligations of the Borrower to the Banks on terms satisfactory to the Banks.

"Subsidiary": as to any Person, (i) any corporation, limited liability company, company or trust of which 50% or more (by number of shares or number of votes) of the outstanding capital stock, interests, shares or similar items of beneficial interest normally entitled to vote for the election of one or more directors, managers or trustees (regardless of any contingency which does or may suspend or dilute the voting rights) is at such time owned directly or indirectly by such person or one or more of such Person's Subsidiaries, or any partnership of which such Person is a general partner or of which 50% or more of the partnership interests is at the time directly or indirectly owned by such Person or one or more of such Person's Subsidiaries, and (ii) any corporation, company, trust, partnership or other entity which is controlled or capable of being controlled by such Person or one or more of such Person's subsidiaries. Unless otherwise indicated, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary of the Borrower.

"Total Capitalization": at any period, the sum of (i) Consolidated Shareholders' Equity plus (ii) Consolidated Funded Debt.

"Total Commitment": at any time, the aggregate amount of the Banks' Commitments, as in effect at such time.

"Tranche": the collective reference to Eurodollar Loans whose Interest Periods begin on the same date and end on the same later date.

"USA Patriot Act": the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56, as the same has been, or shall hereafter be renewed, extended, amended or replaced.

"Voting Stock": capital stock of any class or classes of a corporation the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the directors (or Persons performing similar functions) and, as applicable, any equity, participation or ownership interests in any partnership, business trust, joint stock company, limited liability company, trust, unincorporated association, joint venture or any other Person which

interests are similar by analogy to capital stock or ownership rights giving rise to voting or governance rights.

1.2 Other Definitional Provisions. (a) Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the Notes or any certificate or other document made or delivered pursuant hereto.

13

(b) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, subsection, Schedule and Exhibit references are to this Agreement unless otherwise specified.

1.3 Construction. (a) Unless the context of this Agreement otherwise clearly requires, references to the plural include the singular, the singular the plural and the part the whole, "or" has the inclusive meaning represented by the phrase "and/or," and "including" has the meaning represented by the phrase "including without limitation." References in this Agreement to "determination" of or by the Agent or the Banks shall be deemed to include good faith estimates by the Agent or the Banks (in the case of quantitative determinations) and good faith beliefs by the Agent or the Banks (in the case of qualitative determinations). Whenever the Agent or the Banks are granted the right herein to act in their sole discretion or to grant or withhold consent such right shall be exercised in good faith, except as otherwise provided herein. Except as otherwise expressly provided, all references herein to the "knowledge of" or "best knowledge of" the Borrower shall be deemed to refer to the knowledge of a Responsible Officer thereof. The words "hereof," "herein," "hereunder", "hereby" and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. The section and other headings contained in this Agreement and the Table of Contents preceding this Agreement are for reference purposes only and shall not control or affect the construction of this Agreement or the interpretation thereof in any respect. Section, subsection, schedule and exhibit references are to this Agreement unless otherwise specified.

(b) Except as otherwise provided in this Agreement, all computations and determinations as to accounting or financial matters and all financial statements to be delivered pursuant to this Agreement shall be made and prepared in accordance with GAAP (including principles of consolidation where appropriate). As used herein and in the Notes, and any certificate or other document made or delivered pursuant hereto, accounting terms relating to the Borrower and any Subsidiary thereof not defined in subsection 1.1 and accounting terms partly defined in subsection 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP. In the event that any future change in GAAP, without more, materially affects the Borrower's compliance with any financial covenant herein, the Borrower, the Banks and the Agent shall use their best efforts to modify such covenant in order to account for such change and to secure for the Banks the intended benefits of such covenant.

## SECTION 2. THE LOANS

2.1 Loans. (a) Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Bank, severally and not jointly, agrees to make a Loan to the Borrower in the amount of such Bank's Commitment; provided, however, that the failure of any Bank to make its Loan shall not in itself relieve any other Bank of its obligation to lend hereunder (it being understood, however, that no Bank shall be responsible for the failure of any other Bank to make a Loan required to be made by such other Bank). The Loans shall initially be Base Rate Loans, provided that they may be converted to Eurodollar Loans in accordance with the provisions of this Agreement. Each Loan shall be made on the Closing Date.

14

(b) Notwithstanding that the full amount of the Loan has been advanced on the Closing Date, the Borrower may repay and reborrow such principal amounts of the Loan as it may elect upon prior notice to the Agent on up to five

(5) separate occasions during the period from the Closing Date through and including June 30, 2004 (the "Loan Advance Termination Date"), provided that at no time shall the outstanding principal amount of the Loans exceed \$70,000,000. On the Loan Advance Termination Date each Bank's Commitment shall terminate and thereafter the Borrower may not reborrow any amount of the Loan which has been repaid.

2.2 General Provisions Regarding Loans. (a) Each Bank shall make the Loan to be made by it on the Closing Date, or any reborrowing of the Loan which is requested pursuant to subsection 2.1(b) on a date on or before the Loan Advance Termination Date by wire transfer of immediately available funds to the Agent in Philadelphia, Pennsylvania, not later than 1:00 p.m., Philadelphia time, and the Agent shall by 3:00 p.m., Philadelphia time, credit the amounts so received to the general deposit account of the Borrower with the Agent or, if the Loans shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Banks. Unless the Agent shall have received notice from a Bank prior to the date of advance that such Bank will not make available to the Agent such Bank's Loan, the Agent may assume that such Bank has made such Loan available to the Agent on such date in accordance with this subsection (a) and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have made such Loan available to the Agent, such Bank and the Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent at (i) in the case of the Borrower, the interest rate applicable at the time to the Loans and (ii) in the case of such Bank, the Federal Funds Effective Rate. If such Bank shall repay to the Agent such corresponding amount, such amount shall constitute such Bank's Loan for purposes of this Agreement.

(b) All conversions and continuations of Loans hereunder and all selections of Interest Periods hereunder shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, (A) the aggregate principal amount of the portion of the Loans comprising each Tranche of Eurodollar Loans shall be equal to \$500,000 or a whole multiple of \$100,000 in excess thereof and (B) the Borrower shall not have outstanding at any one time more than in the aggregate five (5) separate Tranches of Eurodollar Loans.

2.3 Fees. (a) The Borrower agrees to pay to the Agent for its and each Bank's account, as applicable, administrative, closing and other fees at the times and in the amounts set forth in the Fee Letter (collectively, the "Fees").

(b) All fees payable pursuant to this Section 2.3 shall be paid on the dates due, in immediately available funds, to the Agent. Once paid, none of such fees shall be refundable under any circumstances.

15

2.4 Notes; Repayment of Loans. The Loan made by each Bank shall be evidenced by a single Note duly executed on behalf of the Borrower, dated the Closing Date, in substantially the form attached hereto as Exhibit A with the blanks appropriately filled, payable to such Bank in a principal amount equal to the Loan made by such Bank. Each Note shall bear interest from the date thereof on the outstanding principal balance thereof as set forth in Section 2.5. Each Bank shall, and is hereby authorized by the Borrower to, endorse on the schedule attached to the relevant Note held by such Bank (or on a continuation of such schedule attached to each such Note and made a part thereof), or otherwise to record in such Bank's internal records, an appropriate notation evidencing the date and amount of the Loan of such Bank, each payment or prepayment of principal of the Loan, each reborrowing of principal of the Loan and the other information provided for on such schedule; provided, however, that the failure of any Bank to make such a notation or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loan made by such Bank in accordance with the terms of the relevant Note. The outstanding principal balance of each Loan, as evidenced by the relevant Note, shall be payable on the Maturity Date and is subject to optional and mandatory prepayment as provided in Section 2.7.

2.5 Interest on Loans. (a) Subject to the provisions of Section 2.6, each Base Rate Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be) at a

rate per annum equal to the Base Rate.

(b) Subject to the provisions of Section 2.6, 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 Eurodollar Loan plus the Applicable Margin.

(c) Interest on each Loan shall be payable on each Interest Payment Date applicable to such Loan; provided that, interest accruing on overdue amounts pursuant to Section 2.6 shall be payable on demand as provided in the Notes. The Eurodollar Rate and the Base Rate shall be determined by the Agent, and such determination shall be conclusive absent error.

2.6 Default Rate; Additional Interest; Alternate Rate of Interest. (a) To the extent not contrary to any Requirement of Law, upon the occurrence and during the continuation of an Event of Default, any principal, past due interest, fee or other amount outstanding hereunder shall, at the option of the Required Banks, bear interest for each day thereafter until paid in full (after as well as before judgment) at a rate per annum which shall be equal to two percent (2%) above the Base Rate (but in no event shall any such rate exceed the maximum rate permitted by any Requirement of Law). The Borrower acknowledges that such increased interest rate reflects, among other things, the fact that such loans or other amounts have become a substantially greater risk given their default status and that the Banks are entitled to additional compensation for such risk.

(b) In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Loan, the Agent shall have determined (which determination absent manifest error shall be conclusive and binding upon the Borrower) that dollar deposits in the principal amount of such Eurodollar Loan are not generally available in the London Interbank Market, or that the rate at which such dollar deposits are being offered will not adequately and fairly reflect the cost to the Banks of making or maintaining the principal amount of such Eurodollar Loan during such Interest Period, or that reasonable means do not exist for ascertaining the Eurodollar Rate, the Agent shall, as soon as practicable thereafter, give written, telegraphic or telephonic notice of such determination to the Borrower and the Banks, and any request by the Borrower for a Eurodollar Loan or for conversion to or maintenance of a Eurodollar Loan pursuant to the terms of this Agreement shall be deemed a request for a Base Rate Loan. After such notice shall have been given and until the circumstances giving rise to such notice no longer exist, each request for a Eurodollar Loan shall be deemed to be a request for a Base Rate Loan. Each determination by the Agent hereunder shall be conclusive absent manifest error.

16

2.7 Optional and Mandatory Prepayments of Loans. (a) The Borrower shall have the right at any time and from time to time to prepay the Loans, in whole or in part, without premium or penalty (except as set forth below and in any event subject to Section 2.11), upon prior written, telecopy or telephonic notice to the Agent given no later than 11:00 a.m., Philadelphia time, one Business Day before any proposed prepayment; provided, however, that each such partial prepayment of Loans shall be in the principal amount of at least \$500,000 or in multiples of \$100,000 in excess thereof; provided further, however, that any such prepayment made prior to January 1, 2005, other than pursuant to Sections 2.7(b) or (c), shall be accompanied by a prepayment premium equal to .20% of the principal amount so prepaid; and provided further, however, that no such prepayment premium shall be due on amounts prepaid during the period from the Closing Date through the Loan Advance Termination Date, except that a prepayment premium shall be due and payable on the Loan Advance Termination Date in an amount equal to .20% of the amount, if any, by which \$70,000,000 exceeds the aggregate outstanding principal amount of the Loans on the Loan Advance Termination Date.

(b) Promptly following demand of the Agent at any time after receipt by the Borrower of any Net Proceeds from any Equity Issuance by the Borrower or the incurrence after the date hereof by the Borrower of indebtedness for borrowed money (other than under operating lines of credit), the Borrower shall pay to the Agent 100% of such Net Proceeds. Such payments shall be applied by the Agent to the prepayment of the Loans then outstanding, without premium or

penalty (but in any event subject to Section 2.11) with such payments being applied to reduce the installments of principal in inverse order of maturity. The Borrower shall give the Agent no later than 11:00 a.m., Philadelphia time, one Business Day's prior written, telecopy or telephonic notice of each prepayment pursuant to this clause (b) setting forth the date and expected amount thereof. All prepayments of the Loans under this clause (b) shall be applied to Base Rate Loans then outstanding and the balance, if any, shall be applied to Eurodollar Loans then outstanding, with payments applied to Eurodollar Loans being applied in order of next maturing Interest Periods.

