

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 June 30, 2019

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large Accelerated Filer
Non-Accelerated Filer
Emerging Growth Company

Accelerated Filer
Smaller Reporting Company

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.50 par value	WTR	New York Stock Exchange
6.00% Tangible Equity Units	WTRU	New York Stock Exchange

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 24, 2019: 215,776,908

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

	Assets	June 30, 2019	December 31, 2018
Property, plant and equipment, at cost		\$ 7,881,313	\$ 7,648,469
Less: accumulated depreciation		1,766,465	1,718,143
Net property, plant and equipment		<u>6,114,848</u>	<u>5,930,326</u>
Current assets:			
Cash and cash equivalents		1,974,076	3,627
Accounts receivable and unbilled revenues, net		110,741	101,225
Inventory, materials and supplies		16,294	15,844
Prepayments and other current assets		15,251	23,337
Assets held for sale		1,558	3,139
Total current assets		<u>2,117,920</u>	<u>147,172</u>

Regulatory assets	832,799	788,076
Deferred charges and other assets, net	41,449	39,237
Investment in joint venture	7,448	6,959
Goodwill	52,722	52,726
Operating lease right-of-use assets	13,164	-
Total assets	<u>\$ 9,180,350</u>	<u>\$ 6,964,496</u>
	Liabilities and Equity	
Stockholders' equity:		
Common stock at \$0.50 par value, authorized 300,000,000 shares, issued 218,887,834 and 181,151,827 as of June 30, 2019 and December 31, 2018	\$ 109,444	\$ 90,576
Capital in excess of par value	2,633,271	820,378
Retained earnings	1,159,753	1,174,245
Treasury stock, at cost, 3,112,376 and 3,060,206 shares as of June 30, 2019 and December 31, 2018	(77,694)	(75,835)
Total stockholders' equity	<u>3,824,774</u>	<u>2,009,364</u>
Long-term debt, excluding current portion	2,779,074	2,419,115
Less: debt issuance costs	29,870	20,651
Long-term debt, excluding current portion, net of debt issuance costs	<u>2,749,204</u>	<u>2,398,464</u>
Commitments and contingencies (See Note 15)		
Current liabilities:		
Current portion of long-term debt	221,393	144,545
Loans payable	6,076	15,449
Accounts payable	57,463	77,331
Book overdraft	22,294	8,950
Accrued interest	30,755	23,300
Accrued taxes	17,962	22,234
Interest rate swap agreements	-	59,779
Other accrued liabilities	43,006	47,389
Total current liabilities	<u>398,949</u>	<u>398,977</u>
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	876,332	845,403
Customers' advances for construction	102,801	93,343
Regulatory liabilities	525,864	531,027
Operating lease liabilities	11,913	-
Other	97,365	97,182
Total deferred credits and other liabilities	<u>1,614,275</u>	<u>1,566,955</u>
Contributions in aid of construction	593,148	590,736
Total liabilities and equity	<u>\$ 9,180,350</u>	<u>\$ 6,964,496</u>

See notes to consolidated financial statements beginning on page 9 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES

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

	Three Months Ended	
	June 30,	
	2019	2018
Operating revenues	\$ 218,892	\$ 211,860
Operating expenses:		
Operations and maintenance	86,445	73,515
Depreciation	39,550	36,613
Amortization	(2,920)	149
Taxes other than income taxes	14,868	14,829
Total operating expenses	<u>137,943</u>	<u>125,106</u>
Operating income	80,949	86,754
Other expense (income):		
Interest expense, net	23,309	23,723

Allowance for funds used during construction	(3,611)	(2,577)
Change in fair value of interest rate swap agreements	(11,040)	-
Loss on debt extinguishment	18,935	-
Gain on sale of other assets	(48)	(141)
Equity earnings in joint venture	(1,240)	(911)
Other	1,912	437
Income before income taxes	52,732	66,223
Provision for income tax benefit	(2,171)	(367)
Net income	<u>\$ 54,903</u>	<u>\$ 66,590</u>
Comprehensive income	<u>\$ 54,903</u>	<u>\$ 66,590</u>
Net income per common share:		
Basic	<u>\$ 0.25</u>	<u>\$ 0.37</u>
Diluted	<u>\$ 0.25</u>	<u>\$ 0.37</u>
Average common shares outstanding during the period:		
Basic	<u>219,055</u>	<u>177,901</u>
Diluted	<u>219,790</u>	<u>178,273</u>

See notes to consolidated financial statements beginning on page 9 of this report.

