UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON DC 20549

FORM 10-Q

(Mark One)
☒ QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended March 31, 2018

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from_______________ to _______________

Commission File Number 1-6659

AQUA AMERICA, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	23-1702594 (I.R.S. Employer Identification No.)
762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania (Address of principal executive offices)	19010 -3489 (Zip Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of
April 30, 2018: 177,897,654

AQUA AMERICA, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

AQUA AMERICA, INC. AND SUBSIDIARIES

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

Assets	March 31, 2018	December 31, 2017
Property, plant and equipment, at cost	$ 7,088,016	$ 7,003,993
Less: accumulated depreciation	1,627,797	1,604,133
Net property, plant and equipment	5,460,219	5,399,860
Current assets:		
Cash and cash equivalents	3,202	4,204
Accounts receivable and unbilled revenues, net	91,818	98,596
Inventory, materials and supplies	15,290	14,361
Prepayments and other current assets	12,274	12,542
Assets held for sale	1,558	1,543
Total current assets	124,142	131,246
Regulatory assets	731,417	713,971
Deferred charges and other assets, net	38,696	38,485
Investment in joint venture	7,004	6,671
Goodwill	42,230	42,230
Total assets	$ 6,403,708	$ 6,332,463
Liabilities and Equity		
Stockholders' equity:		
Common stock at $.50 par value, authorized 300,000,000 shares, issued 180,955,861 and 180,700,251 as of March 31, 2018 and December 31, 2017	$ 90,478	$ 90,350
Capital in excess of par value	809,624	807,135
Retained earnings	1,147,828	1,132,556
Treasury stock, at cost, 3,058,248 and 2,986,308 shares as of March 31, 2018 and December 31, 2017	(75,771)	(73,280)
Accumulated other comprehensive income	-	860
Total stockholders' equity	1,972,159	1,957,621
Long-term debt, excluding current portion	2,084,283	2,029,358
Less: debt issuance costs	21,217	21,605
Long-term debt, excluding current portion, net of debt issuance costs	2,063,066	2,007,753
Commitments and contingencies (See Note 14)		
Current liabilities:		
Current portion of long-term debt	103,832	113,769
Loans payable	20,342	3,650
Accounts payable	40,211	59,165
Book overdraft	12,685	21,629
Accrued interest	24,624	21,359
Accrued taxes	22,971	23,764
Other accrued liabilities	34,470	41,152
Total current liabilities	259,135	284,488
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	786,014	769,073
Customers' advances for construction	90,599	93,186
Regulatory liabilities	543,449	541,910
Other	107,746	107,341
Total deferred credits and other liabilities	1,527,808	1,511,510
Contributions in aid of construction	581,540	571,091
Total liabilities and equity	$ 6,403,708	$ 6,332,463

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

AQUA AMERICA, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Operating revenues	$ 194,347	$ 187,787
Operating expenses:		
Operations and maintenance	73,946	67,890
Depreciation	35,967	33,837
Amortization	130	189
Taxes other than income taxes	14,967	14,737
Total operating expenses	125,010	116,653
Operating income	69,337	71,134
Other expense (income):		
Interest expense, net	23,471	21,326
Allowance for funds used during construction	(2,867)	(3,193)
Gain on sale of other assets	(196)	(269)
Equity (earnings) loss in joint venture	(382)	30
Other	603	1,238
Income before income taxes	48,708	52,002
Provision for income tax (benefit) expense	(2,131)	2,930
Net income	$ 50,839	$ 49,072
Net income per common share:		
Basic	$ 0.29	$ 0.28
Diluted	$ 0.29	$ 0.28
Average common shares outstanding during the period:		
Basic	177,801	177,479
Diluted	178,238	177,969
Cash dividends declared per common share	$ 0.2047	$ 0.1913

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

AQUA AMERICA, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31,	
	2018	2017
Net income	$ 50,839	$ 49,072
Other comprehensive income, net of tax:		
Unrealized holding gain on investments, net of tax expense of $31 for the three months ended March 31, 2017	-	58
Comprehensive income	$ 50,839	$ 49,130

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

AQUA AMERICA, INC. AND SUBSIDIARIES

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

		March 31, 2018	December 31, 2017
Stockholders' equity:			
Common stock, $.50 par value		$ 90,478	$ 90,350
Capital in excess of par value		809,624	807,135
Retained earnings		1,147,828	1,132,556
Treasury stock, at cost		(75,771)	(73,280)
Accumulated other comprehensive income		-	860
Total stockholders' equity		1,972,159	1,957,621
Long-term debt of subsidiaries (substantially collateralized by utility plant):			
Interest Rate Range	Maturity Date Range		
0.00% to 0.99%	2023 to 2033	4,148	4,196
1.00% to 1.99%	2019 to 2035	12,626	12,914
2.00% to 2.99%	2019 to 2033	18,817	19,254
3.00% to 3.99%	2019 to 2056	474,525	475,232
4.00% to 4.99%	2020 to 2057	631,513	631,599
5.00% to 5.99%	2019 to 2043	205,445	205,578
6.00% to 6.99%	2018 to 2036	44,000	44,000
7.00% to 7.99%	2022 to 2027	32,146	32,335
8.00% to 8.99%	2021 to 2025	5,968	6,092
9.00% to 9.99%	2018 to 2026	25,700	25,700
10.00% to 10.99%	2018	6,000	6,000
		1,460,888	1,462,900
Notes payable to bank under revolving credit agreement, variable rate, due 2021		117,000	60,000
Unsecured notes payable:			
Bank notes at 1.975% and 2.48% due 2018 and 2019		100,000	100,000
Notes at 3.01% and 3.59% due 2027 and 2041		245,000	245,000
Notes ranging from 4.62% to 4.87%, due 2018 through 2024		122,800	122,800
Notes ranging from 5.20% to 5.95%, due 2018 through 2037		142,427	152,427
Total long-term debt		2,188,115	2,143,127
Current portion of long-term debt		103,832	113,769
Long-term debt, excluding current portion		2,084,283	2,029,358
Less: debt issuance costs		21,217	21,605
Long-term debt, excluding current portion, net of debt issuance costs		2,063,066	2,007,753
Total capitalization		$ 4,035,225	$ 3,965,374

