

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

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

For the transition period from _____ to _____

Commission File Number 1-6659

AQUA AMERICA, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-1702594
(I.R.S. Employer
Identification No.)

762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania
(Address of principal executive offices)

19010 -3489
(Zip Code)

(610) 527-8000

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 23, 2013: 140,742,383

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AQUA AMERICA, INC. AND SUBSIDIARIES

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

	March 31, 2013	December 31, 2012
Assets		
Property, plant and equipment, at cost	\$5,107,675	\$5,050,400
Less: accumulated depreciation	<u>1,136,513</u>	<u>1,114,237</u>
Net property, plant and equipment	<u>3,971,162</u>	<u>3,936,163</u>
Current assets:		
Cash and cash equivalents	19,353	5,521
Accounts receivable and unbilled revenues, net	89,490	92,921
Income tax receivable	16,082	16,082
Deferred income taxes	32,855	37,818
Inventory, materials and supplies	11,994	11,757
Prepayments and other current assets	10,336	10,372
Assets of discontinued operations held for sale	<u>32,863</u>	<u>86,423</u>
Total current assets	<u>212,973</u>	<u>260,894</u>
Regulatory assets	536,695	521,264
Deferred charges and other assets, net	50,701	49,852
Investment in joint venture	42,471	38,620
Funds restricted for construction activity	23,180	23,572
Goodwill	<u>28,142</u>	<u>28,152</u>
	<u>\$4,865,324</u>	<u>\$4,858,517</u>
Liabilities and Equity		
Aqua America stockholders' equity:		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 141,507,824 and 140,943,621 in 2013 and 2012	\$ 70,754	\$ 70,472
Capital in excess of par value	730,419	718,482
Retained earnings	633,151	611,303
Treasury stock, at cost, 830,113 and 776,355 share in 2013 and 2012	(16,159)	(14,668)
Accumulated other comprehensive income	<u>106</u>	<u>115</u>
Total Aqua America stockholders' equity	1,418,271	1,385,704
Noncontrolling interest	<u>194</u>	<u>188</u>
Total equity	<u>1,418,465</u>	<u>1,385,892</u>
Long-term debt, excluding current portion	1,464,481	1,543,954
Commitments and contingencies (See Note 12)	—	—
Current liabilities:		
Current portion of long-term debt	83,083	45,038
Loans payable	97,837	80,383
Accounts payable	31,600	55,506
Accrued interest	21,326	14,026
Accrued taxes	22,032	28,214
Other accrued liabilities	26,689	27,360
Liabilities of discontinued operations held for sale	<u>19,388</u>	<u>23,637</u>
Total current liabilities	<u>301,955</u>	<u>274,164</u>
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	752,367	723,367
Customers' advances for construction	68,848	71,595
Regulatory liabilities	238,898	241,363
Other	<u>155,812</u>	<u>157,978</u>
Total deferred credits and other liabilities	<u>1,215,925</u>	<u>1,194,303</u>
Contributions in aid of construction	<u>464,498</u>	<u>460,204</u>
	<u>\$4,865,324</u>	<u>\$4,858,517</u>

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

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AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF NET INCOME
(In thousands, except per share amounts)
(UNAUDITED)

	Three Months Ended March 31,	
	2013	2012
Operating revenues	\$180,035	\$164,024
Operating expenses:		
Operations and maintenance	68,311	64,825
Depreciation	29,259	26,746
Amortization	1,370	1,121
Taxes other than income taxes	13,534	9,493
	<u>112,474</u>	<u>102,185</u>
Operating income	67,561	61,839
Other expense (income):		
Interest expense, net	19,275	19,247
Allowance for funds used during construction	(552)	(1,330)
Gain on sale of other assets	(92)	(442)
Equity loss in joint venture	656	—
Income from continuing operations before income taxes	48,274	44,364
Provision for income taxes	7,043	17,475
Income from continuing operations	41,231	26,889
Discontinued operations:		
Income from discontinued operations before income taxes	8,302	18,170
Provision for income taxes	2,968	7,155
Income from discontinued operations	5,334	11,015
Net income attributable to common shareholders	<u>\$ 46,565</u>	<u>\$ 37,904</u>
Income from continuing operations per share:		
Basic	<u>\$ 0.29</u>	<u>\$ 0.19</u>
Diluted	<u>\$ 0.29</u>	<u>\$ 0.19</u>
Income from discontinued operations per share:		
Basic	<u>\$ 0.04</u>	<u>\$ 0.08</u>
Diluted	<u>\$ 0.04</u>	<u>\$ 0.08</u>
Net income per common share:		
Basic	<u>\$ 0.33</u>	<u>\$ 0.27</u>
Diluted	<u>\$ 0.33</u>	<u>\$ 0.27</u>
Average common shares outstanding during the period:		
Basic	<u>140,332</u>	<u>138,762</u>
Diluted	<u>141,200</u>	<u>139,456</u>
Cash dividends declared per common share	<u>\$ 0.175</u>	<u>\$ 0.165</u>

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

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AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands of dollars)
(UNAUDITED)

	Three Months Ended	
	March 31,	
	2013	2012
Net income attributable to common shareholders	\$46,565	\$37,904
Other comprehensive income, net of tax:		
Unrealized holding (loss) gain on investments (1)	(9)	118
Reclassification adjustment for gain reported in net income (2) (3)	—	(166)
Comprehensive income	<u>\$46,556</u>	<u>\$37,856</u>

- (1) amounts are net of tax of \$(5) and \$63 for the periods ended March 31, 2013 and 2012, respectively.
- (2) amount is net of tax of \$90 for the period ended March 31, 2012.
- (3) amount of pre-tax gain of \$256 reclassified from accumulated other comprehensive income to gain on sale of other assets on the consolidated statements of net income for the period ended March 31, 2012.

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

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

	March 31, 2013	December 31, 2012
Aqua America stockholders' equity:		
Common stock, \$.50 par value	\$ 70,754	\$ 70,472
Capital in excess of par value	730,419	718,482
Retained earnings	633,151	611,303
Treasury stock, at cost	(16,159)	(14,668)
Accumulated other comprehensive income	106	115
Total Aqua America stockholders' equity	1,418,271	1,385,704
Noncontrolling interest	194	188
Total equity	1,418,465	1,385,892
Long-term debt:		
Long-term debt of subsidiaries (substantially secured by utility plant):		
	<u>Interest Rate Range</u>	<u>Maturity Date Range</u>
	0.00% to 0.99%	2024 to 2031
	1.00% to 1.99%	2014 to 2035
	2.00% to 2.99%	2024 to 2031
	3.00% to 3.99%	2016 to 2047
	4.00% to 4.99%	2020 to 2043
	5.00% to 5.99%	2014 to 2043
	6.00% to 6.99%	2015 to 2036
	7.00% to 7.99%	2022 to 2027
	8.00% to 8.99%	2021 to 2025
	9.00% to 9.99%	2013 to 2026
	10.40%	2018
		2,831
		28,763
		16,076
		107,425
		368,356
		320,628
		64,908
		35,511
		19,547
		34,387
		6,000
		1,004,432
Notes payable to bank under revolving credit agreement, variable rate, due March 2017		1,003,860
Unsecured notes payable:		58,000
Notes at 3.57% due 2027		50,000
Notes ranging from 4.62% to 4.87%, due 2013 through 2024		193,000
Notes ranging from 5.01% to 5.95%, due 2014 through 2037		242,132
		1,547,564
Current portion of long-term debt		83,083
Long-term debt, excluding current portion		1,464,481
Total capitalization	\$2,882,946	\$2,929,846

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

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY
(In thousands of dollars)
(UNAUDITED)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
Balance At December 31, 2012	\$70,472	\$718,482	\$611,303	\$(14,668)	\$ 115	\$ 188	\$1,385,892
Net income	—	—	46,565	—	—	6	46,571
Other comprehensive loss net of income tax of \$5	—	—	—	—	(9)	—	(9)
Dividends paid	—	—	(24,562)	—	—	—	(24,562)
Sale of stock (124,723 shares)	60	3,240	—	127	—	—	3,427
Repurchase of stock (58,218 shares)	—	—	—	(1,618)	—	—	(1,618)
Equity compensation plan (26,600 shares)	13	(13)	—	—	—	—	—
Exercise of stock options (417,340 shares)	209	7,692	—	—	—	—	7,901
Stock-based compensation	—	1,018	(155)	—	—	—	863
Balance At March 31, 2013	<u>\$70,754</u>	<u>\$730,419</u>	<u>\$633,151</u>	<u>\$(16,159)</u>	<u>\$ 106</u>	<u>\$ 194</u>	<u>\$1,418,465</u>

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

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

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 46,565	\$ 37,904
Income from discontinued operations	5,334	11,015
Income from continuing operations	41,231	26,889
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:		
Depreciation and amortization	30,629	27,867
Deferred income taxes	11,232	6,827
Provision for doubtful accounts	922	741
Stock-based compensation	1,015	1,211
Gain on sale of other assets	(92)	(442)
Net decrease in receivables, inventory and prepayments	5,133	6,285
Net increase in payables, accrued interest, accrued taxes and other accrued liabilities	584	11,186
Other	(1,704)	(4,249)
Operating cash flows from continuing operations	88,950	76,315
Operating cash flows from discontinued operations, net	36	1,618
Net cash flows from operating activities	88,986	77,933
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of \$552 and \$1,330	(59,200)	(79,609)
Acquisitions of utility systems and other, net	(10,674)	(1,297)
Additions to funds restricted for construction activity	(2)	(1,293)
Release of funds previously restricted for construction activity	394	6
Net proceeds from the sale of utility system and other assets	95	2,233
Investment in joint venture	(4,900)	(4,900)
Other	(233)	(634)
Investing cash flows used in continuing operations	(74,520)	(85,494)
Investing cash flows from discontinued operations, net	51,427	34,064
Net cash flows used in investing activities	(23,093)	(51,430)
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	800	2,619
Repayments of customers' advances	(577)	(835)
Net proceeds of short-term debt	17,453	4,643
Proceeds from long-term debt	35,010	28,112
Repayments of long-term debt	(77,991)	(28,232)
Change in cash overdraft position	(11,881)	(17,551)
Proceeds from issuing common stock	3,427	3,200
Proceeds from exercised stock options	7,901	2,005
Stock-based compensation windfall tax benefits	—	68
Repurchase of common stock	(1,618)	(683)
Dividends paid on common stock	(24,562)	(22,915)
Financing cash flows used in continuing operations	(52,038)	(29,569)
Financing cash flows (used in) from discontinued operations, net	(23)	65
Net cash flows used in financing activities	(52,061)	(29,504)
Net increase (decrease) in cash and cash equivalents	13,832	(3,001)
Cash and cash equivalents at beginning of period	5,521	8,204
Cash and cash equivalents at end of period	<u>\$ 19,353</u>	<u>\$ 5,203</u>

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

AQUA AMERICA, INC. AND SUBSIDIARIES

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

Note 1 Basis of Presentation

The accompanying consolidated balance sheets and statements of capitalization of Aqua America, Inc. and subsidiaries (the "Company") at March 31, 2013, the consolidated statements of net income and comprehensive income for the three months ended March 31, 2013 and 2012 the consolidated statements of cash flow for the three months ended March 31, 2013 and 2012 and the consolidated statement of equity for the three months ended March 31, 2013 are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present fairly the consolidated financial position, the consolidated changes in equity, the consolidated results of operations, and the consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2012. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year. The December 31, 2012 consolidated balance sheet data presented herein was derived from the Company's December 31, 2012 audited consolidated financial statements, but does not include all disclosures and notes normally provided in annual financial statements. Certain prior period amounts have been reclassified to conform to the reporting of discontinued operations (see Note 4).

Note 2 Goodwill

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

	Regulated Segment	Other	Consolidated
Balance At December 31, 2012	\$24,031	\$4,121	\$ 28,152
Reclassifications to utility plant acquisition adjustment	(10)	—	(10)
Balance At March 31, 2013	<u>\$24,021</u>	<u>\$4,121</u>	<u>\$ 28,142</u>

The reclassification of goodwill to utility plant acquisition adjustment in the table above 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.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

Note 3 Acquisitions

In March 2013, the Company acquired the water and wastewater system assets of Total Environmental Solutions, Inc. located in Clearfield County, Pennsylvania serving approximately 4,200 customers. The total purchase price consisted of \$10,350 in cash.

Note 4 Discontinued Operations and Other Disposition

Discontinued Operations – In September 2012, the Company began to market for sale its water and wastewater operations in Florida, which serve approximately 38,000 customers, and the Company’s wastewater treatment facility in Georgia. In December 2012, the Company entered into a definitive agreement to sell 80 of its water and wastewater systems in Florida to the Florida Governmental Utility Authority (“FGUA”). These 80 systems represented approximately 56% of our customers served in Florida. In March 2013, the Company completed its sale to FGUA. In addition, in March 2013, the Company sold 15 of its Florida water and wastewater systems representing approximately 9% of our customers served in Florida in separate transactions with separate buyers. The Company received total net proceeds from these sales of \$52,286, and recognized a net gain on sale of \$6,451 (\$4,193 after-tax). The Company believes it will be able to complete the sales of our remaining Florida operations by the end of the third quarter of 2013. The Company has accounted for the remainder of its Florida operations and its wastewater treatment facility in Georgia as businesses held for sale. The sale of the Company’s water and wastewater operations in Florida and Georgia will conclude the Company’s operations in these states.

In July 2011, the Company entered into a definitive agreement with Connecticut Water Service, Inc. to sell its operations in Maine, which served approximately 16,000 customers, for cash at closing plus certain assumed liabilities, including debt of \$17,364. On January 1, 2012, the Company completed the sale for net proceeds of \$36,870, and recognized a gain on sale of \$17,373 (\$10,610 after-tax) in the first quarter of 2012.

In July 2011, the Company entered into a definitive agreement with American Water Works Company, Inc. to sell its operations in New York for its book value at closing plus certain assumed liabilities, including debt of approximately \$23,000. On May 1, 2012, the Company completed the sale for net proceeds of \$36,688 in cash as adjusted pursuant to the sale agreement based on book value at closing. The Company’s New York operations served approximately 51,000 customers. In conjunction with the sale of our New York operations, we acquired additional utility systems (and approximately 59,000 customers) in Ohio, one of the larger states in Aqua America’s portfolio.

The operating results, cash flows, and financial position of the Company’s operations named above, during the periods owned, have been presented in the Company’s consolidated statements of net income, consolidated statements of cash flow, and consolidated balance sheets as discontinued operations. These operations were included in the Company’s “Regulated” segment.

AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
(UNAUDITED)

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

	Three Months Ended	
	March 31,	
	2013	2012
Operating revenues	\$ 6,010	\$ 11,131
Total operating expenses	4,160	9,744
Operating income	1,850	1,387
Other (income) expense:		
Gain on sale	(6,451)	(17,373)
Other expense, net	(1)	590
Income from discontinued operations before income taxes	8,302	18,170
Provision for income taxes	2,968	7,155
Income from discontinued operations	<u>\$ 5,334</u>	<u>\$ 11,015</u>

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

	March 31,	December 31,
	2013	2012
Property, plant and equipment, at cost	\$49,639	\$ 128,463
Less: accumulated depreciation	20,833	48,856
Net property, plant and equipment	28,806	79,607
Current assets	3,807	4,656
Regulatory assets	176	2,034
Other assets	74	126
Assets of discontinued operations held for sale	32,863	86,423
Current liabilities	8,566	2,074
Deferred income taxes and investment tax credits	1,572	5,166
Contributions in aid of construction	8,421	15,560
Other liabilities	829	837
Liabilities of discontinued operations held for sale	19,388	23,637
Net assets	<u>\$13,475</u>	<u>\$ 62,786</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

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

Other Disposition – The City of Fort Wayne, Indiana (the “City”) has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the Company’s operating subsidiaries in Indiana. In January 2008, the Company reached a settlement with the City to transition the northern portion of the system in February 2008 upon receipt of the City’s initial valuation payment of \$16,911. The settlement agreement specifically stated that the final valuation of the northern portion of the Company’s system will be determined through a continuation of the legal proceedings that were filed challenging the City’s valuation. On February 12, 2008, the Company turned over the northern portion of the system to the City upon receipt of the initial valuation payment. The proceeds received by the Company are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. The net book value of the assets relinquished has been removed from the consolidated balance sheet and the difference between the net book value and the initial payment received has been deferred and is recorded in other accrued liabilities on the Company’s consolidated balance sheet. Once the contingency is resolved and the asset valuation is finalized, through the finalization of the litigation between the Company and the City of Fort Wayne, the amounts deferred will be recognized in the Company’s consolidated statement of net income. On March 16, 2009, oral argument was held on certain procedural aspects with respect to the valuation evidence that may be presented and whether the Company is entitled to a jury trial. On October 12, 2010, the Wells County Indiana Circuit Court ruled that the Company is not entitled to a jury trial, and that the Wells County judge should review the City of Fort Wayne Board of Public Works’ assessment based upon a “capricious, arbitrary or an abuse of discretion” standard. The Company disagreed with the Court’s decision and appealed the Wells County Indiana Circuit Court’s decision to the Indiana Court of Appeals. On January 13, 2012, the Indiana Court of Appeals reached a decision upholding the Wells County Indiana Circuit Court decision. On February 10, 2012, the Company filed a petition for transfer requesting that the Indiana Supreme Court review the matter. On April 11, 2013, the Supreme Court of Indiana ruled that the statute at issue gives the Company the right to a full evidentiary hearing before a jury regarding the value of the assets and remanded the case to the trial court for a proceeding consistent with that ruling. The Company continues to evaluate its legal options with respect to this decision. Depending upon the outcome of all of the legal proceedings the Company may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The northern portion of the utility system relinquished represents approximately 0.40% of the Company’s total assets. In addition, in December 2012, the Fort Wayne City Council considered an ordinance that sought to declare it a “public convenience and necessity” to acquire certain of the Company’s utility system assets located in the southwest section of the City, and if negotiations with Fort Wayne officials were to fail, to condemn certain of the Company’s utility system assets. The first public hearing on the ordinance was held on January 22, 2013 and a subsequent hearing scheduled for February 5, 2013 was not held due to ongoing settlement discussions between the parties. The Company continues to participate in settlement discussions with the City regarding both the condemned northern portion of the system and the water utility system assets located in the southwest section of the City and has agreed to participate in the City Council proceedings regarding this matter. The Company will evaluate its legal and operational options on an ongoing basis.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

Note 5 Fair Value of Financial Instruments

The Company follows the Financial Accounting Standards Board's ("FASB") 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 quarter ended March 31, 2013.

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

The fair value of funds restricted for construction activity and loans payable are determined based on their carrying amount and utilizing level 1 methods and assumptions. As of March 31, 2013 and December 31, 2012, the carrying amount of the Company's funds restricted for construction activity was \$23,180 and \$23,572, which equates to their estimated fair value. As of March 31, 2013 and December 31, 2012, the carrying amount of the Company's loans payable was \$97,837 and \$80,383, which equates to their estimated fair value. The fair value of cash and cash equivalents, which is comprised of a money market fund, is determined based on the net asset value per unit utilizing level 2 methods and assumptions. As of March 31, 2013 and December 31, 2012, the carrying amounts of the Company's cash and cash equivalents was \$19,353 and \$5,521, which equates to their fair value.

AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
(UNAUDITED)

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

	March 31, 2013	December 31, 2012
Carrying Amount	\$1,547,564	\$1,588,992
Estimated Fair Value	1,644,627	1,702,997

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration utilizing level 2 methods and assumptions. The Company's customers' advances for construction and related tax deposits have a carrying value of \$68,848 as of March 31, 2013, and \$71,595 as of December 31, 2012. 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 2028 and amounts not paid by the respective contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Note 6 Net Income per Common Share

Basic net income per common share is based on the weighted average number of common shares outstanding. Diluted net income per common share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock-based compensation is included in the computation of diluted net income per common share. The dilutive effect of stock-based compensation is calculated using the treasury stock method and expected proceeds upon exercise or issuance of the stock-based compensation. The following table summarizes the shares, in thousands, used in computing basic and diluted net income per common share:

	Three Months Ended March 31,	
	2013	2012
Average common shares outstanding during the period for basic computation	140,332	138,762
Dilutive effect of employee stock-based compensation	868	694
Average common shares outstanding during the period for diluted computation	<u>141,200</u>	<u>139,456</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
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For the three months ended March 31, 2013, employee stock options to purchase 395,325 shares of common stock, were excluded from the calculations of diluted net income per share as the calculated cost to exercise the stock options was greater than the average market price of the Company's common stock during these periods. For the three months ended March 31, 2012, employee stock options to purchase 919,800 shares of common stock, were excluded from the calculations of diluted net income per share as the calculated cost to exercise the stock options was greater than the average market price of the Company's common stock during these periods.

Note 7 Stock-based Compensation

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 March 31, 2013, 3,712,187 shares underlying stock-based compensation awards were still available for grants under the 2009 Plan. No further grants may be made under the 2004 Plan.

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

	Three Months Ended	
	March 31,	
	2013	2012
Stock-based compensation for performance share units within operations and maintenance expenses	\$ 715	\$ 440

AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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The following table summarizes nonvested PSU transactions for the three months ended March 31, 2013:

	Number of Share Units	Weighted Average Fair Value
Nonvested share units at beginning of period	331,225	\$ 23.52
Granted	133,275	33.60
Performance criteria adjustment	—	—
Forfeited	(6,525)	25.08
Vested	(14,400)	24.38
Share unit awards issued	—	—
Nonvested share units at end of period	<u>443,575</u>	<u>\$ 26.43</u>

A portion of the fair value of PSUs was estimated at the grant date based on the probability of satisfying the market-based conditions associated with the PSUs using the Monte Carlo valuation method. The other portion of the fair value of the PSUs is based on the fair market value of the Company's stock at the grant date, regardless of whether the market-based condition is satisfied. The per unit weighted-average fair value at the date of grant for PSUs granted during the three months ended March 31, 2013 and 2012 was \$33.60 and \$23.89, respectively. The fair value of each PSU grant is amortized monthly into compensation expense on a straight-line basis over their respective vesting periods, which range from 24 to 36 months. The accrual of compensation costs is based on our estimate of the final expected value of the award, and is adjusted as required for the portion based on the performance-based condition. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the PSUs includes dividend equivalents, no dividend yield assumption is required in calculating the fair value of the PSUs. The recording of compensation expense for PSUs has no impact on net cash flows.