(c) Promptly following demand of the Agent at any time on or after the occurrence of a Change of Control, the Borrower shall prepay the Loans in full without premium or penalty (but in any event subject to Section 2.11).

(d) Each required notice of prepayment shall specify the prepayment date and the principal amount of the Loans to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Loans (or portion thereof) by the amount stated therein. All prepayments under this Section on other than Base Rate Loans shall be accompanied by accrued interest and any required premium on the principal amount being prepaid to the date of prepayment. No prepayments of the Loans, whether optional or mandatory, may be reborrowed by the Borrower.

17

2.8 Illegality. Notwithstanding any other provision herein, if any change in any Requirement of Law or in the interpretation or application thereof shall make it unlawful for any Bank to make or maintain Eurodollar Loans as contemplated by this Agreement, (a) the commitment of such Bank hereunder to make Eurodollar Loans, continue Eurodollar Loans as such and convert Base Rate Loans to Eurodollar Loans shall forthwith be cancelled and (b) the portion of such Bank's Loan then outstanding as Eurodollar Loans, if any, shall be converted automatically to Base Rate Loans on the respective last days of the then current Interest Periods with respect to such Loan or within such earlier period as required by law. If any such conversion of a Eurodollar Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, the Borrower shall pay to such Bank such amounts, if any, as may be required pursuant to Section 2.11.

2.9 Requirements of Law. (a) In the event that any change in any Requirement of Law or in the interpretation, or application thereof or compliance by any Bank with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date hereof:

(i) shall subject any Bank to any tax of any kind whatsoever with respect to this Agreement, any Note or any Eurodollar Loan made by it, or change the basis of taxation of payments to such Bank in respect thereof (except for taxes covered by Section 2.12 and changes in the rate of tax on the overall net income, gross receipts or revenue of such Bank);

(ii) shall impose, modify or hold applicable any reserve, special deposit or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Bank which is not otherwise included in the determination of the interest rate on such Eurodollar Loan hereunder;  
or

(iii) shall impose on such Bank any other condition;

and the result of any of the foregoing is to increase the cost to such Bank, by an amount which such Bank reasonably deems to be material, of making, converting into, continuing or maintaining Eurodollar Loans or to reduce any amount receivable hereunder in respect thereof then, in any such case, the Borrower shall as promptly as practicable pay such Bank, upon its demand, any additional amounts necessary to compensate such Bank for such increased cost or reduced amount receivable; provided, that the Borrower shall not be liable for any such amounts incurred 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 describing in reasonable detail the determination of 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 manifest error. This covenant shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder. If any amount is refunded to such Bank, such Bank will reimburse Borrower for amounts paid in respect of the refunded amount.

18

(b) In the event that any Bank shall have determined that any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof or compliance by such Bank or any corporation controlling such Bank with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the date hereof does or shall have the effect of reducing the rate of return on such Bank's or such corporation's capital as a consequence of its obligations hereunder to a level below that which such Bank or such corporation could have achieved but for such change or compliance (taking into consideration such Bank's or such corporation's policies with respect to capital adequacy) by an amount reasonably deemed by such Bank to be material, then from time to time, after submission as promptly as practicable by such Bank to the Borrower (with a copy to the Agent) of a written request therefor, the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such reduction.

(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 2.9(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 2.9, no Bank shall apply the provisions of subsections 2.9(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 2.9 to other Borrower in substantially similar circumstances under substantially comparable provisions of other credit agreements.

2.10 Taxes. (a) All payments made by the Borrower under this Agreement and the Notes shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding, in the case of the Agent and each Bank, net income taxes and franchise or gross receipts taxes (imposed in lieu of net income taxes) imposed on the Agent or such Bank, as the case may be, as a result of a present or former connection between the jurisdiction of the government or taxing authority imposing such tax and the Agent or such Bank or any political subdivision or taxing authority thereof or therein (all such non-excluded taxes, levies, imposts, duties, charges, fees, deductions and withholdings being hereinafter called "Taxes"). Except as provided in Section 2.10(c) and the penultimate sentence of this Section 2.10(a), if any Taxes are required to be withheld from any amounts payable to the Agent or any Bank hereunder or under the Notes, the amounts so payable to the Agent or such Bank shall be increased to the extent necessary to yield to the Agent or such Bank (after payment of all Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement and the Notes. Whenever any Taxes are payable by the Borrower, as promptly as possible thereafter the Borrower shall send to the Agent for its own account or for the account of such Bank, as the case may be, a certified copy of an original official receipt received by the Borrower showing payment thereof. If the Borrower fails to pay any Taxes when due to the appropriate taxing authority or fails to remit to the Agent the required receipts or other required documentary evidence, the Borrower shall indemnify the Agent and the Banks for any incremental taxes, interest or penalties that may become payable by the Agent or any Bank as a result of any such failure. If as a result of a payment by the Borrower of Taxes pursuant to this subsection a Bank receives a tax benefit or tax savings such as by receiving a credit against, refund of, or reduction in Taxes which such Bank would not have received but for the payment by the Borrower of Taxes pursuant to this subsection, then such Bank shall promptly pay to the Borrower the amount of such credit, refund, reduction or any other similar item. The agreements in this

subsection shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

19

(b) Each Bank that is not incorporated under the laws of the United States of America or a state thereof agrees that it will deliver to the Borrower and the Agent (i) two duly completed copies of United States Internal Revenue Service Form W-8ECI or W-8BEN or W-8IMY or successor applicable form, as the case may be, and (ii) an Internal Revenue Service Form W-8 or W-9 or successor applicable form. Each such Bank also agrees to deliver to the Borrower and the Agent two further copies of the said Form W-8ECI or W-8BEN or W-8IMY and Form W-8 or W-9, or successor applicable forms or other manner of certification, as the case may be, on or before the date that any such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form previously delivered by it to the Borrower, and such extensions or renewals thereof as may reasonably be requested by the Borrower or the Agent, unless in any such case an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Bank from duly completing and delivering any such form with respect to it and such Bank so advises the Borrower and the Agent. Such Bank shall certify (i) in the case of a Form W-8ECI or 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 and (ii) in the case of a Form W-8 or W-9, that it is entitled to an exemption from United States backup withholding tax. 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.

(c) The Borrower shall not be required to pay any additional amounts to the Agent or any Bank in respect of payments of United States withholding tax or other Taxes made by the Borrower which are consistent with the forms and information delivered to the Borrower and the Agent or if the payment of such amounts would not have arisen but for a failure by the Agent or such Bank to comply with the requirements of subsection 2.10(b) or the Agent or such Bank did not timely deliver to the Borrower the forms listed or described in subsection 2.10(b) or did not take 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 and other Taxes or, if such steps were taken, the information was not timely and duly delivered to Borrower.

20

2.11 Indemnity. The Borrower agrees to indemnify each Bank and to hold each Bank harmless from any loss or expense which such Bank may sustain or incur as a consequence of (a) default by the Borrower in payment when due of the principal amount of or interest on any Eurodollar Loan, (b) default by the Borrower in making a borrowing of, conversion into or continuation of Eurodollar Loans after the Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (c) default by the Borrower in making any prepayment after the Borrower has given a notice thereof in accordance with the provisions of this Agreement or (d) the making of a prepayment of Eurodollar Loans on a day which is not the last day of an Interest Period with respect thereto, including, without limitation, in each case, any such loss or expense arising from the reemployment of funds obtained by it or from fees payable to terminate the deposits from which such funds were obtained. This covenant shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

2.12 Pro Rata Treatment, etc. Except as required under Section 2.8, each Borrowing, each payment or prepayment of principal of the Loans, each payment of interest on the Loans, and each conversion of Loans shall be made pro rata among the Banks in accordance with their respective Pro-Rata Percentages.

2.13 Payments. (a) The Borrower shall make each payment (including principal of or interest on any Loan or any Fees or other amounts) hereunder not



later than 12:00 (noon), Philadelphia time, on the date when due in Dollars to the Agent at its offices at 1600 Market Street, Philadelphia, Pennsylvania, or at such other place as may be designated by the Agent, in immediately available funds.

(b) Whenever any payment (including principal of or interest on any Loan or any Fees or other amounts) hereunder shall become due, or otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or Fees, if applicable.

2.14 Conversion and Continuation Options. The Borrower shall have the right at any time upon prior irrevocable notice to the Agent (i) not later than 11:00 a.m., Philadelphia time, on the Business Day of conversion, to convert any Eurodollar Loan to a Base Rate Loan, (ii) not later than 11:00 a.m., Philadelphia time, three Business Days prior to conversion or continuation, (y) to convert any Base Rate Loan into a Eurodollar Loan, or (z) to continue any Eurodollar Loan as a Eurodollar Loan for any additional Interest Period, and (iii) not later than 11:00 a.m., Philadelphia time, three Business Days prior to conversion, to convert the Interest Period with respect to any Eurodollar Loan to another permissible Interest Period, subject in each case to the following:

(a) a Eurodollar Loan may not be converted at a time other than the last day of the Interest Period applicable thereto;

(b) any portion of a Loan maturing or required to be repaid in less than one month may not be converted into or continued as a Eurodollar Loan;

21

(c) no Eurodollar Loan may be continued as such and no Base Rate Loan may be converted to a Eurodollar Loan when any Default or Event of Default has occurred and is continuing;

(d) any portion of a Eurodollar Loan that cannot be converted into or continued as a Eurodollar Loan by reason of paragraph 2.14(b) or 2.14(c) automatically shall be converted at the end of the Interest Period in effect for such Loan to a Base Rate Loan;

(e) if by the third Business Day prior to the last day of any Interest Period for Eurodollar Loans, the Borrower has failed to give notice of conversion or continuation as described in this subsection, the Agent shall give notice thereof to the Banks and such portion of the Loans shall be automatically converted to Base Rate Loans on the last day of such then expiring Interest Period; and

(f) each request by the Borrower to convert or continue any portion of a Loan shall constitute a representation and warranty that each of the representations and warranties made by the Borrower herein is true and correct in all material respects on and as of such date as if made on and as of such date.

Accrued interest on a Loan (or portion thereof) being converted shall be paid by the Borrower at the time of conversion.

### SECTION 3. REPRESENTATIONS AND WARRANTIES

To induce the Banks to enter into this Agreement, and to make the Loans, the Borrower hereby represents and warrants to the Agent and each Bank that:

3.1 Financial Condition. (a) The audited consolidated balance sheet of the Borrower and its Subsidiaries as at December 31, 2003 and the related consolidated statements of income and of cash flows for the fiscal year ended on such date, and the consolidated balance sheet as at March 31, 2004 and the statements of income and cash flow of the Borrower and its Subsidiaries for the three month period ended March 31, 2004, copies of all of which have heretofore been furnished to each Bank, present fairly the consolidated financial condition of the Borrower as at such dates, and the consolidated results of its operations and its consolidated cash flows for the periods covered thereby. All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the

periods involved. Neither the Borrower nor any of its Subsidiaries had, at the date of the most recent balance sheet referred to above, any material Contingent Obligation, liability for taxes, or any long-term lease or unusual forward or long-term commitment, including, without limitation, any interest rate or foreign currency swap or exchange transaction, which is required by GAAP to be but is not reflected in the foregoing statements or in the notes thereto.

(b) (i) As of the Closing Date and after giving effect to this Agreement and the Loans to be made on the Closing Date, the Borrower is Solvent.

(ii) The Borrower does not intend to incur debts beyond its ability to pay such debts as they mature, taking into account the timing of and amounts of cash to be received by it and the timing of the amounts of cash to be payable on or in respect of its Debt.

22

3.2 No Adverse Change. Since December 31, 2003, there has been no development or event which has had a Material Adverse Effect.

3.3 Existence; Compliance with Law. The Borrower (a) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has the corporate power and authority, and the legal right, to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged, (c) is duly qualified as a foreign entity and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification, except to the extent that the failure to be so qualified would not, in the aggregate, have a Material Adverse Effect and (d) is in compliance with all Requirements of Law the non-compliance with which would have a Material Adverse Effect.