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

AQUA AMERICA, INC. AND SUBSIDIARIES

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

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2017	$ 90,350	$ 807,135	$1,132,556	$ (73,280)	$ 860	$1,957,621
Net income	-	-	50,839	-	-	50,839
Dividends	-	-	(36,386)	-	-	(36,386)
Sale of stock (11,252 shares)	6	355	-	-	-	361
Repurchase of stock (71,940 shares)	-	-	-	(2,491)	-	(2,491)
Equity compensation plan (181,670 shares)	91	(91)	-	-	-	-
Exercise of stock options (62,688 shares)	31	979	-	-	-	1,010
Stock-based compensation	-	1,443	(41)	-	-	1,402
Cumulative effect of change in accounting principle - financial instruments	-	-	860	-	(860)	-
Other	-	(197)	-	-	-	(197)
Balance at March 31, 2018	$ 90,478	$ 809,624	$1,147,828	$ (75,771)	$ -	$1,972,159

Refer to Note 15 - *Recent Accounting Pronouncements* for a discussion of the cumulative effect of change in accounting principle - financial instruments

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

AQUA AMERICA, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	$ 50,839	$ 49,072
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	36,097	34,026
Deferred income taxes	(2,849)	2,681
Provision for doubtful accounts	896	1,111
Stock-based compensation	1,444	1,312
Loss on sale of market-based business unit	-	278
Gain on sale of other assets	(196)	(269)
Net change in receivables, inventory and prepayments	5,402	5,729
Net change in payables, accrued interest, accrued taxes and other accrued liabilities	(996)	(4,519)
Pension and other postretirement benefits contributions	(5,217)	(7,711)
Other	2,934	(507)
Net cash flows from operating activities	88,354	81,203
Cash flows from investing activities:		
Property, plant and equipment additions, including the debt component of allowance for funds used during construction of $782 and $721	(105,136)	(94,562)
Acquisitions of utility systems and other, net	(190)	(220)
Net proceeds from the sale of market-based business unit and other assets	174	639
Other	(75)	(171)
Net cash flows used in investing activities	(105,227)	(94,314)
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	1,742	1,585
Repayments of customers' advances	(1,014)	(511)
Net proceeds of short-term debt	16,692	21,197
Proceeds from long-term debt	66,996	117,879
Repayments of long-term debt	(21,898)	(89,666)
Change in cash overdraft position	(8,944)	(2,403)
Proceeds from issuing common stock	361	360
Proceeds from exercised stock options	1,010	1,536
Repurchase of common stock	(2,491)	(2,053)
Dividends paid on common stock	(36,386)	(33,945)
Other	(197)	(206)
Net cash flows from financing activities	15,871	13,773
Net change in cash and cash equivalents	(1,002)	662
Cash and cash equivalents at beginning of period	4,204	3,763
Cash and cash equivalents at end of period	$ 3,202	$ 4,425
Non-cash investing activities:		
Property, plant and equipment additions purchased at the period end, but not yet paid for	$ 23,629	$ 27,084
Non-cash customer advances and contributions in aid of construction	4,979	4,282

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

Note 1 – *Basis of Presentation*

The accompanying consolidated balance sheets and statements of capitalization of Aqua America, Inc. and subsidiaries (the "Company") at March 31, 2018, the consolidated statements of net income and comprehensive income for the three months ended March 31, 2018 and 2017 the consolidated statements of cash flow for the three months ended March 31, 2018 and 2017, and the consolidated statement of equity for the three months ended March 31, 2018 are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present a fair statement of its consolidated financial position, consolidated changes in equity, consolidated results of operations, and consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year. The December 31, 2017 consolidated balance sheet data presented herein was derived from the Company's December 31, 2017 audited consolidated financial statements, but does not include all disclosures and notes normally provided in annual financial statements. Certain prior period amounts have been reclassified to conform to the current period presentation in the consolidated statements of net income as a result of the adoption, in the first quarter of 2018, of the Financial Accounting Standards Board's ("FASB") accounting guidance on the presentation of net periodic pension and postretirement benefit cost (refer to Note 15 – *Recent Accounting Pronouncements*).

The preparation of financial statements often requires the selection of specific accounting methods and policies. Further, significant estimates and judgments may be required in selecting and applying those methods and policies in the recognition of the assets and liabilities in its consolidated balance sheets, the revenues and expenses in its consolidated statements of net income, and the information that is contained in its summary of significant accounting policies and notes to consolidated financial statements. Making these estimates and judgments requires the analysis of information concerning events that may not yet be complete and of facts and circumstances that may change over time. Accordingly, actual amounts or future results can differ materially from those estimates that the Company includes currently in its consolidated financial statements, summary of significant accounting policies, and notes.

There have been no changes to the summary of significant accounting policies, other than as described in Note 2 – *Revenue Recognition* as a result of the adoption of a new accounting pronouncement adopted on January 1, 2018, previously identified in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

(In thousands of dollars, except per share amounts)

Note 2 – *Revenue Recognition*

The Company recognizes revenue as water and wastewater services are provided to our customers, which happens over time as the service is delivered and the performance obligation is satisfied. The Company's utility revenues recognized in an accounting period include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the last billing to the end of the accounting period. Unbilled amounts are calculated by deriving estimates based on average usage of the prior month. The Company's actual results could differ from these estimates, which would result in operating revenues being adjusted in the period that the revision to our estimates is determined. Unbilled amounts are included in accounts receivable and unbilled revenues, net on the consolidated balance sheet.

Generally, payment is due within 30 days once a bill is issued to a customer. Sales tax and other taxes we collect on behalf of government authorities, concurrent with our revenue-producing activities, are primarily excluded from revenue. The Company has determined that its revenue recognition is not materially different under the FASB's new accounting standard for revenue from contracts with customer, and has not made any changes to our accounting policy. The Company's revenues are being reported identical to how they were reported under the FASB's former accounting standard for revenue recognition. The following table presents our revenues disaggregated by major source and customer class:

	Three Months Ended March 31,2018		
	Water Revenues	Wastewater Revenues	Other Revenues
Regulated:			
Residential	$ 113,837	$ 17,532	$ -
Commercial	30,342	2,888	-
Fire protection	7,938	-	-
Industrial	6,360	463	-
Other water	11,021	-	-
Other wastewater	-	791	-
Other utility	-	-	2,335
Regulated segment total	169,498	21,674	2,335
Other and eliminations	-	-	840
Consolidated	$ 169,498	$ 21,674	$ 3,175

Regulated Segment Revenues – These revenues are composed of three main categories: water, wastewater, and other. Water revenues represent revenues earned for supplying customers with water service. Wastewater revenues represent revenues earned for treating wastewater and releasing it into the water supply. Other revenues are associated fees that relate to the regulated business but are not water and wastewater revenues. See description below for a discussion on the performance obligation for each of these revenue streams.

