

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

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

Commission File number 1-6659

AQUA AMERICA, INC.

(a Pennsylvania corporation)

762 W. Lancaster Avenue

Bryn Mawr, Pennsylvania 19010-3489

(610) 527-8000

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

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2010: \$2,405,487,848

For purposes of determining this amount only, registrant has defined affiliates as including (a) the executive officers named in Part I of this 10-K report, (b) all directors of registrant, and (c) each shareholder that has informed registrant by June 30, 2010, that it has sole or shared voting power of 5% or more of the outstanding common stock of registrant.

The number of shares outstanding of the registrant's common stock as of February 11, 2011: 137,968,188

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of registrant's 2010 Annual Report to Shareholders have been incorporated by reference into Parts I and II of this Form 10-K.

(2) Portions of the definitive Proxy Statement, relative to the May 12, 2011 annual meeting of shareholders of registrant, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, have been incorporated by reference into Part III of this Form 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- projected capital expenditures and related funding requirements;
- the availability and cost of capital;
- developments, trends and consolidation in the water and wastewater utility industries;
- dividend payment projections;
- opportunities for future acquisitions, the success of pending acquisitions and the impact of future acquisitions;
- the capacity of our water supplies, water facilities and wastewater facilities;
- the impact of geographic diversity on our exposure to unusual weather;
- the impact of conservation awareness of customers and more efficient plumbing fixtures and appliances on water usage per customer;
- our capability to pursue timely rate increase requests;
- our authority to carry on our business without unduly burdensome restrictions;
- our ability to obtain fair market value for condemned assets;
- the impact of fines and penalties;
- the impact of changes in governmental laws, regulations and policies, including those dealing with taxation, the environment, health and water quality, and public utility regulation;
- the impact of decisions of governmental and regulatory bodies, including decisions to raise or lower rates;
- the development of new services and technologies by us or our competitors;
- the availability of qualified personnel;
- the condition of our assets;
- the impact of legal proceedings;
- general economic conditions;
- acquisition-related costs and synergies; and
- the forward-looking statements contained under the heading “Forward-Looking Statements” in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” from the portion of our 2010 Annual Report to Shareholders incorporated by reference herein and made a part hereof.

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

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

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

PART I

Item 1. Business

The Company

Aqua America, Inc. (referred to as “Aqua America”, the “Company”, “we”, or “us”) is the holding company for regulated utilities providing water or wastewater services to what we estimate to be approximately 3 million people in Pennsylvania, Texas, North Carolina, Ohio, Illinois, New Jersey, New York, Florida, Indiana, Virginia, Maine, Missouri, and Georgia. Our largest operating subsidiary, Aqua Pennsylvania, Inc., accounted for approximately 53% of our operating revenues for 2010 and as of December 31, 2010, provided water or wastewater services to approximately one-half of the total number of people we serve, and is located in the suburban areas in counties north and west of the City of Philadelphia and in 25 other counties in Pennsylvania. Our other subsidiaries provide similar services in 12 other states. In September 2010, we entered into a definitive agreement to sell our wastewater operation in South Carolina, which served approximately 400 customers. The sale of our utility operation in South Carolina closed in December 2010, concluding our utility operations in South Carolina. In addition, in December 2010, we entered into a definitive agreement to sell our regulated water and wastewater operations in Missouri, which serves approximately 3,900 customers. This sale is conditioned, among other things, on the receipt of regulatory approval, and is expected to close by the third quarter of 2011. The completion of this transaction will conclude our regulated utility operations in Missouri. In addition, we provide water and wastewater services through operating and maintenance contracts with municipal authorities and other parties close to our utility companies’ service territories as well as sludge hauling, septage and grease services, backflow prevention services, and certain other non-regulated water and wastewater services.

Aqua America, which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, Inc., formerly known as Philadelphia Suburban Water Company. In the early 1990s we embarked on a growth through acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of New York Water Service Corporation in 2007. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry and has extended our regulated operations from southeastern Pennsylvania to include operations in 12 other states. In 2009, we began operations in Georgia through the acquisition of a wastewater utility business that is currently not subject to economic regulation by the Georgia Public Service Commission, but is included within our Regulated segment as it provides services similar to our regulated utility subsidiaries.

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The following table reports our operating revenues by principal state for the Regulated segment and Other for the year ended December 31, 2010:

	Operating Revenues (000's)	Operating Revenues (%)
Pennsylvania	\$ 382,802	52.7%
Texas	56,816	7.8%
North Carolina	45,631	6.3%
Ohio	44,468	6.1%
Illinois	42,539	5.9%
Other states*	142,251	19.6%
Regulated segment total	714,507	98.4%
Other	11,565	1.6%
Consolidated	<u>\$ 726,072</u>	<u>100.0%</u>

* Includes our operating subsidiaries in the following states: New Jersey, New York, Indiana, Florida, Virginia, Maine, Missouri, South Carolina, and Georgia. In December 2010, the sale of our South Carolina utility operation closed.

Information concerning revenues, net income, identifiable assets and related financial information of the Regulated segment and Other for 2010, 2009, and 2008 is set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 17 — Segment Information in the "Notes to Consolidated Financial Statements" from the portions of our 2010 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K. The information from these sections of our 2010 Annual Report to Shareholders is incorporated by reference herein.

The following table summarizes our operating revenues, by utility customer class, for the Regulated segment and Other for the year ended December 31, 2010:

	Operating Revenues (000's)	Operating Revenues (%)
Residential water	\$ 431,178	59.4%
Commercial water	105,294	14.5%
Fire protection	30,381	4.2%
Industrial water	21,550	3.0%
Other water	40,047	5.5%
Water	628,450	86.6%
Wastewater	73,939	10.2%
Other utility	12,118	1.6%
Regulated segment total	714,507	98.4%
Other	11,565	1.6%
Consolidated	<u>\$ 726,072</u>	<u>100.0%</u>

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

Our growth in revenues over the past five years is primarily a result of increases in water and wastewater rates and in our utility customer base. See "Economic Regulation" for a discussion of water and wastewater rates. The majority of the increase in our utility customer base has been due to customers added through acquisitions. In 2006, the utility customer growth rate was 7.2%, including 44,792 customers associated with the New York Water Service Corporation acquisition, which was completed on January 1, 2007. In 2010, 2009, 2008, and 2007, the utility customer growth rate due to acquisitions and other growth ventures was 1.0%, 1.0%, 2.0%, and 2.6%, respectively. In 2008, our net customer count declined by 3,838 customers, or 0.4%, due to the sale or relinquishment of two utility systems, pursuant to our plan to evaluate and dispose of underperforming utility operations and one system that was turned over to the local city through condemnation. Overall, for the five-year period of 2006 through 2010, our utility customer base increased at an annual compound rate of 2.2%. If the number of customers associated with utility system dispositions during the past five years was excluded from the January 1, 2006 utility customer base, the annual compound growth rate would have been 2.7% for that same period.

Acquisitions and Water Sale Agreements

According to the U.S. Environmental Protection Agency ("EPA"), approximately 85% of the U.S. population obtained its water from community water systems, and 15% of the U.S. population obtained its water from private wells. With approximately 52,000 community water systems in the U.S. (83% of which serve less than 3,300 customers), the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). The majority of these community water systems are government-owned, and the balance of the systems are privately-owned (or investor-owned). The nation's water systems range in size from large government-owned systems, such as the New York City water system which serves approximately 9 million people, to small systems, where a few customers share a common well. In the states where we operate, we believe there are approximately 23,000 community water systems of widely-varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the EPA most recent survey of wastewater treatment facilities (which includes both government-owned and privately-owned facilities) in 2008, there are approximately 15,000 such facilities in the nation serving approximately 74% of the U.S. population. The remaining population represents individual homeowners with their own treatment facilities; for example, community on-lot disposal systems and septic tank systems. The vast majority of wastewater facilities are government-owned rather than privately-owned. The EPA survey also indicated that there are approximately 9,600 wastewater facilities in operation or planned in the 13 states where we operate.

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

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

We are actively exploring opportunities to expand our utility operations through acquisitions or other growth ventures. During the five-year period ended December 31, 2010, we completed 104 acquisitions or other growth ventures.

We believe that acquisitions will continue to be an important source of customer growth for us. We intend to continue to pursue acquisitions of government-owned and privately-owned water and wastewater systems that provide services in areas near our existing service territories or in new service areas. We engage in continuing activities with respect to potential acquisitions, including calling on prospective sellers, performing analyses and investigations of acquisition candidates, making preliminary acquisition proposals and negotiating the terms of potential acquisitions.

Water Supplies, Water Facilities and Wastewater Facilities

Our water utility operations obtain their water supplies from surface water sources such as reservoirs, lakes, ponds, rivers and streams, in addition to obtaining water from wells and purchasing water from other water suppliers. Approximately 9% of our water sales are purchased from other suppliers. It is our policy to obtain and maintain the permits necessary to obtain the water we distribute. The water supplies for the service areas in the principal states in which we operate in are as follows:

- Pennsylvania — The principal supply of water is surface water from streams, rivers and reservoirs. Wells and interconnections with adjacent municipal authorities supplement these surface supplies. We operate 12 surface water treatment plants.
- Texas — Water supply in more than 300 water systems is obtained principally from wells, supplemented in some cases by purchased water from adjacent water systems.
- North Carolina — Water supply in more than 700 systems is obtained principally from wells. Several systems purchase water from neighboring municipal systems.
- Ohio — Water supply is obtained for customers in Lake County from Lake Erie. Customers in Mahoning County obtain their water from man-made lakes. Water supply is obtained for customers in Stark, Williams, Richland and Summit counties from wells supplemented with purchased water from an adjacent municipal system in Stark and Summit counties.
- Illinois — Water supply is obtained for customers in the Kankakee system from the Kankakee River. Three small separate systems in Kankakee County are supplied from wells. Customers in Danville (Vermilion County) are supplied from Lake Vermilion. One small separate system in Vermilion County is supplied from wells. In Will, Boone, Lake, and Knox counties, customers are served from wells. Water supplied to two small systems is purchased from neighboring systems.

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

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

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

Economic Regulation

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

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

State	Regulatory Commission
Pennsylvania	Pennsylvania Public Utility Commission
Ohio	The Public Utilities Commission of Ohio
North Carolina	North Carolina Utilities Commission
Illinois	Illinois Commerce Commission
Texas	Texas Commission on Environmental Quality
New Jersey	New Jersey Board of Public Utilities
New York	New York Public Service Commission
Florida	Florida Public Service Commission
Indiana	Indiana Utility Regulatory Commission
Virginia	Virginia State Corporation Commission
Maine	Maine Public Utilities Commission
Missouri	Missouri Public Service Commission

Our water and wastewater operations are comprised of 129 rate divisions, each of which requires a separate rate filing for the evaluation of the cost of service, including the recovery of investments, in connection with the establishment of tariff rates for that rate division. When feasible and beneficial to our utility customers, we will seek approval to consolidate rate divisions to achieve a more even distribution of costs over a larger customer base. Eight of the states in which we operate permit some form of consolidated rates in varying degrees for the rate divisions in that state, and two states currently permit us to fully consolidate state-wide rate filings within either our water or wastewater operations. Due to the length of time since the last rate increase for some of our systems and the large amount of capital improvements relative to the number of customers in some smaller systems, the proposed rate increase in some of these systems may be substantial. Also, as a result of the condition of some of the systems acquired and capital investments required to maintain compliance, some divisions are experiencing longer periods of regulatory lag. We can provide no assurance that the rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which we initially sought the rate increases.

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

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

Currently, Pennsylvania, Illinois, Ohio, New York, Indiana, and Missouri allow for the use of infrastructure rehabilitation surcharges. These mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped at a percentage of base rates, generally at 5% to 9% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective in final rates or when a utility's earnings exceed a regulatory benchmark. Infrastructure rehabilitation surcharges provided revenues of \$14,207,000 in 2010, \$16,900,000 in 2009, and \$11,771,000 in 2008.

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

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

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

The price to be paid upon such an acquisition by the municipal government is usually determined in accordance with applicable law governing the taking of lands and other property under eminent domain. In other instances, the price may be negotiated, fixed by appraisers selected by the parties or computed in accordance with a formula prescribed in the law of the state or in the particular franchise or charter. We believe that our operating subsidiaries will be entitled to fair market value for any assets that are condemned, and we believe the fair market value will be in excess of the book value for such assets.

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

The City of Fort Wayne, Indiana (the "City") has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the operating subsidiaries that we acquired in connection with the AquaSource acquisition in 2003. We had challenged whether the City was following the correct legal procedures in connection with the City's attempted condemnation, but the Indiana Supreme Court, in an opinion issued in June 2007, supported the City's position. In October 2007, the City's Board of Public Works approved proceeding with its process to condemn the northern portion of our utility system at a preliminary price based on the City's valuation. We filed an appeal with the Allen County Circuit Court challenging the Board of Public Works' valuation on several bases. In November 2007, the City Council authorized the taking of the northern portion of the Company's system and the payment of \$16,910,500 based on the City's valuation of this portion of the system. In January 2008, we reached a settlement agreement with the City to transition the northern portion of the system in February 2008 upon receipt of the City's initial valuation payment of \$16,910,500. The settlement agreement specifically stated that the final valuation of the northern portion of the Company's system will be determined through a continuation of the legal proceedings that were filed challenging the City's valuation. On February 12, 2008, we turned over the northern portion of the system to the City upon receipt of the initial valuation payment. The Indiana Utility Regulatory Commission also reviewed and acknowledged the transfer of the Certificate of Territorial Authority for the northern portion of the system to the City. The proceeds received by the Company are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. The net book value of the assets relinquished has been removed from the consolidated balance sheet and the difference between the net book value and the initial payment received has been deferred and is recorded in other accrued liabilities on the Company's consolidated balance sheet. Once the contingency is resolved and the asset valuation is finalized, through the finalization of the litigation between the Company and the City of Fort Wayne, the amounts deferred will be recognized in the Company's consolidated income statement. On March 16, 2009, oral argument was held on certain procedural aspects with respect to the valuation evidence that may be presented and whether the Company is entitled to a jury trial. On October 12, 2010, the Wells County Indiana Circuit Court ruled that the Company is not entitled to a jury trial, and that the Wells County judge should review the City of Fort Wayne Board of Public Works' assessment based upon a "capricious, arbitrary or an abuse of discretion" standard. The Company disagrees with the Court's decision and as such on November 11, 2010, requested that the Wells County Indiana Circuit Court certify those issues for an interim appeal. The Wells County Indiana Circuit Court has granted that request and on January 14, 2011, the Company filed a request with the Indiana Court of Appeals to review the decision of those issues on appeal. The Company continues to evaluate its legal options with respect to this decision. Depending upon the ultimate outcome of all of the legal proceeding, the Company may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The northern portion of the utility system relinquished represents approximately 0.50% of Aqua America's total assets.

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

Environmental, Health and Safety Regulation

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

From time to time, Aqua America has acquired, and may acquire, systems that have environmental compliance issues. Environmental compliance issues also arise in the course of normal operations or as a result of regulatory changes. Aqua America attempts to align capital budgeting and expenditures to address these issues in a timely manner. We believe that the capital expenditures required to address outstanding compliance issues have been budgeted in our capital program and represent less than 10% of our expected total capital expenditures over the next five years. We are parties to agreements with regulatory agencies in Pennsylvania, Texas, Florida, Indiana, and Virginia under which we have committed to make certain improvements for environmental compliance. These agreements are intended to provide the regulators with assurance that problems covered by these agreements will be addressed, and the agreements generally provide protection from fines, penalties and other actions while corrective measures are being implemented. We are actively working directly with state environmental officials to implement or amend these agreements as necessary.

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

In order to remove or inactivate microbial organisms, rules were issued by the EPA to improve disinfection and filtration of potable water and reduce consumers’ exposure to disinfectants and by-products of the disinfection process. Our subsidiary in Maine installed filtration for its one unfiltered surface water supply in 2010. The project was completed in 2010 at a cost of less than \$7,000,000.

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

The federal Groundwater Rule became effective December 1, 2009. This rule requires additional testing of water from well sources, and under certain circumstances requires demonstration and maintenance of effective disinfection. States throughout the country are taking a variety of approaches to implementation of the Groundwater Rule. Pennsylvania has taken a position that all wells will be required to demonstrate and maintain effective disinfection. We estimate that the capital cost of compliance with this regulation in Pennsylvania will be about \$5,000,000 over the next five years. The rule is also expected to require modifications to a few wells or well stations in Texas, North Carolina, and New York. In North Carolina, the rule is being coupled with an existing requirement for visitation of well stations or installation of monitoring equipment. The capital cost of compliance with these requirements in North Carolina is estimated to be about \$4,600,000 over the next five years. In aggregate, the costs of compliance with the requirements of the Ground Water Rule in all of our operating states is estimated at less than 1% of our planned capital program over the next five years.

A rule lowering the limit on arsenic was promulgated in 2001 by the EPA and became effective in January 2006, with a provision for further time extensions for small systems. One system in Texas was equipped with treatment in 2009. Construction was completed in 2010 for treatment of one well in Pennsylvania acquired in 2008. No additional capital expenditures for arsenic treatment are anticipated at this time. If treatment is required in the future for an acquired system, the anticipated cost of treatment will be considered in our analysis of the system within the first two years of acquisition.

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

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

Solid Waste Disposal — The handling and disposal of residuals and solid waste generated from water and wastewater treatment facilities is governed by federal and state laws and regulations. A program is in place to monitor our facilities for compliance with regulatory requirements, and we are not aware of any significant environmental remediation costs necessary from our handling and disposal of waste material from our water and wastewater operations. However, we do anticipate capital expenditures of less than \$2,000,000, that have been included within our five-year capital budget, related to the expansion and/or replacement of some of our current waste disposal facilities in Pennsylvania and Ohio, to support our large surface water treatment facilities in these states. Our capital budget also includes funds for capital projects intended to reduce waste volume and extend the life of our disposal facilities.

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Dam Safety — Our subsidiaries own eighteen major dams that are subject to the requirements of the federal and state regulations related to dam safety. All major dams undergo an annual engineering inspection. We believe that all eighteen dams are structurally sound and well-maintained.

We performed studies of our dams that identified two dams in Pennsylvania and three dams in Ohio requiring capital improvements resulting from the adoption by the Department of Environmental Protection in Pennsylvania, and by the Department of Natural Resources in Ohio, of revised formulas for determining the magnitude of a probable maximum flood. Capital improvements remain to be performed on one dam in Pennsylvania totaling approximately \$14,000,000 planned during the three-year period from 2011 to 2013. Expenditures in the aggregate during the five-year period from 2011 to 2015 are expected to be approximately 1% of our planned capital program over the next five years. We continue to study alternatives for these remaining dams which may change the cost estimates of these capital improvements.

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

Security

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

Employee Relations

As of December 31, 2010, we employed a total of 1,632 full-time employees. Our subsidiaries are parties to 11 labor agreements with labor unions covering 510 employees. The labor agreements expire at various times between March 2011 and December 2014.

Available Information

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

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

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

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

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

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

Item 1A. Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

An important element of our growth strategy is the acquisition of water and wastewater systems. Any future acquisitions we decide to undertake may involve risks.

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

- dilutive issuances of our equity securities;
- incurrence of debt, contingent liabilities, and environmental liabilities;
- failure to maintain effective internal control over financial reporting;

- recording goodwill and other intangible assets for which we may never realize their full value and may result in an asset impairment that may negatively affect our results of operations;
- fluctuations in quarterly results;
- other acquisition-related expenses; and
- exposure to unknown or unexpected risks and liabilities.

Some or all of these items could have a material adverse effect on our business and our ability to finance our business and to comply with regulatory requirements. The businesses we acquire in the future may not achieve sales and profitability that would justify our investment, and any difficulties we encounter in the integration process, including in the integration of processes necessary for internal control and financial reporting, could interfere with our operations, reduce our operating margins and adversely affect our internal controls. In addition, as consolidation becomes more prevalent in the water and wastewater industries and competition for acquisitions increases, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to grow through acquisitions. Any of these risks may adversely affect our business, financial condition, or results of operations.

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

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

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

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

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

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

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

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

Wastewater operations entail significant risks and may impose significant costs.

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

Dams and reservoirs present unique risks.

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

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

Approximately 30% of our workforce is unionized under 11 labor contracts with labor unions, which expire over several years. We believe our labor relations are good, but in light of rising costs for healthcare and retirement benefits, contract negotiations in the future may be difficult. We are subject to a risk of work stoppages and other labor relations matters as we negotiate with the unions to address these issues, which could affect our business, financial condition, and results of operations. We cannot assure you that issues with our labor forces will be resolved favorably to us in the future or that we will not experience work stoppages.

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

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

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

We rely on our information technology systems in connection with the operation of our business, especially with respect to customer service and billing, accounting and, in some cases, the monitoring and operation of our treatment, storage and pumping facilities. A loss of these systems or major problems with the operation of these systems could adversely affect our operations and have a material adverse effect on our results of operations.

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

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

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

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

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

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

The following table indicates our net property, plant and equipment, in thousands of dollars, as of December 31, 2010 in the principal states where we operate:

	Net Property, Plant and Equipment	
Pennsylvania	\$ 2,036,579	58.7%
North Carolina	250,547	7.2%
Illinois	238,844	6.9%
Ohio	212,107	6.1%
Texas	205,848	5.9%
Other*	525,333	15.2%
	<u>\$ 3,469,258</u>	<u>100.0%</u>

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

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

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

Item 3. Legal Proceedings

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

For legal proceedings which were concluded during the first nine months of 2010, refer to our respective 2010 10-Q filings for disclosure of the conclusion of these legal proceedings.

The City of Fort Wayne, Indiana (the “City”) authorized the acquisition by eminent domain of the northern portion of the utility system of one of the Company’s operating subsidiaries in Indiana. We challenged whether the City was following the correct legal procedures in connection with the City’s attempted condemnation, but the Indiana Supreme Court, in an opinion issued in June 2007, supported the City’s position. In October 2007, the City’s Board of Public Works approved proceeding with its process to condemn the northern portion of our utility system at a preliminary price based on the City’s valuation. In October 2007, we filed an appeal with the Allen County Circuit Court challenging the Board of Public Works’ valuation on several bases. In November 2007, the City Council authorized the taking of this portion of our system and the payment of \$16,910,500 based on the City’s valuation of the system. In January 2008, we reached a settlement agreement with the City to transition this portion of the system in February 2008 upon receipt of the City’s initial valuation payment of \$16,910,500. The settlement agreement specifically stated that the final valuation of the system will be determined through a continuation of the legal proceedings that were filed challenging the City’s valuation. On February 12, 2008, we turned over the northern portion of the system to the City upon receipt of the initial valuation payment. The Indiana Utility Regulatory Commission also reviewed and acknowledged the transfer of the Certificate of Territorial Authority for the northern portion of the system to the City. The proceeds received by the Company are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. The net book value of the assets relinquished has been removed from the consolidated balance sheet and the difference between the net book value and the initial payment received has been deferred and is recorded in other accrued liabilities on the Company’s consolidated balance sheet. Once the contingency is resolved and the asset valuation is finalized, through the finalization of the litigation between the Company and the City of Fort Wayne, the amounts deferred will be recognized in the Company’s consolidated income statement. On March 16, 2009, oral argument was held before the Allen County Circuit Court on certain procedural aspects with respect to the valuation evidence that may be presented and whether we are entitled to a jury trial. On October 12, 2010, the Wells County Indiana Circuit Court ruled that the Company is not entitled to a jury trial, and that the Wells County judge should review the City of Fort Wayne Board of Public Works’ assessment based upon a “capricious, arbitrary or an abuse of discretion” standard. The Company disagrees with the Court’s decision and as such, on November 11, 2010, requested that the Wells County Indiana Circuit Court certify those issues for an interim appeal. The Wells County Circuit Court has granted that request and on January 14, 2011, the Company filed a request with the Indiana Court of Appeals to review the decision of those issues on appeal. The Company continues to evaluate its legal options with respect to this decision. Depending upon the ultimate outcome of all of the legal proceedings we may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The northern portion of the system relinquished represented approximately 0.50% of Aqua America’s total assets.

A lawsuit was filed by a husband and wife who lived in a house abutting a percolation pond at a wastewater treatment plant owned by one of the Company’s subsidiaries, Aqua Utilities Florida, Inc., in Pasco County, Florida. The lawsuit was originally filed in August 2006 in the circuit court for the Sixth Judicial Circuit in and for Pasco County, Florida and has been amended several times by the plaintiffs. The lawsuit alleges our subsidiary was negligent in the design, operation and maintenance of the plant, resulting in bodily injury to the plaintiffs and various damages to their property. Subsequent amendments to the complaint included additional counts alleging trespass, nuisance, and strict liability. A trial of this matter during January 2011 resulted in a dismissal of the count for strict liability and jury verdicts in favor of the Company on the remaining counts. On January 13, 2011, the plaintiffs filed a motion requesting a new trial. In the third quarter of 2008, approximately thirty-five additional plaintiffs, associated with approximately eight other homes in the area, filed another lawsuit with the same court making similar allegations against our subsidiary with respect to the operation of the facility. No trial date has been set for this lawsuit, but some of the plaintiffs testified in the trial of the original lawsuit. Both lawsuits have been submitted to our insurance carriers, who have reserved their rights with respect to various portions of the plaintiffs’ claims. Based on the ultimate outcome of the litigation, we may or may not have insurance coverage for parts or all of the claims. The Company continues to assess these matters and any potential losses. At this time, the Company believes that the estimated amount of any potential losses would not be material to the Company’s consolidated results of operations or consolidated financial condition.

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One of the Company's subsidiaries, South Haven Sewer Works, acquired in 2008 has been operating under a Consent Decree with the United States Environmental Protection Agency and the United States Department of Justice entered into in 2003. The Consent Decree addresses the elimination of sanitary sewer overflows from the subsidiary's sewer system. Although substantial improvements to the system have been made to significantly reduce the number of sanitary sewer overflows at the sewer system since the Company's acquisition of the subsidiary, the Environmental Protection Agency and Department of Justice proposed on May 11, 2010, a revised Consent Decree, including new dates for completing work to address sanitary sewer overflows in the system and a proposed civil penalty of \$364,000 for purported sanitary sewer overflow violations since the date of the original Consent Decree. The Company's subsidiary has contested the appropriateness of calculating the proposed penalty based on sanitary sewer violations occurring prior to the acquisition of the subsidiary and the amount of the proposed penalty. The Company intends to seek indemnification from the seller for this matter.

In July 2010 one of the Company's subsidiaries, Aqua Pennsylvania, Inc., received a notice of violation from the Pennsylvania Department of Environmental Protection ("DEP"). The notice of violation resulted from the subsidiary's commencement of construction of a water tank prior to receipt of a construction permit from DEP. The permit was subsequently received. On September 29, 2010, the DEP notified the Company about a proposed penalty of \$120,000 in connection with the notice of violation. The Company's subsidiary is contesting the amount of the proposed penalty and is working with the DEP to reach an amicable resolution.

Item 4. (Removed and Reserved)

PART II

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

Our common stock is traded on the New York Stock Exchange under the ticker symbol WTR. As of February 11, 2011, there were approximately 27,193 holders of record of our common stock.

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2010					
Dividend paid per common share	\$ 0.145	\$ 0.145	\$ 0.145	\$ 0.155	\$ 0.590
Dividend declared per common share	0.145	0.145	0.300	—	0.590
Price range of common stock					
- high	17.88	18.73	20.99	22.97	22.97
- low	16.45	16.52	17.38	20.20	16.45
2009					
Dividend paid per common share	\$ 0.135	\$ 0.135	\$ 0.135	\$ 0.145	\$ 0.550
Dividend declared per common share	0.135	0.135	0.280	—	0.550
Price range of common stock					
- high	21.50	20.37	18.34	17.89	21.50
- low	16.59	16.12	16.50	15.39	15.39

We have paid common dividends consecutively for 66 years. Effective August 3, 2010, our Board of Directors authorized an increase of 6.9% in the December 1, 2010 quarterly dividend over the dividend Aqua America, Inc. paid in the previous quarter. As a result of this authorization, beginning with the dividend payment in December 2010, the annualized dividend rate increased to \$0.62 per share. This is the 20th dividend increase in the past 19 years and the twelfth consecutive year that we have increased our dividend in excess of five percent. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1 and December 1, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, our common dividends paid have averaged 67.4% of net income.

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The following table summarizes the Company's purchases of its common stock for the quarter ending December 31, 2010:

Period	Issuer Purchases of Equity Securities			Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs (2)
	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	
October 1-31, 2010	—	\$ —	—	548,278
November 1-30, 2010	1,188	\$ 21.63	—	548,278
December 1-31, 2010	—	\$ —	—	548,278
Total	<u>1,188</u>	<u>\$ 21.63</u>	<u>—</u>	<u>548,278</u>

- (1) These amounts consist of shares we purchased from our employees who elected to pay the exercise price of their stock options (and then hold shares of the stock) upon exercise by delivering to us (and, thus, selling) shares of Aqua America common stock in accordance with the terms of our equity compensation plans that were previously approved by our shareholders and disclosed in our proxy statements. This feature of our equity compensation plan is available to all employees who receive option grants under the plan. We purchased these shares at their fair market value, as determined by reference to the closing price of our common stock on the day prior to the option exercise.
- (2) On August 5, 1997, our Board of Directors authorized a common stock repurchase program that was publicly announced on August 7, 1997, for up to 1,007,351 shares. No repurchases have been made under this program since 2000. The program has no fixed expiration date. The number of shares authorized for purchase was adjusted as a result of the stock splits effected in the form of stock distributions since the authorization date.

Item 6. Selected Financial Data

The information appearing in the section captioned "Summary of Selected Financial Data" from the portions of our 2010 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

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

The information appearing in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" from the portions of our 2010 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed rate, long-term debt. Such exposure is typically related to financings between utility rate increases, since generally our rate increases include a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2010, the debt maturities by period, in thousands of dollars, and the weighted average interest rate for long-term debt are as follows:

	2011	2012	2013	2014	2015	Thereafter	Total	Fair Value
Long-term debt:								
Fixed rate	\$28,413	\$ 39,638	\$34,393	\$85,692	\$63,215	\$1,244,038	\$1,495,389	\$1,418,173
Variable rate		65,000	—	—	—	—	65,000	65,000
Total	<u>\$28,413</u>	<u>\$104,638</u>	<u>\$34,393</u>	<u>\$85,692</u>	<u>\$63,215</u>	<u>\$1,244,038</u>	<u>\$1,560,389</u>	<u>\$1,483,173</u>
Weighted average interest rate*	6.09%	2.37%	5.36%	5.21%	5.28%	5.31%	5.14%	

* Weighted average interest rate of 2012 long-term debt maturity is as follows: fixed rate debt of 5.51% and variable rate debt of 0.46%.

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for the “available-for-sale” marketable equity securities. As of December 31, 2010, our carrying value of certain investments, in thousands of dollars, was \$6,209, which reflects the market value of such investments and is in excess of our original cost.

Item 8. Financial Statements and Supplementary Data

Information appearing under the captions “Consolidated Statements of Income and Comprehensive Income,” “Consolidated Balance Sheets,” “Consolidated Statements of Cash Flows,” “Consolidated Statements of Capitalization,” “Consolidated Statements of Equity” and “Notes to Consolidated Financial Statements” from the portions of our 2010 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein. Also, the information appearing in the sections captioned “Management’s Report on Internal Control Over Financial Reporting” and “Report of Independent Registered Public Accounting Firm” from the portions of our 2010 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

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

None.

Item 9A. Controls and Procedures

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

(b) Management’s Report on Internal Control Over Financial Reporting — The information appearing in the section captioned “Management’s Report on Internal Control Over Financial Reporting” from the portions of our 2010 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

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(c) Attestation Report of the Registered Public Accounting Firm — The Attestation Report of our Independent Registered Public Accounting Firm as to our internal control over financial reporting, contained in our 2010 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K, is incorporated by reference herein. With the exception of the aforementioned information and the information incorporated by reference in Items 6, 7, and 8, the 2010 Annual Report to Shareholders is not to be deemed filed as part of the Annual Report on Form 10-K.

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

Item 9B. Other Information

The executive compensation committee of our Board of Directors previously approved the 2009 Omnibus Equity Compensation Plan (the “Plan”), effective May 8, 2009, with the purpose to encourage an individual receiving a grant under the Plan to contribute to the success of the Company, align the economic interests of the grantee with those of our shareholders and provide a means through which we can attract and retain officers, other key employees, non-employee directors and key consultants. In connection with the annual review by the executive compensation committee of the equity incentive compensation grants to be made under the Plan, starting in 2011, the executive compensation committee decided to increase the proportion of performance-based equity incentives as part of the annual equity incentive grants to the Company’s officers. As permitted under the Plan, the new performance-based awards were made in the form of performance share units, which along with restricted stock units comprise the 2011 equity incentive awards to the Company's Named Executive Officers. The performance share units and the restricted share units have the following general features:

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Performance Share Units. A “performance share unit” (or “PSU”) represents the right to receive a share of our common stock based on the value of a share of our common stock, if specified performance goals are met.

Each grantee shall receive a target award of performance share units (PSUs may be earned up to 200% of such target amount). The PSUs shall be eligible to be earned over a three-year period beginning on January 1, 2011 and ending on December 31, 2013 (the “Performance Period”). The PSUs are contingently awarded and will become earned and payable if and to the extent that total shareholder return and earning per share performance goals (the “Performance Goals”) and certain other conditions are met. Dividend equivalents are credited on PSUs as dividends are paid on our common stock.

If the Committee certifies that Performance Goals are met, shares of our common stock equal to the vested PSUs shall be issued to the grantee on the third anniversary of the date of grant. If the grantee’s employment or service terminates during the Performance Period as a result of the grantee’s death or disability, the PSUs shall remain outstanding during the Performance Period and will vest based on the achievement of the Performance Goals. In the event of the grantee’s retirement, the PSUs shall remain outstanding during the Performance Period and the grantee may earn a pro-rata portion of his or her PSUs determined based on the number of months the grantee was employed during the Performance Period and on the achievement of the Performance Goals. In the case of the grantee’s termination by reason or death or disability or the grantee’s retirement, the vested PSUs will be paid to the grantee (or the grantee’s estate, as applicable) on the third anniversary of the grant date. PSUs shall be forfeited in the event of any other termination of employment before the third anniversary of the date of grant (except in the event of a Change in Control, as provided below).

If a Change in Control occurs, performance will be measured at the date of the Change in Control and the number of earned PSUs will be determined as of the date of the Change in Control. If a Change in Control occurs more than one year after the date of grant, the number of PSUs earned shall be the greater of the amount earned based on actual performance and the target number of PSUs. If a change in control occurs within one year after the date of grant, the number of PSUs earned shall be a pro-rata portion, determined based on the number of months the grantee was employed from the date of grant to the date of the Change in Control, of the greater of the amount earned based on actual performance and the target number of PSUs. In order for a grantee to vest in the earned PSUs, the grantee must continue to be employed by, or provide service to us, until the third anniversary of the date of grant and the payment with respect to such earned PSUs will be made on the third anniversary of the date of grant, except in the case of an earlier termination of employment as described below. Any PSUs that are not earned at the date of the Change in Control will be forfeited.

If the grantee terminates employment following a Change in Control as a result of the grantee’s death, disability, retirement or termination by us without Cause and the Committee certifies that the Performance Goals have been met, the grantee shall fully vest in his or her earned PSUs. If the grantee is a senior officer of the Company, the grantee shall also fully vest in his or her earned PSUs if the grantee terminates his or her employment for good reason after a Change in Control. Earned PSUs shall be paid to the grantee (or the grantee’s estate, as applicable) upon the grantee’s termination or retirement (unless the grantee is retirement eligible or becomes retirement eligible during the Performance Period, in which case, payment upon the grantee’s retirement may be made on the third anniversary of the date of grant), as applicable. If a grantee terminates for any other reason after a Change in Control, the grantee shall forfeit his or her unvested PSUs. If, in the transaction giving rise to the Change in Control, the PSUs are converted into the right to receive cash or other consideration, the earned PSUs will be paid in such consideration.

Certain grantees are subject to a twelve-month non-compete provision.

Restricted Stock Units. A “restricted stock unit” (or “RSU”) represents the right to receive a share of our common stock based on the value of a share of our common stock, if specified conditions are met.

The RSUs shall be eligible to be earned at the end of a three-year period beginning on the date of grant. The grantee must remain employed until the third anniversary of the date of grant to earn RSUs, except in the case of the grantee’s retirement, death or disability or certain other terminations from employment after a change in control, as described below. Dividend equivalents are credited on the RSUs as dividends are paid on our common stock. Shares of our common stock equal to the vested RSUs shall be issued to the grantee on the third anniversary of the date of the applicable grant.

If the grantee terminates employment with us prior to the third anniversary of the date of grant by reason of death or disability, the grantee will fully vest in his or her RSUs and payment will be made to the grantee (or the grantee’s estate, as applicable) upon termination of employment. In the event of the grantee’s retirement prior to the third anniversary of the date of grant, the grantee will earn a pro-rata portion of his or her RSUs based on the number of months the grantee was employed during the three-year vesting period. Such vested RSUs will be paid upon the grantee’s retirement.

If a Change in Control (as defined in the Plan) of the Company occurs, a grantee’s RSUs shall continue to vest based on the grantee’s continued employment with us through the third anniversary of the date of grant and the vested RSUs will be paid in February 2014, except upon an earlier termination as described below. If, after a Change in Control, the grantee terminates employment by reason of death, disability, retirement or termination by us without Cause (as defined in the Plan), the grantee shall fully vest in his or her RSUs. If the grantee is a senior officer of the Company, the grantee shall also fully vest in his or her RSUs if the grantee terminates his or her employment for good reason after a Change in Control. The vested RSUs shall be paid to the grantee (or the grantee’s estate, as applicable) upon such termination or retirement, as applicable. If a grantee terminates his or her employment for any other reason after a Change in Control, the grantee shall forfeit his or her unvested RSUs. If, in the transaction giving rise to the Change in Control, the RSUs are converted into the right to receive cash or other consideration, the vested RSUs will be paid in such consideration.

Certain grantees are subject to a twelve-month non-compete provision.

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The following table summarizes the RSU and PSU awards granted to the Company's Named Executive Officers on February 25, 2011. Each of the awards described below was made pursuant to, and is governed by, the terms of the Plan.

	Grants	
	Restricted Stock Units (# of units)	Performance Share Units (# of units)
Nicholas DeBenedictis, Chief Executive Officer (Principal Executive Officer)	22,000*	14,400
David P. Smeltzer, Chief Financial Officer (Principal Financial Officer)	3,335	6,025
Roy H. Stahl, Chief Administrative Officer, General Counsel and Secretary	3,281	5,928
Karl M. Kyriss, Regional President- Northeastern Operations	2,238	4,042
Christopher H. Franklin, Regional President- Midwest and Southern Operations and Senior Vice President Corp. & Public Affairs	2,194	3,965

* In accordance with the Company's Employment Agreement with the Chief Executive Officer, the number of restricted stock units granted to the Chief Executive Officer is consistent with the Company's existing compensation practices at the time the Employment Agreement was entered into.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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

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

The information appearing in the sections captioned "Information Regarding Nominees and Directors," "Corporate Governance — Code of Ethics", — "Board and Board Committees", and — "Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance" of the definitive Proxy Statement relating to our May 12, 2011, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

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Our Executive Officers

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

Name	Age	Position with Aqua America, Inc. (1)
Nicholas DeBenedictis	65	Chairman, President and Chief Executive Officer (May 1993 to present); President and Chief Executive Officer (July 1992 to May 1993); Chairman and Chief Executive Officer, Aqua Pennsylvania, Inc. (July 1992 to present); President, Philadelphia Suburban Water Company (February 1995 to January 1999) (2)
Roy H. Stahl	58	Chief Administrative Officer, General Counsel (February 2007 to present), and Secretary (June 2001 to present); Executive Vice President and General Counsel (May 2000 to February 2007); Senior Vice President and General Counsel (April 1991 to May 2000) (3)
David P. Smeltzer	52	Chief Financial Officer (February 2007 to present); Senior Vice President — Finance and Chief Financial Officer (December 1999 to February 2007); Vice President - Finance and Chief Financial Officer (May 1999 to December 1999); Vice President — Rates and Regulatory Relations, Philadelphia Suburban Water Company (March 1991 to May 1999) (4)
Christopher H. Franklin	46	Regional President — Midwest and Southern Operations and Senior Vice President, Corporate and Public Affairs (January 2010 to present); Regional President, Aqua America — Southern Operations and Senior Vice President, Public Affairs and Customer Operations (January 2007 to January 2010); Vice President, Public Affairs and Customer Operations (July 2002 to January 2007) (5)
Karl M. Kyriss	60	Regional President — Northeastern Operations (January 2010 to present); Regional President, Aqua Mid-Atlantic Operations (February 2007 to January 2010); President — Aqua Pennsylvania (March 2003 to present) and President, Mid-Atlantic Operations (May 2005 to February 2007) (6)
Robert A. Rubin	48	Vice President, Controller and Chief Accounting Officer (May 2005 to present); Controller and Chief Accounting Officer (March 2004 to May 2005); Controller (March 1999 to March 2004) (7)

- (1) In addition to the capacities indicated, the individuals named in the above table hold other offices or directorships with subsidiaries of the Company. Officers serve at the discretion of the Board of Directors.
- (2) Mr. DeBenedictis was Secretary of the Pennsylvania Department of Environmental Resources from 1983 to 1986. From December 1986 to April 1989, he was President of the Greater Philadelphia Chamber of Commerce. Mr. DeBenedictis was Senior Vice President for Corporate and Public Affairs of Philadelphia Electric Company from April 1989 to June 1992.
- (3) From January 1984 to August 1985, Mr. Stahl was Corporate Counsel, from August 1985 to May 1988 he was Vice President — Administration and Corporate Counsel of Aqua America, Inc., and from May 1988 to April 1991 he was Vice President and General Counsel of Aqua America, Inc.
- (4) Mr. Smeltzer was Vice President — Controller of Philadelphia Suburban Water Company from March, 1986 to March 1991.
- (5) Mr. Franklin was Director of Public Affairs from January 1993 to February 1997.
- (6) Mr. Kyriss was Vice President — Northeast Region of American Water Works Services Company from 1997 to 2003.
- (7) Mr. Rubin was Accounting Manager with Aqua America, Inc. from June 1989 to June 1994. He then served from June 1994 to March 1999 as Assistant Controller of Philadelphia Suburban Water Company.

Item 11. Executive Compensation

The information appearing in the sections captioned “Executive Compensation” and “Director Compensation” of the definitive Proxy Statement relating to our May 12, 2011, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

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

Ownership of Common Stock — The information appearing in the section captioned “Ownership of Common Stock” of the Proxy Statement relating to our May 12, 2011, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

Securities Authorized for Issuance under Equity Compensation Plans — The following table provides information for our equity compensation plans as of December 31, 2010:

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	3,839,197	\$ 19.54	4,324,907
Equity compensation plans not approved by security holders	0	0	0
Total	3,839,197	\$ 19.54	4,324,907

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

The information appearing in the sections captioned “Corporate Governance — Director Independence” and “ — Policies and Procedures For Approval of Related Person Transactions” of the definitive Proxy Statement relating to our May 12, 2011, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

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Item 14. Principal Accountant Fees and Services

The information appearing in the section captioned “Proposal No. 2 — Services and Fees” of the definitive Proxy Statement relating to our May 12, 2011, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

Management’s Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets — December 31, 2010 and 2009

Consolidated Statements of Income and Comprehensive Income — 2010, 2009, and 2008

Consolidated Statements of Cash Flows — 2010, 2009, and 2008

Consolidated Statements of Capitalization — December 31, 2010 and 2009

Consolidated Statements of Equity — 2010, 2009, and 2008

Notes to Consolidated Financial Statements

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

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

SIGNATURES

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

AQUA AMERICA, INC.

By Nicholas DeBenedictis
Nicholas DeBenedictis
Chairman, President and Chief Executive Officer

Date: February 25, 2011

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

Nicholas DeBenedictis

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

David P. Smeltzer

David P. Smeltzer
Chief Financial Officer (Principal Financial Officer)

Robert A. Rubin

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

Mary C. Carroll

Mary C. Carroll
Director

Richard H. Glanton

Richard H. Glanton
Director

Lon R. Greenberg

Lon R. Greenberg
Director

William P. Hankowsky

William P. Hankowsky
Director

Mario Mele

Mario Mele
Director

Ellen T. Ruff

Ellen T. Ruff
Director

Richard L. Smoot

Richard L. Smoot
Director

Andrew J. Sordoni III

Andrew J. Sordoni III
Director

EXHIBIT INDEX

Exhibit No.	Description
3.1	Restated Articles of Incorporation as of December 9, 2004 (17) (Exhibit 3.1)
3.2	By-Laws, as amended as of December 31, 2007 (26) (Exhibit 3.2)
3.3	Amendments to Sections 7.09 and 7.11 of the Bylaws as of December 31, 2008 (28) (Exhibit 3.3)
3.4	Amendments to Sections 3.17, 4.04, and 4.14 of the Bylaws as of October 5, 2010 (33) (Exhibit 3.2)
4.1	Indenture of Mortgage dated as of January 1, 1941 between Philadelphia Suburban Water Company and The Pennsylvania Company for Insurance on Lives and Granting Annuities(now First Pennsylvania Bank, N.A.), as Trustee, with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 (2) (Exhibits 4.1 through 4.16)
4.2	Agreement to furnish copies of other long-term debt instruments (1) (Exhibit 4.7)
4.3	Twenty-fourth Supplemental Indenture dated as of June 1, 1988 (3) (Exhibit 4.5)
4.4	Twenty-fifth Supplemental Indenture dated as of January 1, 1990 (4) (Exhibit 4.6)
4.5	Twenty-sixth Supplemental Indenture dated as of November 1, 1991 (5) (Exhibit 4.12)
4.6	Twenty-ninth Supplemental Indenture dated as of March 30, 1995 (6) (Exhibit 4.17)
4.7	Thirty-third Supplemental Indenture, dated as of November 15, 1999 (10) (Exhibit 4.27)
4.8	Revolving Credit Agreement between Philadelphia Suburban Water Company and PNC Bank National Association, First Union National Bank, N.A., Mellon Bank, N.A. dated as of December 22, 1999 (10) (Exhibit 4.27)
4.9	First Amendment to Revolving Credit Agreement dated as of November 28, 2000, between Philadelphia Suburban Water Company and PNC Bank, National Association, First Union National Bank, N.A., Mellon Bank, N.A. dated as of December 22, 1999 (11) (Exhibit 4.19)
4.10	Second Amendment to Revolving Credit Agreement dated as of December 18, 2001, between Philadelphia Suburban Water Company (and its successor Pennsylvania Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, First Union National Bank, N.A., Fleet National Bank dated as of December 22, 1999 (12) (Exhibit 4.20)
4.11	Thirty-fourth Supplemental Indenture, dated as of October 15, 2001 (12) (Exhibit 4.21)
4.12	Thirty-fifth Supplemental Indenture, dated as of January 1, 2002 (12) (Exhibit 4.22)
4.13	Thirty-sixth Supplemental Indenture, dated as of June 1, 2002 (14) (Exhibit 4.23)
4.14	Thirty-seventh Supplemental Indenture, dated as of December 15, 2002 (15) (Exhibit 4.23)
4.15	Third Amendment to Revolving Credit Agreement dated as of December 16, 2002, between Philadelphia Suburban Water Company (and its successor Pennsylvania Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Fleet National Bank dated as of December 22, 1999 (15) (Exhibit 4.25)
4.16	Fourth Amendment to Revolving Credit Agreement dated as of December 24, 2002, between Philadelphia Suburban Water Company (and its successor Pennsylvania Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Fleet National Bank, National City Bank dated as of December 22, 1999 (15) (Exhibit 4.26)
4.17	Note Purchase Agreement among the note purchasers and Philadelphia Suburban Corporation, dated July 31, 2003 (16) (Exhibit 4.27)
4.18	Fifth Amendment to Revolving Credit Agreement dated as of December 14, 2003, between Philadelphia Suburban Water Company (and its successor Pennsylvania Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Fleet National Bank, National City Bank dated as of December 22, 1999 (18) (Exhibit 4.25)

EXHIBIT INDEX

Exhibit No.	Description
4.19	Sixth Amendment to Revolving Credit Agreement dated as of December 12, 2004 between Aqua Pennsylvania, Inc. (formerly known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Fleet National Bank, National City Bank dated as of December 22, 1999 (21) (Exhibit 4.27)
4.20	Thirty-eighth Supplemental Indenture, dated as of November 15, 2004 (21) (Exhibit 4.28)
4.21	Thirty-ninth Supplemental Indenture, dated as of May 1, 2005 (20) (Exhibit 4.29)
4.22	Seventh Amendment to Revolving Credit Agreement dated as of December 6, 2005 between Aqua Pennsylvania, Inc. (formerly known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Bank of America, N.A. (formerly Fleet National Bank), National City Bank dated as of December 22, 1999 (13) (Exhibit 4.30)
4.23	Fortieth Supplemental Indenture, dated as of December 15, 2005 (13) (Exhibit 4.31)
4.24	Eighth Amendment to Revolving Credit Agreement dated as of December 1, 2006 between Aqua Pennsylvania, Inc. (formerly known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Bank of America, N.A. (formerly Fleet National Bank), National City Bank dated as of December 22, 1999 (22) (Exhibit 4.32)
4.25	Ninth Amendment to Revolving Credit Agreement dated as of February 28, 2007 between Aqua Pennsylvania, Inc. (formerly known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Bank of America, N.A. (formerly Fleet National Bank), National City Bank dated as of December 22, 1999 (26) (Exhibit 4.33)
4.26	Tenth Amendment to Revolving Credit Agreement dated as of December 6, 2007 between Aqua Pennsylvania, Inc. (formerly known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Bank of America, N.A. (formerly Fleet National Bank), National City Bank dated as of December 22, 1999 (26) (Exhibit 4.34)
4.27	Forty-first Supplemental Indenture, dated as of January 1, 2007 (25) (Exhibit 4.1)
4.28	Forty-second Supplemental Indenture, dated as of December 1, 2007 (26) (Exhibit 4.36)
4.29	Eleventh Amendment to Revolving Credit Agreement dated as of December 4, 2008 between Aqua Pennsylvania, Inc. (formerly known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company) and PNC Bank, National Association, and TD Bank, N.A., dated as of December 22, 1999 (28) (Exhibit 4.36)
4.30	Forty-third Supplemental Indenture, dated as of December 1, 2008 (28) (Exhibit 4.37)
4.31	Forty-fourth Supplemental Indenture, dated as of July 1, 2009 (29) (Exhibit 4.38)
4.32	Forty-fifth Supplemental Indenture, dated as of October 15, 2009 (32) (Exhibit 4.39)
4.33	Twelfth Amendment to Revolving Credit Agreement dated as of December 2, 2009 between Aqua Pennsylvania, Inc. (formerly known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company) and PNC Bank, National Association, and TD Bank, N.A., dated as of December 22, 1999 (32) (Exhibit 4.39)
4.34	Revolving Credit Agreement between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., and Citizens Bank of Pennsylvania, dated as of November 30, 2010
4.35	Forty-sixth Supplemental Indenture, dated as of October 15, 2010
4.36	1994 Equity Compensation Plan, as amended by Amendment effective August 5, 2003* (18) (Exhibit 10.5)

EXHIBIT INDEX

Exhibit No.	Description
4.37	Placement Agency Agreement between Philadelphia Suburban Water Company and PaineWebber Incorporated dated as of March 30, 1995 (6) (Exhibit 10.12)
10.1	Philadelphia Suburban Corporation Amended and Restated Executive Deferral Plan as of December 31, 2003* (18) (Exhibit 10.9)
10.2	Philadelphia Suburban Corporation Deferred Compensation Plan Master Trust Agreement with PNC Bank, National Association, dated as of December 31, 1996* (7) (Exhibit 10.24)
10.3	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and Commerce Capital Markets dated September 29, 1999 (9) (Exhibit 10.37)
10.4	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of October 1, 1999 (9) (Exhibit 10.38)
10.5	Placement Agency Agreement between Philadelphia Suburban Water Company and Merrill Lynch & Co., PaineWebber Incorporated, A.G. Edwards & Sons, Inc., First Union Securities, Inc., PNC Capital Markets, Inc. and Janney Montgomery Scott, Inc., dated as of November 15, 1999 (10) (Exhibit 10.41)
10.6	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and The GMS Group, L.L.C., dated October 23, 2001 (12) (Exhibit 10.35)
10.7	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of October 15, 2001 (12) (Exhibit 10.36)
10.8	Bond Purchase Agreement among the Bucks County Industrial Development Authority, Pennsylvania Suburban Water Company and Janney Montgomery Scott LLC, dated May 21, 2002 (14) (Exhibit 10.42)
10.9	Construction and Financing Agreement between the Bucks County Industrial Development Authority and Pennsylvania Suburban Water Company dated as of June 1, 2002 (14) (Exhibit 10.43)
10.10	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Pennsylvania Suburban Water Company, and The GMS Group, L.L.C., dated December 19, 2002 (15) (Exhibit 10.44)
10.11	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Pennsylvania Suburban Water Company dated as of December 15, 2002 (15) (Exhibit 10.45)
10.12	Aqua America, Inc. 2004 Equity Compensation Plan as amended by Amendment effective February 22, 2007* (22) (Exhibit 10.29)
10.13	2010 Annual Cash Incentive Compensation Plan* (32) (Exhibit 10.24)
10.14	Bond Purchase Agreement among the Northumberland County Industrial Development Authority, Aqua Pennsylvania, Inc., and Sovereign Securities Corporation, LLC, dated November 16, 2004 (21) (Exhibit 10.31)
10.15	Aqua America, Inc. 2004 Equity Compensation Plan* (19) (Appendix C)
10.16	2005 Executive Deferral Plan* (21) (Exhibit 10.33)
10.17	Bond Purchase Agreement among the Montgomery County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 12, 2007 (26) (Exhibit 10.34)

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Exhibit No.	Description
10.18	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated May 10, 2005 (20) (Exhibit 10.36)
10.19	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 21, 2005 (13) (Exhibit 10.37)
10.20	Aqua America, Inc. Dividend Reinvestment and Direct Stock Purchase Plan* (26)
10.21	Aqua America, Inc. Amended and Restated Employee Stock Purchase Plan* (13) (Exhibit 10.39)
10.22	Non-Employee Directors' Compensation for 2011*
10.23	Non-Employee Directors' Compensation for 2010* (28) (Exhibit 10.32)
10.24	Bond Purchase Agreement among the Chester County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 21, 2006 (25) (Exhibit 10.2)
10.25	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 4, 2008 (28) (Exhibit 10.35)
10.26	Aqua America, Inc. 2004 Equity Compensation Plan (amended and restated as of January 1, 2009)* (28) (Exhibit 10.36)
10.27	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Nicholas DeBenedictis* (28) (Exhibit 10.37)
10.28	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Roy H. Stahl* (28) (Exhibit 10.38)
10.29	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and David P. Smeltzer* (28) (Exhibit 10.39)
10.30	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Karl M. Kyriss* (28) (Exhibit 10.40)
10.31	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Christopher H. Franklin* (28) (Exhibit 10.41)
10.32	Change in Control and Severance Agreement between Aqua America, Inc. and Nicholas DeBenedictis* (28) (Exhibit 10.42)
10.33	Change in Control Agreement between Aqua America, Inc. and Roy H. Stahl* (28) (Exhibit 10.43)
10.34	Change in Control Agreement between Aqua America, Inc. and David P. Smeltzer* (28) (Exhibit 10.44)
10.35	Change in Control Agreement between Aqua America, Inc. and Karl M. Kyriss* (28) (Exhibit 10.45)
10.36	Change in Control Agreement between Aqua America, Inc. and Christopher H. Franklin* (28) (Exhibit 10.46)
10.37	Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (as amended and restated effective January 1, 2008)* (28) (Exhibit 10.47)
10.38	Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis (as amended and restated effective January 1, 2008)* (28) (Exhibit 10.48)

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Exhibit No.	Description
10.39	Amendment 2008-1 to the Aqua America, Inc. Deferred Compensation Plan Master Trust Agreement dated as of December 15, 2008* (28) (Exhibit 10.50)
10.40	Aqua America, Inc. 2009 Executive Deferral Plan, As Amended and Restated Effective January 1, 2009* (27) (Exhibit 4.1)
10.41	Aqua America, Inc. 2009 Omnibus Equity Compensation Plan* (30) (Exhibit 99.1)
10.42	Aqua America, Inc. 2009 Omnibus Equity Compensation Plan, As Amended Effective February 25, 2011 *
10.43	Employment agreement dated January 31, 2010, between Aqua America, Inc. and Nicholas DeBenedictis * (31) (Exhibit 10.1)
10.44	First amendment to Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (as amended and restated effective January 1, 2008)* (32) (Exhibit 10.54)
10.45	Second amendment to Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (as amended and restated effective January 1, 2008)* (31) (Exhibit 10.3)
10.46	First amendment to Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis (as amended and restated effective January 1, 2008)* (32) (Exhibit 10.56)
10.47	Second amendment to Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis (as amended and restated effective January 1, 2008)* (31) (Exhibit 10.4)
10.48	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jeffries and Company, Inc., and Janney Montgomery Scott LLC, dated June 30, 2009 (29) (Exhibit 10.52)
10.49	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jeffries and Company, Inc., Janney Montgomery Scott LLC, and PNC Capital Markets LLC, dated October 20, 2009 (32) (Exhibit 10.59)
10.50	Restricted Stock Grant Agreement made by Aqua America, Inc. to Nicholas DeBenedictis dated January 31, 2010* (31) (Exhibit 10.2)
10.51	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jeffries and Company, Inc., PNC Capital Markets LLC, and TD Securities (USA) LLC, dated October 27, 2010
13.1	Selected portions of Annual Report to Shareholders for the year ended December 31, 2010 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 2010.
21.1	Subsidiaries of Aqua America, Inc.
23.1	Consent of Independent Registered Public Accounting Firm — PricewaterhouseCoopers LLP
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRES	XBRL Taxonomy Extension Presentation Linkbase Document

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

Notes -
Documents Incorporated by Reference

- (1) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1992.
- (2) Indenture of Mortgage dated as of January 1, 1941 with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 were filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1983.
- (3) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1988.
- (4) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1989.
- (5) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1991.
- (6) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.
- (7) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1996.
- (8) Filed as an Exhibit to Form 8-K filed August 7, 1997.
- (9) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.
- (10) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1999.
- (11) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2000.
- (12) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2001.
- (13) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2005.
- (14) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- (15) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2002.
- (16) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
- (17) Filed as an Exhibit to Form 8-K filed December 9, 2004.
- (18) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2003.
- (19) Filed as Appendix C to definitive Proxy Statement dated April 2, 2004.
- (20) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
- (21) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2004.
- (22) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2006.
- (23) Filed as an Exhibit to Form 8-K filed March 7, 2005.
- (24) Filed as a Registration Statement on Form S-3 on August 8, 2008.
- (25) Filed an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.
- (26) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2007.
- (27) Filed as a Registration Statement on Form S-8 on December 10, 2008.
- (28) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2008.
- (29) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.
- (30) Filed as a Registration Statement on Form S-8 on June 11, 2009.
- (31) Filed as an Exhibit to Form 8-K filed on February 4, 2010.
- (32) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2009.
- (33) Filed as an Exhibit to Form 8-K filed on October 7, 2010.