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AQUA AMERICA, INC. AND SUBSIDIARIES

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

	Six Months Ended June 30,	
	2019	2018
Operating revenues	<u>\$ 420,024</u>	<u>\$ 406,207</u>
Operating expenses:		
Operations and maintenance	165,759	147,461
Depreciation	78,624	72,580
Amortization	(2,584)	279
Taxes other than income taxes	29,837	29,796
Total operating expenses	<u>271,636</u>	<u>250,116</u>
Operating income	148,388	156,091
Other expense (income):		
Interest expense, net	51,159	47,194
Allowance for funds used during construction	(7,667)	(5,444)
Change in fair value of interest rate swap agreements	23,742	-
Loss on debt extinguishment	18,935	-
Gain on sale of other assets	(268)	(337)

Equity earnings in joint venture	(1,783)	(1,293)
Other	2,784	1,040
Income before income taxes	61,486	114,931
Provision for income tax benefit	(10,341)	(2,498)
Net income	<u>\$ 71,827</u>	<u>\$ 117,429</u>
Comprehensive income	<u>\$ 71,827</u>	<u>\$ 117,429</u>
Net income per common share:		
Basic	<u>\$ 0.36</u>	<u>\$ 0.66</u>
Diluted	<u>\$ 0.36</u>	<u>\$ 0.66</u>
Average common shares outstanding during the period:		
Basic	<u>198,747</u>	<u>177,852</u>
Diluted	<u>199,303</u>	<u>178,299</u>

See notes to consolidated financial statements beginning on page 9 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)

	June 30, 2019	December 31, 2018
Stockholders' equity:		
Common stock, \$0.50 par value	\$ 109,444	\$ 90,576
Capital in excess of par value	2,633,271	820,378
Retained earnings	1,159,753	1,174,245
Treasury stock, at cost	(77,694)	(75,835)
Total stockholders' equity	<u>3,824,774</u>	<u>2,009,364</u>
Long-term debt of subsidiaries (substantially collateralized by utility plant):		
<u>Interest Rate Range</u>	<u>Maturity Date Range</u>	
0.00% to 0.99%	2023 to 2033	3,413
1.00% to 1.99%	2020 to 2035	11,624
2.00% to 2.99%	2024 to 2033	16,587
3.00% to 3.99%	2019 to 2056	496,319
4.00% to 4.99%	2020 to 2059	955,566
5.00% to 5.99%	2019 to 2043	134,478
6.00% to 6.99%	2026 to 2036	31,000
7.00% to 7.99%	2022 to 2027	31,163
8.00% to 8.99%	2021 to 2025	5,309
9.00% to 9.99%	2020 to 2026	20,000
	<u>1,705,459</u>	<u>1,604,233</u>
Notes payable to bank under revolving credit agreement, variable rate, due 2023	-	370,000
Unsecured notes payable:		
Bank notes at 2.48% and 3.50% due 2019 and 2020	100,000	100,000
Amortizing notes at 3.00% due 2022	119,081	-
Notes ranging from 3.01% to 3.59% due 2027 through 2041	525,000	245,000
Notes at 4.28%, due 2049	500,000	112,000
Notes ranging from 5.64% to 5.95%, due 2020 through 2034	50,927	132,427
	<u>3,000,467</u>	<u>2,563,660</u>
Current portion of long-term debt	<u>221,393</u>	<u>144,545</u>

Long-term debt, excluding current portion	2,779,074	2,419,115
Less: debt issuance costs	29,870	20,651
Long-term debt, excluding current portion, net of debt issuance costs	2,749,204	2,398,464
Total capitalization	\$ 6,573,978	\$ 4,407,828

See notes to consolidated financial statements beginning on page 9 of this report.