(In thousands of dollars, except per share amounts)

Tariff Revenues – These revenues are categorized by customer class: residential, commercial, fire protection, industrial, and other water and other wastewater. The rates that generate these revenues are approved by the respective state utility commission, and revenues are billed cyclically and accrued for when unbilled. Other water and other wastewater revenues consist primarily of fines, penalties, surcharges, and availability lot fees. Our performance obligation for tariff revenues is to provide potable water or wastewater treatment service to customers. This performance obligation is satisfied over time as the services are rendered.

Other Utility Revenues – Other utility revenues represent revenues earned primarily from: antenna revenues, which represent fees received from telecommunication operators that have put cellular antennas on our water towers, operation and maintenance and billing contracts, which represent fees earned from municipalities for our operation of their water or wastewater treatment services or performing billing services, and fees earned from developers for accessing our water mains. The performances obligations vary for these revenues, but all are primarily recognized over time as the service is delivered.

Other and Eliminations – Other and eliminations consist of our market-based revenues, which comprises: Aqua Infrastructure and Aqua Resources (described below), and intercompany eliminations for revenue billed between our subsidiaries.

Aqua Infrastructure is the holding company for our 49% investment in a joint venture that operates a private pipeline system to supply raw water to natural gas well drilling operations in the Marcellus Shale of north central Pennsylvania. The joint venture earns revenues through providing non-utility raw water supply services to companies which enter into a water supply contract in the natural gas drilling industry. The performance obligation is to deliver non-potable water to its customers. Aqua Infrastructure’s share of the revenues recognized by the joint venture is reflected, net, in equity earnings in joint venture on our consolidated statements of net income.

Aqua Resources earns revenues by providing non-regulated water and wastewater services through operating and maintenance contracts, and third party water and sewer line repair service. The performance obligations are performing agreed upon services in the contract, most commonly operation of third party water or wastewater treatment services, or billing services, or allowing the use of our logo to a third party water and sewer line repair service. Revenues are primarily recognized over time as service is delivered.

Note 3 – *Goodwill*

The following table summarizes the changes in the Company’s goodwill, by business segment:

	Regulated Segment	Other	Consolidated
Balance at December 31, 2017	$ 37,389	$ 4,841	$ 42,230
Goodwill acquired	-	-	-
Balance at March 31, 2018	$ 37,389	$ 4,841	$ 42,230

Note 4 – *Acquisitions*

During the first three months of 2018, the Company completed three acquisitions of water and wastewater utility systems in various states adding 448 customers. The total purchase price of these utility systems consisted of $190 in cash. The purchase price allocation for these acquisition consisted primarily of acquired property, plant and equipment. The pro forma effect of the businesses acquired is not material either individually or collectively to the Company's results of operations.

During 2017, the Company completed four acquisitions of water and wastewater utility systems in various states adding 1,003 customers. The total purchase price of these utility systems consisted of $5,860 in cash, which resulted in $72 of goodwill being recorded. The pro forma effect of the businesses acquired is not material either individually or collectively to the Company's results of operations.

As part of the Company's growth-through-acquisition strategy, the Company has entered into purchase agreements to acquire the water or wastewater utility system assets of six municipalities for a total combined purchase price in cash of $150,700, which we plan to finance by the issuance of long-term debt. The purchase price for these pending acquisitions is subject to certain adjustments at closing, and the pending acquisitions are subject to regulatory approvals, including the final determination of the fair value of the rate base acquired. Closings for these acquisitions are expected to occur by the end of 2018, subject to the timing of the regulatory approval process. These acquisitions are expected to add approximately 16,325 customers in two of the states that the Company operates in.

Note 5 – *Assets Held for Sale*

In the first quarter of 2017, the Company decided to market for sale a water system that serves approximately 265 customers. This water system is reported as assets held for sale in the Company's consolidated balance sheet.

Note 6 –*Financial Instruments*

The Company follows the FASB's accounting guidance for fair value measurements and disclosures, which defines fair value and establishes a framework for using fair value to measure assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access;

- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted market prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in non-active markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

(In thousands of dollars, except per share amounts)

- Level 3: inputs that are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation techniques used to measure fair value, or asset or liability transfers between the levels of the fair value hierarchy for the quarter ended March 31, 2018.

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

The fair value of loans payable is determined based on its carrying amount and utilizing Level 1 methods and assumptions. As of March 31, 2018 and December 31, 2017, the carrying amount of the Company's loans payable was $20,342 and $3,650, respectively, which equates to their estimated fair value. The Company's assets underlying the deferred compensation and non-qualified pension plans are determined by the fair value of mutual funds, which are based on quoted market prices from active markets utilizing Level 1 methods and assumptions. As of March 31, 2018 and December 31, 2017, the carrying amount of these securities was $21,576 and $21,776, which equates to their fair value, and is reported in the consolidated balance sheet in deferred charges and other assets. The fair value of cash and cash equivalents, which is comprised of uninvested cash, is determined based on the net asset value per unit utilizing Level 1 methods and assumptions. As of March 31, 2018 and December 31, 2017, the carrying amounts of the Company's cash and cash equivalents was $3,202 and $4,204, respectively, which equates to their fair value.

Unrealized gain and losses on equity securities held in conjunction with our non-qualified pension plan is as follows:

	Three Months Ended March 31, 2018
Net loss recognized during the period on equity securities	$ 21
Less: net gain / loss recognized during the period on equity securities sold during the period	-
Unrealized loss recognized during the reporting period on equity securities still held at the reporting date	$ 21

The net loss recognized on equity securities is presented on the consolidated statements of net income on the line item “Other.” Additionally, the unrealized gain recognized during the three months ended March 31, 2017, was reported on the consolidated statements of comprehensive income.

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

	March 31, 2018	December 31, 2017
Carrying amount	$ 2,188,115	$ 2,143,127
Estimated fair value	2,235,447	2,262,785

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration utilizing Level 2 methods and assumptions.