* Indicates management contract or compensatory plan or arrangement.

CREDIT AGREEMENT

among

AQUA PENNSYLVANIA, INC.

and

THE BANKS PARTY HERETO

and

**PNC BANK, NATIONAL ASSOCIATION
as Agent**

Dated as of November 30, 2010

\$100,000,000

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CREDIT AGREEMENT

THIS CREDIT AGREEMENT (this "Agreement") dated as of November 30, 2010, by and among **AQUA PENNSYLVANIA, INC.**, a Pennsylvania corporation (the "Borrower"), the several banks and other financial institutions from time to time parties to this Agreement (the "Banks"), and **PNC BANK, NATIONAL ASSOCIATION**, a national banking association, as administrative agent (in such capacity, the "Agent").

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 Loans on the terms and conditions herein contained. Proceeds of the Loans will be used for refinancing existing indebtedness and general working capital purposes including financing acquisitions.

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:

"**Adjusted Revolving Credit Commitment Percentage**": with respect to any non-Defaulting Bank, the quotient (expressed as a percentage) of such Bank's aggregate Commitment divided by the aggregate Commitments of all non-Defaulting Banks.

"**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.

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

"**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 C 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 highest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Open Rate in effect on such day plus fifty (50) basis points (0.5%) and (c) the Daily LIBOR Rate plus one hundred (100) basis points (1.0%). 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 or the Daily LIBOR 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) or (c) as the case may be, 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, the Federal Funds Open Rate or the Daily LIBOR Rate shall be effective on the effective date of such change in the Prime Rate, the Federal Funds Open Rate or the Daily LIBOR Rate, as the case may be.

“Base Rate Borrowing”: a Borrowing comprised of Base Rate Loans.

“Base Rate Loan”: any Revolving Credit Loan bearing interest at a rate determined by reference to the Base Rate.

“Borrower”: as defined in the heading of this Agreement.

“Borrowing”: a Swing Line Loan made by the Swing Line Bank or each group of Revolving Credit Loans of a single Type made by the Banks on a single date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect.

“Borrowing Request”: a request made pursuant to Section 2.1(c) in the form of Exhibit A.

“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) 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.

“Closing”: as defined in Section 4.3.

“Closing Date”: as defined in Section 4.3.

“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 Loans to the Borrower hereunder in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Bank’s name on Schedule I or in the Assignment and Acceptance pursuant to which such Bank becomes a party to this Agreement, as the same may be permanently terminated, reduced and extended from time to time pursuant to the provisions of Section 2.9 or changed by subsequent assignments pursuant to subsection 9.6(b).

“Commitment 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 Commitments shall have expired or been terminated, the percentage which the amount of such Bank’s Loans constitutes of the aggregate amount of the Loans of the Banks then outstanding).

“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 Assets”: at any time, the amount at which all assets (including, without duplication, the capitalized value of any leasehold interest under any Capital Lease) of the Borrower would be reflected on a consolidated balance sheet of the Borrower at such time.

“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 EBITDA”: for any period, Consolidated Net Income for such period, plus the amount of income taxes, interest expense, depreciation and amortization 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:

- (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.

“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.

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.

“Daily LIBOR Rate” shall mean, for any day, the rate per annum determined by the Agent by dividing (the resulting quotient rounded upwards, if necessary, to the nearest 1/100th of 1%) (x) the Published Rate by (y) a number equal to 1.00 minus the Eurocurrency Reserve Requirements. The Published Rate shall be adjusted as of each Business Day based on changes in the Published Rate or the Eurocurrency Reserve Requirements without notice to the Borrower, and shall be applicable from the effective date of any such change.

“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 and (y) the aggregate amount of accounts receivable sold, factored or otherwise transferred for value without recourse (other than for breach of representations).

“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.

“Defaulting Bank”: any Bank, as determined by the Agent, that has (a) failed to fund any portion of its Revolving Credit Loans or participations in Swing Line Loans within three Business Days of the date required to be funded by it hereunder, (b) notified the Borrower, the Agent, the Swing Line Bank or any Bank in writing that it does not intend to comply with any of its funding obligations under this Agreement or has made a public statement to the effect that it does not intend to comply with its funding obligations under this Agreement or under other agreements in which it commits to extend credit, (c) failed, within three Business Days after request by the Agent, to confirm that it will comply with the terms of this Agreement relating to its obligations to fund prospective Revolving Credit Loans or participations in Swing Line Loans, (d) otherwise failed to pay over to the Agent or any other Bank any other amount required to be paid by it hereunder within three Business Days of the date when due, unless the subject of a good faith dispute, or (e) (i) become or is insolvent or has a parent company that has become or is insolvent or (ii) become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment or has a parent company that has become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment (it being understood that a Defaulting Bank shall cease to be a Defaulting Bank if the Borrower, the Agent and the Swing Line Bank shall each agree that such Defaulting Bank has adequately remedied all matters that caused such Bank to be a Defaulting Bank).

“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 or public health, remediation of environmental conditions, or damages arising from such conditions, as now or may at any time hereafter be in effect.

“Equity to Capital Ratio”: at the date of determination, the ratio of Consolidated Shareholders’ Equity to the sum of (i) Consolidated Funded Debt and (ii) Consolidated Shareholders’ Equity.

“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 Rate”: with respect to the Loans comprising any Eurodollar Borrowing for any Interest Period, the interest rate per annum determined by the Agent by dividing (the resulting quotient rounded upwards, if necessary, to the nearest 1/100th of 1% per annum) (a) the rate which appears on the Bloomberg Page BBAM1 (or on such other substitute Bloomberg page that displays rates at which US dollar deposits are offered by leading banks in the London interbank deposit market), or the rate which is quoted by another source selected by the Agent which has been approved by the British Bankers’ Association as an authorized information vendor for the purpose of displaying rates at which US dollar deposits are offered by leading banks in the London interbank deposit market (for purposes of this definition, an “Alternate Source”), at approximately 11:00 a.m., London time, two (2) Business Days prior to the commencement of such Interest Period as the London interbank offered rate for U.S. Dollars for an amount comparable to such Eurodollar Borrowing and having a borrowing date and a maturity comparable to such Interest Period (or if there shall at any time, for any reason, no longer exist a Bloomberg Page BBAM1 (or any substitute page) or any Alternate Source, a comparable replacement rate determined by the Agent at such time (which determination shall be conclusive absent manifest error)), by (b) a number equal to 1.00 minus the Eurocurrency Reserve Requirements. The Eurodollar Rate may also be expressed by the following formula:

$$\text{Eurodollar Rate} = \frac{\text{London interbank offered rates quoted by Bloomberg} \\ \text{or appropriate successor as shown on Bloomberg Page BBAM1}}{1.00 - \text{Eurocurrency Reserve Requirements}}$$

The Eurodollar Rate shall be adjusted with respect to any Eurodollar Borrowing that is outstanding on the effective date of any change in the Eurocurrency Reserve Requirements as of such effective date. The Agent shall give prompt notice to the Borrower of the Eurodollar Rate as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

“Eurodollar Borrowing”: a Borrowing comprised of Eurodollar Loans.

“Eurodollar Loan”: any Revolving Credit Loan bearing interest at a rate determined by reference to the Eurodollar Rate in accordance with the provisions of Section 2.

“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.

“Exposure”: as to any Bank at any date, an amount equal to the sum of (a) the aggregate principal amount of all Loans made by such Bank then outstanding and (b) the principal amount of such Bank’s pro rata share of Swing Line Loans then outstanding based on its Commitment Percentage.

“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 shall mean the rate per annum which is the daily federal funds open rate as quoted by ICAP North America, Inc. (or any successor) as set forth on the Bloomberg Screen BTMM for that day opposite the caption “OPEN” (or on such other substitute Bloomberg Screen that displays such rate), or as set forth on such other recognized electronic source used for the purpose of displaying such rate as selected by the Agent (an “Alternate Federal Funds Source”) (or if such rate for such day does not appear on the Bloomberg Screen BTMM (or any substitute screen) or on any Alternate Federal Funds Source, or if there shall at any time, for any reason, no longer exist a Bloomberg Screen BTMM (or any substitute screen) or any Alternate Federal Funds Source, a comparable replacement rate determined by the Agent at such time (which determination shall be conclusive absent manifest error)); provided, that if such day is not a Business Day, the Federal Funds Open Rate for such day shall be the Federal Funds Open Rate on the immediately preceding Business Day.”

“Fee Letters”: collectively, the two letters from the Agent to the Borrower dated November 19, 2010 regarding certain fees.

“Fees”: as defined in subsection 2.4(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.

“Guarantor”: any Material Subsidiary which becomes a “Guarantor” after the date hereof pursuant to Section 5.11.

“Guaranty”: any Guaranty Agreement entered into by a Guarantor pursuant to Section 5.11.

“Indenture”: means the Indenture of Mortgage dated as of January 1, 1941 between the Borrower and Chase Manhattan Trust Company, National Association, as successor Trustee, as amended and supplemented.

“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.

“Interest Payment Date”: (a) as to any Base Rate Loan or Swing Line 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:

(i) initially the period commencing on the borrowing or conversion date, as the case may be, with respect to such Eurodollar Loan and ending one, two, three or six months thereafter, as selected by the Borrower in their notice of borrowing or notice of conversion, given with respect thereto; and

(ii) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Loan and ending one, two, 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 Termination Date shall end on the Termination 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 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).

“Loan Documents”: this Agreement, the Notes and any Guaranty.

“Loans”: the collective reference to the Revolving Credit Loans and the Swing Line Loans.

“Material” means material in relation to the business, operations, affairs, financial condition, assets or properties of the Borrower and its subsidiaries taken as a whole.

“Material Adverse Effect”: a material adverse effect on (a) the validity or enforceability of this Agreement or any other Loan Document, (b) the business, Property, assets, financial condition or results of operations 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.

“Material Subsidiary”: a Subsidiary of the Borrower the assets or net earnings of which, determined in accordance with GAAP, constitute more than 5% of the Borrower’s Consolidated Assets or Consolidated Net Income, as the case may be.

“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, or pollutants or contaminants defined or regulated as such in or under any Environmental Law, including, without limitation, asbestos, polychlorinated biphenyls, and ureaformaldehyde insulation.

“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.

“Non-Defaulting Bank”: at any time, all Banks other than any Defaulting Banks at such time.

“Notes”: the Revolving Credit Notes and the Swing Line Notes.

“Parent Company”: Aqua America, Inc., a Pennsylvania corporation.

“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 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 \$70,000,000, 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 \$75,000,000, shall also have been consented to by the Required Banks.

“Permitted Investments”: Investments in:

- (a) one or more Material or Wholly-Owned Subsidiaries thereof;
- (b) Property to be used in the ordinary course of business of the Borrower;
- (c) current assets arising from the sale or purchase of goods and services in the ordinary course of business of the Borrower;
- (d) 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;
- (e) 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;

(f) 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;

(g) mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 that hold themselves out as "money market funds;"

(h) trade credit extended on usual and customary terms in the ordinary course of business;

(i) advances to employees to meet expenses incurred by such employees in the ordinary course of business;

(j) Permitted Acquisitions; and

(k) other loans, advances and investments not exceeding in the aggregate \$2,000,000 at any one time outstanding.

(l) investments in tax exempt obligations of any state of the United States of America, or any municipality of any such State, in each case rated "Aa2" or higher by Moody's or "AA" or higher by S&P or an equivalent credit rating by another credit rating agency of recognized national standing, provided that such obligations mature or can be tendered by the holder within 365 days from the date of acquisition thereof; and

(m) investments in repurchase agreements.

"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.

“Published Rate” shall mean the rate of interest published each Business Day in The Wall Street Journal “Money Rates” listing under the caption “London Interbank Offered Rates” for a one month period (or, if no such rate is published therein for any reason, then the Published Rate shall be the eurodollar rate for a one month period as published in another publication determined by the Agent).

“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.

“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 the Exposures of which aggregate at least 51% of the Total Exposure at such time of the Banks, or (b) if there are no Loans outstanding, Banks whose Commitments aggregate at least 51% of the Total Commitment at such time.

“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”: as to any Borrower, any officer of such Borrower or of the manager of such Borrower.

“Revolving Credit Loans”: the revolving loans made by the Banks to the Borrower pursuant to Section 2.1(a). Each Loan shall be a Eurodollar Loan or a Base Rate Loan.

“Revolving Credit Note”: a promissory note of the Borrower in the form of Exhibit B-1, as the same may be amended, supplemented or otherwise modified from time to time.

“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; and

(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; and

(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

(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.

“Supplemental Indenture”: means the Forty-Sixth Supplemental Indenture to the Indenture dated as of October 15, 2010.

“Swing Line Bank”: PNC Bank, National Association, or any other Bank to which the Swing Line Commitment is assigned pursuant to the terms of Section 9.6.

“Swing Line Collateral Account”: as defined in Section 2.17(b)(ii).

“Swing Line Commitment”: the amount set forth opposite the Swing Line Bank’s name under the heading “Swing Line Commitment” on Schedule I hereto, as such amount may be reduced pursuant to Section 2.2(f).

“Swing Line Loans”: has the meaning given to such term in Section 2.2(a).

“Swing Line Note”: has the meaning given to such term in Section 2.2(c), as the same may be amended, supplemented or otherwise modified from time to time.

“Swing Line Repayment Date”: has the meaning given to such term in Section 2.2(b).

“Termination Date”: the earlier of (a) November 28, 2011 or any later date to which the Termination Date shall have been extended pursuant to subsection 2.8(d) hereof and (b) the date the Commitments are terminated as provided herein.

“Total Commitment”: at any time, the aggregate amount of the Banks’ Commitments, as in effect at such time.

“Total Commitment Percentage”: as to any Bank at any time, the proportion (expressed as a percentage) that such Bank’s Commitment bears to the Total Commitment.

“Total Exposure”: at any time, the aggregate amount of the Banks’ Exposures 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 (whether or not such Loans originally were made on the same date).

“Type”: when used in respect of any Revolving Credit Loan or Borrowing of Revolving Credit Loans, shall refer to the Rate by reference to which interest on such Revolving Credit Loan or on the Revolving Credit Loans comprising such Borrowing is determined. For purposes hereof, “Rate” shall include the Eurodollar Rate and the Base Rate.

“USA Patriot Act”: shall mean 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.

“Wholly-Owned Subsidiary”: at any time, any Subsidiary one hundred percent (100%) of all of the equity Securities (except directors’ qualifying shares) and voting Securities of which are owned by any one or more of the Borrower at such time.

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.

(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 CREDITS

2.1 Revolving Credit 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 Revolving Credit Loans to the Borrower, at any time or from time to time on or after the date hereof and until the Termination Date or until the Commitment of such Bank shall have been terminated in accordance with the terms hereof, in an aggregate principal amount at any time outstanding which, when added to such Bank's Commitment Percentage of the principal amount of Swing Line Loans then outstanding does not exceed such Bank's Commitment subject, however, to the conditions that (i) at no time shall (x) the sum of the outstanding aggregate principal amount of all Loans made by all Banks exceed (y) the Total Commitment and (ii) at all times the outstanding aggregate principal amount of all Revolving Credit Loans required to be made by each Bank shall equal the product of (x) its Commitment Percentage times (y) the outstanding aggregate principal amount of all Revolving Credit Loans required to be made pursuant to subsection 2.1 at such time. Such Commitments may be terminated or reduced from time to time pursuant to Section 2.8. Within the foregoing limits, the Borrower may borrow, repay and reborrow under the Commitment on or after the date hereof and prior to the Termination Date, subject to the terms, provisions and limitations set forth herein.

(b) Each Revolving Credit Loan shall be made as part of a Borrowing consisting of Revolving Credit Loans made by the Banks ratably in accordance with their Commitment Percentages; provided, however, that the failure of any Bank to make any Revolving Credit 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 any Revolving Credit Loan required to be made by such other Bank). The Revolving Credit Loans comprising any Eurodollar Borrowing shall be in a minimum aggregate principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof (or an aggregate principal amount equal to the remaining balance of the available Commitments) and the Revolving Credit Loans comprising any Base Rate Borrowing shall be in a minimum aggregate principal amount of \$250,000 or a whole multiple of \$50,000 in excess thereof (or an aggregate principal amount equal to the remaining balance of the available Commitments). Each Borrowing of Revolving Credit Loans shall be comprised entirely of Eurodollar Loans or Base Rate Loans, as the Borrower may request pursuant to Section 2.1.

(c) In order to request a Borrowing, the Borrower shall hand deliver or telecopy (or notify by telephone and promptly confirm by hand delivery or telecopy) to the Agent the information requested by the form of Borrowing Request attached as Exhibit A hereto (i) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., Philadelphia time, three Business Days before a proposed Borrowing and (ii) in the case of a Base Rate Borrowing, not later than 11:00 a.m., Philadelphia time, on the day of a proposed Borrowing. Such notice shall be irrevocable and shall in each case specify (x) whether the Borrowing then being requested is to be a Eurodollar Borrowing or a Base Rate Borrowing; (y) the date of such Borrowing (which shall be a Business Day) and the amount thereof; and (z) if such Borrowing is to be a Eurodollar Borrowing, the Interest Period with respect thereto. If no election as to the Type of Borrowing is specified in any such notice, then the requested Borrowing shall be a Base Rate Borrowing. If no Interest Period with respect to any Eurodollar Borrowing is specified in any such notice, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. The Agent shall promptly advise the Banks of any notice given pursuant to this Section 2.1 and of each Bank's portion of the requested Borrowing.

2.2 Swing Line Loans. (a) Subject to the terms and conditions hereof, the Swing Line Bank may in its discretion make swing line loans (the "Swing Line Loans") to the Borrower from time to time until the Termination Date or until the Swing Line Commitment is terminated in accordance with the terms hereof in the aggregate up to the amount of the Swing Line Commitment for periods requested by the Borrower and agreed to by the Swing Line Bank; provided, that, no Swing Line Loan shall be made if, after giving effect to the making of such Loan and the simultaneous application of the proceeds thereof, the Total Exposure would exceed the Total Commitment. Within the foregoing limits, the Borrower may borrow, repay and reborrow under the Swing Line Commitment, subject to and in accordance with the terms and limitations hereof.

(b) The Borrower may request a Swing Line Loan to be made on any Business Day. Each request for a Swing Line Loan shall be in writing (or by telephone promptly confirmed in writing) and delivered to the Swing Line Bank not later than 12:00 noon, Philadelphia time, on the Business Day such Swing Line Loan is to be made, specifying in each case (i) the amount to be borrowed, (ii) the requested borrowing date, (iii) whether the interest rate applicable to such Swing Line Loan is to be: (A) the Base Rate or (B) an interest rate mutually agreed upon by the Borrower and the Swing Line Bank and (iv) the date such Swing Line Loan is to be repaid (the "Swing Line Repayment Date"). The request for such Swing Line Loan shall be irrevocable. Provided that all applicable conditions precedent contained in Section 4.2 hereof have been satisfied, the Swing Line Bank shall, not later than 4:00 p.m., Philadelphia time, on the date specified in the Borrower's request for such Swing Line Loan, make such Swing Line Loan by crediting the Borrower's deposit account with the Swing Line Bank.

(c) The obligation of the Borrower to repay the Swing Line Loans shall be evidenced by a promissory note of the Borrower dated the date hereof, payable to the order of the Swing Line Bank in the principal amount of the Swing Line Commitment and substantially in the form of Exhibit B-2 (as amended, supplemented or otherwise modified from time to time, the "Swing Line Note").

(d) Interest shall accrue on the outstanding principal balance of a Swing Line Loan at the interest rate chosen by the Borrower in accordance with Section 2.2(b) with respect to such Swing Line Loan and shall be payable on each applicable Interest Payment Date and upon the repayment of such Swing Line Loan.

(e) A Swing Line Loan shall be repaid on the earlier of (i) the Termination Date and (ii) the Swing Line Repayment Date for such Swing Line Loan. Unless the Borrower shall have notified the Agent prior to 11:00 a.m., Philadelphia time, on such Swing Line Repayment Date that the Borrower intends to repay such Swing Line Loan with funds other than the proceeds of a Revolving Credit Loan, the Borrower shall be deemed to have given notice to the Agent requesting the Banks to make a Revolving Credit Loan which shall be a Base Rate Borrowing in accordance with Section 2.1 on the Swing Line Repayment Date in an aggregate amount equal to the amount of such Swing Line Loan plus interest thereon, and (A) subject to satisfaction or waiver of the conditions specified in Section 4.2, the Banks shall, on the Swing Line Repayment Date, make a Revolving Credit Loan which shall be a Base Rate Borrowing, in an aggregate amount equal to the amount of such Swing Line Loan plus interest thereon, the proceeds of which shall be applied directly by the Agent to repay the Swing Line Bank for such Swing Line Loan plus accrued interest thereon; and provided, further, that if for any reason the proceeds of such Base Rate Borrowing are not received by the Swing Line Bank on the Swing Line Repayment Date in an aggregate amount equal to the amount of such Swing Line Loan plus accrued interest, the Borrower shall reimburse the Swing Line Bank on the day immediately following the Swing Line Repayment Date, in same day funds, in an amount equal to the excess of the amount of such Swing Line Loan over the aggregate amount of such Base Rate Borrowing, if any, received plus accrued interest thereon.

(f) In the event that the Borrower shall fail to repay the Swing Line Bank as provided in Section 2.2(e) in an amount equal to the amount required under Section 2.2(e), the Agent shall promptly notify each Bank of the unpaid amount of such Swing Line Loan and of such Bank's respective participation therein in an amount equal to such Bank's Commitment Percentage of such Swing Line Loan. Each Bank shall make available to the Agent for payment to the Swing Line Bank an amount equal to its respective participation therein (including without limitation its pro rata share of accrued but unpaid interest thereon), in same day funds, at the office of the Agent specified in such notice, not later than 11:00 a.m., Philadelphia time, on the Business Day after the date the Agent notifies each Bank. In the event that any Bank fails to make available to the Agent the amount of such Bank's participation in such unpaid amount as provided herein, the Swing Line Bank shall be entitled to recover such amount on demand from such Bank together with interest thereon at a rate per annum equal to the Base Rate for each day during the period between the Swing Line Repayment Date and the date on which such Bank makes available its participation in such unpaid amount. The failure of any Bank to make available to the Agent its pro rata share of any such unpaid amount shall not relieve any other Bank of its obligations hereunder to make available to the Agent its pro rata share of such unpaid amount on the Swing Line Repayment Date. The Agent shall distribute to each Bank which has paid all amounts payable by it under this Section 2.2(f) with respect to the unpaid amount of any Swing Line Loan, such Bank's Commitment Percentage of all payments received by the Agent from the Borrower in repayment of such Swing Line Loan when such payments are received. Notwithstanding anything to the contrary herein, each Bank which has paid all amounts payable by it under this Section 2.2(f) shall have a direct right to repayment of such amounts from the Borrower subject to the procedures for repaying Banks set forth in this Section 2.2.

(g) In the event the Commitments are terminated in accordance with Section 2.8 hereof, the Swing Line Commitment shall also be terminated automatically. In the event the Borrower reduces the Total Commitment to less than the Swing Line Commitment, the Swing Line Commitment shall immediately be reduced to an amount equal to the Total Commitment. In the event the Borrower reduces the Total Commitment to less than the outstanding principal amount of the Swing Line Loans, the Borrower shall immediately repay the amount by which the outstanding Swing Line Loans exceed the Swing Line Commitment as so reduced plus accrued interest thereon.

(h) At no time shall there be more than two outstanding Swing Line Loans.

(i) Each Swing Line Loan shall be in an original principal amount of \$100,000 or multiples of \$50,000 in excess thereof.

(j) The Borrower shall have the right at any time and from time to time to prepay any Swing Line Loan, in whole or in part, without premium or penalty, upon prior written, telecopy or telephonic notice to the Swing Line Bank given no later than 1:00 p.m., Philadelphia time, on the date of any proposed prepayment. Each notice of prepayment shall specify the Swing Line Loan to be prepaid and the amount to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such amount on such date, with accrued interest thereon.

(k) In addition to making Swing Line Loans pursuant to the foregoing provisions of this Section 2.2, the Swing Line Bank may also make Swing Line Loans to the Borrower without the requirement for a specific request from the Borrower pursuant to Section 2.2(b) in accordance with the provisions of the agreements between the Borrower and the Swing Line Bank relating to the Borrower's deposit, sweep and other accounts at the Swing Line Bank and related arrangements and agreements regarding the management and investment of Borrower's cash assets as in effect from time to time (the "Cash Management Agreements") to the extent of the daily aggregate net negative balance in the Borrower's accounts which are subject to the provisions of the Cash Management Agreements. Swing Line Loans made pursuant to this Section 2.2(k) in accordance with the provisions of the Cash Management Agreements shall (i) be subject to the limitations as to aggregate amount set forth in Section 2.2(a), (ii) not be subject to the limitations as to number or individual amount set forth in Sections 2.2(h) and (i), (iii) be payable by the Borrower, both as to principal and interest, at the times set forth in the Cash Management Agreements (but in no event later than the Termination Date), (iv) not be made at any time after the Swing Line Bank has notice of the occurrence of a Default or Event of Default, (v) if not repaid by the Borrower in accordance with the provisions of the Cash Management Agreements, be subject to each Bank's obligation to purchase participating interests therein pursuant to Section 2.2(f), and (vi) except as provided in the foregoing subsections (i) through (v), be subject to all of the terms and conditions of this Section 2.2.

2.3 General Provisions Regarding Loans. Subject to Section 2.3(b), each Bank shall make each Revolving Credit Loan to be made by it hereunder on the proposed date thereof 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 a Borrowing 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. Loans shall be made by the Banks pro rata in accordance with Section 2.14. Unless the Agent shall have received notice from a Bank prior to the date of any Borrowing that such Bank will not make available to the Agent such Bank's portion of such Borrowing, the Agent may assume that such Bank has made such portion available to the Agent on the date of such Borrowing in accordance with this paragraph (c) 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 portion 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 Revolving Credit Loans comprising such Borrowing 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 Revolving Credit Loan as part of such Borrowing for purposes of this Agreement.

(b) The Borrower may refinance all or any part of any Borrowing with any other Borrowing, subject to the conditions and limitations set forth herein and elsewhere in this Agreement. Any Borrowing or part thereof so refinanced shall be deemed to be repaid in accordance with Section 2.5 with the proceeds of a new Borrowing hereunder and the proceeds of the new Borrowing, to the extent they do not exceed the principal amount of the Borrowing being refinanced, shall not be paid by the Banks to the Agent or by the Agent to the Borrower; provided, however, that (i) if the principal amount extended by a Bank in a refinancing is greater than the principal amount extended by such Bank in the Borrowing being refinanced, then such Bank shall pay such difference to the Agent for distribution to the Banks described in (ii) below, (ii) if the principal amount extended by a Bank in the Borrowing being refinanced is greater than the principal amount agreed to be extended by such Bank in the refinancing, the Agent shall return the difference to such Bank out of amounts received pursuant to (i) above, and (iii) to the extent any Bank fails to pay the Agent amounts due from it pursuant to (i) above, any Revolving Credit Loan or portion thereof being refinanced with such amounts shall not be deemed repaid in accordance with Section 2.5 and shall be payable by the Borrower without prejudice to the Borrower's rights against any such Bank.

(c) Each Bank may at its option fulfill its commitment hereunder with respect to any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Bank to make such Revolving Credit Loan; provided, however, that (A) any exercise of such option shall not affect the obligation of the Borrower to repay such Revolving Credit Loan in accordance with the terms of the Agreement and the applicable Note and (B) the Borrower shall not be liable for increased costs under Sections 2.11 or 2.12 to the extent that (x) such costs could be avoided by the use of a different branch or Affiliate to make Eurodollar Loans and (y) such use would not, in the judgment of such Bank, entail any significant additional expense for which such Bank shall not be indemnified hereunder or otherwise be disadvantageous to it; and

(d) All Borrowings, conversions and continuations of Revolving Credit Loans hereunder and all selections of Interest Periods hereunder shall be in such amounts and be made pursuant to such elections that, after giving effect thereto, (A) the aggregate principal amount of the Revolving Credit 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.

(e) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request any Borrowing if the Interest Period requested with respect thereto would end after the Termination Date.

2.4 Fees. (a) The Borrower agrees to pay to the Agent the fees at the times and in the amounts as are set forth in the Fee Letters (collectively, the “Fees”).

(b) All Fees shall be paid on the dates due, in immediately available funds, to the Agent for distribution, if and as appropriate, among the Banks. Once paid, none of the Fees shall be refundable under any circumstances.

2.5 Revolving Credit Notes; Repayment of Revolving Credit Loans. The Revolving Credit Loans made by each Bank shall be evidenced by a single Revolving Credit Note duly executed on behalf of the Borrower, dated the Closing Date, in substantially the form attached hereto as Exhibit B-1 with the blanks appropriately filled, payable to such Bank in a principal amount equal to the Commitment of such Bank. Each Revolving Credit Note shall bear interest from the date thereof on the outstanding principal balance thereof as set forth in Section 2.6. Each Bank shall, and is hereby authorized by the Borrower to, endorse on the schedule attached to the relevant Revolving Credit Note held by such Bank (or on a continuation of such schedule attached to each such Revolving Credit 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 each Revolving Credit Loan of such Bank, each payment or prepayment of principal of any Revolving Credit 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 Revolving Credit Loans made by such Bank in accordance with the terms of the relevant Revolving Credit Note. The outstanding principal balance of each Revolving Credit Loan, as evidenced by the relevant Revolving Credit Note, shall be payable on the Termination Date.

2.6 Interest on Revolving Credit Loans. (a) Subject to the provisions of Section 2.7, each Base Rate 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 Base Rate.

(b) Subject to the provisions of Section 2.7, each Eurodollar Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Eurodollar Rate for the Interest Period in effect for such Loan plus seventy-five (75) basis points (0.75%).

(c) Interest on each Revolving Credit Loan shall be payable on each Interest Payment Date applicable to such Revolving Credit Loan; provided that, interest accruing on overdue amounts pursuant to Section 2.7 shall be payable on demand as provided in the Revolving Credit Notes. The Eurodollar Rate and the Base Rate shall be determined by the Agent, and such determination shall be conclusive absent error.

2.7 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.

2.8 Termination, Reduction, Extension of Commitments; Additional Banks. (a) The Commitments shall be automatically terminated on the Termination Date.

(b) Subject to the last sentence of this paragraph, upon at least three Business Days' prior irrevocable written or telecopy notice to the Agent, the Borrower may at any time in whole permanently terminate, or from time to time permanently reduce, the Total Commitment. Each partial reduction of the Total Commitment shall be in a minimum principal amount of \$1,000,000 or in whole multiples of \$500,000 in excess thereof, and no such termination or reduction shall be made which would reduce the Total Commitment to an amount less than the aggregate outstanding principal amount of the Loans.

(c) Each reduction in the Total Commitment hereunder shall be made ratably among the Banks in accordance with their respective Commitment Percentages. In connection with any reduction of the Total Commitment, the Borrower shall make any prepayment required under subsection 2.9(b).

(d) During the period beginning ninety days prior to the Termination Date then in effect and ending sixty days prior to such Termination Date, the Borrower may deliver to the Agent (which shall promptly transmit to each Bank) a notice requesting that the Commitments be extended for a 364 day period beyond the Termination Date then in effect. Within thirty days after its receipt of any such notice, each Bank shall notify the Agent of its willingness or unwillingness so to extend its Commitment. Any Bank that shall fail so to notify the Agent within such period shall be deemed to have declined to extend its Commitment. If each (but only if each) Bank agrees to extend its Commitment, the Agent shall so notify the Company and each Bank, whereupon (i) the respective Commitments of the Banks shall without further act by any party hereto, be extended for a 364 day period beyond the Termination Date then in effect and (ii) the term "Termination Date" shall thereafter mean the last day of such period. Any such extension shall be evidenced by a written agreement among the Agent, the Banks and the Borrower, such agreement to be in form and substance acceptable to the Agent, the Banks and the Borrower. In the event that one or more Banks (each a "Non-Electing Bank") shall have

declined or been deemed to have declined to extend its or their Commitment and Banks holding a majority in amount of the Commitments shall have notified the Agent of their desire to extend their Commitments, the Borrower shall have the right, but not the obligation, at its own expense, upon notice to each such Non-Electing Bank and the Agent, to replace all (but not less than all) such Non-Electing Banks (in accordance with and subject to the restrictions contained in Section 9.6) at any time before the twentieth (20th) day prior to the Termination Date with one or more assignees (each a “Replacement Bank”) willing to purchase the Non-Electing Banks’ interests hereunder and to agree to extend its or their Commitment in accordance with the notice referred to in the first sentence of this clause (d). In such event, each Non-Electing Bank shall promptly upon request transfer and assign without recourse (in accordance with and subject to the restrictions contained in Section 9.6) all its interests, rights and obligations under this Agreement to the applicable Replacement Bank; provided, however, that (i) no such assignment shall conflict with any law or any rule, regulation or order of any Governmental Authority, (ii) the applicable Replacement Bank shall pay to the applicable Non-Electing Bank in immediately available funds on the date of such assignment the principal of and interest accrued to the date of payment on the Loans made by such Non-Electing Bank hereunder and all other amounts accrued for such Non-Electing Bank’s account or owed to it hereunder (including any unpaid costs or expenses), and (iii) a Non-Electing Bank shall not be required to sell its interests hereunder unless the Borrower has arranged for one or more Replacement Banks to acquire the interests of all other Non-Electing Banks. If, as a result of the foregoing, each Bank (including Replacement Banks, but excluding Non-Electing Banks whose interests have been purchased as provided above) has agreed to extend its Commitment, the Commitments shall be extended as provided in clause (i) of the fourth sentence of this paragraph and the term Termination Date shall have the meaning set forth in clause (ii) in such fourth sentence of this clause (d).

(e) Any bank or financial institution becoming a party to this Agreement in compliance with the provisions of subsection 2.8(d) hereof shall execute and deliver to the Agent and the Banks and the Borrower a joinder and assumption agreement in form and substance satisfactory to the Agent. Upon execution and delivery of such joinder such additional bank or financial institution shall be a party hereto and one of the Banks hereunder for all purposes, all as of the date of such joinder. Simultaneously therewith the Borrower shall execute and deliver to such additional Bank an additional Note to the order of such additional Bank in an amount equal to the Commitment assumed by such additional Bank.

2.9 Optional and Mandatory Prepayments of Loans. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing, in whole or in part, without premium or penalty (but in any event subject to Section 2.13), upon prior written, teletype 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 a Eurodollar Borrowing shall be in the principal amount of at least \$500,000 or in whole multiples of \$100,000 in excess thereof and each such partial prepayment of a Base Rate Borrowing shall be in the principal amount of at least \$250,000 or in whole multiples of \$50,000 in excess thereof.

(b) On the date of any termination or reduction of the Total Commitment pursuant to Section 2.8, the Borrower shall pay or prepay so much of the Borrowings as shall be necessary in order that the aggregate principal amount of the Loans then outstanding will not exceed the Total Commitment after giving effect to such termination or reduction.

(c) Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Borrowing (or portion thereof) by the amount stated therein. All prepayments under this Section on other than Base Rate Borrowings shall be accompanied by accrued interest on the principal amount being prepaid to the date of prepayment.

2.10 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 or refinance Base Rate Loans to Eurodollar Loans shall forthwith be cancelled and (b) such Bank's Revolving Credit Loans 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 Revolving Credit Loans 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 2.13.

2.11 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.

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

2.12 Taxes. (a) All payments made by the Borrower under this Agreement and the Notes shall be made free and clear of, and without deduction 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 2.12(c) and the penultimate sentence of this Section 2.12(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 fail 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.

(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-8 ECI, W-8 BEN or W-8 IMY 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-8 ECI, W-8 BEN or W-8 IMY 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-8 ECI, W-8 BEN or W-8 IMY 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 2.12(b) or the Agent or such Bank did not timely deliver to the Borrower the forms listed or described in subsection 2.12(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.

2.13 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.

2.14 Pro Rata Treatment, etc. Except as required under Sections 2.2 and 2.10, each Borrowing, each payment or prepayment of principal of any Borrowing, each payment of interest on the Loans, each reduction of the Commitments, each refinancing of any Borrowing with a Borrowing of any Type and each conversion of Loans, shall be made pro rata among the Banks in accordance with their respective Commitment Percentages. Each Bank agrees that in computing such Bank's portion of any Borrowing to be made hereunder, the Agent may, in its discretion, round each Bank's percentage of such Borrowing to the next higher or lower whole dollar amount.

2.15 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.

2.16 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 Revolving Credit Loan maturing or required to be repaid in less than one month may not be converted into or continued as a Eurodollar Loan;
- (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 2.16(b) or 2.16(c) automatically shall be converted at the end of the Interest Period in effect for such Revolving Credit 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 Revolving Credit 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 a Revolving Credit 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 Revolving Credit Loan (or portion thereof) being converted shall be paid by the Borrower at the time of conversion.

2.17 Defaulting Banks. Notwithstanding any provision of this Agreement to the contrary, if any Bank becomes a Defaulting Bank, then the following provisions shall apply for so long as such Bank is a Defaulting Bank:

- (a) such Defaulting Bank, or the Exposure and Commitment Percentage of such Defaulting Bank, as applicable, shall not be included in determining whether all Banks or Required Banks have taken or may take any action hereunder (including any consent to any amendment or waiver pursuant to Section 9.1), provided that any waiver, amendment or modification requiring the consent of all Banks or each affected Bank which affects such Defaulting Bank differently than other affected Banks shall require the consent of such Defaulting Bank;

(b) if any outstanding Swing Line Loans exist at the time a Bank becomes a Defaulting Bank then:

(i) such Defaulting Bank's pro rata portion of such Swing Line Loans shall be reallocated among the Non-Defaulting Banks in accordance with their respective Adjusted Commitment Percentages but only to the extent (x) the sum of (A) the Revolving Credit Loans of all Non-Defaulting Banks plus (B) all Non-Defaulting Banks' Adjusted Commitment Percentages of the aggregate principal amount of all outstanding Swing Line Loans then outstanding does not exceed the aggregate amount of the Commitments of all Non-Defaulting Banks and (y) the conditions set forth in Section 4.2 are satisfied at such time;

(ii) to the extent that all or any part of such Defaulting Bank's pro rata portion of Swing Line Loans cannot be reallocated pursuant to Section 2.17(b)(i), then the Borrower (A) shall, within 15 days following notice from the Agent until such Defaulting Bank ceases to be a Defaulting Bank under this Agreement, establish and, thereafter, maintain a special collateral account (the "Swing Line Collateral Account") at the Agent's office at the address specified pursuant to Section 9.2, in the name of the Borrower but under the sole dominion and control of the Agent, (B) grant to the Agent for the benefit of the Banks, solely as security for repayment of the unallocated portion of such Defaulting Bank's Commitment Percentage of outstanding Swing Line Loans, a security interest in and to the Swing Line Collateral Account and any funds that may thereafter be deposited therein and (C) shall maintain in the Swing Line Collateral Account an amount equal to the unallocated portion of such Defaulting Bank's Commitment Percentage of outstanding Swing Line Loans; and

(iii) the Swing Line Bank shall not be required to, but in its sole discretion may from time to time elect to, fund any Swing Line Loan, unless it is satisfied in its sole discretion that the related exposure will be 100% covered by the Non-Defaulting Banks and/or cash collateral will be provided by the Borrower in accordance with Section 2.17(b)(ii).

(iv) any amount payable to a Defaulting Bank hereunder (whether on account of principal, interest, fees or otherwise) shall, in lieu of being distributed to such Defaulting Bank, be retained by the Agent in a segregated account and, subject to any applicable requirements of law, be applied at such time or times as may be determined by the Agent (i) first, to the payment of any amounts owing by such Defaulting Bank to the Agent hereunder, (ii) second, pro rata, to the payment of any amounts owing by such Defaulting Bank to the Swing Line Bank hereunder, (iii) third, to the funding of any Revolving Credit Loan or the funding of any participating interest in any Swing Line Loan or in respect of which such Defaulting Bank has failed to fund its portion thereof as required by this Agreement, as determined by the Agent, (iv) fourth, if so determined by the Agent and the Borrower, held in such account as cash collateral for future funding obligations of the Defaulting Bank under this Agreement, (v) fifth, pro rata, to the payment of any amounts owing to the Borrower or the Banks as a result of any judgment of a court of competent jurisdiction obtained by the Borrower or any Bank against such Defaulting Bank as a result of such Defaulting Bank's breach of its obligations under this Agreement; provided that, if an Event of Default shall have occurred and be continuing, any payments that would be made to the Borrower shall be applied by the Agent to the Obligations in such order as the Agent shall elect and (vi) sixth, to such Defaulting Bank or as otherwise directed by a court of competent jurisdiction; provided that if such payment is (x) a payment of the principal amount of any Revolving Credit Loans for which a Defaulting Bank has not fully funded its participation obligations and (y) made at a time when the conditions set forth in Section 4.2 are satisfied, the remaining portion of such payment shall be applied solely to prepay the Revolving Credit Loans of, and reimbursement obligations owed to, all Non-Defaulting Banks pro rata prior to being applied to the prepayment of any Revolving Credit Loans of, or reimbursement obligations owed to, any Defaulting Bank.

(v) In the event that the Borrower, the Agent and the Swing Line Bank each agrees that a Defaulting Bank has adequately remedied all matters that caused such Bank to be a Defaulting Bank, then the Swing Line Loans of the Banks shall be readjusted to reflect the inclusion of such Bank's Commitment Percentage and on such date such Bank shall purchase at par such of the Revolving Credit Loans of the other Banks (other than Swing Line Loans) as the Agent shall determine may be necessary in order for such Bank to hold such Revolving Credit Loans in accordance with its Commitment Percentage, subject to the provisions of Section 2.13.

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, 2009 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 September 30, 2010 and the statements of income and cash flow of the Borrower and its Subsidiaries for the nine month period ended September 30, 2010, 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 any 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.

3.2 No Adverse Change. Since December 31, 2009, 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, and subsisting under the laws of the jurisdiction of its incorporation, (b) has the corporate power and authority 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 to transact business in 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 and the other Loan Documents to which it is a party 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 and the other Loan Documents to which it is a party. 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 or the other Loan Documents. This Agreement has been, and each Note and other Loan Document will be, duly executed and delivered on behalf of the Borrower. This 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 by the Borrower, the borrowings hereunder and the use of the proceeds thereof 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 (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.

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 Indenture 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) Each Plan has complied in all respects with the applicable provisions of the ERISA and the Code and has been administered in accordance with its terms, except to the extent that failure(s) to so comply, or to so administer the Plan, in the aggregate, has not resulted in and could not reasonably be expected to result in a Material Adverse Effect. No Reportable Event has occurred with respect to any Single Employer Plan which presents a material risk of termination of the Plan by the PBGC. There have been no “prohibited transactions” (as defined in Section 406 of ERISA or Section 4975 of the Code) in connection with which the Borrower or any Commonly Controlled Entity could be subject to any Material civil penalty under 502(i) of ERISA or any Material excise tax under Section 4975 of the Code.

(b) With respect to each Single Employer Plan maintained by the Borrower or a Commonly Controlled Entity, the adjusted funding target attainment percentage (within the meaning of Section 436(j)(2) of the Code) of each such Single Employer Plan, as of the close of the most recent plan year for such Plan as certified by the Plan’s actuary, is not less than eighty percent (80%).

(c) Neither the Borrower nor any Commonly Controlled Entity has 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 are Material. To the best of Borrower’s knowledge, no Multiemployer Plan is in Reorganization as defined in Section 4241 of ERISA or is Insolvent.

(d) The expected post-retirement benefit obligation (determined as of the last day of the Company’s most recently ended fiscal year in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification 715-60 (formerly FASB Statement No. 106), without regard to liabilities attributable to continuation coverage mandated by Section 4980B of the Code) of the Company and its Subsidiaries would not reasonably be expected to have a Material Adverse Effect.

3.11 Investment 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 or (b) 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 for refinancing existing indebtedness of the Borrower and the Borrower's general working capital purposes including the financing of Permitted Acquisitions.

3.13 Environmental Matters. To the best knowledge of the Borrower, except as may be disclosed on Schedule 3.13 and except to the extent that the aggregate cost of any remediation or other expense to the Borrower as a consequence of the failure of any of the following representations to be true and correct does not exceed \$1,000,000, each of the representations and warranties set forth in paragraphs (a) through (d) of this subsection is true and correct with respect to each parcel of real property owned or operated by the Borrower (the "Properties"):

(a) the Borrower does not have any knowledge of any claim nor has it received any written notice of any claim, and no proceeding has been instituted of which it has received written notice, raising any claim against the Borrower or any of its real properties now or formerly owned, leased or operated by it, or other assets, alleging damage to the environment or any violation of or liability arising under any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect;

(b) the Borrower does not have knowledge of any facts which would give rise to any claim, public or private, for violation of or liability arising under Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties or to operation of other assets now or formerly owned, leased or operated by it or for its use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect;

(c) the Borrower has not stored any Materials of Environment Concern on real properties now or formerly owned, leased or operated by it, and has not disposed of or released any Materials of Environment Concern in a manner that may give rise to liability under any Environmental Laws and in any manner that could reasonably be expected to result in a Material Adverse Effect; and

(d) all buildings on all real properties now owned, leased or operated by the Borrower are and have been constructed, maintained and operated in a manner that will not give rise to liability under applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

3.14 Ownership of the Borrower. As of the Closing Date the Borrower is a wholly-owned Subsidiary of the Parent Company.

3.15 Patents, Trademarks, etc. The Borrower has obtained and holds in full force and effect 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.

3.16 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.

3.17 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, except where the failure to obtain and hold such rights, consents or approvals could not reasonably be expected to have a Material Adverse Effect.

3.18 Labor Matters. The Borrower has not, within the last five years, suffered any strikes, walkouts, work stoppages or other labor difficulty involving a material number of its employees 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.

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.

3.21 Anti-Terrorism Laws. (a) Neither the Borrower nor its Subsidiaries or Affiliates are in violation of any Anti-Terrorism Law nor does the Borrower or its Subsidiaries 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 any Anti-Terrorism Law.

(b) Executive Order No. 13224. Neither the Borrower nor any of its Subsidiaries, Affiliates or agents acting or benefiting in any capacity in connection with the extensions of credit 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 listed above.

The Borrower does not nor does any of its Subsidiaries, Affiliates or agents acting in any capacity in connection with the extensions of credit hereunder or other transactions hereunder (x) conduct any business or engage in making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person, or (y) deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224.

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 initial Loan hereunder is subject to the satisfaction, immediately prior to or concurrently with such Loans, 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, (ii) for the account of each Bank, a Revolving Credit Note conforming to the requirements hereof and executed by a duly authorized officer of the Borrower and (iii) for the account of the Swing Line Bank, the Swing Line 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 and the other Loan Documents to which it is a party, 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.

(f) Indenture. The Agent shall have received, with a counterpart for each Bank, true and complete copies of the Indenture and the Supplemental Indenture.

(g) 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.

(h) Legal Opinion. The Agent shall have received, with a counterpart for each Bank, the executed legal opinion of the General Counsel 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 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.

(i) No Material Adverse Change. There shall be no material adverse change in the business, operations, Property 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.

(j) No Litigation. No action, proceeding, investigation, regulation or legislation shall have been instituted, or to the knowledge of the Borrower, 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.

(k) 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).

(l) Existing Indebtedness. The existing loans owed by the Borrower pursuant to a Revolving Credit Agreement by and among the Borrower, the banks party thereto and PNC Bank, National Association, as Agent, dated as of December 29, 1999, as amended, shall have been repaid in full or arrangements satisfactory to the Agent shall exist for the repayment thereof from the proceeds of the initial Loans hereunder, and the commitments thereunder terminated.

(m) 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.

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

4.2 Conditions to Each Loan. The agreement of each Bank to make any Loan requested to be made by it on any date (including, without limitation, the first such Loan hereunder) is subject to the satisfaction of the following conditions precedent:

(a) Representations and Warranties. Each of the representations and warranties made by the Borrower herein or which are contained in any certificate, document or financial or other statement furnished at any time under or in connection herewith or therewith shall be true and correct in all material respects on and as of such date as if made on and as of such date; provided, however, that for purposes of the representations in Section 3.1 hereof, the annual and quarterly financial information referred to in such Section shall be deemed to be the most recent such information furnished to each Bank.

(b) No Default. No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to the Loans requested to be made or the Letter of Credit is to be issued on such date.

(c) No Contravention of Law. The making of the Loans or the issuance of the Letter of Credit shall not contravene any Requirement of Law applicable to the Borrower or any of the Banks.

Each borrowing by the Borrower hereunder shall constitute a representation and warranty by the Borrower as of the date of such Loan that the conditions contained in this Section 4.2 have been satisfied.

4.3 Closing. The closing (the "Closing") of the transactions contemplated hereby shall take place at the offices of Ballard Spahr LLP, commencing at 10:00 a.m., Philadelphia time, on November 30, 2010 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 the Commitments remain in effect, any Note remains outstanding and unpaid, any Letter of Credit remains outstanding 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;

(b) on or prior to February 15 of each fiscal year, a budgeted balance sheet, income statement and statement of cash flow for the current fiscal year; and

(c) promptly, such 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, except to the extent that failure to do so would not have a Material Adverse Effect, preserve, renew and keep in full force and effect its corporate existence and 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.

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; provided, however, that this Section shall not prevent the Borrower from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Borrower has concluded that such discontinuance would not, individually or in the aggregate, have a Material Adverse Effect on its business, operations, affairs, financial condition, property or assets, taken as a whole.

(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 and the Parent Company 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 Indenture, 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;

(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 which presents a material risk of termination for the Plan by the PBGC, (ii) any withdrawal from, or the termination, Reorganization or Insolvency of any Multiemployer Plan, (iii) the adjusted funding target attainment percentage (within the meaning of Section 436(j)(2) of the Code) with respect to any Single Employer Plan maintained by the Borrower or a Commonly Controlled Entity is certified by the Single Employer Plan's actuary to be less than eighty percent (80%) or deemed by operation of Section 436 of the Code in the absence of such certification to be less than eighty percent (80%), or (iv) the institution of proceedings or the taking of any action by the PBGC or the Borrower or any Commonly Controlled Entity or any Multiemployer Plan with respect to the termination of any Single Employer Plan in a distress termination under Section 4041(c) of ERISA or the withdrawal from or the termination, Reorganization or Insolvency, of any Multiemployer Plan; and

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

Each notice pursuant to this subsection 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, noncompliance with or liability arising under any Environmental Laws applicable to the real property owned or operated by or the operations of 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 Covenants of the Indenture. Comply at all times with the covenants contained in the Indenture, as last supplemented by the Supplemental Indenture, without regard to any amendment of or supplement to the Indenture occurring after October 15, 2010.

5.11 Guarantees of Obligations. It is the intent of the parties hereto that all of the obligations of the Borrower hereunder shall be unconditionally guaranteed by all of its Material Subsidiaries to the maximum extent permitted under any Requirement of Law applicable to any such Material Subsidiary. Accordingly, in the event that any Material Subsidiary shall be formed, acquired or come into existence after the date hereof then the Borrower will cause such Material Subsidiary to (i) execute and deliver a Guaranty Agreement in form and substance satisfactory to the Agent pursuant to which such Material Subsidiary will become a "Guarantor" hereunder, and guarantee the obligations of the Borrower hereunder and under the Notes and other Loan Documents and (ii) deliver such proof of corporate or other action, incumbency of officers, opinions of counsel and other documents as is consistent with those delivered by the Borrower pursuant to Section 4.1 on the Closing Date or as the Agent shall have reasonably requested.

5.12 Anti-Terrorism Laws. Neither the Borrower nor its Affiliates, Subsidiaries or agents shall (a) conduct any business or engage in any transaction or dealing with any Blocked Person, including the making or receiving of any contribution of funds, goods or services to or for the benefit of any Blocked Person, (b) deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to Executive Order No. 13224; or (c) 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 Agent any certification or other evidence requested from time to time by the Agent in its sole discretion, confirming Borrower's and its Affiliates' and Subsidiaries' compliance with this Section 5.12.

SECTION 6. NEGATIVE COVENANTS

The Borrower hereby agrees that, so long as the Commitments remain in effect, 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) Equity to Capital Ratio. Permit as of the end of any fiscal quarter the Equity to Capital Ratio to be less than thirty eight percent (38%).

(b) Interest Coverage Ratio. Permit as of the end of any fiscal quarter the Interest Coverage Ratio to be less than 1.8 to 1.

6.2 Limitation on Certain Debt. Except for the Commitments under the Loan Documents, at any time enter into, assume or suffer to exist lines of credit or comparable extensions of credit from one or more commercial banks (or their Affiliates) under which the Borrower has incurred or may incur aggregate Debt in excess of \$15,000,000.