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
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Restricted Stock Units – A restricted stock unit (“RSU”) represents the right to receive a share of the Company’s common stock. RSUs are eligible to be earned at the end of a specified restricted period, generally three years, beginning on the date of grant. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. The following table provides compensation costs for stock-based compensation related to restricted stock units:

	Three Months Ended March 31,	
	2013	2012
Stock-based compensation for restricted stock units within operations and maintenance expenses	\$ 178	\$ 129

The following table summarizes nonvested RSU transactions for the three months ended March 31, 2013:

	Number of Stock Units	Weighted Average Fair Value
Nonvested stock units at beginning of period	68,468	\$ 22.36
Granted	38,500	29.10
Vested	(15,600)	22.29
Forfeited	—	—
Nonvested stock units at end of period	<u>91,368</u>	<u>\$ 25.21</u>

The per unit weighted-average fair value at the date of grant for RSUs granted during the three months ended March 31, 2013 and 2012 was \$29.10 and \$22.49, respectively.

Stock Options – The fair value of stock options is estimated at the grant date using the Black-Scholes option-pricing model. The following table provides compensation costs for stock-based compensation related to stock options granted in prior periods:

	Three Months Ended March 31,	
	2013	2012
Stock-based compensation for stock options within operations and maintenance expenses	\$ 30	\$ 242
Income tax benefit	238	131

AQUA AMERICA, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
 (In thousands of dollars, except per share amounts)
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There were no stock options granted during the three months ended March 31, 2013 or 2012.

The following table summarizes stock option transactions for the three months ended March 31, 2013:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Options:				
Outstanding at beginning of period	2,497,282	\$20.81		
Granted	—	—		
Forfeited	—	—		
Expired	(7,627)	29.46		
Exercised	(417,340)	18.94		
Outstanding and exercisable at end of period	<u>2,072,315</u>	<u>\$21.15</u>	<u>4.1</u>	<u>\$21,319</u>

Restricted Stock – During the three months ended March 31, 2013 and 2012, the Company recorded stock-based compensation related to restricted stock awards as a component of operations and maintenance expense as follows:

	Three Months Ended March 31,	
	2013	2012
Stock-based compensation for restricted stock within operations and maintenance expenses	\$ 92	\$ 393

The following table summarizes nonvested restricted stock transactions for the three months ended March 31, 2013:

	Number of Shares	Weighted Average Fair Value
Nonvested shares at beginning of period	117,728	\$ 19.23
Granted	—	—
Vested	(67,728)	17.09
Forfeited	—	—
Nonvested shares at end of period	<u>50,000</u>	<u>\$ 22.13</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

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

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

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

	Pension Benefits	
	Three Months Ended	
	March 31,	
	2013	2012
Service cost	\$ 1,446	\$ 1,150
Interest cost	3,165	2,994
Expected return on plan assets	(3,693)	(3,000)
Amortization of prior service cost	57	62
Amortization of actuarial loss	2,016	1,685
Capitalized costs	(1,000)	(891)
Net periodic benefit cost	<u>\$ 1,991</u>	<u>\$ 2,000</u>

	Other	
	Postretirement Benefits	
	Three Months Ended	
	March 31,	
	2013	2012
Service cost	\$ 425	\$ 299
Interest cost	667	625
Expected return on plan assets	(560)	(453)
Amortization of transition obligation	—	18
Amortization of prior service cost	(74)	(68)
Amortization of actuarial loss	345	243
Amortization of regulatory asset	—	34
Capitalized costs	(182)	(164)
Net periodic benefit cost	<u>\$ 621</u>	<u>\$ 534</u>

The Company made cash contributions of \$7,977 to its defined benefit pension plans during the first three months of 2013, and intends to make cash contributions of \$7,977 to the plans during the remainder of 2013. In addition, the Company expects to make cash contributions of \$2,875 for the funding of its other postretirement benefit plans during the remainder of 2013.

AQUA AMERICA, INC. AND SUBSIDIARIES

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

Note 9 Water and Wastewater Rates

In February 2012, two of the Company's operating divisions in Texas began to bill interim rates in accordance with authorization from the Texas Commission on Environmental Quality (the "TCEQ"). The additional revenue billed and collected prior to the TCEQ's final ruling is subject to refund based on the outcome of the rate case. As of March 31, 2013, the Company had billed revenue of \$6,012, which is subject to refund based on the outcome of the TCEQ's final ruling. Based on the Company's review of the present circumstances, a reserve of \$2,104 has been established for the billings to date.

Note 10 Taxes Other than Income Taxes

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

	Three Months Ended	
	March 31,	
	2013	2012
Property	\$ 6,537	\$4,046
Capital stock	534	779
Gross receipts, excise and franchise	2,698	1,376
Payroll	2,440	2,094
Other	1,325	1,198
Total taxes other than income	<u>\$13,534</u>	<u>\$9,493</u>

Note 11 Segment Information

The Company has identified twelve operating segments and has one reportable segment named the "Regulated" segment. The reportable segment is comprised of ten operating segments for the Company's water and wastewater regulated utility companies which are organized by the states where we provide these services. In addition, two segments are not quantitatively significant to be reportable and are comprised of the businesses that provide sludge hauling, septage and grease services, backflow prevention services, certain other non-regulated water and wastewater services, and non-utility raw water supply services for certain firms in the natural gas and oil drilling industry. These segments are included as a component of "Other" in the tables below. Also included in "Other" are corporate costs that have not been allocated to the Regulated segment and intersegment eliminations.

AQUA AMERICA, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
 (In thousands of dollars, except per share amounts)
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The following table presents the Company's segment information for its continuing operations:

	Three Months Ended March 31, 2013			Three Months Ended March 31, 2012		
	Regulated	Other	Consolidated	Regulated	Other	Consolidated
Operating revenues	\$175,888	\$4,147	\$180,035	\$160,205	\$3,819	\$164,024
Operations and maintenance expense	66,194	2,117	68,311	61,468	3,357	64,825
Depreciation	29,724	(465)	29,259	27,008	(262)	26,746
Operating income	65,850	1,711	67,561	61,752	87	61,839
Interest expense, net of AFUDC	17,088	1,635	18,723	16,593	1,324	17,917
Income tax expense (benefit)	7,419	(376)	7,043	18,419	(944)	17,475
Income from continuing operations	41,395	(164)	41,231	26,926	(37)	26,889
Capital Expenditures	58,987	213	59,200	79,245	364	79,609
			March 31, 2013			December 31, 2012
Total assets:						
Regulated			\$4,575,156			\$4,566,327
Other and eliminations			290,168			292,190
Consolidated			<u>\$4,865,324</u>			<u>\$4,858,517</u>

Note 12 Commitments and Contingencies

The Company is routinely involved in various disputes, claims, lawsuits and other regulatory and legal matters, including both asserted and unasserted legal claims, in the ordinary course of business. The status of each such matter, referred to herein as a loss contingency, is reviewed and assessed in accordance with applicable accounting rules regarding the nature of the matter, the likelihood that a loss will be incurred, and the amounts involved. As of March 31, 2013, the aggregate amount of \$12,780 is accrued for loss contingencies and is reported in the Company's consolidated balance sheet as other accrued liabilities and other liabilities. These accruals represent management's best estimate of probable loss (as defined in the accounting guidance) for loss contingencies or the low end of a range of losses if no single probable loss can be estimated. For some loss contingencies, the Company is unable to estimate the amount of the probable loss or range of probable losses. While the final outcome of these loss contingencies cannot be predicted with certainty, and unfavorable outcomes could negatively impact the Company, at this time in the opinion of management, the final resolution of these matters are not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows. Further, the Company has insurance coverage for certain of these loss contingencies, and as of March 31, 2013, estimates that approximately \$1,798 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.

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
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In addition to the aforementioned loss contingencies, the Company self-insures its employee medical benefit program, and maintains stop-loss coverage to limit the exposure arising from these claims. The Company's reserve for these claims totaled \$1,641 at March 31, 2013 and represents a reserve for unpaid claim costs, including an estimate for the cost of incurred but not reported claims.

Note 13 Income Taxes

During the three months ended March 31, 2013, the Company utilized \$25,850 of its Federal net operating loss ("NOL") carryforward that was recognized in 2012, 2011, and 2010 to reduce its 2013 Federal tax liability. In addition, during the three months ended March 31, 2013, the Company utilized \$9,263 of its state NOL carryforward that was recognized in 2012, 2011, and 2010 to reduce its 2013 state tax liability. As of March 31, 2013, the balance of the Company's Federal NOL is \$189,735. The Company believes its Federal NOL carryforward is more likely than not to be recovered and requires no valuation allowance. As of March 31, 2013, the balance of the Company's state NOL is \$366,036, a portion of which is offset by a valuation allowance of \$8,422 because the Company does not believe the NOLs are more likely than not to be realized. The Company's Federal and state NOL carryforwards do not begin to expire until 2030 and 2021, respectively.

On June 7, 2012, the Company's Pennsylvania operating subsidiary ("Aqua Pennsylvania") reached a settlement agreement in its rate filing with the Pennsylvania Public Utility Commission, which in addition to a water rate increase, provides for the flow-through accounting treatment of certain income tax benefits if Aqua Pennsylvania changes its tax accounting method to permit the expensing of certain utility asset improvement costs that have historically been capitalized and depreciated for book and tax purposes (the "repair change"). In December 2012, Aqua Pennsylvania implemented the repair change, and recognized a tax deduction for 2012 infrastructure investments that were formerly capitalized for tax purposes, and the impact was recorded in the fourth quarter of 2012. In addition, the income tax benefits for qualifying capital expenditures made prior to 2012 ("catch-up adjustment") have been deferred as of December 31, 2012 and, based on the settlement agreement, a ten-year amortization of the income tax benefits began in the first quarter of 2013. In accordance with the settlement agreement, the amortization is expected to reduce income tax expense during periods when certain qualifying situations are met. As a result of the adoption of the repair change, prior to the receipt of Aqua Pennsylvania's next rate order, the repair change results in a substantial reduction in income tax expense and greater net income and cash flows. The Company's effective income tax rate in the first quarter of 2013 for its continuing operations was 14.6% and 39.4% in the first quarter of 2012.

AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
(UNAUDITED)

In April 2013, the Internal Revenue Service completed its examination of tax years 2010 and 2011. The statute of limitations for these tax years remains open until 2014 and 2015, respectively.

Note 14 Recent Accounting Pronouncements

In February 2013, the FASB issued updated accounting guidance to improve the reporting of reclassifications out of accumulated other comprehensive income (“AOCI”). The update requires an entity to present information about the amounts reclassified from AOCI in their financial statements in either a single note or parenthetically on the face of the financial statements. The updated guidance is effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted the provisions of the updated guidance for its quarterly reporting period beginning January 1, 2013, and the adoption of the revised guidance did not have an impact on the Company’s consolidated results of operations or consolidated financial position.

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

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

Forward-looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report contain, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address, among other things: our belief in our ability to renew our short-term lines of credit; the impact and the actions we may need to take if we are unable to obtain sufficient capital; the projected impact of various legal proceedings; the projected effects of recent accounting pronouncements; prospects, plans, objectives, expectations and beliefs of management, as well as information contained in this report where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans," "future," "potential," "probably," "predictions," "intends," "will," "continue" or the negative of such terms or similar expressions. Forward-looking statements are based on a number of assumptions concerning future events, and are subject to a number of risks, uncertainties and other factors, many of which are outside our control, which could cause actual results to differ materially from those expressed or implied by such statements. These risks and uncertainties include, among others: the effects of regulation, abnormal weather, changes in capital requirements and funding, acquisitions, changes to the capital markets, and our ability to assimilate acquired operations, as well as those risks, uncertainties and other factors discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in such report. As a result, readers are cautioned not to place undue reliance on any forward-looking statements. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

General Information

Nature of Operations – Aqua America, Inc. ("we" or "us"), a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to what we estimate to be almost three million people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Florida, Indiana, Virginia, and Georgia. Our largest operating subsidiary, Aqua Pennsylvania, Inc., provides water or wastewater services to approximately one-half of the total number of people we serve, who are located in the suburban areas in counties north and west of the City of Philadelphia and in 26 other counties in Pennsylvania. Our other subsidiaries provide similar services in nine other states.

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 July 2011, we entered into a definitive agreement to sell our operations in Maine, which served approximately 16,000 customers. The sale of our utility in Maine closed in January 2012, concluding our regulated operations in Maine. Also, in July 2011, we entered into a definitive agreement to purchase all of American Water Works Company, Inc.'s regulated operations in Ohio (the "Ohio acquisition"), which served approximately 59,000 customers, and to simultaneously sell our regulated water and wastewater operations in New York, which served approximately 51,000 customers. In May 2012, we completed this transaction, concluding our regulated operations in New York. The Ohio acquisition was initially financed by short-term debt. The proceeds from the dispositions of our operations in New York and Maine were used to paydown a portion of our short-term debt and other general corporate purposes. In September 2012, we began to market for sale our water and wastewater operations in Florida, which serves approximately 38,000 customers, and our waste water treatment facility in Georgia. In March 2013, we completed the sale of certain of our water and wastewater utility systems in Florida totaling approximately 65% of our customers served in Florida. We believe we will be able to complete the sales of our remaining Florida operations by the end of the third quarter of 2013. We have accounted for the sale of our water and wastewater operations in New York, Maine, and Florida and planned disposition of our water wastewater operation in Georgia as discontinued operations. 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, certain other non-regulated water and wastewater services, and non-utility raw water supply services for firms in the natural gas and oil drilling industry.

Aqua America, Inc., which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, Inc., formerly known as Philadelphia Suburban Water Company. Since the early 1990s, we have embarked on a growth-through-acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of American Water Works Company, Inc.'s regulated operations in Ohio in 2012. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry and has extended our regulated operations from southeastern Pennsylvania to include operations in nine other states.

Beginning in 2010, and continuing into 2013, we pursued a portfolio rationalization strategy to focus our operations in areas where we have critical mass and economic growth potential and to divest operations 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. In 2012 we sold our operations in Maine and New York, in 2011 we sold our operations in Missouri, and in 2010 we sold our operations in South Carolina. In connection with the sale of our New York and Missouri operations, we acquired additional utility systems (and customers) in Ohio and Texas, two of the larger states in Aqua America's portfolio. Initiated in 2012 we began to market for sale our Florida utility operations and we believe that these sales will conclude in 2013.

In 2011, one of our subsidiaries entered into a joint venture with a firm that operates natural gas pipelines and processing plants for the construction and operation of a private pipeline system to supply raw water to certain natural gas well drilling operations in Pennsylvania. The operation of the private pipeline system commenced in the second quarter of 2012 and marks an expansion of our growth venture in serving the raw water needs of firms in the natural gas and oil drilling industry.

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

Financial Condition

During the first three months of 2013, we had \$59,200 of capital expenditures, issued \$35,010 of long-term debt, and repaid debt and made sinking fund contributions and other loan repayments of \$77,991. The capital expenditures were related to improvements to treatment plants, new and rehabilitated water mains, tanks, hydrants, and service lines, well and booster improvements, and other enhancements and improvements. The issuance of \$35,010 of long-term debt was comprised principally of the funds borrowed under our revolving credit facility of \$34,000.

At March 31, 2013 we had \$19,353 of cash and cash equivalents compared to \$5,521 at December 31, 2012. During the first three months of 2013, we used the proceeds from internally generated funds, the sale of certain water and wastewater utility systems in Florida, the sale of other assets, and the sale or issuance of common stock through our equity compensation plan and dividend reinvestment plan, to fund the cash requirements discussed above and to pay dividends.

At March 31, 2013, our \$150,000 unsecured revolving credit facility, which expires in March 2017, had \$70,899 available for borrowing. At March 31, 2013, we had short-term lines of credit of \$160,500, of which \$62,663 was available for borrowing. One of our short-term lines of credit is an Aqua Pennsylvania \$100,000 364-day unsecured revolving credit facility with three banks, which is used to provide working capital, and as of March 31, 2013, \$11,244 was available for borrowing.

Our short-term lines of credit of \$160,500 are subject to renewal on an annual basis. Although we believe we will be able to renew these facilities, there is no assurance that they will be renewed, or what the terms of any such renewal will be. The 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.

The Company's consolidated balance sheet historically has had a negative working capital position whereby routinely our current liabilities exceed our current assets. Management believes that internally generated funds along with existing credit facilities and the proceeds from the issuance of long-term debt 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.

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)

On June 7, 2012, the Company's Pennsylvania operating subsidiary ("Aqua Pennsylvania") reached a settlement agreement in its rate filing with the Pennsylvania Public Utility Commission, which in addition to a water rate increase, provides for the flow-through accounting treatment of certain income tax benefits if Aqua Pennsylvania changes its tax accounting method to permit the expensing of certain utility asset improvement costs that have historically been capitalized and depreciated for book and tax purposes (the "repair change"). In December 2012, Aqua Pennsylvania implemented the repair change. As a result of the adoption of the repair change, prior to the receipt of Aqua Pennsylvania's next rate order, the repair change results in a substantial reduction in income tax expense and greater net income and cash flow, and as a result will allow the Company to suspend any Distribution System Improvement Charges ("DSIC") in 2013 and lengthen the amount of time until the next Aqua Pennsylvania rate case is filed.

Results of Operations

Analysis of First Quarter of 2013 Compared to First Quarter of 2012

Unless specifically noted, the following discussion of the Company's results of operations for the first quarter of 2013 refers to the Company's results of operations from continuing operations.

Revenues increased \$16,011 or 9.8% primarily due to additional revenues associated with increased water and wastewater rates of \$13,021 and additional water and wastewater revenues of \$10,100 associated with a larger customer base due to acquisitions, offset by a decrease in infrastructure rehabilitation surcharges of \$6,240. The decrease in infrastructure rehabilitation surcharges results from the January 1, 2013 suspension of Aqua Pennsylvania's DSIC as a result of the implementation of the repair change.

Operations and maintenance expenses increased by \$3,486 or 5.4% primarily due to operating costs associated with acquired utility systems and other growth ventures of \$4,944, an increase in postretirement benefits expenses of \$646, and normal increases in other operating costs. Offsetting these increases was a decrease in water production costs of \$1,742.

Depreciation expense increased \$2,513 or 9.4% due to the utility plant placed in service since March 31, 2012, and the utility plant added due to our acquisition in Ohio.

Amortization increased \$249 primarily due to the amortization of costs associated with, and other costs being recovered in, various rate filings.

Taxes other than income taxes increased by \$4,041 or 42.6% primarily due to an increase in property taxes of \$2,491 associated with our acquisition in Ohio and the effect of a favorable adjustment recorded in the first quarter of 2012 related to gross receipts, excise and franchise taxes for one of our operating subsidiaries of \$824 which had the effect of increasing the first quarter of 2013's taxes other than income taxes.

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)

AFUDC decreased by \$778 primarily due to a decrease in the average balance of proceeds held from tax-exempt bond issuances that are restricted to funding certain capital projects.

Gain on sale of other assets totaled \$92 in the first quarter of 2013 and \$442 in the first quarter of 2012. The decrease of \$350 is principally due to the timing of sales of land and other property.

Equity loss in joint venture totaled \$656 during the first quarter of 2013, and reflects a decline in water sales, believed to be cyclical in nature, in connection with serving the raw water needs of certain firms in the natural gas and oil drilling industry.

Our effective income tax rate was 14.6% in the first quarter of 2013 and 39.4% in the first quarter of 2012. The effective income tax rate decreased due to Aqua Pennsylvania's adoption in December 2012 of the repair change. The repair change reduced the Company's first quarter 2013 income tax expense due to the flow-through treatment afforded by the Pennsylvania Public Utility Commission's June 2012 rate order. The adoption of the repair change in December 2012, allowed a tax deduction for 2012 infrastructure investments that were formerly capitalized for tax purposes, and the impact was recorded in the fourth quarter of 2012.

Income from continuing operations increased by \$14,342 or 53.3%, in comparison to the same period in 2012 primarily as a result of the factors described above. On a diluted per share basis, income from continuing operations increased \$0.10, reflecting the change in income from continuing operations and a 1.3% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the additional shares sold or issued through our equity compensation plan and our dividend reinvestment plan.

Income from discontinued operations decreased by \$5,681 or \$0.04 per diluted share, in comparison to the same period in 2012 primarily as a result of the effect of the recognition in the first quarter of 2012 of the gain on sale of our Maine operating subsidiary net of income taxes of \$10,610, offset by the gain on sale in the first quarter of 2013 of certain of our Florida water and wastewater utility systems net of income taxes of \$4,193.

Net income attributable to common shareholders increased by \$8,661 or 22.8%, in comparison to the same period in 2011 primarily as a result of the factors described above. On a diluted per share basis, earnings increased \$0.06 reflecting the change in net income attributable to common shareholders and a 1.3% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the additional shares sold or issued through our dividend reinvestment plan and equity compensation plan.

Impact of Recent Accounting Pronouncements

We describe the impact of recent accounting pronouncements in Note 14, *Recent Accounting Pronouncements*, of the consolidated financial statements.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. There have been no significant changes in our exposure to market risks since December 31, 2012. Refer to Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2012 for additional information.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

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

Part II. Other Information

Item 1. Legal Proceedings

There are 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. Dollar amounts disclosed in this section, Item 1. Legal Proceedings are presented in whole dollars, not thousands of dollars.

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The City of Fort Wayne, Indiana (the “City”) authorized the acquisition by eminent domain of the northern portion of the utility system of one of the Company’s operating subsidiaries in Indiana. In January 2008, we reached a settlement with the City to transition this portion of the system in February 2008 upon receipt of the City’s initial valuation payment of \$16,910,500. The settlement agreement specifically stated that the final valuation of the system will be determined through a continuation of the legal proceedings that were filed challenging the City’s valuation. On February 12, 2008, we turned over the northern portion of the system to the City upon receipt of the initial valuation payment. The proceeds received by the Company are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. The net book value of the assets relinquished has been removed from the consolidated balance sheet and the difference between the net book value and the initial payment received has been deferred and is recorded in other accrued liabilities on the Company’s consolidated balance sheet. Once the contingency is resolved and the asset valuation is finalized, through the finalization of the litigation between the Company and the City of Fort Wayne, the amounts deferred will be recognized in the Company’s consolidated income statement. On March 16, 2009, oral argument was held before the Allen County Circuit Court on certain procedural aspects with respect to the valuation evidence that may be presented and whether we are entitled to a jury trial. On October 12, 2010, the Wells County Indiana Circuit Court ruled that the Company is not entitled to a jury trial, and that the Wells County judge should review the City of Fort Wayne Board of Public Works’ assessment based upon a “capricious, arbitrary or an abuse of discretion” standard. The Company appealed the Wells County Indiana Circuit Court’s decision to the Indiana Court of Appeals. On January 13, 2012, the Indiana Court of Appeals reached a decision upholding the Wells County Indiana Circuit Court decision. On February 10, 2012, the Company filed a petition for transfer requesting that the Indiana Supreme Court review the matter. On April 11, 2013, the Supreme Court of Indiana ruled that the statute at issue gives the Company the right to a full evidentiary hearing before a jury regarding the value of the assets and remanded the case to the trial court for a proceeding consistent with that ruling. In addition, in December 2012, the Fort Wayne City Council considered an ordinance that sought to declare it a “public convenience and necessity” to acquire certain of the Company’s utility system assets located in the southwest section of the City and, if negotiations with Fort Wayne officials were to fail, to condemn certain of the Company’s utility system assets. The first public hearing on the ordinance was held on January 22, 2013 and a subsequent hearing scheduled for February 5, 2013 was not held due to ongoing settlement discussions between the parties. The Company continues to participate in settlement discussions with the City regarding both the condemned northern portion of the system and the water utility system assets located in the southwest section of the City and has agreed to participate in the City Council proceedings regarding this matter. The Company will evaluate its legal and operational options on an ongoing basis.