The Company’s customers’ advances for construction have a carrying value of $90,599 as of March 31, 2018, and $93,186 as of December 31, 2017. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels, and future rates. Portions of these non-interest bearing instruments are payable annually through 2028 and amounts not paid by the respective contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Note 7 – *Net Income per Common Share*

Basic net income per common share is based on the weighted average number of common shares outstanding. Diluted net income per common share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock-based compensation is included in the computation of diluted net income per common share. The dilutive effect of stock-based compensation is calculated using the treasury stock method and expected proceeds upon exercise or issuance of the stock-based compensation. The treasury stock method assumes that the proceeds from stock-based compensation are used to purchase the Company’s common stock at the average market price during the period. The following table summarizes the shares, in thousands, used in computing basic and diluted net income per common share:

	Three Months Ended March 31,	
	2018	2017
Average common shares outstanding during the period for basic computation	177,801	177,479
Dilutive effect of employee stock-based compensation	437	490
Average common shares outstanding during the period for diluted computation	178,238	177,969

(In thousands of dollars, except per share amounts)

For the three months ended March 31, 2018 and 2017, all of the Company's employee stock options were included in the calculations of diluted net income per share as the calculated cost to exercise the stock options was less than the average market price of the Company's common stock during these periods.

Note 8 – *Stock-based Compensation*

Under the Company's 2009 Omnibus Equity Compensation Plan, as amended as of February 27, 2014 (the "2009 Plan"), as approved by the Company's shareholders to replace the 2004 Equity Compensation Plan (the "2004 Plan"), stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to employees, non-employee directors, and consultants and advisors. No further grants may be made under the 2004 Plan. The 2009 Plan authorizes 6,250,000 shares for issuance under the plan. A maximum of 3,125,000 shares under the 2009 Plan may be issued pursuant to stock awards, stock units and other stock-based awards, subject to adjustment as provided in the 2009 Plan. During any calendar year, no individual may be granted (i) stock options and stock appreciation rights under the 2009 Plan for more than 500,000 shares of Company stock in the aggregate or (ii) stock awards, stock units or other stock-based awards under the 2009 Plan for more than 500,000 shares of Company stock in the aggregate, subject to adjustment as provided in the 2009 Plan. Awards to employees and consultants under the 2009 Plan are made by a committee of the Board of Directors of the Company, except that with respect to awards to the Chief Executive Officer, the committee recommends those awards for approval by the non-employee directors of the Board of Directors. In the case of awards to non-employee directors, the Board of Directors makes such awards. At March 31, 2018, 3,454,922 shares were still available for issuance under the 2009 Plan.

Performance Share Units – A performance share unit ("PSU") represents the right to receive a share of the Company's common stock if specified performance goals are met over the three-year performance period specified in the grant, subject to exceptions through the respective vesting period, generally three years. Each grantee is granted a target award of PSUs, and may earn between 0% and 200% of the target amount depending on the Company's performance against the performance goals. The following table provides compensation costs for stock-based compensation related to PSUs:

	Three Months Ended March 31,	
	2018	2017
Stock-based compensation within operations and maintenance expenses	$ 859	$ 870
Income tax benefit	241	353

(In thousands of dollars, except per share amounts)

The following table summarizes the PSU transactions for the three months ended March 31, 2018:

	Number of Share Units	Weighted Average Fair Value
Nonvested share units at beginning of period	452,333	$ 26.16
Granted	87,593	37.65
Performance criteria adjustment	(33,109)	29.71
Forfeited	(5,522)	29.59
Share units vested in prior period and issued in current period	9,400	26.54
Share units issued	(136,081)	31.70
Nonvested share units at end of period	374,614	26.48

A portion of the fair value of PSUs was estimated at the grant date based on the probability of satisfying the market-based conditions using the Monte Carlo valuation method, which assesses probabilities of various outcomes of market conditions. The other portion of the fair value of the PSUs is based on the fair market value of the Company's stock at the grant date, regardless of whether the market-based condition is satisfied. The per unit weighted-average fair value at the date of grant for PSUs granted during the three months ended March 31, 2018 and 2017 was $37.65 and $30.79, respectively. The fair value of each PSU grant is amortized monthly into compensation expense on a straight-line basis over their respective vesting periods, generally 36 months. The accrual of compensation costs is based on the Company's estimate of the final expected value of the award, and is adjusted as required for the portion based on the performance-based condition. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the PSUs includes dividend equivalents, no separate dividend yield assumption is required in calculating the fair value of the PSUs. The recording of compensation expense for PSUs has no impact on net cash flows.

Restricted Stock Units – A restricted stock unit ("RSU") represents the right to receive a share of the Company's common stock. RSUs are eligible to be earned at the end of a specified restricted period, generally three years, beginning on the date of grant. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the RSUs includes dividend equivalents, no separate dividend yield assumption is required in calculating the fair value of the RSUs. The following table provides the compensation cost and income tax benefit for stock-based compensation related to RSUs:

	Three Months Ended March 31,	
	2018	2017
Stock-based compensation within operations and maintenance expenses	$ 351	$ 281
Income tax benefit	100	116

(In thousands of dollars, except per share amounts)

The following table summarizes the RSU transactions for the three months ended March 31, 2018:

	Number of Stock Units	Weighted Average Fair Value
Nonvested stock units at beginning of period	116,787	$ 29.46
Granted	54,073	34.91
Stock units vested in prior period and issued in current period	1,467	31.47
Stock units vested and issued	(42,836)	26.39
Forfeited	-	-
Nonvested stock units at end of period	129,491	31.78

The per unit weighted-average fair value at the date of grant for RSUs granted during the three months ended March 31, 2018 and 2017 was $34.91 and $30.37, respectively.