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;

(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;

(i) purchase money security interests on capital equipment purchased in the ordinary course of business;

(j) Liens granted to secure indebtedness permitted by Section 6.2(vii) to the extent such Liens are also permitted under the Indenture;

(k) the Lien of the Indenture and other Liens in connection with the issuance of industrial revenue bonds or pollution control bonds, to the extent such Liens are permitted under the Indenture; and

(l) in addition to the Liens permitted by the preceding subparagraphs (a) through (k), inclusive, of this Section 6.3, Liens securing Debt of the Borrower provided that the aggregate principal amount of Debt secured by Liens pursuant to this Section 6.3(l) shall not exceed \$10,000,000.

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:

(a) the Borrower may merge into the Parent Company, so long as the Parent Company is the surviving entity;

(b) any corporation or limited liability company (other than the Parent Company) may be merged or consolidated with or into the Borrower (provided that the Borrower shall be the continuing or surviving corporation); and

(c) a merger in connection with a Permitted Acquisition in accordance with Section 6.6 in which the 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), whether now owned or hereafter acquired, except:

(i) obsolete or worn out property disposed of in the ordinary course of business;

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

(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 one-hundred and twenty (120) days 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 permanently reduce the Commitments; 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 amount of which 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 Limitations on Acquisitions. Purchase, hold or acquire beneficially any stock, other securities or evidences of indebtedness of, or make or permit any investment or acquire any interest whatsoever in, any other Person, except for Permitted Acquisitions.

6.7 Limitation on Distributions and Investments. (a) At any time make (or incur any liability to make) or pay any Distribution in respect of the Borrower (other than a Distribution payable to the Parent Company); provided, however, that as of the declaration date of any such Distribution and after giving effect to the declaration or payment of any such Distribution no Default or Event of Default would exist; or

(b) Make any Investments other than Permitted Investments.

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, 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 not materially 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.

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 or any Guarantor 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 or any Guarantor 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 or any Guarantor 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 shall (i) default in the payment of any amount due under any Debt of the Borrower 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 or any Guarantor 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 or any Guarantor shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Borrower or any Guarantor 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 or any Guarantor 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 or any Guarantor 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 or any Guarantor 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) the adjusted target attainment percentage (within the meaning of Section 436(j)(2) of the Code) with respect to any Single Employer Plan maintained by the Borrower or Commonly Controlled Entity is certified by the Single Employer Plan's actuary to be less than eighty percent (80%) or deemed by operation of Section 436 of the Code in the absence of such certification to be less than eighty percent (80%), (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 Single Employer Plan for purposes of Title IV of ERISA, (v) any Single Employer Plan, if any, shall terminate for purposes of Title IV of ERISA, or (v) the Borrower or a Commonly Controlled Entity should completely or partially withdraw from a Multiemployer Plan; and in each case in clauses (i) through (v) above, such event or condition, together with all other such events or conditions, if any, could reasonably be expected to have a Material Adverse Effect; or

(i) Any change in control of the Borrower shall occur (as used herein, the term “change in control” means either (A) any change in ownership of any class of stock or capital stock generally of the Borrower which would result in a change or transfer in the power to control the election of a majority of the board of directors or in other indicia of majority voting control to persons or entities other than those persons who have such majority voting control on the Closing Date or (B) a decrease in such persons’ right to vote at shareholders’ meetings to an aggregate level less than 51%); or

(j) 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

(k) A notice of lien or assessment in excess of \$2,000,000 is filed of record with respect to all or any part of the Borrower’s or any Guarantor’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

(l) The Borrower ceases to be Solvent; or

(m) 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, terminate the Commitments and the Swing Line Commitment and/or 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 Commitments and the Swing Line Commitment shall immediately terminate and the Banks shall be under no further obligations to make Loans hereunder, and 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.

(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 Commitments and the Swing Line Commitment have been terminated, 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 Commitments and the Swing Line Commitment have been terminated (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 Commitments and the Swing Line Commitment have been terminated it shall receive any payment on account of the Loans or any other amounts owing hereunder or under the other Loan Documents, under an Interest Rate Protection Agreement (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).

(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 2.7 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 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.

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 Commitment 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.

8.11 USA Patriot Act. (a) 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 (a) an Affiliate of a depository institution or foreign bank that maintains a physical presence in the United States or foreign country, and (b) 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: (i) within 10 days after the Closing Date, and (ii) at such other times as are required under the USA Patriot Act.

(b) Each Bank acknowledges and agrees that neither such Bank, nor any of its Affiliates, participants or assignees, may rely on the Agent to carry out such Bank’s, Affiliate’s, participant’s or assignee’s customer identification program, or other obligations required or imposed under or pursuant to the USA Patriot Act or the regulations thereunder, including the regulations contained in 31 CFR 103.121 (as hereafter amended or replaced, the “CIP Regulations”), or any other Anti-Terrorism Law, including any programs involving any of the following items relating to or in connection with the Borrower, its Affiliates or their agents, the Loan Documents or the transactions hereunder or contemplated hereby: (i) any identity verification procedures, (ii) any recordkeeping, (iii) comparisons with government lists, (iv) customer notices or (v) other procedures required under the CIP Regulations or such other Anti-Terrorism Laws.

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, (c) amend, modify or waive any provision of Section 2.2 without the written consent of the then Swing Line Bank or (d) 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.

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 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 Pennsylvania, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489
Attention: Diana Moy Kelly
Treasurer

Facsimile: (610) 645-0908

with a copy to: Aqua Pennsylvania, Inc.
762 West Lancaster Avenue
Bryn Mawr, PA 19010
Attention: Roy H. Stahl
Chief Administrative Officer and
General Counsel

(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 or the
Swing Line Bank: PNC Bank, National Association
1600 Market Street
Philadelphia, Pa 19103
Attention: Meredith Jermann

Facsimile: (215) 585-6987

and

PNC Agency Services
One PNC Plaza
249 Fifth Avenue
22nd Floor
Pittsburgh, PA 15222
Attention: Ronald Harapko

Facsimile: (412) 762-8672

provided that any notice, request or demand to or upon the Agent, the Swing Line Bank or the Banks pursuant to Sections 2.1, 2.2, 2.8 or 2.9 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 2.12 and Taxes for which the Borrower has no liability under subsection 2.12(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 to all or a portion of its interests, rights and obligations under this Agreement and the other Loan Documents (including all or a portion of its Commitment or the Swing Line Commitment, and the Loans at the time owing to it and the Notes 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) so long as the Commitments are in effect, the amount of each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Agent) shall not be less than \$5,000,000, (iii) the parties to each such assignment shall execute and deliver to the Agent an Assignment and Acceptance, together with the Note or Notes 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), (iv) any assignment of the Swing

Line Commitment may be made only to a Bank which holds a Commitment hereunder and must be of the entire Swing Line Commitment and (v) each such assignment of Revolving Credit Loans and all or any portion of a Bank's Commitment shall be of a constant, and not a varying, percentage of the assigning Bank's Commitment and Revolving Credit Loans then outstanding. 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 2.11, 2.12, 2.13 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)). Notwithstanding any provision of this subsection 9.6, after the Commitments and the Swing Line Commitments have been terminated, any Bank may assign all or any portion of its interests, rights and obligations under this Agreement and the other Loan Documents to any Person (whether or not an entity described in clause (i) above).

(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 its Commitment and/or the Swing Line Commitment, as the case may be, and the outstanding balances of its Loans, in each case 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.

(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 Commitment and/or the Swing Line Commitment of, and principal amount of the Loans 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 or Notes 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(s), (x) a new Revolving Credit Note to the order of such assignee in an amount equal to the portion of the Commitment assumed by it pursuant to such Assignment and Acceptance and, if applicable, a new Swing Line Note to the order of such assignee in an amount equal to the Swing Line Commitment and, (y) if the assigning Bank has retained a Commitment, a new Revolving Credit Note to the order of such assigning Bank in a principal amount equal to the applicable Commitment retained by it. Such new Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Notes; such new Notes shall be dated the date of the surrendered Notes which they replace and shall otherwise be in substantially the form of Exhibit B-1 or Exhibit B-2 hereto, as appropriate. 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 its Commitment or Swing Line Commitment and the Loans owing to it and the Notes 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 Loans and to approve any amendment, modification or waiver of any provision of this Agreement or the Note or Notes 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.

(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 agree that each Participant shall be entitled to the benefits of Sections 2.11, 2.12, 2.13 and 9.5 with respect to its participation in the Commitments and the Loans 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 Loans 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 2.12 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 Notes 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.

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 Loans, 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 Loans, 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.

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 located in Montgomery and Philadelphia Counties, 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.

9.16 **USA PATRIOT ACT**. Each Bank that is subject to the requirements of the USA Patriot Act hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act, it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Bank to identify the Borrower in accordance with the USA Patriot Act.

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 PENNSYLVANIA, INC.

By: David P. Smeltzer
Name: David P. Smeltzer
Title: Chief Financial Officer

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

By: Meredith Jermann
Name: Meredith Jermann
Title: Vice President

TD BANK, N.A.

By: Thomas McGrory
Name: Thomas McGrory
Title: Vice President

CITIZENS BANK OF PENNSYLVANIA

By: Leslie D. Broderick
Name: Leslie D. Broderick
Title: Senior Vice President

Schedule I

Bank and Commitment Information

Bank	Commitment	Swing Line Commitment
PNC Bank, National Association 1600 Market Street Philadelphia, PA 19103 Attention: Meredith Jermann	\$ 50,000,000	\$ 10,000,000
TD Bank, N.A. 2005 Market Street Philadelphia, PA 19103 Attention: Thomas McGrory	\$ 35,000,000	N/A
Citizens Bank of Pennsylvania 610 W. Germantown Avenue Plymouth Meeting, PA 19462 Attention: Leslie Broderick	\$ 15,000,000	N/A

Schedule 3.6

Existing Litigation

None.

Schedule 3.11

Regulatory Approvals

The Pennsylvania Public Utility Commission regulates Borrower's issuance of debt, the maturity date of which is one year or more from the date of execution. (66 Pa. C.S. § 1901)

Schedule 3.13

Environmental Matters

- A. In its water treatment process, the Borrower uses chemicals, including chlorine, caustic soda and sodium chlorite, which are listed as hazardous substances. These chemicals are, in all material respects, stored and used at the Borrower's plants and facilities in accordance with the Environmental Laws.
 - B. The Borrower operates a central laboratory at its Bryn Mawr facility for analysis of drinking water samples. To perform required analyses, the Borrower maintains small quantities of solvents, reagents and chemical standards, some of which are listed as hazardous substances. These materials, in all material respects, are stored and used in compliance with the Environmental Laws.
-

Schedule 3.19

Interests in Partnerships

None.

Schedule 6.3

Existing Liens

- A. Indenture of Mortgage dated as of January 1, 1941 from the Borrower to The Bank of New York Mellon Trust Company, N.A., as current trustee thereunder, as amended and supplemented.
-

EXHIBIT A
FORM OF
BORROWING REQUEST

PNC Bank, National Association
as Agent for the
Banks referred to below
PNC Agency Services
One PNC Plaza
249 Fifth Avenue
22nd Floor
Pittsburgh, PA 15222
Attention: Ronald Harapko

[Date]

Ladies and Gentlemen:

The undersigned, Aqua Pennsylvania, Inc. (the "Borrower"), refers to the Credit Agreement dated as of November ____, 2010 (as amended, modified, extended or restated from time to time, the "Agreement"), among the Borrower, the Banks party thereto and PNC Bank, National Association as Agent. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Agreement. The Borrower hereby gives you notice pursuant to Section 2.1 of the Agreement that it requests a Borrowing under the Agreement, and in that connection sets forth below the terms on which such Borrowing is requested to be made:

- (A) Date of Borrowing _____
(which is a Business Day)
- (B) Principal Amount of
Borrowing ¹ \$ _____
- (C) Interest rate basis ² _____

^{1/} Not less than \$500,000 or a whole multiple of \$100,000 in excess thereof for a Eurodollar Borrowing nor less than \$250,000 or a whole multiple of \$50,000 in excess thereof for a Base Rate Borrowing.

^{2/} Eurodollar Loan or Base Rate Loan.

(D) Interest Period and the
last day thereof³

Upon acceptance of any or all of the Revolving Credit Loans made by the Banks in response to this request, the Borrower shall be deemed to have represented and warranted that the conditions to lending specified in Section 4.2 of the Agreement have been satisfied.

Very truly yours,

AQUA PENNSYLVANIA, INC.

By:

Title:

^{3/} Which shall be subject to the definition of “Interest Period” and end not later than the Termination Date.

EXHIBIT B-1

NOTE

\$ _____

Philadelphia, Pennsylvania
November ____, 2010

FOR VALUE RECEIVED, the undersigned, AQUA PENNSYLVANIA, 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 Termination Date, the lesser of the principal sum of _____ Dollars (\$_____) and the aggregate unpaid principal amount of all Loans made by the Bank to the Borrower pursuant to Section 2.1 of the Credit Agreement dated as of November ____, 2010, 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 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 PENNSYLVANIA, INC.

By: _____
Name:
Title:

Loans and Payments

<u>Date</u>	<u>Amount of Loan</u>	<u>Interest Rate</u>	<u>Interest Period</u>	<u>Payments</u>		<u>Unpaid Principal Balance of Note</u>	<u>Name of Person Making Notation</u>
				<u>Principal</u>	<u>Interest</u>		

EXHIBIT B-2
SWING LINE NOTE

\$10,000,000

Philadelphia, Pennsylvania
November ____, 2010

FOR VALUE RECEIVED, the undersigned, AQUA PENNSYLVANIA, INC. (the "Borrower"), hereby promises to pay to the order of PNC BANK, NATIONAL ASSOCIATION (the "Bank"), at the office of the Agent (as hereinafter defined), at 1600 Market Street, Philadelphia, PA 19103, in accordance with the terms of the Agreement (as hereinafter defined), the lesser of the principal sum of Ten Million Dollars (\$10,000,000) and the aggregate unpaid principal amount of all Swing Line Loans made by the Bank to the Borrower pursuant to Section 2.2 of the Credit Agreement dated as of November ____, 2010, among the Borrower, the Banks party thereto and PNC Bank, National Association, as agent for the Banks (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 Swing Line 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 Swing Line Note and the Agreement.

This Swing Line Note is the Swing Line Note 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 Swing Line 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 PENNSYLVANIA, INC.

By: _____
Name:
Title:

Loans and Payments

<u>Date</u>	<u>Amount of Loan</u>	<u>Interest Rate</u>	<u>Swing Line Repayment Date</u>	<u>Payments</u>		<u>Unpaid Principal Balance of Note</u>	<u>Name of Person Making Notation</u>
				<u>Principal</u>	<u>Interest</u>		

EXHIBIT C
FORM OF
ASSIGNMENT AND ACCEPTANCE

Reference is made to the Credit Agreement dated as of November ____, 2010 (as amended, modified, extended or restated from time to time, the "Agreement"), among Aqua Pennsylvania, 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 Commitment of the Assignor on the Effective Date and the Loans owing to the Assignor which are outstanding on the Effective Date, together with unpaid interest accrued on the assigned Loans 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 Notes evidencing the Loans 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.

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 PENNSYLVANIA, 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): _____

Revolving Credit Facility	Principal Amount Assigned	Percentage of Loans and Commitment Assigned
Commitment Assigned:	\$	%
Revolving Credit Loans:	\$	%

Swing Loan Facility	Principal Amount Assigned	Percentage of Loans and Commitment Assigned
Commitment Assigned:	\$	100%
Swing Line Loans:	\$	100%

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

FORTY-SIXTH SUPPLEMENTAL

INDENTURE

DATED AS OF OCTOBER 15, 2010

TO

INDENTURE OF MORTGAGE

DATED AS OF JANUARY 1, 1941

AQUA PENNSYLVANIA, INC.

TO

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

THIS FORTY-SIXTH SUPPLEMENTAL INDENTURE dated as of October 15, 2010, by and between AQUA PENNSYLVANIA, INC. (f/k/a Pennsylvania Suburban Water Company), a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania (the “Company”) as successor by merger to the Philadelphia Suburban Water Company (the “Original Company”), party of the first part, and THE BANK OF NEW YORK MELLON TRUST COMPANY, N. A., a national banking association (the “Trustee”), party of the second part.

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

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

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

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

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

WHEREAS, the Company and its predecessor have issued under the Original Indenture, as supplemented at the respective dates of issue, fifty-seven series of First Mortgage Bonds designated, respectively, as set forth in the following table, the Original or Supplemental Indenture creating each series and the principal amount of bonds thereof issued being indicated opposite the designation of such series:

Designation	Indenture	Amount
3 1/4% Series due 1971	Original	\$ 16,375,000
9 5/8% Series due 1975	Thirteenth Supplemental	10,000,000
9.15% Series due 1977	Fourteenth Supplemental	10,000,000
3% Series due 1978	First Supplemental	2,000,000
3 3/8% Series due 1982	Second Supplemental	4,000,000
3.90% Series due 1983	Third Supplemental	5,000,000
3 1/2% Series due 1986	Fourth Supplemental	6,000,000
4 1/2% Series due 1987	Fifth Supplemental	4,000,000
4 1/8% Series due 1988	Sixth Supplemental	4,000,000
5% Series due 1989	Seventh Supplemental	4,000,000
4 5/8% Series due 1991	Eighth Supplemental	3,000,000
4.70% Series due 1992	Ninth Supplemental	3,000,000
6 7/8% Series due 1993	Twelfth Supplemental	4,500,000
4.55% Series due 1994	Tenth Supplemental	4,000,000
10 1/8% Series due 1995	Sixteenth Supplemental	10,000,000
5 1/2% Series due 1996	Eleventh Supplemental	4,000,000
7 7/8% Series due 1997	Fifteenth Supplemental	5,000,000
8.44% Series due 1997	Twenty-Third Supplemental	12,000,000
9.20% Series due 2001	Seventeenth Supplemental	7,000,000
8.40% Series due 2002	Eighteenth Supplemental	10,000,000
5.95% Series due 2002	Twenty-Seventh Supplemental	4,000,000
12.45% Series due 2003	Twentieth Supplemental	10,000,000
13% Series due 2005	Twenty-First Supplemental	8,000,000
10.65% Series due 2006	Twenty-Second Supplemental	10,000,000
9.89% Series due 2008	Twenty-Fourth Supplemental	5,000,000
7.15% Series due 2008	Twenty-Eighth Supplemental	22,000,000
9.12% Series due 2010	Twenty-Fifth Supplemental	20,000,000
8 7/8% Series due 2010	Nineteenth Supplemental	8,000,000
6.50% Series due 2010	Twenty-Seventh Supplemental	3,200,000
9.17% Series due 2011	Twenty-Sixth Supplemental	5,000,000
9.93% Series due 2013	Twenty-Fourth Supplemental	5,000,000
9.97% Series due 2018	Twenty-Fourth Supplemental	5,000,000
9.17% Series due 2021	Twenty-Sixth Supplemental	8,000,000
9.29% Series due 2026	Twenty-Sixth Supplemental	12,000,000
1995 Medium Term Note Series	Twenty-Ninth Supplemental	77,000,000
6.35% Series due 2025	Thirtieth Supplemental	22,000,000
1997 Medium Term Note Series	Thirty-First Supplemental	65,000,000
6.75% Subseries A due 2007	10,000,000	
6.30% Subseries B due 2002	10,000,000	
6.14% Subseries C due 2008	10,000,000	

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

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

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

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

WHEREAS, the Delaware County Industrial Development Authority previously issued its Water Facilities Revenue Bonds (Philadelphia Suburban Water Company Project) Series of 1999 in the aggregate principal amount of \$25,000,000, all of which are currently outstanding (the “1999 Bonds”), to finance the construction of certain facilities on behalf of the Company;

WHEREAS, the Mercer County Industrial Development Authority previously issued its Water Facilities Revenue Bonds, Series of 2000 (Consumers Pennsylvania Water Company—Shenango Valley Division Project) in the aggregate principal amount of \$18,360,000, all of which are currently outstanding (the “2000 Bonds” and, together with the 1999 Bonds, the “Prior Bonds”), to finance the construction of certain facilities on behalf of the Company;

WHEREAS, the Company previously issued its 6.00% Subseries K due 2030 to secure the obligations of the Company with respect to the 2000 Bonds; and

WHEREAS, the Company previously issued its 6.00% Series due 2029 to secure the obligation of the Company with respect to the 1999 Bonds; and

WHEREAS, the Company proposes to create under the Original Indenture, as supplemented by this Forty-sixth Supplemental Indenture, four series of bonds to be designated (i) “First Mortgage Bond, 5.00% Series due 2033” (herein referred to as the “5.00% Series due 2033”) to be limited in aggregate principal amount to \$25,910,000, to bear interest at the rate of 5.00% per annum, and to mature on December 1, 2033, (ii) “First Mortgage Bond, 5.00% Series due 2034” (herein referred to as the “5.00% Series due 2034”) to be limited in aggregate principal amount to \$19,270,000, to bear interest at the rate of 5.00% per annum, and to mature on December 1, 2034, (iii) “First Mortgage Bond, 4.50% Series due 2042” (herein referred to as the “4.50% Series due 2042”), to be limited in aggregate principal amount to \$15,000,000, to bear interest at the rate of 4.50% per annum, and to mature on December 1, 2042, and (iv) “First Mortgage Bond, 5.00% Series due 2043” (herein referred to as the “5.00% Series due 2043”) to be limited in aggregate principal amount to \$81,205,000, to bear interest at the rate of 5.00% per annum, and to mature on December 1, 2043 (5.00% Series due 2033, 5.00% Series due 2034, 4.50% Series due 2042 and 5.00% Series due 2043 are collectively referred to as the “Bonds”), each such series to be issued only as registered bonds without coupons and to be dated the date of delivery thereof; and

WHEREAS, in order to finance (i) the costs of numerous acquisitions, constructions, modifications, expansions, installations and replacements of the Company's water distribution, treatment and related operating systems located in the Counties of Bucks, Chester, Delaware, Mercer, Montgomery and Warren in Pennsylvania and that are part of the Company's system for the distribution of water to its customers and related financing costs, which are to be financed under a Financing Agreement dated as of October 15, 2010 (the "Financing Agreement") between the Company and the Pennsylvania Economic Development Financing Authority, a Pennsylvania body politic and corporate (the "Authority") and which are described in Exhibit A to the Financing Agreement (which facilities, less any deletions therefrom and together with any additions, improvements and modifications thereto and substitutions therefore made in accordance with the provisions of the Financing Agreement are referred to as the "Facilities"), and (ii) the refunding of the Prior Bonds, the Company has requested the Authority issue two new series of bonds to be known as the Authority's Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series A of 2010 in the aggregate principal amount of \$45,180,000 (the "Authority Refunding Bonds"), and Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project, Series B of 2010 in the aggregate principal amount of \$96,205,000 (the "Authority Construction Bonds" and, together with the Authority Refunding Bonds, the "Authority Bonds"); and

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

WHEREAS, the Authority Bonds are to be issued under a Trust Indenture, dated as of October 15, 2010 (the "Authority Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Authority Trustee"); and

WHEREAS, the proceeds of the Authority Bonds are to be loaned to the Company pursuant to the terms of the Financing Agreement and the Bonds are to be issued by the Company to secure the obligation of the Company to pay to or for the account of the Authority an amount equal to the principal of, redemption premium, if any, and interest on the Authority Bonds pursuant to the Financing Agreement; and

WHEREAS, the right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments are to be assigned by the Authority to the Authority Trustee, and the Bonds are to be delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee of the Authority, as security for the payment of the principal of, redemption premium, if any, and interest on, the Authority Bonds; and

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

WHEREAS, the Company, by proper corporate action, has duly authorized the creation of the 5.00% Series due 2033, the 5.00% Series due 2034, the 4.50% Series due 2042 and the 5.00% Series due 2043 (to be issued in accordance with the terms and provisions of the Original Indenture and indentures supplemental thereto, including this Forty-sixth Supplemental Indenture, and to be secured by said Original Indenture and indentures supplemental thereto, including this Forty-sixth Supplemental Indenture) and has further duly authorized the execution, delivery and recording of this Forty-sixth Supplemental Indenture setting forth the terms and provisions of the 5.00% Series due 2033, the 5.00% Series due 2034, the 4.50% Series due 2042 and the 5.00% Series due 2043 insofar as said terms and provisions are not set forth in said Original Indenture; and

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

No. R-1

\$25,910,000

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 5.00% Series due 2033

Aqua Pennsylvania, Inc. (f/k/a known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the "Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to Pennsylvania Economic Development Financing Authority or its registered assigns, on the 1st day of December, 2033, at the designated office of The Bank of New York Mellon Trust Company, N. A. (hereinafter called the "Trustee") in Philadelphia, Pennsylvania, the sum of Twenty-five Million Nine Hundred Ten Thousand Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by draft or check of the Trustee mailed to such registered owner from the interest payment date next preceding the date of the authentication of this Bond (or if this Bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this Bond is authenticated on or prior to June 1, 2011 from the date hereof) until the principal hereof shall become due and payable, at the rate of 5.00% per annum, payable semiannually in like coin or currency on the 1st day of June and the 1st day of December in each year, commencing June 1, 2011 and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of 5.00% per annum after maturity whether by acceleration or otherwise until paid.

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

This Bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by an Indenture of Mortgage (herein called the "Indenture") dated as of January 1, 1941, executed by the Philadelphia Suburban Water Company (now Aqua Pennsylvania, Inc., f/k/a Pennsylvania Suburban Water Company, as successor by merger) to The Pennsylvania Company for Insurances on Lives and Granting Annuities (succeeded as trustee by The Bank of New York Mellon Trust Company, N.A.), as Trustee (the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this Bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and premium, if any, and interest on this Bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This Bond is one of the Bonds described in an indenture supplemental to said Indenture known as the "Forty-sixth Supplemental Indenture" dated as of October 15, 2010, and designated therein as "First Mortgage Bond, 5.00% Series due 2033" (the "Bonds").

Concurrently herewith the Company is issuing its "First Mortgage Bond, 5.00% Series due 2034" in the aggregate principal amount of \$19,270,000 (the "5.00% Series due 2034"), its "First Mortgage Bond, 5.00% Series due 2042" in the aggregate principal amount of \$15,000,000 (the "4.50% Series due 2042") and its "First Mortgage Bond, 5.00% Series due 2043" in the aggregate principal amount of \$81,205,000 (the "5.00% Series due 2043").

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

The Bonds, the 5.00% Series due 2034, the 4.50% Series due 2042 and the 5.00% Series due 2043 have been issued by the Company to secure the obligation of the Company to pay to or for the account of the Authority (defined below) an amount equal to the principal, premium, if any, of, and interest on, the Authority Refunding Bonds (defined below) pursuant to the Financing Agreement (the "Financing Agreement") dated as of October 15, 2010 between the Pennsylvania Economic Development Financing Authority, a Pennsylvania body politic and corporate (the "Authority"), and the Company, which Authority Bonds are being issued to finance (i) the costs of numerous constructions, modifications, expansions, installations and replacements of the Company's water distribution, treatment and related operating systems located in the Counties of Bucks, Chester, Delaware, Mercer, Montgomery and Warren in Pennsylvania and that are part of the Company's system for the distribution of water to its customers and related financing costs which are to be financed under the Financing Agreement and which are described in Exhibit A thereto (which facilities, less any deletions therefrom and together with any additions, improvements and modifications thereto and substitutions therefor made in accordance with the provisions of the Financing Agreement are referred to as the "Facilities"), and (ii) refunding certain bonds previously issued on behalf of the Company (the "Refunding Project"). The Refunding Project is to be financed through the sale of the Authority's Water Facilities Revenue Bonds (Aqua Pennsylvania Project), Series A of 2010, in the aggregate principal amount of \$45,180,000 (the "Authority Refunding Bonds"). The Facilities are to be financed through the sale of the Authority's Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series B of 2010, in the aggregate principal amount of \$96,205,000,000 (the "Authority Construction Bonds" and, together with the Authority Refunding Bonds, the "Authority Bonds").

The Authority Bonds are to be issued under a Trust Indenture, dated as of October 15, 2010 (the "Authority Indenture") between the Authority and U.S. Bank National Association, as trustee (the "Authority Trustee"). The right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments have been assigned by the Authority to the Authority Trustee, and the Bonds have been delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee, as security for the payment of the principal of, and premium, if any, and interest on, the Authority Bonds. The Authority Trustee may not sell, assign or otherwise transfer the Bonds except for a transfer of the entire outstanding principal amount thereof to its successor as trustee under the Authority Indenture, which successor and each subsequent successor shall hold such Authority Bonds subject to the same restriction on transfer.

In the event any Authority Refunding Bonds maturing on the same date as the Bonds shall be purchased by the Company and cancelled pursuant to the Authority Indenture, Bonds corresponding in principal amount to the Authority Refunding Bonds so purchased and cancelled shall be deemed to be paid in full, and in the event and to the extent the principal of, and premium, if any, or interest on, any Authority Refunding Bonds maturing on the same date as the Bonds is paid out of funds held by the Authority Trustee other than payments on Bonds, the corresponding payment of the principal of and premium, if any, or interest on, an aggregate principal amount of Bonds shall be deemed to have been satisfied.

In the event this Bond shall be deemed to have been paid in full, this Bond shall be surrendered to the Trustee for cancellation. In the event this Bond shall be deemed to have been paid in part, this Bond shall be presented to the Trustee for notation hereon of the payment of the portion of the principal hereof so deemed to have been paid.

The Bonds are redeemable only as follows:

(a) The Bonds are subject to redemption prior to maturity, at the option of the Company, on or after December 1, 2020 in whole or in part, at a redemption price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption.

(b) The Bonds are also subject to redemption at the direction of the Company, in whole, at any time prior to maturity, at a redemption price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at any time the Authority Refunding Bonds maturing on the same date as the Bonds are subject to extraordinary optional redemption pursuant to Section 7.01(a)(ii) of the Authority Indenture.

(c) The Bonds are also subject to mandatory redemption by the Company in whole if the Trustee shall receive a written demand from the Authority Trustee for redemption of all such Bonds held by the Authority Trustee stating that an "Event of Default" as defined in Section 9.01(a) of the Authority Indenture has occurred and is continuing and that payment of the principal of the Authority Refunding Bonds has been accelerated pursuant to Section 9.01(b) of the Authority Indenture, provided that at the time of notice of such redemption as provided in Section 2 of Article V of the Original Indenture (i) said written demand shall not have been withdrawn by the Authority Trustee, and (ii) no event of default under Section 1 of Article XI of the Original Indenture shall have occurred and be continuing.

If this Bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the date fixed for redemption.

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

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

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

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

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

IN WITNESS WHEREOF, Aqua Pennsylvania, Inc. has caused this Bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this Bond to be dated _____, 2010.

Attest:

AQUA PENNSYLVANIA, INC.

(Assistant) Secretary

By: _____
Vice President

(Form of Trustee's Certificate)

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

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

By: _____
Authorized Signer

[Form of 5.00% Series due 2034]

No. R-1

\$19,270,000

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 5.00% Series due 2034

Aqua Pennsylvania, Inc. (f/k/a known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the "Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to Pennsylvania Economic Development Financing Authority or its registered assigns, on the 1st day of December, 2034 at the designated office of The Bank of New York Mellon Trust Company, N. A. (hereinafter called the "Trustee") in Philadelphia, Pennsylvania, the sum of Nineteen Million Two Hundred Seventy Thousand Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by draft or check of the Trustee mailed to such registered owner from the interest payment date next preceding the date of the authentication of this Bond (or if this Bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this Bond is authenticated on or prior to June 1, 2011 from the date hereof) until the principal hereof shall become due and payable, at the rate of 5.00% per annum, payable semiannually in like coin or currency on the 1st day of June and the 1st day of December in each year, commencing June 1, 2011 and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of 5.00% per annum after maturity whether by acceleration or otherwise until paid.

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

This Bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by an Indenture of Mortgage (herein called the "Indenture") dated as of January 1, 1941, executed by the Philadelphia Suburban Water Company (now Aqua Pennsylvania, Inc., f/k/a Pennsylvania Suburban Water Company, as successor by merger) to The Pennsylvania Company for Insurances on Lives and Granting Annuities (succeeded as trustee by The Bank of New York Mellon Trust Company, N.A.), as Trustee (the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this Bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and premium, if any, and interest on this Bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This Bond is one of the Bonds described in an indenture supplemental to said Indenture known as the "Forty-sixth Supplemental Indenture" dated as of October 15, 2010, and designated therein as "First Mortgage Bond, 5.00% Series due 2034" (the "Bonds").

Concurrently herewith the Company is issuing its "First Mortgage Bond, 5.00% Series due 2033" in the aggregate principal amount of \$25,910,000 (the "5.00% Series due 2033"), its "First Mortgage Bond, 4.50% Series due 2042" in the aggregate principal amount of \$15,000,000 (the "4.50% Series due 2042") and its "First Mortgage Bond, 5.00% Series due 2043" in the aggregate principal amount of \$81,205,000 (the "5.00% Series due 2043").

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

The Bonds, the 5.00% Series due 2033, the 4.50% Series due 2042 and the 5.00% Series due 2043 have been issued by the Company to secure the obligation of the Company to pay to or for the account of the Authority (defined below) an amount equal to the principal, premium, if any, of, and interest on, the Authority Bonds (defined below) pursuant to the Financing Agreement (the "Financing Agreement") dated as of October 15, 2010 between the Pennsylvania Economic Development Financing Authority, a Pennsylvania body politic and corporate (the "Authority"), and the Company, which Authority Bonds are being issued to finance (i) the costs of numerous constructions, modifications, expansions, installations and replacements of the Company's water distribution, treatment and related operating systems located in the Counties of Bucks, Chester, Delaware, Mercer, Montgomery and Warren in Pennsylvania and that are part of the Company's system for the distribution of water to its customers and related financing costs which are to be financed under the Financing Agreement and which are described in Exhibit A thereto (which facilities, less any deletions therefrom and together with any additions, improvements and modifications thereto and substitutions therefor made in accordance with the provisions of the Financing Agreement are referred to as the "Facilities"), and (ii) refunding certain bonds previously issued on behalf of the Company (the "Refunding Project"). The Refunding Project is to be financed through the sale of the Authority's Water Facilities Revenue Bonds (Aqua Pennsylvania Project), Series A of 2010, in the aggregate principal amount of \$45,180,000 (the "Authority Refunding Bonds"). The Facilities are to be financed through the sale of the Authority's Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series B of 2010, in the aggregate principal amount of \$96,205,000 (the "Authority Construction Bonds" and, together with the Authority Refunding Bonds, the "Authority Bonds").

The Authority Bonds are to be issued under a Trust Indenture, dated as of October 15, 2010 (the "Authority Indenture") between the Authority and U.S. Bank National Association, as trustee (the "Authority Trustee"). The right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments have been assigned by the Authority to the Authority Trustee, and the Bonds have been delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee, as security for the payment of the principal of, and premium, if any, and interest on, the Authority Bonds. The Authority Trustee may not sell, assign or otherwise transfer the Bonds except for a transfer of the entire outstanding principal amount thereof to its successor as trustee under the Authority Indenture, which successor and each subsequent successor shall hold such Authority Bonds subject to the same restriction on transfer.

In the event any Authority Refunding Bonds maturing on the same date as the Bonds shall be purchased by the Company and cancelled pursuant to the Authority Indenture, Bonds corresponding in principal amount to the Authority Refunding Bonds so purchased and cancelled shall be deemed to be paid in full, and in the event and to the extent the principal of, and premium, if any, or interest on, any Authority Refunding Bonds maturing on the same date as the Bonds is paid out of funds held by the Authority Trustee other than payments on Bonds, the corresponding payment of the principal of and premium, if any, or interest on, an aggregate principal amount of Bonds shall be deemed to have been satisfied.

In the event this Bond shall be deemed to have been paid in full, this Bond shall be surrendered to the Trustee for cancellation. In the event this Bond shall be deemed to have been paid in part, this Bond shall be presented to the Trustee for notation hereon of the payment of the portion of the principal hereof so deemed to have been paid.

The Bonds are redeemable only as follows:

(a) The Bonds are subject to redemption prior to maturity, at the option of the Company, on or after December 1, 2020 in whole or in part, at a redemption price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption.

(b) The Bonds are also subject to redemption at the direction of the Company, in whole, at any time prior to maturity, at a redemption price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at any time the Authority Refunding Bonds maturing on the same date as the Bonds are subject to extraordinary optional redemption pursuant to Section 7.01(a)(ii) of the Authority Indenture.

(c) The Bonds are also subject to mandatory redemption by the Company in whole if the Trustee shall receive a written demand from the Authority Trustee for redemption of all such Bonds held by the Authority Trustee stating that an "Event of Default" as defined in Section 9.01(a) of the Authority Indenture has occurred and is continuing and that payment of the principal of the Authority Refunding Bonds has been accelerated pursuant to Section 9.01(b) of the Authority Indenture, provided that at the time of notice of such redemption as provided in Section 2 of Article V of the Original Indenture (i) said written demand shall not have been withdrawn by the Authority Trustee, and (ii) no event of default under Section 1 of Article XI of the Original Indenture shall have occurred and be continuing.

If this Bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the date fixed for redemption.

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

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

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

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

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

IN WITNESS WHEREOF, Aqua Pennsylvania, Inc. has caused this Bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this Bond to be dated _____, 2010.

Attest: AQUA PENNSYLVANIA, INC.

(Assistant) Secretary

By: _____
Vice President

(Form of Trustee's Certificate)

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

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

By: _____
Authorized Signer

No. R-1

\$15,000,000

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 4.50% Series due 2042

Aqua Pennsylvania, Inc. (f/k/a known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the "Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to Pennsylvania Economic Development Financing Authority or its registered assigns, on the 1st day of December, 2042 at the designated office of The Bank of New York Mellon Trust Company, N. A. (hereinafter called the "Trustee") in Philadelphia, Pennsylvania, the sum of Fifteen Million Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by draft or check of the Trustee mailed to such registered owner from the interest payment date next preceding the date of the authentication of this Bond (or if this Bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this Bond is authenticated on or prior to June 1, 2011 from the date hereof) until the principal hereof shall become due and payable, at the rate of 4.50% per annum, payable semiannually in like coin or currency on the 1st day of June and the 1st day of December in each year, commencing June 1, 2011 and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of 4.50% per annum after maturity whether by acceleration or otherwise until paid.

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

This Bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by an Indenture of Mortgage (herein called the "Indenture") dated as of January 1, 1941, executed by the Philadelphia Suburban Water Company (now Aqua Pennsylvania, Inc., f/k/a Pennsylvania Suburban Water Company, as successor by merger) to The Pennsylvania Company for Insurances on Lives and Granting Annuities (succeeded as trustee by The Bank of New York Mellon Trust Company, N.A.), as Trustee (the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this Bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and premium, if any, and interest on this Bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This Bond is one of the Bonds described in an indenture supplemental to said Indenture known as the "Forty-sixth Supplemental Indenture" dated as of October 15, 2010, and designated therein as "First Mortgage Bond, 4.50% Series due 2042" (the "Bonds").

Concurrently herewith the Company is issuing its "First Mortgage Bond, 5.00% Series due 2033" in the aggregate principal amount of \$25,910,000 (the "5.00% Series due 2033"), its "First Mortgage Bond, 5.00% Series due 2034" in the aggregate principal amount of \$19,270,000 (the "5.00% Series due 2034") and its "First Mortgage Bond, 5.00% Series due 2043" in the aggregate principal amount of \$81,205,000 (the "5.00% Series due 2043").

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

The Bonds, the 5.00% Series due 2033, the 5.00% Series due 2034 and the 5.00% Series due 2043 have been issued by the Company to secure the obligation of the Company to pay to or for the account of the Authority (defined below) an amount equal to the principal, premium, if any, of, and interest on, the Authority Bonds (defined below) pursuant to the Financing Agreement (the "Financing Agreement") dated as of October 15, 2010 between the Pennsylvania Economic Development Financing Authority, a Pennsylvania body politic and corporate (the "Authority"), and the Company, which Authority Bonds are being issued to finance (i) the costs of numerous constructions, modifications, expansions, installations and replacements of the Company's water distribution, treatment and related operating systems located in the Counties of Bucks, Chester, Delaware, Mercer, Montgomery and Warren in Pennsylvania and that are part of the Company's system for the distribution of water to its customers and related financing costs which are to be financed under the Financing Agreement and which are described in Exhibit A thereto (which facilities, less any deletions therefrom and together with any additions, improvements and modifications thereto and substitutions therefor made in accordance with the provisions of the Financing Agreement are referred to as the "Facilities"), and (ii) refunding certain bonds previously issued on behalf of the Company (the "Refunding Project"). The Refunding Project is to be financed through the sale of the Authority's Water Facilities Revenue Bonds (Aqua Pennsylvania Project), Series A of 2010, in the aggregate principal amount of \$45,180,000 (the "Authority Refunding Bonds"). The Facilities are to be financed through the sale of the Authority's Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series B of 2010, in the aggregate principal amount of \$96,205,000 (the "Authority Construction Bonds" and, together with the Authority Refunding Bonds, the "Authority Bonds").

The Authority Bonds are to be issued under a Trust Indenture, dated as of October 15, 2010 (the "Authority Indenture") between the Authority and U.S. Bank National Association, as trustee (the "Authority Trustee"). The right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments have been assigned by the Authority to the Authority Trustee, and the Bonds have been delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee, as security for the payment of the principal of, and premium, if any, and interest on, the Authority Bonds. The Authority Trustee may not sell, assign or otherwise transfer the Bonds except for a transfer of the entire outstanding principal amount thereof to its successor as trustee under the Authority Indenture, which successor and each subsequent successor shall hold such Authority Bonds subject to the same restriction on transfer.

In the event any Authority Construction Bonds maturing on the same date as the Bonds shall be purchased by the Company and cancelled pursuant to the Authority Indenture, Bonds corresponding in principal amount to such Authority Construction Bonds so purchased and cancelled shall be deemed to be paid in full, and in the event and to the extent the principal of, and premium, if any, or interest on, any Authority Construction Bonds maturing on the same date as the Bonds is paid out of funds held by the Authority Trustee other than payments on Bonds, the corresponding payment of the principal of and premium, if any, or interest on, an aggregate principal amount of Bonds shall be deemed to have been satisfied.

In the event this Bond shall be deemed to have been paid in full, this Bond shall be surrendered to the Trustee for cancellation. In the event this Bond shall be deemed to have been paid in part, this Bond shall be presented to the Trustee for notation hereon of the payment of the portion of the principal hereof so deemed to have been paid.

The Bonds are redeemable only as follows:

(a) The Bonds are subject to redemption prior to maturity, at the option of the Company, on or after December 1, 2020 in whole or in part, at a redemption price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption.

(b) The Bonds are also subject to redemption at the direction of the Company, in whole, at any time prior to maturity, at a redemption price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at any time the Authority Construction Bonds maturing on the same date as the Bonds are subject to extraordinary optional redemption pursuant to Section 7.01(b)(ii) of the Authority Indenture.

(c) The Bonds are also subject to special mandatory redemption at the direction of the Company, in part, prior to maturity, at a redemption price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at such time and in such amount as the Authority Construction Bonds maturing on the same date as the Bonds are subject to special mandatory redemption pursuant to Section 7.01(b)(iii) of the Authority Indenture.

(d) The Bonds are also subject to mandatory redemption by the Company in whole if the Trustee shall receive a written demand from the Authority Trustee for redemption of all such Bonds held by the Authority Trustee stating that an "Event of Default" as defined in Section 9.01(a) of the Authority Indenture has occurred and is continuing and that payment of the principal of the Authority Construction Bonds has been accelerated pursuant to Section 9.01(b) of the Authority Indenture, provided that at the time of notice of such redemption as provided in Section 2 of Article V of the Original Indenture (i) said written demand shall not have been withdrawn by the Authority Trustee, and (ii) no event of default under Section 1 of Article XI of the Original Indenture shall have occurred and be continuing.

If this Bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the date fixed for redemption.

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

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

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

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

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

IN WITNESS WHEREOF, Aqua Pennsylvania, Inc. has caused this Bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this Bond to be dated _____, 2010.

Attest:

AQUA PENNSYLVANIA, INC.

(Assistant) Secretary

By: _____
Vice President

(Form of Trustee's Certificate)

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

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

By: _____
Authorized Signer

No. R-1

\$81,205,000

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 5.00% Series due 2043

Aqua Pennsylvania, Inc. (f/k/a known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the "Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to Pennsylvania Economic Development Financing Authority or its registered assigns, on the 1st day of December, 2043 at the designated office of The Bank of New York Mellon Trust Company, N. A. (hereinafter called the "Trustee") in Philadelphia, Pennsylvania, the sum of Eighty-one Million Two Hundred Five Thousand Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by draft or check of the Trustee mailed to such registered owner from the interest payment date next preceding the date of the authentication of this Bond (or if this Bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this Bond is authenticated on or prior to June 1, 2011 from the date hereof) until the principal hereof shall become due and payable, at the rate of 5.00% per annum, payable semiannually in like coin or currency on the 1st day of June and the 1st day of December in each year, commencing June 1, 2011 and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of 5.00% per annum after maturity whether by acceleration or otherwise until paid.

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

This Bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by an Indenture of Mortgage (herein called the "Indenture") dated as of January 1, 1941, executed by the Philadelphia Suburban Water Company (now Aqua Pennsylvania, Inc., f/k/a Pennsylvania Suburban Water Company, as successor by merger) to The Pennsylvania Company for Insurances on Lives and Granting Annuities (succeeded as trustee by The Bank of New York Mellon Trust Company, N.A.), as Trustee (the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this Bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and premium, if any, and interest on this Bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This Bond is one of the Bonds described in an indenture supplemental to said Indenture known as the "Forty-sixth Supplemental Indenture" dated as of October 15, 2010, and designated therein as "First Mortgage Bond, 5.00% Series due 2043" (the "Bonds").

Concurrently herewith the Company is issuing its "First Mortgage Bond, 5.00% Series due 2033" in the aggregate principal amount of \$25,910,000 (the "5.00% Series due 2033"), its "First Mortgage Bond, 5.00% Series due 2034" in the aggregate principal amount of \$19,270,000 (the "5.00% Series due 2034") and its "First Mortgage Bond, 4.50% Series due 2042" in the aggregate principal amount of \$15,000,000 (the "4.50% Series due 2042").

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

The Bonds, the 5.00% Series due 2033, the 5.00% Series due 2034 and the 4.50% Series due 2042 have been issued by the Company to secure the obligation of the Company to pay to or for the account of the Authority (defined below) an amount equal to the principal, premium, if any, of, and interest on, the Authority Bonds (defined below) pursuant to the Financing Agreement (the "Financing Agreement") dated as of October 15, 2010 between the Pennsylvania Economic Development Financing Authority, a Pennsylvania body politic and corporate (the "Authority"), and the Company, which Authority Bonds are being issued to finance (i) the costs of numerous constructions, modifications, expansions, installations and replacements of the Company's water distribution, treatment and related operating systems located in the Counties of Bucks, Chester, Delaware, Mercer, Montgomery and Warren in Pennsylvania and that are part of the Company's system for the distribution of water to its customers and related financing costs which are to be financed under the Financing Agreement and which are described in Exhibit A thereto (which facilities, less any deletions therefrom and together with any additions, improvements and modifications thereto and substitutions therefor made in accordance with the provisions of the Financing Agreement are referred to as the "Facilities"), and (ii) refunding certain bonds previously issued on behalf of the Company (the "Refunding Project"). The Refunding Project is to be financed through the sale of the Authority's Water Facilities Revenue Bonds (Aqua Pennsylvania Project), Series A of 2010, in the aggregate principal amount of \$45,180,000 (the "Authority Refunding Bonds"). The Facilities are to be financed through the sale of the Authority's Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series B of 2010, in the aggregate principal amount of \$96,205,000 (the "Authority Construction Bonds" and, together with the Authority Refunding Bonds, the "Authority Bonds").

The Authority Bonds are to be issued under a Trust Indenture, dated as of October 15, 2010 (the "Authority Indenture") between the Authority and U.S. Bank National Association, as trustee (the "Authority Trustee"). The right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments have been assigned by the Authority to the Authority Trustee, and the Bonds have been delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee, as security for the payment of the principal of, and premium, if any, and interest on, the Authority Bonds. The Authority Trustee may not sell, assign or otherwise transfer the Bonds except for a transfer of the entire outstanding principal amount thereof to its successor as trustee under the Authority Indenture, which successor and each subsequent successor shall hold such Authority Bonds subject to the same restriction on transfer.

In the event any Authority Construction Bonds maturing on the same date as the Bonds shall be purchased by the Company and cancelled pursuant to the Authority Indenture, Bonds corresponding in principal amount to such Authority Construction Bonds so purchased and cancelled shall be deemed to be paid in full, and in the event and to the extent the principal of, and premium, if any, or interest on, any Authority Construction Bonds maturing on the same date as the Bonds is paid out of funds held by the Authority Trustee other than payments on Bonds, the corresponding payment of the principal of and premium, if any, or interest on, an aggregate principal amount of Bonds shall be deemed to have been satisfied.

In the event this Bond shall be deemed to have been paid in full, this Bond shall be surrendered to the Trustee for cancellation. In the event this Bond shall be deemed to have been paid in part, this Bond shall be presented to the Trustee for notation hereon of the payment of the portion of the principal hereof so deemed to have been paid.

The Bonds are redeemable only as follows:

(a) The Bonds are subject to redemption prior to maturity, at the option of the Company, on or after December 1, 2020 in whole or in part, at a redemption price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption.

(b) The Bonds are also subject to redemption at the direction of the Company, in whole, at any time prior to maturity, at a redemption price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at any time the Authority Construction Bonds maturing on the same date as the Bonds are subject to extraordinary optional redemption pursuant to Section 7.01(b)(ii) of the Authority Indenture.

(c) The Bonds are also subject to special mandatory redemption at the direction of the Company, in part, prior to maturity, at a redemption price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at such time and in such amount as the Authority Construction Bonds maturing on the same date as the Bonds are subject to special mandatory redemption pursuant to Section 7.01(b)(iii) of the Authority Indenture.

(d) The Bonds are also subject to mandatory redemption by the Company in whole if the Trustee shall receive a written demand from the Authority Trustee for redemption of all such Bonds held by the Authority Trustee stating that an "Event of Default" as defined in Section 9.01(a) of the Authority Indenture has occurred and is continuing and that payment of the principal of the Authority Construction Bonds has been accelerated pursuant to Section 9.01(b) of the Authority Indenture, provided that at the time of notice of such redemption as provided in Section 2 of Article V of the Original Indenture (i) said written demand shall not have been withdrawn by the Authority Trustee, and (ii) no event of default under Section 1 of Article XI of the Original Indenture shall have occurred and be continuing.

If this Bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the date fixed for redemption.

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

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

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

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

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

IN WITNESS WHEREOF, Aqua Pennsylvania, Inc. has caused this Bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this Bond to be dated _____, 2010.

Attest:

AQUA PENNSYLVANIA, INC.

(Assistant) Secretary

By: _____
Vice President

(Form of Trustee's Certificate)

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

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

By: _____
Authorized Signer

and;

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

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

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

I.

REAL ESTATE AND WATER RIGHTS.

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

II.

BUILDINGS AND EQUIPMENT.

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

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

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

III.

FRANCHISES AND RIGHTS OF WAY.

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

IV.

AFTER ACQUIRED PROPERTY.

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

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

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

AND ALSO SAVING AND EXCEPTING from the property hereby mortgaged and pledged, all of the following property (whether now owned by the Company or hereafter acquired by it): All bills, notes and accounts receivable, cash on hand and in banks, contracts, choses in action and leases to others (as distinct from the property leased and without limiting any rights of the Trustee with respect thereto under any of the provisions of the Original Indenture or of any indenture supplemental thereto), all bonds, obligations, evidences of indebtedness, shares of stock and other securities, and certificates or evidences of interest therein, all automobiles, motor trucks, and other like automobile equipment and all furniture, and all equipment, materials, goods, merchandise and supplies acquired for the purpose of sale in the ordinary course of business or for consumption in the operation of any properties of the Company other than any of the foregoing which may be specifically transferred or assigned to or pledged or deposited with the Trustee hereunder or required by the provisions of the Original Indenture or any indenture supplemental thereto so to be; provided, however, that if, upon the happening of a completed default, as specified in Section 1 of Article XI of the Original Indenture, the Trustee or any receiver appointed hereunder shall enter upon and take possession of the mortgaged property, the Trustee or any such receiver may, to the extent permitted by law, at the same time likewise take possession of any and all of the property described in this paragraph then on hand and any and all other property of the Company then on hand, not described or referred to in the foregoing granting clauses, which is used or useful in connection with the business of the Company as a water company or as a water utility, and use and administer the same to the same extent as if such property were part of the mortgaged property, unless and until such completed default shall be remedied or waived and possession of the mortgaged property restored to the Company, its successors or assigns.

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

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

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

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

ARTICLE I.

Form, Authentication and Delivery of the Bonds; Redemption Provisions

SECTION 1. There shall be a fifty-eighth series of bonds, limited in aggregate principal amount to \$25,910,000 designated as "Aqua Pennsylvania, Inc., First Mortgage Bond, 5.00% Series due 2033", a fifty-ninth series of bonds, limited in aggregate principal amount to \$19,270,000 designated as "Aqua Pennsylvania, Inc., First Mortgage Bond, 5.00% Series due 2034", a sixtieth series of bonds, limited in aggregate principal amount to \$15,000,000 designated as "Aqua Pennsylvania, Inc., First Mortgage Bond, 4.50% Series due 2042", and a sixty-first series of bonds, limited in aggregate principal amount to \$81,205,000 designated as "Aqua Pennsylvania, Inc., First Mortgage Bond, 5.00% Series due 2043".

Interest on the Bonds shall be payable semiannually on June 1 and December 1 of each year (each an “interest payment date”), commencing June 1, 2011. Each Bond shall be dated the date of its authentication and shall bear interest from the interest payment date next preceding the date of the authentication of such Bond (or if such Bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if such Bond is authenticated on or prior to the record date for the first interest payment date for the Bonds, in which case it shall bear interest from the date of original issuance of the Bonds); provided, however, that, if at the time of authentication of any Bond, interest on the predecessor Bond of such Bond is in default, such Bond shall bear interest from the date to which interest has been paid, or, if no interest has been paid, from the date of original issuance thereof. The 5.00% Series due 2033 shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on December 1, 2033 and shall bear interest at the rate of 5.00%. The 5.00% Series due 2034 shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on December 1, 2034 and shall bear interest at the rate of 5.00%. The 4.50% Series due 2042 shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on December 1, 2042 and shall bear interest at the rate of 4.50%. The 5.00% Series due 2043 shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on December 1, 2043 and shall bear interest at the rate of 5.00%. In any case where the date of payment of the principal of or interest on the Bonds, or the date fixed for redemption of any Bond, is not a Business Day, then payment of the principal or Redemption Price of and interest on such Bond need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the due date of such payment or the date fixed for redemption, and no interest shall accrue for the period after such date.

The Bonds of each series shall be issuable only as registered bonds without coupons, shall be in the form hereinabove recited, in the denomination of Five Thousand Dollars (\$5,000) or any integral multiple thereof, shall be lettered “R-1” and shall bear such numbers as the Company may reasonably require.

The principal of, and interest on the Bonds shall be payable at the designated office of the trustee in Philadelphia, Pennsylvania, and shall be payable, along with interest on the Bonds, in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts; each installment of interest shall be paid by check to the order of the person entitled thereto, mailed to such person’s address as the same appears on the books maintained for such purpose by or on behalf of the Company, or by bank wire transfer of immediately available funds pursuant to instructions and conditions incorporated in an agreement between such person and the Trustee or the Company.