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An appeal of a jury verdict for one of the Company's subsidiaries, Aqua Utilities Florida, Inc., by a husband and wife who lived in a house abutting a percolation pond at a wastewater treatment plant owned by the Company's subsidiary in Pasco County, Florida was voluntarily dismissed by the plaintiffs in 2011. The lawsuit was originally filed in August 2006 in the circuit court for the Sixth Judicial Circuit in and for Pasco County, Florida and has been amended several times by the plaintiffs. The lawsuit alleged our subsidiary was negligent in the design, operation and maintenance of the plant, resulting in bodily injury to the plaintiffs and various damages to their property. Subsequent amendments to the complaint included additional counts alleging trespass, nuisance, and strict liability. A trial of this matter during January 2011 resulted in a judicial dismissal of the count for strict liability and jury verdicts in favor of the Company on the remaining counts. On June 16, 2011, the plaintiffs agreed to dismiss their appeals and to release all claims against our subsidiary and the Company, which resulted in the conclusion of the original plaintiffs' litigation against our subsidiary. In the third quarter of 2008, thirty-six additional plaintiffs, associated with approximately eight other homes in the area, filed a second lawsuit with the same court and represented by the same attorneys making similar allegations against our subsidiary with respect to the operation of the facility. The court has severed the litigation so that the plaintiffs will be grouped by the houses in which they lived and a separate trial will be held for each of the households. Some of these plaintiffs testified in the trial of the original lawsuit in which all allegations were resolved in the Company's favor. The claims from the first of these households was expected to go to trial in May 2013. However, the parties are in the process of implementing a confidential comprehensive agreement to settle the claims of all thirty-six plaintiffs. The settlement is dependent upon all plaintiffs signing releases, which has not yet occurred. The settlement is covered by the Company's insurance coverage. At this time, the Company's reserves are adequate and the Company believes that the estimated amount of any potential loss would not be material to the Company's consolidated results of operations or consolidated financial condition.

One of the Company's subsidiaries, South Haven Sewer Works, acquired in 2008 has been operating under a Consent Decree with the EPA and the United States Department of Justice entered into in 2003 while under ownership of a previous owner. Although substantial improvements to the system have been made to significantly reduce the number of sanitary sewer overflows at the sewer system since the Company's acquisition of the subsidiary, the EPA and Department of Justice proposed revisions to the Consent Decree to address purported sanitary sewer overflow violations since the date of the original Consent Decree. On April 15, 2013, the Company's subsidiary and the EPA and Department of Justice submitted a proposed modification of the Consent Decree for approval by the Northern District of Indiana US District Court. The Court entered the modification on April 25, 2013. The modification includes the provision of operational compliance and implementation of a Capacity, Management, Operations, and Maintenance program for one year and a civil penalty in the amount of \$254,250. The Company had withheld payment of a certain amount of shares payable to the sellers as a contingent indemnification offset related to the proceedings. Pursuant to further agreement with the sellers, the Company has retained a portion of those shares in an amount covering the stipulated penalty amounts and anticipated attendant costs, continued to withhold a designated amount of shares to cover contingent increases prior to entry of the final modification, and released a certain number of shares to the sellers.

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Item 1A. [Risk Factors](#)

There have been no material changes to the risks disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012 (“Form 10-K”) under “Part 1, Item 1A – Risk Factors.”

Item 2. [Unregistered Sales of Equity Securities and Use of Proceeds](#)

The following table summarizes Aqua America’s purchases of its common stock for the quarter ended March 31, 2013:

Issuer Purchases of Equity Securities				
Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs (2)
January 1 – 31, 2013	32,089	\$ 26.73	—	548,278
February 1 – 28, 2013	14,918	\$ 28.86	—	548,278
March 1 – 31, 2013	11,211	\$ 29.85	—	548,278
Total	58,218	\$ 27.88	—	548,278

- (1) These amounts consist of the following: (a) shares we purchased from employees who elected to have us withhold shares to pay certain withholding taxes upon the vesting of restricted stock awards granted to such employees; and (b) shares we purchased from 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. These features of our equity compensation plan are available to all employees who receive stock-based compensation under the plans. We purchased these shares at their fair market value, as determined by reference to the closing price of our common stock on the day of vesting of the restricted stock awards or 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 affected in the form of stock distributions since the authorization date.

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Item 4. [Mine Safety Disclosures](#)

Not applicable

Item 6. [Exhibits](#)

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

SIGNATURES

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

May 6, 2013

Aqua America, Inc.
Registrant

Nicholas DeBenedictis
Nicholas DeBenedictis
Chairman, President and
Chief Executive Officer

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

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
10.66	Form of Restricted Share Unit Grant Agreement for Chief Executive Officer
10.67	Form of Performance Share Unit Grant Agreement for Chief Executive Officer
10.68	Form of Restricted Share Unit Grant Agreements for other Executive Officers
10.69	Form of Performance Share Unit Grant Agreements for other Executive Officers
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934.
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934.
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRES	XBRL Taxonomy Extension Presentation Linkbase Document

RESTRICTED STOCK UNIT GRANT

February 27, 2013

Dear Nick:

Pursuant to the terms and conditions of the Aqua America Inc. 2009 Omnibus Equity Compensation Plan, as amended and restated (the "Plan"), you have been granted restricted stock units as outlined below and in the attached Restricted Stock Unit Grant Terms and Conditions.

Granted To:	Nicholas DeBenedictis
Grant Date:	February 27, 2013
Number of Restricted Stock Units Granted:	13,800
Performance Goals:	See Restricted Stock Unit Grant Terms and Conditions, including Exhibit A
First Vesting Date:	February 27, 2014
Second Vesting Date:	February 27, 2015
Vesting Schedule:	See Restricted Stock Unit Grant Terms and Conditions

By my signature below, I hereby acknowledge and accept the award of this Restricted Stock Unit Grant and the Restricted Stock Unit Grant Terms and Conditions attached hereto and incorporated herein, and I agree to be bound by the terms of the Restricted Stock Unit Grant, the Restricted Stock Unit Grant Terms and Conditions and the Plan. I hereby agree that all decisions and determinations of the Committee (as defined in the Plan) with respect to the restricted stock units shall be final and binding.

Signature: _____ Date: _____

Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form.

AQUA AMERICA, INC.
2009 EQUITY OMNIBUS COMPENSATION PLAN

RESTRICTED STOCK UNIT GRANT
TERMS AND CONDITIONS

1. Grant of Restricted Units.

These Restricted Stock Unit Grant Terms and Conditions (the “Grant Conditions”) shall apply and be part of the grant made by Aqua America, Inc., a Pennsylvania corporation (the “Company”), to the Grantee named in the Restricted Stock Unit Grant (the “Restricted Stock Unit Grant”) to which these Grant Conditions are attached (the “Grantee”), under the terms and provisions of the Aqua America, Inc. 2009 Equity Omnibus Compensation Plan, as amended and restated (the “Plan”). The applicable provisions of the Plan are incorporated into these Grant Conditions by reference, including the definitions of terms contained in the Plan (unless such terms are otherwise defined herein). The Grantee is an employee of the Company, its subsidiaries or its Affiliates (collectively, the “Employer”).

Subject to the terms and vesting conditions hereinafter set forth, the Company, with the approval and at the direction of the Executive Compensation Committee (the “Committee”) of the Company’s Board of Directors (the “Board”), has granted to the Grantee the number of restricted stock units specified in the Restricted Stock Unit Grant (the “Restricted Units”). The Restricted Units shall become vested as set forth in these Grant Conditions. The Restricted Units are granted with Dividend Equivalents (as defined in Section 8).

2. Restricted Unit Account.

Restricted Units represent hypothetical shares of common stock of the Company (“Company Stock”), and not actual shares of Company Stock. The Company shall establish and maintain a Restricted Unit account, as a bookkeeping account on its records, for the Grantee and shall record in such account the number of Restricted Units granted to the Grantee. No shares of Company Stock shall be issued to the Grantee at the time the grant is made, and the Grantee shall not be, nor have any of the rights or privileges of, a shareholder of the Company with respect to any Restricted Units recorded in the account, including no voting rights and no rights to receive dividends (other than Dividend Equivalents). The Grantee shall not have any interest in any fund or specific assets of the Company by reason of this award or the Restricted Unit account established for the Grantee.

3. Vesting.

(a) Except as otherwise set forth in these Grant Conditions, the Grantee shall vest in the Restricted Units on the Vesting Dates specified in the Restricted Stock Unit Grant (each of the First Vesting Date and Second Vesting Date, as designated on the Restricted Stock Unit Grant, is referred to as a "Vesting Date"), provided that the Grantee continues to be employed by the Employer through the applicable Vesting Date and provided the performance goals set forth on the attached Exhibit A (the "Performance Goals") are met, as follows:

(1) If the Performance Goals are met for calendar year 2013, fifty percent (50%) of the Restricted Units shall vest on the First Vesting Date, and fifty percent (50%) of the Restricted Units shall vest on the Second Vesting Date, subject to the Grantee's continued employment with the Employer through the applicable Vesting Date.

(2) If the Performance Goals are not met for calendar year 2013 but are met for calendar year 2014, all of the Restricted Units shall vest on the Second Vesting Date, subject to the Grantee's continued employment with the Employer through the Second Vesting Date.

(4) The Committee shall certify attainment of the Performance Goals (or determine that the Performance Goals have not been attained, if applicable) within sixty (60) days after the end of the calendar year to which the Performance Goals apply.

(b) Except as described in Section 4 or 5 below, the Grantee must continue to be employed by the Employer on the applicable Vesting Date, and the Performance Goals must be met, in order for the Grantee to vest and receive payment with respect to the Restricted Units. Notwithstanding anything in these Grant Conditions to the contrary, if the Performance Goals are not met for calendar year 2013 and are also not met for calendar year 2014, all outstanding Restricted Units shall be forfeited as of December 31, 2014 and shall cease to be outstanding (except as provided in Section 5 below with respect to a Change in Control before December 31, 2014). Shares of Company Stock equal to the Restricted Units that vest under this Section 3 shall be issued to the Grantee within sixty (60) days after the Second Vesting Date, subject to applicable tax withholding and subject to Sections 4, 5 and 19 below.

4. Termination of Employment on Account of Retirement, Death, or Disability.

(a) Except as described below, if the Grantee ceases to be employed by the Employer prior to the applicable Vesting Date, the Restricted Units shall be forfeited as of the termination date.

(b) If, before a Change in Control and before the Second Vesting Date, the Grantee ceases to be employed by the Employer on account of the Grantee's Retirement (defined below), and if the Performance Goals are met for calendar year 2013 or 2014, the Grantee will vest in a pro rata number of the Restricted Units that have not previously vested. The pro rata number of Restricted Units will vest on the Retirement date or, if later, on the first date on which the Committee certifies that the Performance Goals are met. The remaining unvested Restricted Units shall be forfeited as of the termination date. If the Performance Goals are not met, all outstanding Restricted Units will be forfeited as of December 31, 2014 and shall cease to be outstanding (except as provided in Section 5 below with respect to a Change in Control before December 31, 2014). Shares of Company Stock equal to the vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Second Vesting Date, subject to applicable tax withholding and subject to Sections 5 and 19 below. The pro rata number of Restricted Units that vest under this subsection (b) if the Performance Goals are met for calendar year 2013 or 2014 shall be determined as follows:

(1) If the Grantee's Retirement occurs prior to the First Vesting Date, the Grantee shall vest in a pro rata portion of the Restricted Units, as follows: (i) fifty percent (50%) of the Restricted Units multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date and prior to the Retirement date in which the Grantee was employed by the Employer and the denominator of which is twelve (12), plus (ii) fifty percent (50%) of the Restricted Units multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date and prior to the Retirement date in which the Grantee was employed by the Employer and the denominator of which is twenty-four (24).

(2) If the Grantee's Retirement occurs on or after the First Vesting Date and before the Second Vesting Date, the Grantee shall vest in the Restricted Units as follows: (i) fifty percent (50%) of the Restricted Units (if not previously vested under Section 3), plus (ii) fifty percent (50%) of the Restricted Units multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date and prior to the Retirement date in which the Grantee was employed by the Employer and the denominator of which is twenty-four (24).

(c) If the Grantee ceases to be employed by the Employer prior to the Second Vesting Date on account of the Grantee's death or Disability, the Grantee's outstanding Restricted Units shall fully vest and shares of Company Stock equal to the vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Grantee's date of termination, subject to applicable tax withholding and subject to Section 19 below.

5. Change in Control.

(a) If a Change in Control occurs prior to December 31, 2014, the Performance Goals shall be deemed to have been met as of the date of the Change in Control (if they have not previously been met) with respect to outstanding Restricted Units.

(b) In the event of a Change in Control, the Grantee's outstanding Restricted Units shall vest on the Vesting Dates described in Section 3(a)(1) or (2), as applicable, if the Grantee continues to be employed by the Employer through the applicable Vesting Date. Shares of Company Stock (or other consideration, as described below) equal to the vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Second Vesting Date, subject to applicable tax withholding and subject to Section 19 below.

(c) If the Grantee ceases to be employed by the Employer upon or following a Change in Control on account of (i) the Grantee's Retirement, (ii) termination by the Employer without Cause, (iii) termination by the Grantee for Good Reason (defined below), or (iv) the Grantee's Disability or death, the Grantee's outstanding unvested Restricted Units shall fully vest. Shares of Company Stock (or such other consideration, as described below) equal to the Grantee's vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Grantee's date of termination, subject to applicable tax withholding and Section 19 below.

(d) If the Grantee terminates employment for any other reason prior to the applicable Vesting Date, the outstanding unvested Restricted Units shall be forfeited as of the date of termination.

(e) In the event of a Change in Control, if the Grantee terminated employment on account of Retirement before the Change in Control, the Grantee's outstanding prorated Restricted Units under Section 4(b) shall vest on the date of the Change in Control. Shares of Company Stock (or such other consideration, as described below) equal to the vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Change in Control, subject to applicable tax withholding and Section 19 below.

(f) If, in connection with the Change in Control, shares of Company Stock are converted into the right to receive a cash payment or other form of consideration, the vested Restricted Units shall be payable in such form of consideration, as determined by the Committee.

6. Definitions.

(a) For purposes of these Grant Conditions, "Good Reason" shall have the meaning given that term in the Grantee's Change in Control Agreement with the Company as in effect on the Grant Date.

(b) For purposes of these Grant Conditions, "Retirement" shall mean the Grantee's voluntary termination of employment after the Grantee has attained age fifty-five (55) and has a combination of age and full years of service with the Employer that is equal to or greater than seventy (70).

7. Payment with Respect to Restricted Units.

Except as otherwise set forth in Section 4 or 5 above, shares of Company Stock equal to the vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Second Vesting Date, subject to applicable tax withholding and subject to Section 19. Any fractional Restricted Units shall be paid to the Grantee in cash.

8. Dividend Equivalents with Respect to Restricted Units.

(a) Dividend Equivalents shall accrue with respect to Restricted Units and shall be payable subject to the same vesting terms and other conditions as the Restricted Units to which they relate. Dividend Equivalents shall be credited when dividends are declared on shares of Company Stock from the Grant Date until the payment date for the vested Restricted Units. If, and to the extent that the underlying Restricted Units are forfeited, all related Dividend Equivalents shall also be forfeited.

(b) While the Restricted Units are outstanding, the Company will keep records in a bookkeeping account for the Grantee. On each date on which a dividend is declared by the Company on Company Stock, the Company shall credit to the Grantee's account an amount equal to the Dividend Equivalents associated with the Restricted Units held by the Grantee on the record date for the dividend. No interest will be credited to any such account.

(c) Dividend Equivalents will be paid in cash at the same time as the underlying vested Restricted Units are paid.

(d) Notwithstanding the foregoing, if shares of Company Stock are converted to cash as described in Section 5(f) above in connection with a Change in Control, Dividend Equivalents shall cease to be credited with respect to Restricted Units.

9. Non-Competition.

(a) In consideration for the grant of Restricted Units made to the Grantee under the terms of these Grant Conditions, the Grantee agrees that while the Grantee is employed by the Employer and for a twelve (12) month period beginning on the date that the Grantee ceases to be employed by the Employer for any reason (the "Restriction Period"), the Grantee shall not, directly or indirectly, (i) accept employment with, (ii) own, manage, operate, join, control, solicit, finance, or participate in the ownership, management, operation, acquisition, control or financing of, (iii) be connected as a partner, principal, agent, representative, consultant or otherwise with, or (iv) use or permit the Grantee's name to be used in connection with, any business or enterprise engaged directly or indirectly in any business or enterprise engaged in a geographic area within fifty (50) miles of any location from which the Employer is operating on the termination date (the "Geographic Area"), in any business that is competitive to a business from which the Employer, taken as a whole from all geographic areas, derived at least ten percent (10%) of its respective annual gross revenues for the twelve (12) months preceding the termination date.

(b) In consideration for the grant of Restricted Units made to the Grantee under the terms of these Grant Conditions, the Grantee agrees that during the Restriction Period, the Grantee shall not:

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

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

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

(d) The parties to these Grant Conditions acknowledge and agree that any breach by the Grantee of any of the covenants or agreements contained in this Section 9 will result in irreparable injury to the Employer for which money damages could not adequately compensate the Employer and therefore, in the event of any such breach, the Employer shall be entitled (in addition to any other rights and remedies which it may have at law or in equity) to have an injunction issued by any competent court enjoining and restraining the Grantee and any other person involved therein from continuing such breach without posting a bond. The existence of any claim or cause of action which the Grantee may have against the Employer or any other person shall not constitute a defense or bar to the enforcement of such covenants. If any portion of the covenants or agreements contained in this Section 9 is construed to be invalid or unenforceable, the other portions of such covenants or agreements shall not be affected and shall be given full force and effect without regard to the invalid or unenforceable portion to the fullest extent possible. If any covenant or agreement in this Section 9 is held to be unenforceable because of the duration or scope thereof, then the court making such determination shall have the power to reduce the duration and limit the scope thereof, and the covenant or agreement shall then be enforceable in its reduced form. In addition to other actions that may be taken by the Employer, if the Grantee breaches any of the covenants or agreements contained in this Section 9, the Grantee will forfeit all outstanding Restricted Units, and all outstanding Restricted Units (whether or not vested) shall immediately terminate.

10. Certain Corporate Changes.

If any change is made to the Company Stock (whether by reason of merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, or exchange of shares or any other change in capital structure made without receipt of consideration), then unless such event or change results in the termination of all the Restricted Units, the Committee shall adjust, in an equitable manner and as provided in the Plan, the number and class of shares underlying the Restricted Units. Any adjustment that occurs under the terms of this Section 10 or the Plan will not change the timing or form of payment with respect to any Restricted Units.

11. No Right to Continued Employment.

Neither the award of Restricted Units, nor any other action taken with respect to the Restricted Units, shall confer upon the Grantee any right to continue to be employed by the Employer or shall interfere in any way with the right of the Employer to terminate the Grantee's employment at any time.

12. Termination or Amendment.

These Grant Conditions and the award made hereunder may be terminated or amended by the Committee, in whole or in part, in accordance with the applicable terms of the Plan.

13. Notice.

Any notice to the Company provided for in these Grant Conditions shall be addressed to it in care of the Company's Vice President for Human Resources, and any notice to the Grantee shall be addressed to the Grantee at the current address shown on the payroll system of the Company, or to such other address as the Grantee may designate to the Company in writing. Any notice provided for hereunder shall be delivered by hand, sent by telecopy or electronic mail or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage and registry fee prepaid in the United States mail or other mail delivery service. Notice to the Company shall be deemed effective upon receipt. By receipt of these Grant Conditions, the Grantee hereby consents to the delivery of information (including without limitation, information required to be delivered to the Grantee pursuant to the applicable securities laws) regarding the Company, the Plan, and the Restricted Units via the Company's electronic mail system or other electronic delivery system.

14. Incorporation of Plan by Reference.

The Restricted Stock Unit Grant and these Grant Conditions are made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Grantee's receipt of the Restricted Units constitutes the Grantee's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, these Grant Conditions, and/or the Restricted Units shall be final and binding on the Grantee, his beneficiaries and any other person having or claiming an interest in the Restricted Units. The settlement of any award with respect to the Restricted Units is subject to the provisions of the Plan and to interpretations, regulations and determinations concerning the Plan as established from time to time by the Committee in accordance with the provisions of the Plan. A copy of the Plan will be furnished to each Grantee upon request.

15. Income Taxes; Withholding Taxes.

The Grantee is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the award or settlement of Restricted Units pursuant to these Grant Conditions. At the time of taxation, the Employer shall have the right to deduct from other compensation, or to withhold shares of Company Stock, in an amount equal to the federal (including FICA), state, local and foreign taxes and other amounts as may be required by law to be withheld with respect to the Restricted Units, provided that any share withholding shall not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state, local and foreign tax liabilities.

16. Company Policies.

This Restricted Unit grant and all shares issued pursuant to this grant shall be subject to any applicable clawback and other policies implemented by the Board, as in effect from time to time.

17. Governing Law.

The validity, construction, interpretation and effect of the Restricted Stock Unit Grant and these Grant Conditions shall exclusively be governed by, and determined in accordance with, the applicable laws of the Commonwealth of Pennsylvania, excluding any conflicts or choice of law rule or principle.

18. Assignment.

The Restricted Stock Unit Grant and these Grant Conditions shall bind and inure to the benefit of the successors and assignees of the Company. The Grantee may not sell, assign, transfer, pledge or otherwise dispose of the Restricted Units, except to a successor grantee in the event of the Grantee's death.