3.4 Corporate Power; Authorization; Enforceable Obligations. The Borrower has the corporate power, authority, and legal right, to make, deliver and perform this Agreement, the Notes, the other Loan Documents to which it is a party and the Purchase Agreement and to borrow hereunder and has taken all necessary corporate action to authorize the borrowings on the terms and conditions of this Agreement and the Notes and to authorize the execution, delivery and performance of this Agreement, the Notes, the other Loan Documents to which it is a party and the Purchase Agreement. No consent or authorization of, filing with or other act by or in respect of, any Governmental Authority or any other Person (including stockholders and creditors of the Borrower) is required in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement, the Notes, the other Loan Documents or the Purchase Agreement. This Agreement and the Purchase Agreement have been, and each Note and other Loan Document will be, duly executed and delivered on behalf of the Borrower. Each of this Agreement and the Purchase Agreement constitutes, and each Note and other Loan Document when executed and delivered will constitute, a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

3.5 No Legal Bar. The execution, delivery and performance of this Agreement, the Notes and the other Loan Documents and the Purchase Agreement by the Borrower, the borrowings hereunder and the use of the proceeds thereof and the purchase by the Borrower of its Capital Stock pursuant to the Purchase Agreement will not violate any Requirement of Law or Contractual Obligation of the Borrower or of any of the Subsidiaries and will not result in, or require, the creation or imposition of any Lien on any of its or their respective properties or revenues pursuant to any such Requirement of Law or Contractual Obligation.

3.6 No Material Litigation. Except as set forth on Schedule 3.6, no litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Borrower, threatened against the Borrower or against any of the properties or revenues of the Borrower or against any Plan (a) with respect to this Agreement, the Notes or the other Loan Documents or any of the transactions contemplated hereby, or

(b) as to which there is a reasonable likelihood of an adverse determination and which, if adversely determined, would have a Material Adverse Effect.

23

3.7 No Default. The Borrower is not in default under or with respect to any of its Contractual Obligations, including without limitation, those under the Purchase Agreement, in any respect which would have a Material Adverse Effect. No Event of Default has occurred and is continuing.

3.8 Taxes. The Borrower has filed or caused to be filed all tax returns which are required to be filed (or has obtained authorized extensions for such filings) and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its property and all other taxes, fees or other charges imposed on it or any of its property by any Governmental Authority (other than any the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Borrower, as the case may be); no material tax Lien has been filed against the Borrower, and, to the knowledge of the Borrower, no claim is being asserted, with respect to any such tax, fee or other charges.

3.9 Federal Regulations. No part of the proceeds of any Loans will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U or for any purpose which violates the provisions of Regulation U. If requested by any Bank or the Agent, the Borrower will furnish to the Agent and each Bank a statement to the foregoing effect in conformity with the requirements of FR Form U-1 referred to in said Regulation U. No part of the proceeds of the Loans hereunder will be used for any purpose which violates, or which is inconsistent with, the provisions of Regulation X.

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

(b) The present value of the accrued benefit liabilities under each of the Plans (other than Multiemployer Plans), determined as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities. The term "benefit liabilities" has the meaning specified in section 4001 of ERISA and the terms "current value" and "present value" have the meaning specified in Section 3 of ERISA.

24

(c) The Borrower and its Commonly Controlled Entities have not incurred any withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under Section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate would have a Material Adverse Effect. To the best of the Borrower's knowledge, such Multiemployer Plans are neither in Reorganization as defined in Section 4241 of ERISA nor Insolvent.

(d) The expected post-retirement benefit obligation (determined as of the last day of the Borrower's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by

section 4980B of the Code) of the Borrower and its Subsidiaries, together with the liabilities referred to in subsection (a) and (c) hereof would not have a Material Adverse Effect.

3.11 Investment Company Act; Public Utility Holding Company Act. Except as set forth on Schedule 3.11, the Borrower is not (a) an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended; (b) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of either a "holding company" or a "subsidiary company" within the meaning of the Public Utility Holding Company Act of 1935, as amended, or (c) subject to any other federal or state law or regulation which purports to restrict or regulate its ability to borrow money.

3.12 Purpose of Loans. The proceeds of the Loans shall be used by the Borrower to finance the cost of the Heater Acquisition pursuant to and in accordance with the terms of the Purchase Agreement, a true and correct copy of which has been delivered to the Agent, to finance the cost of other Permitted Acquisitions, to refinance certain outstanding indebtedness and for general corporate purposes.

3.13 Environmental Matters(a). Neither the Borrower nor any Subsidiary has knowledge of any claim or has received any notice of any claim, and no proceeding has been instituted raising any claim against the Borrower or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them, or other assets, alleging damage to the environment or any violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed on Schedule 3.13:

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

25

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

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

3.14 Patents, Trademarks, etc. The Borrower has obtained and holds in full force and effects all patents, trademarks, servicemarks, trade names, copyrights or licenses therefor and other such rights, free from burdensome restrictions, which are necessary for the operation of its business as presently conducted. To the Borrower's best knowledge, no material product, process, method, substance, part or other material presently sold by or employed by the Borrower in connection with such business infringes any patent, trademark, service mark, trade name, copyright, license or other right owned by any other Person so as to have a Material Adverse Effect. There is not pending or, to the Borrower's knowledge, threatened any claim or litigation against or affecting the Borrower contesting its right to sell or use any such product, process, method, substance, part or other material.

3.15 Ownership of Property. The Borrower has good and marketable fee simple title to or valid leasehold interests in all real property owned or leased by the Borrower (except in the case of certain properties not material to its business as to which its title was obtained by quit-claim or special warranty deed), and good title to all of its personal property subject to no Lien of any kind except Liens permitted hereby. The Borrower enjoys peaceful and undisturbed possession under all of its respective material leases.

3.16 Licenses, etc. The Borrower has obtained and holds in full force and effect, all franchises, licenses, permits, certificates, authorizations, qualifications, easements, rights of way and other rights, consents and approvals which are necessary for the operation of its business as presently conducted.

3.17 No Burdensome Restrictions. The Borrower is not a party to any agreement or instrument or subject to any other Contractual Obligation or any charter or corporate restriction or any provision of any applicable law, rule or regulation which, to the best of the Borrower's knowledge, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

3.18 Labor Matters. The Borrower has not suffered any strikes, walkouts, work stoppages or other material labor difficulty within the last five years and to the best of the Borrower's knowledge, there are none now threatened.

3.19 Partnerships. Except as disclosed on Schedule 3.19, as of the Closing Date, the Borrower is not a partner in any partnership or in any joint venture.

26

3.20 No Material Misstatements. To the best of the Borrower's knowledge, no information, report, financial statement, exhibit or schedule furnished by or on behalf of the Borrower to the Agent or any Bank in connection with the negotiation of this Agreement or any Note or other Loan Document or included therein contains any misstatement of fact, or omitted or omits to state any fact necessary to make the statements therein not misleading, where such misstatement or omission would in the Borrower's judgment be material to the interests of the Banks with respect to the Borrower's performance of its obligations hereunder.

All of the foregoing representations and warranties shall survive the execution and delivery of the Notes and the making by the Banks of the Loans hereunder.

3.21 Anti-Terrorism Laws.

(a) Neither the Borrower nor any Affiliate of the Borrower is in violation of any Anti-Terrorism Law or engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

(b) Neither the Borrower nor any Affiliate of the Borrower, or their respective agents acting or benefiting in any capacity in connection with any Loan or other transactions hereunder, is any of the following (each a "Blocked Person"):

(i) a Person that is listed in the annex to, or is otherwise subject to the provisions of, Executive Order No. 13224;

(ii) a Person owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, Executive Order No. 13224;

(iii) a Person or entity with which any Bank is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law;

(iv) a Person or entity that commits, threatens or conspires to commit or supports "terrorism" as defined in Executive Order No. 13224;

(v) a Person or entity that is named as a "specially designated national" on the most current list published by the U.S. Treasury Department Office of Foreign Asset Control at its official website or any replacement website or other replacement official publication of such list; or

(vi) a person or entity who is affiliated or

affiliated with a Person or entity described above.

Neither the Borrower nor to the knowledge of the Borrower, any of its agents acting in any capacity in connection with any Loan or other transactions hereunder (i) conducts any business or engages in making or receiving any contribution of funds, good or services to or for the benefit of any Blocked Person, or (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to Executive Order No. 134224.

27

All of the foregoing representations and warranties shall survive the execution and delivery of the Notes and the making by the Banks of the Loans hereunder.

#### SECTION 4. CONDITIONS PRECEDENT; CLOSING

4.1 Conditions to Closing. The agreement of each Bank to enter into this Agreement and make its Loan hereunder (including any reborrowing pursuant to subsection 2.1(b)) is subject to the satisfaction, immediately prior to or concurrently with such Loan, of the following conditions precedent:

(a) Loan Documents. The Agent shall have received (i) this Agreement, executed and delivered by a duly authorized officer of the Borrower, with a counterpart for each Bank, and (ii) for the account of each Bank, a Note conforming to the requirements hereof and executed by a duly authorized officer of the Borrower.

(b) Corporate Proceedings of the Borrower. The Agent shall have received a copy of the resolutions or other corporate proceedings or action, in form and substance satisfactory to the Agent, taken on behalf of the Borrower authorizing (i) the execution, delivery and performance of this Agreement, the Notes, the other Loan Documents to which it is a party and the Purchase Agreement, and (ii) the borrowings contemplated hereunder, certified by a Responsible Officer of the Borrower as of the Closing Date, which certificate shall state that such resolutions, or other proceedings or action thereby certified have not been amended, modified, revoked or rescinded and shall be in form and substance satisfactory to the Agent.

(c) Representations and Warranties True; No Default. The representations and warranties of the Borrower contained in Section 3 hereof shall be true and accurate on and as of the Closing Date in all material respects with the same effect as though such representations and warranties had been made on and as of such date (except representations and warranties which relate solely to an earlier date or time, which representations and warranties shall be true and correct on and as of the specific dates or times referred to therein), and the Borrower shall have performed and complied with all covenants and conditions hereof; and no Event of Default or Default under this Agreement shall have occurred and be continuing or shall exist.

(d) Corporate Documents. The Agent shall have received, with a counterpart for each Bank, true and complete copies of (i) the articles of incorporation and bylaws of the Borrower, certified as of the Closing Date as complete and correct copies thereof by a Responsible Officer of the Borrower; and (ii) good standing certificates issued by the Secretaries of State (or the equivalent thereof) of each state in which the Borrower has been formed or is required to be qualified to transact business no earlier than thirty days prior to the Closing Date.

(e) Incumbency. The Agent shall have received a written certificate dated the Closing Date by a Responsible Officer of the Borrower as to the names and signatures of the officers of the Borrower authorized to sign this Agreement and the other Loan Documents. The Agent may conclusively rely on such certificate until it shall receive a further certificate by a Responsible Officer of the Borrower amending such prior certificate.

28

(f) Fees. The Borrower shall have paid or caused to be paid to the Agent (i) all Fees then due hereunder and (ii) all other fees and expenses

due and payable hereunder on or before the Closing Date (if then invoiced), including without limitation the reasonable fees and expenses of counsel to the Agent which counsel fees in connection with the preparation of and Closing under this Agreement shall not exceed \$15,000.

(g) Legal Opinion. The Agent shall have received, with a counterpart for each Bank, the executed legal opinion of the Executive Vice President, General Counsel and Secretary of the Borrower, addressed to the Banks and satisfactory in form and substance to the Agent and its counsel covering such matters incident to the transactions contemplated by this Agreement and the Purchase Agreement as the Agent may reasonably require. The Borrower hereby directs such counsel to deliver such opinion, upon which the Banks and the Agent may rely.