The person in whose name any Bond is registered at the close of business on any Record Date (as hereinafter defined) with respect to any interest payment date shall be entitled to receive the interest payable on such interest payment date notwithstanding the cancellation of such Bond upon any transfer or exchange subsequent to the Record Date and prior to such interest payment date; provided, however, that if and to the extent the Company shall default in the payment of the interest due on such interest payment date, such defaulted interest shall be paid to the persons in whose names outstanding Bonds are registered at the close of business on a subsequent Record Date established by notice given by mail by or on behalf of the Company to the holders of Bonds not less than fifteen days preceding such subsequent Record Date, such Record Date to be not less than ten days preceding the date of payment of such defaulted interest. The term “Record Date” with respect to any regular interest payment date shall mean the first day of the calendar month in which such interest payment date occurs.

The Bonds are being issued by the Company to secure the obligation of the Company to pay to or for the account of the Authority an amount equal to the principal of, at maturity or earlier redemption, and interest on, the Authority Bonds pursuant to the Financing Agreement. The Authority Bonds are being sold to finance the Facilities.

The Authority Bonds are to be issued under the Authority Indenture and the right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments have been assigned by the Authority to the Authority Trustee, and the Bonds are to be delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee, as security for the payment of the principal of, at maturity or earlier redemption, and premium, if any, and interest on, the Authority Bonds. The Authority Trustee may not sell, assign or otherwise transfer the Bonds except for a transfer of the entire outstanding principal amount thereof to its successor as Trustee under the Authority Indenture, which successor and each subsequent successor shall hold the Bonds subject to the same restriction on transfer.

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

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

SECTION 2. The Bonds are redeemable only as follows:

(a) The 5.00% Series due 2033 are subject to redemption prior to maturity on or after December 1, 2020 by the Company, to the extent that the Authority Refunding Bonds maturing on the same date are called for redemption under Section 7.01(a)(i) of the Authority Indenture, and then out of moneys deposited with or held by the Trustee for such purpose, as a whole or in part, at any time in the manner described below, at the redemption price of one hundred percent (100%) of the principal amount to be redeemed, plus interest accrued thereon to the date fixed for redemption;

(b) The 5.00% Series due 2034 are subject to redemption prior to maturity on or after December 1, 2020 by the Company, to the extent that the Authority Refunding Bonds maturing on the same date are called for redemption under Section 7.01(a)(i) of the Authority Indenture, and then out of moneys deposited with or held by the Trustee for such purpose, as a whole or in part, at any time in the manner described below, at the redemption price of one hundred percent (100%) of the principal amount to be redeemed, plus interest accrued thereon to the date fixed for redemption;

(c) The 4.50% Series due 2042 are subject to redemption prior to maturity on or after December 1, 2020 by the Company, to the extent that the Authority Construction Bonds maturing on the same date are called for redemption under Section 7.01(b)(i) of the Authority Indenture, and then out of moneys deposited with or held by the Trustee for such purpose, as a whole or in part, at any time in the manner described below, at the redemption price of one hundred percent (100%) of the principal amount to be redeemed, plus interest accrued thereon to the date fixed for redemption;

(d) The 5.00% Series due 2043 are subject to redemption prior to maturity on or after December 1, 2020 by the Company, to the extent that the Authority Construction Bonds maturing on the same date are called for redemption under Section 7.01(b)(i) of the Authority Indenture, and then out of moneys deposited with or held by the Trustee for such purpose, as a whole or in part, at any time in the manner described below, at the redemption price of one hundred percent (100%) of the principal amount to be redeemed, plus interest accrued thereon to the date fixed for redemption;

(e) The 5.00% Series due 2033 are subject to redemption at the direction of the Company, in whole, at any time prior to maturity, at a redemption price of 100% of the principal amount the 5.00% Series due 2033 to be redeemed, plus interest accrued thereon to the date fixed for redemption, at any time the Authority Refunding Bonds maturing on the same date are subject to extraordinary optional redemption pursuant to Section 7.01(a)(ii) of the Authority Indenture;

(f) The 5.00% Series due 2034 are subject to redemption at the direction of the Company, in whole, at any time prior to maturity, at a redemption price of 100% of the principal amount the 5.00% Series due 2034 to be redeemed, plus interest accrued thereon to the date fixed for redemption, at any time the Authority Refunding Bonds maturing on the same date are subject to extraordinary optional redemption pursuant to Section 7.01(a)(ii) of the Authority Indenture;

(g) The 4.50% Series due 2042 are subject to redemption at the direction of the Company, in whole, at any time prior to maturity, at a redemption price of 100% of the principal amount the 4.50% Series due 2042 to be redeemed, plus interest accrued thereon to the date fixed for redemption, at any time the Authority Construction Bonds maturing on the same date are subject to extraordinary optional redemption pursuant to Section 7.01(b)(ii) of the Authority Indenture;

(h) The 5.00% Series due 2043 are subject to redemption at the direction of the Company, in whole, at any time prior to maturity, at a redemption price of 100% of the principal amount the 5.00% Series due 2043 to be redeemed, plus interest accrued thereon to the date fixed for redemption, at any time the Authority Construction Bonds maturing on the same date are subject to extraordinary optional redemption pursuant to Section 7.01(b)(ii) of the Authority Indenture;

(i) The 4.50% Series due 2042 are also subject to special mandatory redemption at the direction of the Company, in part, prior to maturity, at a redemption price of 100% of the principal amount the 4.50% Series due 2042 to be redeemed, plus interest accrued thereon to the date fixed for redemption, at such time and in such amount as the Authority Construction Bonds maturing on the same date are subject to special mandatory redemption pursuant to Section 7.01(b)(iii) of the Authority Indenture;

(j) The 5.00% Series due 2043 are also subject to special mandatory redemption at the direction of the Company, in part, prior to maturity, at a redemption price of 100% of the principal amount the 5.00% Series due 2043 to be redeemed, plus interest accrued thereon to the date fixed for redemption, at such time and in such amount as the Authority Construction Bonds maturing on the same date are subject to special mandatory redemption pursuant to Section 7.01(b)(iii) of the Authority Indenture;

(k) The Bonds are also subject to mandatory redemption by the Company in whole if the Trustee shall receive a written demand from the Authority Trustee for redemption of all such Bonds held by the Authority Trustee stating that an “Event of Default” as defined in Section 9.01(a) of the Authority Indenture has occurred and is continuing and that payment of the principal of the Authority Bonds has been accelerated pursuant to Section 9.01(b) of the Authority Indenture, provided that at the time of notice of such redemption as provided in Section 2 of Article V of the Original Indenture (i) said written demand shall not have been withdrawn by the Authority Trustee, and (ii) no event of default under Section 1 of Article XI of the Original Indenture shall have occurred and be continuing.

SECTION 3. Any redemption of the Bonds shall be effected in accordance with the provisions of Article V of the Original Indenture.

SECTION 4. (a) In the event any Authority Refunding Bonds maturing on the same date as the 5.00% Series due 2033 shall be purchased by the Company, surrendered by the Company to the Authority Trustee for cancellation and cancelled by the Authority Trustee, 5.00% Series due 2033, corresponding in principal amount to such Authority Refunding Bonds so purchased, surrendered and cancelled shall be deemed to have been paid in full.

(b) In the event any Authority Refunding Bonds maturing on the same date as the 5.00% Series due 2034 shall be purchased by the Company, surrendered by the Company to the Authority Trustee for cancellation and cancelled by the Authority Trustee, 5.00% Series due 2034, corresponding in principal amount to such Authority Refunding Bonds so purchased, surrendered and cancelled shall be deemed to have been paid in full

(c) In the event any Authority Construction Bonds maturing on the same date as the 4.50% Series due 2042 shall be purchased by the Company, surrendered by the Company to the Authority Trustee for cancellation and cancelled by the Authority Trustee, 4.50% Series due 2042, corresponding in principal amount to such Authority Construction Bonds so purchased, surrendered and cancelled shall be deemed to have been paid in full.

(d) In the event any Authority Construction Bonds maturing on the same date as the 5.00% Series due 2043 shall be purchased by the Company, surrendered by the Company to the Authority Trustee for cancellation and cancelled by the Authority Trustee, 5.00% Series due 2043, corresponding in principal amount to such Authority Construction Bonds so purchased, surrendered and cancelled shall be deemed to have been paid in full.

SECTION 5. (a) In the event and to the extent the principal of and premium, if any, or interest on, any Authority Refunding Bonds maturing on the same date as the 5.00% Series due 2033 is paid out of funds held by the Authority Trustee other than payments of 5.00% Series due 2033, the corresponding payment of the principal of, and premium, if any, or interest on, an aggregate principal amount of 5.00% Series due 2033 equal to the aggregate principal amount of such Authority Refunding Bonds shall be deemed to have been satisfied.

(b) In the event and to the extent the principal of and premium, if any, or interest on, any Authority Refunding Bonds maturing on the same date as the 5.00% Series due 2034 is paid out of funds held by the Authority Trustee other than payments of 5.00% Series due 2034, the corresponding payment of the principal of, and premium, if any, or interest on, an aggregate principal amount of 5.00% Series due 2034 equal to the aggregate principal amount of such Authority Refunding Bonds shall be deemed to have been satisfied.

(c) In the event and to the extent the principal of and premium, if any, or interest on, any Authority Construction Bonds maturing on the same date as the 4.50% Series due 2042 is paid out of funds held by the Authority Trustee other than payments of 4.50% Series due 2042, the corresponding payment of the principal of, and premium, if any, or interest on, an aggregate principal amount of 4.50% Series due 2042 equal to the aggregate principal amount of such Authority Construction Bonds shall be deemed to have been satisfied.

(d) In the event and to the extent the principal of and premium, if any, or interest on, any Authority Construction Bonds maturing on the same date as the 5.00% Series due 2043 is paid out of funds held by the Authority Trustee other than payments of 5.00% Series due 2043, the corresponding payment of the principal of, and premium, if any, or interest on, an aggregate principal amount of 5.00% Series due 2043 equal to the aggregate principal amount of such Authority Construction Bonds shall be deemed to have been satisfied.

SECTION 6. All Bonds deemed to have been paid in full as provided in Section 4 and 5 of this Article I of this Forty-sixth Supplemental Indenture shall be surrendered to the Trustee for cancellation, and the Trustee shall forthwith cancel the same and, in accordance with applicable laws and regulations and the Trustee's policies and procedures, and on the written request of the Company, deliver the same to the Company. In case part of an outstanding Bond shall be deemed to have been partially paid as provided in said Section 4 or Section 5, upon presentation of such Bond at the designated office of the Trustee, the Trustee shall make a notation thereon of the payment of the portion of the principal amount of such Bond so deemed to have been paid unless the registered owner shall elect to surrender such Bond to the Trustee, in which case the Company shall execute and the Trustee shall authenticate and deliver, without charge to the registered owner, Bonds in such authorized denominations as shall be specified by the registered owner for the unpaid balance of the principal amount of such outstanding Bond.

SECTION 7. The 5.00% Series due 2033 in the aggregate principal amount of \$25,910,000, the 5.00% Series due 2034 in the aggregate principal amount of \$19,270,000, the 4.50% Series due 2042 in the aggregate principal amount of \$15,000,000 and the 5.00% Series due 2043 in the aggregate principal amount of \$81,205,000 may be issued under the provisions of Article IV of the Original Indenture and may forthwith be executed by the Company and delivered to the Trustee and shall be authenticated by the Trustee and delivered to or upon the order of the Company, upon receipt by the Trustee of the resolutions, certificates, opinions or other instruments or all of the foregoing required to be delivered upon the issue of bonds pursuant to the provisions of the Original Indenture.

ARTICLE II.

Maintenance or Improvement Deposit.

SECTION 1. The Company covenants that it will deposit with the Trustee on or before the March 1 next occurring after the bonds of the bonds of the 9.93% Series due 2013 cease to be outstanding, or on or before the next March 1 next occurring after the bonds of the 9.97% Series due 2018 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.29% Series due 2026 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.17% Series due 2021 cease to be outstanding, or on or before the next March 1 next occurring after the bonds of the 9.17% Series due 2011 cease to be outstanding, or on or before the March 1 next occurring after the bonds of any of the Subseries of the 1995 Medium Term Note Series issued under the Twenty-Ninth Supplemental Indenture (consisting of the 7.72% Subseries A due 2025 and the 6.89% Subseries C due 2015) shall cease to be outstanding, or on or before March 1 next occurring after the bonds of 6.00% Series due 2029 cease to be outstanding, or on or before March 1 next occurring after the bonds of any of the Subseries of the 1999 Medium Term Note Series issued under the Thirty-Third Supplemental Indenture (consisting of the 6.21% Series due 2011, the 9.53% Subseries D due 2019, the 8.26% Subseries F due 2022, the 8.32% Subseries I due 2022, the 8.14% Subseries J due 2025, the 6.00% Subseries K due 2030, the 5.93% Subseries L due 2012, the 5.08% Subseries O due 2015, the 5.17% Subseries P due 2017, the 5.751% Subseries Q due 2019, the 5.751% Subseries R due 2019, the 6.06% Subseries S due 2027, the 6.06% Subseries T due 2027 and the 5.98% Subseries U due 2028) cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.35% Series due 2031 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.55% Series due 2032 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.15% Series due 2032 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.05% Series due 2039 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2036 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2037 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2038 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2035 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2041 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.25% Series due 2042 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.25% Series due 2043 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 6.25% Series due

2017 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 6.75% Series due 2018 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2039 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2040 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 4.75% Series due 2040 cease to be outstanding, whichever is latest, an amount in cash (the "Maintenance or Improvement Deposit") equal to 9% of the Gross Operating Revenues of the Company during the preceding calendar year less, to the extent that the Company desires to take such credits, the following:

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

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

- (a) An Officers' Certificate, which shall state:

- (i) The amount of the Gross Operating Revenues for the preceding calendar year;
 - (ii) 9% of such Gross Operating Revenues;
 - (iii) The amount actually expended by the Company for maintenance during such calendar year;
 - (iv) The amount set forth in subparagraph (xii) of each Officers' Certificate delivered to the Trustee pursuant to the provisions of this Section during the preceding five calendar years (specifying each such Officers' Certificate), after deducting from each such amount the aggregate of (a) the Cost or Fair Value, whichever is less, of all Permanent Additions represented by such amount which have ceased to be Available Permanent Additions; and (b) any part of such amount for which the Company has previously taken credit against any Maintenance or Improvement Deposit (specifying the Officers' Certificate in which such credit was taken); and (c) any part of such amount for which the Company then desires to take credit against the Maintenance or Improvement Deposit;

(v) An amount which shall be the aggregate of all amounts set forth pursuant to the provisions of clause (c) of the foregoing subparagraph (iv);

(vi) The Cost or Fair Value, whichever is less, of Available Permanent Additions acquired by the Company during the preceding calendar year;

(vii) That part of the amount set forth in subparagraph (vi) which the Company desires to use as a credit against the Maintenance or Improvement Deposit;

(viii) The amount of cash payable to the Trustee under the provisions of Section 1 of this Article, which shall be the amount by which the amount set forth in subparagraph (ii) hereof exceeds the sum of the amounts set forth in subparagraphs (iii), (v) and (vii) hereof;

(ix) The sum of all amounts charged on the books of the Company against any reserve for retirement or depreciation during the preceding calendar year representing the aggregate of the Cost when acquired of any part of the Company's plants and property of the character described in the granting clauses hereof which has been permanently retired or abandoned;

(x) The aggregate of the amounts set forth in subparagraphs (v) and (vii) hereof;

(xi) The amount by which the amount set forth in subparagraph (x) exceeds the amount set forth in subparagraph (ix), being the amount required to be deducted from the Cost or Fair Value of Available Permanent Additions in order to determine a Net Amount of Available Permanent Additions pursuant to the provisions of Section 9 of Article I of the Original Indenture;

(xii) The amount set forth in subparagraph (vi) after deducting the amount, if any, set forth in subparagraph (vii); and

(xiii) That all conditions precedent to the taking of the credit or credits so requested by the Company have been complied with.

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

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

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

(a) A Resolution requesting such payment; and

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

ARTICLE III. Covenants of the Company.

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

SECTION 2. The Company covenants and agrees that so long as any of the Bonds are outstanding (a) the Company will not make any Stock Payment if, after giving effect thereto, its retained earnings, computed in accordance with generally accepted accounting principles consistently applied, will be less than the sum of (i) Excluded Earnings, if any, since December 31, 2009, and (ii) \$20,000,000; (b) Stock Payments made more than 40 days after the commencement, and prior to the expiration, of any Restricted Period shall not exceed 65% of the Company's Net Income during such Restricted Period; and (c) the Company will not authorize a Stock Payment if there has occurred and is continuing an event of default under subsections (a) and (b) of Section 1 of Article XI of the Original Indenture.

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

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

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

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

“Excluded Earnings” shall mean 35% of the Company’s Net Income during any Restricted Period.

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

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

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

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

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

ARTICLE IV.
The Trustee.

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

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

SECTION 3. Before the Trustee shall be required to foreclose on, or to take control or possession of, the real property or leasehold interest (the "Premises") which may be the subject of any mortgage or mortgages for which the Trustee is mortgagee in connection with the issuance of the Bonds, the Trustee shall be indemnified and held harmless by the holders and/or beneficial owners of the Bonds from and against any and all expense, loss, or liability that may be suffered by the Trustee in connection with any spill, leak or release which may have occurred on or invaded the Premises or any contamination by any Hazardous Substance (hereinafter defined), whether caused by the Company or any other person or entity, including, but not limited to, (1) any and all reasonable expenses that the Trustee may incur in complying with any of the Environmental Statutes (hereinafter defined), (2) any and all reasonable costs that the Trustee may incur in studying or remedying any spill, leak or release which may have occurred on or invaded the Premises or any contamination, (3) any and all fines or penalties assessed upon the Trustee by reason of such contamination, (4) any and all loss of value of the Premises or the improvements thereon by reason of such contamination, and (5) any and all legal fees and costs reasonably incurred by the Trustee in connection with any of the foregoing. As used in this Section, contamination by any Hazardous Substance shall include contamination, arising from the presence, creation, production, collection, treatment, disposal, discharge, release, storage, transport or transfer of any Hazardous Substance at or from the Premises or any improvements thereon. As used in this Section, the term "Hazardous Substance" shall mean petroleum hydrocarbons or any substance which (a) constitutes a

hazardous waste or substance under any applicable federal, state or local law, rule, order or regulation now or hereafter adopted; (b) constitutes a "hazardous substance" as such term is defined under the Comprehensive Environmental Response, Compensation and Liability Act, as amended (42 U.S.C. §9601 et seq.) and the regulations issued thereunder and any comparable state or local law or regulation; (c) constitutes a "hazardous waste" under the Resource Conservation and Recovery Act, (42 U.S.C. §6991) and the regulations issued thereunder and any comparable state or local law or regulation; (d) constitutes a pollutant, contaminant, chemical or industrial, toxic or hazardous substance or waste as such terms are defined under Federal Clean Water Act, as amended (33 U.S.C. §1251 et seq.), the Toxic Substances Control Act, as amended (15 U.S.C. §2601 et seq.), or any comparable state or local laws or regulations; (e) exhibits any of the characteristics enumerated in 40 C.F.R. Sections 261.20 — 261.24, inclusive; (f) those extremely hazardous substances listed in Section 302 of the Superfund Amendments and Reauthorization Act of 1986 (Public Law 99-499, 100 Stat. 1613) which are present in threshold planning or reportable quantities as defined under such act; (g) toxic or hazardous chemical substances which are present in quantities which exceed exposure standards as those terms are defined under Sections 6 and 8 of the Occupational Safety and Health Act, as amended (29 U.S.C. §§655 and 657 and 29 C.F.R. Part 1910, subpart 2); and (h) any asbestos, petroleum-based products or any Hazardous Substance contained within or release from any underground or aboveground storage tanks. As used in this Section, the term "Environmental Statutes" shall mean the statutes, laws, rules, orders and regulations referred to in (a) through (g) inclusive in the preceding sentence.

ARTICLE V.
Miscellaneous.

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

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

The Bank of New York Mellon Trust Company, N. A.
Global Corporate Trust
1600 Market Street, Suite 1500
Philadelphia, PA 19103
Attention: Philip Newmuis
Phone: 215-640-8455
Fax: 215-9981-0316/0352

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

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

SECTION 4. Although this Forty-sixth Supplemental Indenture is dated as of October 15, 2010 for convenience and for the purpose of reference, the actual date or dates of execution hereof by the Company and the Trustee are as indicated by their respective acknowledgments annexed hereto.

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

SECTION 6. This Forty-sixth Supplemental Indenture shall become effective upon delivery to the Trustee by the Company of the certificates required by Articles IV, VI and VII of the Original Indenture, which shall occur concurrently with the issuance of the 5.00% Series due 2033, the 5.00% Series due 2034, the 4.50% Series due 2042 and the 5.00% Series due 2043 on November 17, 2010.

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

[CORPORATE SEAL]

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

Attest: Maria Gordiany

By: Diana MoyKelly
Treasurer

[CORPORATE SEAL]

Attest: Noreen Wichert
Authorized Officer

By: Phillip Newmuis
Name: Philip Newmuis
Title: Authorized Signer

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

The Bank of New York Mellon Trust Company, N. A.
Global Corporate Trust
1600 Market Street, Suite 1500
Philadelphia, PA 19103
Attention: Philip Newmuis
Telephone: 215-640-8455
Fax: 215-981-0316/0352

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

By: Philip Newmuis
Name: Philip Newmuis
Title: Authorized Signer

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF MONTGOMERY

On the 28th day of October, 2010 before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared Diana MoyKelly, who acknowledged herself to be the Treasurer of Aqua Pennsylvania, Inc., a corporation, and that she as such Treasurer, being authorized to do so, executed the foregoing Forty-sixth Supplemental Indenture as and for the act and deed of said corporation and for the uses and purposes therein mentioned, by signing the name of the corporation by himself as such officer.

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

[NOTARIAL SEAL]

Lisa S. Pitrowski

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF PHILADELPHIA

On the 28th day of October, 2010 before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared Philip Newmuis, who acknowledged himself to be an Authorized Signer of The Bank of New York Mellon Trust Company, N.A., a national banking association, and that he as such Authorized Signer, being authorized to do so, executed the foregoing Forty-sixth Supplemental Indenture as and for the act and deed of said national banking association and for the uses and purposes therein mentioned by signing the name of said national banking association by himself as such officer.

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

[NOTARIAL SEAL]

Sandra Abrahams

EXHIBIT A
OUTSTANDING FIRST MORTGAGE BONDS

Division	Structure	Interest Rate	Issue Date	Maturity Date	Original Amount	Balance (incl. CP) @ 06/30/10
Aqua Pa	Tax Exempt	5.35%	11/01/01	10/01/31	30,000,000	30,000,000
Aqua Pa	Tax Exempt	5.55%	06/01/02	09/01/32	25,000,000	25,000,000
Shenango	Tax Exempt	6.00%	10/01/99	06/01/29	25,000,000	25,000,000
Aqua Pa	Tax Exempt	6.00%	06/28/00	07/01/30	18,360,000	18,360,000
Roaring Creek	Tax Exempt	5.05%	11/30/04	10/01/39	14,000,000	14,000,000
Aqua Pa	Tax Exempt	5.15%	06/26/02	09/01/32	25,000,000	25,000,000
Aqua Pa	Tax Exempt	5.00%	05/19/05	11/01/36	21,770,000	21,770,000
Aqua Pa	Tax Exempt	5.00%	05/19/05	11/01/37	24,165,000	24,165,000
Aqua Pa	Tax Exempt	5.00%	05/19/05	11/01/38	25,375,000	25,375,000
Aqua Pa	Tax Exempt	5.00%	12/28/06	02/01/35	24,675,000	24,675,000
Aqua Pa	Tax Exempt	5.00%	01/16/07	02/01/40	23,915,000	23,915,000
Aqua Pa	Tax Exempt	5.00%	01/16/07	02/01/41	23,915,000	23,915,000
Aqua Pa	Tax Exempt	5.25%	12/20/07	07/01/42	24,830,000	24,830,000
Aqua Pa	Tax Exempt	5.25%	12/20/07	07/01/43	24,830,000	24,830,000
Aqua Pa	Tax Exempt	6.25%	12/18/08	10/01/17	9,000,000	9,000,000
Aqua Pa	Tax Exempt	6.75%	12/18/08	10/01/18	13,000,000	13,000,000
Aqua Pa	Tax-Exempt	5.00%	07/16/09	10/01/39	58,000,000	58,000,000
Aqua Pa	Tax-Exempt	5.00%	11/17/09	11/15/40	62,165,000	62,165,000
Aqua Pa	Tax-Exempt	4.75%	11/17/09	11/15/40	12,520,000	12,520,000
					<u>485,520,000</u>	<u>485,520,000</u>
Aqua Pa	Taxable	5.93%	06/26/02	07/01/12	25,000,000	25,000,000
Aqua Pa	Taxable	6.21%	10/25/01	11/01/11	15,000,000	15,000,000
Aqua Pa	Taxable	6.89%	12/19/95	12/15/15	12,000,000	12,000,000
Aqua Pa	Taxable	7.72%	05/19/95	05/15/25	15,000,000	15,000,000
Shenango	Taxable	8.14%	11/01/95	11/01/25	4,000,000	4,000,000
Susquehanna	Taxable	8.26%	11/01/92	11/01/22	1,500,000	1,500,000
Shenango	Taxable	8.32%	11/01/92	11/01/22	3,500,000	3,500,000
Aqua Pa	Taxable	9.17%	11/01/91	09/15/21	8,000,000	4,800,000
Aqua Pa	Taxable	9.17%	11/01/91	09/15/11	5,000,000	5,000,000
Aqua Pa	Taxable	9.29%	11/01/91	09/15/26	12,000,000	12,000,000
Roaring Creek	Taxable	9.53%	12/15/89	12/15/19	4,000,000	4,000,000
Aqua Pa	Taxable	9.93%	06/01/88	06/01/13	5,000,000	5,000,000
Aqua Pa	Taxable	9.97%	06/01/88	06/01/18	5,000,000	5,000,000
Aqua Pa	Taxable	5.08%	05/10/04	05/15/15	20,000,000	20,000,000
Aqua Pa	Taxable	5.17%	05/10/04	05/10/17	7,000,000	7,000,000
Aqua Pa	Taxable	5.751%	05/10/04	05/15/19	15,000,000	15,000,000
Aqua Pa	Taxable	5.751%	05/10/04	05/15/19	5,000,000	5,000,000
Aqua Pa	Taxable	6.06%	05/10/04	05/10/27	15,000,000	15,000,000
Aqua Pa	Taxable	6.06%	05/10/04	05/15/27	5,000,000	5,000,000
Aqua Pa	Taxable	5.98%	05/10/04	05/15/28	3,000,000	3,000,000
					<u>185,000,000</u>	<u>181,800,000</u>
TOTAL FIRST MORTGAGE BONDS					<u>670,520,000</u>	<u>667,320,000</u>

EXHIBIT B
RECORDING INFORMATION

BUCKS, CHESTER, DELAWARE AND MONTGOMERY COUNTIES

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

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Eighteenth Supplemental	4/29/77	2082	567	B-52	344	3078	728	5003	291
Nineteenth Supplemental	6/23/80	2303	714	J-62	92	3261	293	5030	502
Twentieth Supplemental	8/2/83	2487	370	D-72	1	96	810	5662	1045
Twenty-First Supplemental	8/27/85	2690	806	54	550	—	—	5864	1347
Twenty-First Supplemental	8/28/85	—	—	—	—	264	159	—	—
Twenty-Second Supplemental	4/22/86	2774	160	263	275	326	592	5944	360
Twenty-Third Supplemental	4/1/87	2960	693	—	—	—	—	—	—
Twenty-Third Supplemental	4/2/87	—	—	680	337	447	1807	6115	602
Twenty-Fourth Supplemental	7/25/88	3199	1095	1224	389	0593	0585	6324	143
Twenty-Fifth Supplemental	1/12/90	0136	0250	1848	205	731	1571	6538	376
Twenty-Sixth Supplemental	11/8/91	369	2190	2660	205	894	2241	6780	891
Twenty-Seventh Supplemental	6/29/92	0487	1829	3055	182	0969	2023	6918	302
Twenty-Eighth Supplemental	4/22/93	0652	1335	3542	1542	1081	0852	7112	0539
Twenty-Ninth Supplemental	3/30/95	1045	1872	3875	1368	1349	0829	7561	1155
Thirtieth Supplemental	8/30/95	1111	0798	3932	0471	1393	2255	7631	0689
Thirty-First Supplemental	7/11/97	1421	2196	4201	2133	1607	138	7968	779
Thirty-Second Supplemental	10/6/99	1939	421	4646	642	1936	1207	8548	1067
Thirty-Third Supplemental	11/30/99	1970	1573	4675	1272	1936	1207	85898	317
Thirty-Fourth Supplemental	10/31/01	2471	1207	5101	2142	2288	0174	9225	761

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Thirty-Fifth Supplemental	1/10/02	2541	765	5152	818	2329	1019	9314	1079
Thirty-Sixth Supplemental	6/5/02	2731	1881	5296	356	2448	1862	9593	1416
Thirty-Seventh Supplemental	12/27/02	3036	1425	12/31/02 B-5514	1552	12/31/02 02631	0294	12/30/02 10018	0204
Thirty-Eighth Supplemental	11/9/04	4196	1557	11/23/04 B-6342	800	11/22/04 B-3348	1698	11/22/04 B-00020	0237
Thirty-Ninth Supplemental	5/18/05	4441	1471	5/19/05 #2005066104	1375	03487 32005044507	0939	0020 2005069126	0688
Fortieth Supplemental	12/27/05	4768	1853	12/23/05 6720	897	12/23/05 #10608829	2206	12/29/05 11689	1156
Forty-first Supplemental	1/11/07	5250	1290	1/12/07 #2007004610	820	1/11/07 04002	2257	1/30/07 0225	00329
Forty-second Supplemental	12/13/07		#2007119080	12/13/07 7326	2091	12/13/07 #10809606	1166	12/17/07 12287	02498-02544
Forty-third Supplemental	12/08/08	5961	2131	12/08/08 #2008099812	1527	12/08/08 4466	1185	12/08/08 12504	2585
Forty-fourth Supplemental	07/14/09	6158	2032	07/13/09 2009057188	1563	07/09/09 #2009042911	1919	07/14/09 12659	894
Forty-fifth Supplemental	11/12/09	6266	1759	11/12/09 7808	255	11/12/09 4654	767	11/12/09 12735	2281

BERKS COUNTY

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

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

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

Indenture	NORTHUMBERLAND			PIKE			SCHUYLKILL			WAYNE		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Thirty-Fifth Supplemental		1404	246		1909	2328		1413	1		1911	1
Thirty-Sixth Supplemental		1445	028					1584	0259			
Thirty-Seventh Supplemental	12/30/02	1500	911	12/30/02	1959	2447	12/27/02	2022	1006	12/30/02	2136	148
Thirty-Eighth Supplemental	11/22/04	1714	748	11/23/04	2081	1757	11/24/04	2126	569	11/23/04	2658	252
Thirty-Ninth Supplemental	5/18/05	1761	50	5/17/05	2109	2201	5/18/05	2150	1871-1919	5/16/05	Vol. 2769	1
			#200509076			#200500008491			#200500010263			#200500004960
Fortieth Supplemental	12/27/05	1828	571	12/27/05	2151	1334	12/23/05	2184	875	12/27/05	2944	243
Forty-first Supplemental	1/11/07	1933	634	1/12/07	2214	472-515	1/11/07	2238	798-840	1/16/07	3216	229-272
			#200700696			#200700000749			#200700000686			#200700000492
Forty-second Supplemental	12/17/07	2024	953	12/19/07	2261	175	12/18/07	2285	473	12/18/07	3433	1
			#200721572			#200700018937			#200700022991			#200700013194
Forty-third Supplemental	12/10/08	Instr. #200819618		12/18/08	2296	268	12/10/08	2324	2159	12/09/08	3633	1
												1-45
Forty-fourth Supplemental	07/14/09	2160	680	07/14/09	2313	2050	07/10/09	2344	842	07/10/09	3777	204
			#200910564			#200900007071			#200900009544			#200900007610
Forth-fifth Supplemental	11/12/09	Instr. #200917348		11/13/09	2323	2637	11/12/09	2356	1104	11/12/09	3888	185

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

Indenture	ADAMS			CARBON			CUMBERLAND			FOREST		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Thirty-Eighth Supplemental	11/23/04	3781	1	11/30/04	200416309		11/22/04	2004047145		11/29/04	231	306
Thirty-Ninth Supplemental	5/19/05	3970	54	5/18/05	1330	689	5/13/05	1907	0247	5/16/05	234	345
Fortieth Supplemental	12/28/05	4261	162	12/27/05	1408	576	12/27/05	1935	3233	12/27/05	0238	0304
Forty-first Supplemental	1/11/07	4707	2081	1/12/07	1540	548	1/11/07	1979	0482	1/09/07	0244	0362
Forty-second Supplemental	12/17/07	5062	223	12/18/07	1650	261	12/14/07	200746336		12/18/07	250	219
Forty-third Supplemental	12/10/08	5312	110	12/11/08	1735	864	12/11/08	200839447		12/08/08	255	548
Forty-fourth Supplemental	07/13/09	5390	643	07/10/09	1778	883	07/10/09	200924123		07/13/09	258	466
Forth-fifth Supplemental	11/13/09	5431	12	11/12/09	1805	605	11/13/09	200938300		11/13/09	260	659

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

Indenture	NORTHAMPTON			SNYDER			SUSQUEHANNA			WYOMING		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Thirty-Eighth Supplemental	11/22/04	2004-1	452932	11/24/04	631	0001	11/24/04	Instr. #200411624		11/24/04	0513	0774
Thirty-Ninth Supplemental	5/17/05	2005-1	182906	5/17/05	650	135	5/16/05	Instr. #200504384		5/18/05	0522	1289
Fortieth Supplemental	12/23/05	2005-1	521563	12/27/05	677	684	12/22/05	Instr. #200512620		12/22/05	0536	0748
Forty-first Supplemental	1/19/07	2007-1	25009	1/11/07	724	734	1/10/07	Instr. #200700387		1/10/07	0558	0959
Forty-second Supplemental	12/17/07	2007-1	446608	12/18/07	763	178	12/17/07	Instr. #200713519		12/18/07	#2007	5154
Forty-third Supplemental	12/09/08	2008-1	320419	12/12/08	803	217	12/09/08	Instr. #200818392		12/10/08	#2008	6990
Forty-fourth Supplemental	07/10/09	2009-1	177314	07/14/09	827	786	07/09/09	Instr. #200911054		07/10/09	#2009	4233
Forty-fifth Supplemental	11/12/09	2009-1	#284944	11/12/09		#200906458	11/13/09	Instr. #2009016907		11/12/09	#2009	9004

LEHIGH AND CRAWFORD COUNTIES

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

CLARION, VENANGO AND WARREN COUNTIES

Indenture	CLARION			VENANGO			WARREN		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Forty-third Supplemental									
Forty-fourth	07/10/09	0790	0674	07/13/09	544	184	07/09/09	1921	4
Supplemental			#2009-3120			#2009003193			#2009-2683
Forty-fifth Supplemental	11/12/09	Instr. #2009-5388		11/12/09	Instr. #2009005802		11/13/09	1953	188

EXHIBIT C

COUNTY	GRANTOR	DEED DATE	TAX PARCEL NO.	DEED BOOK	PAGE
Wayne	Gouldsboro Water Company and William & Kathryn Stocoski	12/29/2008	14-0-0370-0044		
Wyoming	W.P. Water Company, Inc. aka (Washington Park)	3/31/2009	27-71.0-134-00 and 27-71.0-97-00-00-43		
Wyoming	W.P. Sanitary Company, Inc. (aka Washington Park)	3/31/2009	27-71.0-97-03-PU-0		
Luzerne	W.P. Water Company (aka Washington Park)	3/31/2009	35-D9S4-002-012	3009	68695
Warren	Thomas E. Eaton; James A. Eaton and Clarendon Water Company	4/29/2009	WN-008-6497		
Warren	Thomas E. Eaton; James A. Eaton and Clarendon Water Company	4/29/2009	WN-868-8355		
Warren	Thomas E. Eaton; James A. Eaton and Clarendon Water Company	4/29/2009	WN-868-6798		
Warren	Thomas E. Eaton; James A. Eaton and Clarendon Water Company	4/29/2009	WN-868-9113		
Warren	Thomas E. Eaton; James A. Eaton and Clarendon Water Company	4/29/2009	WN-869-4421		
Snyder	Kratzerville Municipal Authority	5/28/2009	08-01-075		
Snyder	Kratzerville Municipal Authority	5/28/2009	08-02-048		
Snyder	Kratzerville Municipal Authority	5/28/2009	08-01-082		

Non-Employee Directors' Compensation for 2011

At its regularly scheduled meeting on December 7, 2010, the Board of Directors of Aqua America, Inc., upon the recommendation of its Executive Compensation Committee, approved the following directors' compensation for 2011 for the non-employee directors of Aqua America, Inc.: (1) an annual cash retainer of \$33,000; (2) an annual cash retainer for the Chair of the Executive Compensation Committee of \$7,500; (3) an annual cash retainer for the Chair of the Audit Committee of \$10,000; (4) an annual cash retainer for the Chair of the Corporate Governance Committee, who also serves as the lead independent directors, of \$10,000; (5) a meeting fee of \$1,500 for each meeting of the Board of Directors; (5) a meeting fee of \$1,500 per meeting for meetings of the Board Committees; and (6) an annual stock grant to directors of \$45,000, rounded to the nearest 100 shares payable on the first of the month following the Annual Meeting of Shareholders. All directors are reimbursed for reasonable expenses incurred in connection with attendance at Board or Committee meetings.

AQUA AMERICA, INC.

2009 OMNIBUS EQUITY COMPENSATION PLAN

As Amended as of February 25, 2011

AQUA AMERICA, INC.

2009 OMNIBUS EQUITY COMPENSATION PLAN

The purpose of the Aqua America, Inc. 2009 Omnibus Equity Compensation Plan (the “Plan”) is to provide (i) designated employees of Aqua America, Inc. (the “Company”) and its subsidiaries, (ii) certain consultants and advisors who perform services for the Company or its subsidiaries, and (iii) non-employee members of the Board of Directors of the Company with the opportunity to receive grants of incentive stock options, nonqualified stock options, stock appreciation rights, stock awards, stock units and other stock-based awards. The Company believes that the Plan will encourage the participants to contribute to the success of the Company, align the economic interests of the participants with those of the shareholders, and provide a means through which the Company can attract and retain officers, other key employees, non-employee directors and key consultants of significant talent and abilities for the benefit of our shareholders and customers. The Plan shall be effective as of May 8, 2009, subject to approval by the shareholders of the Company. The Plan was amended as of February 25, 2011.

Section 1. Definitions

The following terms shall have the meanings set forth below for purposes of the Plan:

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

(b) A Person shall be deemed a “Beneficial Owner” of any securities:

(i) that such Person or any of such Person’s Affiliates or Associates, directly or indirectly, has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the “Beneficial Owner” of securities tendered pursuant to a tender or exchange offer made by such Person or any of such Person’s Affiliates or Associates until such tendered securities are accepted for payment, purchase or exchange;

(ii) that such Person or any of such Person’s Affiliates or Associates, directly or indirectly, has the right to vote or dispose of or has “beneficial ownership” of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act), including without limitation pursuant to any agreement, arrangement or understanding, whether or not in writing; provided, however, that a Person shall not be deemed the “Beneficial Owner” of any security under this clause (ii) as a result of an oral or written agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding (A) arises solely from a revocable proxy given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the General Rules and Regulations under the Exchange Act, and (B) is not then reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(iii) that are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person (or any of such Person's Affiliates or Associates) has any agreement, arrangement or understanding (whether or not in writing) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to clause (ii) above) or disposing of any voting securities of the Company; provided, however, that nothing in this subsection (b) shall cause a Person engaged in business as an underwriter of securities to be the "Beneficial Owner" of any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

(c) "Board" shall mean the Board of Directors of the Company.

(d) "Cause" shall mean, except to the extent specified otherwise by the Committee, a finding by the Committee that the Grantee (i) has breached his or her employment or service contract with the Employer, (ii) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty, (iii) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information, (iv) has breached any written non-competition, non-solicitation or confidentiality agreement between the Grantee and the Employer or (v) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

(e) "Change in Control" shall be deemed to have occurred if:

(i) any Person, together with all Affiliates and Associates of such Person, shall become the Beneficial Owner in the aggregate of 20% or more of the Company Stock then outstanding;

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

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

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

(f) “Code” shall mean the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

(g) “Committee” shall mean the committee, consisting of members of the Board, designated by the Board to administer the Plan.

(h) “Company” shall mean Aqua America, Inc. and shall include its successors.

(i) “Company Stock” shall mean common stock of the Company.

(j) “Disability” or “Disabled” shall mean a Grantee’s becoming disabled within the meaning of section 22(e)(3) of the Code, within the meaning of the Employer’s long-term disability plan applicable to the Grantee or as otherwise determined by the Committee.

(k) “Dividend” shall mean a dividend paid on shares of Company Stock. If interest is credited on accumulated dividends, the term “Dividend” shall include the accrued interest.

(l) “Dividend Equivalent” shall mean a dividend payable on a hypothetical share of Company Stock.

(m) “Dividend Equivalent Amount” shall mean an amount determined by multiplying the number of Dividend Equivalents subject to a Grant by the per-share cash Dividend paid by the Company on its outstanding Company Stock, or the per-share fair market value (as determined by the Committee) of any Dividend paid by the Company on its outstanding Company Stock in consideration other than cash, with respect to each record date for the payment of a dividend during the Accumulation Period described in Section 11(a)(i). If interest is credited on accumulated Dividend Equivalents, the term “Dividend Equivalent Amount” shall include the accrued interest.

(n) “Early Retirement” shall mean, except as otherwise provided in the Grant Instrument, termination of a Grantee’s employment that occurs on or after the date that the Grantee becomes eligible for early retirement pursuant to the terms of the Pension Plan; provided, however, that if a Grantee is not an active participant in the Pension Plan immediately prior to terminating employment, “Early Retirement” shall mean, except as otherwise provided in the Grant Instrument, termination of a Grantee’s employment that occurs on or after the date that a Grantee is first eligible for Social Security retirement benefits and has completed at least 10 years of service as would be determined for vesting purposes under the Pension Plan.

(o) “Employee” shall mean an employee of the Company or a subsidiary of the Company.

(p) “Employed by, or providing service to, the Employer” shall mean employment or service as an Employee, Key Advisor or member of the Board (so that, for purposes of exercising Options and SARs and satisfying conditions with respect to Stock Awards and Performance Units, a Grantee shall not be considered to have terminated employment or service until the Grantee ceases to be an Employee, Key Advisor and member of the Board).

(q) “Employer” shall mean the Company and each of its subsidiaries.

(r) “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

(s) “Exercise Price” shall mean the per share price at which shares of Company Stock may be purchased under an Option, as designated by the Committee.

(t) “Fair Market Value” of Company Stock means, unless the Committee determines otherwise with respect to a particular Grant, (i) if the principal trading market for the Company Stock is a national securities exchange, the last reported sale price of Company Stock on the relevant date or (if there were no trades on that date) the latest preceding date upon which a sale was reported, (ii) if the Company Stock is not principally traded on such exchange, the mean between the last reported “bid” and “asked” prices of Company Stock on the relevant date, as reported on the OTC Bulletin Board, or (iii) if the Company Stock is not publicly traded or, if publicly traded, is not subject to reported transactions as set forth above, the Fair Market Value per share shall be as determined by the Committee through any reasonable valuation method authorized under the Code.

(u) “Grant” shall mean a grant of Options, SARs, Stock Awards, Stock Units or Other Stock-Based Awards under the Plan.

(v) “Grant Instrument” shall mean the agreement that sets forth the terms and conditions of a Grant, including all amendments thereto.

(w) “Grantee” shall mean an Employee, Key Advisor or Non-Employee Director who receives a Grant under the Plan.

(x) “Incentive Stock Option” shall mean an option to purchase Company Stock that is intended to meet the requirements of section 422 of the Code.

(y) “Key Advisor” shall mean a consultant or advisor of an Employer.

(z) “Non-Employee Director” shall mean a member of the Board who is not an Employee.

(aa) “Nonqualified Stock Option” shall mean an option to purchase Company Stock that is not intended to meet the requirements of section 422 of the Code.

(bb) “Normal Retirement” shall mean, except as otherwise provided in the Grant Instrument, termination of a Grantee’s employment on or after the date a Grantee first satisfies the conditions for normal retirement benefits under the terms of the Pension Plan, whether or not the Grantee is covered by the Pension Plan.

(cc) “Option” shall mean an Incentive Stock Option or a Nonqualified Stock Option granted under the Plan.

(dd) “Other Stock-Based Award” shall mean any Grant based on, measured by or payable in Company Stock, as described in Section 10.

(ee) “Pension Plan” shall mean the Retirement Income Plan for Aqua America, Inc. and Subsidiaries, as in effect from time to time.

(ff) “Person” shall mean any individual, firm, corporation, partnership or other entity except the Company, any subsidiary of the Company, any employee benefit plan of the Company or of any subsidiary, or any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such employee benefit plan.

(gg) “SAR” shall mean a stock appreciation right with respect to a share of Company Stock.

(hh) “Stock Award” shall mean an award of Company Stock, with or without restrictions.

(ii) “Stock Unit” shall mean an award of a phantom unit that represents a hypothetical share of Company Stock.

Section 2. Administration

(a) Committee. The Plan shall be administered and interpreted by the Board or by a Committee appointed by the Board. The Committee, if applicable, should consist of two or more persons who are “outside directors” as defined under section 162(m) of the Code, and related Treasury regulations, and “non-employee directors” as defined under Rule 16b-3 under the Exchange Act. The Board shall approve and administer all grants made to Non-Employee Directors. The Committee may delegate authority to one or more subcommittees, as it deems appropriate. To the extent that the Board or a subcommittee administers the Plan, references in the Plan to the “Committee” shall be deemed to refer to the Board or such subcommittee. In the absence of a specific designation by the Board to the contrary, the Plan shall be administered by the Committee of the Board or any successor Board committee performing substantially the same functions.

(b) Committee Authority. The Committee shall have the sole authority to (i) determine the individuals to whom grants shall be made under the Plan, (ii) determine the type, size, terms and conditions of the grants to be made to each such individual, (iii) determine the time when the grants will be made and the duration of any applicable exercise or restriction period, including the criteria for exercisability and the acceleration of exercisability, (iv) amend the terms and conditions of any previously issued grant, subject to the provisions of Section 17 below, and (v) deal with any other matters arising under the Plan.

(c) Committee Determinations. The Committee shall have full power and express discretionary authority to administer and interpret the Plan, to make factual determinations and to adopt or amend such rules, regulations, agreements and instruments for implementing the Plan and for the conduct of its business as it deems necessary or advisable, in its sole discretion. The Committee's interpretations of the Plan and all determinations made by the Committee pursuant to the powers vested in it hereunder shall be conclusive and binding on all persons having any interest in the Plan or in any awards granted hereunder. All powers of the Committee shall be executed in its sole discretion, in the best interest of the Company, not as a fiduciary, and in keeping with the objectives of the Plan and need not be uniform as to similarly situated individuals.

Section 3. Grants

Awards under the Plan may consist of grants of Options as described in Section 6, Stock Awards as described in Section 7, Stock Units as described in Section 8, SARs as described in Section 9 and Other Stock-Based Awards as described in Section 10. All Grants shall be subject to the terms and conditions set forth herein and to such other terms and conditions consistent with this Plan as the Committee deems appropriate and as are specified in writing by the Committee to the individual in the Grant Instrument. All Grants shall be made conditional upon the Grantee's acknowledgement, in writing or by acceptance of the Grant, that all decisions and determinations of the Committee shall be final and binding on the Grantee, his or her beneficiaries and any other person having or claiming an interest under such Grant. Grants under a particular Section of the Plan need not be uniform as among the Grantees.

Section 4. Shares Subject to the Plan

(a) Shares Authorized. Subject to adjustment as described in subsection (d) below, the aggregate number of shares of Company Stock that may be issued or transferred under the Plan is 5,000,000 shares. Shares issued or transferred under the Plan may be authorized but unissued shares of Company Stock or reacquired shares of Company Stock, including shares purchased by the Company on the open market for purposes of the Plan. If and to the extent Options or SARs granted under the Plan terminate, expire or are canceled, forfeited, exchanged or surrendered without having been exercised or if any Stock Awards, Stock Units or Other Stock-Based Awards are forfeited, terminated or otherwise not paid in full, the shares subject to such Grants shall again be available for purposes of the Plan. Shares of Company Stock surrendered in payment of the Exercise Price of an Option or withheld for purposes of satisfying the Company's minimum tax withholding obligations with respect to Grants under the Plan shall again be available for issuance or transfer under the Plan.

(b) Limit on Stock Awards, Stock Units and Other Stock-Based Awards. Within the aggregate limit described in subsection (a), the maximum number of shares of Company Stock that may be issued under the Plan pursuant to Stock Awards, Stock Units and Other Stock-Based Awards during the term of the Plan is 2,500,000 shares (i.e., fifty percent (50%) of the aggregate limit described in subsection (a) above), subject to adjustment as described in subsection (d) below.

(c) Individual Limits. All Grants under the Plan shall be expressed in shares of Company Stock. The maximum aggregate number of shares of Company Stock with respect to which all Grants may be made under the Plan to any individual during any calendar year shall be 200,000 shares, subject to adjustment as described in subsection (d) below. The foregoing limit of this subsection (c) shall apply without regard to whether the Grants are to be paid in Company Stock or cash. All cash payments with respect to Grants (other than with respect to Dividend Equivalents or Dividends) shall equal the Fair Market Value of the shares of Company Stock to which the cash payments relate. A Participant may not accrue Dividend Equivalents and Dividends on performance-based Grants described in Section 12 during any calendar year in excess of \$600,000.

(d) Adjustments. If there is any change in the number or kind of shares of Company Stock outstanding by reason of (i) a stock dividend, spinoff, recapitalization, stock split, or combination or exchange of shares, (ii) a merger, reorganization or consolidation, (iii) a reclassification or change in par value, or (iv) any other extraordinary or unusual event affecting the outstanding Company Stock as a class without the Company's receipt of consideration, or if the value of outstanding shares of Company Stock is substantially reduced as a result of a spinoff or the Company's payment of an extraordinary dividend or distribution, the maximum number of shares of Company Stock available for issuance under the Plan, the maximum number of shares of Company Stock for which any individual may receive Grants in any year, the kind and number of shares covered by outstanding Grants, the kind and number of shares issued and to be issued under the Plan, and the price per share or the applicable market value of such Grants shall be equitably adjusted by the Committee, in such manner as the Committee deems appropriate, to reflect any increase or decrease in the number of, or change in the kind or value of, the issued shares of Company Stock to preclude, to the extent practicable, the enlargement or dilution of rights and benefits under the Plan and such outstanding Grants; provided, however, that any fractional shares resulting from such adjustment shall be eliminated. In the event of a Change in Control of the Company, the provisions of Section 15 of the Plan shall apply. Any adjustments to outstanding Grants shall be consistent with section 409A or 422 of the Code, to the extent applicable. Any adjustments determined by the Committee shall be final, binding and conclusive.

Section 5. Eligibility for Participation

(a) Eligible Persons. All Employees (including, for all purposes of the Plan, an Employee who is a member of the Board) and Non-Employee Directors shall be eligible to participate in the Plan. Key Advisors shall be eligible to participate in the Plan if the Key Advisors render bona fide services to the Employer, the services are not in connection with the offer and sale of securities in a capital-raising transaction and the Key Advisors do not directly or indirectly promote or maintain a market for the Company's securities.

(b) Selection of Grantees. The Committee shall select the Employees, Key Advisors and Non-Employee Directors to receive Grants and shall determine the number of shares of Company Stock subject to a particular Grant in such manner as the Committee determines.

Section 6. Options

The Committee may grant Options to an Employee, Key Advisor or Non-Employee Director upon such terms as the Committee deems appropriate. The following provisions are applicable to Options:

(a) Number of Shares. The Committee shall determine the number of shares of Company Stock that will be subject to each Grant of Options to Employees, Key Advisors and Non-Employee Directors.

(b) Type of Option and Price.

(i) The Committee may grant Incentive Stock Options or Nonqualified Stock Options or any combination of the two, all in accordance with the terms and conditions set forth herein. Incentive Stock Options may be granted only to employees of the Company or its parent or subsidiary corporations, as defined in section 424 of the Code. Nonqualified Stock Options may be granted to Employees and Non-Employee Directors.

(ii) The Exercise Price of Company Stock subject to an Option shall be determined by the Committee and shall be equal to or greater than the Fair Market Value of a share of Company Stock on the date the Option is granted. However, an Incentive Stock Option may not be granted to an Employee who, at the time of grant, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, or any parent or subsidiary corporation of the Company, as defined in section 424 of the Code, unless the Exercise Price per share is not less than 110% of the Fair Market Value of a share of Company Stock on the date of grant.

(c) Option Term. The Committee shall determine the term of each Option. The term of any Option shall not exceed ten years from the date of grant. However, an Incentive Stock Option that is granted to an Employee who, at the time of grant, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, or any parent or subsidiary corporation of the Company, as defined in section 424 of the Code, may not have a term that exceeds five years from the date of grant.

(d) Exercisability of Options.

(i) Options shall become exercisable in accordance with such terms and conditions, consistent with the Plan, as may be determined by the Committee and specified in the Grant Instrument. The Committee may accelerate the exercisability of any or all outstanding Options at any time for any reason. Without limiting the foregoing, unless the Committee determines otherwise, if a Grantee ceases to be employed by, or provide service to, the Employer on account of the Grantee's death or Disability, all outstanding Options held by the Grantee as of the date the Grantee ceases to be employed by, or provide service to, the Employer shall become fully exercisable on the date of such termination of employment or service.

(ii) The Committee may provide in a Grant Instrument that the Participant may elect to exercise part or all of an Option before it otherwise has become exercisable. Any shares so purchased shall be restricted shares and shall be subject to a repurchase right in favor of the Company during the same period as would be required to vest in the underlying Option, with the repurchase price equal to the lesser of (A) the Exercise Price or (B) the Fair Market Value of such shares at the time of repurchase, or such other restrictions as the Committee deems appropriate.

(e) Grants to Non-Exempt Employees. Notwithstanding the foregoing, Options granted to persons who are non-exempt employees under the Fair Labor Standards Act of 1938, as amended, may not be exercisable for at least six months after the date of grant (except that such Options may become exercisable, as determined by the Committee, upon the Grantee's death, Disability or retirement, or upon a Change in Control or other circumstances permitted by applicable regulations).

(f) Termination of Employment, Retirement, Disability or Death.

(i) Except as provided below, an Option may only be exercised while the Grantee is employed by, or providing service to, the Employer as an Employee, Key Advisor or member of the Board.

(ii) In the event the Grantee ceases to be employed by, or provide service to, the Company on account of a termination for Cause by the Employer or a termination for any reason other than death, Disability, Early Retirement or Normal Retirement, any Option held by the Grantee shall terminate as of the date the Grantee ceases to be employed by, or provide service to, the Employer. Except as otherwise provided by the Committee, any of the Grantee's Options which are not otherwise exercisable as of the date on which the Grantee ceases to be employed by, or provide service to, the Employer shall terminate as of such date. In addition, notwithstanding any other provisions of this Section 6, if the Committee determines that the Grantee has engaged in conduct that constitutes Cause at any time while the Grantee is employed by, or providing service to, the Employer or after the Grantee's termination of employment or service, any Option held by the Grantee shall immediately terminate and the Grantee shall automatically forfeit all shares underlying any exercised portion of an Option for which the Company has not yet delivered the share certificates, upon refund by the Company of the Exercise Price paid by the Grantee for such shares. Upon any exercise of an Option, the Company may withhold delivery of share certificates pending resolution of an inquiry that could lead to a finding resulting in a forfeiture.