19. Code Section 409A.

The Restricted Stock Unit Grant and these Grant Conditions are intended to comply with Code Section 409A or an exemption, and payments may only be made under these Grant Conditions upon an event and in a manner permitted by Code Section 409A, to the extent applicable. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, if the Grantee is considered a “specified employee” for purposes of Code Section 409A and if any payment under these Grant Conditions is required to be delayed for a period of six (6) months after separation from service pursuant to Code Section 409A, such payment shall be delayed as required by Code Section 409A, and the accumulated payment amounts shall be paid in a lump sum payment within ten (10) days after the end of the six (6)-month period. If the Grantee dies during the postponement period prior to payment, the amounts withheld on account of Code Section 409A shall be paid to the personal representative of the Grantee’s estate within sixty (60) days after the date of the Grantee’s death. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, (i) any payments to be made upon a termination of employment under these Grant Conditions may only be made upon a “separation from service” under Code Section 409A and (ii) any payments upon Disability may only be made upon a “disability” under Code Section 409A. In no event may the Grantee, directly or indirectly, designate the calendar year of a payment, except in accordance with Code Section 409A. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, in the event that a Change in Control is not a “change in control event” under Code Section 409A or the payment event under Section 5(c) does not occur upon or within two (2) years following a “change in control event” under Code Section 409A, any vested Restricted Units payable under Section 5(c) or 5(e) shall be paid to the Grantee within sixty (60) days after the Second Vesting Date (or upon termination of employment on account of death or Disability, if earlier).

* * *

Exhibit A
Performance Goals

- The Performance Goals for the Restricted Units are that the Company's return on equity (Net Income divided by year-end shareholder equity) in at least one of the 2013 and 2014 calendar years exceeds the Company's five-year average return on equity for the five calendar year period 2008 through 2012

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

PERFORMANCE-BASED SHARE UNIT GRANT

February 27, 2013

Dear:

Pursuant to the terms and conditions of the Aqua America Inc. 2009 Omnibus Equity Compensation Plan, as amended and restated (the "Plan"), you have been granted performance-based share units as outlined below and in the attached Performance-Based Share Unit Grant Terms and Conditions.

Granted To:	Nicholas DeBenedictis
Grant Date:	February 27, 2013
Target Award:	27,600 shares
Vesting Date:	February 27, 2015
Performance Period:	Period beginning on January 1, 2013 and ending on December 31, 2015
Vesting Schedule and Performance Goals:	The Target Award is subject to vesting based on continued service and achievement of performance goals, as set forth in the Performance-Based Share Unit Grant Terms and Conditions, including Schedule A attached thereto.

By my signature below, I hereby acknowledge and accept the award of this Performance-Based Share Unit Grant and the Performance-Based Share Unit Grant Terms and Conditions attached hereto and incorporated herein, and I agree to be bound by the terms of the Performance-Based Share Unit Grant, the Performance-Based Share Unit Grant Terms and Conditions and the Plan. I hereby agree that all decisions and determinations of the Committee (as defined in the Plan) with respect to the performance-based share units shall be final and binding.

Signature: _____ Date: _____

Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form.

AQUA AMERICA, INC.
2009 OMNIBUS EQUITY COMPENSATION PLAN
PERFORMANCE-BASED SHARE UNIT GRANT
TERMS AND CONDITIONS

1. Grant of Performance Units.

These Performance-Based Share Unit Grant Terms and Conditions (the “Grant Conditions”) shall apply and be part of the grant made by Aqua America, Inc., a Pennsylvania corporation (the “Company”), to the Grantee named in the Performance-Based Share Unit Grant (the “Performance-Based Unit Grant”) to which these Grant Conditions are attached (the “Grantee”), under the terms and provisions of the Aqua America, Inc. 2009 Omnibus Equity Compensation Plan, as amended and restated (the “Plan”). The applicable provisions of the Plan are incorporated into the Grant Conditions by reference, including the definitions of terms contained in the Plan (unless such terms are otherwise defined herein). The Grantee is an employee of the Company, its subsidiaries or its Affiliates (collectively, the “Employer”).

Subject to the terms and vesting conditions hereinafter set forth, the Company, with the approval and at the direction of the Executive Compensation Committee (the “Committee”) of the Company’s Board of Directors (the “Board”), has granted to the Grantee a target award (the “Target Award”) of performance-based share units as specified in the Performance-Based Share Unit Grant (the “Performance Units”). The Performance Units are contingently awarded and shall be earned, vested and payable if and to the extent that the total shareholder return and earnings per share performance goals described on Schedule A (the “Performance Goals”), employment conditions and other conditions of these Grant Conditions are met. The Performance Units are granted with Dividend Equivalents (as defined in Section 7).

2. Vesting.

(a) Except as otherwise set forth in these Grant Conditions, the Grantee shall earn and vest in a number of Performance Units based on the attainment of the Performance Goals as of the end of the Performance Period, provided that the Grantee continues to be employed by the Employer through the Vesting Date stated on the Performance-Based Share Unit Grant (the “Vesting Date”). The “Performance Period” is the performance period beginning and ending on the applicable dates stated on the Performance-Based Share Unit Grant. The “Vesting Period” is the period beginning on the Grant Date and ending on the Vesting Date.

(b) Except as otherwise set forth in these Grant Conditions, at the end of the Performance Period, the Committee will determine whether and to what extent the Performance Goals have been met and the amount earned with respect to the Performance Units. The Grantee can earn up to two hundred percent (200%) of the Target Award based on the attainment of the Performance Goals.

(c) Except as described in Section 3 below, the Grantee must continue to be employed by the Employer throughout the Vesting Period in order for the Grantee to vest and receive payment with respect to the earned Performance Units.

(d) Except as specifically provided below, no Performance Units shall vest prior to the end of the Performance Period, and if the Performance Goals are not attained at the end of the Performance Period, the Performance Units shall be immediately forfeited and shall cease to be outstanding.

3. Termination of Employment on Account of Retirement, Death, or Disability.

(a) Except as described below, if the Grantee ceases to be employed by the Employer prior to the Vesting Date, the Performance Units shall be forfeited as of the termination date and shall cease to be outstanding. Except as described below, if the Grantee ceases to be employed by the Employer on or after the Vesting Date for any reason other than Cause, the Performance Units shall remain outstanding through the Performance Period and the Grantee shall earn Performance Units based on the attainment of the Performance Goals described on Schedule A, as determined following the end of the Performance Period (or as described in Section 4, if applicable). The earned Performance Units shall be paid as described in Section 6.

(b) If the Grantee ceases to be employed by the Employer during the Vesting Period on account of the Grantee's death or Disability, the Grantee's outstanding Performance Units shall remain outstanding through the Performance Period and the Grantee shall earn Performance Units based on the attainment of the Performance Goals described on Schedule A, as determined following the end of the Performance Period (or as described in Section 4, if applicable). The earned Performance Units shall be paid as described in Section 6.

(c) If the Grantee ceases to be employed by the Employer during the Vesting Period on account of Retirement (defined below), the Grantee shall earn a pro-rata portion of the outstanding Performance Units based on attainment of the Performance Goals described on Schedule A, as determined following the end of the Performance Period (or as described in Section 4, if applicable). The pro-rated portion shall be determined based on the number of Performance Units earned based on the attainment of the Performance Goals during the Performance Period, multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date and prior to the Retirement Date in which the Grantee was employed by the Employer and the denominator of which is twenty-four (24). The pro-rated earned Performance Units shall be paid as described in Section 6.

4. Change in Control.

(a) If a Change in Control occurs during the Performance Period, the Grantee shall earn outstanding Performance Units as of the date of the Change in Control (the "Change in Control Date") as follows:

(i) If the Change in Control occurs more than one (1) year after the Grant Date and before the end of the Performance Period, the Grantee shall earn the greater of (x) the number of Performance Units earned based on the attainment of the Performance Goals from the beginning of the Performance Period to the Change in Control Date, or (y) the Target Award.

(ii) If a Change in Control occurs within one year after the Grant Date, the Grantee shall earn a pro-rata portion of the outstanding Performance Units. The pro-rated portion shall be determined based on the greater of (x) the number of Performance Units earned based on the attainment of the Performance Goals from the beginning of the Performance Period to the Change in Control Date, or (y) the Target Award, multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date until the Change in Control Date and the denominator of which is twenty-four (24).

Performance Units earned as of the Change in Control Date, as described above in subsection (a)(i) or (ii), are referred to as the "CIC Earned Units." All references in this Agreement to "Performance Units" include CIC Earned Units on and after a Change in Control. CIC Earned Units shall vest as described in this Section 4, and vested CIC Earned Units shall be paid as described in Section 6.

(b) If a Change in Control occurs before the Vesting Date, the Grantee shall vest in the CIC Earned Units on the Vesting Date if the Grantee continues to be employed by the Employer through the Vesting Date. Except as described below, the CIC Earned Units shall only vest if the Grantee continues to be employed by the Employer through the Vesting Date.

(c) If a Change in Control occurs before the Vesting Date and the Grantee ceases to be employed by the Employer upon or following a Change in Control on account of (i) the Grantee's Retirement, (ii) the Grantee's termination by the Company without Cause, (iii) the Grantee's termination for Good Reason (defined below), or (iv) the Grantee's Disability or death, the CIC Earned Units shall vest as of the termination date (if not previously vested).

(d) If the Grantee ceases to be employed by the Employer for any other reason before the Vesting Date, the Grantee shall forfeit the CIC Earned Units as of the date of termination.

(e) If a Change in Control occurs on or after the Vesting Date, the CIC Earned Units shall vest as of the Change in Control Date.

5. Definitions.

(a) For purposes of these Grant Conditions, "Good Reason" shall have the meaning given that term in the Grantee's existing Change in Control Agreement with the Company as in effect on the Grant Date.

(b) For purposes of these Grant Conditions, "Retirement" shall mean the Grantee's voluntary termination of employment after the Grantee has attained age fifty-five (55) and has a combination of age and full years of service with the Employer that is equal to or greater than seventy (70).

6. Payment with Respect to Performance Units.

(a) Except as otherwise set forth herein, if the Committee certifies that the Performance Goals and other conditions to payment of the Performance Units have been met, shares of Company Stock equal to the vested earned Performance Units shall be issued to the Grantee on the third anniversary of the Grant Date (the "Payment Date"), following the Committee's certification of the Performance Goals, subject to applicable tax withholding and Section 19 below.

(b) Except as provided below, if a Change in Control occurs, shares of Company Stock (or other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee on the Payment Date, subject to applicable tax withholding and Section 19 below.

(c) If a Change in Control occurs and the Grantee ceases to be employed by the Employer before the Vesting Date on account of (i) the Grantee's Retirement, (ii) the Grantee's termination by the Employer without Cause, (iii) the Grantee's termination for Good Reason, or (iv) the Grantee's Disability or death, shares of Company Stock (or other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee within sixty (60) days following the Grantee's date of termination, subject to applicable tax withholding and Section 19 below.

(d) If a Change in Control occurs and the Grantee ceases to be employed by the Employer on or after the Vesting Date for any reason other than Cause, shares of Company Stock (or other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee within sixty (60) days following the Grantee's date of termination, subject to applicable tax withholding and Section 19 below.

(e) If the Grantee terminates employment on account of Retirement before a Change in Control, any outstanding pro-rated Performance Units under Section 3(c) may be earned as CIC Earned Units pursuant to Section 4(a), but in all cases prorated by applying the fraction in Section 3(c), and such CIC Earned Units shall vest on the date of the Change in Control. Shares of Company Stock (or such other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee within sixty (60) days after the Change in Control, subject to applicable tax withholding and Section 19 below.

(f) If, in connection with a Change in Control, shares of Company Stock are converted into the right to receive a cash payment or other form of consideration, the vested CIC Earned Units shall be payable in such form of consideration, as determined by the Committee.

(g) Any fractional shares with respect to vested earned Performance Units shall be paid to the Grantee in cash.

7. Dividend Equivalents with Respect to Performance Units.

(a) Dividend Equivalents shall accrue with respect to Performance Units and shall be payable subject to the same vesting terms and other conditions as the Performance Units to which they relate. Dividend Equivalents shall be credited when dividends are declared on shares of Company Stock from the Grant Date until payment date for the vested earned Performance Units. If, and to the extent that the underlying Performance Units are forfeited, all related Dividend Equivalents shall also be forfeited.

(b) While the Performance Units are outstanding, the Company will keep records in a bookkeeping account for the Grantee. On each date on which a dividend is declared by the Company on Company Stock, the Company shall credit to the Grantee's account an amount equal to the Dividend Equivalents associated with the Performance Units held by the Grantee on the record date for the dividend. No interest will be credited to any such account.

(c) Dividend Equivalents shall be paid in cash at the same time as the underlying vested earned Performance Units are paid.

(d) Notwithstanding the foregoing, if shares of Company Stock are converted to cash as described in Section 6(f) above in connection with a Change in Control, Dividend Equivalents shall cease to be credited with respect to the Performance Units.

8. Non-Competition.

(a) In consideration for the grant of Performance Units made to the Grantee under the terms of these Grant Conditions, the Grantee agrees that while the Grantee is employed by the Employer and for a twelve (12) month period beginning on the date that the Grantee ceases to be employed by the Employer for any reason (the "Restriction Period"), the Grantee shall not, directly or indirectly, (i) accept employment with, (ii) own, manage, operate, join, control, solicit, finance, or participate in the ownership, management, operation, acquisition, control or financing of, (iii) be connected as a partner, principal, agent, representative, consultant or otherwise with, or (iv) use or permit the Grantee's name to be used in connection with, any business or enterprise engaged directly or indirectly in any business or enterprise engaged in a geographic area within fifty (50) miles of any location from which the Employer is operating on the termination date (the "Geographic Area"), in any business that is competitive to a business from which the Employer, taken as a whole from all geographic areas, derived at least ten percent (10%) of its respective annual gross revenues for the twelve (12) months preceding the termination date.

(b) In consideration for the grant of Performance Units under these Grant Conditions, the Grantee agrees that during the Restriction Period, the Grantee shall not:

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

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

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

(d) The parties to these Grant Conditions acknowledge and agree that any breach by the Grantee of any of the covenants or agreements contained in this Section 8 will result in irreparable injury to the Employer for which money damages could not adequately compensate the Employer and therefore, in the event of any such breach, the Employer shall be entitled (in addition to any other rights and remedies which it may have at law or in equity) to have an injunction issued by any competent court enjoining and restraining the Grantee and any other person involved therein from continuing such breach without posting a bond. The existence of any claim or cause of action which the Grantee may have against the Employer or any other person shall not constitute a defense or bar to the enforcement of such covenants. If any portion of the covenants or agreements contained in this Section 8 is construed to be invalid or unenforceable, the other portions of such covenants or agreements shall not be affected and shall be given full force and effect without regard to the invalid or unenforceable portion to the fullest extent possible. If any covenant or agreement in this Section 8 is held to be unenforceable because of the duration or scope thereof, then the court making such determination shall have the power to reduce the duration and limit the scope thereof, and the covenant or agreement shall then be enforceable in its reduced form. In addition to other actions that may be taken by the Employer, if the Grantee breaches any of the covenants or agreements contained in this Section 8, the Grantee shall forfeit all outstanding Performance Units, and all outstanding Performance Units (whether or not vested) shall immediately terminate.

9. Certain Corporate Changes.

If any change is made to the Company Stock (whether by reason of merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, or exchange of shares or any other change in capital structure made without receipt of consideration), then unless such event or change results in the termination of all the Performance Units, the Committee shall adjust, in an equitable manner and as provided in the Plan, the number and class of shares underlying the Performance Units to reflect the effect of such event or change in the Company's capital structure in such a way as to preserve the value of the Performance Units, and the Committee shall adjust the Performance Goals as necessary to reflect the effect of such event or change in the Company's capital structure. Any adjustment that occurs under the terms of this Section 9 or the Plan will not change the timing or form of payment with respect to any Performance Units.

10. No Stockholder Rights.

No shares of Company Stock shall be issued to the Grantee at the time the grant is made, and the Grantee shall not be, nor have any of the rights or privileges of, a shareholder of the Company with respect to any Performance Units recorded in the account, including no voting rights and no rights to receive dividends (other than Dividend Equivalents).

11. No Right to Continued Employment.

Neither the award of Performance Units, nor any other action taken with respect to the Performance Units, shall confer upon the Grantee any right to continue to be employed by the Employer or shall interfere in any way with the right of the Employer to terminate the Grantee's employment at any time.

12. Termination or Amendment.

These Grant Conditions and the award made hereunder may be terminated or amended by the Committee, in whole or in part, in accordance with the applicable terms of the Plan.

13. Notice.

Any notice to the Company provided for in these Grant Conditions shall be addressed to it in care of the Company's Vice President for Human Resources, and any notice to the Grantee shall be addressed to the Grantee at the current address shown on the payroll system of the Company, or to such other address as the Grantee may designate to the Company in writing. Any notice provided for hereunder shall be delivered by hand, sent by telecopy or electronic mail or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage and registry fee prepaid in the United States mail or other mail delivery service. Notice to the Company shall be deemed effective upon receipt. By receipt of these Grant Conditions, the Grantee hereby consents to the delivery of information (including without limitation, information required to be delivered to the Grantee pursuant to the applicable securities laws) regarding the Company, the Plan, and the Performance Units via the Company's electronic mail system or other electronic delivery system.

14. Incorporation of Plan by Reference.

The Performance-Based Share Unit Grant and these Grant Conditions are made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Grantee's receipt of the Performance Units constitutes such the Grantee's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, these Grant Conditions, and/or the Performance Units shall be final and binding on the Grantee, his or her beneficiaries and any other person having or claiming an interest in the Performance Units. The settlement of any award with respect to the Performance Units is subject to the provisions of the Plan and to interpretations, regulations and determinations concerning the Plan as established from time to time by the Committee in accordance with the provisions of the Plan. A copy of the Plan will be furnished to each Grantee upon request.

15. Income Taxes; Withholding Taxes.

The Grantee is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the award or settlement of Performance Units pursuant to these Grant Conditions. At the time of taxation, the Employer shall have the right to deduct from other compensation, or to withhold shares of Company Stock, in an amount equal to the federal (including FICA), state, local and foreign taxes and other amounts as may be required by law to be withheld with respect to the Performance Units, provided that any share withholding shall not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state, local and foreign tax liabilities.

16. Company Policies.

This Performance-Based Unit Grant and all shares issued pursuant to this grant shall be subject to any applicable recoupment or clawback policies and other policies implemented by the Board, as in effect from time to time.

17. Governing Law.

The validity, construction, interpretation and effect of the Performance-Based Share Unit Grant and these Grant Conditions shall exclusively be governed by, and determined in accordance with, the applicable laws of the Commonwealth of Pennsylvania, excluding any conflicts or choice of law rule or principle.

18. Assignment.

The Performance-Based Share Unit Grant and these Grant Conditions shall bind and inure to the benefit of the successors and assignees of the Company. The Grantee may not sell, assign, transfer, pledge or otherwise dispose of the Performance Units, except to a successor grantee in the event of the Grantee's death.

19. Section 409A.

The Performance-Based Share Unit Grant and these Grant Conditions are intended to comply with Code Section 409A or an exemption, and payments may only be made under these Grant Conditions upon an event and in a manner permitted by Code Section 409A, to the extent applicable. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, if the Grantee is considered a "specified employee" for purposes of Code Section 409A and if any payment under these Grant Conditions is required to be delayed for a period of six (6) months after separation from service pursuant to Code Section 409A, such payment shall be delayed as required by Code Section 409A, and the accumulated payment amounts shall be paid in a lump sum payment within ten (10) days after the end of the six (6)-month period. If the Grantee dies during the postponement period prior to payment, the amounts withheld on account of Code Section 409A shall be paid to the personal representative of the Grantee's estate within sixty (60) days after the date of the Grantee's death. Notwithstanding anything in these Grant Conditions to the contrary, if the Performance Units are subject to Code Section 409A and if required by Code Section 409A, any payments to be made upon a termination of employment under these Grant Conditions may only be made upon a "separation from service" under Code Section 409A. In no event may the Grantee, directly or indirectly, designate the calendar year of a payment, except in accordance with Code Section 409A. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, if CIC Earned Units are subject to Code Section 409A, and if a Change in Control is not a "change in control event" under Code Section 409A or the payment event does not occur upon or within two years following a "change in control event" under Code Section 409A, any vested CIC Earned Units shall be paid to the Grantee upon the Payment Date and not on account of an earlier termination of employment.

* * *

Schedule A

Performance Goals

1. Performance Goals.

The Performance Units shall be earned based on Aqua America's (the Company's) achievement of four Performance Goals, as follows:

- 30% of the Target Award shall be earned based on the Company's TSR (as defined below) as compared to the TSR of the companies in the peer group described in Section 3 below.
- 30% of the Target Award shall be earned based on the Company's TSR as compared to the TSR of the reference companies in described in Section 4 below.
- 20% of the Target Award shall be earned based on maintaining an average ratio of operations and maintenance expenses as a percentage of revenues at Aqua Pennsylvania, as described in Section 5 below.
- 20% of the Target Award will be earned based on earning a cumulative total earnings before taxes for the Company's operations other than Aqua Pennsylvania, as described in Section 6 below.

2. Calculation of TSR.

(a) Relative total shareholder return ("TSR") means the Company's TSR relative to the TSR of each Peer Company in the Peer Group (as defined below) or each Reference Company (as defined below), as applicable. At the end of the Performance Period, the TSR for the Company, each Peer Company in the Peer Group and each Reference Company shall be calculated by dividing the Closing Average Share Value (as defined below) by the Opening Average Share Value (as defined below).

(b) The term "Closing Average Share Value" means the average value of the common stock for the trading days during the two calendar months ending on the last trading day of the Performance Period, which shall be calculated as follows: (i) determine the closing price of the common stock on each trading date during the two-month period, (ii) multiply each closing price as of that trading date by the applicable share number described below, and (iii) average the amounts so determined for the two-month period. The Closing Average Share Value shall take into account any dividends on the common stock for which the ex-dividend date occurred during the Performance Period, as if the dividend amount had been reinvested in common stock at the closing price on the ex-dividend date. The share number in clause (ii) above, for a given trading day, is the sum of one share plus the cumulative number of shares deemed purchased with such dividends. Notwithstanding the foregoing, if the Closing Average Share Value is calculated as of a Change in Control, then the Closing Average Share Value shall be based on the two-month period ending immediately prior to the Change in Control.

(c) The term “Opening Average Share Value” means the average value of the common stock for the trading days during the two calendar months ending on the last trading day prior to the beginning of the Performance Period, which shall be calculated as follows: (i) determine the closing price of the common stock on each trading date during the two-month period, (ii) multiply each closing price as of that trading date by the applicable share number described below, and (iii) average the amounts so determined for the two-month period. The Opening Average Share Value shall take into account any dividends on the common stock for which the ex-dividend date occurred during the two-month period, as if the dividend amount had been reinvested in common stock at the closing price on the ex-dividend date. The share number in clause (ii) above, for a given trading day, is the sum of one share plus the cumulative number of shares deemed purchased with such dividends.