Stock Options – A stock option represents the option to purchase a number of shares of common stock of the Company as specified in the stock option grant agreement at the exercise price per share as determined by the closing market price of our common stock on the grant date. Stock options are exercisable in installments of 33% annually, starting one year from the grant date and expire 10 years from the grant date. The fair value of each stock option is amortized into compensation expense using the graded-vesting method, which results in the recognition of compensation costs over the requisite service period for each separately vesting tranche of the stock options as though the stock options were, in substance, multiple stock option grants. The following table provides the compensation cost and income tax benefit for stock-based compensation related to stock options:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Stock-based compensation within operations and maintenance expenses	$ 94	$ 30
Income tax benefit	58	92

The fair value of options was estimated at the grant date using the Black-Scholes option-pricing model. The following assumptions were used in the application of this valuation model:

	2018	2017
Expected term (years)	5.46	5.45
Risk-free interest rate	2.72%	2.01%
Expected volatility	17.2%	17.7%
Dividend yield	2.37%	2.51%
Grant date fair value per option	$ 5.10	$ 4.07

Historical information was the principal basis for the selection of the expected term and dividend yield. The expected volatility is based on a weighted-average combination of historical and implied volatilities over a time period that approximates the expected term of the option. The risk-free interest rate was selected based upon the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option.

(In thousands of dollars, except per share amounts)

The following table summarizes stock option transactions for the three months ended March 31, 2018:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Outstanding at beginning of period	364,932	$ 19.83		
Granted	160,859	34.51		
Forfeited	(2,371)	30.47		
Expired / Cancelled	(41)	30.47		
Exercised	(62,688)	16.11		
Outstanding at end of period	460,691	$ 25.40	6.2	$ 4,060
Exercisable at end of period	225,594	$ 17.24	2.6	$ 3,794

Stock Awards – Stock awards represent the issuance of the Company's common stock, without restriction. The issuance of stock awards results in compensation expense which is equal to the fair market value of the stock on the grant date, and is expensed immediately upon grant. The following table provides the compensation cost and income tax benefit for stock-based compensation related to stock awards:

	Three Months Ended March 31,	
	2018	2017
Stock-based compensation within operations and maintenance expenses	$ 140	$ 131
Income tax benefit	40	54

The following table summarizes stock award transactions for the three months ended March 31, 2018:

	Number of Stock Awards	Weighted Average Fair Value
Nonvested stock awards at beginning of period	-	$ -
Granted	4,130	33.90
Vested	(4,130)	33.90
Nonvested stock awards at end of period	-	$ -

The per unit weighted-average fair value at the date of grant for stock awards granted during the three months ended March 31, 2018 and 2017 was $33.90 and $32.15, respectively.

(In thousands of dollars, except per share amounts)

Note 9 – *Pension Plans and Other Postretirement Benefits*

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

	Pension Benefits	
	Three Months Ended March 31,	
	2018	2017
Service cost	$ 812	$ 794
Interest cost	2,874	3,108
Expected return on plan assets	(4,553)	(4,270)
Amortization of prior service cost	132	145
Amortization of actuarial loss	1,823	2,001
Net periodic benefit cost	$ 1,088	$ 1,778

	Other Postretirement Benefits	
	Three Months Ended March 31,	
	2018	2017
Service cost	$ 262	$ 255
Interest cost	708	737
Expected return on plan assets	(677)	(647)
Amortization of prior service cost	(127)	(127)
Amortization of actuarial loss	296	291
Net periodic benefit cost	$ 462	$ 509

The components of net periodic benefit cost other than service cost are presented on the consolidated statements of net income on the line item "Other."

The Company made cash contributions of $5,198 to its Pension Plan during the first three months of 2018, and intends to make additional cash contributions of $7,286 to the Pension Plan during the remainder of 2018.

Note 10 – *Water and Wastewater Rates*

During the first three months of 2018, the Company's operating divisions in Illinois and Ohio were granted base rate increases designed to increase total operating revenues on an annual basis by $8,640. On April 6, 2018, the base rate case in Illinois was petitioned for a rehearing; however, this petition was denied on April 19, 2018. The other parties to the case have thirty days to file an appeal. The approved rates, for which we have billed $300 to date in March 2018, are in effect, but could be subject to refund if an appeal is granted. Further, during the first three months of 2018, the Company's operating divisions in Pennsylvania and North Carolina received approval to bill infrastructure rehabilitation surcharges designed to increase total operating revenues on an annual basis by $9,731.

(In thousands of dollars, except per share amounts)

As of February 10, 2018, the Company has been billing interim rates in Virginia, which has a base rate case filing in progress. As of March 31, 2018, $821 of billings is subject to refund pending the conclusion of the rate case.

Note 11 – *Taxes Other than Income Taxes*

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

	Three Months Ended March 31,	
	2018	2017
Property	$ 6,749	$ 6,785
Gross receipts, excise and franchise	3,265	3,175
Payroll	3,275	3,124
Regulatory assessments	627	629
Pumping fees	991	944
Other	60	80
Total taxes other than income	$ 14,967	$ 14,737

Note 12 – *Segment Information*

The Company has ten operating segments and one reportable segment. The Regulated segment, the Company's single reportable segment, is comprised of eight operating segments representing its water and wastewater regulated utility companies which are organized by the states where the Company provides water and wastewater services. These operating segments are aggregated into one reportable segment because each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment.

Two operating segments are included within the Other category below. These segments are not quantitatively significant and are comprised of Aqua Infrastructure and Aqua Resources. Aqua Infrastructure provides non-utility raw water supply services for firms in the natural gas drilling industry. Aqua Resources provides water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to its utility companies' service territories; and offers, through a third party, water and sewer line repair service and protection solutions to households. In addition to these segments, Other is comprised of other business activities not included in the reportable segment, including corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include general and administrative expenses, and interest expense.

(In thousands of dollars, except per share amounts)

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

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Regulated	Other	Consolidated	Regulated	Other	Consolidated
Operating revenues	$ 193,507	$ 840	$ 194,347	$ 186,349	$ 1,438	$ 187,787
Operations and maintenance expense	71,303	2,643	73,946	66,272	1,618	67,890
Depreciation	35,958	9	35,967	33,666	171	33,837
Amortization	88	42	130	209	(20)	189
Operating income (loss)	72,058	(2,721)	69,337	72,305	(1,171)	71,134
Interest expense, net	21,708	1,763	23,471	19,777	1,549	21,326
Allowance for funds used during construction	2,867	-	2,867	3,193	-	3,193
Income tax expense (benefit)	(643)	(1,488)	(2,131)	3,856	(926)	2,930
Net income (loss)	54,027	(3,188)	50,839	50,896	(1,824)	49,072
Capital expenditures	105,136	-	105,136	94,409	153	94,562