(iii) In the event the Grantee ceases to be employed by, or provide service to, the Employer because the Grantee is Disabled, any Option which is otherwise exercisable by the Grantee, including Options becoming exercisable pursuant to Section 6(d)(i) above, shall terminate unless exercised within thirty-eight (38) months after the date on which the Grantee ceases to be employed by, or provide service to, the Employer (or within such other period of time as may be specified by the Committee), but in any event no later than the date of expiration of the Option term.

(iv) In the event the Grantee ceases to be employed by, or provide service to, the Employer on account of Early Retirement or Normal Retirement, any Option which is otherwise exercisable by the Grantee shall terminate unless exercised within thirty-eight (38) months after the date on which the Grantee ceases to be employed by, or provide service to, the Employer (or within such other period of time as may be specified by the Committee), but in any event no later than the date of expiration of the Option term. Unless the Committee determines otherwise, no Option shall accelerate and become exercisable as a result of a Grantee's Early Retirement or Normal Retirement.

(v) If the Grantee dies while employed by, or providing service to, the Employer, any Option that is otherwise exercisable by the Grantee, including Options becoming exercisable pursuant to Section 6(d)(i) above, shall terminate unless exercised within twelve (12) months after the date on which the Grantee ceases to be employed by, or provide service to, the Employer (or within such other period of time as may be specified by the Committee), but in any event no later than the date of expiration of the Option term.

(g) Exercise of Options. A Grantee may exercise an Option that has become exercisable, in whole or in part, by delivering a notice of exercise to the Company. The Grantee shall pay the Exercise Price for an Option as specified by the Committee (i) in cash, (ii) unless the Committee determines otherwise, by delivering shares of Company Stock owned by the Grantee and having a Fair Market Value on the date of exercise at least equal to the Exercise Price or by attestation (on a form prescribed by the Committee) to ownership of shares of Company Stock having a Fair Market Value on the date of exercise at least equal to the Exercise Price, (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board, or (iv) by such other method as the Committee may approve. Shares of Company Stock used to exercise an Option shall have been held by the Grantee for the requisite period of time necessary to avoid adverse accounting consequences to the Company with respect to the Option. Payment for the shares to be issued or transferred pursuant to the Option, and any required withholding taxes, must be received by the Company by the time specified by the Company depending on the type of payment being made, but in all cases prior to the issuance or transfer of such shares.

(h) Limits on Incentive Stock Options. Each Incentive Stock Option shall provide that, if the aggregate Fair Market Value of the Company Stock on the date of the grant with respect to which Incentive Stock Options are exercisable for the first time by a Grantee during any calendar year, under the Plan or any other stock option plan of the Company or a parent or subsidiary, exceeds \$100,000, then the Option, as to the excess, shall be treated as a Nonqualified Stock Option. An Incentive Stock Option shall not be granted to any person who is not an Employee of the Company or a parent or subsidiary corporation (within the meaning of section 424(f) of the Code) of the Company.

(i) Restrictive Covenants Agreement. All unexercised Options following the date a Grantee ceases to be employed by, or provide service to, the Employer on account of Early Retirement or Normal Retirement shall be forfeited if, during the thirty-eight (38)-month period following such termination of employment or service, the Grantee violates the terms of any written invention assignment, non-competition, non-solicitation or confidentiality agreement between the Grantee and the Employer, except as otherwise provided in the Grant Instrument.

Section 7. Stock Awards

The Committee may issue or transfer shares of Company Stock to an Employee, Key Advisor or Non-Employee Director under a Stock Award, upon such terms as the Committee deems appropriate. The following provisions are applicable to Stock Awards:

(a) General Requirements. Shares of Company Stock issued or transferred pursuant to Stock Awards may be issued or transferred for consideration or for no consideration, and subject to restrictions or no restrictions, as determined by the Committee. The Committee may, but shall not be required to, establish conditions under which restrictions on Stock Awards shall lapse over a period of time, at a particular date or according to such other criteria as the Committee deems appropriate, including, without limitation, restrictions based upon the achievement of specific performance goals. The period of time during which the Stock Awards will remain subject to restrictions will be designated in the Grant Instrument as the “Restriction Period.”

(b) Number of Shares. The Committee shall determine the number of shares of Company Stock to be issued or transferred pursuant to a Stock Award and the restrictions applicable to such shares.

(c) Requirement of Employment or Service. If the Grantee ceases to be employed by, or provide service to, the Employer during a period designated in the Grant Instrument as the Restriction Period, or if other specified conditions are not met, the Stock Award shall terminate as to all shares covered by the Grant as to which the restrictions have not lapsed, and those shares of Company Stock must be immediately returned to the Company. The Committee may, however, provide for complete or partial exceptions to this requirement as it deems appropriate. Without limiting the foregoing, unless the Committee determines otherwise:

(i) If a Grantee ceases to be employed by, or provide service to, the Employer on account of Early Retirement, a pro-rata portion of the Stock Award, based on the period in which the Grantee was employed by, or providing service to, the Employer during the Restriction Period, shall not terminate and shall continue to be subject to the restrictions, if any, to which such Stock Award was subject at the time of the Grant and the remaining balance of such Stock Award shall terminate. The shares of Company Stock subject to the pro-rata portion of the Stock Award that does not terminate on account of Early Retirement shall continue to be subject to any performance goals established by the Committee with respect to the Stock Award.

(ii) If a Grantee ceases to be employed by, or provide service to, the Employer on account of Normal Retirement, the Stock Award shall not terminate as a result of the Grantee’s Normal Retirement. The shares of Company Stock subject to the Stock Award shall continue to be subject to any performance goals established by the Committee with respect to the Stock Award.

(d) Restrictions on Transfer and Legend on Stock Certificate. During the Restriction Period, a Grantee may not sell, assign, transfer, pledge or otherwise dispose of the shares of a Stock Award except under Section 14(a) below. Unless otherwise determined by the Committee, the Company will retain possession of certificates for shares of Stock Awards until all restrictions on such shares have lapsed. Each certificate for a Stock Award, unless held by the Company, shall contain a legend giving appropriate notice of the restrictions in the Grant. The Grantee shall be entitled to have the legend removed from the stock certificate covering the shares subject to restrictions when all restrictions on such shares have lapsed. The Committee may determine that the Company will not issue certificates for Stock Awards until all restrictions on such shares have lapsed.

(e) Right to Vote and to Receive Dividends. Unless the Committee determines otherwise, during the Restriction Period, the Grantee shall have the right to vote shares of Stock Awards and to receive any Dividends or other distributions paid on such shares, subject to any restrictions deemed appropriate by the Committee, including, without limitation, the achievement of specific performance goals.

(f) Lapse of Restrictions. All restrictions imposed on Stock Awards shall lapse upon the expiration of the applicable Restriction Period and the satisfaction of all conditions, if any, imposed by the Committee. The Committee may determine, as to any or all Stock Awards, that the restrictions shall lapse without regard to any Restriction Period. Without limiting the foregoing, unless the Committee determines otherwise, if a Grantee ceases to be employed by, or provide service to, the Employer on account of the Grantee's death or Disability, the restrictions and conditions on all outstanding Stock Awards held by the Grantee as of the date the Grantee ceases to be employed by, or provide service to, the Employer shall immediately lapse.

(g) Restrictive Covenants Agreement. All Stock Awards with respect to which the applicable restrictions have not lapsed following the date a Grantee ceases to be employed by, or provide service to, the Employer on account of Early Retirement or Normal Retirement shall be forfeited if, during the Restriction Period, the Grantee violates the terms of any written invention assignment, non-competition, non-solicitation or confidentiality agreement between the Grantee and the Employer, except as otherwise provided in the Grant Instrument.

Section 8. Stock Units

The Committee may grant Stock Units, each of which shall represent one hypothetical share of Company Stock, to an Employee, Key Advisor or Non-Employee Director, upon such terms and conditions as the Committee deems appropriate. The following provisions are applicable to Stock Units:

(a) Crediting of Units. Each Stock Unit shall represent the right of the Grantee to receive a share of Company Stock or an amount of cash based on the value of a share of Company Stock, if and when specified conditions are met. All Stock Units shall be credited to bookkeeping accounts established on the Company's records for purposes of the Plan.

(b) Terms of Stock Units. The Committee may grant Stock Units that are payable if specified performance goals or other conditions are met, or under other circumstances. Stock Units may be paid at the end of a specified performance period or other period, or payment may be deferred to a date authorized by the Committee. The Committee shall determine the number of Stock Units to be granted and the requirements applicable to such Stock Units. Without limiting the foregoing, unless the Committee determines otherwise, if a Grantee ceases to be employed by, or provide service to, the Employer on account of the Grantee's death or Disability, all outstanding Stock Units held by the Grantee as of the date the Grantee ceases to be employed by, or provide service to, the Employer shall become fully vested on the date of such termination of employment or service.

(c) Requirement of Employment or Service. If the Grantee ceases to be employed by, or provide service to, the Employer prior to the vesting of Stock Units, or if other conditions established by the Committee are not met, the Grantee's Stock Units shall be forfeited. The Committee may, however, provide for complete or partial exceptions to this requirement as it deems appropriate. Without limiting the foregoing, unless the Committee determines otherwise:

(i) If a Grantee ceases to be employed by, or provide service to, the Employer on account of Early Retirement, a pro-rata share of the Stock Units, based on the period in which the Grantee was employed by, or providing service to, the Employer during the period of time during which the Stock Units remain subject to restrictions, shall not be forfeited as a result of such termination of employment or service. The pro-rata share of the Stock Units that is not forfeited as a result of the Grantee's Early Retirement shall continue to be subject to any performance goals established by the Committee with respect to the Stock Units.

(ii) If a Grantee ceases to be employed by, or provide service to, the Employer on account of Normal Retirement, the Stock Units shall not be forfeited as a result of such termination of employment or service. The Stock Units shall continue to be subject to any performance goals established by the Committee with respect to the Stock Units.

(d) Payment With Respect to Stock Units. Payments with respect to Stock Units shall be made in cash, Company Stock or any combination of the foregoing, as the Committee shall determine.

(e) Restrictive Covenants Agreement. All Stock Units with respect to which the applicable restrictions have not lapsed or which have not yet been paid following the date a Grantee ceases to be employed by, or provide service to, the Employer on account of Early Retirement or Normal Retirement shall be forfeited if, during the period of time during which the Stock Units remain subject to restrictions, the Grantee violates the terms of any written invention assignment, non-competition, non-solicitation or confidentiality agreement between the Grantee and the Employer, except as otherwise provided in the Grant Instrument.

Section 9. Stock Appreciation Rights

The Committee may grant SARs to an Employee, Key Advisor or Non-Employee Director separately or in tandem with any Option. The following provisions are applicable to SARs:

(a) General Requirements. The Committee may grant SARs to an Employee, Key Advisor or Non-Employee Director separately or in tandem with any Option (for all or a portion of the applicable Option). Tandem SARs may be granted either at the time the Option is granted or at any time thereafter while the Option remains outstanding; provided, however, that, in the case of an Incentive Stock Option, SARs may be granted only at the time of the Grant of the Incentive Stock Option. The Committee shall establish the base amount of the SAR at the time the SAR is granted. The base amount of each SAR shall be equal to the per share Exercise Price of the related Option or, if there is no related Option, an amount equal to or greater than the Fair Market Value of a share of Company Stock as of the date of Grant of the SAR.

(b) Tandem SARs. In the case of tandem SARs, the number of SARs granted to a Grantee that shall be exercisable during a specified period shall not exceed the number of shares of Company Stock that the Grantee may purchase upon the exercise of the related Option during such period. Upon the exercise of an Option, the SARs relating to the Company Stock covered by such Option shall terminate. Upon the exercise of SARs, the related Option shall terminate to the extent of an equal number of shares of Company Stock.

(c) Exercisability. An SAR shall be exercisable during the period specified by the Committee in the Grant Instrument and shall be subject to such vesting and other restrictions as may be specified in the Grant Instrument. The Committee may accelerate the exercisability of any or all outstanding SARs at any time for any reason. Without limiting the foregoing, unless the Committee determines otherwise, if a Grantee ceases to be employed by, or provide service to, the Employer on account of the Grantee's death or Disability, all outstanding SARs held by the Grantee as of the date the Grantee ceases to be employed by, or provide service to, the Employer shall become fully exercisable on the date of such termination of employment or service. SARs may only be exercised while the Grantee is employed by, or providing service to, the Employer or during the applicable period after termination of employment or service as described in Section 6(f) above. A tandem SAR shall be exercisable only during the period when the Option to which it is related is also exercisable.

(d) Grants to Non-Exempt Employees. Notwithstanding the foregoing, SARs granted to persons who are non-exempt employees under the Fair Labor Standards Act of 1938, as amended, may not be exercisable for at least six months after the date of grant (except that such SARs may become exercisable, as determined by the Committee, upon the Grantee's death, Disability or retirement, or upon a Change in Control or other circumstances permitted by applicable regulations).

(e) Value of SARs. When a Grantee exercises SARs, the Grantee shall receive in settlement of such SARs an amount equal to the value of the stock appreciation for the number of SARs exercised. The stock appreciation for an SAR is the amount by which the Fair Market Value of the underlying Company Stock on the date of exercise of the SAR exceeds the base amount of the SAR as described in subsection (a).

(f) Form of Payment. The appreciation in an SAR shall be paid in shares of Company Stock, cash or any combination of the foregoing, as the Committee shall determine. For purposes of calculating the number of shares of Company Stock to be received, shares of Company Stock shall be valued at their Fair Market Value on the date of exercise of the SAR.

(g) Restrictive Covenants Agreement. All unexercised SARs following the date a Grantee ceases to be employed by, or provide service to, the Employer on account of Early Retirement or Normal Retirement shall be forfeited if, during the thirty-eight (38)-month period following such termination of employment or service, the Grantee violates the terms of any written invention assignment, non-competition, non-solicitation or confidentiality agreement between the Grantee and the Employer, except as otherwise provided in the Grant Instrument.

Section 10. Other Stock-Based Awards

The Committee may grant Other Stock-Based Awards, which are awards (other than those described in Sections 6, 7, 8 and 9 of the Plan) that are based on or measured by Company Stock, to any Employee, Key Advisor or Non-Employee Director, on such terms and conditions as the Committee shall determine. Other Stock-Based Awards may be awarded subject to the achievement of performance goals or other conditions and may be payable in cash, Company Stock or any combination of the foregoing, as the Committee shall determine.

Section 11. Dividend Equivalents

The Committee may grant Dividend Equivalents alone or in connection with Stock Units or Other Stock-Based Awards, to an Employee, Key Advisor or Non-Employee Director, upon such terms and conditions as the Committee deems appropriate. The Committee may grant Dividend Equivalents on the terms described in subsections (a) through (e) below or on such other terms as the Committee deems appropriate. Except as otherwise provided in the Grant Instrument, the following provisions may be applicable to Dividend Equivalents:

(a) Amount of Dividend Equivalent Credited. The Company shall credit to an account for each Grantee maintained by the Company in its books and records on each record date the Dividend Equivalent Amount for each Grantee attributable to each record date, from the date of grant until the earliest of the date of:

(i) the end of the applicable accumulation period designated by the Committee at the time of grant (the “Accumulation Period”),

(ii) the date the Grantee ceases to be employed by, or provide service to, the Employer for any reason other than death, Disability, Early Retirement, or Normal Retirement, or as otherwise determined by the Committee, in its sole discretion, at the time of the Grantee’s termination of employment or service, or

(iii) the end of a period of four years from the date of grant.

The Company shall maintain in its books and records separate accounts which identify the Dividend Equivalent Amounts for each Grantee, reduced by all amounts paid pursuant to subsection (b) below. No interest shall be credited to any such account. The amount of Dividend Equivalents credited pursuant to this subsection (a) shall be deemed a separate payment for purposes of section 409A of the Code.

(b) Payment of Credited Dividend Equivalents. Any Dividend Equivalent Amounts accrued in an account between the date of grant to March 1 of the following year shall be distributed to the Grantee no later than March 15 of the year following the date of grant, subject to subsection (c) below, and any Dividend Equivalent Amounts accrued in an account from March 2 of the year following the date of grant (or any anniversary thereof) through March 1 of the following year shall be distributed to the Grantee no later than March 15 of such following year, subject to subsection (c) below. Notwithstanding the foregoing, if a Change in Control occurs while the Grantee is employed by, or providing service to, the Employer, any Dividend Equivalent Amounts or portion thereof, which have not, prior to such date, been paid to the Grantee or forfeited shall be paid to the Grantee within sixty (60) days following the consummation of the Change in Control.

(c) Forfeiture of Dividend Equivalents. Except as otherwise determined by the Committee, payment of Dividend Equivalent Amounts for any accrual period ending on March 1 as described in subsection (b) above shall be forfeited by the Grantee if the Grantee ceases to be employed by, or provide service to, the Employer on March 1 of such accrual period; provided, however, that the Grantee shall not forfeit any payments if the Grantee ceases to be employed by, or provide service to, the Employer on account of death, Disability, Early Retirement, or Normal Retirement, subject to subsection (e) below.

(d) Form of Payment. All Dividend Equivalent Amounts shall be paid solely in cash.

(e) Restrictive Covenants Agreement. All unpaid Dividend Equivalent Amounts following the date a Grantee ceases to be employed by, or provide service to, the Employer on account of Early Retirement or Normal Retirement shall be forfeited if, during the applicable Accumulation Period, the Grantee violates the terms of any written invention assignment, non-competition, non-solicitation or confidentiality agreement between the Grantee and the Employer, except as otherwise provided in the Grant Instrument.

Section 12. Qualified Performance-Based Compensation

The Committee may determine that Stock Awards, Stock Units, Other Stock-Based Awards and Dividend Equivalents granted to an Employee shall be considered “qualified performance-based compensation” under section 162(m) of the Code. The following provisions shall apply to Grants of Stock Awards, Stock Units, Other Stock-Based Awards and Dividend Equivalents that are to be considered “qualified performance-based compensation” under section 162(m) of the Code:

(a) Performance Goals.

(i) When Stock Awards, Stock Units, Other Stock-Based Awards or Dividend Equivalents that are to be considered “qualified performance-based compensation” are granted, the Committee shall establish in writing (A) the objective performance goals that must be met, (B) the performance period during which the performance will be measured, (C) the threshold, target and maximum amounts that may be paid if the performance goals are met, and (D) any other conditions that the Committee deems appropriate and consistent with the Plan and section 162(m) of the Code.

(ii) The business criteria may relate to the Grantee's business unit or the performance of the Company and its parents and subsidiaries as a whole, or any combination of the foregoing. The Committee shall use objectively determinable performance goals based on one or more of the following criteria: total return to shareholders; dividends; earnings per share; customer growth; cost reduction goals; the achievement of specified operational goals, including water quality and the reliability of water supply; measures of customer satisfaction; net income (before or after taxes) or operating income; earnings before interest, taxes, depreciation and amortization or operating income before depreciation and amortization; revenue targets; return on assets, capital or investment; cash flow; budget comparisons; implementation or completion of projects or processes strategic or critical to the Company's business operations; and any combination of, or a specified increase in, any of the foregoing.

(b) Establishment of Goals. The Committee shall establish the performance goals in writing either before the beginning of the performance period or during a period ending no later than the earlier of (i) 90 days after the beginning of the performance period or (ii) the date on which 25% of the performance period has been completed, or such other date as may be required or permitted under applicable regulations under section 162(m) of the Code. The performance goals shall satisfy the requirements for "qualified performance-based compensation," including the requirement that the achievement of the goals be substantially uncertain at the time they are established and that the goals be established in such a way that a third party with knowledge of the relevant facts could determine whether and to what extent the performance goals have been met. The Committee shall not have discretion to increase the amount of compensation that is payable upon achievement of the designated performance goals.

(c) Announcement of Grants. The Committee shall certify and announce the results for each performance period to all Grantees after the announcement of the Company's financial results for the performance period. If and to the extent that the Committee does not certify that the performance goals have been met, the grants of Stock Awards, Stock Units, Other Stock-Based Awards and Dividend Equivalents for the performance period shall be forfeited or shall not be made, as applicable.

(d) Death, Disability or Other Circumstances. The Committee may provide that Stock Awards, Stock Units, Other Stock-Based Awards and Dividend Equivalents shall be payable or restrictions on such Grants shall lapse, in whole or in part, in the event of the Grantee's death or Disability during the performance period, or under other circumstances consistent with the Treasury regulations and rulings under section 162(m) of the Code.

Section 13. Withholding of Taxes

(a) Required Withholding. All Grants under the Plan shall be subject to applicable federal (including FICA), state and local tax withholding requirements. The Employer may require that the Grantee or other person receiving or exercising Grants pay to the Employer the amount of any federal, state or local taxes that the Employer is required to withhold with respect to such Grants, or the Employer may deduct from other wages and compensation paid by the Employer the amount of any withholding taxes due with respect to such Grants.

(b) Election to Withhold Shares. If the Company so permits, a Grantee may elect to satisfy the Employer's tax withholding obligation with respect to Grants paid in Company Stock by having shares withheld up to an amount that does not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state and local tax liabilities. The election must be in a form and manner prescribed by the Company and may be subject to the prior approval of the Company.

Section 14. Transferability of Grants

(a) Nontransferability of Grants. Except as provided below, only the Grantee may exercise rights under a Grant during the Grantee's lifetime. A Grantee may not transfer those rights except (i) by will or by the laws of descent and distribution or (ii) with respect to Grants other than Incentive Stock Options, pursuant to a domestic relations order. When a Grantee dies, the personal representative or other person entitled to succeed to the rights of the Grantee may exercise such rights. Any such successor must furnish proof satisfactory to the Company of his or her right to receive the Grant under the Grantee's will or under the applicable laws of descent and distribution.

(b) Transfer of Nonqualified Stock Options. Notwithstanding the foregoing, the Committee may provide, in a Grant Instrument, that a Grantee may transfer Nonqualified Stock Options to family members, or one or more trusts or other entities for the benefit of or owned by family members, consistent with the applicable securities laws, according to such terms as the Committee may determine; provided that the Grantee receives no consideration for the transfer of an Option and the transferred Option shall continue to be subject to the same terms and conditions as were applicable to the Option immediately before the transfer.

Section 15. Consequences of a Change in Control

(a) Notice and Acceleration. Unless the Committee determines otherwise, effective upon the date of the Change in Control, (i) all outstanding Options and SARs shall automatically accelerate and become fully exercisable, (ii) the restrictions and conditions on all outstanding Stock Awards shall immediately lapse, and (iii) all Stock Units, Other Stock-Based Awards and unpaid Dividend Equivalent Amounts shall become fully vested and shall be paid at their target values, or in such greater amounts as the Committee may determine.

(b) Other Alternatives. Notwithstanding the foregoing, in the event of a Change in Control, the Committee may take one or more of the following actions with respect to any or all outstanding Grants: the Committee may (i) require that Grantees surrender their outstanding Options and SARs in exchange for one or more payments by the Company, in cash or Company Stock as determined by the Committee, in an amount equal to the amount by which the then Fair Market Value of the shares of Company Stock subject to the Grantee's unexercised Options and SARs exceeds the Exercise Price of the Options or the base amount of the SARs, as applicable, (ii) after giving Grantees an opportunity to exercise their outstanding Options and SARs, terminate any or all unexercised Options and SARs at such time as the Committee deems appropriate, or (iii) determine that outstanding Options and SARs that are not exercised shall be assumed by, or replaced with comparable options or rights by, the surviving corporation, (or a parent or subsidiary of the surviving corporation), and other outstanding Grants that remain in effect after the Change in Control shall be converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation). Such surrender or termination shall take place as of the date of the Change in Control or such other date as the Committee may specify.

(c) Committee. The Committee making the determinations under this Section 15 following a Change in Control must be comprised of the same members as those on the Committee immediately before the Change in Control.

Section 16. Requirements for Issuance or Transfer of Shares

No Company Stock shall be issued or transferred in connection with any Grant hereunder unless and until all legal requirements applicable to the issuance or transfer of such Company Stock have been complied with to the satisfaction of the Committee. The Committee shall have the right to condition any Grant on the Grantee's undertaking in writing to comply with such restrictions on his or her subsequent disposition of the shares of Company Stock as the Committee shall deem necessary or advisable, and certificates representing such shares may be legended to reflect any such restrictions. Certificates representing shares of Company Stock issued or transferred under the Plan may be subject to such stop-transfer orders and other restrictions as the Company deems appropriate to comply with applicable laws, regulations and interpretations, including any requirement that a legend be placed thereon.

Section 17. Amendment and Termination of the Plan

(a) Amendment. The Board may amend or terminate the Plan at any time; provided, however, that the Board shall not amend the Plan without shareholder approval if such approval is required in order to comply with the Code or other applicable law, or to comply with applicable stock exchange requirements.

(b) No Repricing Without Shareholder Approval. Notwithstanding anything in the Plan to the contrary, the Committee may not reprice Options, nor may the Board amend the Plan to permit repricing of Options, unless the shareholders of the Company provide prior approval for such repricing. The term "repricing" shall have the meaning given that term in Section 303A(8) of the New York Stock Exchange Listed Company Manual, as in effect from time to time.

(c) Shareholder Re-Approval Requirement. If Stock Awards, Stock Units, Other Stock-Based Awards or Dividend Equivalents are granted as “qualified performance-based compensation” under Section 12 above, the Plan must be reapproved by the shareholders no later than the first shareholders meeting that occurs in the fifth year following the year in which the shareholders previously approved the provisions of Section 12, if required by section 162(m) of the Code or the regulations thereunder.

(d) Termination of Plan. The Plan shall terminate on the day immediately preceding the tenth anniversary of its effective date, unless the Plan is terminated earlier by the Board or is extended by the Board with the approval of the shareholders.

(e) Termination and Amendment of Outstanding Grants. A termination or amendment of the Plan that occurs after a Grant is made shall not materially impair the rights of a Grantee unless the Grantee consents or unless the Committee acts under Section 18(f) below. The termination of the Plan shall not impair the power and authority of the Committee with respect to an outstanding Grant. Whether or not the Plan has terminated, an outstanding Grant may be terminated or amended under Section 18(f) below or may be amended by agreement of the Company and the Grantee consistent with the Plan.

(f) Effective Date of the Plan. The Plan shall be effective as of the date on which the shareholders approve the Plan.

Section 18. Miscellaneous

(a) Grants in Connection with Corporate Transactions and Otherwise. Nothing contained in the Plan shall be construed to (i) limit the right of the Committee to make Grants under the Plan in connection with the acquisition, by purchase, lease, merger, consolidation or otherwise, of the business or assets of any corporation, firm or association, including Grants to employees thereof who become Employees, or (ii) limit the right of the Company to grant stock options or make other awards outside of the Plan. The Committee may make a Grant to an employee of another corporation who becomes an Employee by reason of a corporate merger, consolidation, acquisition of stock or property, reorganization or liquidation involving the Company, in substitution for a stock option or stock awards grant made by such corporation. Notwithstanding anything in the Plan to the contrary, the Committee may establish such terms and conditions of the new Grants as it deems appropriate, including setting the Exercise Price of Options or the base price of SARs at a price necessary to retain for the Grantee the same economic value as the prior options or rights.

(b) Governing Document. The Plan shall be the controlling document. No other statements, representations, explanatory materials or examples, oral or written, may amend the Plan in any manner. The Plan shall be binding upon and enforceable against the Company and its successors and assigns.

(c) Funding of the Plan. The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Grants under the Plan.

(d) Rights of Grantees. Nothing in the Plan shall entitle any Employee, Key Advisor, Non-Employee Director or other person to any claim or right to be granted a Grant under the Plan. Neither the Plan nor any action taken hereunder shall be construed as giving any individual any rights to be retained by or in the employ of the Employer or any other employment rights.

(e) No Fractional Shares. No fractional shares of Company Stock shall be issued or delivered pursuant to the Plan or any Grant. Except as otherwise provided under the Plan, the Committee shall determine whether cash, other awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(f) Compliance with Law. The Plan, the exercise of Options and SARs and the obligations of the Company to issue or transfer shares of Company Stock under Grants shall be subject to all applicable laws and regulations, and to approvals by any governmental or regulatory agency as may be required. With respect to persons subject to section 16 of the Exchange Act, it is the intent of the Company that the Plan and all transactions under the Plan comply with all applicable provisions of Rule 16b-3 or its successors under the Exchange Act. In addition, it is the intent of the Company that Incentive Stock Options comply with the applicable provisions of section 422 of the Code, that Grants of “qualified performance-based compensation” comply with the applicable provisions of section 162(m) of the Code and that, to the extent applicable, Grants comply with the requirements of section 409A of the Code. To the extent that any legal requirement of section 16 of the Exchange Act or section 422, 162(m) or 409A of the Code as set forth in the Plan ceases to be required under section 16 of the Exchange Act or section 422, 162(m) or 409A of the Code, that Plan provision shall cease to apply. The Committee may revoke any Grant if it is contrary to law or modify a Grant to bring it into compliance with any valid and mandatory government regulation.

(g) Employees Subject to Taxation Outside the United States. With respect to Grantees who are believed by the Committee to be subject to taxation in countries other than the United States, the Committee may make Grants on such terms and conditions, consistent with the Plan, as the Committee deems appropriate to comply with the laws of the applicable countries, and the Committee may create such procedures, addenda and subplans and make such modifications as may be necessary or advisable to comply with such laws.

(h) Governing Law. The validity, construction, interpretation and effect of the Plan and Grant Instruments issued under the Plan shall be governed and construed by and determined in accordance with the laws of the Commonwealth of Pennsylvania, without giving effect to the conflict of laws provisions thereof.

BOND PURCHASE AGREEMENT**\$141,385,000****PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY****\$45,180,000**

**Water Facilities Revenue Refunding Bonds
(Aqua Pennsylvania, Inc. Project)
Series A of 2010**

\$96,205,000

**Water Facilities Revenue Bonds
(Aqua Pennsylvania, Inc. Project)
Series B of 2010**

Bond Purchase Agreement dated October 27, 2010 (this “Bond Purchase Agreement”) among the PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY (the “Authority”), AQUA PENNSYLVANIA, INC., a Pennsylvania corporation (the “Company”), and JEFFERIES & COMPANY, INC., a Delaware Corporation (the “Representative”), on behalf of itself and as representative of the underwriters identified on Schedule I attached hereto (collectively, the “Underwriters”).

Section 1. Background.

(a) The Authority proposes to enter into a Financing Agreement (the “Financing Agreement”) dated as of October 15, 2010 with the Company, under which the Authority will agree to loan to the Company funds: (i) to currently refund on November 18, 2010 (the “Refunding Project”) the outstanding \$25,000,000 Delaware County Industrial Development Authority Water Facilities Revenue Bonds (Philadelphia Suburban Water Company Project), Series of 1999 (the “1999 Bonds”), which were issued to finance the costs of the facilities located at various sites throughout the Company’s existing water supply and distribution system, and to pay a portion of the costs of issuance of such bonds (the “1999 Project Facilities”); and the outstanding \$18,360,000 Mercer County Industrial Development Authority Water Facilities Revenue Bonds, Series of 2000 (Consumers Pennsylvania Water Company – Shenango Valley Division Project) (the “2000 Bonds”, and together with the 1999 Bonds, the “Prior Bonds”), which were used to finance a portion of the cost of acquisition, construction, installation and equipping of its water treatment and filtration facilities located in Sharon, Pennsylvania, and pay a portion of the costs of issuance of such bonds (the “2000 Project Facilities”, and together with the 1999 Project Facilities, the “Refunding Project Facilities”), and related refunding financing costs; (ii) to finance certain capital costs of the construction, acquisition and installation of modifications, expansions and replacements of water distribution, treatment and related operating systems located in the counties of Bucks, Chester, Delaware, Mercer, Montgomery and Warren Counties in Pennsylvania (the “Project Facilities” and together with the Refunding Project Facilities the “Facilities”) that are part of the Company’s System (the “Construction Project”, and together with the “Refunding Project”, the “Project”); and (iii) the related financing costs.

To finance the loan under the Financing Agreement, the Authority proposes to issue and sell \$45,180,000 aggregate principal amount of its Water Facilities Revenue Refunding Bonds (Aqua Pennsylvania, Inc. Project), Series A of 2010 (the "2010A Bonds"), and \$96,205,000 aggregate principal amount of its Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series B of 2010 (the "2010B Bonds", and together with the 2010A Bonds, the "Bonds") to the Underwriters, who will in turn reoffer the Bonds for sale to the public.

(b) The Bonds will be issued pursuant to the Pennsylvania Economic Development Financing Law, Act of August 23, 1967, P.L. 251, as amended and supplemented (the "Act"), a resolution adopted by the Authority on September 15, 2010 (the "Authority Resolution") and a Trust Indenture, dated as of October 15, 2010 (the "Trust Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds will have such terms as are set forth in Schedule II attached hereto.

The Bonds will be payable out of payments by the Company under the Financing Agreement, including payments under its First Mortgage Bond, 5.00% Series due December 1, 2033 in the principal amount of \$25,910,000; its First Mortgage Bond, 5.00% Series due December 1, 2034, in the principal amount of \$19,270,000; its First Mortgage Bond, 4.50% Series due December 1, 2042, in the principal amount of \$15,000,000; and its First Mortgage Bond, 5.00% Series due December 1, 2043, in the principal amount of \$81,205,000 (together, the "First Mortgage Bonds") issued with respect to the Bonds. The First Mortgage Bonds will be issued under and secured by the Company's Indenture of Mortgage dated as of January 1, 1941 (the "Indenture of Mortgage"), from the Company to The Bank of New York Mellon Trust Company, N.A., as trustee (successor to The Pennsylvania Company for Insurance on Lives and Granting Annuities, The Pennsylvania Company for Banking and Trusts, The First Pennsylvania Banking and Trust Company, First Pennsylvania Bank, N.A., CoreStates Bank, N.A., Mellon Bank, N.A., Chase Manhattan Trust Company, National Association and J.P. Morgan Trust Company, National Association) (the "Mortgage Trustee"), as presently amended and supplemented and as to be further supplemented by a Forty-sixth Supplemental Indenture of Mortgage to be dated as of October 15, 2010 (the "Forty-sixth Supplemental Mortgage", which together with the Indenture of Mortgage, as amended and supplemented, is referred to hereinafter as the "Mortgage"). Each of the First Mortgage Bonds will be issued in the same aggregate principal amount, and will mature on the same date and bear interest at the same rate as the Bonds that it secures. All of the Authority's rights under the Financing Agreement to receive and enforce repayment of its loan to the Company and to enforce payment of the Bonds, including all of the Authority's rights to the First Mortgage Bonds, and all of the Authority's rights to moneys and securities in the Project Funds, the Revenue Funds and the Debt Service Funds (and the accounts within all such Funds applicable to the Bonds) established by the Trust Indenture, except for the Authority's rights to certain fees and reimbursements for expenses, indemnification and notice thereunder and rights relating to amendments of and notices under the Financing Agreement, will be assigned to the Trustee as security for the Bonds pursuant to the Trust Indenture.

(c) The proceeds of the 2010A Bonds and 2010B Bonds will be used to refinance and finance, respectively, the acquisition, construction, installation and equipping of facilities for the furnishing of water for purposes of Section 142(a)(4) of the Internal Revenue Code of 1986, as amended (the "Code"), so that the interest on the Bonds will not be includable in gross income for federal income tax purposes under the Code and the Underwriters may offer the Bonds for sale without registration under the Securities Act of 1933, as amended (the "1933 Act"), or qualification of the Trust Indenture under the Trust Indenture Act of 1939, as amended (the "1939 Act").

(d) A Preliminary Official Statement dated October 15, 2010, including the Appendices thereto and all documents incorporated therein by reference (the "Preliminary Official Statement"), has been supplied to the parties hereto, and a final Official Statement to be dated the date hereof, including the Appendices thereto and all documents incorporated therein by reference, prepared for use in such offerings will be supplied to the parties hereto as soon as it is available, subject to Section 10 hereof (such final Official Statement, as it may be amended or supplemented with the consent of the Authority, the Representative and the Company, is hereinafter referred to as the "Official Statement").

Section 2. Purchase, Sale and Closing. On the terms and conditions herein set forth, the Underwriters will buy from the Authority, and the Authority will sell to the Underwriters, all (but not less than all) of the Bonds at a purchase price equal to \$141,764,215.45, which is equal to the \$141,385,000.00 aggregate principal amount of the Bonds, plus net original issue premium of \$1,838,245.45, less the underwriting discount of \$1,459,030.00. Payment for the Bonds shall be made in immediately available funds to the Trustee for the account of the Authority. Closing (the "Closing") will be at the offices of Ballard Spahr LLP, Philadelphia, Pennsylvania ("Bond Counsel"), at 10:00 a.m., Eastern Standard Time, on November 17, 2010 or at such other date, time or place or in such other manner as may be agreed on by the parties hereto. The Bonds will be delivered as fully registered bonds in the aggregate principal amount of \$141,385,000 in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), with CUSIP numbers printed thereon, and shall conform in all respects to DTC's Book-Entry Only System. Delivery of the Bonds to DTC will be made by delivering the Bonds to the Trustee utilizing the DTC FAST system. If the Representative so requests, the Bonds shall be made available to the Underwriters (prior to their delivery to DTC) in Philadelphia, Pennsylvania at least three full business days before the Closing for purposes of inspection.

The Underwriters agree to make a bona fide public offering of the Bonds at the initial offering prices or yields set forth in the Official Statement; provided, however, that the Underwriters reserve the right (and the Authority and the Company hereby expressly acknowledge such right): to make concessions to dealers; to effect transactions that stabilize or maintain the market price of the Bonds above that which might otherwise prevail in the open market and to discontinue at any time such stabilizing transactions; and to change such initial offering prices, all as the Underwriters shall deem necessary in connection with the marketing of the Bonds.

Section 3. Authority's Representations. The Authority makes the following representations on and as of the date hereof, all of which shall survive Closing:

(a) The Authority is a body politic and corporate, duly created and existing under the Constitution and laws of the Commonwealth of Pennsylvania (the "Commonwealth"), including the "Act", and has, and at the date of Closing will have, full legal right, power and authority to: enter into this Bond Purchase Agreement; execute and deliver the Bonds, the Trust Indenture, the Financing Agreement, this Bond Purchase Agreement and the Authority's tax certificate and the other various certificates executed by the Authority in connection therewith (collectively, with the Authority Resolution, the "Authority Financing Documents"); issue, sell and deliver the Bonds to the Underwriters as provided herein; and carry out and consummate the transactions contemplated by the Authority Financing Documents and the Official Statement to be carried out and/or consummated by it.

(b) The Authority Resolution was duly adopted at a public meeting of the Authority at which a quorum was present and acted throughout; and the Authority Resolution is in full force and effect and has not been amended, repealed or superseded in any way.

(c) The sections entitled "INTRODUCTORY STATEMENT" (solely insofar as it relates to the Authority), "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION" (solely insofar as the information set forth therein relates to the Authority) contained in the Preliminary Official Statement as of its date did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

(d) The sections entitled "INTRODUCTORY STATEMENT" (solely insofar as it relates to the Authority), "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION" (solely insofar as the information set forth therein relates to the Authority) contained in the Official Statement as of its date does not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

(e) The Authority has complied, and will at the Closing be in compliance, in all material respects with the provisions of the Act.

(f) The Authority has duly authorized and approved the Preliminary Official Statement and the Official Statement; and has duly authorized and approved the execution and delivery of, and the performance by the Authority of the obligations on its part contained in, the Authority Financing Documents.

(g) To the best of the knowledge of the Authority after due inquiry, the Authority is not in material breach of or in default under any applicable law or administrative regulation of the Commonwealth or the United States; and the execution and delivery of the Authority Financing Documents, and compliance with the provisions of each thereof, do not and will not conflict with or constitute a breach of or default under any existing law, administrative regulation, judgment, decree, loan agreement, note, resolution, agreement or other instrument to which the Authority is a party or is otherwise subject.

(h) All approvals, consents and orders of any governmental authority, board, agency or commission having jurisdiction that would constitute a condition precedent to the Authority's legal ability to issue the Bonds or to the Authority's performance of its obligations hereunder and under the Authority Financing Documents have been obtained or will be obtained prior to the Closing.

(i) The Bonds, when issued, authenticated and delivered in accordance with the Trust Indenture and sold to the Underwriters as provided herein, will be validly issued and will be valid and binding limited obligations of the Authority enforceable against the Authority in accordance with their terms (except as enforcement may be affected by bankruptcy, insolvency, reorganization, moratorium or other laws or legal or equitable principles affecting the enforcement of creditors' rights ("Creditors' Rights Limitations")).

(j) The terms and provisions of the Authority Financing Documents when executed and delivered by the respective parties thereto will constitute the valid, legal and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms (except as enforcement of remedies may be limited by Creditors' Rights Limitations).

(k) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, or public board or body, pending or, to the knowledge of the Authority after due inquiry, threatened against the Authority, affecting the existence of the Authority or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or of the revenues or assets of the Authority pledged or to be pledged to pay the principal of and interest on the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Authority Financing Documents or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or contesting the power or authority of the Authority with respect to the issuance of the Bonds or the execution, delivery or performance of any of the Authority Financing Documents, wherein an unfavorable decision, ruling or finding would affect in any way the validity or enforceability of any of the Authority Financing Documents.

(l) The net proceeds received from the Bonds and applied in accordance with the Trust Indenture and the Financing Agreement shall be used in accordance with the Act as described in the Official Statement.

(m) Any certificate signed by any of the authorized officers of the Authority and delivered to the Representative shall be deemed a representation and warranty by the Authority to the Underwriters as to the statements made therein.

Section 4. Company's Representations and Warranties. The Company makes the following representations and warranties on and as of the date hereof and as of the date of Closing, all of which will survive the Closing:

(a) The Company has not sustained, since December 31, 2009, any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree; and since the respective dates as of which information is given in the Official Statement, there have not been any material changes in the outstanding capital stock or the long-term debt of the Company or any material adverse change, or a development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, stockholder's equity or results of operations of the Company, otherwise than as set forth or contemplated in the Official Statement.

(b) The Company was organized, is in good standing and subsists as a corporation under the laws of the Commonwealth, with power (corporate and other) to own its properties and conduct its business as described in the Official Statement.

(c) The First Mortgage Bonds have been duly authorized and, when issued and delivered as contemplated by this Bond Purchase Agreement, will have been duly executed, authenticated, issued and delivered and will constitute valid and legally binding obligations of the Company enforceable in accordance with their terms (except as may be affected by Creditors' Rights Limitations) entitled to the benefits provided by the Mortgage.

(d) The Indenture of Mortgage has been duly authorized, executed and delivered by the Company, and the Forty-sixth Supplemental Mortgage has been duly authorized by the Company. When the Forty-sixth Supplemental Mortgage, in substantially the form approved by the Representative and Bond Counsel, has been executed and delivered by the Company and assuming due authorization and execution by the Mortgage Trustee, and recorded as required by law, the Mortgage will constitute a valid and legally binding instrument enforceable against the Company in accordance with its terms except as enforceability may be affected by Creditors' Rights Limitations; will constitute a direct, valid and enforceable first mortgage lien (except as enforceability of such lien may be affected by Creditors' Rights Limitations) upon all of the properties and assets of the Company (not heretofore released as provided for in the Mortgage) specifically or generally described or referred to in the Mortgage as being subject to the lien thereof, excepting permitted liens under the Mortgage and excepting property and assets that the Mortgage expressly excludes from the lien thereof; and will create a mortgage upon all properties and assets acquired by the Company after the execution and delivery of the Forty-sixth Supplemental Mortgage and required to be subjected to the lien of the Mortgage pursuant thereto when so acquired, except for permitted liens under the Mortgage. The Indenture of Mortgage has been and the Forty-sixth Supplemental Mortgage will be duly filed, recorded or registered in each place in the Commonwealth in which such filing, recording or registration was or is required to protect and preserve the lien of the Mortgage; and all necessary approvals of regulatory authorities, commissions and other governmental bodies having jurisdiction over the Company required to subject the mortgaged properties and assets or trust estate (as defined in the Mortgage) to the lien of the Mortgage have been duly obtained.

(e) With only such exceptions as are not material and do not interfere with the conduct of the business of the Company, the Company has good and marketable title to all of its real property currently held in fee simple, and all of its other interests in real property (other than certain rights of way, easements, occupancy rights, riparian and flowage rights, licenses, leaseholds and real property interests of a similar nature). In each case, such title is free and clear of all liens, encumbrances and defects except such as may be described in the Official Statement, the lien of the Mortgage, permitted liens under the Mortgage or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company. Any real property and buildings held under lease by the Company are held by it under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company.

(f) With only such exceptions as are not material and do not interfere with the conduct of the business of the Company, the Company has all licenses, franchises, permits, authorizations, rights, approvals, consents and orders of all governmental authorities or agencies necessary for the ownership or lease of the properties owned or leased by it and for the operation of the business carried on by it as described in the Official Statement, and all water rights, riparian rights, easements, rights of way and other similar interests and rights described or referred to in the Mortgage necessary for the operation of the business carried on by it as described in the Official Statement. Except as otherwise set forth in the Official Statement, all such licenses, franchises, permits, orders, authorizations, rights, approvals and consents are in full force and effect and contain no unduly burdensome provisions. Except as otherwise set forth in the Official Statement, there are no legal or governmental proceedings pending or, to the knowledge of the Company after due inquiry, threatened that would result in a material modification, suspension or revocation thereof. The Company has the legal power to exercise the rights of eminent domain for the purposes of conducting its water utility operations.

(g) The issue and sale of the Bonds, the issue and delivery of the First Mortgage Bonds and the compliance by the Company with all of the applicable provisions of the First Mortgage Bonds and the Mortgage and the execution, delivery and performance by the Company of the Forty-sixth Supplemental Mortgage, the Financing Agreement, this Bond Purchase Agreement and the Continuing Disclosure Agreement will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance (other than the lien of the Mortgage) upon any of the property or assets of the Company pursuant to the terms of any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company is a party or by which the Company is bound or to which any of the property or assets of the Company are subject, nor will such action result in a violation of the provisions of the Articles of Incorporation, as amended, or the Bylaws of the Company or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its property. No consent, approval, authorization, order, registration or qualification of or with any court or any such regulatory authority or other governmental body (other than those already obtained) is required to be obtained by the Company for the issue and sale of the Bonds, the issue and delivery of the First Mortgage Bonds, the execution, delivery and performance by the Company of this Bond Purchase Agreement, the Financing Agreement, the Forty-sixth Supplemental Mortgage, the First Mortgage Bonds and the Continuing Disclosure Agreement, or the consummation by the Company of the other transactions contemplated by this Bond Purchase Agreement or the Mortgage.

(h) The Company has obtained from the Pennsylvania Public Utility Commission an order duly authorizing the issuance and delivery of the First Mortgage Bonds by the Company and the incurring of the debt evidenced thereby, on terms not inconsistent with this Bond Purchase Agreement.

(i) The Company is not a holding company, a registered holding company or an affiliate of a registered holding company within the meaning of the Public Utility Holding Company Act of 1935, as amended.

(j) There are no legal or governmental proceedings pending to which the Company is a party or to which any property of the Company is subject, other than as set forth in the Official Statement, wherein an unfavorable ruling, decision or finding would have a material adverse effect on the financial position, stockholder's equity or results of operations of the Company; and, to the best of the Company's knowledge after due diligence, no such proceedings are threatened by governmental authorities or threatened by others.

(k) The Project consists of either land or property of a character subject to depreciation for federal income tax purposes and will be used to furnish water that is or will be made available to members of the general public (including electric utility, industrial, agricultural, or commercial users); the rates for the furnishing or sale of the water have been established or approved by a state or political subdivision thereof, by an agency or instrumentality of the United States, or by a public service or public utility commission or other similar body of any state or political subdivision thereof; and all other information supplied by the Company to the Representative with respect to the exclusion from gross income pursuant to Section 103 of the Code of the interest on the Bonds is correct and complete.

(l) The Company has not, within the immediately preceding ten (10) years, defaulted in the payment of principal or interest on any of its bonds, notes or other securities, or any legally authorized obligation issued by it.

(m) The information with respect to the Company and the Project and the descriptions of the First Mortgage Bonds and the Mortgage contained in the Preliminary Official Statement and the Official Statement (including appendices A and B thereto) do not contain any untrue statement of a material fact or omit to state any material fact necessary to be stated therein in order to make such information and descriptions, in the light of the circumstances under which they were made, not misleading.

Section 5. Authority's Covenants. The Authority will:

(a) Furnish such information, execute such instruments and take such other action in cooperation with the Representative as the Representative may reasonably request to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions in the United States of America as the Representative may designate and will assist, if necessary therefor, in the continuance of such qualifications in effect so long as required for distribution of the Bonds; provided, however, that the Authority shall in no event be required to file a general consent to suit or service of process or to qualify as a foreign corporation or as a dealer in securities in any such state or other jurisdiction.

(b) Not, on its part, amend or supplement the Official Statement without prior notice to and the consent of the Representative and the Company and will advise the Representative and the Company promptly of the institution of any proceedings by any governmental agency or otherwise affecting the use of the Official Statement in connection with the offer and sale of the Bonds.

(c) Refrain from knowingly taking any action (and permitting any action with regard to which the Authority may exercise control) that would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Section 6. Company's Covenants. The Company agrees that it will:

(a) Refrain from knowingly taking any actions (and from permitting any action with regard to which the Company may exercise control) that would result in the loss of the exclusion from gross income for federal tax purposes of interest on the Bonds.

(b) Indemnify and hold harmless the Authority, its members, directors, officers, agents, attorneys, and employees and the Underwriters, their respective officers, directors, officials, agents, attorneys, employees, and each person, if any, who controls each of the Underwriters within the meaning of Section 15 of the 1933 Act or Section 20 of the Securities Exchange Act of 1934, as amended (the "1934 Act"), from and against all losses, claims, damages, liabilities and expenses, joint or several, to which the Authority and the Underwriters, or either of them, or any of their respective members, directors, officers, agents, attorneys, and employees and each person, if any, who controls the Underwriters within the meaning of the 1933 Act or 1934 Act as aforescribed may become subject, under federal laws or regulations, or otherwise, insofar as such losses, claims, damages, liabilities and expenses (or actions in respect thereof) arise out of or are based upon: (i) a breach of the Company's representations included in this Agreement; (ii) any untrue statement or alleged untrue statement of any material fact pertaining to the Project or the Company set forth in the Official Statement, the Preliminary Official Statement or any amendment to either; (iii) the willful or negligent omission of (or the alleged omission to state) a material fact in the Official Statement, the Preliminary Official Statement, or any amendment or supplement to either, as such fact is required to be stated therein or necessary to make the statements therein that pertain to the Company or the Project not misleading in the light of the circumstances under which they were made; (iv) or arising by virtue of the failure to register the Bonds under the 1933 Act or the failure to qualify the Trust Indenture under the 1939 Act; or (v) arising by virtue of any audit or investigation conducted by a state or federal agency, department or entity questioning, among other things, the tax-exempt status of the Bonds.

(c) Undertake, pursuant to the Continuing Disclosure Agreement dated as of November 17, 2010 to be entered into between the Company and the Trustee (the "Continuing Disclosure Agreement"), to provide annual reports and notices of certain material events in accordance with Rule 15c2-12 under the 1934 Act, as amended ("Rule 15c2-12").

(d) Not amend or supplement the Official Statement without prior notice to, and the consent of, the Representative, and will advise the Representative and the Authority promptly of the institution of any proceedings by any governmental agency or otherwise affecting the use of the Official Statement in connection with the offer and the sale of the Bonds.

(e) Take all actions reasonably necessary to maintain in effect and to comply with the order of the Pennsylvania Public Utility Commission dated October 21, 2010, registering the Securities Certificate for the issuance of the First Mortgage Bonds in support of the Bonds.

Section 7. Underwriters' Covenant and Compensation.

(a) By acceptance hereof, each of the Underwriters, on a several (according to their respective percentages on Schedule I) but not joint basis, agrees to indemnify and hold harmless the Authority, its members, directors, officers, agents, attorneys, and employees and the Company, its officers, directors, agents, attorneys, and employees and each person if any, who controls the Company within the meaning of Section 15 of the 1933 Act against all or several claims, losses, damages, liabilities and expenses asserted against them, or any of them, at law or in equity, in connection with the offering and sale of the Bonds on the grounds that the information under the caption "UNDERWRITING" in the Preliminary Official Statement or the Official Statement (or any supplement or amendment to said information) contains an untrue or allegedly untrue statement of a material fact or omits or allegedly omits to state any material fact necessary to make the statements therein not misleading in the light of the circumstances under which they were made (it being understood that the Underwriters furnished only the information under such "UNDERWRITING" heading), or failure on the part of the Underwriters to deliver an Official Statement to any purchaser. The Underwriters will reimburse any legal or other expenses reasonably incurred by a party, person or entity indemnifiable under this Section 7 in connection with investigating or defending any such loss, claim, damage, liability or action. This indemnity agreement will be in addition to any liability that the Underwriters may otherwise have. The Underwriters shall not be liable for any settlement of, any such action effected without its consent.

(b) The Underwriters will be paid an underwriting discount of \$1,459,030.00 with respect to the Bonds.

(c) The Underwriters acknowledge that the Authority is relying upon the accuracy of the certification in clause (b) above on the date hereof as a condition precedent to lending the proceeds of the Bonds to the Company.

Section 8. Notice of Indemnification; Settlement. Promptly after a party, person or entity indemnifiable under Section 6 or 7 of this Bond Purchase Agreement (an "Indemnitee") receives notice of the commencement of any audit, investigation or action against such Indemnitee in respect of which indemnity is to be sought by the Indemnitee against the Company or any of the respective Underwriters, as the case may be (the "Indemnifying Party"), the Indemnitee will notify the Indemnifying Party in writing of such action, and the Indemnifying Party may assume the defense thereof, including the employment of counsel and the payment of all expenses; but the failure so to notify the Indemnifying Party will not relieve the Indemnifying Party from any liability that it may have to the Indemnitee otherwise than hereunder. The Indemnifying Party shall not be liable for any settlement of any such action effected without its consent, but if settled with the consent of the Indemnifying Party or if there is a final judgment for the plaintiff in any such action, the Indemnifying Party will indemnify and hold harmless the Indemnitee from and against any loss or liability by reason of

such settlement or judgment. The indemnity agreements contained in this Bond Purchase Agreement shall include reimbursement for expenses reasonably incurred by an Indemnitee in investigating the claim and in defending it if the Indemnifying Party declines to assume the defense and shall survive delivery of the Bonds. Notwithstanding the foregoing, in the event of an investigation or audit by the Internal Revenue Service or the Securities and Exchange Commission or any other state or federal agency, department, or entity with respect to the Bonds, the Authority shall have the right and duty to undertake its own defense, including the employment of counsel, with full power to litigate, compromise or settle the same on its own behalf, and the Company agrees that it will indemnify and hold the Authority harmless for all costs and expenses, including, but not limited to, attorney fees and expenses and costs, of any such settlement.

Section 9. Equitable Contribution. If the indemnification provided for in Section 6(b) of this Bond Purchase Agreement is unavailable to any of the respective Underwriters (or any controlling person thereof) in respect of any losses, claims, damages or liabilities referred to therein, then the Company shall, in lieu of indemnifying each or any of the respective Underwriters, contribute to the amount paid or payable by each or any of the Underwriters as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect the relative benefits received by the Company and the Underwriters, respectively, from the offering of the Bonds. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law, then the Company shall contribute to such amount paid or payable by the Underwriters in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company and each or any of the Underwriters, respectively, in connection with the statements or omission which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefit received by the Company or the Underwriters shall be deemed to be in the same proportion as the total proceeds from the offering (before deducting issuance costs and expenses other than underwriting fees and commissions) received by the Company, on the one hand, bear to the total Underwriting fees and commissions received by the Underwriters, on the other hand. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact related to information supplied by the Company or each of the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 9 were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to above in this Section 9. The amount paid or payable by each of the Underwriters as a result of the losses, claims, damages or liabilities referred to above in this Section 9 shall be deemed to include any reasonable legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 9, no Underwriter shall be required to contribute any amount in excess of the amount of the discount allowed to each Underwriter as set forth in Section 7(b) hereof.

Section 10. Official Statement; Public Offering.