3. Performance Units Earned Based on Comparative TSR to the Peer Group. Thirty percent of the Target Award of Performance Units (the “Peer Group Portion”) shall be earned based on the Company’s TSR as compared to the TSR of the companies in the Peer Group for the Performance Period, in accordance with the following:

(a) The Peer Group for this purpose consists of American Water Works Company (AWK), American States Water Company (AWR), Aqua America, Inc. (WTR), Connecticut Water Service, Inc. (CTWS), California Water Service Group (CWT), Middlesex Water Company (MSEX) and SJW Corporation (SJW) (each a “Peer Company” and collectively, the “Peer Group”).

(b) The Peer Group shall be subject to change as follows:

(i) In the event of a merger, acquisition or business combination transaction of a Peer Company in which the Peer Company is the surviving entity and remains publicly traded, the surviving entity shall remain a Peer Company.

(ii) In the event of a merger, acquisition or business combination transaction of a Peer Company, a “going private” transaction or similar event involving a Peer Company or the liquidation of a Peer Company, in each case where the Peer Company is not the surviving entity or is no longer publicly traded, the company shall no longer be a Peer Company.

(c) The Peer Group Portion shall be earned based on how the Company’s TSR ranks in comparison to the TSRs of the Peer Group in accordance with the following schedule, depending on how many companies remain in the Peer Group at the end of the Performance Period:

Ordinal Ranking of the Company (including the Company) Versus Peer Group	Payout as a % of Target Award (7 Peer Companies)	Payout as a % of Target Award (6 Peer Companies)	Payout as a % of Target Award (5 Peer Companies)	Payout as a % of Target Award (4 Peer Companies)	Payout as a % of Target Award (1, 2 or 3 Peer Companies)
1st	200%	200%	200%	200%	200%
2nd	170%	160%	150%	125%	100%
3rd	130%	125%	100%	50%	0%
4th	100%	75%	50%	0%	N/A
5th	50%	25%	0%	N/A	N/A
6th	0%	0%	N/A	N/A	N/A
7th	0%	N/A	N/A	N/A	N/A

4. **Performance Units Earned Based on Comparative TSR to the S&P MidCap Utilities Index.** Thirty percent of the Target Award of the Performance Units (the “S&P Index Portion”) shall be earned based on the Company’s TSR as compared to the TSR of the companies in the S&P MidCap Utilities Index, in accordance with the following:

(a) The S&P Index Portion shall be earned based on how the Company’s TSR ranks compares to the TSRs of the Reference Companies in the S&P MidCap Utilities Index, according to the following schedule:

Percentile Ranking of the Company Versus Reference Companies	Payout as a % of Target Award
90 th or above	200%
50 th	100%
30 th	50%
Below 30 th	0%

If the Company’s TSR rank is above the 30th percentile and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

(b) The companies in the S&P MidCap Utilities Index will be determined on the first day of the Performance Period for purposes of the TSR calculation and will be changed only in accordance with Section 4(c) below. No company shall be added to the S&P MidCap Utilities Index during the Performance Period for purposes of the TSR calculation.

(c) The term “Reference Company” means a company in the S&P MidCap Utilities Index as of the first day of the Performance Period and will be subject to change as follows:

(i) In the event of a merger, acquisition or business combination transaction of a Reference Company in which the Reference Company is the surviving entity and remains publicly traded, the surviving entity shall remain a Reference Company.

(ii) In the event of a merger, acquisition or business combination transaction of a Reference Company, a “going private” transaction or similar event involving a Reference Company or the liquidation of a Reference Company, in each case where the Reference Company is not the surviving entity or is no longer publicly traded, the company shall no longer be a Reference Company.

5. Performance Units Earned Based on the Aqua Pennsylvania O&M Ratio. Twenty percent of the Target Award of the Performance Units (the “O&M Ratio Portion”) shall be earned based on maintaining an average of the annual ratios of the consolidated operations and maintenance expenses to revenue for Aqua Pennsylvania and its subsidiaries over the three-year Performance Period. The O&M Ratio Portion shall be calculated according to the following schedule:

O&M RATIO METRIC		RATING
Aqua PA O&M Ratio 3 YR Annual Avg. Attainment		(% of 20% PSU's Earned)
31.41%		50
31.21%		60
31.01%		70
30.81%		80
30.61%		90
30.41%		100
30.21%		110
30.01%		120
29.81%		130
29.61%		140
29.41%		150
29.21%		160
29.01%		170
28.81%		180
28.61%		190
28.41%		200

If Aqua Pennsylvania’s ratio of operations and maintenance expense to revenues is below the 31.41% level and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

6. Performance Units Earned Based on the Earnings Before Taxes for the Company's operations other than Aqua Pennsylvania (Non-PA EBT). Twenty percent of the Target Award of the Performance Units (the "Non-PA EBT") shall be earned based on the Company's total cumulative income from continuing operations before income taxes plus the Company's income from discontinued operations before income taxes, less the corresponding amounts from Aqua Pennsylvania, over the three-year Performance Period. The Non-PA EBT Portion shall be calculated according to the following schedule:

NON - PA Earnings Before Tax	
Non PA EBT 3 YR Combined Attainment \$ 000's Omitted	RATING % of 20% PSU's Earned
\$ 218,454	50.0
\$ 223,309	60.0
\$ 228,163	70.0
\$ 233,018	80.0
\$ 237,872	90.0
\$ 242,727	100.0
\$ 245,154	110.0
\$ 247,582	120.0
\$ 250,009	130.0
\$ 252,436	140.0
\$ 254,863	150.0
\$ 257,291	160.0
\$ 259,718	170.0
\$ 262,145	180.0
\$ 264,572	190.0
\$ 267,000	200.0

If the Company's Non-PA EBT as defined is above \$218,454 and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

7. General Terms. Any portion of the Performance Units that is not earned as of the end of the Performance Period shall be forfeited as of the end of the Performance Period (or as provided above upon an earlier Change in Control). In no event shall the maximum number of Performance Units that may be payable pursuant to these Grant Conditions exceed 200% of the Target Award.

RESTRICTED STOCK UNIT GRANT

February 27, 2013

Dear:

Pursuant to the terms and conditions of the Aqua America Inc. 2009 Omnibus Equity Compensation Plan, as amended and restated (the "Plan"), you have been granted restricted stock units as outlined below and in the attached Restricted Stock Unit Grant Terms and Conditions.

Granted To:

Grant Date: February 27, 2013

Number of Restricted
Stock Units Granted:

Vesting Date: February 27, 2016

Vesting Schedule: 100% on February 27, 2016

By my signature below, I hereby acknowledge and accept the award of this Restricted Stock Unit Grant and the Restricted Stock Unit Grant Terms and Conditions attached hereto and incorporated herein, and I agree to be bound by the terms of the Restricted Stock Unit Grant, the Restricted Stock Unit Grant Terms and Conditions and the Plan. I hereby agree that all decisions and determinations of the Committee (as defined in the Plan) with respect to the restricted stock units shall be final and binding.

Signature: _____ Date: _____

Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form.

AQUA AMERICA, INC.
2009 EQUITY OMNIBUS COMPENSATION PLAN

RESTRICTED STOCK UNIT GRANT
TERMS AND CONDITIONS

1. Grant of Restricted Units.

These Restricted Stock Unit Grant Terms and Conditions (the “Grant Conditions”) shall apply and be part of the grant made by Aqua America, Inc., a Pennsylvania corporation (the “Company”), to the Grantee named in the Restricted Stock Unit Grant (the “Restricted Stock Unit Grant”) to which these Grant Conditions are attached (the “Grantee”), under the terms and provisions of the Aqua America, Inc. 2009 Equity Omnibus Compensation Plan, as amended and restated (the “Plan”). The applicable provisions of the Plan are incorporated into these Grant Conditions by reference, including the definitions of terms contained in the Plan (unless such terms are otherwise defined herein). The Grantee is an employee of the Company, its subsidiaries or its Affiliates (collectively, the “Employer”).

Subject to the terms and vesting conditions hereinafter set forth, the Company, with the approval and at the direction of the Executive Compensation Committee (the “Committee”) of the Company’s Board of Directors (the “Board”), has granted to the Grantee the number of restricted stock units specified in the Restricted Stock Unit Grant (the “Restricted Units”). The Restricted Units shall become vested as set forth in these Grant Conditions. The Restricted Units are granted with Dividend Equivalents (as defined in Section 8).

2. Restricted Unit Account.

Restricted Units represent hypothetical shares of common stock of the Company (“Company Stock”), and not actual shares of Company Stock. The Company shall establish and maintain a Restricted Unit account, as a bookkeeping account on its records, for the Grantee and shall record in such account the number of Restricted Units granted to the Grantee. No shares of Company Stock shall be issued to the Grantee at the time the grant is made, and the Grantee shall not be, nor have any of the rights or privileges of, a shareholder of the Company with respect to any Restricted Units recorded in the account, including no voting rights and no rights to receive dividends (other than Dividend Equivalents). The Grantee shall not have any interest in any fund or specific assets of the Company by reason of this award or the Restricted Unit account established for the Grantee.

3. Vesting.

(a) Except as otherwise set forth in these Grant Conditions, the Grantee shall vest in the Restricted Units on the Vesting Dates specified in the Restricted Stock Unit Grant (the "Vesting Date"), provided that the Grantee continues to be employed by the Employer through the Vesting Date.

(b) Except as described in Section 3 below, the Grantee must continue to be employed by the Employer on the Vesting Date in order for the Grantee to vest and receive payment with respect to Restricted Units.

4. Termination of Employment on Account of Retirement, Death, or Disability.

(a) Except as described below, if the Grantee ceases to be employed by the Employer prior to the Vesting Date, the Restricted Units shall be forfeited as of the termination date.

(b) If the Grantee ceases to be employed by the Employer prior to the Vesting Date on account of the Grantee's Retirement (defined below), the Grantee shall earn a pro-rata portion of the unvested Restricted Units. The pro-rated portion shall be determined based the number of unvested Restricted Units, multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date and prior to the Retirement Date in which the Grantee was employed by the Employer and the denominator of which is thirty-six (36). Shares of Company Stock equal to the pro-rata portion of the Restricted Units shall be issued to the Grantee within sixty (60) days following the Grantee's Retirement date, subject to applicable tax withholding and subject to Section 19 below.

(c) If the Grantee ceases to be employed by the Employer prior to the Vesting Date on account of the Grantee's death or Disability, the Grantee's Restricted Units shall fully vest and shares of Company Stock equal to the vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Grantee's date of termination, subject to applicable tax withholding and subject to Section 19 below.

5. Change in Control.

(a) Except as described below, if a Change in Control occurs prior to the Vesting Date, the Grantee's Restricted Units shall remain outstanding and shall vest on the Vesting Date if the Grantee continues to be employed by the Employer through the Vesting Date. Shares of Company Stock (or other consideration, as described below) equal to the vested Restricted Units shall be issued to the Grantee on the Vesting Date, subject to applicable tax withholding and Section 19 below.

(b) If the Grantee ceases to be employed by the Employer upon or following a Change in Control on account of (i) the Grantee's Retirement, (ii) termination by the Employer without Cause, (iii) termination by the Grantee for Good Reason (defined below), or (iv) the Grantee's Disability or death, the Grantee's outstanding unvested Restricted Units shall fully vest. Shares of Company Stock (or such other consideration, as described below) equal to the Grantee's vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Grantee's date of termination, subject to applicable tax withholding and Section 19 below.

(c) If the Grantee terminates employment for any other reason prior to the Vesting Date, the Restricted Units shall be forfeited as of the date of termination.

(d) If, in connection with the Change in Control, shares of Company Stock are converted into the right to receive a cash payment or other form of consideration, the vested Restricted Units shall be payable in such form of consideration, as determined by the Committee.

6. Definitions.

(a) For purposes of these Grant Conditions, “Good Reason” shall have the meaning given that term in the Grantee’s existing Change in Control Agreement with the Company as in effect on the Grant Date.

(b) For purposes of these Grant Conditions, “Retirement” shall mean the Grantee’s voluntary termination of employment after the Grantee has attained age fifty-five (55) and has a combination of age and full years of service with the Employer that is equal to or greater than seventy (70).

7. Payment with Respect to Restricted Units.

Except as otherwise set forth in Section 4 and 5 above, shares of Company Stock equal to the vested Restricted Units shall be issued to the Grantee on the Vesting Date, subject to applicable tax withholding and subject to Section 19. Any fractional Restricted Units shall be paid to the Grantee in cash.

8. Dividend Equivalents with Respect to Restricted Units.

(a) Dividend Equivalents shall accrue with respect to Restricted Units and shall be payable subject to the same vesting terms and other conditions as the Restricted Units to which they relate. Dividend Equivalents shall be credited when dividends are declared on shares of Company Stock from the Grant Date until the payment date for the vested Restricted Units. If, and to the extent that the underlying Restricted Units are forfeited, all related Dividend Equivalents shall also be forfeited.

(b) While the Restricted Units are outstanding, the Company will keep records in a bookkeeping account for the Grantee. On each date on which a dividend is declared by the Company on Company Stock, the Company shall credit to the Grantee’s account an amount equal to the Dividend Equivalents associated with the Restricted Units held by the Grantee on the record date for the dividend. No interest will be credited to any such account.

(c) Dividend Equivalents will be paid in cash at the same time as the underlying vested Restricted Units are paid.

(d) Notwithstanding the foregoing, if shares of Company Stock are converted to cash as described in Section 5(d) above in connection with a Change in Control, Dividend Equivalents shall cease to be credited with respect to Restricted Units.

9. Non-Competition.

(a) In consideration for the grant of Restricted Units made to the Grantee under the terms of these Grant Conditions, the Grantee agrees that while the Grantee is employed by the Employer and for a twelve (12) month period beginning on the date that the Grantee ceases to be employed by the Employer for any reason (the "Restriction Period"), the Grantee shall not, directly or indirectly, (i) accept employment with, (ii) own, manage, operate, join, control, solicit, finance, or participate in the ownership, management, operation, acquisition, control or financing of, (iii) be connected as a partner, principal, agent, representative, consultant or otherwise with, or (iv) use or permit the Grantee's name to be used in connection with, any business or enterprise engaged directly or indirectly in any business or enterprise engaged in a geographic area within fifty (50) miles of any location from which the Employer is operating on the termination date (the "Geographic Area"), in any business that is competitive to a business from which the Employer, taken as a whole from all geographic areas, derived at least ten percent (10%) of its respective annual gross revenues for the twelve (12) months preceding the termination date.

(b) In consideration for the grant of Restricted Units made to the Grantee under the terms of these Grant Conditions, the Grantee agrees that during the Restriction Period, the Grantee shall not:

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

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

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

(d) The parties to these Grant Conditions acknowledge and agree that any breach by the Grantee of any of the covenants or agreements contained in this Section 9 will result in irreparable injury to the Employer for which money damages could not adequately compensate the Employer and therefore, in the event of any such breach, the Employer shall be entitled (in addition to any other rights and remedies which it may have at law or in equity) to have an injunction issued by any competent court enjoining and restraining the Grantee and any other person involved therein from continuing such breach without posting a bond. The existence of any claim or cause of action which the Grantee may have against the Employer or any other person shall not constitute a defense or bar to the enforcement of such covenants. If any portion of the covenants or agreements contained in this Section 9 is construed to be invalid or unenforceable, the other portions of such covenants or agreements shall not be affected and shall be given full force and effect without regard to the invalid or unenforceable portion to the fullest extent possible. If any covenant or agreement in this Section 9 is held to be unenforceable because of the duration or scope thereof, then the court making such determination shall have the power to reduce the duration and limit the scope thereof, and the covenant or agreement shall then be enforceable in its reduced form. In addition to other actions that may be taken by the Employer, if the Grantee breaches any of the covenants or agreements contained in this Section 9, the Grantee will forfeit all outstanding Restricted Units, and all outstanding Restricted Units (whether or not vested), shall immediately terminate.

10. Certain Corporate Changes.

If any change is made to the Company Stock (whether by reason of merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, or exchange of shares or any other change in capital structure made without receipt of consideration), then unless such event or change results in the termination of all the Restricted Units, the Committee shall adjust, in an equitable manner and as provided in the Plan, the number and class of shares underlying the Restricted Units. Any adjustment that occurs under the terms of this Section 10 or the Plan will not change the timing or form of payment with respect to any Restricted Units.

11. No Right to Continued Employment.

Neither the award of Restricted Units, nor any other action taken with respect to the Restricted Units, shall confer upon the Grantee any right to continue to be employed by the Employer or shall interfere in any way with the right of the Employer to terminate the Grantee's employment at any time.

12. Termination or Amendment.

These Grant Conditions and the award made hereunder may be terminated or amended by the Committee, in whole or in part, in accordance with the applicable terms of the Plan.

13. Notice.

Any notice to the Company provided for in these Grant Conditions shall be addressed to it in care of the Company's Vice President for Human Resources, and any notice to the Grantee shall be addressed to the Grantee at the current address shown on the payroll system of the Company, or to such other address as the Grantee may designate to the Company in writing. Any notice provided for hereunder shall be delivered by hand, sent by telecopy or electronic mail or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage and registry fee prepaid in the United States mail or other mail delivery service. Notice to the Company shall be deemed effective upon receipt. By receipt of these Grant Conditions, the Grantee hereby consents to the delivery of information (including without limitation, information required to be delivered to the Grantee pursuant to the applicable securities laws) regarding the Company, the Plan, and the Restricted Units via the Company's electronic mail system or other electronic delivery system.

14. Incorporation of Plan by Reference.

The Restricted Stock Unit Grant and these Grant Conditions are made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Grantee's receipt of the Restricted Units constitutes the Grantee's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, these Grant Conditions, and/or the Restricted Units shall be final and binding on the Grantee, his or her beneficiaries and any other person having or claiming an interest in the Restricted Units. The settlement of any award with respect to the Restricted Units is subject to the provisions of the Plan and to interpretations, regulations and determinations concerning the Plan as established from time to time by the Committee in accordance with the provisions of the Plan. A copy of the Plan will be furnished to each Grantee upon request.

15. Income Taxes; Withholding Taxes.

The Grantee is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the award or settlement of Restricted Units pursuant to these Grant Conditions. At the time of taxation, the Employer shall have the right to deduct from other compensation, or to withhold shares of Company Stock, in an amount equal to the federal (including FICA), state, local and foreign taxes and other amounts as may be required by law to be withheld with respect to the Restricted Units, provided that any share withholding shall not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state, local and foreign tax liabilities.

16. Company Policies.

This Restricted Unit Grant and all shares issued pursuant to this grant shall be subject to any applicable recoupment or clawback policies and other policies implemented by the Board, as in effect from time to time.

17. Governing Law.

The validity, construction, interpretation and effect of the Restricted Stock Unit Grant and these Grant Conditions shall exclusively be governed by, and determined in accordance with, the applicable laws of the Commonwealth of Pennsylvania, excluding any conflicts or choice of law rule or principle.

18. Assignment.

The Restricted Stock Unit Grant and these Grant Conditions shall bind and inure to the benefit of the successors and assignees of the Company. The Grantee may not sell, assign, transfer, pledge or otherwise dispose of the Restricted Units, except to a successor grantee in the event of the Grantee's death.

19. Code Section 409A.

The Restricted Stock Unit Grant and these Grant Conditions are intended to comply with Code Section 409A or an exemption, and payments may only be made under these Grant Conditions upon an event and in a manner permitted by Code Section 409A, to the extent applicable. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, if the Grantee is considered a "specified employee" for purposes of Code Section 409A and if any payment under these Grant Conditions is required to be delayed for a period of six (6) months after separation from service pursuant to Code Section 409A, such payment shall be delayed as required by Code Section 409A, and the accumulated payment amounts shall be paid in a lump sum payment within ten (10) days after the end of the six (6)-month period. If the Grantee dies during the postponement period prior to payment, the amounts withheld on account of Code Section 409A shall be paid to the personal representative of the Grantee's estate within sixty (60) days after the date of the Grantee's death. Any payments to be made upon a termination of employment under these Grant Conditions may only be made upon a "separation from service" under Code Section 409A. In no event may the Grantee, directly or indirectly, designate the calendar year of a payment, except in accordance with Code Section 409A.

* * *

RESTRICTED STOCK UNIT GRANT

February 27, 2013

Dear:

Pursuant to the terms and conditions of the Aqua America Inc. 2009 Omnibus Equity Compensation Plan, as amended and restated (the "Plan"), you have been granted restricted stock units as outlined below and in the attached Restricted Stock Unit Grant Terms and Conditions.

Granted To:

Grant Date: February 27, 2013

Number of Restricted
Stock Units Granted:

Vesting Date: February 27, 2016

Vesting Schedule: 100% on February 27, 2016

By my signature below, I hereby acknowledge and accept the award of this Restricted Stock Unit Grant and the Restricted Stock Unit Grant Terms and Conditions attached hereto and incorporated herein, and I agree to be bound by the terms of the Restricted Stock Unit Grant, the Restricted Stock Unit Grant Terms and Conditions and the Plan. I hereby agree that all decisions and determinations of the Committee (as defined in the Plan) with respect to the restricted stock units shall be final and binding.

Signature: _____ Date: _____

Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form.

AQUA AMERICA, INC.
2009 EQUITY OMNIBUS COMPENSATION PLAN

RESTRICTED STOCK UNIT GRANT
TERMS AND CONDITIONS

1. Grant of Restricted Units.

These Restricted Stock Unit Grant Terms and Conditions (the “Grant Conditions”) shall apply and be part of the grant made by Aqua America, Inc., a Pennsylvania corporation (the “Company”), to the Grantee named in the Restricted Stock Unit Grant (the “Restricted Stock Unit Grant”) to which these Grant Conditions are attached (the “Grantee”), under the terms and provisions of the Aqua America, Inc. 2009 Equity Omnibus Compensation Plan, as amended and restated (the “Plan”). The applicable provisions of the Plan are incorporated into these Grant Conditions by reference, including the definitions of terms contained in the Plan (unless such terms are otherwise defined herein). The Grantee is an employee of the Company, its subsidiaries or its Affiliates (collectively, the “Employer”).

Subject to the terms and vesting conditions hereinafter set forth, the Company, with the approval and at the direction of the Executive Compensation Committee (the “Committee”) of the Company’s Board of Directors (the “Board”), has granted to the Grantee the number of restricted stock units specified in the Restricted Stock Unit Grant (the “Restricted Units”). The Restricted Units shall become vested as set forth in these Grant Conditions. The Restricted Units are granted with Dividend Equivalents (as defined in Section 8).