	March 31, 2018	December 31, 2017
Total assets:		
Regulated	$ 6,321,372	$ 6,236,109
Other	82,336	96,354
Consolidated	$ 6,403,708	$ 6,332,463

Note 13 – *Commitments and Contingencies*

The Company is routinely involved in various disputes, claims, lawsuits and other regulatory and legal matters, including both asserted and unasserted legal claims, in the ordinary course of business. The status of each such matter, referred to herein as a loss contingency, is reviewed and assessed in accordance with applicable accounting rules regarding the nature of the matter, the likelihood that a loss will be incurred, and the amounts involved. As of March 31, 2018, the aggregate amount of $20,231 is accrued for loss contingencies and is reported in the Company's consolidated balance sheet as other accrued liabilities and other liabilities. These accruals represent management's best estimate of probable loss (as defined in the accounting guidance) for loss contingencies or the low end of a range of losses if no single probable loss can be estimated. For some loss contingencies, the Company is unable to estimate the amount of the probable loss or range of probable losses. While the final outcome of these loss contingencies cannot be predicted with certainty, and unfavorable outcomes could negatively impact the Company, at this time in the opinion of management, the final resolution of these matters are not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows. Further, the Company has insurance coverage for certain of these loss contingencies, and as of March 31, 2018, estimates that approximately $8,231 of the amount accrued for these matters are probable of recovery through insurance, which amount is also reported in the Company's consolidated balance sheet as deferred charges and other assets, net.

Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of its properties is the subject that are material or are expected to have a material effect on the Company's financial position, results of operations, or cash flows.

In addition to the aforementioned loss contingencies, the Company self-insures its employee medical benefit program, and maintains stop-loss coverage to limit the exposure arising from these claims. The Company's reserve for these claims totaled $1,451 at March 31, 2018 and represents a reserve for unpaid claim costs, including an estimate for the cost of incurred but not reported claims.

Note 14 – ***Income Taxes***

During the three months ended March 31, 2018, the Company's Federal net operating loss ("NOL") carryforward decreased by $6,760. In addition, during the three months ended March 31, 2018, the Company's state NOL carryforward increased by $3,866. As of March 31, 2018, the balance of the Company's Federal NOL was $56,542. The Company believes its Federal NOL carryforward is more likely than not to be recovered and requires no valuation allowance. As of March 31, 2018, the balance of the Company's gross state NOL was $631,124, a portion of which is offset by a valuation allowance because the Company does not believe the state NOLs are more likely than not to be realized. The Company's Federal and state NOL carryforwards begin to expire in 2032 and 2023, respectively. The Company's Federal and state NOL carryforwards are reduced by an unrecognized tax position, on a gross basis, of $64,814 and $85,380, respectively. The amounts of the Company's Federal and state NOL carryforwards prior to being reduced by the unrecognized tax positions were $121,356 and $716,504 respectively. The Company records its unrecognized tax benefit as a reduction to its deferred income tax liability.

In accordance with a 2012 settlement agreement with the Pennsylvania Public Utility Commission, Aqua Pennsylvania expenses, for tax purposes, qualifying utility asset improvement costs, which results in a substantial reduction in income tax expense and greater net income and cash flows. The Company's effective income tax rate for the first quarter of 2018 and 2017 was -4.4% and 5.6%, respectively.

As of March 31, 2018, the total gross unrecognized tax benefit was $18,143. As a result of the regulatory treatment afforded for qualifying infrastructure improvements in Pennsylvania, $24,834, if recognized, would affect the Company's effective tax rate. At December 31, 2017, the Company had unrecognized tax benefits of $17,583.

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

On December 22, 2017, President Trump signed the "Tax Cuts and Jobs Acts" (the "TCJA") into law. Substantially all of the provisions of the TCJA are effective for taxable years beginning after December 31, 2017. The TCJA includes significant changes to the Code and the taxation of business entities, and includes specific provisions related to regulated public utilities. Significant changes that impact the Company included in the TCJA are a reduction in the corporate federal income tax rate from 35% to 21%, effective January 1, 2018, and a limitation of the utilization of NOLs arising after December 31, 2017 to 80% of taxable income with an indefinite carryforward. The specific TCJA provisions related to our regulated entities generally allow for the continued deductibility of interest expense, the elimination of full expensing for tax purposes of certain property acquired after September 27, 2017 and the continuation of certain rate normalization requirements for accelerated depreciation benefits. Our market-based companies still qualify for 100% deductibility of qualifying property acquired after September 27, 2017.

In accordance with the FASB's accounting guidance for income taxes, the tax effects of changes in tax laws must be recognized in the period in which the law is enacted, or December 22, 2017 for the TCJA. Additionally, deferred tax assets and liabilities are required to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. Thus, at the date of enactment, the Company's deferred taxes were re-measured based upon the new tax rate. For our regulated entities, the change in deferred taxes is recorded as either an offset to a regulatory asset or liability and may be subject to refund to customers. In instances where the deferred tax balances are not in ratemaking, such as the Company's market-based operations, the change in deferred taxes is recorded as an adjustment to our deferred tax provision.

The staff of the SEC has recognized the complexity of reflecting the impacts of the TCJA, and on December 22, 2017 issued guidance, which clarifies accounting for income taxes if information is not yet available or complete and provides for up to a one year period in which to complete the required analyses and accounting (the measurement period). The guidance describes three scenarios (or "buckets") associated with a company's status of accounting for income tax reform: (1) a company is complete with its accounting for certain effects of tax reform, (2) a company is able to determine a reasonable estimate for certain effects of tax reform and records that estimate as a provisional amount, or (3) a company is not able to determine a reasonable estimate and therefore continues to apply the FASB's accounting guidance, based on the provisions of the tax laws that were in effect immediately prior to the TCJA being enacted.

The Company has completed or has made a reasonable estimate for the measurement and accounting of the effect of the TCJA which were reflected in the December 31, 2017 financial statements, which resulted in a decrease to the accumulated deferred income tax liability of $303,320. Additionally, due to the reduction in the Company's corporate income tax rate, in the first quarter of 2018, the Company reserved $2,532 for amounts expected to be refundable to utility customers. During the first quarter of 2018, in Illinois and Virginia, the Company's base rates have been adjusted to reflect the lower corporate income tax rate, and Texas and New Jersey implemented adjusted tariff rates in the second quarter of 2018.