(a) In order to enable the Underwriters to comply with Rule 15c2-12, the Company has prepared (or caused to be prepared) the Preliminary Official Statement, which the Company and the Authority (in the case of the Authority, only with respect to the information therein under the headings "THE AUTHORITY" and, insofar as they relate to the Authority, "INTRODUCTORY STATEMENT" and "ABSENCE OF MATERIAL LITIGATION") deem final and complete as of its date except for certain permitted omissions as described in Rule 15c2-12. The Company shall provide to the Representative sufficient copies of the Official Statement in sufficient time to accompany any confirmation that requires payment from any customer and in any event within seven (7) business days after the date of this Bond Purchase Agreement. If the Company, during the period described in Section 10(b) below, has or gains knowledge of a fact or circumstance that would render the Official Statement misleading in any material respect, then the Company shall promptly give the Representative written notice thereof. The Authority and the Company hereby authorize the use of the Preliminary Official Statement and the Official Statement by the Underwriters in connection with the offering of the Bonds.

(b) The Authority and the Company will not adopt or distribute any amendment of or supplement to the Official Statement, except with the prior written consent of the Representative. If from the date hereof until the earlier of (i) ninety (90) days after the end of the underwriting period (as defined in Rule 15c2-12) or (ii) the time when the Official Statement is available to any person from the Repository with which it has been deposited, but in no case less than twenty-five (25) days following the end of the underwriting period, any event relating to or affecting the Authority, the Company or the Bonds shall occur, the result of which shall make it necessary, in the opinion of the Representative, to amend or supplement the Official Statement in order to make it not misleading in the light of the circumstances existing at that time, the Company shall forthwith prepare, and the Company and the Authority shall approve for distribution, a reasonable number of copies of an amendment of or supplement to the Official Statement, in form and substance reasonably satisfactory to the Underwriters, so that the Official Statement then will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances existing at that time, not misleading. The Authority shall cooperate with the Company in the issuance and distribution of any such amendment or supplement.

(c) Upon Closing, the Representative shall promptly provide the Municipal Securities Rulemaking Board with a copy of the Official Statement for filing in accordance with Rule 15c2-12, and inform the Authority and the Company in writing as to the date and place of such filing and the date of the end of the underwriting period.

Section 11. Conditions of Underwriters' and Authority's Obligations . The Underwriters' obligations to purchase and pay for the Bonds and the Authority's obligation to issue and deliver the Bonds are subject to fulfillment of the following conditions at or before Closing:

(a) The representations of the Authority and the Company herein, as applicable, shall be true in all material respects on and as of the date of the Closing and shall be confirmed by appropriate certificates at Closing.

(b) Neither the Authority nor the Company, as applicable, shall be in default in the performance of any of their respective covenants herein.

(c) The Representative shall have received:

(i) An opinion of Ballard Spahr LLP, Bond Counsel, dated the date of Closing, substantially in the form attached as Appendix E to the Preliminary Official Statement, addressed to (or with reliance letters delivered in respect of) the Authority, the Trustee, the Company and the Representative.

(ii) An opinion of Ballard Spahr LLP, Bond Counsel, dated the date of Closing, substantially in the form attached as Exhibit A hereto, addressed to the Representative.

(iii) An opinion of the Office of Chief Counsel of the Pennsylvania Department of Community and Economic Development, as counsel for the Authority, dated the date of Closing, in form and substance satisfactory to the Representative, addressed to the Representative, the Trustee, the Company and Bond Counsel.

(iv) An opinion of Dilworth Paxson LLP, counsel to the Company, dated the date of Closing, substantially in the form attached as Exhibit B hereto, addressed to the Representative, the Authority and Bond Counsel.

(v) An agreed upon procedures letter dated the date of the Official Statement and addressed to the Company and the Representative from the Company's auditor with respect to financial information set forth in Appendix A and Appendix B to the Official Statement, in form and substance reasonably satisfactory to the Company's auditor and the Representative.

(vi) A certificate dated the date of Closing executed by the Executive Director of the Authority and addressed to the Representative to the effect that, to the best of his or her respective knowledge:

(A) the representations and warranties of the Authority contained herein are true and correct in all material respects as of the date of Closing; and

(B) the Authority has complied in all material respects with all agreements executed by the Authority in connection with issuance of the Bonds and satisfied in all material respects the Authority's covenants contained in Section 5 herein and all of the conditions on its part to be performed or satisfied at or prior to the Closing.

(vii) A certificate dated the date of Closing executed by the chief financial officer of the Company and addressed to the Representative to the effect that, to the best of his knowledge:

(A) the representations and warranties of the Company in this Bond Purchase Agreement are true and correct in all material respects as of the date of Closing;

(B) the Preliminary Official Statement and the Official Statement, as of their respective dates, insofar as they relate to the Company, do not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, under the circumstances in which they were made, not misleading in any respect; and

(C) no event affecting the Company has occurred since the date of this Bond Purchase Agreement that is required to be disclosed in the Official Statement or necessary in order to make the statements and information therein not misleading in any material respect.

(viii) Two executed copies of the Trust Indenture, the Financing Agreement, the Bond Purchase Agreement, the Forty-sixth Supplemental Mortgage and the Continuing Disclosure Agreement and specimen copies of the First Mortgage Bonds.

(ix) Two copies of the Articles of Incorporation and Bylaws of the Company, as amended to the date of Closing, and of the resolutions of the Board of Directors of the Company authorizing and approving the execution and delivery of this Bond Purchase Agreement, the Financing Agreement, the First Mortgage Bonds, the Forty-sixth Supplemental Mortgage, the Continuing Disclosure Agreement and the incurrence of indebtedness with respect thereto and all transactions described in the Official Statement and contemplated by this Bond Purchase Agreement, all certified by its Secretary or Assistant Secretary.

(x) Two copies of the Authority Resolution.

(xi) One or more letters from the Company's auditor, dated the date of the Preliminary Official Statement and the Official Statement and addressed to the Company and the Representative, consenting to the use of the financial statements reported upon by such firm and all references to such firm contained in the Preliminary Official Statement and the Official Statement.

(xii) Evidence satisfactory to the Representative of a long-term credit rating of "AA-" and a recovery rating of "1+" assigned by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, and that such ratings are in full force and effect as of the date of Closing.

(xiii) Evidence satisfactory to Bond Counsel and the Representative of the receipt by the Authority of a Preliminary Allocation relating to the Bonds and of the registration of a Securities Certificate relating to the First Mortgage Bonds and the Bonds with the Pennsylvania Public Utility Commission.

(xiv) Such additional documentation, including, without limitation, legal opinions, as the Representative or its counsel, or Bond Counsel may reasonably request to evidence compliance with applicable law and the validity of the Bonds, the Financing Agreement, the Trust Indenture, this Bond Purchase Agreement, the Forty-sixth Supplemental Mortgage, the First Mortgage Bonds and the Continuing Disclosure Agreement, and to evidence that the interest on the Bonds is not includable in gross income under the Code and the status of the offering under the 1933 Act and the 1939 Act.

(d) At Closing there shall not have been any material adverse change in the financial condition of the Company or any adverse development concerning the business or assets of the Company that would result in a material adverse change in the prospective financial condition or results of operations of the Company from that described in the Official Statement, which, in the judgment of the Representative, makes it inadvisable to proceed with the sale of the Bonds; and the Representative shall have received certificates of the Company certifying that no such material adverse change has occurred or, if such a change has occurred, full information with respect thereto.

(e) The Representative shall deliver at Closing a certificate in form acceptable to Bond Counsel to the effect that the Underwriters have sold to the public (excluding bond houses and brokers) a substantial amount of the Bonds at initial offering prices no higher than, or yields no lower than, those shown on the cover page of the Official Statement and that such certificate may be relied upon for purposes of determining compliance with Section 148 of the Code.

Section 12. Events Permitting the Underwriters to Terminate. The Underwriters may terminate their obligation to purchase the Bonds at any time before Closing if any of the following occurs:

(a) A legislative, executive or regulatory action or proposed action, or a court decision, which in the reasonable judgment of the Representative casts sufficient doubt on the legality of, or the exclusion from gross income for federal income tax purposes of interest on, obligations such as the Bonds so as to materially impair the marketability or materially lower the market price of the Bonds.

(b) Any action by the Securities and Exchange Commission or a court that would require registration of the Bonds or the First Mortgage Bonds under the 1933 Act or qualification of the Trust Indenture under the 1939 Act.

(c) Any general suspension of trading in securities on the New York Stock Exchange or the establishment, by the New York Stock Exchange, by the Securities and Exchange Commission, by any federal or state agency, or by the decision of any court, of any limitation on prices for such trading, or any outbreak of new hostilities or other national or international calamity or crisis, or any material escalation in any such hostilities, calamity or crisis, the effect of which on the financial markets of the United States of America shall be such as to materially impair the marketability or materially lower the market price of the Bonds.

(d) Any event or condition occurring or arising after the date hereof, which in the reasonable judgment of the Representative renders untrue or incorrect, in any material respect as of the time to which the same purports to relate, the information contained in the Official Statement, or which requires that information not reflected in the Official Statement or Appendices thereto should be reflected therein in order to make the statements and information contained therein not misleading in any material respect as of such time; provided that the Authority, the Company and the Representative will use their best efforts to amend or supplement the Official Statement to reflect, to the reasonable satisfaction of the Representative, such changes in or additions to the information contained in the Official Statement.

(e) Pending or threatened litigation affecting or arising out of the ownership of the Facilities or any other facilities of the Company or the issuance of the Bonds, which, in the reasonable judgment of the Representative, would materially impair the marketability or materially lower the market price of the Bonds.

(f) Quantities of the Official Statement are not delivered to the Underwriters in a timely manner as required by Section 10 hereof.

If the Underwriters terminate their obligation to purchase the Bonds because any of the conditions specified in Section 11 hereof or this Section 12 shall not have been fulfilled at or before the Closing, such termination shall not result in any liability on the part of the Authority, the Underwriters or the Company, except for the obligations of the Company under Sections 6(b), 8, 9 and 14 which shall remain in full force and effect.

Section 13. [Intentionally Omitted]

Section 14. Expenses. All expenses and costs of the authorization, issuance, sale and delivery of the Bonds including, without limitation, accrued interest, the preparation of and furnishing to the Underwriters of the Preliminary Official Statement and the Official Statement, the preparation and execution of the Bonds, the Financing Agreement, the Trust Indenture, the First Mortgage Bonds, the Forty-sixth Supplemental Mortgage, the Continuing Disclosure Agreement and this Bond Purchase Agreement, rating agency fees, the issuance and closing fees of the Authority, the fees and disbursements of counsel to the Authority, the fees and disbursements of Bond Counsel, the fees and disbursements of counsel to the Underwriters and the expenses incurred in connection with qualifying the Bonds for sale under the securities laws of various jurisdictions and preparing a Blue Sky memorandum, if any, shall be paid by the Company from funds contributed by the Company and from proceeds of the Bonds. The Authority shall bear no out-of-pocket expense in connection with the transactions contemplated by this Bond Purchase Agreement. Each of the respective Underwriters will pay all other expenses it may incur in connection with the public offering of the Bonds.

Section 15. Execution in Counterparts. This Bond Purchase Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Bond Purchase Agreement by signing any such counterpart.

Section 16. Notices and Other Actions. All notices, requests, demands and formal actions hereunder will be in writing mailed, faxed (with confirmation of receipt) or delivered by nationally recognized, next-day delivery service to:

The Underwriters:	Jefferies & Company, Inc., as Representative of the Underwriters 1650 Market Street 36th Floor Philadelphia, PA 19103 Attention: George C. Werner, III, Managing Director Fax #: (610) 514-9852 Email: gwerner@Jefferies.com
The Company:	Aqua Pennsylvania, Inc. 762 Lancaster Avenue Bryn Mawr, PA 19010 Attention: Diana Moy Kelly, Treasurer Fax #: (610) 519-0989 Email: dmoykelly@aquaamerica.com
The Authority:	Pennsylvania Economic Development Financing Authority Center for Private Financing 400 North Street, 4th Floor Harrisburg, PA 17120-0225 Attention: Stephen Drizos, Executive Director Fax #: (717) 787-0879 Email: sdrizos@state.pa.us

Section 17. Governing Law. This Bond Purchase Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, excluding those relating to choice of laws or conflict of laws, and may not be assigned by the Authority, the Company or the Underwriters.

Section 18. Successors. This Bond Purchase Agreement will inure to the benefit of and be binding upon the parties and their respective successors and, as to Sections 6, 7, 8 and 9 hereof, the Indemnitees, and will not confer any rights upon any other person. The term "successor" shall not include any holder of any Bonds merely by virtue of such holding.

Section 19. Limitations on Liability. No personal recourse shall be had for any claim based on this Bond Purchase Agreement or the Bonds against any board member, officer, agent, employee, or attorney past, present or future, of the Authority or any successor body as such, either directly or through the Authority or any successor body, under any constitutional provision, statute, or rule of law or by enforcement of any assessment or penalty or otherwise. Notwithstanding any provision or obligation to the contrary in this Bond Purchase Agreement, the liability of the Authority for payments of any kind, nature or description provided for herein or in any other document executed pursuant hereto shall be limited to the revenues derived by the Authority from the Financing Agreement.

(Signatures on next page)

IN WITNESS WHEREOF, the Authority, the Company and the Underwriters have caused their duly authorized officers to execute and deliver this Bond Purchase Agreement as of the date first written above.

**PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING
AUTHORITY**

By: Stephen M. Drizos
STEPHEN M. DRIZOS
Executive Director

AQUA PENNSYLVANIA, INC.

By: Diana MoyKelly
DIANA MOY KELLY
Treasurer

**JEFFERIES & COMPANY, INC., on its own behalf
and as Representative of the Underwriters**

By: George C. Werner, III
GEORGE C. WERNER, III
Managing Director

SCHEDULE I

Underwriters

Jefferies & Company, Inc.	72.50%
PNC Capital Markets, LLC	20.00%
TD Securities (USA) LLC	7.50%

SCHEDULE II

\$141,385,000

PENNSYLVANIA ECONOMIC DEVELOPMENT FINANCING AUTHORITY

\$45,180,000

Water Facilities Revenue Refunding Bonds
(Aqua Pennsylvania, Inc. Project)
Series A of 2010

\$96,205,000

Water Facilities Revenue Bonds
(Aqua Pennsylvania, Inc. Project)
Series B of 2010

2010A Bonds

\$25,910,000	5.00%	Term Bond Due	December 1, 2033	Yield: 5.00%	Price: 100.000
\$19,270,000	5.00%	Term Bond Due	December 1, 2034	Yield: 5.05%	Price: 99.306

2010B Bonds

\$15,000,000	4.50%	Term Bond Due	December 1, 2042	Yield: 4.75%	Price: 95.904
\$81,205,000	5.00%	Term Bond Due	December 1, 2043	Yield: 4.60%	Price: 103.185*

* Price shown to first optional redemption date of December 1, 2020.

Interest Payment Dates: June 1 and December 1, commencing June 1, 2011.

Redemption Provisions: The Bonds are subject to redemption as follows:

Optional Redemption

The 2010A Bonds are subject to optional redemption prior to maturity by the Authority, at the direction of the Company, on and after December 1, 2020, as a whole or in part at any time, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued thereon to the date fixed for redemption.

The 2010B Bonds are subject to optional redemption prior to maturity by the Authority, at the direction of the Company, on and after December 1, 2020, as a whole or in part at any time, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued thereon to the date fixed for redemption.

Extraordinary Optional Redemption- 2010A Bonds. The 2010A Bonds are subject to redemption, at any time prior to maturity, at the option of the Authority, upon the direction of the Company, in whole, at a Redemption Price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, if any of the following events shall have occurred:

(a) the damage or destruction of all or substantially all of the Refunding Project Facilities to such extent, that, in the reasonable opinion of the Company, the repair and restoration thereof would not be economical; or

(b) the taking by condemnation, or the threat thereof, of all or substantially all of the Facilities or the taking by condemnation of any part, use or control of the Refunding Project Facilities so as to render them unsatisfactory to the Company for their intended use; or

(c) in the Company's reasonable opinion, (1) unreasonable burdens or excessive liabilities shall have been Imposed upon the Company with respect to the Refunding Project Facilities or the operation thereof, including, but not limited to, federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Financing Agreement other than ad valorem property taxes presently levied upon privately owned property used for the same general purposes as the Refunding Project Facilities, or (2) the continued operation of the Refunding Project Facilities is impractical, uneconomical or undesirable for any reason.

Any such redemption shall be on any date within 180 days following the occurrence of one of the events listed above permitting the exercise of the option.

Extraordinary Optional Redemption- 2010B Bonds. The 2010B Bonds are subject to redemption, at any time prior to maturity, at the option of the Authority, upon the direction of the Company, in whole, at a Redemption Price of 100% of the principal amount of the 2010B Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, if any of the following events shall have occurred:

(a) the damage or destruction of all or substantially all of the Project Facilities to such extent, that, in the reasonable opinion of the Company, the repair and restoration thereof would not be economical; or

(b) the taking by condemnation, or the threat thereof, of all or substantially all of the Project Facilities or the taking by condemnation of any part, use or control of the Project Facilities so as to render them unsatisfactory to the Company for their intended use; or

(c) in the Company's reasonable opinion, (1) unreasonable burdens or excessive liabilities shall have been imposed upon the Company with respect to the Project Facilities or the operation thereof, including, but not limited to, federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Financing Agreement other than ad valorem property taxes presently levied upon privately owned property used for the same general purposes as the Project Facilities, or (2) the continued operation of the Project Facilities is impractical, uneconomical or undesirable for any reason.

Any such redemption shall be on any date within 180 days following the occurrence of one of the events listed above permitting the exercise of the option.

Special Mandatory Redemption of the 2010B Bonds. The 2010B Bonds are subject to mandatory redemption, in part, on the first interest payment date for which notice can be given in accordance with the Trust Indenture after the Construction Project has been completed and the certificate of the Company with respect thereto required by the Financing Agreement has been filed with the Authority and the Trustee, to the extent of any amounts transferred from the 2010B Project Fund to the 2010B Debt Service Fund pursuant to the Trust Indenture, at a Redemption Price of 100% of the principal amount of the 2010B Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption.

Selection shall be made and notice given in accordance with the Trust Indenture.

EXHIBIT A

EXHIBIT B

SELECTED PORTIONS OF ANNUAL REPORT TO SHAREHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2010

AQUA AMERICA, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations
(In thousands of dollars, except per share amounts)

FORWARD-LOOKING STATEMENTS

This report by Aqua America, Inc. ("Aqua America," "we" or "us") contains, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks, uncertainties and other factors, that may be outside our control and that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In some cases you can identify forward-looking statements where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans," "future," "potential" or the negative of such terms or similar expressions. Forward-looking statements in this report, include, but are not limited to, statements regarding:

- recovery of capital expenditures and expenses in rates;
- projected capital expenditures;
- availability and cost of capital financing;
- dividend payment projections;
- future financing plans;
- future pension contributions;
- the impact of changes in income tax laws regarding tax-basis depreciation on capital additions;
- opportunities for future acquisitions, the success of pending acquisitions and the impact of future acquisitions;
- acquisition-related costs and synergies;
- the capacity of our water supplies, water facilities and wastewater facilities;
- the impact of geographic diversity on our exposure to unusual weather;
- the impact of conservation awareness of customers and more efficient plumbing fixtures and appliances on water usage;
- the availability and cost of key production necessities, including power, chemicals and purchased water or wastewater services;
- the availability of qualified personnel;
- the return performance of our defined benefit pension plan assets;
- general economic conditions; and
- the impact of accounting pronouncements and income taxation policies.

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

- changes in general economic, business, credit and financial market conditions;
- changes in government laws regulations and policies, including those dealing with taxation, the environment, health and water quality, and public utility regulation;
- the decisions of governmental and regulatory bodies, including decisions on rate increase requests;
- our ability to file rate cases on a timely basis to minimize regulatory lag;
- changes in environmental conditions, including those that result in water use restrictions;
- abnormal weather conditions;
- changes in, or unanticipated, capital requirements;
- changes in our credit rating or the market price of our common stock;
- our ability to integrate businesses, technologies or services which we may acquire;
- our ability to manage the expansion of our business;
- the extent to which we are able to develop and market new and improved services;
- the effect of the loss of major customers;

- our ability to retain the services of key personnel and to hire qualified personnel as we expand;
- increasing difficulties in obtaining insurance and increased cost of insurance;
- cost overruns relating to improvements or the expansion of our operations;
- changes in accounting pronouncements; and
- civil disturbance or terroristic threats or acts.

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)

Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this report with the understanding that our actual future results, performance and achievements may be materially different from what we expect. These forward-looking statements represent our estimates and assumptions only as of the date of this report. Except for our ongoing obligations to disclose material information under the federal securities laws, we are not obligated to update these forward-looking statements, even though our situation may change in the future. We qualify all of our forward-looking statements by these cautionary statements. As you read this report, you should pay particular attention to the "Risk Factors" included in our Annual Report on Form 10-K.

OVERVIEW

The Company

Aqua America, Inc. is the holding company for regulated utilities providing water or wastewater services to what we estimate to be approximately 3.0 million people in Pennsylvania, Texas, North Carolina, Ohio, Illinois, New Jersey, New York, Florida, Indiana, Virginia, Maine, Missouri, and Georgia. Our largest operating subsidiary, Aqua Pennsylvania, Inc., accounted for approximately 53% of our operating revenues for 2010 and, as of December 31, 2010, provided water or wastewater services to approximately 45% of the total number of people we serve located in the suburban areas in counties north and west of the City of Philadelphia and in 25 other counties in Pennsylvania. Our other subsidiaries provide similar services in 12 other states. In September 2010, we entered into a definitive agreement to sell our wastewater operation in South Carolina, which served approximately 400 customers. The sale of our utility operation in South Carolina closed in December 2010, concluding our utility operations in South Carolina. In addition, in December 2010, we entered into a definitive agreement to sell our regulated water and wastewater operations in Missouri, which serves approximately 3,900 customers. This sale is conditioned, among other things, on the receipt of regulatory approvals, and is expected to close by the third quarter of 2011. The completion of this transaction will conclude our regulated utility operations in Missouri. In addition, we provide water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our utility companies' service territories, as well as sludge hauling, septage and grease services, backflow prevention services, and certain other non-regulated water and wastewater services.

Aqua America, which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, Inc., formerly known as Philadelphia Suburban Water Company. In the early 1990s we embarked on a growth through acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of New York Water Service Corporation in 2007. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry and has extended our regulated operations from southeastern Pennsylvania to include operations in 12 other states.

Industry Mission

The mission of the investor-owned water utility industry is to provide quality and reliable water service at an affordable price to customers, while earning a fair return for shareholders. A number of challenges face the industry, including:

- strict environmental, health and safety standards;
- aging utility infrastructure and the need for substantial capital investment;
- economic regulation by state, and /or, in some cases, local government;
- declining consumption per customer as a result of conservation; and
- the impact of weather and drought conditions on water sales demand.

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)

Economic Regulation

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

Rate Case Management Capability — We strive to achieve the industry's mission by effective planning and efficient use of our resources. We maintain a rate case management capability to pursue timely and adequate returns on the capital investments that we make in improving or replacing water mains, treatment plants and other infrastructure. This capital investment represents our assets used and useful in providing utility service, and is commonly referred to as rate base. This capability is important to our continued profitability and in providing a fair return to our shareholders, and thus providing access to capital markets to help fund these investments. Accordingly, the objective of our rate case management strategy is to provide that the rates of our utility operations reflect, to the extent practicable, the timely recovery of increases in costs of operations, capital, taxes, energy, materials and compliance with environmental regulations. In pursuing our rate case strategy, we consider the amount of utility plant additions and replacements made since the previous rate decision, the changes in the cost of capital, changes in the capital structure and changes in operating and other costs. Based on these assessments, our utility operations periodically file rate increase requests with their respective state regulatory commissions or local regulatory authorities. In general, as a regulated enterprise, our water and wastewater rates are established to provide recovery of utility operating costs, taxes, interest on debt used to finance capital investments and a return on equity used to finance capital investments. Our ability to recover our expenses in a timely manner and earn a return on equity employed in the business determines the profitability of the Company.

Our water and wastewater operations are comprised of 129 rate divisions, each of which requires a separate rate filing for the evaluation of the cost of service and recovery of investments in connection with the establishment of tariff rates for that rate division. When feasible and beneficial to our utility customers, we will seek approval to consolidate rate divisions to achieve a more even distribution of costs over a larger customer base. Eight of the states in which we operate permit some form of consolidated rates in varying degrees for the rate divisions in that state, and two states currently permit us to fully consolidate rate filings state-wide. Due to the length of time since the last rate increase for some of our systems and the large amount of capital improvements relative to the number of customers in some smaller systems, the proposed rate increase in some of these systems may be substantial. Also, as a result of the condition of some of the systems acquired and the time needed to make the capital investments required to maintain compliance prior to requesting rates, some divisions have experienced or are experiencing longer periods of regulatory lag. We can provide no assurance that the rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which we initially sought the rate increases. We are currently in nine active rate proceedings in four of our thirteen states proposing an aggregate annualized rate increase of \$14,201.

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

Effects of Inflation — Recovery of the effects of inflation through higher water and wastewater rates is dependent upon receiving adequate and timely rate increases. However, rate increases are not retroactive and often lag increases in costs caused by inflation. Even during periods of moderate inflation, as has been experienced in 2010, 2009, and 2008, the effects of inflation on our operating results are noticeable. Two states allow annual inflationary index filings to help offset the effects of inflation on our operating costs.

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)

Growth-Through-Acquisition Strategy

Part of our strategy to meet the industry challenges is to actively explore opportunities to expand our utility operations through acquisitions of water and wastewater utilities either in areas adjacent to our existing service areas or in new service areas, and to explore acquiring non-regulated businesses that are complementary to our regulated water and wastewater operations. To complement our growth strategy, we routinely evaluate the operating performance of our individual utility systems and in instances where limited customer-growth opportunities exist or where we are unable to achieve favorable operating results or a return on equity that we consider acceptable, we will seek to sell the utility system and reinvest the proceeds in other utility systems. Our growth-through-acquisition strategy allows us to operate more efficiently by sharing operating expenses over more utility customers and provides new locations for possible future growth. The ability to successfully execute this strategy and meet the industry challenges is largely due to our qualified and trained workforce, which we strive to retain by treating employees fairly and providing our employees with development and growth opportunities.

During 2010, we completed 23 acquisitions and other growth ventures which, along with the organic growth in our existing systems, represent 9,931 new customers. During 2009, we completed 18 acquisitions and other growth ventures which, along with the organic growth in our existing systems, represent 8,458 new customers. During 2008, we completed 9 acquisitions and other growth ventures which, along with the organic growth in our existing systems, represent 18,681 new customers.

In addition to acquisitions, from time to time, we sell utility systems or relinquish ownership in systems through condemnation. In February 2008, through a condemnation proceeding we turned over the northern portion of our Fort Wayne, Indiana system representing 10,921 customers. In addition, pursuant to our plan to evaluate and dispose of underperforming utility systems, we sold the following utility systems: in December 2010, we sold a wastewater utility system in South Carolina representing 400 customers, in June 2009, we sold a water and wastewater utility system in Texas representing 561 customers, in August 2008 we sold a water and wastewater utility system in Illinois representing 11,598 customers, and in December 2007 we sold a water utility system in Virginia representing 1,304 customers.

We believe that utility acquisitions will continue to be the primary source of customer growth for us. With approximately 52,000 community water systems in the U.S., 83% of which serve less than 3,300 customers, the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). In the states where we operate, we believe there are approximately 23,000 community water systems of widely-varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the U.S. Environmental Protection Agency's (EPA) most recent survey of wastewater treatment facilities (which includes both government-owned and privately-owned facilities) in 2008, there are approximately 15,000 such facilities in the nation serving approximately 74% of the U.S. population. The remaining population represents individual homeowners with their own treatment facilities; for example, community on-lot disposal systems and septic tank systems. The vast majority of wastewater facilities are government-owned rather than privately-owned. The EPA survey also indicated that there are approximately 9,600 wastewater facilities in operation or planned in the 13 states where we operate.

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

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

We are actively exploring opportunities to expand our water and wastewater utility operations through acquisitions or otherwise. We intend to continue to pursue acquisitions of government-owned and privately-owned water and wastewater systems of all sizes that provide services in areas near our existing service territories or in new service areas. We continue to explore opportunities for the acquisition of non-regulated wastewater service and septage businesses that are located near our existing markets, growing our existing revenue base in this business by offering the wastewater services to nearby residents with on-site sewer systems, adding new customers to this business and expanding the services that are provided to them.

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)

Sendout

"Sendout" represents the quantity of treated water delivered to our distribution systems. We use sendout as an indicator of customer demand. Weather conditions tend to impact water consumption, particularly in our northern service territories during the late spring and summer months when discretionary and recreational use of water is at its highest. Consequently, a higher proportion of annual operating revenues are realized in the second and third quarters. In general during this period, an extended period of dry weather increases water consumption, while above average rainfall decreases water consumption. Also, an increase in the average temperature generally causes an increase in water consumption. Conservation efforts, construction codes which require the use of low flow plumbing fixtures, as well as mandated water use restrictions in response to drought conditions can reduce water consumption. We believe an increase in conservation awareness by our customers, including the increased use of more efficient plumbing fixtures and appliances, may result in a long-term structural trend of decline in water usage per customer. These gradual long-term changes are normally taken into account by the public utility commissions in setting rates, whereas significant short-term changes in water usage, resulting from drought warnings, water use restrictions, or extreme weather conditions, may not be fully reflected in the rates we charge.

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

The geographic diversity of our utility customer base reduces the effect on Aqua America of our exposure to extreme or unusual weather conditions in any one area of our service territory. During the year ended December 31, 2010, our operating revenues were derived principally from the following states: 53% in Pennsylvania, 8% in Texas, 6% in North Carolina, 6% in Ohio, and 6% in Illinois.

Performance Measures Considered by Management

We consider the following financial measures (and the period to period changes in these financial measures) to be the fundamental basis by which we evaluate our operating results: earnings per share, operating revenues, net income attributable to common shareholders and the dividend rate on common stock. In addition, we consider other key measures in evaluating our utility business performance within our Regulated segment: our number of utility customers, the ratio of operations and maintenance expense compared to operating revenues (this percentage is termed "operating expense ratio" or "efficiency ratio"); return on revenues (net income attributable to common shareholders divided by operating revenues); and return on equity (net income attributable to common shareholders divided by Aqua America stockholders' equity). We review these measurements regularly and compare them to historical periods, to our operating budget as approved by the Aqua America, Inc. Board of Directors, and to other publicly-traded water utilities.

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)

Our operating expense ratio is one measure that we use to evaluate our operating efficiency and management effectiveness in light of the changing nature of our company. During the past five years, our operating expense ratio has been affected by a number of factors, including the following:

- **Regulatory lag** — Our rate filings are designed to provide for the recovery of increases in costs of operations, capital, and taxes. The efficiency ratio can be impacted by the timeliness of rate relief and recovery of and on capital investments. The efficiency ratio is further influenced by regulatory lag (increases in operations and maintenance expenses not yet recovered in rates or a gap between the time that a capital project is completed and the start of its cost recovery in rates), or decreases in operating revenues without a commensurate decrease in operations and maintenance expense, such as changes in customer water consumption as impacted by adverse weather conditions or conservation trends. In addition, the efficiency ratio is impacted by the start of the recovery in rates of our capital investments, and the return earned on those capital investments.
- **Acquisitions** — In general, acquisitions in certain areas may increase our operating expense ratio if the operating revenues generated by these operations are accompanied by a higher ratio of operations and maintenance expenses as compared to other operational areas of the company which are more densely-populated and have integrated operations. In these cases, the acquired operations are characterized as having relatively higher operating costs to fixed capital costs, in contrast to the majority of the Aqua America operations which generally consist of larger, interconnected systems, with higher fixed capital costs (utility plant investment) and lower operating costs per customer. In addition, in 2006 we completed several acquisitions of companies that provide on-site septic tank pumping and sludge hauling services. The cost-structure of these businesses differs from our utility companies in that these businesses have a much higher ratio of operations and maintenance expenses to operating revenues and lower capital investment and consequently a lower ratio of fixed capital costs versus operating revenues. As a result, the ratio of operating income compared to operating revenues is not comparable between the businesses. The non-regulated wastewater and septage service business is not a component of our Regulated segment.

We continue to evaluate initiatives to help control operating costs and improve efficiencies.

AQUA AMERICA, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
(In thousands of dollars, except per share amounts)

Consolidated Selected Financial and Operating Statistics

Our selected five-year consolidated financial and operating statistics follow:

Years ended December 31,	2010	2009 (a)	2008 (b)	2007 (c)	2006 (d)
Utility customers:					
Residential water	804,704	796,926	791,929	796,591	780,828
Commercial water	39,272	38,781	38,334	37,330	36,280
Industrial water	1,415	1,270	1,299	1,317	1,337
Other water	16,262	17,191	16,466	16,509	15,587
Wastewater	101,317	99,269	97,512	97,631	92,791
Total	962,970	953,437	945,540	949,378	926,823
Operating revenues:					
Residential water	\$ 431,178	\$ 392,054	\$ 374,572	\$ 360,542	\$ 317,770
Commercial water	105,294	94,149	90,062	85,553	76,076
Industrial water	21,550	19,437	19,873	19,548	18,752
Other water	70,428	70,374	58,504	58,274	51,263
Wastewater	73,939	70,226	58,873	52,891	48,907
Other utility	12,118	12,665	13,278	12,935	13,525
Regulated segment total	714,507	658,905	615,162	589,743	526,293
Other	11,565	11,634	11,810	12,756	7,198
Consolidated	\$ 726,072	\$ 670,539	\$ 626,972	\$ 602,499	\$ 533,491
Operations and maintenance expense	\$ 279,962	\$ 270,060	\$ 262,122	\$ 253,092	\$ 219,560
Net income attributable to common shareholders	\$ 123,975	\$ 104,353	\$ 97,918	\$ 95,014	\$ 92,004
Capital expenditures	\$ 326,626	\$ 283,584	\$ 267,418	\$ 238,140	\$ 271,706
Operating Statistics					
Selected operating results as a percentage of operating revenues:					
Operations and maintenance	38.6%	40.3%	41.8%	42.0%	41.2%
Depreciation and amortization	16.7%	17.1%	15.0%	14.6%	14.1%
Taxes other than income taxes	7.3%	7.2%	7.1%	7.5%	6.2%
Interest expense, net	10.4%	10.2%	10.9%	11.1%	10.9%
Net income	17.1%	15.6%	15.6%	15.8%	17.2%
Return on average Aqua America stockholders' equity	10.9%	9.6%	9.6%	10.0%	10.6%
Effective tax rate	39.2%	39.4%	39.7%	38.9%	39.6%

- (a) Net income attributable to common shareholders includes the gain of \$605 (\$1,009 pre-tax) realized on the sale of a utility system. The gain is reported in the 2009 consolidated statement of income as a reduction to operations and maintenance expense.
- (b) 2008 utility customers were impacted by the loss of 22,519 utility customers associated with the utility systems disposed of. Net income includes the gain of \$2,427 (\$4,118 pre-tax) realized on the sale of a utility system. The gain is reported in the 2008 consolidated statement of income as a reduction to operations and maintenance expense.
- (c) Net income attributable to common shareholders includes the gain of \$657 (\$1,095 pre-tax) realized on the sale of a utility system. The gain is reported in the 2007 consolidated statement of income as a reduction to operations and maintenance expense.
- (d) 2006 includes 44,792 customers associated with the New York Water Service Corporation acquisition which was completed on January 1, 2007, and the operating results have been reported in our consolidated financial statements beginning January 1, 2007.

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RESULTS OF OPERATIONS

Our net income has grown at an annual compound rate of approximately 6.3% during the five-year period ended December 31, 2010. During the past five years, operating revenues grew at a compound rate of 7.9% and total expenses, exclusive of income taxes, grew at a compound rate of 8.5%.

Operating Segments

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

- Thirteen segments are comprised of our water and wastewater regulated utility operations in the thirteen states where we provide these services. These operating segments are aggregated into one reportable segment since each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution and / or wastewater collection methods, and the nature of the regulatory environment. Our single reportable segment is named the Regulated segment.
- One segment is not quantitatively significant to be reportable and is comprised of the businesses that provide sludge hauling, septage and grease services, backflow prevention services, and certain other non-regulated water and wastewater services. This segment is included as a component of "other," in addition to corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include certain general and administrative expenses, and interest expense.

Unless specifically noted, the following discussion and analysis provides information on our consolidated results of operations. The following table provides the Regulated segment and consolidated information for the years ended December 31, 2010, 2009, and 2008:

	2010			2009		
	<u>Regulated</u>	<u>Other and Eliminations</u>	<u>Consolidated</u>	<u>Regulated</u>	<u>Other and Eliminations</u>	<u>Consolidated</u>
Operating revenues	\$ 714,507	\$ 11,565	\$ 726,072	\$ 658,905	\$ 11,634	\$ 670,539
Operations and maintenance expense	269,699	10,263	279,962	260,587	9,473	270,060
Taxes other than income taxes	51,472	1,495	52,967	44,698	3,383	48,081
Earnings (losses) before interest, taxes, depreciation and amortization	<u>\$ 393,336</u>	<u>\$ (193)</u>	393,143	<u>\$ 353,620</u>	<u>\$ (1,222)</u>	352,398
Depreciation and amortization			121,067			114,939
Operating income			272,076			237,459
Interest expense, net of AFUDC			70,590			65,736
Gain on sale of other assets			(2,583)			(472)
Provision for income taxes			80,094			67,842
Net income			<u>\$ 123,975</u>			<u>\$ 104,353</u>

	2008		
	<u>Regulated</u>	<u>Other and Eliminations</u>	<u>Consolidated</u>
Operating revenues	\$ 615,162	\$ 11,810	\$ 626,972
Operations and maintenance expense	251,799	10,323	262,122
Taxes other than income taxes	43,323	1,426	44,749
Earnings before interest, taxes, depreciation and amortization	<u>\$ 320,040</u>	<u>\$ 61</u>	320,101
Depreciation and amortization			94,300
Operating income			225,801
Interest expense, net of AFUDC			64,898
Gain on sale of other assets			(1,599)
Provision for income taxes			64,584
Net income			<u>\$ 97,918</u>

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Consolidated Results

Operating Revenues — The growth in revenues over the past three years is a result of increases in water rates and our customer base. Rate increases implemented during the past three years have provided additional operating revenues of approximately \$38,031 in 2010, \$55,711 in 2009, and \$27,437 in 2008. Also increasing our revenue growth in 2010 was an increase in customer water consumption as compared to 2009, which is largely due to favorable weather conditions in many of our service territories during 2010 that increased water usage. Further impacting the consumption comparison is the unfavorable weather conditions experienced in 2009 in our service territories that reduced water usage in 2009. The number of customers increased at an annual compound rate of 0.5% and 2.2%, respectively in the past three and five years. The increase in the annual compound customer growth rate for the past five years is primarily as a result of acquisitions of water and wastewater systems, including the January 1, 2007 acquisition of New York Water Service Corporation. If adjusted for the utility system dispositions during the past three and five years, the annual compound customer growth rate would have been 1.3% and 2.7%, respectively. Acquisitions in our Regulated segment have provided additional water and wastewater revenues of approximately \$2,614 in 2010, \$4,637 in 2009, and \$5,859 in 2008.

On June 17, 2010, the Pennsylvania Public Utility Commission ("PAPUC") granted the Company's operating subsidiary in Pennsylvania a water rate increase designed to increase total operating revenues by \$23,600, on an annualized basis. The rates in effect at the time of the filing included \$24,256 in Distribution System Improvement Charges ("DSIC") or 7.5% above prior base rates. Consequently, the total base rates increased by \$47,856 since the last base rate increase, and the DSIC was reset to zero.

On July 31, 2008, the PAPUC granted our operating subsidiary in Pennsylvania a water rate increase designed to increase total operating revenues by \$34,428, on an annualized basis. The rates in effect at the time of the filing included \$14,269 in Distribution System Improvement Charges ("DSIC") or 5% above prior base rates. Consequently, the total base rates increased by \$48,697 since the last base rate increase and the DSIC was reset to zero.

On September 23, 2008, the Texas Commission on Environmental Quality ("TCEQ") issued its final ruling with a unanimous decision approving the rate application that was filed in 2004 by our operating subsidiary to increase rates, on an annualized basis, by \$11,920 over a multi-year period beginning in 2004. The application sought to increase annual revenues in phases and was accompanied by a plan to defer and amortize a portion of our depreciation, operating and other tax expense over a similar multi-year period, such that the impact on operating income approximated the requested amount during the first years that the new rates were in effect. We commenced billing for the requested rates and implemented the deferral plan in 2004. As a result of the final order in 2008, the regulatory asset for the deferred operating costs and rate case expenses was set at \$13,697. As of February 1, 2009, recovery of the regulatory assets for the deferred operating costs and rate case expenses began through two surcharge mechanisms, and the surcharge billings were completed in December 2010. The final order had been appealed to the TCEQ by two parties, and the TCEQ exercised its legal authority to take no action within the required period, therefore, affirming the TCEQ's approval decision. Thereafter, the appealing parties filed suit against the TCEQ in an effort to appeal the order. On April 15, 2010, a hearing on the appeal of the TCEQ's approval decision was held in the Travis County Texas District Court, which resulted in the TCEQ's final order being upheld by the District Court Judge. The Travis County District Court Judge's ruling is no longer subject to appeal.

Our operating subsidiaries, excluding the Pennsylvania water awards discussed above, received rate increases representing estimated annualized revenues of \$20,997 in 2010 resulting from fourteen rate decisions, \$16,130 in 2009 resulting from eight rate decisions, and \$18,310 in 2008 resulting from twenty-two rate decisions. Revenues from these increases realized in the year of grant were approximately \$8,341 in 2010, \$11,723 in 2009, and \$7,531 in 2008. As of December 31, 2010, our operating subsidiaries currently have filed nine rate requests which are being reviewed by the state regulatory commissions, proposing an aggregate increase of \$14,201 in annual revenues. During 2011, excluding our Pennsylvania subsidiary, we intend to file eighteen additional rate requests proposing an aggregate of approximately \$28,009 of increased annual revenues; however we can provide no assurance that the full amount of the requested rate increases will be granted.

Currently, Pennsylvania, Illinois, Ohio, New York, Indiana, and Missouri allow for the use of infrastructure rehabilitation surcharges. In Pennsylvania, this mechanism is referred to as a DSIC. These surcharge mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped as a percentage of base rates, generally at 5% to 9% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. Infrastructure rehabilitation surcharges provided revenues of \$14,207 in 2010, \$16,901 in 2009, and \$11,771 in 2008.

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Our Regulated segment also includes certain non-regulated operating revenues of \$12,118 in 2010, \$12,665 in 2009, and \$13,278 in 2008. These operating revenues are associated with contract operations that are integral to the regulated utility business and operations. These amounts vary over time according to the level of activity associated with the utility contract operations.

In addition to the Regulated segment operating revenues, we had other non-regulated revenues that were primarily associated with non-regulated wastewater, sludge hauling, septage and grease services, backflow prevention services, operating and maintenance contracts, and certain other non-regulated water and wastewater services of \$11,565 in 2010, \$11,634 in 2009, and \$11,810 in 2008.

Operations and Maintenance Expenses — Operations and maintenance expenses totaled \$279,962 in 2010, \$270,060 in 2009, and \$262,122 in 2008. Most elements of operating costs are subject to the effects of inflation and changes in the number of customers served. Several elements are subject to the effects of changes in water consumption, weather and the degree of water treatment required due to variations in the quality of the raw water. The principal elements of operating costs are labor and employee benefits, electricity, chemicals, maintenance expenses and insurance and claims costs. Electricity and chemical expenses vary in relationship to water consumption, raw water quality, and price changes. Maintenance expenses are sensitive to extremely cold weather, which can cause water mains to rupture.

Operations and maintenance expenses increased in 2010 as compared to 2009 by \$9,902 or 3.7% primarily due to the write-off of previously deferred regulatory expenses of \$2,210, increases in operating costs associated with acquisitions of \$1,690, the absence of the June 2009 gain on sale of a utility system of \$1,009, which had the effect of reducing operations and maintenance expense in 2009, a write-off of capitalized costs of \$715, increases in fuel costs for our service vehicles of \$678, and normal increases in other operating costs. Offsetting these increases were decreases in bad debt expense of \$1,103, and water production costs of \$588. The decreased water production costs, principally for chemicals utilized to treat water, were associated with vendor price decreases. In the consolidated statement of income for 2009, the gain on sale of utility system is reported as a component of operations and maintenance expense.

Operations and maintenance expenses increased in 2009 as compared to 2008 by \$7,938 or 3.0% primarily due to the effect of the absence of the 2008 gain on the sale of a utility system of \$4,118, additional operating costs associated with acquisitions of \$2,475, and normal increases in other operating expenses, offset partially by lower water production costs of \$1,103 due to a decrease in consumption, the gain on sale of a utility system in the second quarter of 2009 of \$1,009, and reduced expenses of \$963 associated with the dispositions of our utility systems sold. In the consolidated statements of income for 2009 and 2008, the gain on sale of utility systems is reported as a component of operations and maintenance expense.

Depreciation and Amortization Expenses — Depreciation expense was \$108,061 in 2010, \$103,001 in 2009, and \$88,785 in 2008, and has increased principally as a result of the significant capital expenditures made to expand and improve our utility facilities, our acquisitions of new utility systems, and additional expense recognized in 2009 of \$2,037 resulting from a rate case adjustment related to our rate filing in North Carolina.

Amortization expense was \$13,006 in 2010, \$11,938 in 2009, and \$5,515 in 2008, and has increased primarily due to the amortization recognized in 2010 of \$6,739 and in 2009 of \$6,555 resulting from the recovery through a surcharge of our costs associated with our rate filing in Texas and the amortization of the costs associated with, and other costs being recovered in, various rate filings. Expenses associated with filing rate cases are deferred and amortized over periods that generally range from one to three years.

Taxes Other than Income Taxes — Taxes other than income taxes was \$52,967 in 2010, \$48,081 in 2009, and \$44,749 in 2008. The increase in 2010 is primarily due to an increase in property taxes of \$3,362 attributed to a rate award received in February 2010 for one of our states in which the recovery of the property taxes began with the conclusion of the rate proceeding, and previously these taxes had been deferred pending the inclusion in future rates, an increase in gross receipts, excise and franchise taxes of \$1,222 attributed to an increase in 2010 revenue, and an increase in capital stock taxes for our operating subsidiary in Pennsylvania of \$469. The increase in 2009 is primarily due to an increase in gross receipts, excise and franchise taxes of \$1,299, an increase in other of \$1,258 associated with an increase in the local assessment of water pumping fees in Texas, an increase in payroll taxes of \$520 associated with a decrease in our capitalized labor rate in our operating subsidiary in Pennsylvania, and an increase in property taxes of \$318 associated with properties acquired through acquisition.

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Interest Expense, net — Net interest expense was \$75,652 in 2010, \$68,607 in 2009, and \$68,572 in 2008. Interest income of \$1,290 in 2010, \$1,149 in 2009, and \$2,310 in 2008 was netted against interest expense. Interest expense increased in 2010 primarily due to additional borrowings to finance capital projects and acquisitions. The increase in 2010 was offset partially by the effects of decreased interest rates on long-term debt. Interest income increased slightly in 2010 as a result of higher balances on the proceeds from the issuance of tax-exempt bonds while being held by trustees pending completion of projects financed with the issuances. Interest income decreased in 2009 due to lower investment income earned on the proceeds from the issuance of tax-exempt bonds while being held by trustees pending completion of projects financed with the issuances and from lower income earned on overnight cash sweeps. The interest income earned on the proceeds from the issuance of tax-exempt bonds is capitalized through our allowance for funds used during construction, a reduction to net interest expense. Interest expense on long-term debt during 2010 and 2009 was favorably impacted by a reduction in the weighted average cost of long-term debt from 5.35% at December 31, 2008 to 5.25% at December 31, 2009 and to 5.14% at December 31, 2010.

Allowance for Funds Used During Construction — The allowance for funds used during construction (AFUDC) was \$5,062 in 2010, \$2,871 in 2009, and \$3,674 in 2008 and has varied over the years as a result of changes in the average balance of utility plant construction work in progress (CWIP), to which AFUDC is applied, changes in the AFUDC rate which is based predominantly on short-term interest rates, and changes in the average balance of the proceeds held from tax-exempt bond issuances that are restricted to funding certain capital projects. The increase in 2010 is due to an increase in the average balance of proceeds held from tax-exempt bond issuances that are restricted to funding certain capital projects. The decrease in 2009 is due to a decrease in short-term interest rates, as well as a decrease in the average balance of utility plant construction work in progress.

Gain on Sale of Other Assets — Gain on sale of other assets totaled \$2,583 in 2010, \$472 in 2009, and \$1,599 in 2008 and consisted of gains on properties and marketable securities sales. Gain on sale of properties totaled \$476 in 2010, \$472 in 2009, and \$1,278 in 2008. Gain on sale of marketable securities totaled \$2,107 in 2010, \$0 in 2009, and \$321 in 2008. The gain realized on the following sales of utility systems was reported in the consolidated statement of income as a component of the line titled operations and maintenance expense: June 2009 gain on sale of \$1,009, and an August 2008 gain on sale of \$4,118.

Income Taxes — Our effective income tax rate was 39.2% in 2010, 39.4% in 2009, and 39.7% in 2008. The decrease in the effective tax rate for 2010 was primarily due to an increase in the tax deduction claimed for depreciable assets for one of our operating subsidiaries. The decrease in the effective tax rate for 2009 was due to an increase in the tax deduction for qualified domestic production activities, which was offset by a decrease in the tax deductible portion of our stock-based compensation expense.

Summary — Operating income was \$272,076 in 2010, \$237,459 in 2009, and \$225,801 in 2008 and net income attributable to common shareholders was \$123,975 in 2010, \$104,353 in 2009, and \$97,918 in 2008. Diluted income per share was \$0.90 in 2010, \$0.77 in 2009, and \$0.73 in 2008. The changes in the per share income in 2010 and 2009 over the previous years were due to the aforementioned changes in income and impacted by a 0.9% increase in the average number of common shares outstanding during 2010 and a 1.1% increase in the average number of common shares outstanding during 2009. The increase in the number of shares outstanding in 2010 is primarily a result of the additional shares sold or issued through our dividend reinvestment plan, equity compensation plan, employee stock purchase plan, and the full year impact in 2010 of the additional shares issued in August 2009 in connection with an acquisition. The increase in the number of shares outstanding in 2009 is primarily a result of the full year impact in 2009 of the 1,000,000 shares issued in June 2008 related to the final settlement of the forward equity sale agreement, the additional shares sold or issued through our dividend reinvestment plan, equity compensation plan, and the additional shares issued in August 2009 in connection with an acquisition.

Although we have experienced increased income in the recent past, continued adequate rate increases reflecting increased operating costs and new capital investments are important to the future realization of improved profitability.

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

	Three Months Ended December 31,	
	2010	2009
Operating revenues	\$ 179,314	\$ 167,893
Operations and maintenance	70,083	66,034
Depreciation and amortization	30,519	29,296
Taxes other than income taxes	12,982	12,189
	<u>113,584</u>	<u>107,519</u>
Operating income	65,730	60,374
Interest expense, net	19,568	17,914
Allowance for funds used during construction	(983)	(931)
Gain on sale of other assets	(253)	(97)
Income before income taxes	47,398	43,488
Provision for income taxes	18,540	16,829
Net income	<u>\$ 28,858</u>	<u>\$ 26,659</u>

The increase in operating revenues was a result of additional revenues of \$12,721 from an increase in water and wastewater rates implemented in various operating subsidiaries, an increase in water consumption, and additional wastewater and water revenues of \$496 associated with a larger customer base due to acquisitions, offset by a decrease in infrastructure rehabilitation surcharge revenue of \$4,679. The higher operations and maintenance expense is due primarily to \$752 of additional operating costs associated with acquisitions, an increase in postretirement benefit costs of \$656, an increase in water production costs of \$639, and normal increases in other operating expenses. The increased depreciation expense reflects the utility plant placed in service since the fourth quarter of 2009. The increase in other taxes is primarily due to increases in property taxes of \$836 attributed to a rate award received in February 2010 for one of our states in which the recovery of the property taxes began with the conclusion of the rate proceeding, and previously these taxes had been deferred pending the inclusion in future rates, offset by a decrease in capital stock tax for our operating subsidiary in Pennsylvania of \$286. The increased interest expense is due to additional borrowings to finance capital projects. The increase in gain on sale of other assets is due to increased gains on the sales of land and other assets of \$156. The increase in customer water consumption is largely due to the effects of the unfavorable weather conditions experienced in many of our service territories during the fourth quarter of 2009 that resulted in an increase in water usage for the fourth quarter of 2010.

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FINANCIAL CONDITION

Consolidated Cash Flow and Capital Expenditures

Net operating cash flow, dividends paid on common stock, capital expenditures, including allowances for funds used during construction, and expenditures for acquiring water and wastewater systems for the five years ended December 31, 2010 was as follows:

	Net Operating Cash Flow	Common Dividends	Capital Expenditures	Acquisitions
2006	\$ 170,726	\$ 58,023	\$ 271,706	\$ 11,848
2007	194,168	63,763	238,140	51,226
2008	221,506	68,504	267,418	14,659
2009	258,590	74,729	283,584	3,373
2010	263,842	80,907	326,626	8,625
	<u>\$ 1,108,832</u>	<u>\$ 345,926</u>	<u>\$ 1,387,474</u>	<u>\$ 89,731</u>

Included in capital expenditures for the five-year period are: expenditures for the modernization and replacement of existing treatment plants, new water mains and customer service lines, rehabilitation of existing water mains and hydrants, water meters and an expansion of our corporate office building. During this five-year period, we received \$40,814 of customer advances and contributions in aid of construction to finance new water mains and related facilities which are not included in the capital expenditures presented in the above table. In addition, during this period, we have made sinking fund contributions and repaid debt in the amount of \$230,414, and have refunded \$26,754 of customer advances for construction. Common dividends increased during the past five years as a result of an annual increase in the common dividends declared and paid and an increase in the number of shares outstanding during the period.

Our planned 2011 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to be \$328,500 of which \$144,540 is for infrastructure rehabilitation surcharge-qualified projects. Our planned capital program includes spending for infrastructure rehabilitation that qualifies for infrastructure rehabilitation surcharge mechanisms, and should these mechanisms be discontinued for any reason, which is not anticipated, we would re-evaluate the magnitude of our capital program. Our 2011 capital program, along with \$28,413 of sinking fund obligations and debt maturities, and \$144,784 of other contractual cash obligations, as reported in the section captioned "Contractual Obligations", has been or is expected to be financed through internally-generated funds, our revolving credit facilities, the issuance of equity, and the issuance of long-term debt.

Future utility construction in the period 2012 through 2015, including recurring programs, such as the ongoing replacement or rehabilitation of water meters, water mains, water treatment plant upgrades, storage facility renovations, and additional transmission mains to meet customer demands, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to require aggregate expenditures of approximately \$1,217,000. We anticipate that less than one-half of these expenditures will require external financing with debt and the additional issuance of common stock through our dividend reinvestment and stock purchase plans. We expect to refinance \$287,938 of sinking fund obligations and debt maturities during this period as they become due with new issues of long-term debt. The estimates discussed above do not include any amounts for possible future acquisitions of water systems or the financing necessary to support them.

Our primary sources of liquidity are cash flows from operations (including the allowed deferral of federal income tax payments), borrowings under various short-term lines of credit and other credit facilities, and customer advances and contributions in aid of construction. Our cash flow from operations, or internally-generated funds, is impacted by the timing of rate relief, water consumption, and changes in federal tax laws with respect to accelerated tax depreciation or deductions for utility construction projects. We fund our capital and acquisition programs through internally-generated funds, supplemented by short-term borrowings. Over time, we partially repay or pay-down our short-term borrowings with long-term debt and proceeds from the issuance of common stock. The ability to finance our future construction programs, as well as our acquisition activities, depends on our ability to attract the necessary external financing and maintain internally-generated funds. Rate orders permitting compensatory rates of return on invested capital and timely rate adjustments will be required by our operating subsidiaries to achieve an adequate level of earnings and cash flow to enable them to secure the capital they will need to operate and to maintain satisfactory debt coverage ratios.