2. Restricted Unit Account.

Restricted Units represent hypothetical shares of common stock of the Company (“Company Stock”), and not actual shares of Company Stock. The Company shall establish and maintain a Restricted Unit account, as a bookkeeping account on its records, for the Grantee and shall record in such account the number of Restricted Units granted to the Grantee. No shares of Company Stock shall be issued to the Grantee at the time the grant is made, and the Grantee shall not be, nor have any of the rights or privileges of, a shareholder of the Company with respect to any Restricted Units recorded in the account, including no voting rights and no rights to receive dividends (other than Dividend Equivalents). The Grantee shall not have any interest in any fund or specific assets of the Company by reason of this award or the Restricted Unit account established for the Grantee.

*Senior Officer (Grade 2) with Non-Compete
and Modified Good Reason*

3. Vesting.

(a) Except as otherwise set forth in these Grant Conditions, the Grantee shall vest in the Restricted Units on the Vesting Date specified in the Restricted Stock Unit Grant (the "Vesting Date"), provided that the Grantee continues to be employed by the Employer through the Vesting Date.

(b) Except as described in Section 3 below, the Grantee must continue to be employed by the Employer on the Vesting Date in order for the Grantee to vest and receive payment with respect to Restricted Units.

4. Termination of Employment on Account of Retirement, Death, or Disability.

(a) Except as described below, if the Grantee ceases to be employed by the Employer prior to the Vesting Date, the Restricted Units shall be forfeited as of the termination date.

(b) If the Grantee ceases to be employed by the Employer prior to the Vesting Date on account of the Grantee's Retirement (defined below), the Grantee shall earn a pro-rata portion of the unvested Restricted Units. The pro-rated portion shall be determined based the number of unvested Restricted Units, multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date and prior to the Retirement Date in which the Grantee was employed by the Employer and the denominator of which is thirty-six (36). Shares of Company Stock equal to the pro-rata portion of the Restricted Units shall be issued to the Grantee within sixty (60) days following the Grantee's Retirement date, subject to applicable tax withholding and subject to Section 19 below.

(c) If the Grantee ceases to be employed by the Employer prior to the Vesting Date on account of the Grantee's death or Disability, the Grantee's Restricted Units shall fully vest and shares of Company Stock equal to the vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Grantee's date of termination, subject to applicable tax withholding and subject to Section 19 below.

5. Change in Control.

(a) Except as described below, if a Change in Control occurs prior to the Vesting Date, the Grantee's Restricted Units shall remain outstanding and shall vest on the Vesting Date if the Grantee continues to be employed by the Employer through the Vesting Date. Shares of Company Stock (or other consideration, as described below) equal to the vested Restricted Units shall be issued to the Grantee on the Vesting Date, subject to applicable tax withholding and Section 19 below.

(b) If the Grantee ceases to be employed by the Employer upon or following a Change in Control on account of (i) the Grantee's Retirement, (ii) termination by the Employer without Cause, (iii) termination by the Grantee for Good Reason (defined below), or (iv) the Grantee's Disability or death, the Grantee's outstanding unvested Restricted Units shall fully vest. Shares of Company Stock (or such other consideration, as described below) equal to the Grantee's vested Restricted Units shall be issued to the Grantee within sixty (60) days after the Grantee's date of termination, subject to applicable tax withholding and Section 19 below.

(c) If the Grantee terminates employment for any other reason prior to the Vesting Date, the Restricted Units shall be forfeited as of the date of termination.

(d) If, in connection with the Change in Control, shares of Company Stock are converted into the right to receive a cash payment or other form of consideration, the vested Restricted Units shall be payable in such form of consideration, as determined by the Committee.

*Senior Officer (Grade 2) with Non-Compete
and Modified Good Reason*

6. Definitions.

(a) For purposes of these Grant Conditions, “Good Reason” shall mean:

(i) a material diminution in the Grantee’s base salary, which, for purposes of this Agreement, means a reduction in base salary of ten (10) percent or more that does not apply generally to all officers of the Employer; or

(ii) a material change in the geographic location at which the Grantee must perform services for the Employer, which, for purposes of this Agreement, means a requirement that the Grantee be based at any office or location which is located more than fifty (50) miles from the Grantee’s primary place of employment immediately prior to the Change in Control on other than on a temporary basis (less than six (6) months).

Termination of employment after any of the foregoing events shall constitute a termination by the Grantee for Good Reason only if the Grantee provides written notice to the Employer of the existence of such event within ninety (90) days after the initial occurrence of such event, the Employer fails to remedy the event within thirty (30) days following the receipt of such notice and the Grantee terminates employment with the Employer for Good Reason within fifteen (15) days after the expiration of the cure period.

(b) For purposes of these Grant Conditions, “Retirement” shall mean the Grantee’s voluntary termination of employment after the Grantee has attained age fifty-five (55) and has a combination of age and full years of service with the Employer that is equal to or greater than seventy (70).

7. Payment with Respect to Restricted Units.

Except as otherwise set forth in Section 4 and 5 above, shares of Company Stock equal to the vested Restricted Units shall be issued to the Grantee on the Vesting Date, subject to applicable tax withholding and subject to Section 19. Any fractional Restricted Units shall be paid to the Grantee in cash.

8. Dividend Equivalents with Respect to Restricted Units.

(a) Dividend Equivalents shall accrue with respect to Restricted Units and shall be payable subject to the same vesting terms and other conditions as the Restricted Units to which they relate. Dividend Equivalents shall be credited when dividends are declared on shares of Company Stock from the Grant Date until the payment date for the vested Restricted Units. If, and to the extent that the underlying Restricted Units are forfeited, all related Dividend Equivalents shall also be forfeited.

*Senior Officer (Grade 2) with Non-Compete
and Modified Good Reason*

(b) While the Restricted Units are outstanding, the Company will keep records in a bookkeeping account for the Grantee. On each date on which a dividend is declared by the Company on Company Stock, the Company shall credit to the Grantee's account an amount equal to the Dividend Equivalents associated with the Restricted Units held by the Grantee on the record date for the dividend. No interest will be credited to any such account.

(c) Dividend Equivalents will be paid in cash at the same time as the underlying vested Restricted Units are paid.

(d) Notwithstanding the foregoing, if shares of Company Stock are converted to cash as described in Section 5(d) above in connection with a Change in Control, Dividend Equivalents shall cease to be credited with respect to Restricted Units.

9. Non-Competition.

(a) In consideration for the grant of Restricted Units made to the Grantee under the terms of these Grant Conditions, the Grantee agrees that while the Grantee is employed by the Employer and for a twelve (12) month period beginning on the date that the Grantee ceases to be employed by the Employer for any reason (the "Restriction Period"), the Grantee shall not, directly or indirectly, (i) accept employment with, (ii) own, manage, operate, join, control, solicit, finance, or participate in the ownership, management, operation, acquisition, control or financing of, (iii) be connected as a partner, principal, agent, representative, consultant or otherwise with, or (iv) use or permit the Grantee's name to be used in connection with, any business or enterprise engaged directly or indirectly in any business or enterprise engaged in a geographic area within fifty (50) miles of any location from which the Employer is operating on the termination date (the "Geographic Area"), in any business that is competitive to a business from which the Employer, taken as a whole from all geographic areas, derived at least ten percent (10%) of its respective annual gross revenues for the twelve (12) months preceding the termination date.

(b) In consideration for the grant of Restricted Units made to the Grantee under the terms of these Grant Conditions, the Grantee agrees that during the Restriction Period, the Grantee shall not:

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

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

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

*Senior Officer (Grade 2) with Non-Compete
and Modified Good Reason*

(d) The parties to these Grant Conditions acknowledge and agree that any breach by the Grantee of any of the covenants or agreements contained in this Section 9 will result in irreparable injury to the Employer for which money damages could not adequately compensate the Employer and therefore, in the event of any such breach, the Employer shall be entitled (in addition to any other rights and remedies which it may have at law or in equity) to have an injunction issued by any competent court enjoining and restraining the Grantee and any other person involved therein from continuing such breach without posting a bond. The existence of any claim or cause of action which the Grantee may have against the Employer or any other person shall not constitute a defense or bar to the enforcement of such covenants. If any portion of the covenants or agreements contained in this Section 9 is construed to be invalid or unenforceable, the other portions of such covenants or agreements shall not be affected and shall be given full force and effect without regard to the invalid or unenforceable portion to the fullest extent possible. If any covenant or agreement in this Section 9 is held to be unenforceable because of the duration or scope thereof, then the court making such determination shall have the power to reduce the duration and limit the scope thereof, and the covenant or agreement shall then be enforceable in its reduced form. In addition to other actions that may be taken by the Employer, if the Grantee breaches any of the covenants or agreements contained in this Section 9, the Grantee will forfeit all outstanding Restricted Units, and all outstanding Restricted Units (whether or not vested), shall immediately terminate.

10. Certain Corporate Changes.

If any change is made to the Company Stock (whether by reason of merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, or exchange of shares or any other change in capital structure made without receipt of consideration), then unless such event or change results in the termination of all the Restricted Units, the Committee shall adjust, in an equitable manner and as provided in the Plan, the number and class of shares underlying the Restricted Units. Any adjustment that occurs under the terms of this Section 10 or the Plan will not change the timing or form of payment with respect to any Restricted Units.

11. No Right to Continued Employment.

Neither the award of Restricted Units, nor any other action taken with respect to the Restricted Units, shall confer upon the Grantee any right to continue to be employed by the Employer or shall interfere in any way with the right of the Employer to terminate the Grantee's employment at any time.

*Senior Officer (Grade 2) with Non-Compete
and Modified Good Reason*

12. Termination or Amendment.

These Grant Conditions and the award made hereunder may be terminated or amended by the Committee, in whole or in part, in accordance with the applicable terms of the Plan.

13. Notice.

Any notice to the Company provided for in these Grant Conditions shall be addressed to it in care of the Company's Vice President for Human Resources, and any notice to the Grantee shall be addressed to the Grantee at the current address shown on the payroll system of the Company, or to such other address as the Grantee may designate to the Company in writing. Any notice provided for hereunder shall be delivered by hand, sent by telecopy or electronic mail or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage and registry fee prepaid in the United States mail or other mail delivery service. Notice to the Company shall be deemed effective upon receipt. By receipt of these Grant Conditions, the Grantee hereby consents to the delivery of information (including without limitation, information required to be delivered to the Grantee pursuant to the applicable securities laws) regarding the Company, the Plan, and the Restricted Units via the Company's electronic mail system or other electronic delivery system.

14. Incorporation of Plan by Reference.

The Restricted Stock Unit Grant and these Grant Conditions are made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Grantee's receipt of the Restricted Units constitutes the Grantee's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, these Grant Conditions, and/or the Restricted Units shall be final and binding on the Grantee, his or her beneficiaries and any other person having or claiming an interest in the Restricted Units. The settlement of any award with respect to the Restricted Units is subject to the provisions of the Plan and to interpretations, regulations and determinations concerning the Plan as established from time to time by the Committee in accordance with the provisions of the Plan. A copy of the Plan will be furnished to each Grantee upon request.

15. Income Taxes: Withholding Taxes.

The Grantee is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the award or settlement of Restricted Units pursuant to these Grant Conditions. At the time of taxation, the Employer shall have the right to deduct from other compensation, or to withhold shares of Company Stock, in an amount equal to the federal (including FICA), state, local and foreign taxes and other amounts as may be required by law to be withheld with respect to the Restricted Units, provided that any share withholding shall not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state, local and foreign tax liabilities.

*Senior Officer (Grade 2) with Non-Compete
and Modified Good Reason*

16. Company Policies.

This Restricted Unit Grant and all shares issued pursuant to this grant shall be subject to any applicable recoupment or clawback policies and other policies implemented by the Board, as in effect from time to time.

17. Governing Law.

The validity, construction, interpretation and effect of the Restricted Stock Unit Grant and these Grant Conditions shall exclusively be governed by, and determined in accordance with, the applicable laws of the Commonwealth of Pennsylvania, excluding any conflicts or choice of law rule or principle.

18. Assignment.

The Restricted Stock Unit Grant and these Grant Conditions shall bind and inure to the benefit of the successors and assignees of the Company. The Grantee may not sell, assign, transfer, pledge or otherwise dispose of the Restricted Units, except to a successor grantee in the event of the Grantee's death.

19. Code Section 409A.

The Restricted Stock Unit Grant and these Grant Conditions are intended to comply with Code Section 409A or an exemption, and payments may only be made under these Grant Conditions upon an event and in a manner permitted by Code Section 409A, to the extent applicable. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, if the Grantee is considered a "specified employee" for purposes of Code Section 409A and if any payment under these Grant Conditions is required to be delayed for a period of six (6) months after separation from service pursuant to Code Section 409A, such payment shall be delayed as required by Code Section 409A, and the accumulated payment amounts shall be paid in a lump sum payment within ten (10) days after the end of the six (6)-month period. If the Grantee dies during the postponement period prior to payment, the amounts withheld on account of Code Section 409A shall be paid to the personal representative of the Grantee's estate within sixty (60) days after the date of the Grantee's death. Any payments to be made upon a termination of employment under these Grant Conditions may only be made upon a "separation from service" under Code Section 409A. In no event may the Grantee, directly or indirectly, designate the calendar year of a payment, except in accordance with Code Section 409A.

* * *

*Senior Officer (Grade 2) with Non-Compete
and Modified Good Reason*

PERFORMANCE-BASED SHARE UNIT GRANT

February 27, 2013

Dear:

Pursuant to the terms and conditions of the Aqua America Inc. 2009 Omnibus Equity Compensation Plan, as amended and restated (the "Plan"), you have been granted performance-based share units as outlined below and in the attached Performance-Based Share Unit Grant Terms and Conditions.

Granted To:

Grant Date: February 27, 2013

Target Award: shares

Vesting Date: February 27, 2016

Performance Period: Period beginning on January 1, 2013 and ending on December 31, 2015

Vesting Schedule and

Performance Goals: The Target Award is subject to vesting based on continued service and achievement of performance goals, as set forth in the Performance-Based Share Unit Grant Terms and Conditions, including Schedule A attached thereto.

By my signature below, I hereby acknowledge and accept the award of this Performance-Based Share Unit Grant and the Performance-Based Share Unit Grant Terms and Conditions attached hereto and incorporated herein, and I agree to be bound by the terms of the Performance-Based Share Unit Grant, the Performance-Based Share Unit Grant Terms and Conditions and the Plan. I hereby agree that all decisions and determinations of the Committee (as defined in the Plan) with respect to the performance-based share units shall be final and binding.

Signature: _____ Date: _____

Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form.

AQUA AMERICA, INC.
2009 OMNIBUS EQUITY COMPENSATION PLAN
PERFORMANCE-BASED SHARE UNIT GRANT
TERMS AND CONDITIONS

1. Grant of Performance Units.

These Performance-Based Share Unit Grant Terms and Conditions (the “Grant Conditions”) shall apply and be part of the grant made by Aqua America, Inc., a Pennsylvania corporation (the “Company”), to the Grantee named in the Performance-Based Share Unit Grant (the “Performance-Based Unit Grant”) to which these Grant Conditions are attached (the “Grantee”), under the terms and provisions of the Aqua America, Inc. 2009 Omnibus Equity Compensation Plan, as amended and restated (the “Plan”). The applicable provisions of the Plan are incorporated into the Grant Conditions by reference, including the definitions of terms contained in the Plan (unless such terms are otherwise defined herein). The Grantee is an employee of the Company, its subsidiaries or its Affiliates (collectively, the “Employer”).

Subject to the terms and vesting conditions hereinafter set forth, the Company, with the approval and at the direction of the Executive Compensation Committee (the “Committee”) of the Company’s Board of Directors (the “Board”), has granted to the Grantee a target award (the “Target Award”) of performance-based share units as specified in the Performance-Based Share Unit Grant (the “Performance Units”). The Performance Units are contingently awarded and shall be earned, vested and payable if and to the extent that the total shareholder return and earnings per share performance goals described on Schedule A (the “Performance Goals”), employment conditions and other conditions of these Grant Conditions are met. The Performance Units are granted with Dividend Equivalents (as defined in Section 7).

2. Vesting.

(a) Except as otherwise set forth in these Grant Conditions, the Grantee shall earn and vest in a number of Performance Units based on the attainment of the Performance Goals as of the end of the Performance Period, provided that the Grantee continues to be employed by the Employer through the Vesting Date stated on the Performance-Based Share Unit Grant (the “Vesting Date”). The “Performance Period” is the performance period beginning and ending on the applicable dates stated on the Performance-Based Share Unit Grant. The “Vesting Period” is the period beginning on the Grant Date and ending on the Vesting Date.

(b) Except as otherwise set forth in these Grant Conditions, at the end of the Performance Period, the Committee will determine whether and to what extent the Performance Goals have been met and the amount earned with respect to the Performance Units. The Grantee can earn up to two hundred percent (200%) of the Target Award based on the attainment of the Performance Goals.

(c) Except as described in Section 3 below, the Grantee must continue to be employed by the Employer throughout the Vesting Period in order for the Grantee to vest and receive payment with respect to the earned Performance Units.

(d) Except as specifically provided below, no Performance Units shall vest prior to the Vesting Date, and if the Performance Goals are not attained at the end of the Performance Period, the Performance Units shall be immediately forfeited and shall cease to be outstanding.

3. Termination of Employment on Account of Retirement, Death, or Disability.

(a) Except as described below, if the Grantee ceases to be employed by the Employer prior to the Vesting Date, the Performance Units shall be forfeited as of the termination date and shall cease to be outstanding.

(b) If the Grantee ceases to be employed by the Employer during the Vesting Period on account of the Grantee's death or Disability, the Grantee's outstanding Performance Units shall remain outstanding through the Vesting Period and the Grantee shall earn Performance Units based on the attainment of the Performance Goals described on Schedule A, as determined following the end of the Performance Period (or as described in Section 4, if applicable). The earned Performance Units shall be paid as described in Section 6.

(c) If the Grantee ceases to be employed by the Employer during the Vesting Period on account of Retirement (defined below), the Grantee shall earn a pro-rata portion of the outstanding Performance Units based on attainment of the Performance Goals described on Schedule A, as determined following the end of the Performance Period (or as described in Section 4, if applicable). The pro-rated portion shall be determined based on the number of Performance Units earned based on the attainment of the Performance Goals during the Performance Period, multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date and prior to the Retirement Date in which the Grantee was employed by the Employer and the denominator of which is thirty-six (36). The pro-rated earned Performance Units shall be paid as described in Section 6.

4. Change in Control.

(a) If a Change in Control occurs during the Vesting Period, the Grantee shall earn outstanding Performance Units as of the date of the Change in Control (the "Change in Control Date") as follows:

(i) If the Change in Control occurs more than one (1) year after the Grant Date and before the end of the Performance Period, the Grantee shall earn the greater of (x) the number of Performance Units earned based on the attainment of the Performance Goals from the beginning of the Performance Period to the Change in Control Date, or (y) the Target Award.

(ii) If a Change in Control occurs within one year after the Grant Date, the Grantee shall earn a pro-rata portion of the outstanding Performance Units. The pro-rated portion shall be determined based on the greater of (x) the number of Performance Units earned based on the attainment of the Performance Goals from the beginning of the Performance Period to the Change in Control Date, or (y) the Target Award, multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date until the Change in Control Date and the denominator of which is thirty-six (36).

(iii) If a Change in Control occurs after the end of the Performance Period but before the Vesting Date, the Grantee shall earn Performance Units based on the attainment of the Performance Goals as of the end of the Performance Period.

Performance Units earned as of the Change in Control Date, as described above in subsection (a)(i), (ii) or (iii), are referred to as the "CIC Earned Units." All reference in this Agreement to "Performance Units" includes CIC Earned Units on and after a Change in Control.

(b) The Grantee shall vest in the CIC Earned Units on the Vesting Date if the Grantee continues to be employed by the Employer through the Vesting Date. Except as described below, the CIC Earned Units shall only vest if the Grantee continues to be employed by the Employer through the Vesting Date.

(c) If prior to the Vesting Date, a Change in Control occurs and the Grantee ceases to be employed by the Employer upon or following a Change in Control on account of (i) the Grantee's Retirement, (ii) the Grantee's termination by the Company without Cause, (iii) the Grantee's termination for Good Reason (defined below), or (iv) the Grantee's Disability or death, the CIC Earned Units shall vest as of the termination date.

(d) If the Grantee ceases to be employed by the Employer for any other reason before the Vesting Date, the Grantee shall forfeit the CIC Earned Units as of the date of termination.

5. Definitions.

(a) For purposes of these Grant Conditions, "Good Reason" shall have the meaning given that term in the Grantee's existing Change in Control Agreement with the Company as in effect on the Grant Date.

(b) For purposes of these Grant Conditions, "Retirement" shall mean the Grantee's voluntary termination of employment after the Grantee has attained age fifty-five (55) and has a combination of age and full years of service with the Employer that is equal to or greater than seventy (70).

6. Payment with Respect to Performance Units.

(a) Except as otherwise set forth in Section 4, if the Committee certifies that the Performance Goals and other conditions to payment of the Performance Units have been met, shares of Company Stock equal to the vested earned Performance Units shall be issued to the Grantee on the Vesting Date, subject to applicable tax withholding and Section 19 below.

(b) If, prior to the Vesting Date, a Change in Control occurs and the Grantee continues to be employed by the Employer through the Vesting Date, shares of Company Stock (or other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee on the Vesting Date, subject to applicable tax withholding and Section 19 below.

(c) If, prior to the Vesting Date, a Change in Control occurs and the Grantee ceases to be employed by the Employer on or after the Change in Control on account of (i) the Grantee's Retirement, (ii) the Grantee's termination by the Employer without Cause, (iii) the Grantee's termination for Good Reason, or (iv) the Grantee's Disability or death, shares of Company Stock (or other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee within sixty (60) days following the Grantee's date of termination, subject to applicable tax withholding and Section 19 below.

(d) If the Grantee terminates employment on account of Retirement before a Change in Control, any outstanding pro-rated Performance Units under Section 3(c) may be earned as CIC Earned Units pursuant to Section 4(a), but in all cases prorated by applying the fraction in Section 3(c), and such CIC Earned Units shall vest on the date of the Change in Control. Shares of Company Stock (or such other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee within sixty (60) days after the Change in Control, subject to applicable tax withholding and Section 19 below.

(e) If, in connection with a Change in Control, shares of Company Stock are converted into the right to receive a cash payment or other form of consideration, the vested CIC Earned Units shall be payable in such form of consideration, as determined by the Committee.