(h) No Material Adverse Change. There shall be no material adverse change in the business, operations, Property, prospects or financial or other condition of the Borrower nor any material change in the management of the Borrower or an event which would cause or constitute a Material Adverse Effect; and there shall be delivered to the Agent for the benefit of each Bank a certificate dated the Closing Date and signed on behalf of the Borrower by a Responsible Officer to each such effect.

(i) No Litigation. No action, proceeding, investigation, regulation or legislation shall have been instituted, threatened or proposed before any court, governmental agency or legislative body to enjoin, restrain or prohibit, or to obtain damages in respect of this Agreement or the consummation of the transactions contemplated hereby or which, in the Agent's sole discretion, would make it inadvisable to consummate the transactions contemplated by this Agreement or by the Purchase Agreement.

(j) Evidence of Insurance. The Borrower shall have provided to each of the Banks copies of the evidence of insurance required by subsection 5.5(b).

(k) Evidence of Regulatory Approval. The Borrower shall have provided to the Agent a copy of each and every authorization, permit, consent, and approval of and other actions by, and notice to and filing with, every Governmental Authority which is required to be obtained or made by the Borrower for the due execution, delivery and performance of this Agreement and the other Loan Documents, if any.

(l) Additional Documents. The Agent shall have received such additional documents, certificates and information as the Agent may require pursuant to the provisions hereof or as the Agent may otherwise reasonably request.

4.2 Closing. The closing (the "Closing") of the transactions contemplated hereby shall take place at the offices of Ballard Spahr Andrews & Ingersoll, LLP, commencing at 10:00 a.m., Philadelphia time, on May 28, 2004 or such other place or date as to which the Agent, the Banks and the Borrower shall agree. The date on which the Closing shall be completed is referred to herein as the "Closing Date".

#### SECTION 5. AFFIRMATIVE COVENANTS

The Borrower hereby agrees that, so long as any Note remains outstanding and unpaid or any other amount is owing to any Bank or the Agent hereunder, the Borrower shall:

5.1 Financial Statements. Furnish to each Bank (i) within 60 days after the end of each of the first three fiscal quarters of each fiscal year a consolidated balance sheet of the Borrower and its Subsidiaries as of the end of each such fiscal quarter and statements of income for the period from the beginning of such fiscal year to the end of such fiscal quarter, and (ii) within 120 days after the end of each fiscal year a consolidated balance sheet, of the Borrower and its Subsidiaries as of the end of each fiscal year and statements of income, statements of retained earnings and cash flow for such fiscal year. All financial statements will be prepared in accordance with GAAP applied on a basis consistently maintained throughout the period involved and with the prior periods, such annual financial statements to be certified by independent certified public accountants selected by the Borrower and reasonably acceptable to the Agent, without any exception or qualification arising out of the

restricted or limited nature of the examination made by such accountants.

5.2 Certificates; Other Information. Furnish to each Bank:

(a) concurrently with the delivery of the financial statements referred to in subsection 5.1, a certificate on behalf of the Borrower executed by a Responsible Officer, (i) showing in detail the calculations supporting such statements in respect of Section 6.1; and (ii) stating that, to the best of his or her knowledge, the Borrower during such period has kept, observed, performed and fulfilled each and every covenant and condition contained in this Agreement and in the Notes and the other Loan Documents applicable to it and that he or she obtained no knowledge of any Default or Event of Default except as specifically indicated; and

(b) promptly, such forecasts and additional financial and other information as any Bank or the Agent may from time to time reasonably request.

5.3 Payment of Obligations. Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all its obligations of whatever nature, except (x) in the case of indebtedness other than that described in subsection 7.1(f), when the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the Borrower or (y) where the failure so to pay such indebtedness is in the normal course of the Borrower's business as now conducted and would not have a Material Adverse Effect.

5.4 Conduct of Business and Maintenance of Existence. Subject to Section 6.4 hereof, continue to engage in business of the same general type as now conducted by it and preserve, renew and keep in full force and effect its corporate existence and, except to the extent that failure to do so would not have a Material Adverse Effect, take all reasonable action to maintain all rights, privileges, trademarks, trade names, licenses, franchises and other authorizations necessary or desirable in the normal conduct of its business; comply with all Contractual Obligations and Requirements of Law except to the extent that failure to comply therewith would not reasonably be expected to have, in the aggregate, a Material Adverse Effect.

30

5.5 Maintenance of Property; Insurance. (a) Maintain in good repair, working order and condition (ordinary wear and tear excepted) in accordance with the general practice of other businesses of similar character and size, all of those properties material or necessary to its business, and from time to time make or cause to be made all appropriate repairs, renewals or replacements thereof.

(b) Insure its properties and assets against loss or damage by fire and such other insurable hazards as such assets are commonly insured (including fire, extended coverage, property damage, worker's compensation, public liability and business interruption insurance) and against other risks (including errors and omissions) in such amounts as similar properties and assets are insured by prudent companies in similar circumstances carrying on similar businesses, and with reputable and financially sound insurers, including self-insurance to the extent customary. The Borrower shall deliver at the request of the Agent from time to time a summary schedule indicating all insurance then in force with respect to the Borrower.

5.6 Inspection of Property; Books and Records; Discussions. (a) Permit any of the officers or authorized employees or representatives of the Agent or any of the Banks to visit and inspect during normal business hours any of its properties and to examine and make excerpts from its books and records and discuss its business affairs, finances and accounts (including those of its Affiliates) with its officers, all in such detail and at such times and as often as any of the Banks may reasonably request, provided that each Bank shall provide the Borrower and the Agent with reasonable notice prior to any visit or inspection. In the event Required Banks desire to conduct an audit of the Borrower (to which the Borrower hereby consents), such Banks shall make a reasonable effort to conduct such audit contemporaneously with any audit to be performed by the Agent.

(b) Maintain and keep proper books of record and account which enable the Borrower to issue financial statements in accordance with GAAP and as



otherwise required by applicable Requirements of Law, and in which full, true and correct entries shall be made in all material respects of all its dealings and business and financial affairs.

5.7 Notices. Promptly, upon the Borrower becoming aware, give notice to the Agent and each Bank of:

(a) the occurrence of any Default or Event of Default;

(b) any (i) default or event of default under any Contractual Obligation of the Borrower, including, without limitation, the Purchase Agreement, or (ii) litigation, investigation or proceeding which may exist at any time between the Borrower and any Governmental Authority, which in either case, if not cured or if adversely determined, as the case may be, would have a Material Adverse Effect;

31

(c) any litigation or proceeding which, if adversely determined, would have a Material Adverse Effect;

(d) the following events, as soon as possible and in any event within 30 days after the Borrower knows or has reason to know thereof: (i) the occurrence of any Reportable Event with respect to any Single Employer Plan, or any withdrawal from, or the termination, Reorganization or Insolvency of any Multiemployer Plan which may, individually or in the aggregate, result in a liability which would have a Material Adverse Effect or (ii) the institution of proceedings or the taking of any other action by the PBGC or the Borrower or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the terminating, Reorganization or Insolvency of, any Single Employer Plan in a distress termination under Section 4041(c) of ERISA or Multiemployer Plan;

(e) any Change of Control; and

(f) an event which has had a Material Adverse Effect.

Each notice pursuant to this Section shall be accompanied by a statement of the Borrower, executed on its behalf by a Responsible Officer, setting forth details of the occurrence referred to therein and stating what action the Borrower propose to take with respect thereto.

5.8 Environmental Laws. (a) Comply with, and require compliance by all tenants and to the extent possible, all subtenants, if any, with, all Environmental Laws and obtain and comply with and maintain, and require that all tenants and to the extent possible, all subtenants obtain and comply with and maintain, any and all licenses, approvals, registrations or permits required by Environmental Laws except to the extent that failure to so comply or obtain or maintain such documents would not have a Material Adverse Effect.

(b) Except as set forth in Schedule 3.13, comply with all lawful and binding orders and directives of all Governmental Authorities respecting Environmental Laws except to the extent that failure to so comply would not have a Material Adverse Effect.

(c) Defend, indemnify and hold harmless the Agent and the Banks, and their respective employees, agents, officers and directors, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature known or unknown, contingent or otherwise, arising out of, or in any way relating to the violation of or noncompliance with any Environmental Laws applicable to the real property owned or operated by the Borrower, or any orders, requirements or demands of Governmental Authorities related thereto, including, without limitation, attorneys' and consultants' fees, investigation and laboratory fees, court costs and litigation expenses, except to the extent that any of the foregoing arise out of the negligence or willful misconduct of any of the foregoing enumerated parties.

5.9 Taxes. Pay when due all taxes, assessments and governmental charges imposed upon it or any of its properties or that it is required to withhold and pay over, except where contested in good faith and where adequate reserves have been set aside to the extent required under GAAP.

5.10 Ownership of Certain Subsidiaries. Notwithstanding the provisions of Section 6.5 but subject to the provisions of Section 6.4(a), the Borrower shall at all times maintain 100% direct or indirect ownership of the AquaSource Entities (except any thereof operating solely in Kentucky or New York), the Consumers Water Entities, Aqua North Carolina, Inc., Aqua Pennsylvania, Inc. and Heater.

5.11 Anti-Terrorism Laws. The Borrower and its Affiliates and agents shall not (i) conduct any business or engage in any transaction or dealing with any Blocked Person, including the making of or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person, (ii) deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to Executive Order No. 13224, or (iii) engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in Executive Order No. 13224 or the USA Patriot Act. The Borrower shall deliver to the Banks any certification or other evidence requested from time to time by any Bank in its sole discretion, confirming the Borrower's compliance with this Section 5.10.

5.12 Heater Acquisition. Not later than ten (10) days following the Closing Date provide evidence satisfactory to the Agent (i) that the Heater Acquisition has been consummated pursuant to the Purchase Agreement, and (ii) that after giving effect to the Heater Acquisition on a pro forma basis, the Debt to Capitalization Ratio does not exceed 62.5%.

#### SECTION 6. NEGATIVE COVENANTS

The Borrower hereby agrees that, so long as any Note remains outstanding and unpaid or any other amount is owing to any Bank or the Agent hereunder, the Borrower shall not directly or indirectly:

##### 6.1 Financial Covenants.

(a) Debt to Capitalization Ratio. Permit as of the end of any fiscal quarter the Debt to Capitalization Ratio to be greater than sixty-five percent (65%).

(b) Interest Coverage Ratio. Permit as of the end of any fiscal quarter the Interest Coverage Ratio to be less than 2.5 to 1.

6.2 Limitation on Debt. At any time incur, create, assume, or suffer to exist any Debt except:

(i) amounts outstanding hereunder as Loans;

(ii) Debt existing as of the date hereof described on Schedule 6.2 (including any extensions or renewals or refinancings thereof provided there is no increase in the amount thereof or other significant change in the terms thereof);

(iii) Subordinated Debt;

33

(iv) Debt to commercial banks under lines of credit in an aggregate outstanding amount of up to \$150,000,000;

(v) intercompany indebtedness to the extent permitted by Section 6.8; and

(vi) other indebtedness incurred in the ordinary course of business for the purchase of capital assets.