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

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2018	\$ 90,576	\$ 820,378	\$ 1,174,245	\$ (75,835)	\$ 2,009,364
Net income	-	-	16,924	-	16,924
Dividends declared (\$0.2190 per share)	-	-	(39,014)	-	(39,014)
Issuance of common stock under dividend reinvestment plan (117,845 shares)	59	3,976	-	-	4,035
Repurchase of stock (52,124 shares)	-	-	-	(1,857)	(1,857)
Equity compensation plan (134,257 shares)	67	(67)	-	-	-
Exercise of stock options (77,479 shares)	39	1,136	-	-	1,175
Stock-based compensation	-	1,929	42	-	1,971
Other	-	(13)	-	-	(13)
Balance at March 31, 2019	90,741	827,339	1,152,197	(77,692)	1,992,585
Net income	-	-	54,903	-	54,903
Dividends declared (\$0.2190 per share)	-	-	(47,249)	-	(47,249)
Stock issued to finance pending acquisition (37,370,017 shares)	18,685	1,245,440	-	-	1,264,125
Proceeds from stock purchase contract issued under tangible equity units	-	557,837	-	-	557,837
Issuance of common stock under dividend reinvestment plan (10,162 shares)	5	380	-	-	385
Repurchase of stock (46 shares)	-	-	-	(2)	(2)
Equity compensation plan (5,099 shares)	3	(3)	-	-	-
Exercise of stock options (21,148 shares)	10	361	-	-	371
Stock-based compensation	-	2,129	(98)	-	2,031
Other	-	(212)	-	-	(212)
Balance at June 30, 2019	\$ 109,444	\$ 2,633,271	\$ 1,159,753	\$ (77,694)	\$ 3,824,774

See notes to consolidated financial statements beginning on page 9 of this report.

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

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2017	\$ 90,350	\$ 807,135	\$ 1,132,556	\$ (73,280)	\$ 860	\$ 1,957,621
Net income	-	-	50,839	-	-	50,839

Dividends declared (\$0.2047 per share)	-	-	(36,386)	-	-	(36,386)
Issuance of common stock under dividend reinvestment plan (11,252 shares)	6	355	-	-	-	361
Repurchase of stock (71,940 shares)	-	-	-	(2,491)	-	(2,491)
Equity compensation plan (181,670 shares)	91	(91)	-	-	-	-
Exercise of stock options (62,688 shares)	31	979	-	-	-	1,010
Stock-based compensation	-	1,443	(41)	-	-	1,402
Cumulative effect of change in accounting principle - financial instruments	-	-	860	-	(860)	-
Other	-	(197)	-	-	-	(197)
Balance at March 31, 2018	90,478	809,624	1,147,828	(75,771)	-	1,972,159
Net income	-	-	66,590	-	-	66,590
Dividends declared (\$0.2047 per share)	-	-	(36,416)	-	-	(36,416)
Issuance of common stock under dividend reinvestment plan (10,918 shares)	5	354	-	-	-	359
Equity compensation plan (3,969 shares)	2	(2)	-	-	-	-
Exercise of stock options (411 shares)	1	8	-	-	-	9
Stock-based compensation	-	1,985	(128)	-	-	1,857
Other	-	(206)	-	-	-	(206)
Balance at June 30, 2018	<u>\$ 90,486</u>	<u>\$ 811,763</u>	<u>\$ 1,177,874</u>	<u>\$ (75,771)</u>	<u>\$ -</u>	<u>\$ 2,004,352</u>

See notes to consolidated financial statements beginning on page 9 of this report.

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

	Six Months Ended	
	June 30,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 71,827	\$ 117,429
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	76,040	72,859
Deferred income taxes	(11,884)	(4,602)
Provision for doubtful accounts	2,127	2,213
Stock-based compensation	4,058	3,432
Gain on sale of other assets	(268)	(337)
Gain on sale of utility system	(403)	-
Loss on interest rate swap agreements	23,742	-
Loss on debt extinguishment	18,935	-
Settlement of interest rate swap agreements	(83,520)	-
Net change in receivables, inventory and prepayments	(5,672)	(11,110)
Net change in payables, accrued interest, accrued taxes and other accrued liabilities	(658)	(6,165)
Pension and other postretirement benefits contributions	(6,595)	(8,692)
Other	(186)	4,658
Net cash flows from operating activities	<u>87,543</u>	<u>169,685</u>
Cash flows from investing activities:		
Property, plant and equipment additions, including the debt component of allowance for funds used during construction of \$2,117 and \$1,613	(269,171)	(216,614)
Acquisitions of utility systems, net	(519)	(190)
Net proceeds from the sale of other assets	2,182	398
Other	983	(152)
Net cash flows used in investing activities	<u>(266,525)</u>	<u>(216,558)</u>
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	5,914	4,068
Repayments of customers' advances	(1,488)	(1,818)
Net repayments of short-term debt	(9,373)	(3,650)
Proceeds from long-term debt	1,136,000	218,037
Repayments of long-term debt	(825,642)	(41,001)
Extinguishment of long-term debt	(25,237)	-
Change in cash overdraft position	13,343	(6,062)
Issuance of common stock under dividend reinvestment plan	4,420	720
Proceeds from stock issued to finance pending acquisition	1,264,125	-
Proceeds from tangible equity unit issuance	674,170	-
Proceeds from exercised stock options	1,546	1,019
Repurchase of common stock	(1,859)	(2,491)