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The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the "Tax Relief Act") was enacted on December 17, 2010 and provides for an extension of 50 percent bonus depreciation for qualifying capital additions through 2012 and a 100 percent expensing allowance for qualifying capital additions placed in service after September 8, 2010 through 2011. Prior to the passage of the Tax Relief Act, 50 percent bonus depreciation had been enacted in September 2010 for the tax year 2010. A substantial portion of our capital expenditures qualifies for either bonus depreciation or the 100 percent expensing allowance depending on the timing of the underlying capital projects. As a result of the Tax Relief Act, the Company expects the following impacts:

- Federal income tax payments may be significantly reduced or eliminated for tax years 2011 and 2012. As a result of the income tax deferral, our net operating cash flows are expected to be favorably impacted in 2011 and 2012. Our Federal income tax payments for 2010 were paid prior to the enactment of bonus depreciation and the Tax Relief Act. As a result, the 2010 taxes paid to date are expected to be refunded to us upon the filing of our 2010 tax return in 2011.
- A larger portion of our capital needs may be funded from internally-generated funds, which may reduce the need to issue additional debt or equity to fund utility capital expenditures.
- An increase in deferred taxes due to the difference between tax and book expenses, including depreciation.
- In general, our water base rate increases seek to recover, and to earn a return on, capital investments that we make for improving or replacing our utility plant and infrastructure. During periods when bonus depreciation or 100% expensing is permitted, the increased or new deferred taxes could cause the rate of growth in our rate base, on which we earn a return in rate proceedings, to be lower than previously anticipated. As a result, the amount of rate increases may be decreased in the future.
- We may generate federal net operating loss carry forwards of a significant amount and we believe it is more likely than not that they will be fully realized in future years.

Acquisitions

During the past five years, we have expended cash of \$89,731 and issued 289,775 shares of common stock, valued at \$4,909 at the time of the acquisition, related to the acquisition of utility systems, both water and wastewater utilities, and non-regulated businesses that provide wastewater and septage services. We included the operating results of these acquisitions in our consolidated financial statements beginning on the respective acquisition dates. During 2010, we completed 23 acquisitions of water and wastewater systems in six of the states in which we operate. The 2010 acquisitions were completed for \$8,625 in cash. During 2009, we completed 18 acquisitions of water and wastewater systems in five of the states in which we operate, including expanding our operations into one new state. The 2009 acquisitions were completed for \$3,373 in cash and the issuance of 164,052 shares of common stock valued at \$2,909 at the time of the acquisition. During 2008, we completed 9 acquisitions of water and wastewater systems in four of the states in which we operate. The 2008 acquisitions were completed for \$14,659 in cash and the issuance of 125,723 shares of common stock valued at \$2,000 at the time of the acquisition.

On January 1, 2007 we completed the acquisition of the capital stock of New York Water Service Corporation for \$26,664 in cash, as adjusted pursuant to the purchase agreement primarily based on working capital at closing, and the assumption of \$23,000 of long-term debt. The operating results of New York Water Service Corporation have been included in our consolidated financial statements beginning January 1, 2007. The acquired operation provides water service to 44,792 customers in several water systems located in Nassau County, Long Island, New York. The acquisition was accounted for as a purchase and was funded through the issuance of long-term debt that was issued in December 2006. In addition to New York Water Service, during 2007, we completed 26 acquisitions for \$24,562 in cash. The acquisitions completed in 2007 included both water and wastewater systems in ten of the states in which we operate.

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During 2006, we completed 27 acquisitions for \$11,848 in cash. The acquisitions completed in 2006 included both water and wastewater systems in seven of the states in which we operate, and the acquisition of several non-regulated companies that provide on-site septic tank pumping, sludge hauling services and other wastewater services to customers in eastern Pennsylvania, New Jersey, Delaware, New York and Maryland.

We continue to hold acquisition discussions with several water and wastewater systems. Generally acquisitions are expected to be financed through the issuance of equity (for the acquisition of some investor-owned systems) or funded initially with short-term debt with subsequent repayment from the proceeds of long-term debt or proceeds from equity offerings.

Dispositions

We routinely review and evaluate areas of our business and operating divisions and over time may sell certain utility systems or portions of systems. In December 2010, we sold a wastewater utility system for net proceeds of \$120. The utility system represented less than 0.01% of Aqua America's total assets.

In June 2009, we sold a water and wastewater utility system for net proceeds of \$1,601, which was in excess of the book value for these assets. The proceeds were used to pay-down short-term debt and the sale resulted in the recognition in 2009 of a gain on the sale of these assets, net of expenses of \$1,009. The gain is reported in the 2009 consolidated statement of income as a reduction to operations and maintenance expense. These utility systems represented approximately 0.02% of Aqua America's total assets.

In August 2008, we sold a water and wastewater utility system for net proceeds of \$10,500, which consisted of \$1,900 in cash and the issuance of a 25-year note receivable of \$8,600 that bears interest at 7.25% and provides for semi-annual principal and interest payments. The sale resulted in the recognition of a gain on the sale of these assets, net of expenses, of \$4,118. The gain is reported in the consolidated statement of income as a reduction to operations and maintenance expense. These utility systems represented approximately 0.20% of Aqua America's total assets.

In December 2007, we sold a water utility system for net proceeds of \$1,498, which was in excess of the book value for these assets. The proceeds were used to pay-down short-term debt and the sale resulted in the recognition in 2007 of a gain on the sale of these assets, net of expenses, of \$1,095. The gain is reported in the 2007 consolidated statement of income as a reduction to operations and maintenance expense. This utility system represented approximately 0.01% of Aqua America's total assets.

The City of Fort Wayne, Indiana (the "City") has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the operating subsidiaries that we acquired in connection with the AquaSource acquisition in 2003. We challenged whether the City was following the correct legal procedures in connection with the City's attempted condemnation, but the Indiana Supreme Court, in an opinion issued in June 2007, supported the City's position. In October 2007, the City's Board of Public Works approved proceeding with its process to condemn the northern portion of our utility system at a preliminary price based on the City's valuation. We filed an appeal with the Allen County Circuit Court challenging the Board of Public Works' valuation on several bases. In November 2007, the City Council authorized the taking of the northern portion of our system and the payment of \$16,911 based on the City's valuation of this portion of the system. In January 2008, we reached a settlement with the City to transition the northern portion of the system in February 2008 upon receipt of the City's initial valuation payment of \$16,911. The settlement agreement specifically stated that the final valuation of the northern portion of our system will be determined through a continuation of the legal proceedings that were filed challenging the City's valuation. On February 12, 2008, we turned over the northern portion of our system to the City upon receipt of the initial valuation payment. The Indiana Utility Regulatory Commission also reviewed and acknowledged the transfer of the Certificate of Territorial Authority for the northern portion of the system to the City. The proceeds received are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. The net book value of the assets relinquished has been removed from the consolidated balance sheet and the difference between the net book value and the initial payment received has been deferred and is recorded in other accrued liabilities on our consolidated balance sheet. Once the contingency is resolved and the asset valuation is finalized, through the finalization of the litigation between the Company and the City of Fort Wayne, the amounts deferred will be recognized in our consolidated income statement. On March 16, 2009 oral argument was held on certain procedural aspects with respect to the valuation evidence that may be presented and whether we are entitled to a jury trial. On October 12, 2010, the Wells County Indiana Circuit Court ruled that we are not entitled to a jury trial, and that the Wells County judge should review the City of Fort Wayne Board of Public Works' assessment based upon a "capricious, arbitrary or an abuse of discretion" standard. We disagree with the Court's decision and as such, requested that the Wells County Indiana Circuit Court certify those issues for an interim appeal. The Wells County Indiana Circuit Court has granted that request and we will now file a request with the Indiana Court of Appeals to review the decision of those issues on appeal. We continue to evaluate our legal options with respect to this decision. Depending upon the ultimate outcome of the legal proceeding in the Allen County Circuit Court we may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The northern portion of the utility system relinquished represents approximately 0.50% of our total assets.

AQUA AMERICA, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
(In thousands of dollars, except per share amounts)

The Company is routinely involved in other legal matters, including both asserted and unasserted legal claims, during the ordinary course of business. See Note 9 — Commitments and Contingencies for a discussion of the Company's legal matters. It is not always possible for management to make a meaningful estimate of the potential loss or range of loss associated with such litigation. Also, unanticipated changes in circumstances and/or revisions to the assessed probability of the outcomes of legal matters could result in expenses being incurred in future periods as well as an increase in actual cash required to resolve the legal matter.

Despite these transactions, our primary strategy continues to be to acquire additional water and wastewater systems, to maintain our existing systems where there is a business or a strategic benefit, and to actively oppose unilateral efforts by municipal governments to acquire any of our operations.

Sources of Capital

Since net operating cash flow plus advances and contributions in aid of construction have not been sufficient to fully fund cash requirements, we issued approximately \$860,476 of long-term debt and obtained other short-term borrowings during the past five years. At December 31, 2010, we have a \$95,000 long-term revolving credit facility that expires in May 2012, of which \$17,601 was designated for letter of credit usage, \$12,399 was available for borrowing and \$65,000 of borrowings was outstanding at December 31, 2010. In addition, we had short-term lines of credit of \$167,000, of which \$77,332 was available. One of our credit facilities of \$100,000 has a 364 day term and the balance of our short-term lines of credit are payable on demand. These short-term lines of credit are subject to renewal on an annual basis. Although we believe we will be able to renew these facilities, there is no assurance that they will be renewed, or what the terms of any such renewal will be. The United States credit and liquidity crisis that occurred in 2008 and 2009 caused substantial volatility in capital markets, including credit markets and the banking industry, generally reduced the availability of credit from financing sources, and could reoccur in the future. If in the future, our credit facilities are not renewed or our short-term borrowings are called for repayment, we would have to seek alternative financing sources; however, there can be no assurance that these alternative financing sources would be available on terms acceptable to us. In the event we are not able to obtain sufficient capital, we may need to reduce our capital expenditures and our ability to pursue acquisitions that we may rely on for future growth could be impaired.

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

We are obligated to comply with covenants under some of our loan and debt agreements. These covenants contain a number of restrictive financial covenants, which among other things limit, subject to certain exceptions, the Company's ratio of consolidated total indebtedness to consolidated total capitalization, and require a minimum level of earnings coverage over interest expense. During 2010, we were in compliance with our debt covenants under our credit facilities. Failure to comply with our debt covenants could result in an event of default, which could result in us being required to repay or finance our borrowings before their due date, possibly limiting our future borrowings, and increasing our borrowing costs.

We maintain a universal shelf registration on file with the SEC to allow for the potential future sale by us, from time to time, in one or more public offerings, of an indeterminate amount of our common stock, preferred stock, debt securities, and other securities specified therein at indeterminate prices.

AQUA AMERICA, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
(In thousands of dollars, except per share amounts)

In August 2006, we entered into a forward equity sale agreement for 3,525,000 shares of common stock with a third party ("forward purchaser") and as of the completion of the following transactions in June 2008, no shares remain under contract. In connection with the forward equity sale agreement, the forward purchaser borrowed an equal number of shares of our common stock from stock lenders and sold the borrowed shares to the public. We did not receive any proceeds from the sale of our common stock by the forward purchaser until settlement of the shares underlying the forward equity sale agreement. In March and June 2008, we elected to perform a net cash settlement under the forward equity sale agreement of an aggregate 2,525,000 shares of the Company's common stock, which resulted in payments of \$11,011 by the forward purchaser to the Company. No shares were issued in connection with the net cash settlement and the payments received were recorded as an increase to common stockholders' equity. Also in June 2008, we settled the remaining 1,000,000 shares under the forward equity sale agreement by physical settlement. As a result, we issued 1,000,000 shares of common stock and received proceeds from the forward purchaser of \$22,318. The forward equity sale agreement has now been completely settled and there are no additional shares subject to the forward equity sale agreement. The proceeds received by us upon settlement of the forward equity sale agreement were used to fund our future capital expenditure program and acquisitions, and for working capital and other general corporate purposes.

In addition, we have a shelf registration statement filed with the SEC to permit the offering from time to time of shares of common stock and shares of preferred stock in connection with acquisitions. During 2010, we did not issue any shares under the acquisition shelf registration. During 2009, we issued 164,052 shares of common stock totaling \$2,909 to acquire a water system. During 2008, we issued 125,723 shares of common stock totaling \$2,000 to acquire a wastewater system. The balance remaining available for use under the acquisition shelf registration as of December 31, 2010 is 1,904,487 shares. We will determine the form and terms of any securities issued under these shelf registrations at the time of issuance.

We offer a Dividend Reinvestment and Direct Stock Purchase Plan (Plan) that provides a convenient and economical way to purchase shares of Aqua America, Inc. Under the direct stock purchase portion of the Plan, shares are sold throughout the year. The dividend reinvestment portion of the Plan offers a 5% discount on the purchase of shares of common stock with reinvested dividends. As of the December 2010 dividend payment, holders of 14.6% of the common shares outstanding participated in the dividend reinvestment portion of the Plan. The shares issued under the Plan are either original issue shares or shares purchased by the Company's transfer agent in the open-market. During the past five years, we have sold 2,811,038 original issue shares of common stock for net proceeds of \$52,888 through the dividend reinvestment portion of the Plan and we used the proceeds to invest in our operating subsidiaries, to repay short-term debt, and for general corporate purposes.

The Board of Directors has authorized us to purchase our common stock, from time to time, in the open market or through privately negotiated transactions. We have not purchased any shares under this authorization since 2000. As of December 31, 2010, 548,278 shares remain available for repurchase. Funding for future stock purchases, if any, is not expected to have a material impact on our financial position.

Off-Balance Sheet Financing Arrangements

We do not engage in any off-balance sheet financing arrangements. We do not have any interest in entities referred to as variable interest entities, which includes special purpose entities and other structured finance entities.

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)

Contractual Obligations

The following table summarizes our contractual cash obligations as of December 31, 2010:

	Total	Payments Due By Period			
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt (a)	\$ 1,560,389	\$ 28,413	\$ 139,031	\$ 148,907	\$ 1,244,038
Interest on fixed-rate, long-term debt (b)	1,333,317	79,825	152,123	141,130	960,239
Operating leases (c)	27,898	3,544	4,886	2,575	16,893
Unconditional purchase obligations (d)	103,349	15,159	20,765	19,598	47,827
Other purchase obligations (e)	26,098	26,098	—	—	—
Pension and other postretirement benefit plans' obligations (f)	24,283	19,228	3,445	1,610	—
Other obligations (g)	22,183	930	1,756	5,335	14,162
Total	<u>\$ 3,097,517</u>	<u>\$ 173,197</u>	<u>\$ 322,006</u>	<u>\$ 319,155</u>	<u>\$ 2,283,159</u>

- (a) Represents sinking fund obligations and debt maturities.
- (b) Represents interest payable on fixed rate, long-term debt. Amounts reported may differ from actual due to future refinancing of debt.
- (c) Represents operating leases that are noncancelable, before expiration, for the lease of motor vehicles, buildings, land and other equipment.
- (d) Represents our commitment to purchase minimum quantities of water as stipulated in agreements with other water purveyors. We use purchased water to supplement our water supply, particularly during periods of peak customer demand. Our actual purchases may exceed the minimum required levels.
- (e) Represents an approximation of the open purchase orders for goods and services purchased in the ordinary course of business.
- (f) Represents contributions contractually obligated to be made to pension and other postretirement benefit plans.
- (g) Represents expenditures estimated to be required under legal and binding contractual obligations.

In addition to these obligations, we pay refunds on Customers' Advances for Construction over a specific period of time based on operating revenues related to developer-installed water mains or as new customers are connected to and take service from such mains. After all refunds are paid, any remaining balance is transferred to Contributions in Aid of Construction. The refund amounts are not included in the above table because the refund amounts and timing are dependent upon several variables, including new customer connections, customer consumption levels and future rate increases, which cannot be accurately estimated. Portions of these refund amounts are payable annually through 2025 and amounts not paid by the contract expiration dates become non-refundable.

We will fund these contractual obligations with cash flows from operations and liquidity sources held by or available to us.

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)

Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed rate, long-term debt. Such exposure is typically related to financings between utility rate increases, because generally our rate increases provide a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2010, the debt maturities by period and the weighted average interest rate for long-term debt are as follows:

	2011	2012	2013	2014	2015	Thereafter	Total	Fair Value
Long-term debt:								
Fixed rate	\$28,413	\$ 39,638	\$34,393	\$85,692	\$63,215	\$1,244,038	\$1,495,389	\$1,418,173
Variable rate	—	65,000	—	—	—	—	65,000	65,000
Total	<u>\$28,413</u>	<u>\$104,638</u>	<u>\$34,393</u>	<u>\$85,692</u>	<u>\$63,215</u>	<u>\$1,244,038</u>	<u>\$1,560,389</u>	<u>\$1,483,173</u>
Weighted average interest rate*	6.09%	2.37%	5.36%	5.21%	5.28%	5.31%	5.14%	

* Weighted average interest rate of 2012 long-term debt maturity is as follows: fixed rate debt of 5.51% and variable rate debt of 0.46%.

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for the "available for sale" marketable equity securities. As of December 31, 2010, our carrying value of certain investments was \$6,209, which reflects the market value of such investments and is in excess of our original cost.

Capitalization

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

December 31,	2010	2009	2008	2007	2006
Long-term debt*	57.0%	56.6%	54.3%	55.9%	51.6%
Aqua America stockholders' equity	43.0%	43.4%	45.7%	44.1%	48.4%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

* Includes current portion, as well as our borrowings under a variable rate revolving credit agreement of \$65,000 at December 31, 2010 and \$64,149 at December 31, 2009.

Over the past five years, the changes in the capitalization ratios primarily resulted from the issuance of common stock, and the issuance of debt to finance our acquisitions and capital program. In 2007, the conversion of a short-term line of credit into a \$95,000 long-term revolving credit facility caused a shift in the capitalization ratio. It is our goal to maintain an equity ratio adequate to support the current Standard and Poors corporate credit rating of "A+" and the senior secured debt rating of "AA-" for Aqua Pennsylvania, our largest operating subsidiary.

Dividends on Common Stock

We have paid common dividends consecutively for 66 years. Effective August 3, 2010, our Board of Directors authorized an increase of 6.9% in the December 1, 2010 quarterly dividend over the dividend we paid in the previous quarter. As a result of this authorization, beginning with the dividend payment in December 2010, the annualized dividend rate increased to \$0.62 per share from \$0.58 per share. This is the 20th dividend increase in the past 19 years and the twelfth consecutive year that we have increased our dividend in excess of five percent. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1 and December 1, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, our common dividends paid have averaged 67.4% of net income attributable to common shareholders.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial condition and results of operations are impacted by the methods, assumptions, and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to our financial condition or results of operations, and require estimates or other judgments of matters of uncertainty. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the financial statements. We believe our most critical accounting policies include revenue recognition, the use of regulatory assets and liabilities, the valuation of our long-lived assets which consist primarily of utility plant in service, regulatory assets, and goodwill, our accounting for postretirement benefits, and our accounting for income taxes. We have discussed the selection and development of our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

Revenue Recognition - Our utility revenues recognized in an accounting period include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the last billing to the end of the accounting period. The estimated usage is based on our judgment and assumptions; our actual results could differ from these estimates which would result in operating revenues being adjusted in the period that the revision to our estimates is determined.

In some operating divisions, we commence the billing of our utility customers, under new rates, upon authorization from the respective regulatory commission and before the final commission rate order is issued. The revenue recognized reflects an estimate based on our judgment of the final outcome of the commission's ruling. We monitor the applicable facts and circumstances regularly, and revise the estimate as required. The revenue billed and collected prior to the final ruling is subject to refund based on the commission's final ruling.

Regulatory Assets and Liabilities - We defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in our rates charged for water and wastewater service. In the event that our assessment as to the probability of the inclusion in the rate-making process is incorrect, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

Valuation of Long-Lived Assets, Goodwill and Intangible Assets - We review our long-lived assets for impairment, including utility plant in service. We also review regulatory assets for the continued application of the FASB's accounting guidance for regulated operations. Our review determines whether there have been changes in circumstances or events that have occurred that require adjustments to the carrying value of these assets. Adjustments to the carrying value of these assets would be made in instances where their inclusion in the rate-making process is unlikely.

We test the goodwill attributable to each of our reporting units for impairment at least annually on July 31, or more often, if certain circumstances indicate a possible impairment may exist. We evaluate goodwill for impairment using the discounted cash flow methodologies, transaction values for other comparable companies, and other valuation techniques for all of our reporting units with goodwill balances. The evaluation requires significant management judgment and estimates that are based on budgets, general strategic business plans, historical trends and other data and relevant factors. If changes in circumstances or events occur, or estimates and assumptions which were used in our impairment test change, we may be required to record an impairment charge for goodwill. Based on our comparison of the estimated fair value of each reporting unit to their respective carrying amounts, the impairment test performed in 2010 concluded that the estimated fair value of each reporting unit was substantially in excess of the reporting unit's respective carrying amounts, indicating that none of our goodwill was impaired.

Accounting for Postretirement Benefits - We maintain qualified defined benefit pension plans and plans that provide for certain postretirement benefits other than pensions. Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by our employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from our actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that we recognize.

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)

Our discount rate assumption was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to provide for the projected benefit payments of the plan. The selected bond portfolio was derived from a universe of Aa-graded corporate bonds, all of which were noncallable (or callable with make-whole provisions), and have at least \$50 million in outstanding value. The discount rate was then developed as the single rate that equates the market value of the bonds purchased to the discounted value of the plan's benefit payments. Our pension expense and liability (benefit obligations) increases as the discount rate is reduced. A 25 basis-point reduction in this assumption would have increased 2010 pension expense by \$730 and the pension liabilities by \$7,625. The present values of Aqua America's future pension and other postretirement obligations were determined using discount rates of 5.75% at December 31, 2010, and 5.91% at December 31, 2009. Our expense under these plans is determined using the discount rate as of the beginning of the year, which was 5.91% for 2010, and will be 5.75% for 2011.

Our expected return on assets is determined by evaluating the asset class return expectations with our advisors as well as actual, long-term, historical results of our asset returns. The Company's market related value of plan assets is equal to the fair value of the plan assets as of the last day of its fiscal year, and is a determinant for the expected return on assets which is a component of net pension expense. Our pension expense increases as the expected return on assets decreases. A 25 basis-point reduction in this assumption would have increased 2010 pension expense by \$350. For 2010, we used an 8.0% expected return on assets assumption and will lower this assumption to 7.75% for the calculation of pension expense for 2011. This change was made to reflect our expectation of long-term market returns given our view of capital market conditions, as well as the lower interest rate environment that is currently being experienced. The expected return on assets is based on a targeted allocation of 50% to 75% equities and 25% to 50% fixed income. We believe that our actual long-term asset allocation on average will approximate the targeted allocation. Our targeted allocation is driven by the investment strategy to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories.

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and our funding policy, during 2011 our pension contribution is expected to approximate \$17,216. Future years' contributions will be subject to economic conditions, plan participant data and the funding rules in effect at such time as the funding calculations are performed, though we expect future changes in the amount of contributions and expense recognized to be generally included in customer rates. During 2011, our funding of other postretirement benefit plans are expected to approximate \$2,012.

Accounting for Income taxes - We estimate the amount of income tax payable or refundable for the current year and the deferred income tax liabilities and assets that results from estimating temporary differences resulting from the treatment of certain items, such as depreciation, for tax and financial statement reporting. These differences result in the recognition of a deferred tax asset or liability on our consolidated balance sheet and require us to make judgments regarding the probability of the ultimate tax impact of the various transactions we enter into. Based on these judgments we may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realization of future tax benefits. Actual income taxes could vary from these estimates and changes in these estimates can increase income tax expense in the period that these changes in estimates occur.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

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

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Report On Internal Control Over Financial Reporting

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

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

In assessing the effectiveness of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. As a result of management's assessment and based on the criteria in the framework, management has concluded that, as of December 31, 2010, the Company's internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2010 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ Nicholas DeBenedictis

/s/ David P. Smeltzer

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer

David P. Smeltzer
Chief Financial Officer

February 25, 2011

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Aqua America, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of capitalization, of equity and of cash flows present fairly, in all material respects, the financial position of Aqua America, Inc. and its subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we consider necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 25, 2011

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands of dollars, except per share amounts)
Years ended December 31, 2010, 2009, and 2008

	2010	2009	2008
Operating revenues	\$ 726,072	\$ 670,539	\$ 626,972
Operating costs and expenses:			
Operations and maintenance	279,962	270,060	262,122
Depreciation	108,061	103,001	88,785
Amortization	13,006	11,938	5,515
Taxes other than income taxes	52,967	48,081	44,749
	<u>453,996</u>	<u>433,080</u>	<u>401,171</u>
Operating income	272,076	237,459	225,801
Other expense (income):			
Interest expense, net	75,652	68,607	68,572
Allowance for funds used during construction	(5,062)	(2,871)	(3,674)
Gain on sale of other assets	(2,583)	(472)	(1,599)
Income before income taxes	204,069	172,195	162,502
Provision for income taxes	80,094	67,842	64,584
Net income attributable to common shareholders	<u>\$ 123,975</u>	<u>\$ 104,353</u>	<u>\$ 97,918</u>
Net income attributable to common shareholders	\$ 123,975	\$ 104,353	\$ 97,918
Other comprehensive income, net of tax:			
Unrealized holding gains on investments	1,588	289	195
Reclassification adjustment for (gains) losses reported in net income	(1,369)	5	(209)
	<u>219</u>	<u>294</u>	<u>(14)</u>
Comprehensive income	<u>\$ 124,194</u>	<u>\$ 104,647</u>	<u>\$ 97,904</u>
Net income per common share:			
Basic	<u>\$ 0.91</u>	<u>\$ 0.77</u>	<u>\$ 0.73</u>
Diluted	<u>\$ 0.90</u>	<u>\$ 0.77</u>	<u>\$ 0.73</u>
Average common shares outstanding during the period:			
Basic	<u>136,948</u>	<u>135,816</u>	<u>134,302</u>
Diluted	<u>137,296</u>	<u>136,129</u>	<u>134,705</u>
Cash dividends declared per common share	<u>\$ 0.59</u>	<u>\$ 0.55</u>	<u>\$ 0.51</u>

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)
December 31, 2010 and 2009

	2010	2009
Assets		
Property, plant and equipment, at cost	\$ 4,489,653	\$ 4,141,690
Less: accumulated depreciation	<u>1,020,395</u>	<u>927,131</u>
Net property, plant and equipment	<u>3,469,258</u>	<u>3,214,559</u>
Current assets:		
Cash and cash equivalents	5,934	21,869
Accounts receivable and unbilled revenues, net	85,881	78,742
Income tax receivable	33,600	0
Inventory, materials and supplies	9,158	9,519
Prepayments and other current assets	<u>10,846</u>	<u>11,441</u>
Total current assets	<u>145,419</u>	<u>121,571</u>
Regulatory assets	217,376	226,351
Deferred charges and other assets, net	65,093	59,468
Funds restricted for construction activity	135,086	84,830
Goodwill	<u>40,234</u>	<u>43,083</u>
	<u>\$ 4,072,466</u>	<u>\$ 3,749,862</u>
Liabilities and Equity		
Aqua America stockholders' equity:		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 138,449,039 and 137,148,749 in 2010 and 2009	\$ 69,223	\$ 68,574
Capital in excess of par value	664,369	642,786
Retained earnings	452,470	409,402
Treasury stock, at cost, 673,472 and 662,410 shares in 2010 and 2009	(12,307)	(12,138)
Accumulated other comprehensive income	<u>499</u>	<u>280</u>
Total Aqua America stockholders' equity	1,174,254	1,108,904
Noncontrolling interest	<u>572</u>	<u>560</u>
Total Equity	<u>1,174,826</u>	<u>1,109,464</u>
Long-term debt, excluding current portion	1,531,976	1,386,557
Commitments and contingencies (See Note 9)	—	—
Current liabilities:		
Current portion of long-term debt	28,413	59,577
Loans payable	89,668	27,487
Accounts payable	45,382	57,862
Accrued interest	15,891	16,265
Accrued taxes	16,401	18,813
Other accrued liabilities	<u>27,960</u>	<u>21,003</u>
Total current liabilities	<u>223,715</u>	<u>201,007</u>
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	478,705	408,583
Customers' advances for construction	66,966	76,913
Regulatory liabilities	35,921	28,812
Other	<u>116,250</u>	<u>114,490</u>
Total deferred credits and other liabilities	<u>697,842</u>	<u>628,798</u>
Contributions in aid of construction	444,107	424,036
	<u>\$ 4,072,466</u>	<u>\$ 3,749,862</u>

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)
December 31, 2010 and 2009

	2010	2009
Aqua America stockholders' equity:		
Common stock, \$.50 par value	\$ 69,223	\$ 68,574
Capital in excess of par value	664,369	642,786
Retained earnings	452,470	409,402
Treasury stock, at cost	(12,307)	(12,138)
Accumulated other comprehensive income	499	280
Total Aqua America stockholders' equity	1,174,254	1,108,904
Noncontrolling interest	572	560
Total Equity	1,174,826	1,109,464
Long-term debt:		
Long-term debt of subsidiaries (substantially secured by utility plant):		
Interest Rate Range	Maturity Date Range	
0.00% to 0.99%	2012 to 2034	6,632
1.00% to 1.99%	2011 to 2035	22,758
2.00% to 2.99%	2019 to 2029	13,461
3.00% to 3.99%	2016 to 2030	26,548
4.00% to 4.99%	2020 to 2043	367,854
5.00% to 5.99%	2011 to 2043	429,663
6.00% to 6.99%	2011 to 2036	78,232
7.00% to 7.99%	2012 to 2025	30,155
8.00% to 8.99%	2021 to 2025	34,260
9.00% to 9.99%	2011 to 2026	44,694
10.4%	2018	6,000
		1,060,257
Notes payable to bank under revolving credit agreement, variable rate, due May 2012		64,149
Unsecured notes payable:		
Notes ranging from 4.62% to 4.87%, due 2013 through 2024		185,000
Notes ranging from 5.01% to 5.95%, due 2014 through 2037		207,132
		1,560,389
Current portion of long-term debt		59,577
Long-term debt, excluding current portion		1,386,557
Total capitalization	\$ 2,706,802	\$ 2,496,021

See accompanying notes to consolidated financial statements.

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

	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
Balance at December 31, 2007	\$ 67,050	\$ 572,050	\$350,364	\$(13,166)	\$ —	\$ 1,979	\$ 978,277
Net income	—	—	97,918	—	—	241	98,159
Purchase of subsidiary shares from noncontrolling interest	—	—	—	—	—	(39)	(39)
Net cash settlement of a portion of forward equity sale agreement	—	11,011	—	—	—	—	11,011
Other comprehensive income:							
Unrealized holding gain on investments, net of income tax of \$105	—	—	—	—	195	—	195
Reclassification adjustment for gains reported in net income, net of income tax of \$112	—	—	—	—	(209)	—	(209)
Dividends	—	—	(68,504)	—	—	—	(68,504)
Stock issued for acquisitions (125,723 shares)	63	1,937	—	—	—	—	2,000
Sale of stock (1,621,726 shares)	792	31,693	—	812	—	—	33,297
Repurchase of stock (19,827 shares)	—	—	—	(397)	—	—	(397)
Equity Compensation Plan (46,250 shares)	23	(23)	—	—	—	—	0
Exercise of stock options (195,487 shares)	98	2,183	—	—	—	—	2,281
Share-based compensation	—	4,243	—	—	—	—	4,243
Employee stock plan tax benefits	—	313	—	—	—	—	313
Balance at December 31, 2008	68,026	623,407	379,778	(12,751)	(14)	2,181	1,060,627
Net income	—	—	104,353	—	—	39	104,392
Purchase of subsidiary shares from noncontrolling interest	—	—	—	—	—	(1,660)	(1,660)
Other comprehensive income:							
Unrealized holding gain on investments, net of income tax of \$156	—	—	—	—	289	—	289
Reclassification adjustment for losses reported in net income, net of income tax of \$2	—	—	—	—	5	—	5
Dividends	—	—	(74,729)	—	—	—	(74,729)
Stock issued for acquisitions (164,052 shares)	82	2,827	—	—	—	—	2,909
Sale of stock (732,229 shares)	348	10,627	—	917	—	—	11,892
Repurchase of stock (15,137 shares)	—	—	—	(304)	—	—	(304)
Equity Compensation Plan (70,000 shares)	35	(35)	—	—	—	—	0
Exercise of stock options (165,686 shares)	83	1,609	—	—	—	—	1,692
Share-based compensation	—	3,677	—	—	—	—	3,677
Employee stock plan tax benefits	—	674	—	—	—	—	674
Balance at December 31, 2009	68,574	642,786	409,402	(12,138)	280	560	1,109,464
Net income	—	—	123,975	—	—	12	123,987
Other comprehensive income:							
Unrealized holding gain on investments, net of income tax of \$855	—	—	—	—	1,588	—	1,588
Reclassification adjustment for gain reported in net income, net of income tax of \$737	—	—	—	—	(1,369)	—	(1,369)
Dividends	—	—	(80,907)	—	—	—	(80,907)
Sale of stock (701,919 shares)	335	11,594	—	601	—	—	12,530
Repurchase of stock (42,443 shares)	—	—	—	(770)	—	—	(770)
Equity Compensation Plan (195,056 shares)	97	(97)	—	—	—	—	0
Exercise of stock options (434,696 shares)	217	5,461	—	—	—	—	5,678
Share-based compensation	—	4,031	—	—	—	—	4,031
Employee stock plan tax benefits	—	594	—	—	—	—	594

Balance at December 31, 2010	<u>\$ 69,223</u>	<u>\$ 664,369</u>	<u>\$452,470</u>	<u>\$(12,307)</u>	<u>\$ 499</u>	<u>\$ 572</u>	<u>\$1,174,826</u>
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See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)
Years ended December 31, 2010, 2009, and 2008

	2010	2009	2008
Cash flows from operating activities:			
Net income attributable to common shareholders	\$ 123,975	\$ 104,353	\$ 97,918
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	121,067	114,939	94,300
Deferred income taxes	74,153	47,240	45,768
Provision for doubtful accounts	4,821	5,924	6,811
Share-based compensation	4,031	3,603	3,871
Gain on sale of utility system	0	(1,009)	(4,118)
Gain on sale of other assets	(2,583)	(472)	(1,599)
Net increase in receivables, inventory and prepayments	(8,303)	(1,704)	(10,081)
Net decrease in payables, accrued interest, accrued taxes and other accrued liabilities	(17,269)	(8,521)	(6,228)
Increase in income tax receivable	(33,600)	0	(200)
Other	(2,450)	(5,763)	(4,936)
Net cash flows from operating activities	<u>263,842</u>	<u>258,590</u>	<u>221,506</u>
Cash flows from investing activities:			
Property, plant and equipment additions, including allowance for funds used during construction of \$5,062, \$2,871, and \$3,674	(326,626)	(283,584)	(267,418)
Acquisitions of utility systems and other, net	(8,625)	(3,373)	(14,659)
Release of funds previously restricted for construction activity	94,901	102,560	46,885
Additions to funds restricted for construction activity	(145,157)	(134,473)	(23,195)
Net proceeds from the sale of utility systems and other assets	4,646	2,171	20,831
Other	(3,341)	(3,965)	(1,215)
Net cash flows used in investing activities	<u>(384,202)</u>	<u>(320,664)</u>	<u>(238,771)</u>
Cash flows from financing activities:			
Customers' advances and contributions in aid of construction	8,194	4,619	6,365
Repayments of customers' advances	(7,549)	(2,549)	(5,928)
Net proceeds (repayments) of short-term debt	62,181	(53,102)	23,671
Proceeds from long-term debt	272,754	197,855	52,741
Repayments of long-term debt	(161,096)	(20,789)	(39,038)
Change in cash overdraft position	(6,976)	4,284	1,951
Proceeds from issuing common stock	12,530	11,892	33,297
Proceeds from forward equity agreement	0	0	11,011
Proceeds from exercised stock options	5,678	1,692	2,281
Share-based compensation windfall tax benefits	386	130	219
Repurchase of common stock	(770)	(304)	(397)
Dividends paid on common stock	(80,907)	(74,729)	(68,504)
Net cash flows from financing activities	<u>104,425</u>	<u>68,999</u>	<u>17,669</u>
Net (decrease) increase in cash and cash equivalents	(15,935)	6,925	404
Cash and cash equivalents at beginning of year	<u>21,869</u>	<u>14,944</u>	<u>14,540</u>
Cash and cash equivalents at end of year	<u>\$ 5,934</u>	<u>\$ 21,869</u>	<u>\$ 14,944</u>
Cash paid during the year for:			
Interest, net of amounts capitalized	<u>\$ 70,964</u>	<u>\$ 65,501</u>	<u>\$ 64,368</u>
Income taxes	<u>\$ 52,235</u>	<u>\$ 19,444</u>	<u>\$ 20,984</u>

See Note 1 — Summary of Significant Accounting Policies-Customers' Advances for Construction, Note 2 - Acquisitions, Note 10 — Long-term Debt and Loans Payable, and Note 14 — Employee Stock and Incentive Plan for a description of non-cash activities.

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

Note 1 — Summary of Significant Accounting Policies

Nature of Operations - Aqua America, Inc. ("Aqua America" or the "Company") is the holding company for regulated utilities providing water or wastewater services in Pennsylvania, Texas, North Carolina, Ohio, Illinois, New Jersey, New York, Florida, Indiana, Virginia, Maine, Missouri, and Georgia. Our largest operating subsidiary, Aqua Pennsylvania, Inc., accounted for approximately 53% of our operating revenues for 2010 and provided water or wastewater services to customers in the suburban areas north and west of the City of Philadelphia and in 25 other counties in Pennsylvania. The Company's other subsidiaries provide similar services in 12 other states. In September 2010, the Company entered into a definitive agreement to sell its wastewater operation in South Carolina, which served approximately 400 customers. The sale of the Company's utility operation in South Carolina closed in December 2010, concluding its utility operations in South Carolina. In addition, in December 2010, the Company entered into a definitive agreement to sell its regulated water and wastewater operations in Missouri, which serves approximately 3,900 customers. This sale is conditioned, among other things, on the receipt of regulatory approvals, and is expected to close by the third quarter of 2011. The completion of this transaction will conclude the Company's regulated utility operations in Missouri. In addition, the Company provides water and wastewater services through operating and maintenance contracts with municipal authorities and other parties close to our utility companies' service territories as well as sludge hauling, septage and grease services, backflow prevention services, and certain other non-regulated water and wastewater services.

The company has identified fourteen operating segments and has one reportable segment named the Regulated segment. The reportable segment is comprised of thirteen operating segments for our water and wastewater regulated utility companies which are organized by the states where we provide these services. These operating segments are aggregated into one reportable segment since each of the Company's operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment. In addition, one operating segment is not quantitatively significant to be reportable and is comprised of the businesses that provide sludge hauling, septage and grease services, backflow prevention services, and certain other non-regulated water and wastewater services. This segment is included as a component of "other," in addition to corporate costs that have not been allocated to the Regulated segment and intersegment eliminations.

Regulation - Most of the operating companies that are regulated public utilities are subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters. Some of the operating companies that are regulated public utilities are subject to rate regulation by county or city government. Regulated public utilities follow the Financial Accounting Standards Board's (FASB) accounting guidance for regulated operations, which provides for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. The regulatory assets or liabilities are then relieved as the cost or credit is reflected in rates.

Use of Estimates in Preparation of Consolidated Financial Statements - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation - The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation.

Recognition of Revenues - Revenues include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the latest billing to the end of the accounting period. Non-regulated revenues are recognized when services are performed and are primarily associated with septage services, and operating and maintenance contracts. The Company's Regulated segment includes non-regulated revenues that totaled \$12,118 in 2010, \$12,665 in 2009, and \$13,278 in 2008. In addition to the non-regulated revenues included in the Regulated segment operating revenues, the Company has other non-regulated revenues of \$11,565 in 2010, \$11,634 in 2009, and \$11,810 in 2008.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

Property, Plant and Equipment and Depreciation - Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads and, for certain utility plant, allowance for funds used during construction. Water systems acquired are recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost, less applicable accumulated depreciation, and the purchase price is recorded as an acquisition adjustment within utility plant as permitted by the applicable regulatory jurisdiction. At December 31, 2010, utility plant includes a net credit acquisition adjustment of \$41,447, which is generally being amortized from 2 to 20 years, except where not permitted or appropriate. Amortization of the acquisition adjustments totaled \$3,534 in 2010, \$3,250 in 2009, and \$4,245 in 2008.

Utility expenditures for maintenance and repairs, including major maintenance projects and minor renewals and betterments, are charged to operating expenses when incurred in accordance with the system of accounts prescribed by the public utility commissions of the states in which the company operates. The cost of new units of property and betterments are capitalized. Utility expenditures for water main cleaning and relining of pipes are deferred and recorded in net property, plant and equipment in accordance with the FASB's accounting guidance for regulated operations. As of December 31, 2010, \$6,493 of costs have been incurred since the last rate proceeding and the Company expects to recover these costs in future rates.

The cost of software upgrades and enhancements are capitalized if they result in added functionality which enable the software to perform tasks it was previously incapable of performing. Certain information technology costs associated with major system installations, conversions and improvements, such as software training, data conversion and business process reengineering costs, are deferred as a regulatory asset if the Company expects to recover these costs in future rates. If these costs are not deferred, then these costs are charged to operating expenses when incurred. As of December 31, 2010, \$9,871 of costs have been deferred, since the last rate proceeding, as a regulatory asset, and the deferral is reported as a component of net property, plant and equipment.

When units of utility property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates.

The straight-line remaining life method is used to compute depreciation on utility plant. Generally, the straight-line method is used with respect to transportation and mechanical equipment, office equipment and laboratory equipment.

Long-lived assets of the Company, which consist primarily of Utility Plant in Service and regulatory assets, are reviewed for impairment when changes in circumstances or events occur. There has been no change in circumstances or events that have occurred that require adjustments to the carrying values of these assets.

Allowance for Funds Used During Construction - The allowance for funds used during construction ("AFUDC") represents the capitalized cost of funds used to finance the construction of utility plant. In general, AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction or contributions in aid of construction. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. The amount of AFUDC related to equity funds in 2010 was \$184, 2009 was \$107, and in 2008 was \$26. No interest was capitalized by our non-regulated businesses.

Cash and Cash Equivalents - The Company considers all highly liquid investments with an original maturity of three months or less, which are not restricted for construction activity, to be cash equivalents.

The Company had a book overdraft for certain of its disbursement cash accounts of \$8,307 and \$15,283 at December 31, 2010 and 2009, respectively. A book overdraft represents transactions that have not cleared the bank accounts at the end of the period. The Company transfers cash on an as-needed basis to fund these items as they clear the bank in subsequent periods. The balance of the book overdraft is reported as accounts payable and the change in the book overdraft balance is reported as cash flows from financing activities.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

Accounts Receivable - Accounts receivable are recorded at the invoiced amounts. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in our existing accounts receivable, and is determined based on historical write-off experience and the aging of account balances. The Company reviews the allowance for doubtful accounts quarterly. Account balances are written off against the allowance when it is probable the receivable will not be recovered. When utility customers request extended payment terms, credit is extended based on regulatory guidelines, and collateral is not required.

Regulatory Assets, Deferred Charges and Other Assets - Deferred charges and other assets consist of financing expenses, other costs and marketable securities. Deferred bond issuance expenses are amortized over the life of the related issues. Call premiums related to the early redemption of long-term debt, along with the unamortized balance of the related issuance expense, are deferred and amortized over the life of the long-term debt used to fund the redemption as the Company has received or expects to receive rate recovery of these costs. Other costs, for which the Company has received or expects to receive prospective rate recovery, are deferred as a regulatory asset and amortized over the period of rate recovery in accordance with the FASB's accounting guidance for regulated operations. See Note — 6 Regulatory Assets and Liabilities for further information regarding the Company's regulatory assets.

Marketable securities are considered "available-for-sale" and accordingly, are carried on the balance sheet at fair market value. Unrecognized gains are included in other comprehensive income.

Funds Restricted for Construction Activity - The proceeds received from certain financings for construction and capital improvement of utility facilities are held in escrow until the designated expenditures are incurred. These amounts are reported as funds restricted for construction activity and are expected to be released over time as the capital projects are funded.

Goodwill - Goodwill represents the excess cost over the fair value of net tangible and identifiable intangible assets acquired through acquisitions. Goodwill is not amortized but is tested for impairment annually, or more often, if circumstances indicate a possible impairment may exist. The Company tested the goodwill attributable to each of our reporting units for impairment as of July 31, 2010, in conjunction with the timing of our annual strategic business plan, and concluded that the estimated fair value of each reporting unit was substantially in excess of the reporting unit's respective carrying amounts, indicating that none of the Company's goodwill was impaired. The following table summarizes the changes in the Company's goodwill:

	Regulated Segment	Other	Consolidated
Balance at December 31, 2008	\$ 36,886	\$ 4,121	\$ 41,007
Goodwill acquired during year	2,073	—	2,073
Reclassifications to utility plant acquisition adjustment	(1,453)	—	(1,453)
Other	1,456	—	1,456
Balance at December 31, 2009	38,962	4,121	43,083
Goodwill acquired during year	432	—	432
Reclassifications to utility plant acquisition adjustment	(1,722)	—	(1,722)
Other	(1,559)	—	(1,559)
Balance at December 31, 2010	\$ 36,113	\$ 4,121	\$ 40,234

The reclassification of goodwill to utility plant acquisition adjustment results from a mechanism approved by the applicable public utility commission. The mechanism provides for the transfer over time, and the recovery through customer rates, of goodwill associated with certain acquisitions upon achieving certain objectives.

Income Taxes - The Company accounts for certain income and expense items in different time periods for financial and tax reporting purposes. Deferred income taxes are provided on the temporary differences between the tax basis of the assets and liabilities, and the amounts at which they are carried in the consolidated financial statements. The income tax effect of temporary differences not allowed currently in rates is recorded as deferred taxes with an offsetting regulatory asset or liability. These deferred income taxes are based on the enacted tax rates expected to be in effect when such temporary differences are projected to reverse. Investment tax credits are deferred and amortized over the estimated useful lives of the related properties. Judgment is required in evaluating the Company's Federal and state tax positions. Despite management's belief that the Company's tax return positions are fully supportable, the Company may establish reserves when it believes that certain tax positions are likely to be challenged and it may not fully prevail in these challenges. The Company's provision for income taxes includes interest, penalties and if the need arises reserves for uncertain tax positions.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

Customers' Advances for Construction and Contributions in Aid of Construction - Water mains, other utility property or, in some instances, cash advances to reimburse the Company for its costs to construct water mains or other utility property, are contributed to the Company by customers, real estate developers and builders in order to extend utility service to their properties. The value of these contributions is recorded as customers' advances for construction. Non-cash property, in the form of water mains and wastewater systems, has been received, generally from developers, as advances or contributions of \$16,665, \$49,957, and \$39,564 in 2010, 2009, and 2008, respectively. Over time, the amount of non-cash contributed property will vary based on the timing of the contribution of the non-cash property and the volume of non-cash contributed property received in connection with development in our service territories. The Company makes refunds on these advances over a specific period of time based on operating revenues related to the property, or as new customers are connected to and take service from the main. After all refunds are made, any remaining balance is transferred to contributions in aid of construction. Contributions in aid of construction include direct non-refundable contributions and the portion of customers' advances for construction that become non-refundable.

Contributed property is generally not depreciated for rate-making purposes as certain states' regulatory guidelines provide that contributions in aid of construction received must remain on the Company's consolidated balance sheet indefinitely. Based on regulatory conventions in other states where the Company operates, certain of the subsidiaries do depreciate contributed property and amortize contributions in aid of construction at the composite rate of the related property. Contributions in aid of construction are deducted from the Company's rate base for rate-making purposes, and therefore, no return is earned on contributed property.

Inventories, Materials and Supplies - Inventories are stated at cost. Cost is principally determined using the first-in, first-out method.

Stock-Based Compensation - The Company records compensation expense in the financial statements for stock-based awards based on the grant date fair value of those awards. Stock-based compensation expense includes an estimate for pre-vesting forfeitures and is recognized over the requisite service periods of the awards on a straight-line basis, which is generally commensurate with the vesting term.

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

- Level 1: unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access;
- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted market prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in non-active markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3: inputs that are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation techniques used to measure fair value for the years ended December 31, 2010 and 2009.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

Recent Accounting Pronouncements - In June 2009, the FASB issued revised accounting guidance for variable interest entities, which replaces the quantitative approach for determining which reporting entity has a controlling financial interest in a variable interest entity with a qualitative approach that focuses on which reporting entity controls the most significant economic activities of the variable interest entity. The revised guidance is effective January 1, 2010. The Company adopted the revised guidance as required, and the adoption did not have an impact on the Company's consolidated results of operations or consolidated financial position.

Note 2 — Acquisitions

During 2010, the Company completed 23 acquisitions or other growth ventures in various states. The total purchase price consisted of \$8,625 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were \$778. The pro forma effect of the businesses acquired in 2010 is not material to the Company's results of operations.

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

During 2008, the Company completed 9 acquisitions or other growth ventures in various states. The total purchase price of \$16,659 for the systems acquired in 2008 consisted of \$14,659 in cash, and the issuance of 125,723 shares of the Company's common stock. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were \$6,187 in 2010, \$5,453 in 2009, and \$2,129 in 2008. The pro forma effect of the businesses acquired in 2008 is not material to the Company's results of operations.

Note 3 — Dispositions

In December 2010, the Company sold a wastewater utility system for net proceeds of \$120. The utility system represented less than 0.01% of Aqua America's total assets.

In June 2009, the Company sold a water and wastewater utility system for net proceeds of \$1,601, which was in excess of the book value for these assets. The proceeds were used to pay-down short-term debt and the sale resulted in the recognition in 2009 of a gain on the sale of these assets, net of expenses of \$1,009. The gain is reported in the 2009 consolidated statement of income as a reduction to operations and maintenance expense. These utility systems represented approximately 0.02% of Aqua America's total assets.

In August 2008, the Company sold a water and wastewater utility system for net proceeds of \$10,500, which consisted of \$1,900 in cash and the issuance of a 25-year note receivable of \$8,600 that bears interest at 7.25% and provides for semi-annual principal and interest payments. The sale resulted in the recognition of a gain on the sale of these assets, net of expenses, of \$4,118. The gain is reported in the consolidated statement of income as a reduction to operations and maintenance expense. These utility systems represented approximately 0.20% of Aqua America's total assets.

The City of Fort Wayne, Indiana ("the City") has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the operating subsidiaries that the Company acquired in connection with the AquaSource acquisition in 2003. The Company challenged whether the City was following the correct legal procedures in connection with the City's attempted condemnation, but the Indiana Supreme Court, in an opinion issued in June 2007, supported the City's position. In October 2007, the City's Board of Public Works approved proceeding with its process to condemn the northern portion of the Company's utility system at a preliminary price based on the City's valuation. The Company has filed an appeal with the Allen County Circuit Court challenging the Board of Public Works' valuation on several bases. In November 2007, the City Council authorized the taking of the northern portion of the Company's system and the payment of \$16,911 based on the City's valuation of this portion of the system. In January 2008, the Company reached a settlement with the City to transition the northern portion of the system in February 2008 upon receipt of the City's initial valuation payment of \$16,911. The settlement agreement specifically stated that the final valuation of the northern portion of the Company's system will be determined through a continuation of the legal proceedings that were filed challenging the City's valuation. On February 12, 2008, the Company turned over the northern portion of the system to the City upon receipt of the initial valuation payment. The Indiana Utility Regulatory Commission also reviewed and acknowledged the transfer of the Certificate of Territorial Authority for the northern portion of the system to the City. The proceeds received by the Company are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. The net book value of the assets relinquished has been removed from the consolidated balance sheet and the difference

AQUA AMERICA, INC. AND SUBSIDIARIES

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

between the net book value and the initial payment received has been deferred and is recorded in other accrued liabilities on the Company's consolidated balance sheet. Once the contingency is resolved and the asset valuation is finalized, through the finalization of the litigation between the Company and the City of Fort Wayne, the amounts deferred will be recognized in the Company's consolidated income statement. On March 16, 2009, oral argument was held on certain procedural aspects with respect to the valuation evidence that may be presented and whether the Company is entitled to a jury trial. On October 12, 2010, the Wells County Indiana Circuit Court ruled that the Company is not entitled to a jury trial, and that the Wells County judge should review the City of Fort Wayne Board of Public Works' assessment based upon a "capricious, arbitrary or an abuse of discretion" standard. The Company disagrees with the Court's decision and as such on November 11, 2010, requested that the Wells County Indiana Circuit Court certify those issues for an interim appeal. The Wells County Indiana Circuit Court has granted that request and on January 14, 2011, the Company has filed a request with the Indiana Court of Appeals to review the decision of those issues on appeal. The Company continues to evaluate its legal options with respect to this decision. Depending upon the outcome of all of the legal proceeding the Company may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The northern portion of the utility system relinquished represents approximately 0.50% of the Company's total assets.

Note 4 — Property, Plant and Equipment

	December 31,		Approximate range of remaining lives
	2010	2009	
Utility plant and equipment:			
Mains and accessories	\$ 1,884,896	\$ 1,713,955	10 to 97 years
Services, hydrants, treatment plants and reservoirs	1,162,314	1,082,680	5 to 88 years
Operations structures and water tanks	216,342	191,950	13 to 70 years
Miscellaneous pumping and purification equipment	553,351	520,566	5 to 78 years
Meters, data processing, transportation and operating equipment	545,989	505,500	4 to 78 years
Land and other non-depreciable assets	107,430	88,790	—
Utility plant and equipment	4,470,322	4,103,441	
Utility construction work in progress	54,228	81,529	—
Net utility plant acquisition adjustment	(41,447)	(49,436)	0 to 20 years
Non-utility plant and equipment	6,550	6,156	0 to 25 years
Total property, plant and equipment	<u>\$ 4,489,653</u>	<u>\$ 4,141,690</u>	

Note 5 — Accounts Receivable

	December 31,	
	2010	2009
Billed utility revenue	\$ 53,314	\$ 48,869
Unbilled utility revenue	34,490	31,981
Other	3,120	3,554
	90,924	84,404
Less allowance for doubtful accounts	5,043	5,662
Net accounts receivable	<u>\$ 85,881</u>	<u>\$ 78,742</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

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

The Company's utility customers are located principally in the following states: 45% in Pennsylvania, 9% in Ohio, 9% in North Carolina, 7% in Texas, 6% in Illinois, 6% in New Jersey, 5% in New York, 4% in Indiana, and 4% in Florida. No single customer accounted for more than one percent of the Company's operating revenues during the years ended December 31, 2010, 2009, or 2008. The following table summarizes the changes in the Company's allowance for doubtful accounts:

	2010	2009	2008
Balance at January 1,	\$ 5,662	\$ 6,356	\$ 5,566
Amounts charged to expense	4,821	5,924	6,811
Accounts written off	(6,475)	(7,832)	(6,953)
Recoveries of accounts written off	1,035	1,214	932
Balance at December 31,	<u>\$ 5,043</u>	<u>\$ 5,662</u>	<u>\$ 6,356</u>

Note 6 — Regulatory Assets and Liabilities

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts recovered from customers in advance of incurring the costs. Except for income taxes and the competitive transition charge payment, regulatory assets and regulatory liabilities are excluded from the Company's rate base and do not earn a return. The components of regulatory assets and regulatory liabilities are as follows:

	December 31, 2010		December 31, 2009	
	Regulatory Assets	Regulatory Liabilities	Regulatory Assets	Regulatory Liabilities
Income taxes	\$ 78,203	\$ —	\$ 76,539	\$ 2,760
Utility plant retirement costs	27,720	14,969	33,403	12,244
Postretirement benefits	93,338	20,477	90,220	12,777
Texas rate filing expense deferral	—	—	5,769	—
Competitive Transition Charge payment	—	—	1,147	—
Water tank painting	4,731	—	4,303	—
Fair value adjustment of long-term debt assumed in acquisition	1,751	236	1,962	311
Rate case filing expenses & other	11,633	239	13,008	720
	<u>\$ 217,376</u>	<u>\$ 35,921</u>	<u>\$ 226,351</u>	<u>\$ 28,812</u>

Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to certain differences between tax and book depreciation expense, are recognized in the rate setting process on a cash or flow-through basis and will be recovered as they reverse.