6.3 Limitation on Liens. Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, including, without limitation, the stock of its Subsidiaries, whether now owned or hereafter acquired, except for:

(a) The following (i) if the validity or amount thereof is

being contested in good faith by appropriate and lawful proceedings diligently conducted so long as levy and execution thereon have been stayed and continue to be stayed or (ii) if a final judgment is entered and such judgment is discharged within thirty (30) days of entry, and in either case they do not materially impair the ability of the Borrower to perform its obligations hereunder or under the other Loan Documents:

(A) Claims or Liens for taxes, assessments or charges due and payable and subject to interest or penalty, provided that the Borrower maintains such reserves or other appropriate provisions as shall be required by GAAP and pays all such taxes, assessments or charges forthwith upon the commencement of proceedings to foreclose any such Lien;

(B) Claims, Liens or encumbrances upon, and defects of title to, real or personal property including any attachment of personal or real property or other legal process prior to adjudication of a dispute on the merits; and

(C) Claims or Liens of mechanics, materialmen, warehousemen, carriers, or other statutory nonconsensual Liens;

(b) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation;

(c) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business of the Borrower;

34

(d) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not interfere with the ordinary conduct of the business of the Borrower;

(e) Liens which were in existence on the date hereof and shown on Schedule 6.3 and replacements, extensions or replacements thereof;

(f) Liens on assets acquired by the Borrower in acquisitions permitted by Section 6.6 (which liens were in existence at the time of such acquisitions);

(g) Liens upon real property, which property was acquired after the Closing Date by the Borrower, each of which Liens existed on such property before the time of its acquisition or was created to finance, refinance or refund the cost (including the cost of construction) of the respective property; provided, however, that no such Lien shall extend to or cover any accounts receivable or inventory under any circumstances or any property of the Borrower other than the respective property so acquired and improvements thereon, and the principal amount of indebtedness secured by any such Lien shall not exceed the fair market value of the respective property at the time it was acquired;

(h) Capital Leases as and to the extent permitted under this Agreement; and

(i) Purchase Money Security Interests in capital equipment purchased in the ordinary course of business.

6.4 Limitations on Fundamental Changes. Enter into any merger, consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease, assign, transfer or otherwise dispose of, all or substantially all of its property, business or assets except that:

(a) any Subsidiary of the Borrower may be merged or consolidated with or into the Borrower (provided that the Borrower shall be the continuing or surviving corporation); and

(b) any corporation or limited liability company may be merged or consolidated with or into the Borrower in connection with a Permitted Acquisition in accordance with Section 6.6 in which the continuing or surviving

entity is the Borrower;

provided that, immediately after each such transaction and after giving effect thereto, the Borrower is in compliance with this Agreement and no Default or Event of Default shall be in existence or result from such transaction.

6.5 Limitation on Sale of Assets. Convey, sell, lease, assign, transfer or otherwise dispose of any of its property, business or assets (including, without limitation, accounts receivable and leasehold interests and Capital Stock or other equity interests in any Subsidiary), whether now owned or hereafter acquired, except:

(i) the sale, transfer or other disposition of obsolete or worn out property in the ordinary course of business;

(ii) the sale or lease of inventory or other assets, or the licensing of intellectual property, in each case in the ordinary course of business;

35

(iii) any sale, transfer or lease of assets (i) which are replaced by like-kind assets or (ii) the proceeds of the sale of which are used within three (3) years of such sale to purchase like-kind assets;

(iv) any sale, transfer or lease of assets the proceeds of the sale of which are used to prepay the Loans; and

(v) in addition to the above subsections 6.5(a)(i) through 6.5(a)(iv), inclusive, any such conveyances, sales, leases, assignments, transfers or other disposals, the aggregate fair market value of which property, business or assets for any fiscal year does not exceed 5% of the Borrower's Consolidated Shareholders' Equity as at the end of the immediately preceding fiscal year.

6.6 Limitation on Acquisitions, Investments, Loans and Advances. Purchase, hold or acquire beneficially any stock, other securities or evidences of indebtedness of, or all or a substantial amount of the assets of, make or permit to exist any loans or advances to, or make or permit to exist any investment or acquire any interest whatsoever in, any other Person, except:

(a) extensions of trade credit to customers in the ordinary course of business;

(b) Permitted Investments;

(c) loans and advances to or other investments in any Wholly-Owned Subsidiary;

(d) loans and advances to employees of the Borrower for travel and entertainment expenses in the ordinary course of business; and

(e) Permitted Acquisitions.

6.7 No Negative Pledge or Other Restrictions. (a) Enter into any agreement after the date hereof with any Person other than the Agent on behalf of the Banks pursuant to which the Borrower covenants or agrees to a prohibition upon creating, incurring, or suffering any Lien upon any of its properties, assets or revenues, whether now owned or hereafter acquired, except in connection with a Capital Lease or Purchase Money Security Interest, in which case such agreement shall be permitted but only with respect to the specific asset or assets subject to such Capital Lease or Purchase Money Security Interest or

(b) Permit any of the AquaSource Entities, the Consumers Water Entities, Aqua North Carolina, Inc., Aqua Pennsylvania, Inc. or Heater to enter into any agreement after the date hereof with any Person pursuant to which any such Subsidiary agrees to any limitation or restriction on its ability to declare and pay dividends or otherwise make Distributions directly or indirectly to the Borrower in respect of the Capital Stock of such Subsidiary.

36

6.8 Transactions with Affiliates. Except as expressly permitted in this Agreement, directly or indirectly enter into any transaction or arrangement whatsoever or make any payment to or otherwise deal with any Affiliate, except (i) as to all of the foregoing, in the ordinary course of and pursuant to the reasonable requirements of the Borrower's business and upon fair and reasonable terms no less favorable to the Borrower than would be obtained in a comparable arm's length transaction with a Person not an Affiliate of the Borrower, and (ii) intercompany loans among the Borrower and its Subsidiaries in the ordinary course of and pursuant to the reasonable requirements of the Borrower's or any such Subsidiary's business.

6.9 Sale and Leaseback. Except if reasonably contemporaneous with the Borrower's purchase, enter into any arrangement with any Person providing for the leasing by the Borrower of real or personal property which has been or is to be sold or transferred by such Borrower to such Person or to any other Person to whom funds have been or are to be advanced by such Person on the security of such property or rental obligations of such Borrower.

6.10 Fiscal Year. Permit its Fiscal Year to end on a day other than December 31.

6.11 Continuation of or Change in Business. Discontinue any substantial part, or change the nature of, the existing business activities of the Borrower, or engage in any business either directly or through any Subsidiary except for businesses in which the Borrower is engaged on the date of this Agreement and any business activities directly related, similar or incidental or ancillary to such existing businesses.

#### SECTION 7. EVENTS OF DEFAULT

7.1 Events of Default. If any of the following events shall occur and be continuing:

(a) The Borrower shall fail to pay when due any principal of any Note, or shall fail to pay within five (5) days after the date when due any interest, Fees or other amount payable hereunder; or

(b) Any representation or warranty made or deemed made by the Borrower herein or in any other Loan Document or which is contained in any certificate, document or financial or other statement furnished at any time under or in connection with this Agreement shall prove to have been incorrect in any material respect on or as of the date made or deemed made; or

(c) The Borrower shall default in the observance or performance of any agreement contained in Section 6; or

(d) The Borrower shall default in the observance or performance of any other agreement contained in this Agreement (other than as provided in paragraphs (a), (b) or (c) of this Section 7.1) or any other Loan Document, and such default shall continue unremedied for a period of thirty (30) days after notice of such default is given by the Agent; or

(e) One or more judgments or decrees shall be entered against the Borrower involving in the aggregate a liability (not paid or fully covered by insurance) of \$10,000,000 or more and all such judgments or decrees shall not have been vacated, discharged, settled, satisfied or paid, or stayed or bonded pending appeal, within thirty (30) days from the entry thereof; or

(f) The Borrower or any of its Subsidiaries shall (i) default in the payment of any amount due under any Debt of the Borrower or any such Subsidiary in excess of \$10,000,000 in the aggregate (other than the Notes), beyond the period of grace, if any, provided in the instrument or agreement under which such Debt was created; or (ii) default in the observance or performance of any other agreement contained in any such Debt or in any instrument or agreement evidencing, securing or relating thereto beyond any applicable notice and grace period, or any other event shall occur the effect of which default or other event is to cause, or to permit the holder or holders or beneficiary or beneficiaries of such Debt (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause such Debt to become due and payable prior to its stated maturity or any such Debt is declared to be due and payable prior to its stated maturity unless such default, event or

declaration referred to in this subparagraph (ii) is waived or cured to the satisfaction of such other party as demonstrated to the satisfaction of the Agent by the Borrower prior to the Agent taking any action under Section 7.2 in respect of such occurrence; or

(g) (i) The Borrower shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Borrower shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Borrower any case, proceeding or other action of a nature referred to in clause (i) above which (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (iii) there shall be commenced against the Borrower any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process on a claim in excess of \$10,000,000 against all or any substantial part of its assets which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) the Borrower shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), or (iii) above; or (v) the Borrower shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(h) (i) Any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or institution of proceedings is, in the reasonable opinion of the Required Banks, likely to result in the termination by action of the PBGC or any court of such Plan for purposes of Title IV of ERISA, or (iv) any Single Employer Plan shall terminate for purposes of Title IV of ERISA; and in each case in clauses (i) through (iv) above, such event or condition, together with all other such events or conditions, if any would have a Material Adverse Effect; or

38

(i) Any of the Loan Documents shall cease to be legal, valid and binding agreements enforceable against the party executing the same or such party's successors and assigns (as permitted under the Loan Documents) in accordance with the respective terms thereof or shall in any way be terminated (except in accordance with its terms) or become or be declared ineffective or inoperative or shall in any way be challenged and thereby deprive or deny the Banks and the Agent the intended benefits thereof or they shall thereby cease substantially to have the rights, titles, interests, remedies, powers or privileges intended to be created thereby; or

(j) A notice of lien or assessment in excess of \$1,000,000 is filed of record with respect to all or any part of the Borrower's assets having a value of at least that amount by the United States, or any department, agency or instrumentality thereof, or by any state, county, municipal, or other governmental agency, including, without limitation, the PBGC, becomes payable and the same is not paid, vacated, bonded or stayed pending appeal within thirty (30) days after the same becomes payable; or

(k) The Borrower ceases to be Solvent; or

(l) Except as otherwise permitted in this Agreement, the Borrower ceases to conduct its business as contemplated or the Borrower is enjoined, restrained or in any way prevented by court order from conducting all or any material part of its business so as to cause or result in a Material Adverse Effect, and such injunction, restraint or other preventive order is not dismissed within thirty (30) days after the entry thereof.

7.2 Remedies. (a) If an Event of Default specified under subsections 7.1 (a) through (f) or (h) through (m) shall occur and be continuing, the Banks shall be under no further obligation to make Loans hereunder, and the Agent upon the request of the Required Banks shall, by written notice to the Borrower, declare the unpaid principal amount of the Notes then outstanding and all interest accrued thereon, any unpaid fees and all other obligations of the Borrower to the Banks hereunder and thereunder to be forthwith due and payable, and the same shall thereupon become and be immediately due and payable to the Agent for the benefit of each Bank without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived.

(b) If an Event of Default specified under subsections 7.1(g) hereof shall occur, the unpaid principal amount of the Notes then outstanding and all interest accrued thereon, any unpaid fees and all other obligations of the Borrower to the Banks hereunder and thereunder shall be immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived.

39

(c) If an Event of Default shall occur and be continuing, any Bank to whom any obligation is owed by the Borrower hereunder or under any other Loan Document or any participant of such Bank which has agreed in writing to be bound by the provisions of Section 9.6 hereof and any branch, subsidiary or Affiliate of such Bank or Participant shall have the right, in addition to all other rights and remedies available to it, without notice to the Borrower, to set-off against and apply to the then unpaid balance of all the Loans and all other obligations of the Borrower hereunder or under any other Loan Document any debt owing to, and any other funds held in any manner for the account of, the Borrower by such Bank or participant or by such branch, Subsidiary or Affiliate, including, without limitation, all funds in all deposit accounts (whether time or demand, general or special, provisionally credited or finally credited, or otherwise) now or hereafter maintained by the Borrower for its own account (but not including funds held in custodian or trust accounts or other accounts established solely for the benefit of parties other than the Borrower) with such Bank or Participant or such branch, Subsidiary or Affiliate. Such right shall exist whether or not any Bank or the Agent shall have made any demand under this Agreement or any other Loan Document, whether or not such debt owing to or funds held for the account of the Borrower is or are matured or unmatured and regardless of the existence or adequacy of any collateral, guaranty or any other security, right or remedy available to any Bank or the Agent.