Dividends paid on common stock	(86,263)	(72,802)
Other	(225)	(403)
Net cash flows from financing activities	2,149,431	95,617
Net change in cash and cash equivalents	1,970,449	48,744
Cash and cash equivalents at beginning of period	3,627	4,204
Cash and cash equivalents at end of period	\$ 1,974,076	\$ 52,948
Non-cash investing activities:		
Property, plant and equipment additions purchased at the period end, but not yet paid for	\$ 44,809	\$ 26,010
Non-cash customer advances and contributions in aid of construction	21,527	10,468

See notes to consolidated financial statements beginning on page 9 of this report.

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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”, “we”, “us” or “our”) at June 30, 2019, the consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2019 and 2018 the consolidated statements of cash flow for the six months ended June 30, 2019 and 2018, and the consolidated statements of equity for the six months ended June 30, 2019 and 2018 are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present a fair statement of its consolidated financial position, consolidated changes in equity, consolidated results of operations, and consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2018. 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, 2018 consolidated balance sheet data presented herein was derived from the Company’s December 31, 2018 audited consolidated financial statements but does not include all disclosures and notes normally provided in annual financial statements.

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

There have been no changes to the summary of significant accounting policies, other than as described in Note 17 – *Leases* as a result of the adoption of a new accounting pronouncement adopted on January 1, 2019, previously identified in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

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

Note 2 – Revenue Recognition

The following table presents our revenues disaggregated by major source and customer class:

Three Months Ended
June 30, 2019

Three Months Ended
June 30, 2018

	Six Months Ended June 30, 2019			Six Months Ended June 30, 2018		
	Water Revenues	Wastewater Revenues	Other Revenues	Water Revenues	Wastewater Revenues	Other Revenues
Revenues from contracts with customers:						
Residential	\$ 126,550	\$ 20,263	\$ -	\$ 122,530	\$ 17,583	\$ -
Commercial	35,155	3,797	-	33,456	2,975	-
Fire protection	8,260	-	-	7,970	-	-
Industrial	7,456	487	-	7,309	498	-
Other water	11,038	-	-	14,220	-	-
Other wastewater	-	1,423	-	-	1,920	-
Other utility	-	-	3,362	-	-	2,319
Revenues from contracts with customers	188,459	25,970	3,362	185,485	22,976	2,319
Alternative revenue program	317	(102)	-	(120)	164	-
Other and eliminations	-	-	886	-	-	1,036
Consolidated	\$ 188,776	\$ 25,868	\$ 4,248	\$ 185,365	\$ 23,140	\$ 3,355

	Six Months Ended June 30, 2019			Six Months Ended June 30, 2018		
	Water Revenues	Wastewater Revenues	Other Revenues	Water Revenues	Wastewater Revenues	Other Revenues
Revenues from contracts with customers:						
Residential	\$ 240,597	\$ 40,210	\$ -	\$ 236,367	\$ 35,115	\$ -
Commercial	65,446	7,364	-	63,798	5,863	-
Fire protection	16,338	-	-	15,908	-	-
Industrial	14,321	968	-	13,669	961	-
Other water	23,845	-	-	25,241	-	-
Other wastewater	-	2,819	-	-	2,711	-
Other utility	-	-	6,252	-	-	4,654
Revenues from contracts with customers	360,547	51,361	6,252	354,983	44,650	4,654
Alternative revenue program	281	(215)	-	(120)	164	-
Other and eliminations	-	-	1,798	-	-	1,876
Consolidated	\$ 360,828	\$ 51,146	\$ 8,050	\$ 354,863	\$ 44,814	\$ 6,530

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

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

Tariff Revenues – These revenues are categorized by customer class: residential, commercial, fire protection, industrial, and other water and other wastewater. The rates that generate these revenues are approved by the respective state utility commission, and revenues are billed cyclically and accrued for when unbilled. Other water and other wastewater revenues consist primarily of fines, penalties, surcharges, and availability lot fees. Our performance obligation for tariff revenues is to provide potable water or wastewater treatment service to customers. This performance obligation is satisfied over time as the services are rendered. The amounts that the Company has a right to invoice for tariff revenues reflect the right to consideration from the customers in an amount that corresponds directly with the value transferred to the customer for the performance completed to date.