(f) Any fractional shares with respect to vested earned Performance Units shall be paid to the Grantee in cash.

7. Dividend Equivalents with Respect to Performance Units.

(a) Dividend Equivalents shall accrue with respect to Performance Units and shall be payable subject to the same vesting terms and other conditions as the Performance Units to which they relate. Dividend Equivalents shall be credited when dividends are declared on shares of Company Stock from the Grant Date until payment date for the vested earned Performance Units. If, and to the extent that the underlying Performance Units are forfeited, all related Dividend Equivalents shall also be forfeited.

(b) While the Performance Units are outstanding, the Company will keep records in a bookkeeping account for the Grantee. On each date on which a dividend is declared by the Company on Company Stock, the Company shall credit to the Grantee's account an amount equal to the Dividend Equivalents associated with the Performance Units held by the Grantee on the record date for the dividend. No interest will be credited to any such account.

(c) Dividend Equivalents shall be paid in cash at the same time as the underlying vested earned Performance Units are paid.

(d) Notwithstanding the foregoing, if shares of Company Stock are converted to cash as described in Section 6(e) above in connection with a Change in Control, Dividend Equivalents shall cease to be credited with respect to the Performance Units.

8. Non-Competition.

(a) In consideration for the grant of Performance Units made to the Grantee under the terms of these Grant Conditions, the Grantee agrees that while the Grantee is employed by the Employer and for a twelve (12) month period beginning on the date that the Grantee ceases to be employed by the Employer for any reason (the "Restriction Period"), the Grantee shall not, directly or indirectly, (i) accept employment with, (ii) own, manage, operate, join, control, solicit, finance, or participate in the ownership, management, operation, acquisition, control or financing of, (iii) be connected as a partner, principal, agent, representative, consultant or otherwise with, or (iv) use or permit the Grantee's name to be used in connection with, any business or enterprise engaged directly or indirectly in any business or enterprise engaged in a geographic area within fifty (50) miles of any location from which the Employer is operating on the termination date (the "Geographic Area"), in any business that is competitive to a business from which the Employer, taken as a whole from all geographic areas, derived at least ten percent (10%) of its respective annual gross revenues for the twelve (12) months preceding the termination date.

(b) In consideration for the grant of Performance Units under these Grant Conditions, the Grantee agrees that during the Restriction Period, the Grantee shall not:

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

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

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

(d) The parties to these Grant Conditions acknowledge and agree that any breach by the Grantee of any of the covenants or agreements contained in this Section 8 will result in irreparable injury to the Employer for which money damages could not adequately compensate the Employer and therefore, in the event of any such breach, the Employer shall be entitled (in addition to any other rights and remedies which it may have at law or in equity) to have an injunction issued by any competent court enjoining and restraining the Grantee and any other person involved therein from continuing such breach without posting a bond. The existence of any claim or cause of action which the Grantee may have against the Employer or any other person shall not constitute a defense or bar to the enforcement of such covenants. If any portion of the covenants or agreements contained in this Section 8 is construed to be invalid or unenforceable, the other portions of such covenants or agreements shall not be affected and shall be given full force and effect without regard to the invalid or unenforceable portion to the fullest extent possible. If any covenant or agreement in this Section 8 is held to be unenforceable because of the duration or scope thereof, then the court making such determination shall have the power to reduce the duration and limit the scope thereof, and the covenant or agreement shall then be enforceable in its reduced form. In addition to other actions that may be taken by the Employer, if the Grantee breaches any of the covenants or agreements contained in this Section 8, the Grantee shall forfeit all outstanding Performance Units, and all outstanding Performance Units (whether or not vested) shall immediately terminate.

9. Certain Corporate Changes.

If any change is made to the Company Stock (whether by reason of merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, or exchange of shares or any other change in capital structure made without receipt of consideration), then unless such event or change results in the termination of all the Performance Units, the Committee shall adjust, in an equitable manner and as provided in the Plan, the number and class of shares underlying the Performance Units to reflect the effect of such event or change in the Company's capital structure in such a way as to preserve the value of the Performance Units, and the Committee shall adjust the Performance Goals as necessary to reflect the effect of such event or change in the Company's capital structure. Any adjustment that occurs under the terms of this Section 9 or the Plan will not change the timing or form of payment with respect to any Performance Units.

10. No Stockholder Rights.

No shares of Company Stock shall be issued to the Grantee at the time the grant is made, and the Grantee shall not be, nor have any of the rights or privileges of, a shareholder of the Company with respect to any Performance Units recorded in the account, including no voting rights and no rights to receive dividends (other than Dividend Equivalents).

11. No Right to Continued Employment.

Neither the award of Performance Units, nor any other action taken with respect to the Performance Units, shall confer upon the Grantee any right to continue to be employed by the Employer or shall interfere in any way with the right of the Employer to terminate the Grantee's employment at any time.

12. Termination or Amendment.

These Grant Conditions and the award made hereunder may be terminated or amended by the Committee, in whole or in part, in accordance with the applicable terms of the Plan.

13. Notice.

Any notice to the Company provided for in these Grant Conditions shall be addressed to it in care of the Company's Vice President for Human Resources, and any notice to the Grantee shall be addressed to the Grantee at the current address shown on the payroll system of the Company, or to such other address as the Grantee may designate to the Company in writing. Any notice provided for hereunder shall be delivered by hand, sent by telecopy or electronic mail or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage and registry fee prepaid in the United States mail or other mail delivery service. Notice to the Company shall be deemed effective upon receipt. By receipt of these Grant Conditions, the Grantee hereby consents to the delivery of information (including without limitation, information required to be delivered to the Grantee pursuant to the applicable securities laws) regarding the Company, the Plan, and the Performance Units via the Company's electronic mail system or other electronic delivery system.

14. Incorporation of Plan by Reference.

The Performance-Based Share Unit Grant and these Grant Conditions are made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Grantee's receipt of the Performance Units constitutes such the Grantee's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, these Grant Conditions, and/or the Performance Units shall be final and binding on the Grantee, his or her beneficiaries and any other person having or claiming an interest in the Performance Units. The settlement of any award with respect to the Performance Units is subject to the provisions of the Plan and to interpretations, regulations and determinations concerning the Plan as established from time to time by the Committee in accordance with the provisions of the Plan. A copy of the Plan will be furnished to each Grantee upon request.

15. Income Taxes: Withholding Taxes.

The Grantee is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the award or settlement of Performance Units pursuant to these Grant Conditions. At the time of taxation, the Employer shall have the right to deduct from other compensation, or to withhold shares of Company Stock, in an amount equal to the federal (including FICA), state, local and foreign taxes and other amounts as may be required by law to be withheld with respect to the Performance Units, provided that any share withholding shall not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state, local and foreign tax liabilities.

16. Company Policies.

This Performance-Based Unit Grant and all shares issued pursuant to this grant shall be subject to any applicable recoupment or clawback policies and other policies implemented by the Board, as in effect from time to time.

17. Governing Law.

The validity, construction, interpretation and effect of the Performance-Based Share Unit Grant and these Grant Conditions shall exclusively be governed by, and determined in accordance with, the applicable laws of the Commonwealth of Pennsylvania, excluding any conflicts or choice of law rule or principle.

18. Assignment.

The Performance-Based Share Unit Grant and these Grant Conditions shall bind and inure to the benefit of the successors and assignees of the Company. The Grantee may not sell, assign, transfer, pledge or otherwise dispose of the Performance Units, except to a successor grantee in the event of the Grantee's death.

19. Section 409A.

The Performance-Based Share Unit Grant and these Grant Conditions are intended to comply with Code Section 409A or an exemption, and payments may only be made under these Grant Conditions upon an event and in a manner permitted by Code Section 409A, to the extent applicable. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, if the Grantee is considered a "specified employee" for purposes of Code Section 409A and if any payment under these Grant Conditions is required to be delayed for a period of six (6) months after separation from service pursuant to Code Section 409A, such payment shall be delayed as required by Code Section 409A, and the accumulated payment amounts shall be paid in a lump sum payment within ten (10) days after the end of the six (6)-month period. If the Grantee dies during the postponement period prior to payment, the amounts withheld on account of Code Section 409A shall be paid to the personal representative of the Grantee's estate within sixty (60) days after the date of the Grantee's death. Notwithstanding anything in these Grant Conditions to the contrary, if the Performance Units are subject to Code Section 409A and if required by Code Section 409A, any payments to be made upon a termination of employment under these Grant Conditions may only be made upon a "separation from service" under Code Section 409A. In no event may the Grantee, directly or indirectly, designate the calendar year of a payment, except in accordance with Code Section 409A. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, if CIC Earned Units are subject to Code Section 409A, and if a Change in Control is not a "change in control event" under Code Section 409A or the payment event does not occur upon or within two years following a "change in control event" under Code Section 409A, any vested CIC Earned Units shall be paid to the Grantee upon the Vesting Date and not on account of an earlier termination of employment.

* * *

Schedule A

Performance Goals

1. Performance Goals.

The Performance Units shall be earned based on Aqua America's (the Company's) achievement of four Performance Goals, as follows:

- 30% of the Target Award shall be earned based on the Company's TSR (as defined below) as compared to the TSR of the companies in the peer group described in Section 3 below.
- 30% of the Target Award shall be earned based on the Company's TSR as compared to the TSR of the reference companies in described in Section 4 below.
- 20% of the Target Award shall be earned based on maintaining an average ratio of operations and maintenance expenses as a percentage of revenues at Aqua Pennsylvania, as described in Section 5 below.
- 20% of the Target Award will be earned based on earning a cumulative total earnings before taxes for the Company's operations other than Aqua Pennsylvania, as described in Section 6 below.

2. Calculation of TSR.

(a) Relative total shareholder return ("TSR") means the Company's TSR relative to the TSR of each Peer Company in the Peer Group (as defined below) or each Reference Company (as defined below), as applicable. At the end of the Performance Period, the TSR for the Company, each Peer Company in the Peer Group and each Reference Company shall be calculated by dividing the Closing Average Share Value (as defined below) by the Opening Average Share Value (as defined below).

(b) The term "Closing Average Share Value" means the average value of the common stock for the trading days during the two calendar months ending on the last trading day of the Performance Period, which shall be calculated as follows: (i) determine the closing price of the common stock on each trading date during the two-month period, (ii) multiply each closing price as of that trading date by the applicable share number described below, and (iii) average the amounts so determined for the two-month period. The Closing Average Share Value shall take into account any dividends on the common stock for which the ex-dividend date occurred during the Performance Period, as if the dividend amount had been reinvested in common stock at the closing price on the ex-dividend date. The share number in clause (ii) above, for a given trading day, is the sum of one share plus the cumulative number of shares deemed purchased with such dividends. Notwithstanding the foregoing, if the Closing Average Share Value is calculated as of a Change in Control, then the Closing Average Share Value shall be based on the two-month period ending immediately prior to the Change in Control.

(c) The term “Opening Average Share Value” means the average value of the common stock for the trading days during the two calendar months ending on the last trading day prior to the beginning of the Performance Period, which shall be calculated as follows: (i) determine the closing price of the common stock on each trading date during the two-month period, (ii) multiply each closing price as of that trading date by the applicable share number described below, and (iii) average the amounts so determined for the two-month period. The Opening Average Share Value shall take into account any dividends on the common stock for which the ex-dividend date occurred during the two-month period, as if the dividend amount had been reinvested in common stock at the closing price on the ex-dividend date. The share number in clause (ii) above, for a given trading day, is the sum of one share plus the cumulative number of shares deemed purchased with such dividends.

3. Performance Units Earned Based on Comparative TSR to the Peer Group. Thirty percent of the Target Award of Performance Units (the “Peer Group Portion”) shall be earned based on the Company’s TSR as compared to the TSR of the companies in the Peer Group for the Performance Period, in accordance with the following:

(a) The Peer Group for this purpose consists of American Water Works Company (AWK), American States Water Company (AWR), Aqua America, Inc. (WTR), Connecticut Water Service, Inc. (CTWS), California Water Service Group (CWT), Middlesex Water Company (MSEX) and SJW Corporation (SJW) (each a “Peer Company” and collectively, the “Peer Group”).

(b) The Peer Group shall be subject to change as follows:

(i) In the event of a merger, acquisition or business combination transaction of a Peer Company in which the Peer Company is the surviving entity and remains publicly traded, the surviving entity shall remain a Peer Company.

(ii) In the event of a merger, acquisition or business combination transaction of a Peer Company, a “going private” transaction or similar event involving a Peer Company or the liquidation of a Peer Company, in each case where the Peer Company is not the surviving entity or is no longer publicly traded, the company shall no longer be a Peer Company.

(c) The Peer Group Portion shall be earned based on how the Company's TSR ranks in comparison to the TSRs of the Peer Group in accordance with the following schedule, depending on how many companies remain in the Peer Group at the end of the Performance Period:

Ordinal Ranking of the Company (including the Company) Versus Peer Group	Payout as a % of Target Award (7 Peer Companies)	Payout as a % of Target Award (6 Peer Companies)	Payout as a % of Target Award (5 Peer Companies)	Payout as a % of Target Award (4 Peer Companies)	Payout as a % of Target Award (1, 2 or 3 Peer Companies)
1st	200%	200%	200%	200%	200%
2nd	170%	160%	150%	125%	100%
3rd	130%	125%	100%	50%	0%
4th	100%	75%	50%	0%	N/A
5th	50%	25%	0%	N/A	N/A
6th	0%	0%	N/A	N/A	N/A
7th	0%	N/A	N/A	N/A	N/A

4. **Performance Units Earned Based on Comparative TSR to the S&P MidCap Utilities Index.** Thirty percent of the Target Award of the Performance Units (the "S&P Index Portion") shall be earned based on the Company's TSR as compared to the TSR of the companies in the S&P MidCap Utilities Index, in accordance with the following:

(a) The S&P Index Portion shall be earned based on how the Company's TSR ranks compares to the TSRs of the Reference Companies in the S&P MidCap Utilities Index, according to the following schedule:

Percentile Ranking of the Company Versus Reference Companies	Payout as a % of Target Award
90 th or above	200%
50 th	100%
30 th	50%
Below 30 th	0%

If the Company's TSR rank is above the 30th percentile and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

(b) The companies in the S&P MidCap Utilities Index will be determined on the first day of the Performance Period for purposes of the TSR calculation and will be changed only in accordance with Section 4(c) below. No company shall be added to the S&P MidCap Utilities Index during the Performance Period for purposes of the TSR calculation.

(c) The term "Reference Company" means a company in the S&P MidCap Utilities Index as of the first day of the Performance Period and will be subject to change as follows:

(i) In the event of a merger, acquisition or business combination transaction of a Reference Company in which the Reference Company is the surviving entity and remains publicly traded, the surviving entity shall remain a Reference Company.

(ii) In the event of a merger, acquisition or business combination transaction of a Reference Company, a "going private" transaction or similar event involving a Reference Company or the liquidation of a Reference Company, in each case where the Reference Company is not the surviving entity or is no longer publicly traded, the company shall no longer be a Reference Company.

5. Performance Units Earned Based on the Aqua Pennsylvania O&M Ratio. Twenty percent of the Target Award of the Performance Units (the “O&M Ratio Portion”) shall be earned based on maintaining an average of the annual ratios of the consolidated operations and maintenance expenses to revenue for Aqua Pennsylvania and its subsidiaries over the three-year Performance Period. The O&M Ratio Portion shall be calculated according to the following schedule:

O&M RATIO METRIC		RATING
Aqua PA O&M Ratio 3 YR Annual Avg. Attainment		(% of 20% PSU's Earned)
31.41%		50
31.21%		60
31.01%		70
30.81%		80
30.61%		90
30.41%		100
30.21%		110
30.01%		120
29.81%		130
29.61%		140
29.41%		150
29.21%		160
29.01%		170
28.81%		180
28.61%		190
28.41%		200

If Aqua Pennsylvania’s ratio of operations and maintenance expense to revenues is below the 31.41% level and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

6. Performance Units Earned Based on the Earnings Before Taxes for the Company's operations other than Aqua Pennsylvania (Non-PA EBT). Twenty percent of the Target Award of the Performance Units (the "Non-PA EBT") shall be earned based on the Company's total cumulative income from continuing operations before income taxes plus the Company's income from discontinued operations before income taxes, less the corresponding amounts from Aqua Pennsylvania, over the three-year Performance Period. The Non-PA EBT Portion shall be calculated according to the following schedule:

NON - PA Earnings Before Tax	
Non PA EBT 3 YR Combined Attainment \$ 000's Omitted	RATING % of 20% PSU's Earned
\$ 218,454	50.0
\$ 223,309	60.0
\$ 228,163	70.0
\$ 233,018	80.0
\$ 237,872	90.0
\$ 242,727	100.0
\$ 245,154	110.0
\$ 247,582	120.0
\$ 250,009	130.0
\$ 252,436	140.0
\$ 254,863	150.0
\$ 257,291	160.0
\$ 259,718	170.0
\$ 262,145	180.0
\$ 264,572	190.0
\$ 267,000	200.0

If the Company's Non-PA EBT as defined is above \$218,454 and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

7. General Terms. Any portion of the Performance Units that is not earned as of the end of the Performance Period shall be forfeited as of the end of the Performance Period (or as provided above upon an earlier Change in Control). In no event shall the maximum number of Performance Units that may be payable pursuant to these Grant Conditions exceed 200% of the Target Award.

PERFORMANCE-BASED SHARE UNIT GRANT

February 27, 2013

Dear:

Pursuant to the terms and conditions of the Aqua America Inc. 2009 Omnibus Equity Compensation Plan, as amended and restated (the "Plan"), you have been granted performance-based share units as outlined below and in the attached Performance-Based Share Unit Grant Terms and Conditions.

Granted To:
Grant Date: February 27, 2013
Target Award: shares
Vesting Date: February 27, 2016
Performance Period: Period beginning on January 1, 2013 and ending on December 31, 2015
Vesting Schedule and
Performance Goals: The Target Award is subject to vesting based on continued service and achievement of performance goals, as set forth in the Performance-Based Share Unit Grant Terms and Conditions, including Schedule A attached thereto.

By my signature below, I hereby acknowledge and accept the award of this Performance-Based Share Unit Grant and the Performance-Based Share Unit Grant Terms and Conditions attached hereto and incorporated herein, and I agree to be bound by the terms of the Performance-Based Share Unit Grant, the Performance-Based Share Unit Grant Terms and Conditions and the Plan. I hereby agree that all decisions and determinations of the Committee (as defined in the Plan) with respect to the performance-based share units shall be final and binding.

Signature: _____ Date: _____

Note: If there are any discrepancies in the name or address shown above, please make the appropriate corrections on this form.

AQUA AMERICA, INC.
2009 OMNIBUS EQUITY COMPENSATION PLAN
PERFORMANCE-BASED SHARE UNIT GRANT
TERMS AND CONDITIONS

1. Grant of Performance Units.

These Performance-Based Share Unit Grant Terms and Conditions (the “Grant Conditions”) shall apply and be part of the grant made by Aqua America, Inc., a Pennsylvania corporation (the “Company”), to the Grantee named in the Performance-Based Share Unit Grant (the “Performance-Based Unit Grant”) to which these Grant Conditions are attached (the “Grantee”), under the terms and provisions of the Aqua America, Inc. 2009 Omnibus Equity Compensation Plan, as amended and restated (the “Plan”). The applicable provisions of the Plan are incorporated into the Grant Conditions by reference, including the definitions of terms contained in the Plan (unless such terms are otherwise defined herein). The Grantee is an employee of the Company, its subsidiaries or its Affiliates (collectively, the “Employer”).

Subject to the terms and vesting conditions hereinafter set forth, the Company, with the approval and at the direction of the Executive Compensation Committee (the “Committee”) of the Company’s Board of Directors (the “Board”), has granted to the Grantee a target award (the “Target Award”) of performance-based share units as specified in the Performance-Based Share Unit Grant (the “Performance Units”). The Performance Units are contingently awarded and shall be earned, vested and payable if and to the extent that the total shareholder return and earnings per share performance goals described on Schedule A (the “Performance Goals”), employment conditions and other conditions of these Grant Conditions are met. The Performance Units are granted with Dividend Equivalents (as defined in Section 7).

2. Vesting.

(a) Except as otherwise set forth in these Grant Conditions, the Grantee shall earn and vest in a number of Performance Units based on the attainment of the Performance Goals as of the end of the Performance Period, provided that the Grantee continues to be employed by the Employer through the Vesting Date stated on the Performance-Based Share Unit Grant (the “Vesting Date”). The “Performance Period” is the performance period beginning and ending on the applicable dates stated on the Performance-Based Share Unit Grant. The “Vesting Period” is the period beginning on the Grant Date and ending on the Vesting Date.

(b) Except as otherwise set forth in these Grant Conditions, at the end of the Performance Period, the Committee will determine whether and to what extent the Performance Goals have been met and the amount earned with respect to the Performance Units. The Grantee can earn up to two hundred percent (200%) of the Target Award based on the attainment of the Performance Goals.

(c) Except as described in Section 3 below, the Grantee must continue to be employed by the Employer throughout the Vesting Period in order for the Grantee to vest and receive payment with respect to the earned Performance Units.

(d) Except as specifically provided below, no Performance Units shall vest prior to the Vesting Date, and if the Performance Goals are not attained at the end of the Performance Period, the Performance Units shall be immediately forfeited and shall cease to be outstanding.

3. Termination of Employment on Account of Retirement, Death, or Disability.

(a) Except as described below, if the Grantee ceases to be employed by the Employer prior to the Vesting Date, the Performance Units shall be forfeited as of the termination date and shall cease to be outstanding.

(b) If the Grantee ceases to be employed by the Employer during the Vesting Period on account of the Grantee's death or Disability, the Grantee's outstanding Performance Units shall remain outstanding through the Vesting Period and the Grantee shall earn Performance Units based on the attainment of the Performance Goals described on Schedule A, as determined following the end of the Performance Period (or as described in Section 4, if applicable). The earned Performance Units shall be paid as described in Section 6.

(c) If the Grantee ceases to be employed by the Employer during the Vesting Period on account of Retirement (defined below), the Grantee shall earn a pro-rata portion of the outstanding Performance Units based on attainment of the Performance Goals described on Schedule A, as determined following the end of the Performance Period (or as described in Section 4, if applicable). The pro-rated portion shall be determined based on the number of Performance Units earned based on the attainment of the Performance Goals during the Performance Period, multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date and prior to the Retirement Date in which the Grantee was employed by the Employer and the denominator of which is thirty-six (36). The pro-rated earned Performance Units shall be paid as described in Section 6.