(d) Notwithstanding any provision herein to the contrary or in the other Loan Documents, any proceeds received by the Agent from any payment made by the Borrower under this Agreement or the other Loan Documents after the occurrence of an Event of Default, or received by the Agent from the foreclosure, sale, lease, collection upon, realization of or other disposition of any collateral which may have been provided to the Agent for the obligations of the Borrower hereunder after the occurrence of an Event of Default (including without limitation insurance proceeds), shall be applied by the Agent as follows, unless otherwise agreed by all the Banks:

(i) first, to reimburse the Agent for out-of-pocket costs, expenses and disbursements, including without limitation reasonable attorneys' fees and legal expenses, incurred by the Agent in connection with collection of any obligations of the Borrower under any of the Loan Documents;

(ii) second, to accrued and unpaid interest on the Loans;

(iii) third, to the principal amount of the Loans then outstanding;

(iv) fourth, to fees payable under this Agreement or any of the other Loan Documents (ratably according to the respective amounts then outstanding);

(v) fifth, to the repayment of all other indebtedness then due and unpaid of the Borrower to the Banks incurred under this Agreement or any of the other Loan Documents, whether of principal,

interest, fees, expenses or otherwise (ratably according to the respective amounts then outstanding); and

(vi) the balance, if any, as required by law.

(e) Each Bank agrees that (i) if at any time it shall receive the proceeds of any collateral or any proceeds thereof or (ii) if after the occurrence of an Event of Default it shall receive any payment on account of the Loans or any other amounts owing hereunder or under the other Loan Documents (in either case other than through application by the Agent in accordance with subsection 7.2(d)), it shall promptly turn the same over to the Agent for application in accordance with the terms of subsection 7.2(d).

40

(f) In addition to the other rights and remedies contained in this Agreement or in the other Loan Documents, the Loans shall, at the Required Banks' option, bear the interest rates provided in Section 2.6 hereof.

(g) In addition to all of the rights and remedies contained in this Agreement or in any of the other Loan Documents, the Agent shall have all of the rights and remedies under applicable Law, all of which rights and remedies shall be cumulative and non-exclusive, to the extent permitted by Law. The Agent may, and upon the request of the Required Banks shall, exercise all post-default rights granted to it and the Banks under the Loan Documents or applicable Law.

#### SECTION 8. THE AGENT

8.1 Appointment. Each Bank hereby irrevocably designates and appoints PNC as the Agent of such Bank under this Agreement. Each such Bank irrevocably authorizes the Agent, as the agent for such Bank to take such action on its behalf under the provisions of this Agreement and to exercise such powers and perform such duties as are expressly delegated to the Agent by the terms of this Agreement, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Bank, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Agent. The Agent agrees to act as the Agent on behalf of the Banks to the extent provided in this Agreement.

8.2 Delegation of Duties. The Agent may execute any of its duties under this Agreement by or through agents or attorneys-in-fact and shall be entitled to engage and pay for the advice and services of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible to the Banks for the negligence or misconduct of any agents or attorneys in-fact selected by it with reasonable care.

8.3 Exculpatory Provisions. Neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates shall be (i) liable to any of the Banks for any action lawfully taken or omitted to be taken by them or such Person under or in connection with this Agreement (except for their or such Person's own gross negligence or willful misconduct) or (ii) responsible in any manner to any of the Banks for any recitals, statements, representations or warranties made by the Borrower or any officer thereof contained in this Agreement or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent under or in connection with, this Agreement or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, the Notes or the other Loan Documents or for any failure of the Borrower to perform its obligations hereunder or thereunder. The Agent shall not be under any obligation to any Bank to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or the other Loan Documents, or to inspect the properties, books or records of the Borrower.

41

8.4 Reliance by Agent. The Agent shall be entitled to rely, and shall be fully protected in relying, upon any Note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or



teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Agent. The Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Agent. The Agent shall be fully justified in failing or refusing to take any action under this Agreement unless it shall first receive such advice or concurrence of the Required Banks as they deem appropriate or they shall first be indemnified to its satisfaction by the Banks against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement, the Notes and the other Loan Documents in accordance with a request of the Required Banks, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Banks and all future holders of the Notes.

8.5 Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless they have received notice from a Bank or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give notice thereof to the Banks. The Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Banks; provided that unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Banks.

8.6 Non-Reliance on Agent and Other Banks. Each Bank expressly acknowledges that neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to it and that no act by the Agent hereinafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by the Agent to any Bank. Each Bank represents to the Agent that it has, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and enter into this Agreement. Each Bank also represents that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Borrower. Except for notices, reports and other documents expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of the Borrower which may come into the possession of the Agent or any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates.

8.7 Indemnification. The Banks agree to indemnify the Agent in its capacity as such (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to their respective Pro-Rata Percentages, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the payment of the Notes) be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of this Agreement, the other Loan Documents, or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by the Agent under or in connection with any of the foregoing; provided that no Bank shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from the Agent's gross negligence or willful misconduct. The

agreements in this Section 8.7 shall survive the payment of the Notes and all other amounts payable hereunder.

8.8 Agent in its Individual Capacity. The Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower as though it was not the Agent hereunder. With respect to its Loans made or renewed by it and any Note issued to it, the Agent shall have the same rights and powers under this Agreement as any Bank and may exercise the same as though it were not the Agent, and the terms "Bank" and "Banks" shall include the Agent in its individual capacity.

8.9 Successor Agent. The Agent may resign as Agent upon sixty (60) days' notice to the Banks and the Borrower. If such Agent shall resign as Agent under this Agreement, then the Required Banks shall appoint from among the Banks a successor agent for the Banks, which appointment shall be subject to the approval of the Borrower (which approval shall not be unreasonably withheld), whereupon such successor agent shall succeed to the rights, powers and duties of an Agent, and the term "Agent" shall mean such successor agent effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent or any of the parties to this Agreement or any holders of the Notes. After any retiring Agent's resignation as Agent, the provisions of this Section 8.9 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

8.10 Beneficiaries. Except as expressly provided herein, the provisions of this Section 8 are solely for the benefit of the Agent and the Banks, and the Borrower shall not have any rights to rely on or enforce any of the provisions hereof. In performing their functions and duties under this Agreement the Agent shall act solely as agent of the Banks and does not assume and shall not be deemed to have assumed any obligation toward or relationship of agency or trust with or for the Borrower.

43

8.11 USA Patriot Act. Each Bank or assignee or participant of a Bank that is not incorporated under the laws of the United States of America or a state thereof (and is not excepted from the certification requirement contained in Section 313 of the USA Patriot Act and the applicable regulations because it is both (i) an affiliate of a depository institution or foreign bank that maintains a physical presence in the United States or foreign country, and (ii) subject to supervision by a banking authority regulating such affiliated depository institution or foreign bank) shall deliver to the Agent the certification, or, if applicable, recertification, certifying that such Bank is not a "shell" and certifying to other matters as required by Section 313 of the USA Patriot Act and the applicable regulations: (1) within 10 days after the Closing Date, and (2) at such other times as are required under the USA Patriot Act.

#### SECTION 9. MISCELLANEOUS

9.1 Amendments and Waivers. Neither this Agreement, any Note or any other Loan Document, nor any terms hereof of thereof may be amended, supplemented or modified except in accordance with the provisions of this subsection. With the written consent of the Required Banks, the Agent and the Borrower may, from time to time, enter into written amendments, supplements or modifications hereto and to the Notes and the other Loan Documents for the purpose of adding any provisions to this Agreement or the Notes or the other Loan Documents or changing in any manner the rights of the Banks or of the Borrower hereunder or thereunder or waiving, on such terms and conditions as the Agent may specify in such instrument, any of the requirements of this Agreement or the Notes or the other Loan Documents or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall directly or indirectly (a) reduce the amount or extend the maturity of any Note or any installment thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any Fees payable to any Bank hereunder, or change the duration or amount of any Bank's Commitment, in each case without the consent of the Bank affected thereby or (b) amend, modify or waive any provision of this Section 9.1 or reduce the percentages specified in the definition of Required Banks or consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, the Notes and the other Loan Documents, in each case without the written consent of all the Banks or (c) amend, modify or waive any provision of Section 8 without the written consent of the then Agent. Any such waiver and any

such amendment, supplement or modification shall apply equally to each of the Banks and shall be binding upon the Borrower, the Banks, the Agent and all future holders of the Notes. In the case of any waiver, the Borrower, the Banks and the Agent shall be restored to their former position and rights hereunder and under the outstanding Notes, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

44

9.2 Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including electronic transmission, facsimile transmission or posting on a secured web site), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered by hand, or three days after being deposited in the mail, postage prepaid, or, in the case of facsimile transmission notice, when sent during normal business hours with electronic confirmation or otherwise when received, or in the case of electronic transmission, when received and in the case of posting on a secured web site, upon receipt of (i) notice of such posting by another means set forth in this Section 9.2 (including the information necessary to access such web site) and (ii) rights to access such web site, addressed as follows in the case of the Borrower and the Agent, and as set forth in Schedule I in the case of the other parties hereto, or to such other address as may be hereafter notified by the respective parties hereto and any future holders of the Notes:

the Borrower: Aqua America, Inc.  
762 W. Lancaster Avenue  
Bryn Mawr, PA 19010-3489  
Attention: Kathy L. Pape,  
Vice President and Treasurer  
Facsimile: (610) 519-0989

with a copy to: Aqua America, Inc.  
762 West Lancaster Avenue  
Bryn Mawr, PA 19010  
Attention: Roy H. Stahl  
Executive Vice President, General  
Counsel and Secretary  
(provided that failure to send a copy of any notice to said counsel shall in no way affect, limit or invalidate any notice sent to the Borrower or the exercise of any of the Banks' or the Agent's rights or remedies pursuant to a notice sent to the Borrower.)

the Agent: PNC Bank, National Association  
1000 Westlakes Drive, Suite 200  
Berwyn, PA 19312  
Attention: Forrest B. Patterson, Jr.  
Facsimile: (610) 725-5799  
and  
PNC Agency Services  
PNC Firstside Center  
500 First Avenue, 4th Floor  
Pittsburgh, PA 15219  
Attention: Lisa Pierce  
Facsimile: (412) 762-8672

provided that any notice, request or demand to or upon the Agent or the Banks pursuant to Sections 2.1 or 2.7 shall not be effective until received.

9.3 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Agent or any Bank, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

9.4 Survival of Representations and Warranties. All representations and warranties made hereunder and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement, the Notes and the other Loan Documents.

9.5 Payment of Expenses and Taxes. The Borrower agrees (a) to pay or reimburse the Agent for all of its reasonable out-of-pocket costs and expenses incurred in connection with any amendment, supplement or modification to this Agreement, the Notes, the other Loan Documents and any other documents prepared in connection therewith, including, without limitation, the reasonable fees and disbursements of counsel to the Agent (which counsel may or may not include employees of the Agent), (b) to pay or reimburse each Bank and the Agent for all of their costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, the other Loan Documents and any such other documents, including, without limitation, reasonable fees and disbursements of counsel to the Agent (which counsel may or may not include employees of the Agent) and to the several Banks, and (c) to pay, indemnify, and hold each Bank and the Agent harmless from, any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in paying, stamp, excise and other similar taxes, if any (other than Taxes expressly excluded from the definition of Taxes in Section 2.10 and Taxes for which the Borrower has no liability under subsection 2.10(c)) which may be payable or determined to be payable in connection with the execution and delivery of, or consummation of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, the Notes, the other Loan Documents, and any such other documents, and (d) to pay, indemnify, and hold each Bank and the Agent harmless from and against any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, and, incident to a Default or Event of Default, the performance and administration, of this Agreement, the Notes, the other Loan Documents and any such other documents or the transactions contemplated hereby or thereby or any action taken or omitted under or in connection with any of the foregoing (all the foregoing, collectively, the "indemnified liabilities"), provided, that the Borrower shall have no obligation hereunder to the Agent or any Bank with respect to indemnified liabilities arising from the gross negligence or willful misconduct of the Agent or any such Bank. The Borrower shall be given notice of any claim for indemnified liabilities and shall be afforded a reasonable opportunity to participate in the defense, compromise or settlement thereof. The agreements in this subsection shall survive repayment of the Notes and all other amounts payable hereunder.