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

Alternative Revenue Program – These revenues represent the difference between the actual billed utility water and wastewater revenues for Aqua Illinois and the revenues set in the last Aqua Illinois rate case. We recognize revenues based on the target amount established in the last rate case, and then record either a regulatory asset or liability based on the cumulative annual difference between the target and actual, which results in either a refund due to customers or a payment from customers. The

cumulative annual difference is either refunded to customers or collected from customers over a nine-month period. This revenue program represents a contract between the utility and its regulators, not customers, and therefore is not within the scope of the Financial Accounting Standards Board’s (“FASB”) accounting guidance for recognizing revenue from contracts with customers.

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

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

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

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Note 3 – Goodwill

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

	Regulated Segment	Other	Consolidated
Balance at December 31, 2018	\$ 47,885	\$ 4,841	\$ 52,726
Reclassification to utility plant acquisition adjustment	(4)	-	(4)
Balance at June 30, 2019	<u>\$ 47,881</u>	<u>\$ 4,841</u>	<u>\$ 52,722</u>

The reclassification of goodwill to utility plant acquisition adjustment results from a mechanism approved by the applicable utility commission. The mechanism provides for the transfer over time, and the recovery through customer rates, of goodwill associated with some acquisition upon achieving specific objectives.

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Note 4 – Acquisitions

Peoples Gas Acquisition

Pursuant to the Company’s growth strategy, on October 22, 2018, the Company entered into a purchase agreement (the “Acquisition Agreement”) with LDC Parent LLC (“Seller”), to acquire its interests in LDC Funding LLC (“LDC”). LDC is the parent of LDC Holdings LLC (“LDC Holdings”), and LDC Holdings is the parent of five natural gas utility companies, which includes Peoples Natural Gas Company, Peoples Gas Company, and Delta Natural Gas Company as well as other operating subsidiaries. This acquisition is referred to as the “Peoples Gas Acquisition” and collectively, these businesses are referred to as “Peoples.” Peoples is headquartered in Pittsburgh, Pennsylvania and serves approximately 740,000 gas utility customers in western Pennsylvania, West Virginia, and Kentucky. At the closing of the Peoples Gas Acquisition, the Company will pay \$4,275,000 in cash subject to

adjustments for working capital, certain capital expenditures, transaction expenses and closing indebtedness as set forth in the Acquisition Agreement. The Company expects to assume approximately \$1,370,000 of Peoples' indebtedness upon the closing of the Peoples Gas Acquisition, which would reduce the cash purchase price by approximately \$1,370,000.

On October 22, 2018, the Company obtained a commitment (the "Bridge Commitment") from certain banks to provide senior unsecured bridge loans in an aggregate amount of up to \$5,100,000 to, among other things, backstop the Peoples Gas Acquisition purchase price and refinancing of certain debt of the Company and Peoples. On March 29, 2019, the Company entered into a Stock Purchase Agreement to issue shares of common stock in a private placement to fund a portion of the Peoples Gas Acquisition. The gross proceeds of the Stock Purchase Agreement are expected to amount to approximately \$750,000. Further, on April 18, 2019, the Company issued \$1,293,750 of its common stock and \$690,000 of its tangible equity units, with a stated amount of \$50 per unit, and on April 26, 2019, the Company issued \$900,000 of senior notes. As of June 30, 2019, the Company has terminated \$4,350,000 of commitments under the Bridge Commitment. The remaining balance available under the Bridge Commitment is \$750,000. Refer to Note 6 – *Capitalization* for further information on these financings.