The regulatory asset for utility plant retirement costs, including cost of removal, represents costs already incurred that are expected to be recovered in future rates over a five year recovery period. The regulatory liability for utility plant retirement costs represents amounts recovered through rates during the life of the associated asset and before the costs are incurred.

Postretirement benefits include pension and other postretirement benefits. A regulatory asset has been recorded at December 31, 2010 and 2009 for the costs that would otherwise be charged to stockholders' equity for the underfunded status of the Company's pension and other postretirement benefit plans. The regulatory asset related to pension costs includes deferred net pension expense in excess of amounts funded which the Company believes will be recoverable in future years as pension funding is required. The regulatory asset related to postretirement benefits other than pensions represents costs that were deferred between the time that the accrual method of accounting for these benefits was adopted in 1993 and the recognition of the accrual method in the Company's rates as prescribed in subsequent rate filings. Amortization of the amount deferred for postretirement benefits other than pensions began in 1994 and is currently being recovered in rates.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

The regulatory asset for the Texas rate filing of 2004 results from a multi-year plan to increase annual revenues in phases, and to defer and amortize a portion of the Company's depreciation, operating and other tax expense over a similar multi-year period. These costs were amortized over approximately two years, beginning February 1, 2009, in accordance with the final rate order and concluded in 2010.

The regulatory asset associated with the Competitive Transition Charge ("CTC") payment represents the full payoff in 2001, net of amortization, of the allocable share of a CTC as negotiated by Aqua Pennsylvania, Inc. from an electric distribution company. The Pennsylvania Electricity Generation Customer Choice and Competition Act permitted electric distribution utilities to recover their stranded costs from its customers in the form of a CTC. Rate recovery of the \$11,465 CTC payment began in 2000 and concluded in 2010.

Expenses associated with water tank painting are deferred and amortized over a period of time as approved in the regulatory process. Water tank painting costs are generally being amortized over a period ranging from 5 to 17 years.

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

The regulatory asset related to rate case filing expenses represents the costs associated with filing for rate increases that are deferred and amortized over periods that generally range from one to five years. Other represents costs incurred by the Company for which it has received or expects to receive rate recovery.

The regulatory asset related to the costs incurred for information technology software projects and water main cleaning and relining projects are described in Note 1 — Summary of Significant Accounting Policies — Property, Plant and Equipment and Depreciation.

Note 7 — Income Taxes

The provision for income taxes consists of:

	Years Ended December 31,		
	2010	2009	2008
Current:			
Federal	\$ (6,980)	\$ 10,193	\$ 8,576
State	12,921	10,398	10,240
	<u>5,941</u>	<u>20,591</u>	<u>18,816</u>
Deferred:			
Federal	72,292	45,514	44,017
State	1,861	1,737	1,751
	<u>74,153</u>	<u>47,251</u>	<u>45,768</u>
Total tax expense	<u>\$ 80,094</u>	<u>\$ 67,842</u>	<u>\$ 64,584</u>

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

AQUA AMERICA, INC. AND SUBSIDIARIES

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

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

	Years Ended December 31,		
	2010	2009	2008
Computed Federal tax expense at statutory rate	\$ 71,424	\$ 60,268	\$ 56,876
Increase in tax expense for depreciation expense to be recovered in future rates	213	399	376
Domestic Production Credit	—	(654)	(540)
Stock-based compensation	(43)	408	742
Deduction for Aqua America common dividends paid under employee benefit plan	(374)	(293)	(331)
Amortization of deferred investment tax credits	(341)	(274)	(276)
State income taxes, net of federal tax benefit	9,608	7,889	7,794
Other, net	(393)	99	(57)
Actual income tax expense	<u>\$ 80,094</u>	<u>\$ 67,842</u>	<u>\$ 64,584</u>

The tax effects of temporary differences between book and tax accounting that give rise to the deferred tax assets and deferred tax liabilities are as follows:

	December 31,	
	2010	2009
Deferred tax assets:		
Customers' advances for construction	\$ 17,210	\$ 16,757
Costs expensed for book not deducted for tax, principally accrued expenses	6,003	3,220
Utility plant acquisition adjustment basis differences	10,542	12,880
Postretirement benefits	30,528	30,391
Tax loss carryforward	7,418	—
Other	1,704	1,069
Total gross deferred tax assets	<u>73,405</u>	<u>64,317</u>
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	482,339	405,504
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	32,277	30,018
Tax effect of regulatory asset for postretirement benefits	30,528	30,391
Deferred investment tax credit	6,966	6,987
Total gross deferred tax liabilities	<u>552,110</u>	<u>472,900</u>
Net deferred tax liability	<u>\$ 478,705</u>	<u>\$ 408,583</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

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

At December 31, 2010, the Company recorded a Federal net operating loss ("NOL") carryforward of \$21,194. The Company believes the Federal NOL carryforward is more likely than not to be recovered and requires no valuation allowance. The Company's NOL carryforward does not begin to expire until 2030.

The Company has analyzed filing positions in its Federal and state jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. The Company believes its income tax filing positions and deductions will be sustained under audit and it believes it does not have significant uncertain tax positions that, in the event of adjustment, will result in a material effect on its results of operations or financial position. The Company has elected to recognize accrued interest and penalties related to uncertain tax positions as income tax expense. As of December 31, 2010, the Company's Federal income tax returns for all years through 2006 have been closed. The Federal income tax returns for tax years 2007 and 2008 have been settled through examination. Tax years 2009 and 2010 remain open to examination.

Note 8 — Taxes Other than Income Taxes

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

	Years Ended December 31,		
	2010	2009	2008
Property	\$ 27,314	\$ 23,952	\$ 23,634
Capital Stock	3,458	2,989	3,052
Gross receipts, excise and franchise	10,121	8,899	7,600
Payroll	6,889	6,906	6,386
Other	5,185	5,335	4,077
Total taxes other than income	<u>\$ 52,967</u>	<u>\$ 48,081</u>	<u>\$ 44,749</u>

Note 9 — Commitments and Contingencies

Commitments — The Company leases motor vehicles, buildings and other equipment under operating leases that are noncancelable. The future annual minimum lease payments due are as follows:

2011	2012	2013	2014	2015	Thereafter
\$ 2,900	\$ 2,106	\$ 1,488	\$ 895	\$ 387	\$ 297

The Company leases parcels of land on which treatment plants and other facilities are situated and adjacent parcels that are used for watershed protection. The operating leases are noncancelable, expire between 2011 and 2052 and contain certain renewal provisions. Certain leases are subject to an adjustment every five years based on changes in the Consumer Price Index. Subject to the aforesaid adjustment, during each of the next five years, an average of \$646 of annual lease payments for land is due, and the aggregate of the years remaining approximates \$16,596. The Company leases treatment plants to other parties under lease agreements that require payments to the Company of:

2011	2012	2013	2014	2015	Thereafter
\$ 494	\$ 494	\$ 494	\$ 488	\$ 460	\$ 4,062

The Company maintains agreements with other water purveyors for the purchase of water to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2026. The estimated annual commitments related to such purchases through 2015 are expected to average \$11,104 and the aggregate of the years remaining approximates \$47,827.

The Company has entered into purchase obligations, in the ordinary course of business, that include agreements for water treatment processes at certain of its wells in a small number of its divisions. The 20 year term agreement provides for the use of treatment equipment and media used in the treatment process and are subject to adjustment based on changes in the Consumer Price Index. The future contractual cash obligation related to these agreements is: \$850 in 2011, \$868 in 2012, \$888 in 2013, \$907 in 2014, \$928 in 2015 and \$14,162 thereafter. In addition as of December 31, 2010, the estimated capital expenditures required under a legal and binding long-term contract is approximately \$3,500 in 2014.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

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

	Years Ended December 31,		
	2010	2009	2008
Operating lease expense	\$ 4,371	\$ 4,287	\$ 4,493
Purchased water under long-term agreements	13,754	13,037	11,710
Water treatment expense under contractual agreement	777	691	458

Contingencies — The Company is routinely involved in various disputes, claims, lawsuits and other regulatory and legal matters, including both asserted and unasserted legal claims, in the ordinary course of business. The status of each such matter, referred to herein as a loss contingency, is reviewed and assessed in accordance with applicable accounting rules regarding the nature of the matter, the likelihood that a loss will be incurred, and the amounts involved. As of December 31, 2010, the aggregate amount of \$12,567 is accrued for loss contingencies and is reported in the Company's consolidated balance sheet as other accrued liabilities and other liabilities. These accruals represent management's best estimate of probable loss (as defined in the accounting guidance) for loss contingencies or the low end of a range of losses if no single probable loss can be estimated. For some loss contingencies, the Company is unable to estimate the amount of the probable loss or range of probable losses. While the final outcome of these loss contingencies cannot be predicted with certainty, and unfavorable outcomes could negatively impact the Company, at this time in the opinion of management, the final resolution of these matters are not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows. Further, Aqua America has insurance coverage for certain of these loss contingencies, and as of December 31, 2010, estimates that approximately \$2,733 of the amount accrued for these matters are probable of recovery through insurance, which amount is also reported in the Company's consolidated balance sheet as deferred charges and other assets, net. The Company is involved in the following condemnation proceedings and legal matters, as described below and in the following notes:

- Note 16 — Water and Wastewater Rates — Discussion of the conclusion of the rate proceeding involving the Company's subsidiaries in Texas.
- Note 3 — Dispositions — Discussion of the Company's challenge to the valuation of the northern portion of its Fort Wayne, Indiana utility system that was turned over to the City of Fort Wayne, Indiana in February 2008.
- In 2009, a lawsuit was filed by two homeowner's associations comprised of approximately 180 homes located next to a wastewater plant owned by one of the Company's subsidiaries in Indiana claiming that the subsidiary breached an agreement that was allegedly entered into with the subsidiary's prior management, before our acquisition of the company in 2003, to cease the majority of operations at the wastewater plant and to remove most of the facilities at the plant site. In 2010, the parties in this dispute entered into a settlement agreement, which included the payment of \$2,600 to the homeowners' associations, certain conditions for future plant improvements, which should not materially interfere with the operation of the plant, and transferred a parcel of land to the homeowners' associations for which the Company received a \$50 credit to the settlement amount. This matter was not covered by any of the Company's insurance policies.
- In 2006, a lawsuit was filed by two occupants of a house abutting a wastewater treatment plant facility owned by the Company's subsidiary in Florida. The lawsuit, as amended, alleges the plaintiffs sustained bodily injury and property damage due to the design, operation and maintenance of the plant. In January 2011, a trial was held which resulted in the dismissal of the count for strict liability and jury verdicts in favor of the Company on the remaining counts. The plaintiffs have filed a motion requesting a new trial. In the third quarter of 2008, approximately thirty-five additional plaintiffs, associated with approximately eight other nearby homes, and represented by the same counsel as the original plaintiffs, filed a separate lawsuit making similar allegations against our Florida subsidiary with respect to the operation of the facility. No trial date has been set for this matter, but some of the plaintiffs testified in the trial of the other matter. The Company continues to assess these matters and any potential losses, which based on the outcome of the litigation may or may not be covered by the Company's insurance coverage. At this time, the Company believes that the estimated amount of any potential losses would not be material to the Company's consolidated results of operations or consolidated financial condition.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

- In 2010, one of the Company's subsidiaries acquired in 2008, received from the United States Environmental Protection Agency and the United States Department of Justice a proposed penalty related to sanitary sewer overflows of \$364. The Company's subsidiary has contested the appropriateness of calculating the proposed penalty based on sanitary sewer violations occurring prior to the acquisition of the subsidiary and the amount of the proposed penalty. The Company intends to seek indemnification from the seller for this matter.
- In 2010 one of the Company's subsidiaries received a notice of violation from the Pennsylvania Department of Environmental Protection (DEP) containing a proposed penalty of \$120. The notice of violation resulted from the subsidiary's commencement of construction of a water tank prior to receipt of a construction permit from DEP. The Company's subsidiary is contesting the amount of the proposed penalty and working with DEP to reach an amicable resolution.

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

Note 10 — Long-term Debt and Loans Payable

Long-term Debt — The consolidated statements of capitalization provide a summary of long-term debt as of December 31, 2010 and 2009. The supplemental indentures with respect to certain issues of the First Mortgage Bonds restrict the ability of Aqua Pennsylvania, Inc. and certain other operating subsidiaries of the Company to declare dividends, in cash or property, or repurchase or otherwise acquire the stock of these companies. As of December 31, 2010, approximately \$504,000 of Aqua Pennsylvania's retained earnings of approximately \$524,000 and approximately \$133,000 of the retained earnings of approximately \$144,000 of certain other subsidiaries were free of these restrictions. Certain supplemental indentures also prohibit Aqua Pennsylvania and certain other subsidiaries of the Company from making loans to, or purchasing the stock of, the Company.

Sinking fund payments are required by the terms of certain issues of long-term debt. Excluding amounts due under the Company's revolving credit agreement, the future sinking fund payments and debt maturities of the Company's long-term debt are as follows:

Interest Rate Range	2011	2012	2013	2014	2015	Thereafter
0.00% to 0.99%	\$ 340	\$ 340	\$ 338	\$ 342	\$ 339	\$ 4,933
1.00% to 1.99%	2,152	1,907	1,889	1,697	1,607	13,506
2.00% to 2.99%	923	861	880	913	930	8,954
3.00% to 3.99%	1,839	1,920	1,987	2,057	2,134	16,611
4.00% to 4.99%	212	223	21,830	27,240	247	511,102
5.00% to 5.99%	448	31,461	482	51,588	44,044	543,772
6.00% to 6.99%	15,000	—	—	—	12,000	51,232
7.00% to 7.99%	1,030	1,341	351	379	409	26,645
8.00% to 8.99%	222	325	349	376	405	32,583
9.00% to 9.99%	6,247	1,260	6,287	1,100	1,100	28,700
10.00% to 10.99%	—	—	—	—	—	6,000
Total	<u>\$ 28,413</u>	<u>\$ 39,638</u>	<u>\$ 34,393</u>	<u>\$ 85,692</u>	<u>\$ 63,215</u>	<u>\$1,244,038</u>

In November 2010, Aqua Pennsylvania, Inc. issued \$141,385 of tax-exempt bonds, secured by a supplement to its first mortgage indenture, of which \$25,910 is due in 2033, \$19,270 in 2034, \$15,000 in 2042, and \$81,205 in 2043 with interest rates of 5.00%, 5.05%, 4.75%, and 4.60%, respectively. The proceeds will be used to refinance existing debt, and are restricted to funding certain capital projects during the period 2010 through 2013. In June 2010, the Company issued \$70,000 of senior unsecured notes, of which \$15,000 is due in 2021, \$20,000 in 2024, and \$35,000 in 2028 with interest rates of 4.62%, 4.83%, and 5.22%, respectively.

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

In December 2009, the Company issued \$50,000 of unsecured notes at an interest rate of 4.72% due in 2019. In November 2009, Aqua Pennsylvania, Inc. issued \$74,685 of tax-exempt bonds, secured by a supplement to its first mortgage indenture, which are due in 2040 with interest rates of 4.88% and 4.90%. The proceeds are restricted to funding certain capital projects during the period 2009 through 2012. In July 2009, Aqua Pennsylvania, Inc. issued \$58,000 of tax-exempt bonds, secured by a supplement to its first mortgage indenture, which are due in 2039 with an interest rate of 5.23%. The proceeds are restricted to funding certain capital projects during the period 2009 through 2012. As of December 31, 2010, the trustees for seven issues held \$135,086 pending construction of the projects to be financed with the issues and are reported in the consolidated balance sheet as funds restricted for construction activity.

One of the Company's subsidiaries in Texas entered into a surface water contract with a regional water authority. The contract provides that the regional water authority will construct and expand, as needed, a water distribution facility to provide surface water capacity. Pursuant to this agreement, in December 2009, we recorded a long-term obligation in the amount of \$10,420 and recognized a corresponding water rights asset. The agreement provides for water rights that extend for a period through 2040. The liability has been classified as long-term debt and the annual payment obligations extend through 2028.

The weighted average cost of long-term debt at December 31, 2010 and 2009 was 5.14% and 5.25%, respectively. The weighted average cost of fixed rate long-term debt at December 31, 2010 and 2009 was 5.36% and 5.49%, respectively.

The Company has a five-year \$95,000 unsecured revolving credit facility with four banks that expires in May 2012. Included within this facility is a swing-line commitment of \$15,000 that is used to fund bank overdraft positions. Except for swing-line borrowings, funds borrowed under this agreement are classified as long-term debt and are used to provide working capital. As of December 31, 2010, the Company has the following sublimits and available capacity under the credit facility: \$20,000 letter of credit sublimit, \$2,399 of letters of credit available capacity, \$0 borrowed under the swing-line commitment, and \$65,000 of funds borrowed under the agreement. Interest under this facility is based at the Company's option, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. A facility fee is charged on the total commitment amount of the agreement. Under this facility the average cost of borrowings was 0.51% and 0.56%, and the average borrowing was \$64,581 and \$67,296, during 2010 and 2009, respectively.

Loans Payable — In November 2010, Aqua Pennsylvania entered into a \$100,000 364-day unsecured revolving credit facility with three banks, which replaced Aqua Pennsylvania's, prior \$70,000 364-day unsecured revolving credit facility with two banks. The funds borrowed under these respective agreements are classified as loans payable and used to provide working capital. As of December 31, 2010 and 2009, funds borrowed under the respective Aqua Pennsylvania revolving credit agreements were \$58,277 and \$15,000. Interest under these facilities is based, at the borrower's option, on the prime rate, an adjusted federal funds rate, an adjusted London Interbank Offered Rate corresponding to the interest period selected, an adjusted Euro-Rate corresponding to the interest period selected or at rates offered by the banks. These agreements restrict short-term borrowings of Aqua Pennsylvania. A commitment fee of 0.25% is charged on the total commitment amount of Aqua Pennsylvania's revolving credit agreement. The average cost of borrowing under these facilities was 1.44% and 1.20%, and the average borrowing was \$37,539 and \$56,389, during 2010 and 2009, respectively. The maximum amount outstanding at the end of any one month was \$65,676 and \$67,639 in 2010 and 2009, respectively.

At December 31, 2010 and 2009, the Company had other combined short-term lines of credit of \$67,000, respectively. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. As of December 31, 2010 and 2009, funds borrowed under the short-term lines of credit were \$31,391 and \$12,487, respectively. The average borrowing under the lines was \$25,884 and \$25,062 during 2010 and 2009, respectively. The maximum amount outstanding at the end of any one month was \$32,431 and \$34,078 in 2010 and 2009. Interest under the lines is based at the Company's option, depending on the line, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. The average cost of borrowings under all lines during 2010 and 2009 was 1.84% and 1.61%, respectively.

Interest Income — Interest income of \$1,290, \$1,149, and \$2,310 was netted against interest expense on the consolidated statements of income for the years ended December 31, 2010, 2009, and 2008, respectively. The total interest cost was \$76,942, \$69,756, and \$70,882 in 2010, 2009, and 2008, including amounts capitalized of \$5,062, \$2,871, and \$3,674, respectively.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

Note 11 — Fair Value of Financial Instruments

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

	December 31,	
	2010	2009
Carrying amount	\$ 1,560,389	\$ 1,446,134
Estimated fair value	1,483,173	1,315,954

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The Company's customers' advances for construction and related tax deposits have a carrying value of \$66,966 and \$76,913 at December 31, 2010 and 2009, respectively. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2025 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Note 12 — Stockholders' Equity

At December 31, 2010, the Company had 300,000,000 shares of common stock authorized; par value \$0.50. Shares outstanding and treasury shares held were as follows:

	December 31,		
	2010	2009	2008
Shares outstanding	137,775,567	136,486,339	135,369,509
Treasury shares	673,472	662,410	683,958

At December 31, 2010, the Company had 1,738,619 shares of authorized but unissued Series Preferred Stock, \$1.00 par value.

The Company maintains a universal shelf registration with the Securities and Exchange Commission to allow for the potential future sale by the Company, from time to time, in one or more public offerings, of an indeterminate amount of our common stock, preferred stock, debt securities and other securities specified therein at indeterminate prices.

In August 2006, the Company entered into a forward equity sale agreement for 3,525,000 shares of common stock with a third-party (the "forward purchaser") and as of June 27, 2008, no shares remain under contract. In connection with the forward equity sale agreement, the forward purchaser borrowed an equal number of shares of the Company's common stock from stock lenders and sold the borrowed shares to the public. The Company did not receive any proceeds from the sale of its common stock by the forward purchaser until settlement of the shares underlying the forward equity sale agreement. Under the forward equity sale agreement, the Company could elect to settle by means of a physical share settlement, net cash settlement, or net share settlement, on a settlement date or dates, no later than August 1, 2008. The actual proceeds received by the Company varied depending upon the Company's price per share on the settlement date, the number of shares designated for settlement on that settlement date and the method of settlement. The forward equity sale agreement provided that the forward price would be computed based upon the initial forward price of \$21.857 per share.

In March 2008, the Company elected to perform a net cash settlement under the forward equity sale agreement of 750,000 shares of the Company's common stock, which resulted in a payment of \$2,662 by the forward purchaser to the Company. No shares were issued in connection with the net cash settlement and the payment received was recorded as an increase to stockholders' equity.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

In June 2008, the Company elected to perform a net cash settlement under the forward equity sale agreement of 1,775,000 shares of the Company's common stock, which resulted in a payment of \$8,349 by the forward purchaser to the Company. No shares were issued in connection with the net cash settlement and the payment received was recorded as an increase to stockholders' equity. Also in June 2008, the Company settled the remaining 1,000,000 shares under the forward equity sale agreement by physical settlement. As a result, the Company issued 1,000,000 shares of common stock and received proceeds from the forward purchaser of \$22,318 or \$22.318 per share. The forward equity sale agreement has now been completely settled and there are no additional shares subject to the forward equity sale agreement. The Company used the proceeds received upon settlement of the forward equity sale agreement to fund the Company's future capital expenditure program and acquisitions, and for working capital and other general corporate purposes.

The Company has a shelf registration statement filed with the Securities and Exchange Commission to permit the offering from time to time of shares of common stock and shares of preferred stock in connection with acquisitions. During 2009, 164,052 shares of common stock totaling \$2,909 were issued by the Company to acquire a water system. During 2008, the Company issued 125,723 shares of common stock totaling \$2,000 to acquire a wastewater system. The balance remaining available for use under the acquisition shelf registration as of December 31, 2010 is 1,904,487 shares. The form and terms of any securities issued under these shelf registrations will be determined at the time of issuance.

The Company has a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that allows reinvested dividends to be used to purchase shares of common stock at a five percent discount from the current market value. Under the direct stock purchase program, shares are purchased by investors at market price. The shares issued under the Plan are either original issue shares or shares purchased by the Company's transfer agent in the open-market. During 2010, 2009, and 2008, under the dividend reinvestment portion of the Plan, 670,538, 695,544, and 585,206 original issue shares of common stock were sold providing the Company with proceeds of \$11,966, \$11,337, and \$10,435, respectively.

The Board of Directors has authorized the Company to purchase its common stock, from time to time, in the open market or through privately negotiated transactions. The Company has not repurchased any shares under this authorization since 2000. As of December 31, 2010, 548,278 shares remain available for repurchase.

The Company's accumulated other comprehensive income is reported in the stockholders' equity section of the consolidated balance sheets, the consolidated statements of equity and the related other comprehensive income is reported in the consolidated statements of income and comprehensive income. The Company reports its unrealized gains on investments as other comprehensive income and accumulated other comprehensive income. The Company recorded a regulatory asset for its underfunded status of its pension and postretirement benefit plans that would otherwise be charged to other comprehensive income, as it anticipates recovery of its costs through customer rates.

Note 13 — Net Income per Common Share and Equity per Common Share

Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock options is included in the computation of diluted net income per share. The dilutive effect of stock options is calculated using the treasury stock method and expected proceeds upon exercise of the stock options. The following table summarizes the shares, in thousands, used in computing basic and diluted net income per share:

	Years ended December 31,		
	2010	2009	2008
Average common shares outstanding during the period for basic computation	136,948	135,816	134,302
Effect of dilutive securities:			
Employee stock options	348	313	403
Average common shares outstanding during the period for diluted computation	<u>137,296</u>	<u>136,129</u>	<u>134,705</u>

For the years ended December 31, 2010, 2009, and 2008, employee stock options to purchase 2,024,151, 2,694,837, and 2,179,414 shares of common stock, respectively, were excluded from the calculations of diluted net income per share as the calculated proceeds from the options' exercise were greater than the average market price of the Company's common stock during these periods.

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
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Equity per common share was \$8.52 and \$8.12 at December 31, 2010 and 2009, respectively. These amounts were computed by dividing Aqua America stockholders' equity by the number of shares of common stock outstanding at the end of each year.

Note 14 — Employee Stock and Incentive Plan

Under the Company's 2009 Omnibus Equity Compensation Plan (the "2009 Plan"), as approved by the Company's shareholders to replace the 2004 Equity Compensation Plan (the "2004 Plan"), stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to employees, non-employee directors, and consultants and advisors. The 2009 Plan authorizes 5,000,000 shares for issuance under the plan. A maximum of 50% of the shares available for issuance under the 2009 Plan may be issued as restricted stock and the maximum number of shares that may be subject to grants under the Plan to any one individual in any one year is 200,000. Awards under the 2009 Plan are made by a committee of the Board of Directors. At December 31, 2010, 4,324,907 shares underlying stock option and restricted stock awards were still available for grant under the 2009 Plan. No further grants may be made under the 2004 plan.

Stock Options — The following table provides compensation costs for share-based compensation:

	Years ended December 31,		
	2010	2009	2008
Share-based compensation within operations and maintenance expense	\$ 2,064	\$ 2,531	\$ 2,997
Income tax benefit	766	483	323
Capitalized compensation costs within property plant and equipment	—	74	391

The Company estimates forfeitures in calculating compensation expense instead of recognizing these forfeitures and the resulting reduction in compensation expense as they occur. The estimate of forfeitures will be adjusted over the vesting period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. The recording of compensation expense for share-based compensation has no impact on net cash flows and results in the reclassification on the consolidated cash flow statements of related tax benefits from cash flows from operating activities to cash flows from financing activities to the extent these tax benefits exceed the associated compensation cost.

Options under the plans were issued at the closing market price of the stock on the day of the grant. Options are exercisable in installments of 33% annually, starting one year from the date of the grant and expire 10 years from the date of the grant. The fair value of each option is amortized into compensation expense on a straight-line basis over their respective 36 month vesting period, net of estimated forfeitures. The fair value of options was estimated at the grant date using the Black-Scholes option-pricing model, which relies on assumptions that require management's judgment. The following table provides the assumptions used in the pricing model for grants and the resulting grant date fair value of stock options granted in the periods reported:

	Years ended December 31,		
	2010	2009	2008
Expected term (years)	6.0	5.3	5.2
Risk-free interest rate	2.8%	2.2%	3.0%
Expected volatility	26.7%	31.3%	23.7%
Dividend yield	3.3%	3.0%	2.2%
Grant date fair value per option	\$ 3.49	\$ 4.37	\$ 4.12

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.

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The following table summarizes stock option transactions for the year ended December 31, 2010:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Options:				
Outstanding, beginning of year	3,895,329	\$ 19.17		
Granted	459,837	17.14		
Forfeited	(15,943)	18.95		
Expired	(65,330)	23.82		
Exercised	(434,696)	13.06		
Outstanding, end of year	<u>3,839,197</u>	<u>\$ 19.54</u>	<u>5.7</u>	<u>\$ 14,774</u>
Exercisable, end of year	<u>2,826,099</u>	<u>\$ 19.95</u>	<u>4.7</u>	<u>\$ 10,659</u>

The intrinsic value of stock options is the amount by which the market price of the stock on a given date, such as at the end of the period or on the day of exercise, exceeded the closing market price of stock on the date of grant. The following table summarizes the aggregate intrinsic value of stock options exercised and the fair value of stock options which became vested:

	Years ended December 31,		
	2010	2009	2008
Intrinsic value of options exercised	\$ 2,700	\$ 1,393	\$ 1,497
Fair value of options vested	2,373	2,266	3,651

The following table summarizes information about the options outstanding and options exercisable as of December 31, 2010:

	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Range of prices:					
\$10.00 - 12.99	412,744	1.7	\$ 12.32	412,744	\$ 12.32
\$13.00 - 16.99	440,774	3.1	15.75	440,774	15.75
\$17.00 - 19.99	1,519,586	7.1	18.26	685,684	18.54
\$20.00 - 22.99	524,177	7.2	20.18	344,981	20.18
\$23.00 - 27.99	495,283	6.2	23.26	495,283	23.26
\$28.00 - 29.99	446,633	5.3	29.46	446,633	29.46
	<u>3,839,197</u>	<u>5.7</u>	<u>\$ 19.54</u>	<u>2,826,099</u>	<u>\$ 19.95</u>

As of December 31, 2010, there was \$2,063 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans. The cost is expected to be recognized over a weighted average period of 1.0 years.

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Notes to Consolidated Financial Statements (continued)
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Restricted Stock — Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. Restricted stock awards result in compensation expense which is equal to the fair market value of the stock on the date of the grant and is amortized ratably over the restriction period. The Company expects forfeitures of restricted stock to be de minimis. During the years ended December 31, 2010, 2009, and 2008, the company recorded stock-based compensation related to restricted stock awards as operations and maintenance expense in the amounts of \$1,967, \$1,072, and \$873, respectively. The following table summarizes nonvested restricted stock transactions for the year ended December 31, 2010:

	Number of Shares	Weighted Average Fair Value
Nonvested shares at beginning of period	102,918	\$ 19.73
Granted	197,288	17.19
Vested	(64,587)	19.66
Forfeited	(2,232)	17.23
Nonvested shares at end of period	<u>233,387</u>	<u>\$ 17.62</u>

The following table summarizes the value of restricted stock awards at the date the restrictions lapsed:

	Years ended December 31,		
	2010	2009	2008
Intrinsic value of restricted stock awards vested	\$ 1,147	\$ 746	\$ 768
Fair value of restricted stock awards vested	1,270	887	901

As of December 31, 2010, \$2,504 of unrecognized compensation costs related to restricted stock is expected to be recognized over a weighted average period of 1.1 years. The aggregate intrinsic value of restricted stock as of December 31, 2010 was \$5,247. The aggregate intrinsic value of restricted stock is based on the number of shares of restricted stock and the market value of the Company's common stock as of the period end date.

Note 15 — Pension Plans and Other Postretirement Benefits

The Company maintains qualified, defined benefit pension plans that cover a substantial portion of its full-time employees who were hired prior to April 1, 2003. Retirement benefits under the plans are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund the plans annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations over time. To offset certain limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Supplemental Pension Benefit Plan for Salaried Employees in order to prevent certain employees from being penalized by these limitations. The Company also has non-qualified Supplemental Executive Retirement Plans for certain current and retired employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow. Employees hired after April 1, 2003 may participate in a defined contribution plan that provides a Company matching contribution on amounts contributed by participants and an annual profit-sharing contribution based upon a percentage of the eligible participants' compensation.

In addition to providing pension benefits, the Company offers certain Postretirement Benefits other than Pensions ("PBOPs") to employees hired before April 1, 2003 and retiring with a minimum level of service. These PBOPs include continuation of medical and prescription drug benefits, or a cash contribution toward such benefits, for eligible retirees and life insurance benefits for certain eligible retirees. The Company funds its gross PBOP cost through various trust accounts. The benefits of retired officers and certain other retirees are paid by the Company and not from plan assets due to limitations imposed by the Internal Revenue Code.

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

	Pension Benefits	Other Postretirement Benefits
Years:		
2011	\$ 9,659	\$ 1,521
2012	10,399	1,622
2013	11,098	1,739
2014	12,055	1,977
2015	12,866	2,160
2016 - 2020	76,100	13,469

The changes in the benefit obligation and fair value of plan assets, the funded status of the plans and the assumptions used in the measurement of the company's benefit obligation are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Change in benefit obligation:				
Benefit obligation at January 1,	\$ 217,837	\$ 204,713	\$ 41,477	\$ 37,012
Service cost	4,527	4,349	1,130	1,080
Interest cost	12,857	12,524	2,442	2,288
Actuarial loss	10,927	6,415	3,595	1,885
Plan participants' contributions	—	—	173	164
Benefits paid	(12,145)	(11,642)	(1,045)	(952)
Plan amendments	630	—	—	—
Settlements	258	1,478	—	—
Benefit obligation at December 31,	<u>234,891</u>	<u>217,837</u>	<u>47,772</u>	<u>41,477</u>
Change in plan assets:				
Fair value of plan assets at January 1,	138,599	112,177	26,524	24,054
Actual return on plan assets	19,565	21,014	2,652	1,825
Employer contributions	13,132	17,050	1,351	1,421
Benefits paid	(12,145)	(11,642)	(854)	(776)
Fair value of plan assets at December 31,	<u>159,151</u>	<u>138,599</u>	<u>29,673</u>	<u>26,524</u>
Funded status of plan:				
Net amount recognized at December 31,	<u>\$ 75,740</u>	<u>\$ 79,238</u>	<u>\$ 18,099</u>	<u>\$ 14,953</u>

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The Company's pension plans had an accumulated benefit obligation of \$205,727 and \$190,579 at December 31, 2010 and 2009, respectively. The following table provides the net liability recognized on the consolidated balance sheets at December 31,:

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Current liability	\$ (242)	\$ (203)	\$ —	\$ —
Noncurrent liability	(75,498)	(79,035)	(18,099)	(14,953)
Net liability recognized	<u>\$ (75,740)</u>	<u>\$ (79,238)</u>	<u>\$ (18,099)</u>	<u>\$ (14,953)</u>

At December 31, 2010 and 2009, the Company's pension plans had benefit obligations in excess of its plan assets. The following tables provide the projected benefit obligation, the accumulated benefit obligation and fair market value of the plan assets as of December 31,:

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2010	2009
Projected benefit obligation	\$ 234,891	\$ 217,837
Fair value of plan assets	159,151	138,599

	Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2010	2009
Accumulated benefit obligation	\$ 205,727	\$ 190,579
Fair value of plan assets	159,151	138,599

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

	Pension Benefits			Other Postretirement Benefits		
	2010	2009	2008	2010	2009	2008
Service cost	\$ 4,527	\$ 4,349	\$ 4,478	\$ 1,130	\$ 1,080	\$ 1,076
Interest cost	12,857	12,524	12,253	2,442	2,288	2,167
Expected return on plan assets	(11,258)	(9,316)	(12,099)	(1,869)	(1,688)	(1,728)
Amortization of transition obligation (asset)	—	(182)	(209)	104	104	104
Amortization of prior service cost	189	151	260	(268)	(279)	(281)
Amortization of actuarial loss	4,408	5,152	173	619	587	177
Amortization of regulatory asset	—	—	—	137	137	137
Settlement loss	929	586	—	—	—	—
Capitalized costs	(3,416)	(2,721)	(2,569)	(508)	(363)	(508)
Net periodic benefit cost	<u>\$ 8,236</u>	<u>\$ 10,543</u>	<u>\$ 2,287</u>	<u>\$ 1,787</u>	<u>\$ 1,866</u>	<u>\$ 1,144</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
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The Company records the underfunded status of its pension and other postretirement benefit plans on its consolidated balance sheets and records a regulatory asset for these costs that would otherwise be charged to stockholders' equity, as the Company anticipates recoverability of the costs through customer rates. The Company's pension and other postretirement benefit plans were underfunded at December 31, 2010 and 2009. Changes in the plans' funded status will affect the assets and liabilities recorded on the balance sheet. Due to the Company's regulatory treatment, the recognition of the funded status is recorded as a regulatory asset pursuant to the FASB's accounting guidance for regulated operations.

The following table provides the amounts recognized in regulatory assets that have not been recognized as components of net periodic benefit cost as of December 31,:

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Net actuarial loss	\$ 59,718	\$ 62,178	\$ 13,317	\$ 11,123
Prior service cost (credit)	954	512	(1,229)	(1,497)
Transition obligation (asset)	—	—	208	311
Total recognized in regulatory assets	<u>\$ 60,672</u>	<u>\$ 62,690</u>	<u>\$ 12,296</u>	<u>\$ 9,937</u>

The estimated net actuarial loss, prior service cost and transition asset for the Company's pension plans that will be amortized in 2011 from the regulatory assets into net periodic benefit cost are \$3,873, \$198, and \$0, respectively. The estimated net actuarial loss, prior service credit and transition obligation for the Company's other postretirement benefit plans that will be amortized in 2011 from regulatory assets into net periodic benefit cost are \$681, \$268, and \$104, respectively.

Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from the Company's actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes.

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

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Weighted Average Assumptions Used to Determine Benefit Obligations as of December 31,				
Discount rate	5.75%	5.91%	5.75%	5.91%
Rate of compensation increase	4.0-4.5%	4.0-4.5%	4.0%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Benefit Obligations as of December 31,				
Health care cost trend rate	n/a	n/a	9.0%	8.0%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2019	2016
Weighted Average Assumptions Used to Determine Net Periodic Benefit Costs for Years Ended December 31,				
Discount rate	5.91%	6.11%	5.91%	6.11%
Expected return on plan assets	8.0%	8.0%	5.33-8.0%	5.33-8.0%
Rate of compensation increase	4.0 - 4.5%	4.0 - 4.5%	4.0%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Net Periodic Benefit Costs for Years Ended December 31,				
Health care cost trend rate	n/a	n/a	8.0%	7.5%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2016	2014

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

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Assumed health-care trend rates have a significant effect on the expense and liabilities for other postretirement benefit plans. The health care trend rate is based on historical rates and expected market conditions. A one-percentage point change in the assumed health-care cost trend rates would have the following effects:

	1-Percentage- Point Increase	1-Percentage- Point Decrease
Effect on the health-care component of the accrued other postretirement benefit obligation	\$ 3,135	\$ (2,970)
Effect on aggregate service and interest cost components of net periodic postretirement health-care benefit cost	\$ 257	\$ (245)

The Company's discount rate assumption was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to provide for the projected benefit payments of the plan. The selected bond portfolio was derived from a universe of Aa-graded corporate bonds, all of which were noncallable (or callable with make-whole provisions), and have at least \$50 million in outstanding value. The discount rate was then developed as the single rate that equates the market value of the bonds purchased to the discounted value of the plan's benefit payments. The Company's pension expense and liability (benefit obligations) increases as the discount rate is reduced. A 25 basis-point reduction in this assumption would have increased 2010 pension expense by \$730 and the pension liabilities by \$7,625.

The Company's expected return on assets is determined by evaluating the asset class return expectations with its advisors as well as actual, long-term, historical results of our asset returns. The Company's market related value of plan assets is equal to the fair value of the plan assets as of the last day of its fiscal year, and is a determinant for the expected return on assets which is a component of net pension expense. The Company's pension expense increases as the expected return on assets decreases. A 25 basis-point reduction in this assumption would have increased 2010 pension expense by \$350. For 2010, the Company used an 8.0% expected return on assets assumption and will lower this assumption to 7.75% for the calculation of pension expense for 2011. This change was made to reflect the Company's expectation of long-term market returns given the Company's view of capital market conditions, as well as the lower interest rate environment that is currently being experienced. The Company believes its actual long-term asset allocation on average will approximate the targeted allocation. The Company's investment strategy is to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories. Investment returns are compared to benchmarks that include the S&P 500 Index, the Barclays Capital Intermediate Government/Credit Index, and a combination of the two indices. The Pension Committee meets semi-annually to review plan investments and management monitors investment performance quarterly through a performance report prepared by an external consulting firm.

The Company's pension plan asset allocation and the target allocation by asset class are as follows:

Asset Class:	2011 Target Allocation	Percentage of Plan Assets at December 31,	
		2010	2009
Equity securities	50 to 75%	70%	61%
Debt securities	25 to 50%	24%	27%
Cash	0%	6%	11%
Other	0%	0%	1%
Total	100%	100%	100%

AQUA AMERICA, INC. AND SUBSIDIARIES

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

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

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

The fair value of the Company's pension plans' assets at December 31, 2009 by asset class are as follows:

	Total	Level 1	Level 2	Level 3
Asset Class:				
Equity securities (a)				
Common stocks	\$ 75,519	\$ 75,519	\$ —	\$ —
Mutual funds	9,295	9,295	—	—
Debt securities (b)				
U.S. Treasury and government agency bonds	14,567	—	14,567	—
Corporate and foreign bonds	10,997	—	10,997	—
Mutual funds	11,361	11,361	—	—
Common / collective trust	344	—	344	—
Cash (c)	15,245	—	15,245	—
Other (d)	1,271	—	—	1,271
Total pension assets	<u>\$ 138,599</u>	<u>\$ 96,175</u>	<u>\$ 41,153</u>	<u>\$ 1,271</u>

- (a) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in mutual funds, which invest in common stocks, are valued using the net asset value per unit as obtained from quoted market prices for the mutual funds.
- (b) Investments in U.S. Treasury and government agency bonds and corporate and foreign bonds are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market information to value the fixed income securities. Investments in mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices for the mutual fund. Investment in the common /collective trust was valued using the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment manager.
- (c) Cash is comprised of money market funds, which are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.
- (d) Other was comprised of a hedge fund investment, which was valued using the estimated fair value as determined by the fair value presented in the managed hedge fund's annual financial statements.

Equity securities include Aqua America, Inc. common stock in the amounts of \$10,496 or 6.6% and \$7,911 or 5.7% of total pension plans' assets as of December 31, 2010 and 2009, respectively.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

The changes in the fair value for the pension assets valued using significant unobservable inputs (Level 3) for the years ended December 31, 2010 and 2009 was due to the following:

	2010	2009
Balance at January 1,	\$ 1,271	\$ 1,157
Actual return on plan assets:		
Relating to assets still held at the reporting date	—	114
Relating to assets sold during the period	7	—
Purchases, sales, and settlements	(1,278)	—
Transfers to / from level 3	—	—
Balance at December 31,	<u>\$ —</u>	<u>\$ 1,271</u>

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

Asset Class:	2011 Target Allocation	Percentage of Plan Assets at December 31,	
		2010	2009
Equity securities	50 to 75%	60%	32%
Debt securities	25 to 50%	33%	5%
Cash	0%	7%	63%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

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

AQUA AMERICA, INC. AND SUBSIDIARIES

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

The fair value of the Company's other postretirement benefit plans' assets at December 31, 2009 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
Equity securities (a)				
Common stocks	\$ 8,413	\$ 8,413	\$ —	\$ —
Debt securities (b)				
Corporate and foreign bonds	1,248	—	1,248	—
Cash (c)	16,863	—	16,863	—
Total other postretirement assets	<u>\$ 26,524</u>	<u>\$ 8,413</u>	<u>\$ 18,111</u>	<u>\$ —</u>

- (a) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in mutual funds, which invest in common stocks, are valued using the net asset value per unit as obtained from quoted market prices for the mutual funds.
- (b) Investments in U.S. Treasury and government agency bonds and corporate and foreign bonds are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market information to value the fixed income securities. Investments in mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices for the mutual fund.
- (c) Cash is comprised of money market funds, which are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and the Company's funding policy, during 2011 our pension contribution is expected to be approximately \$17,216. The Company's funding of its PBOP cost during 2011 is expected to approximate \$2,012.

The Company has 401(k) savings plans that cover substantially all employees. The Company makes matching contributions that are initially invested in Aqua America, Inc. common stock based on a percentage of an employee's contribution, subject to certain limitations. Participants may diversify their Company matching account balances into other investments offered under the 401(k) savings plans. The Company's matching contribution, recorded as compensation expense, was \$1,560, \$1,572, and \$1,449, for the years ended December 31, 2010, 2009, and 2008, respectively.

Note 16 — Water and Wastewater Rates

On June 17, 2010, the Pennsylvania Public Utility Commission ("PAPUC") granted the Company's operating subsidiary in Pennsylvania a water rate increase designed to increase total operating revenues by \$23,600, on an annualized basis. The rates in effect at the time of the filing included \$24,256 in Distribution System Improvement Charges ("DSIC") or 7.5% above prior base rates. Consequently, the total base rates increased by \$47,856 since the last base rate increase and the DSIC was reset to zero.

On July 31, 2008, the PAPUC granted the Company's operating subsidiary in Pennsylvania a water rate increase designed to increase total operating revenues by \$34,428, on an annualized basis. The rates in effect at the time of the filing included \$14,269 in Distribution System Improvement Charges ("DSIC") or 5% above prior base rates. Consequently, the total base rates increased by \$48,697 since the last base rate increase and the DSIC was reset to zero.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

On September 23, 2008, the Texas Commission on Environmental Quality ("TCEQ") issued its final ruling with a unanimous decision approving the rate application that was filed in 2004 by the Company's operating subsidiary in Texas to increase rates, on an annualized basis, by \$11,920 over a multi-year period beginning in 2004. The application sought to increase annual revenues in phases and was accompanied by a plan to defer and amortize a portion of the Company's depreciation, operating and other tax expense over a similar multi-year period, such that the impact on operating income approximated the requested amount during the first years that the new rates were in effect. The Company commenced billing for the requested rates and implemented the deferral plan in 2004. As a result of the final order in 2008, the regulatory asset for the deferred operating costs and rate case expenses was set at \$13,697. As of February 1, 2009, recovery of the regulatory assets for the deferred operating costs and rate case expenses began through two surcharge mechanisms and the surcharge billings were completed in December 2010. The final order had been appealed to the TCEQ by two parties, and the TCEQ exercised its legal authority to take no action within the required period, therefore, affirming the TCEQ's approval decision. Thereafter, the appealing parties filed suit against the TCEQ in an effort to appeal the order. On April 15, 2010, a hearing on the appeal of the TCEQ's approval decision was held in the Travis County Texas District Court, which resulted in the TCEQ's final order being upheld by the District Court Judge. The Travis County District Court Judge's ruling is no longer subject to appeal.

The Company's operating subsidiaries, excluding the Pennsylvania water awards discussed above, were allowed annual rate increases of \$20,997 in 2010, \$16,130 in 2009, and \$18,310 in 2008, represented by fourteen, eight, and twenty-two rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately \$8,341, \$11,723, and \$7,531 in 2010, 2009, and 2008, respectively.

Six states in which the Company operates permit water utilities, and in two states wastewater utilities, to add a surcharge to their water or wastewater bills to offset the additional depreciation and capital costs related to infrastructure system replacement and rehabilitation projects completed and placed into service between base rate filings. Currently, Pennsylvania, Illinois, Ohio, New York, Indiana, and Missouri allow for the use of infrastructure rehabilitation surcharges. These surcharge mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped as a percentage of base rates, generally at 5% to 9% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. Infrastructure rehabilitation surcharges provided revenues in 2010, 2009, and 2008 of \$14,207, \$16,901, and \$11,771, respectively.

Note 17 — Segment Information

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

One operating segment is included within the other category below. This segment is not quantitatively significant and is comprised of the Company's businesses that provide sludge hauling, septage and grease services, backflow prevention services, and certain other non-regulated water and wastewater services. In addition to this segment, other is comprised of other business activities not included in the reportable segment, including corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include certain general and administrative expenses, and interest expense.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

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

	As of or For the Year Ended December 31, 2010			As of or For the Year Ended December 31, 2009		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$ 714,507	\$ 11,565	\$ 726,072	\$ 658,905	\$ 11,634	\$ 670,539
Operations and maintenance expense	269,699	10,263	279,962	260,587	9,473	270,060
Depreciation	109,400	(1,339)	108,061	104,592	(1,591)	103,001
Operating income	271,033	1,043	272,076	237,054	405	237,459
Interest expense, net of AFUDC	66,777	3,813	70,590	65,342	394	65,736
Income tax	80,650	(556)	80,094	67,886	(44)	67,842
Net income (loss) attributable to common shareholders	124,050	(75)	123,975	104,272	81	104,353
Capital expenditures	326,218	408	326,626	282,240	1,344	283,584
Total assets	3,991,493	80,973	4,072,466	3,676,954	72,908	3,749,862
Goodwill	36,113	4,121	40,234	38,962	4,121	43,083

	As of or For the Year Ended December 31, 2008		
	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$ 615,162	\$ 11,810	\$ 626,972
Operations and maintenance expense	251,799	10,323	262,122
Depreciation	90,426	(1,641)	88,785
Operating income	223,941	1,860	225,801
Interest expense, net of AFUDC	62,880	2,018	64,898
Income tax	64,663	(79)	64,584
Net income attributable to common shareholders	97,645	273	97,918
Capital expenditures	267,335	83	267,418
Total assets	3,413,836	72,503	3,486,339
Goodwill	36,886	4,121	41,007

Selected Quarterly Financial Data (Unaudited)
(In thousands of dollars, except per share amounts)

Aqua America, Inc. and Subsidiaries

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2010					
Operating revenues	\$ 160,517	\$ 178,444	\$ 207,797	\$ 179,314	\$ 726,072
Operations and maintenance expense	67,601	69,310	72,968	70,083	279,962
Operating income	50,684	66,075	89,587	65,730	272,076
Net income attributable to common shareholders	21,511	29,855	43,751	28,858	123,975
Basic net income per common share	0.16	0.22	0.32	0.21	0.91
Diluted net income per common share	0.16	0.22	0.32	0.20	0.90
Dividend paid per common share	0.145	0.145	0.145	0.155	0.590
Dividend declared per common share	0.145	0.145	0.300	—	0.590
Price range of common stock					
- high	17.88	18.73	20.99	22.97	22.97
- low	16.45	16.52	17.38	20.20	16.45
2009					
Operating revenues	\$ 154,487	\$ 167,333	\$ 180,826	\$ 167,893	\$ 670,539
Operations and maintenance expense	66,989	68,549	68,488	66,034	270,060
Operating income	46,766	58,864	71,455	60,374	237,459
Net income attributable to common shareholders	18,371	25,853	33,470	26,659	104,353
Basic net income per common share	0.14	0.19	0.25	0.20	0.77
Diluted net income per common share	0.14	0.19	0.25	0.20	0.77
Dividend paid per common share	0.135	0.135	0.135	0.145	0.550
Dividend declared per common share	0.135	0.135	0.280	—	0.550
Price range of common stock					
- high	21.50	20.37	18.34	17.89	21.50
- low	16.59	16.12	16.50	15.39	15.39

High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape. The cash dividend paid in December 2010 of \$0.155 was declared in August 2010, and the cash dividend paid in December 2009 of \$0.145 was declared in August 2009.

Summary of Selected Financial Data (Unaudited)
(in thousands of dollars, except per share amounts)

Aqua America, Inc. and Subsidiaries

Years ended December 31,	2010	2009	2008	2007	2006
PER COMMON SHARE:					
Net income					
Basic	\$ 0.91	\$ 0.77	\$ 0.73	\$ 0.72	\$ 0.70
Diluted	0.90	0.77	0.73	0.71	0.70
Cash dividends declared and paid	0.59	0.55	0.51	0.48	0.44
Return on average Aqua America stockholders' equity	10.9%	9.6%	9.6%	10.0%	10.6%
Book value at year end	\$ 8.52	\$ 8.12	\$ 7.82	\$ 7.32	\$ 6.96
Market value at year end	22.48	17.51	20.59	21.20	22.78
INCOME STATEMENT HIGHLIGHTS:					
Operating revenues	\$ 726,072	\$ 670,539	\$ 626,972	\$ 602,499	\$ 533,491
Depreciation and amortization	121,067	114,939	94,300	88,011	75,041
Interest expense, net (a)	75,652	65,736	64,898	63,968	54,491
Income before income taxes	204,069	172,195	162,502	155,542	152,250
Provision for income taxes	80,094	67,842	64,584	60,528	60,246
Net income attributable to common shareholders	123,975	104,353	97,918	95,014	92,004
BALANCE SHEET HIGHLIGHTS:					
Total assets	\$ 4,072,466	\$ 3,749,862	\$ 3,486,339	\$ 3,216,136	\$ 2,867,853
Property, plant and equipment, net	3,469,258	3,214,559	2,985,777	2,782,018	2,495,945
Aqua America stockholders' equity	1,174,254	1,108,904	1,058,446	976,298	921,630
Long-term debt, including current portion	1,560,389	1,446,134	1,255,401	1,238,980	982,815
Total debt	1,650,057	1,473,621	1,335,990	1,295,898	1,101,965
ADDITIONAL INFORMATION:					
Net cash flows from operating activities	\$ 263,842	\$ 258,590	\$ 221,506	\$ 194,168	\$ 170,726
Capital additions	326,626	283,584	267,418	238,140	271,706
Net cash expended for acquisitions of utility systems and other	8,625	3,373	14,659	51,226	11,848
Dividends on common stock	80,907	74,729	68,504	63,763	58,023
Number of utility customers served (b) (c)	962,970	953,437	945,540	949,378	926,823
Number of shareholders of common stock	27,274	27,984	28,565	28,286	28,348
Common shares outstanding (000)	137,776	136,486	135,370	133,400	132,326
Employees (full-time)	1,632	1,632	1,638	1,585	1,540

- (a) Net of allowance for funds used during construction and interest income.
- (b) 2006 includes 44,792 customers associated with the New York Water Service Corporation acquisition which closed on January 1, 2007. The operating results of this acquisition have been reported in our consolidated financial statements beginning January 1, 2007.
- (c) 2008 was impacted by the loss of 22,519 utility customers associated with two utility systems disposed of.

AQUA AMERICA, INC. AND SUBSIDIARIES

The following table lists the significant subsidiaries and other active subsidiaries of Aqua America, Inc. at December 31, 2010:

Aqua Pennsylvania, Inc. (Pennsylvania)
Aqua Resources, Inc. (Delaware)
Aqua Services, Inc. (Pennsylvania)
Aqua Ohio, Inc. (Ohio)
Aqua Illinois, Inc. (Illinois)
Aqua New Jersey, Inc. (New Jersey)
Aqua Maine, Inc. (Maine)
Aqua North Carolina, Inc. (North Carolina)
Aqua Texas, Inc. (Texas)
Aqua Indiana, Inc. (Indiana)
Aqua Virginia, Inc. (Virginia)
Aqua Utilities Florida, Inc. (Florida)
Aqua Missouri, Inc. (Missouri)
Aqua New York, Inc. (New York)
Aqua Georgia, Inc. (Georgia)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-61772, 333-42275, 333-104290, 333-122900, 333-130400, 333-152885 and 333-156058), on Form S-4 (No. 333-93243), and on Form S-8 (Nos. 033-52557, 033-53689, 333-70859, 333-81085, 333-61768, 333-107673, 333-116776, 333-126042, 333-148206, 333-156047, and 333-159897) of Aqua America, Inc. of our report dated February 25, 2011 relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP
Philadelphia, Pennsylvania
February 25, 2011

CERTIFICATION

I, Nicholas DeBenedictis, certify that:

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

Date: February 25, 2011

Nicholas DeBenedictis

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer

CERTIFICATION

I, David P. Smeltzer, certify that:

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

Date: February 25, 2011

David P. Smeltzer

David P. Smeltzer
Chief Financial Officer

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2010 of Aqua America, Inc. (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Nicholas DeBenedictis, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Nicholas DeBenedictis

Nicholas DeBenedictis

Chairman, President and Chief Executive Officer

February 25, 2011

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2010 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
Chief Financial Officer
February 25, 2011