One of our states, Pennsylvania, has not yet issued an accounting or procedural order addressing how the TCJA changes are to be reflected in our utility customer rates. As of December 31, 2017, the Company had provisionally estimated that $175,108 of deferred income tax liabilities for our Pennsylvania subsidiary will be a regulatory liability. Additionally, two operating divisions in Ohio operate under locally-negotiated contractual rates with their respective counties, and it is expected that negotiations will result in a contract that will return to customers the effects of the reduction in the corporate net income tax rate under the TCJA; however, these negotiations have not yet started. As of December 31, 2017, the Company had provisionally estimated that $9,419 of deferred income tax liabilities for these two divisions will be a regulatory liability. Overall, the Company has applied a reasonable interpretation of the impact of the TCJA and a reasonable estimate of the regulatory resolution. Further clarification of the TCJA and regulatory resolution may change the amounts estimated of the deferred income tax provision and the accumulated deferred income tax liability.

The Company's regulated operations accounting for income taxes are impacted by the FASB's accounting guidance for regulated operations. Reductions in accumulated deferred income tax balances due to the reduction in the Federal corporate income tax rates to 21% under the provisions of the TCJA will result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers, generally through reductions in future rates. The TCJA includes provisions that stipulate how these excess deferred taxes related to certain accelerated tax depreciation deduction benefits are to be passed back to customers. Potential refunds of other deferred taxes will be determined by our state regulators. Our state regulatory commissions have or are in the process of issuing procedural orders directing how the tax law changes are to be reflected in our utility customer rates.

Note 15 – *Recent Accounting Pronouncements*

In March 2017, the FASB issued updated accounting guidance on the presentation of net periodic pension and postretirement benefit cost (net benefit cost). Historically, net benefit cost is reported as an employee cost within operating income, net of amounts capitalized. The guidance requires the bifurcation of net benefit cost. The service cost component will be presented with other employee compensation costs in operating income and the other components of net benefit cost will be reported separately outside of operating income, and will not be eligible for capitalization. The guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within that reporting period, and is to be applied retrospectively for the presentation of the service cost component and the other components of net benefit cost, and on a prospective basis for the capitalization of only the service cost component of net benefit cost. On January 1, 2018, the Company adopted the updated guidance, which did not have a material impact on its results of operations or financial position, and resulted in the reclassification, for the three months ended March 31, 2017, of $1,238 for the other components of net benefit cost from operations and maintenance expense to other in the consolidated statements of net income.

In February 2016, the FASB issued updated accounting guidance on accounting for leases, which requires lessees to establish a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. For income statement purposes, leases will be classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. The updated accounting guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption available. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

In January 2016, the FASB issued updated accounting guidance on the recognition and measurement of financial assets and financial liabilities, which amends certain aspects of recognition, measurement, presentation, and disclosure of financial instruments, including the requirement to measure certain equity investments at fair value with changes in fair value recognized in net income. The updated guidance is effective for interim and annual periods beginning after December 31, 2017. On January 1, 2018, the Company adopted the updated guidance, which did not have a material impact on its results of operations or financial position, and resulted in the recognition of $860 of previous unrealized gains, which was recorded as an adjustment to beginning retained earnings (refer to the presentation of "cumulative effect of change in accounting principle – financial instruments" on the Company's consolidated statement of equity).

In May 2014, the FASB issued updated accounting guidance on recognizing revenue from contracts with customers, which outlines a single comprehensive model that an entity will apply to determine the measurement of revenue and timing of recognition. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The updated guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. The updated guidance is effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the updated guidance in each prior reporting period, or (ii) a modified retrospective approach with the cumulative effect of initially adopting the updated guidance recognized through retained earnings at the date of adoption. In 2016, the Company performed an evaluation of the requirements of the updated guidance and believes that the impact of adoption will not result in a material change in the Company's measurement of revenue. In 2017, the American Institute of Certified Public Accountants ("AICPA") power and utility entities revenue recognition task force determined that contributions in aid of construction are not in the scope of the new standard, and submitted its recommendation to the AICPA's revenue recognition working group for approval. The Company implemented the updated guidance using the modified retrospective approach on January 1, 2018, which did not result in a change in the Company's measurement of revenue, and reached the following conclusions:

- The Company's tariff sale contracts, including those with lower credit quality customers, are generally deemed to be probable of collection, and thus the timing of revenue recognition will continue to be concurrent with the delivery of water and wastewater services, consistent with our current practice.
- Contributions in aid of construction are outside of the scope of the standard, and will continue to be accounted for as a noncurrent liability.

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

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

Forward-looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report contain, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address, among other things: the projected impact of various legal proceedings; the projected effects of recent accounting pronouncements; prospects, plans, objectives, expectations and beliefs of management, as well as information contained in this report where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans," "future," "potential," "probably," "predictions," "intends," "will," "continue," "in the event" or the negative of such terms or similar expressions. Forward-looking statements are based on a number of assumptions concerning future events, and are subject to a number of risks, uncertainties and other factors, many of which are outside our control, which could cause actual results to differ materially from those expressed or implied by such statements. These risks and uncertainties include, among others: the effects of regulation, abnormal weather, changes in capital requirements and funding, acquisitions, changes to the capital markets, and our ability to assimilate acquired operations, as well as those risks, uncertainties and other factors discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in such report. As a result, readers are cautioned not to place undue reliance on any forward-looking statements. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

General Information

Aqua America, Inc. ("we", "us", "our" or the "Company"), a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to what we estimate to be almost three million people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. Our largest operating subsidiary, Aqua Pennsylvania, provides water or wastewater services to approximately one-half of the total number of people we serve, who are located in the suburban areas in counties north and west of the City of Philadelphia and in 27 other counties in Pennsylvania. Our other regulated utility subsidiaries provide similar services in seven other states. In addition, the Company's market-based activities are conducted through Aqua Infrastructure, LLC and Aqua Resources, Inc. Aqua Infrastructure provides non-utility raw water supply services for firms in the natural gas drilling industry. Aqua Resources provides water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our utility companies' service territories; and offers, through a third party, water and wastewater line repair service and protection solutions to households.