On October 23, 2018, the Company entered into interest rate swap agreements to mitigate interest rate risk associated with an anticipated \$850,000 of future debt issuances to fund a portion of the Peoples Gas Acquisition. The interest rate swaps were settled on April 24, 2019 in conjunction with the issuance of long-term debt to be used to finance a portion of the purchase price of this acquisition, which resulted in a payment by the Company of \$83,520. Refer to Note 7 – *Interest Rate Swap Agreements* for further information. The interest rate swaps did not qualify for hedge accounting and any changes in the fair value of the swaps was included in our earnings.

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The Peoples Gas Acquisition is subject to regulatory approval by the Pennsylvania Public Utility Commission, and other customary closing conditions set forth in the Acquisition Agreement. Approval from the United States Federal Trade Commission was obtained in December 2018, and approvals from the public utility commissions of Kentucky and West Virginia were obtained in March 2019 and April 2019, respectively. On June 11, 2019, we filed a settlement agreement with the Pennsylvania Public Utility Commission, and all but two of the intervenors to the case have entered into or chosen not to oppose the settlement agreement. The Peoples Gas Acquisition is expected to close in the fall of 2019, once all regulatory approvals are obtained, and closing conditions are met, and it is anticipated that this acquisition will result in the recording of goodwill. In the event that the Acquisition Agreement is terminated due to certain breaches by the Company, a fee of \$120,000 would be payable to the Seller as a reverse termination fee.

Water and Wastewater Utility Acquisitions

In July 2018, the Company acquired the wastewater utility systems assets of Limerick Township, Pennsylvania, which serves 5,497 customers. The total cash purchase price for the utility system was \$74,836. The purchase price allocation for this acquisition consisted primarily of acquired property, plant and equipment of \$64,759, and goodwill of \$10,790. Additionally, during 2018, the Company completed seven acquisitions of water and wastewater utility systems in three states adding 8,661 customers. The total purchase price of these utility systems consisted of \$42,519 in cash. The purchase price allocation for these acquisitions consisted primarily of acquired property, plant and equipment. Further, in December 2018, the Company acquired the Valley Creek Trunk Sewer System, serving area municipalities in Pennsylvania, from the Tredyffrin Township Municipal Authority for \$28,300. The system receives untreated wastewater from area municipalities, which is conveyed to the Valley Forge Treatment Plant. The system consists of 49,000 linear feet of gravity sewers, pump stations, and force mains

In November 2018, the Company entered into a purchase agreement to acquire the wastewater utility system assets of East Norriton Township, Pennsylvania, which serves approximately 4,950 customers for \$21,000. The purchase price for this pending acquisition is subject to certain adjustments at closing, and is subject to regulatory approval, including the final determination of the fair value of the rate base acquired.

In July 2018, the Company entered into a purchase agreement to acquire the wastewater utility system assets of Cheltenham Township, Pennsylvania, which serves approximately 10,500 customers for \$50,250. The purchase price for this pending acquisition is subject to certain adjustments at closing, and is subject to regulatory approval, including the final determination of the fair value of the rate base acquired.

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In addition to the Company's pending acquisitions in East Norriton and Cheltenham Townships, as part of the Company's growth-through-acquisition strategy, the Company entered into purchase agreements to acquire the water or wastewater utility system assets of five municipalities for a total combined purchase price in cash of \$46,450 which we plan to finance by the issuance of debt. The purchase prices for these acquisitions are subject to certain adjustments at closing, and the acquisitions are subject to regulatory approvals, including the final determination of the fair value of the rate base acquired. Closings for our remaining acquisitions (other than the Peoples Gas Acquisition), with the exception of East Norriton Township, are expected to occur by the end of 2019, subject to the timing of the individual regulatory approval processes. In total, these acquisitions (other than the Peoples Gas Acquisition) will add approximately 7,200 customers in three of the states in which the Company operates.

Note 5 – Assets Held for Sale

In the fourth quarter of 2018, the Company decided to market for sale a water system in Virginia that serves approximately 500 customers. This water system was reported as assets held for sale in the Company's consolidated balance sheet, and in April 2019, the Company completed the sale for proceeds of \$1,882 and recognized a gain on sale of \$403.

In the first quarter of 2017, the Company decided to market for sale a water system in Texas that serves approximately 265 customers. This water system is reported as assets held for sale in the Company's consolidated balance sheet, and the sale is expected to close in the fourth quarter of 2019.