9.6 Successors and Assigns. (a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party, and all covenants, promises and agreements by or on behalf of the Borrower, the Agent or the Banks that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns. The Borrower may not assign or transfer any of its rights or obligations under this Agreement or the other Loan Documents without the prior written consent of each Bank.

(b) Each Bank may, in accordance with applicable law, assign all or a portion of its interests, rights and obligations under this Agreement and the other Loan Documents (including the Loan at the time owing to it and the Note held by it); provided, however, that (i) each such assignment shall be to a Bank or Affiliate thereof, or, with the consent of the Agent and, prior to the occurrence of an Event of Default, of the Borrower (which consent shall not be unreasonably withheld or delayed) to one or more banks or other financial institutions; (ii) the amount of each such assignment shall not be less than the lesser of \$5,000,000 and the outstanding principal amount of such Bank's Loan; and (iii) the parties to each such assignment shall execute and deliver to the Agent an Assignment and Acceptance, together with the Note subject to such assignment and a processing and recordation fee of \$3,500 (except in the case of an assignment by any Bank to one of its Affiliates). Upon acceptance and recording pursuant to paragraph (d) of this Section 9.6, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and, to the extent of the interest

assigned by such Assignment and Acceptance, have the rights and obligations of a Bank under this Agreement and (B) the assigning Bank thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.9, 2.10, 2.11 and 9.5 (to the extent that such Bank's entitlement to such benefits arose out of such Bank's position as a Bank prior to the applicable assignment)).

(c) By executing and delivering an Assignment and Acceptance, the assigning Bank thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Bank warrants that it is the legal and beneficial owner of the interest being assigned thereby, free and clear of any adverse claim, and that the outstanding balances of its Loan, without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance, (ii) except as set forth in (i) above, such assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the other Loan Documents, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or the other Loan Documents, or any other instrument or document furnished pursuant hereto or thereto, or the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.1 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Agent, such assigning Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

47

(d) The Agent shall maintain at its offices in Philadelphia, Pennsylvania a copy of each Assignment and Acceptance and the names and addresses of the Banks, and the principal amount of the Loan owing to each Bank pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive in the absence of error and the Borrower, the Agent and the Banks may treat each person whose name is recorded in the Register pursuant to the terms hereof as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower and any Bank, at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Bank and an assignee together with the Note subject to such assignment, the processing and recordation fee referred to in paragraph (b) above, the Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Banks. Within five Business Days after receipt of notice, the Borrower, at its own expense, shall execute and deliver to the Agent, in exchange for the surrendered original Note, (x) a new Note to the order of such assignee in an amount equal to the portion of the outstanding Loan purchased by it pursuant to such Assignment and Acceptance and, (y) if the assigning Bank has retained a portion of the Loan, a new Note to the order of such assigning Bank in a principal amount equal to the portion of the outstanding Loan retained by it. Such new Notes shall be dated the date of the surrendered Note which it replaces and shall otherwise be in substantially the form of Exhibit A hereto. Canceled Notes shall be returned to the Borrower.

(f) Each Bank may without the consent of the Borrower or the Agent sell participations to one or more banks or other entities (each a

"Participant") in all or a portion of its rights and obligations under this Agreement (including all or a portion of the Loan owing to it and the Note held by it); provided, however, that (i) such Bank's obligations under this Agreement shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Bank shall remain the holder of any such Note for all purposes under this Agreement, (iv) the Borrower, the Agent and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, (v) in any proceeding under the Bankruptcy Code such Bank shall be, to the extent permitted by law, the sole representative with respect to the obligations held in the name of such Bank whether for its own account or for the account of any Participant and (vi) such Bank shall retain the sole right to enforce the obligations of the Borrower relating to the Loan and to approve any amendment, modification or waiver of any provision of this Agreement or the Note held by such Bank other than any such amendment, modification or waiver with respect to any Loan or Commitment in which such Participant has an interest and which is described in subsection 9.1(a) hereof.

48

(g) If amounts outstanding under this Agreement and the Notes are due or unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement and any Note to the same extent as if the amount of its participating interest were owing directly to it as a Bank under this Agreement or any Note, provided that in purchasing such participation such Participant shall be deemed to have agreed to share with the Banks the proceeds thereof as provided in Section 9.8. The Borrower also agrees that each Participant shall be entitled to the benefits of Sections 2.9, 2.10, 2.11 and 9.5 with respect to its participation in the Loan outstanding from time to time; provided, that no Participant shall be entitled to receive any greater amount pursuant to such Sections than the Bank selling the participation would have been entitled to receive in respect of the amount of the participation transferred by such Bank to such Participant had no such transfer occurred.

(h) If any Participant is organized under the laws of any jurisdiction other than the United States or any state thereof, the Bank selling the participation, concurrently with the sale of a participating interest to such Participant, shall cause such Participant (i) to represent to the Bank selling the participation (for the benefit of such Bank, the other Banks, the Agent and the Borrower) that under applicable law and treaties no taxes will be required to be withheld by the Agent, the Borrower or the Bank selling the participation with respect to any payments to be made to such Participant in respect of its participation in the Loan and (ii) to agree (for the benefit of such Bank, the other Banks, the Agent and Borrower) that it will deliver the tax forms and other documents required to be delivered pursuant to Section 2.10 and comply from time to time with all applicable U.S. laws and regulations with respect to withholding tax exemptions.

(i) Any Bank may at any time assign all or any portion of its rights under this Agreement and the Note issued to it to a Federal Reserve Bank; provided that no such assignment shall release a Bank from any of its obligations hereunder.

9.7 Confidentiality. The Banks agree that they will maintain all information and financial statements provided to them or otherwise obtained by them with respect to the Borrower and its Subsidiaries confidential and that they will not disclose the same or use it for any purposes; provided that nothing herein shall prevent any Bank from disclosing any such information (a) to the Agent or any other Bank, (b) to any prospective assignee or participant in connection with any assignment or participation of Loans permitted by this Agreement, (c) to its employees, directors, agents, attorneys, accountants and other professional advisers, provided that any such person is advised by such Bank that such information is subject to the confidentiality limitations of this Section, (d) upon the request or demand of any Governmental Authority having jurisdiction over such Bank, (e) in response to any order of any court or other Governmental Authority or as may otherwise be required pursuant to any Requirement of Law, provided that the Borrower has (unless prohibited by the terms of any such order or requirement) been advised at least ten (10) days (or if such is not possible or practicable, such lesser number of days as is possible or practicable under the circumstances) prior to such disclosure of the

existence of such order or requirement, (f) which has been publicly disclosed other than in breach of this Agreement, or (g) in connection with the exercise of any remedy hereunder or under the Notes.

49

9.8 Adjustments; Set-off. (a) If any Bank (a "benefited Bank") shall at any time receive any payment of all or part of its Loan, or interest thereon, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set-off, pursuant to events or proceedings of the nature referred to in subsection 7(g), or otherwise), in a greater proportion than any such payment to or collateral received by any other Bank, if any, in respect of such other Bank's Loan, or interest thereon, being paid in respect of Loans being repaid simultaneously therewith or Loans required hereby to be paid proportionately, such benefited Bank shall purchase for cash from the other Banks such portion of each such other Bank's Loan, or shall provide such other Banks with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such benefited Bank to share the excess payment or benefits of such collateral or proceeds ratably with each of the Banks; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such benefited Bank, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. The Borrower agrees that each Bank so purchasing a portion of another Bank's Loan may exercise all rights of payment (including, without limitation, rights of set-off) with respect to such portion as fully as if such Bank were the direct holder of such portion.

(b) In addition to any rights and remedies of the Banks provided by law, upon the occurrence of an Event of Default, each Bank shall have the right, without prior notice to the Borrower, any such notice being expressly waived by the Borrower to the extent permitted by applicable law, upon any amount becoming due and payable by the Borrower hereunder or under the Notes (whether at the stated maturity, by acceleration or otherwise) to set-off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Bank to or for the credit or the account of the Borrower. Each Bank agrees promptly to notify the Borrower and the Agent after any such set-off and application made by such Bank, that the failure to give such notice shall not affect the validity of such set-off and application.

9.9 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and each of the Banks.

9.10 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

9.11 Integration. This Agreement represents the agreement of the Borrower, the Agent and the Banks with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Agent or any Bank relative to subject matter hereof not expressly set forth or referred to herein or in the Notes or the other Loan Documents.

9.12 GOVERNING LAW. THIS AGREEMENT, THE NOTES AND THE OTHER LOAN DOCUMENTS HAVE BEEN EXECUTED IN THE COMMONWEALTH OF PENNSYLVANIA AND SAID DOCUMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT, THE NOTES AND THE OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE COMMONWEALTH OF PENNSYLVANIA.

50

9.13 Submission To Jurisdiction; Waivers. The Borrower hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement, the Notes or the other Loan Documents, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the Courts of the Commonwealth of Pennsylvania, the courts of the United States of America for the Eastern District of Pennsylvania, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Borrower at the address set forth in Section 9.2 for the Borrower or at such other address of which the Agent shall have been notified pursuant thereto; and

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

9.14 Acknowledgments. The Borrower hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement, the Notes and the other Loan Documents;

(b) neither the Agent nor any Bank has any fiduciary relationship to the Borrower, and the relationship between the Agent and the Banks, on one hand, and the Borrower, on the other hand, is solely that of debtor and creditor; and

(c) no joint venture exists among the Banks or between the Borrower and the Banks.

9.15 WAIVERS OF JURY TRIAL. EACH OF THE BORROWER, THE AGENT AND THE BANKS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT, THE NOTES OR THE OTHER LOAN DOCUMENTS AND FOR ANY COUNTERCLAIM THEREIN.

51

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

AQUA AMERICA, INC.

By: /s/ KATHY L. PAPE  
-----  
Title: Vice President and Treasurer

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

By: /s/ JOSEPH G. METERCHICK, SVP  
-----  
Title: Senior Vice President

52



SCHEDULE I

BANK AND COMMITMENT INFORMATION

Bank ----	Commitment -----
PNC Bank, National Association 100 Westlakes Drive, Suite 200 Berwyn, PA 19312 Attention: Forrest B. Patterson, Jr.	\$70,000,000

SCHEDULE 3.6

EXISTING LITIGATION

None

SCHEDULE 3.11

REGULATORY APPROVALS

None

SCHEDULE 3.13

ENVIRONMENTAL MATTERS

None

SCHEDULE 3.19

INTERESTS IN PARTNERSHIPS

None

SCHEDULE 6.2

PERMITTED DEBT

Contingent Obligations

Guaranty and Suretyship Agreement between the Borrower and the Pennsylvania Infrastructure Investment Authority ("PENNVEST") dated March 12, 2002 securing payment of a loan from PENNVEST to Little Washington

Wastewater Company in the amount of \$2,102,612.71.

Guaranty and Suretyship Agreement between the Borrower and PENNVEST dated March 12, 2002 securing payment of a loan from PENNVEST to Little Washington Wastewater Company in the amount of \$3,004,780.71.

Debt

\$135.0 Million 4.87% Unsecured Senior Notes, held by The Baltimore Life Insurance Company, The Equitable Life Assurance Society of the United States, MONY Life Insurance Company, Nationwide Life Insurance Company of America and Teachers Insurance and Annuity Association of America, or successor holders.