Aqua America, Inc., which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, formerly known as Philadelphia Suburban Water Company. In the early 1990s, we embarked on a growth-through-acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of American Water Works Company, Inc.'s regulated operations in Ohio in 2012. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry, where we have more than quadrupled the number of regulated customers we serve, and has extended our regulated operations from southeastern Pennsylvania to include operations in seven other states. Currently, the Company seeks to acquire businesses in the U.S. regulated sector, which includes water and wastewater utilities and other regulated utilities, and to opportunistically pursue growth ventures in select market-based activities, such as infrastructure opportunities that are supplementary and complementary to our regulated businesses.

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

Financial Condition

During the first three months of 2018, we had $105,136 of capital expenditures, expended $190 for the acquisition of water and wastewater utility systems, issued $66,996 of long-term debt, and repaid debt and made sinking fund contributions and other loan repayments of $21,898. The capital expenditures were related to new and replacement water mains, improvements to treatment plants, tanks, hydrants, and service lines, well and booster improvements, and other enhancements and improvements. The issuance of long-term debt was comprised principally of the funds borrowed under our revolving credit facility.

At March 31, 2018, we had $3,202 of cash and cash equivalents compared to $4,204 at December 31, 2017. During the first three months of 2018, we used the proceeds from the issuance of long-term debt and internally generated funds to fund the cash requirements discussed above and to pay dividends.

At March 31, 2018, our $250,000 unsecured revolving credit facility, which expires in February 2021, had $113,189 available for borrowing. At March 31, 2018, we had short-term lines of credit of $135,500, of which $115,158 was available for borrowing. One of our short-term lines of credit is an Aqua Pennsylvania $100,000 364-day unsecured revolving credit facility with four banks, which is used to provide working capital, and as of March 31, 2018, $79,658 was available for borrowing.

Our short-term lines of credit of $135,500 are subject to renewal on an annual basis. Although we believe we will be able to renew these facilities, there is no assurance that they will be renewed, or what the terms of any such renewal will be.

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

Results of Operations

Analysis of First Quarter of 2018 Compared to First Quarter of 2017

Revenues increased by $6,560 or 3.5%, primarily due to an increase in customer water consumption, an increase in water and wastewater rates and infrastructure rehabilitation surcharges of $5,097, and additional water and wastewater revenues of $1,634 associated with a larger customer base due to organic growth and utility acquisitions, offset by a reserve, recognized in the first quarter of 2018, of $2,532 for amounts expected to be refundable to utility customers associated with the decrease in the corporate income tax rate from 35% to 21% due to the TCJA.

Operations and maintenance expenses increased by $6,056 or 8.9%, primarily due to an increase in labor expense of $1,559, which included additional overtime expenses for increased maintenance activities, an increase in postretirement benefits of $1,442, and an increase in maintenance expenses of $1,057, mainly resulting from expenses incurred due to more severe winter weather conditions.

Depreciation expense increased by $2,130 or 6.3%, primarily due to the utility plant placed in service since March 31, 2017.

Interest expense increased by $2,145 or 10.1%, primarily due to an increase in average borrowings, offset by a decrease in our effective interest rate.

Allowance for funds used during construction ("AFUDC") decreased by $326, due to a decrease in the average balance of utility plant construction work in progress, to which AFUDC is applied.

Equity earnings in joint venture increased by $412 due to an increase in the sale of raw water to firms in the natural gas drilling industry.

Other decreased by $635 primarily due to a decrease in the non-service cost components of our net benefit cost for pension and postretirement benefits.

Our effective income tax rate was -4.4% in the first quarter of 2018 and 5.6% in the first quarter of 2017. The effective income tax rate decreased due to the reduction in the corporate income tax rate from 35% to 21%, and the effect of additional tax deductions recognized in the first quarter of 2018 for certain qualifying infrastructure improvements for Aqua Pennsylvania. A revenue reserve has been recognized in the first quarter of 2018 for the amounts expected to be refundable to utility customers associated with the decrease in the corporate income tax rate from 35% to 21% due to the TCJA.

Net income increased by $1,767 or 3.6%, primarily as a result of the factors described above.

Impact of Recent Accounting Pronouncements

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

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. There have been no significant changes in our exposure to market risks since December 31, 2017. Refer to Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed February 28, 2018, for additional information.

Item 4 – Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

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

Part II. Other Information

Item 1 – Legal Proceedings

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

Item 1A – Risk Factors

There have been no material changes to the risks disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017, filed February 28, 2018, under "Part 1, Item 1A – Risk Factors."

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

The following table summarizes the Company's purchases of its common stock for the quarter ended March 31, 2018:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs
January 1-31, 2018	2,662	$	36.37	-	-
February 1-28, 2018	68,805	$	34.56	-	-
March 1-31, 2018	473	$	33.84	-	-
Total	71,940	$	34.63	-	-

(1) These amounts include the following: (a) 63,941 shares we acquired from employees associated with the withholding of shares to pay certain withholding taxes upon the vesting of stock-based compensation; and (b) 7,999 shares we acquired from our employees who elected to pay the exercise price of their stock options (and then hold shares of the stock), upon exercise, by delivering to us shares of our common stock in accordance with the terms of our equity compensation plan that were previously approved by our shareholders and disclosed in our proxy statements. These features of our equity compensation plan are available to all employees who receive stock-based compensation 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.

Item 6 – Exhibits

The information required by this Item is set forth in the Exhibit Index hereto which is incorporated herein by reference.

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934.
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934.
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRES	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

May 9, 2018

Aqua America, Inc.
Registrant

/s/ Christopher H. Franklin
Christopher H. Franklin
Chairman, President and
Chief Executive Officer

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

Exhibit 31.1

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

I, Christopher H. Franklin, certify that:

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

/s/ Christopher H. Franklin
Christopher H. Franklin
President and Chief Executive Officer
May 9, 2018

Exhibit 31.2

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

I, David P. Smeltzer, certify that:

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

/s/ David P. Smeltzer
David P. Smeltzer
Executive Vice President and Chief Financial Officer
May 9, 2018

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2018 of Aqua America, Inc. (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Christopher H. Franklin, 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 or Section 78o); and

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

/s/ Christopher H. Franklin
Christopher H. Franklin
President and Chief Executive Officer
May 9, 2018

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2018 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 or Section 78o); and

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

/s/ David P. Smeltzer
David P. Smeltzer
Executive Vice President and Chief Financial Officer
May 9, 2018