4. Change in Control.

(a) If a Change in Control occurs during the Vesting Period, the Grantee shall earn outstanding Performance Units as of the date of the Change in Control (the "Change in Control Date") as follows:

(i) If the Change in Control occurs more than one (1) year after the Grant Date and before the end of the Performance Period, the Grantee shall earn the greater of (x) the number of Performance Units earned based on the attainment of the Performance Goals from the beginning of the Performance Period to the Change in Control Date, or (y) the Target Award.

(ii) If a Change in Control occurs within one year after the Grant Date, the Grantee shall earn a pro-rata portion of the outstanding Performance Units. The pro-rated portion shall be determined based on the greater of (x) the number of Performance Units earned based on the attainment of the Performance Goals from the beginning of the Performance Period to the Change in Control Date, or (y) the Target Award, multiplied by a fraction, the numerator of which is the number of completed full months following the Grant Date until the Change in Control Date and the denominator of which is thirty-six (36).

(iii) If a Change in Control occurs after the end of the Performance Period but before the Vesting Date, the Grantee shall earn Performance Units based on the attainment of the Performance Goals as of the end of the Performance Period.

Performance Units earned as of the Change in Control Date, as described above in subsection (a)(i), (ii) or (iii), are referred to as the "CIC Earned Units." All reference in this Agreement to "Performance Units" includes CIC Earned Units on and after a Change in Control.

(b) The Grantee shall vest in the CIC Earned Units on the Vesting Date if the Grantee continues to be employed by the Employer through the Vesting Date. Except as described below, the CIC Earned Units shall only vest if the Grantee continues to be employed by the Employer through the Vesting Date.

(c) If prior to the Vesting Date, a Change in Control occurs and the Grantee ceases to be employed by the Employer upon or following a Change in Control on account of (i) the Grantee's Retirement, (ii) the Grantee's termination by the Company without Cause, (iii) the Grantee's termination for Good Reason (defined below), or (iv) the Grantee's Disability or death, the CIC Earned Units shall vest as of the termination date.

(d) If the Grantee ceases to be employed by the Employer for any other reason before the Vesting Date, the Grantee shall forfeit the CIC Earned Units as of the date of termination.

5. Definitions.

(a) For purposes of these Grant Conditions, "Good Reason" shall mean:

(i) a material diminution in the Grantee's base salary, which, for purposes of this Agreement, means a reduction in base salary of ten (10) percent or more that does not apply generally to all officers of the Employer; or

(ii) a material change in the geographic location at which the Grantee must perform services for the Employer, which, for purposes of this Agreement, means a requirement that the Grantee be based at any office or location which is located more than fifty (50) miles from the Grantee's primary place of employment immediately prior to the Change in Control on other than on a temporary basis (less than six (6) months).

Termination of employment after any of the foregoing events shall constitute a termination by the Grantee for Good Reason only if the Grantee provides written notice to the Employer of the existence of such event within ninety (90) days after the initial occurrence of such event, the Employer fails to remedy the event within thirty (30) days following the receipt of such notice and the Grantee terminates employment with the Employer for Good Reason within fifteen (15) days after the expiration of the cure period.

(b) For purposes of these Grant Conditions, "Retirement" shall mean the Grantee's voluntary termination of employment after the Grantee has attained age fifty-five (55) and has a combination of age and full years of service with the Employer that is equal to or greater than seventy (70).

6. Payment with Respect to Performance Units.

(a) Except as otherwise set forth in Section 4, if the Committee certifies that the Performance Goals and other conditions to payment of the Performance Units have been met, shares of Company Stock equal to the vested earned Performance Units shall be issued to the Grantee on the Vesting Date, subject to applicable tax withholding and Section 19 below.

(b) If, prior to the Vesting Date, a Change in Control occurs and the Grantee continues to be employed by the Employer through the Vesting Date, shares of Company Stock (or other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee on the Vesting Date, subject to applicable tax withholding and Section 19 below.

(c) If, prior to the Vesting Date, a Change in Control occurs and the Grantee ceases to be employed by the Employer on or after the Change in Control on account of (i) the Grantee's Retirement, (ii) the Grantee's termination by the Employer without Cause, (iii) the Grantee's termination for Good Reason, or (iv) the Grantee's Disability or death, shares of Company Stock (or other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee within sixty (60) days following the Grantee's date of termination, subject to applicable tax withholding and Section 19 below.

(d) If the Grantee terminates employment on account of Retirement before a Change in Control, any outstanding pro-rated Performance Units under Section 3(c) may be earned as CIC Earned Units pursuant to Section 4(a), but in all cases prorated by applying the fraction in Section 3(c), and such CIC Earned Units shall vest on the date of the Change in Control. Shares of Company Stock (or such other consideration, as described below) equal to the vested CIC Earned Units shall be issued to the Grantee within sixty (60) days after the Change in Control, subject to applicable tax withholding and Section 19 below.

(e) If, in connection with a Change in Control, shares of Company Stock are converted into the right to receive a cash payment or other form of consideration, the vested CIC Earned Units shall be payable in such form of consideration, as determined by the Committee.

(f) Any fractional shares with respect to vested earned Performance Units shall be paid to the Grantee in cash.

7. Dividend Equivalents with Respect to Performance Units.

(a) Dividend Equivalents shall accrue with respect to Performance Units and shall be payable subject to the same vesting terms and other conditions as the Performance Units to which they relate. Dividend Equivalents shall be credited when dividends are declared on shares of Company Stock from the Grant Date until payment date for the vested earned Performance Units. If, and to the extent that the underlying Performance Units are forfeited, all related Dividend Equivalents shall also be forfeited.

(b) While the Performance Units are outstanding, the Company will keep records in a bookkeeping account for the Grantee. On each date on which a dividend is declared by the Company on Company Stock, the Company shall credit to the Grantee's account an amount equal to the Dividend Equivalents associated with the Performance Units held by the Grantee on the record date for the dividend. No interest will be credited to any such account.

(c) Dividend Equivalents shall be paid in cash at the same time as the underlying vested earned Performance Units are paid.

(d) Notwithstanding the foregoing, if shares of Company Stock are converted to cash as described in Section 6(e) above in connection with a Change in Control, Dividend Equivalents shall cease to be credited with respect to the Performance Units.

8. Non-Competition.

(a) In consideration for the grant of Performance Units made to the Grantee under the terms of these Grant Conditions, the Grantee agrees that while the Grantee is employed by the Employer and for a twelve (12) month period beginning on the date that the Grantee ceases to be employed by the Employer for any reason (the "Restriction Period"), the Grantee shall not, directly or indirectly, (i) accept employment with, (ii) own, manage, operate, join, control, solicit, finance, or participate in the ownership, management, operation, acquisition, control or financing of, (iii) be connected as a partner, principal, agent, representative, consultant or otherwise with, or (iv) use or permit the Grantee's name to be used in connection with, any business or enterprise engaged directly or indirectly in any business or enterprise engaged in a geographic area within fifty (50) miles of any location from which the Employer is operating on the termination date (the "Geographic Area"), in any business that is competitive to a business from which the Employer, taken as a whole from all geographic areas, derived at least ten percent (10%) of its respective annual gross revenues for the twelve (12) months preceding the termination date.

(b) In consideration for the grant of Performance Units under these Grant Conditions, the Grantee agrees that during the Restriction Period, the Grantee shall not:

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

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

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

(d) The parties to these Grant Conditions acknowledge and agree that any breach by the Grantee of any of the covenants or agreements contained in this Section 8 will result in irreparable injury to the Employer for which money damages could not adequately compensate the Employer and therefore, in the event of any such breach, the Employer shall be entitled (in addition to any other rights and remedies which it may have at law or in equity) to have an injunction issued by any competent court enjoining and restraining the Grantee and any other person involved therein from continuing such breach without posting a bond. The existence of any claim or cause of action which the Grantee may have against the Employer or any other person shall not constitute a defense or bar to the enforcement of such covenants. If any portion of the covenants or agreements contained in this Section 8 is construed to be invalid or unenforceable, the other portions of such covenants or agreements shall not be affected and shall be given full force and effect without regard to the invalid or unenforceable portion to the fullest extent possible. If any covenant or agreement in this Section 8 is held to be unenforceable because of the duration or scope thereof, then the court making such determination shall have the power to reduce the duration and limit the scope thereof, and the covenant or agreement shall then be enforceable in its reduced form. In addition to other actions that may be taken by the Employer, if the Grantee breaches any of the covenants or agreements contained in this Section 8, the Grantee shall forfeit all outstanding Performance Units, and all outstanding Performance Units (whether or not vested) shall immediately terminate.

9. Certain Corporate Changes.

If any change is made to the Company Stock (whether by reason of merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination of shares, or exchange of shares or any other change in capital structure made without receipt of consideration), then unless such event or change results in the termination of all the Performance Units, the Committee shall adjust, in an equitable manner and as provided in the Plan, the number and class of shares underlying the Performance Units to reflect the effect of such event or change in the Company's capital structure in such a way as to preserve the value of the Performance Units, and the Committee shall adjust the Performance Goals as necessary to reflect the effect of such event or change in the Company's capital structure. Any adjustment that occurs under the terms of this Section 9 or the Plan will not change the timing or form of payment with respect to any Performance Units.

10. No Stockholder Rights.

No shares of Company Stock shall be issued to the Grantee at the time the grant is made, and the Grantee shall not be, nor have any of the rights or privileges of, a shareholder of the Company with respect to any Performance Units recorded in the account, including no voting rights and no rights to receive dividends (other than Dividend Equivalents).

11. No Right to Continued Employment.

Neither the award of Performance Units, nor any other action taken with respect to the Performance Units, shall confer upon the Grantee any right to continue to be employed by the Employer or shall interfere in any way with the right of the Employer to terminate the Grantee's employment at any time.

12. Termination or Amendment.

These Grant Conditions and the award made hereunder may be terminated or amended by the Committee, in whole or in part, in accordance with the applicable terms of the Plan.

13. Notice.

Any notice to the Company provided for in these Grant Conditions shall be addressed to it in care of the Company's Vice President for Human Resources, and any notice to the Grantee shall be addressed to the Grantee at the current address shown on the payroll system of the Company, or to such other address as the Grantee may designate to the Company in writing. Any notice provided for hereunder shall be delivered by hand, sent by telecopy or electronic mail or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage and registry fee prepaid in the United States mail or other mail delivery service. Notice to the Company shall be deemed effective upon receipt. By receipt of these Grant Conditions, the Grantee hereby consents to the delivery of information (including without limitation, information required to be delivered to the Grantee pursuant to the applicable securities laws) regarding the Company, the Plan, and the Performance Units via the Company's electronic mail system or other electronic delivery system.

14. Incorporation of Plan by Reference.

The Performance-Based Share Unit Grant and these Grant Conditions are made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Grantee's receipt of the Performance Units constitutes such the Grantee's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, these Grant Conditions, and/or the Performance Units shall be final and binding on the Grantee, his or her beneficiaries and any other person having or claiming an interest in the Performance Units. The settlement of any award with respect to the Performance Units is subject to the provisions of the Plan and to interpretations, regulations and determinations concerning the Plan as established from time to time by the Committee in accordance with the provisions of the Plan. A copy of the Plan will be furnished to each Grantee upon request.

15. Income Taxes; Withholding Taxes.

The Grantee is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the award or settlement of Performance Units pursuant to these Grant Conditions. At the time of taxation, the Employer shall have the right to deduct from other compensation, or to withhold shares of Company Stock, in an amount equal to the federal (including FICA), state, local and foreign taxes and other amounts as may be required by law to be withheld with respect to the Performance Units, provided that any share withholding shall not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state, local and foreign tax liabilities.

16. Company Policies.

This Performance-Based Unit Grant and all shares issued pursuant to this grant shall be subject to any applicable recoupment or clawback policies and other policies implemented by the Board, as in effect from time to time.

17. Governing Law.

The validity, construction, interpretation and effect of the Performance-Based Share Unit Grant and these Grant Conditions shall exclusively be governed by, and determined in accordance with, the applicable laws of the Commonwealth of Pennsylvania, excluding any conflicts or choice of law rule or principle.

18. Assignment.

The Performance-Based Share Unit Grant and these Grant Conditions shall bind and inure to the benefit of the successors and assignees of the Company. The Grantee may not sell, assign, transfer, pledge or otherwise dispose of the Performance Units, except to a successor grantee in the event of the Grantee's death.

19. Section 409A.

The Performance-Based Share Unit Grant and these Grant Conditions are intended to comply with Code Section 409A or an exemption, and payments may only be made under these Grant Conditions upon an event and in a manner permitted by Code Section 409A, to the extent applicable. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, if the Grantee is considered a “specified employee” for purposes of Code Section 409A and if any payment under these Grant Conditions is required to be delayed for a period of six (6) months after separation from service pursuant to Code Section 409A, such payment shall be delayed as required by Code Section 409A, and the accumulated payment amounts shall be paid in a lump sum payment within ten (10) days after the end of the six (6)-month period. If the Grantee dies during the postponement period prior to payment, the amounts withheld on account of Code Section 409A shall be paid to the personal representative of the Grantee’s estate within sixty (60) days after the date of the Grantee’s death. Notwithstanding anything in these Grant Conditions to the contrary, if the Performance Units are subject to Code Section 409A and if required by Code Section 409A, any payments to be made upon a termination of employment under these Grant Conditions may only be made upon a “separation from service” under Code Section 409A. In no event may the Grantee, directly or indirectly, designate the calendar year of a payment, except in accordance with Code Section 409A. Notwithstanding anything in these Grant Conditions to the contrary, if required by Code Section 409A, if CIC Earned Units are subject to Code Section 409A, and if a Change in Control is not a “change in control event” under Code Section 409A or the payment event does not occur upon or within two years following a “change in control event” under Code Section 409A, any vested CIC Earned Units shall be paid to the Grantee upon the Vesting Date and not on account of an earlier termination of employment.

* * *

Schedule A

Performance Goals

1. Performance Goals.

The Performance Units shall be earned based on Aqua America's (the Company's) achievement of four Performance Goals, as follows:

- 30% of the Target Award shall be earned based on the Company's TSR (as defined below) as compared to the TSR of the companies in the peer group described in Section 3 below.
- 30% of the Target Award shall be earned based on the Company's TSR as compared to the TSR of the reference companies in described in Section 4 below.
- 20% of the Target Award shall be earned based on maintaining an average ratio of operations and maintenance expenses as a percentage of revenues at Aqua Pennsylvania, as described in Section 5 below.
- 20% of the Target Award will be earned based on earning a cumulative total earnings before taxes for the Company's operations other than Aqua Pennsylvania, as described in Section 6 below.

2. Calculation of TSR.

(a) Relative total shareholder return ("TSR") means the Company's TSR relative to the TSR of each Peer Company in the Peer Group (as defined below) or each Reference Company (as defined below), as applicable. At the end of the Performance Period, the TSR for the Company, each Peer Company in the Peer Group and each Reference Company shall be calculated by dividing the Closing Average Share Value (as defined below) by the Opening Average Share Value (as defined below).

(b) The term "Closing Average Share Value" means the average value of the common stock for the trading days during the two calendar months ending on the last trading day of the Performance Period, which shall be calculated as follows: (i) determine the closing price of the common stock on each trading date during the two-month period, (ii) multiply each closing price as of that trading date by the applicable share number described below, and (iii) average the amounts so determined for the two-month period. The Closing Average Share Value shall take into account any dividends on the common stock for which the ex-dividend date occurred during the Performance Period, as if the dividend amount had been reinvested in common stock at the closing price on the ex-dividend date. The share number in clause (ii) above, for a given trading day, is the sum of one share plus the cumulative number of shares deemed purchased with such dividends. Notwithstanding the foregoing, if the Closing Average Share Value is calculated as of a Change in Control, then the Closing Average Share Value shall be based on the two-month period ending immediately prior to the Change in Control.

(c) The term “Opening Average Share Value” means the average value of the common stock for the trading days during the two calendar months ending on the last trading day prior to the beginning of the Performance Period, which shall be calculated as follows: (i) determine the closing price of the common stock on each trading date during the two-month period, (ii) multiply each closing price as of that trading date by the applicable share number described below, and (iii) average the amounts so determined for the two-month period. The Opening Average Share Value shall take into account any dividends on the common stock for which the ex-dividend date occurred during the two-month period, as if the dividend amount had been reinvested in common stock at the closing price on the ex-dividend date. The share number in clause (ii) above, for a given trading day, is the sum of one share plus the cumulative number of shares deemed purchased with such dividends.

3. Performance Units Earned Based on Comparative TSR to the Peer Group. Thirty percent of the Target Award of Performance Units (the “Peer Group Portion”) shall be earned based on the Company’s TSR as compared to the TSR of the companies in the Peer Group for the Performance Period, in accordance with the following:

(a) The Peer Group for this purpose consists of American Water Works Company (AWK), American States Water Company (AWR), Aqua America, Inc. (WTR), Connecticut Water Service, Inc. (CTWS), California Water Service Group (CWT), Middlesex Water Company (MSEX) and SJW Corporation (SJW) (each a “Peer Company” and collectively, the “Peer Group”).

(b) The Peer Group shall be subject to change as follows:

(i) In the event of a merger, acquisition or business combination transaction of a Peer Company in which the Peer Company is the surviving entity and remains publicly traded, the surviving entity shall remain a Peer Company.

(ii) In the event of a merger, acquisition or business combination transaction of a Peer Company, a “going private” transaction or similar event involving a Peer Company or the liquidation of a Peer Company, in each case where the Peer Company is not the surviving entity or is no longer publicly traded, the company shall no longer be a Peer Company.

(c) The Peer Group Portion shall be earned based on how the Company's TSR ranks in comparison to the TSRs of the Peer Group in accordance with the following schedule, depending on how many companies remain in the Peer Group at the end of the Performance Period:

Ordinal Ranking of the Company (including the Company) Versus Peer Group	Payout as a % of Target Award (7 Peer Companies)	Payout as a % of Target Award (6 Peer Companies)	Payout as a % of Target Award (5 Peer Companies)	Payout as a % of Target Award (4 Peer Companies)	Payout as a % of Target Award (1, 2 or 3 Peer Companies)
1st	200%	200%	200%	200%	200%
2nd	170%	160%	150%	125%	100%
3rd	130%	125%	100%	50%	0%
4th	100%	75%	50%	0%	N/A
5th	50%	25%	0%	N/A	N/A
6th	0%	0%	N/A	N/A	N/A
7th	0%	N/A	N/A	N/A	N/A

4. Performance Units Earned Based on Comparative TSR to the S&P MidCap Utilities Index. Thirty percent of the Target Award of the Performance Units (the "S&P Index Portion") shall be earned based on the Company's TSR as compared to the TSR of the companies in the S&P MidCap Utilities Index, in accordance with the following:

(a) The S&P Index Portion shall be earned based on how the Company's TSR ranks compares to the TSRs of the Reference Companies in the S&P MidCap Utilities Index, according to the following schedule:

Percentile Ranking of the Company Versus Reference Companies	Payout as a % of Target Award
90 th or above	200%
50 th	100%
30 th	50%
Below 30 th	0%

If the Company's TSR rank is above the 30th percentile and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

(b) The companies in the S&P MidCap Utilities Index will be determined on the first day of the Performance Period for purposes of the TSR calculation and will be changed only in accordance with Section 4(c) below. No company shall be added to the S&P MidCap Utilities Index during the Performance Period for purposes of the TSR calculation.

(c) The term "Reference Company" means a company in the S&P MidCap Utilities Index as of the first day of the Performance Period and will be subject to change as follows:

(i) In the event of a merger, acquisition or business combination transaction of a Reference Company in which the Reference Company is the surviving entity and remains publicly traded, the surviving entity shall remain a Reference Company.

(ii) In the event of a merger, acquisition or business combination transaction of a Reference Company, a "going private" transaction or similar event involving a Reference Company or the liquidation of a Reference Company, in each case where the Reference Company is not the surviving entity or is no longer publicly traded, the company shall no longer be a Reference Company.

5. Performance Units Earned Based on the Aqua Pennsylvania O&M Ratio. Twenty percent of the Target Award of the Performance Units (the “O&M Ratio Portion”) shall be earned based on maintaining an average of the annual ratios of the consolidated operations and maintenance expenses to revenue for Aqua Pennsylvania and its subsidiaries over the three-year Performance Period. The O&M Ratio Portion shall be calculated according to the following schedule:

O&M RATIO METRIC		RATING
Aqua PA O&M Ratio 3 YR Annual Avg. Attainment		(% of 20% PSU's Earned)
31.41%		50
31.21%		60
31.01%		70
30.81%		80
30.61%		90
30.41%		100
30.21%		110
30.01%		120
29.81%		130
29.61%		140
29.41%		150
29.21%		160
29.01%		170
28.81%		180
28.61%		190
28.41%		200

If Aqua Pennsylvania’s ratio of operations and maintenance expense to revenues is below the 31.41% level and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

6. Performance Units Earned Based on the Earnings Before Taxes for the Company's operations other than Aqua Pennsylvania (Non-PA EBT). Twenty percent of the Target Award of the Performance Units (the "Non-PA EBT") shall be earned based on the Company's total cumulative income from continuing operations before income taxes plus the Company's income from discontinued operations before income taxes, less the corresponding amounts from Aqua Pennsylvania, over the three-year Performance Period. The Non-PA EBT Portion shall be calculated according to the following schedule:

NON - PA Earnings Before Tax	
Non PA EBT 3 YR Combined Attainment \$ 000's Omitted	RATING % of 20% PSU's Earned
\$ 218,454	50.0
\$ 223,309	60.0
\$ 228,163	70.0
\$ 233,018	80.0
\$ 237,872	90.0
\$ 242,727	100.0
\$ 245,154	110.0
\$ 247,582	120.0
\$ 250,009	130.0
\$ 252,436	140.0
\$ 254,863	150.0
\$ 257,291	160.0
\$ 259,718	170.0
\$ 262,145	180.0
\$ 264,572	190.0
\$ 267,000	200.0

If the Company's Non-PA EBT as defined is above \$218,454 and falls between the measuring points on the foregoing schedule, the percentage vesting will be based on linear interpolation between the applicable measuring points.

7. General Terms. Any portion of the Performance Units that is not earned as of the end of the Performance Period shall be forfeited as of the end of the Performance Period (or as provided above upon an earlier Change in Control). In no event shall the maximum number of Performance Units that may be payable pursuant to these Grant Conditions exceed 200% of the Target Award.

Certification

I, Nicholas DeBenedictis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aqua America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(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: May 6, 2013

Nicholas DeBenedictis

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer

Certification

I, David P. Smeltzer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aqua America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(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: May 6, 2013

David P. Smeltzer

David P. Smeltzer

Executive Vice President and Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2013 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

May 6, 2013

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

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2013 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

Executive Vice President and Chief Financial Officer

May 6, 2013