SCHEDULE 6.3

EXISTING LIENS

None

EXHIBIT A

NOTE

\$ \_\_\_\_\_ Philadelphia, Pennsylvania  
May \_\_, 2004

FOR VALUE RECEIVED, the undersigned, AQUA AMERICA, INC. (the "Borrower"), hereby promises to pay to the order of \_\_\_\_\_ (the "Bank"), at the office of PNC Bank, National Association (the "Agent"), at 1600 Market Street, Philadelphia, PA 19103, on the Maturity Date, the lesser of the principal sum of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) and the aggregate unpaid principal amount of the Loan made by the Bank to the Borrower pursuant to Section 2.1 of the Credit Agreement dated as of May [28], 2004, among the Borrower, the Banks party thereto and the Agent (as amended, modified, extended or restated from time to time, the "Agreement"), in lawful money of the United States of America in same day funds, and to pay interest from the date hereof on such principal amount from time to time outstanding, in like funds, at said office, at a rate or rates per annum and payable on the dates determined pursuant to the Agreement.

The Borrower promises to pay interest, on demand, on any overdue principal and, to the extent permitted by law, overdue interest from their due dates at the rate or rates determined as set forth in the Agreement.

The Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever. The nonexercise by the holder of any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any subsequent instance.

All borrowings evidenced by this Note and all payments and prepayments of the principal hereof and interest hereon and the respective dates thereof shall be endorsed by the holder hereof on the schedule attached hereto and made a part hereof, or on a continuation thereof which shall be attached hereto and made a part hereof, or otherwise recorded by such holder in its internal records; provided, however, that the failure of the holder hereof to make such a notation or any error in such a notation shall not in any manner affect the obligations of the Borrower to make payments of principal and interest in accordance with the terms of this Note and the Agreement.

This Note is one of the Notes referred to in, evidences indebtedness incurred under, and is entitled to the benefits of the Agreement. The Agreement, among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional and mandatory prepayments of the principal hereof prior to the maturity hereof, for a higher

rate of interest hereunder after an Event of Default and for the amendment or waiver of certain provisions of the Agreement, all upon the terms and conditions therein specified. This

A-1

Note shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania and any applicable laws of the United States of America. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Agreement.

AQUA AMERICA, INC.

By: \_\_\_\_\_  
Name:  
Title:

A-2

LOANS AND PAYMENTS

Date	Amount of Loan	Interest Rate	Interest Period	Payments		Unpaid Principal Balance of Note	Name of Person Making Notation
				Principal	Interest		
----	-----	-----	-----	-----	-----	-----	-----

A-3

EXHIBIT B

FORM OF  
ASSIGNMENT AND ACCEPTANCE

Reference is made to the Credit Agreement dated as of May \_\_\_\_, 2004 (as amended, modified, extended or restated from time to time, the "Agreement"), among Aqua America, Inc. (the "Borrower"), the banks party thereto (the "Banks") and PNC Bank, National Association, as Agent. Terms defined in the Agreement are used herein with the same meanings.

\_\_\_\_\_ (the "Assignor") and \_\_\_\_\_ (the "Assignee") hereby agree as follows:

The Assignor hereby sells and assigns, without recourse, to the Assignee, and the Assignee hereby purchases and assumes, without recourse, from

the Assignor, effective as of the Effective Date set forth on Schedule A attached hereto, the interests set forth on Schedule A (the "Assigned Interest") in the Assignor's rights and obligations under the Agreement, including, without limitation, the interests set forth on Schedule A in the Loan owing to the Assignor which is outstanding on the Effective Date, together with unpaid interest accrued on the assigned Loan to the Effective Date and the amount, if any, set forth on Schedule A of the Fees accrued to the Effective Date for the account of the Assignor. Each of the Assignor and the Assignee hereby makes and agrees to be bound by all the representations, warranties and agreements set forth in Section 9.6(c) of the Agreement, a copy of which has been received by each such party. From and after the Effective Date (i) the Assignee shall be a party to and be bound by the provisions of the Agreement and, to the extent of the interests assigned by this Assignment and Acceptance, have the rights and obligations of a Bank thereunder and under the Agreement or any other document issued in connection therewith and (ii) the Assignor shall, to the extent of the interests assigned by this Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement.

This Assignment and Acceptance is being delivered to the Agent together with (i) the Note evidencing the Loan included in the Assigned Interest, (ii) if the Assignee is organized under the laws of a jurisdiction outside the United States, the forms prescribed by the Internal Revenue Service of the United States certifying as to the Assignee's exemption from withholding taxes with respect to all payments to be made to the Assignee under the Agreement or such other documents as are necessary to indicate that all such payments are subject to such tax at a rate reduced by an applicable tax treaty, all duly completed and executed by such Assignee, and (iii) a processing and recordation fee of \$3,500, if required.

This Assignment and Acceptance shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

B-1

The terms set forth above and on Schedule A attached hereto are hereby agreed to as of the date hereof.

\_\_\_\_\_, as Assignor

By: \_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_, as Assignee

By: \_\_\_\_\_  
Name:  
Title:

Acknowledged:

PNC BANK, NATIONAL ASSOCIATION,  
as Agent

By: \_\_\_\_\_  
Name:  
Title:

Consented to:

AQUA AMERICA, INC.

By: \_\_\_\_\_  
Name:  
Title:

SCHEDULE A

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

\_\_\_\_\_  
\_\_\_\_\_  
Attention: \_\_\_\_\_  
Telecopy: \_\_\_\_\_

Effective Date of Assignment  
(may not be fewer than 5 Business  
Days after the Date of Assignment): \_\_\_\_\_

Principal Amount  
of Loan Assigned  
-----  
\$

Pro-Percentage  
of Loans Assigned  
-----  
%

=====

CREDIT AGREEMENT

AMONG

AQUA AMERICA, INC.

AND

THE BANKS PARTY HERETO

AND

PNC BANK, NATIONAL ASSOCIATION

AS AGENT

AND

PNC CAPITAL MARKETS, INC.

AS LEAD ARRANGER

DATED AS OF MAY 28, 2004

\$70,000,000

=====

TABLE OF CONTENTS

	PAGE
SECTION 1. DEFINITIONS.....	1
1.1 Defined Terms.....	1
1.2 Other Definitional Provisions.....	13
1.3 Construction.....	14
SECTION 2. THE LOANS.....	14
2.1 Loans.....	14
2.2 General Provisions Regarding Loans.....	15
2.3 Fees.....	15
2.4 Notes; Repayment of Loans.....	15
2.5 Interest on Loans.....	16
2.6 Default Rate; Additional Interest; Alternate Rate of Interest.....	16
2.7 Optional and Mandatory Prepayments of Loans.....	17
2.8 Illegality.....	18
2.9 Requirements of Law.....	18
2.10 Taxes.....	19
2.11 Indemnity.....	21
2.12 Pro Rata Treatment, etc.....	21
2.13 Payments.....	21
2.14 Conversion and Continuation Options.....	21
SECTION 3. REPRESENTATIONS AND WARRANTIES.....	22
3.1 Financial Condition.....	22
3.2 No Adverse Change.....	23
3.3 Existence; Compliance with Law.....	23
3.4 Corporate Power; Authorization; Enforceable Obligations.....	23
3.5 No Legal Bar.....	23
3.6 No Material Litigation.....	23
3.7 No Default.....	24
3.8 Taxes.....	24
3.9 Federal Regulations.....	24
3.10 ERISA.....	24
3.11 Investment Company Act; Public Utility Holding Company Act.....	25
3.12 Purpose of Loans.....	25
3.13 Environmental Matters.....	25
3.14 Patents, Trademarks, etc.....	26
3.15 Ownership of Property.....	26
3.16 Licenses, etc.....	26
3.17 No Burdensome Restrictions.....	26
3.18 Labor Matters.....	26
3.19 Partnerships.....	26
3.20 No Material Misstatements.....	27
3.21 Anti-Terrorism Laws.....	27
SECTION 4. CONDITIONS PRECEDENT; CLOSING.....	28
4.1 Conditions to Closing.....	28
4.2 Closing.....	29
SECTION 5. AFFIRMATIVE COVENANTS.....	30
5.1 Financial Statements.....	30
5.2 Certificates; Other Information. Furnish to each Bank.....	30
5.3 Payment of Obligations.....	30
5.4 Conduct of Business and Maintenance of Existence.....	30
5.5 Maintenance of Property; Insurance.....	31
5.6 Inspection of Property; Books and Records; Discussions.....	31
5.7 Notices.....	31
5.8 Environmental Laws.....	32
5.9 Taxes.....	32
5.10 Ownership of Certain Subsidiaries.....	33
5.11 Anti-Terrorism Laws.....	33
5.12 Heater Acquisition.....	33
SECTION 6. NEGATIVE COVENANTS.....	33
6.1 Financial Covenants.....	33
6.2 Limitation on Debt.....	33
6.3 Limitation on Liens.....	34
6.4 Limitations on Fundamental Changes.....	35
6.5 Limitation on Sale of Assets.....	35
6.6 Limitation on Acquisitions, Investments, Loans and Advances.....	36
6.7 No Negative Pledge or Other Restrictions.....	36

	6.8	Transactions with Affiliates.....	36
	6.9	Sale and Leaseback.....	37
	6.10	Fiscal Year.....	37
	6.11	Continuation of or Change in Business.....	37
SECTION	7.	EVENTS OF DEFAULT.....	37
	7.1	Events of Default.....	37
	7.2	Remedies.....	39
SECTION	8.	THE AGENT.....	41
	8.1	Appointment.....	41
	8.2	Delegation of Duties.....	41
	8.3	Exculpatory Provisions.....	41
	8.4	Reliance by Agent.....	42
	8.5	Notice of Default.....	42
	8.6	Non-Reliance on Agent and Other Banks.....	42
	8.7	Indemnification.....	43
	8.8	Agent in its Individual Capacity.....	43
	8.9	Successor Agent.....	43
	8.10	Beneficiaries.....	43
	8.11	USA Patriot Act.....	44
SECTION	9.	MISCELLANEOUS.....	44
	9.1	Amendments and Waivers.....	44
	9.2	Notices.....	44
	9.3	No Waiver; Cumulative Remedies.....	45
	9.4	Survival of Representations and Warranties.....	46
	9.5	Payment of Expenses and Taxes.....	46
	9.6	Successors and Assigns.....	46
	9.7	Confidentiality.....	49
	9.8	Adjustments; Set-off.....	49
	9.9	Counterparts.....	50
	9.10	Severability.....	50
	9.11	Integration.....	50
	9.12	GOVERNING LAW.....	50
	9.13	Submission To Jurisdiction; Waivers.....	51
	9.14	Acknowledgments.....	51
	9.15	WAIVERS OF JURY TRIAL.....	51

SCHEDULES

SCHEDULE I	Bank and Commitment Information
SCHEDULE 3.6	Existing Litigation
SCHEDULE 3.11	Regulatory Approvals
SCHEDULE 3.13	Environmental Matters
SCHEDULE 3.19	Interests in Partnerships
SCHEDULE 6.2	Permitted Debt
SCHEDULE 6.3	Existing Liens

EXHIBITS

EXHIBIT A	Form of Note
EXHIBIT B	Form of Assignment and Acceptance

Certification

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

1. I have reviewed this quarterly report on Form 10-Q of Aqua America, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2004

NICHOLAS DEBENEDICTIS  
-----  
Nicholas DeBenedictis  
Chairman, President and  
Chief Executive Officer



Certification

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

1. I have reviewed this quarterly report on Form 10-Q of Aqua America, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2004

DAVID P. SMELTZER

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

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

In connection with the Quarterly Report on Form 10-Q for the period ended June 30, 2004 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nicholas DeBenedictis, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, 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  
August 4, 2004

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

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

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

In connection with the Quarterly Report on Form 10-Q for the period ended June 30, 2004 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Smeltzer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, 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  
Senior Vice President - Finance and Chief Financial Officer  
August 4, 2004

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

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