Note 6 – Capitalization

Private Placement

On March 29, 2019, the Company entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with Canada Pension Plan Investment Board (the "Investor"), pursuant to which the Company has agreed to issue and sell to the Investor in a private placement (the "Private Placement") 21,661,095 newly issued shares of common stock, par value \$0.50 per share (the "Common Stock"). The gross proceeds of the Private Placement are expected to amount to approximately \$750,000, less estimated expenses of \$21,560.

The shares issued and sold to the Investor pursuant to the Private Placement were to be priced at the lower of (1) \$34.62, which represents a 4.5% discount to the trailing 20 consecutive trading day volume weighted average price of the Common Stock ending on, and including, March 28, 2019, and (2) the volume weighted average price per share in the Company's subsequent public offering of Common Stock to fund a portion of the Peoples Gas Acquisition. Based on the common stock offering noted below, the Private Placement was priced at \$34.62 per share.

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The closing of the Private Placement is expected to occur concurrently with the closing of the Peoples Gas Acquisition, subject to certain closing conditions, including the closing of the Peoples Gas Acquisition, and the execution and delivery of a shareholder agreement between the Investor and the Company. The Investor has agreed to certain transfer restrictions for a period of 15 months from the closing date of the Peoples Gas Acquisition.

The Stock Purchase Agreement contains customary representations, warranties and covenants of the Company and the Investor, and the parties have agreed to indemnify each other for losses related to breaches of their respective representations and warranties. Upon closing of the Private Placement, the Company has agreed to reimburse the Investor for reasonable out-of-pocket diligence expenses of up to \$4,000, subject to certain exceptions.

Common Stock / Tangible Equity Unit Issuances

On April 23, 2019, the Company issued \$1,293,750, less expenses of \$29,625, of its common stock and \$690,000, less expenses of

\$15,830, of its tangible equity units (the “Units”), with a stated amount of \$50 per unit. These issuances were part of the permanent financing to close the planned Peoples Gas Acquisition. The common stock was issued at \$34.62 per share and thus the Private Placement noted above was priced at \$34.62 per share.

Each Unit consists of a prepaid stock purchase contract and an amortizing note due April 30, 2022, each issued by the Company. Unless earlier settled or redeemed, each stock purchase contract will automatically settle on April 30, 2022 (subject to postponement in limited circumstances) for between 1.1790 and 1.4442 shares of the Company’s common stock, subject to adjustment, based upon the applicable market value of the common stock, as described in the final prospectus supplement relating to the Units. The amortizing notes have an initial principal amount of \$8.62909, or \$119,081 in aggregate, and bear interest at a rate of 3.00% per year, and pay equal quarterly cash installments of \$0.75000 per amortizing note (except for the July 30, 2019 installment payment, which was \$0.80833 per amortizing note), that will constitute a payment of interest and a partial repayment of principal, and which cash payment in the aggregate will be equivalent to 6.00% per year with respect to each \$50 stated amount of the Units. The amortizing notes represent unsecured senior obligations of the Company.

The issuance of the common stock and the Units (including the component stock purchase contracts and amortizing notes) were separate public issuances made by means of separate prospectus supplements pursuant to the Company’s universal “pay as you go” shelf registration statement, filed with the SEC in February 2018, which allows for the potential future offer and sale by us, from time to time, in one or more public offerings, of an indeterminate amount of the Company’s common stock, preferred stock, debt securities, and other securities specified therein at indeterminate prices.

The Company recorded the issuance of the purchase contract portion of the Units as additional paid-in-capital of \$570,919, less allocable issuance costs of \$13,082, in our financial statements. The Company recorded the amortizing notes portion of the Units of \$119,081 as long-term debt and recorded allocable issuance costs of \$2,748 as debt issuance costs.

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Long-term Debt

On April 26, 2019, the Company issued \$900,000 of long-term debt (the “Senior Notes”), less expenses of \$7,324, of which \$400,000 is due in 2029, and \$500,000 is due in 2049 with interest rates of 3.566% and 4.276%, respectively.

The issuance of the Senior Notes was not conditioned upon the consummation of the Peoples Gas Acquisition; however, if (1) the Peoples Gas Acquisition has not been consummated on or prior to April 22, 2020, (2) on or prior to the April 22, 2020 and prior to the consummation of the Peoples Gas Acquisition, the Acquisition Agreement is terminated or (3) prior to the consummation of the Peoples Gas Acquisition, the Company otherwise publicly announces that the acquisition will not be consummated, then the Company will be required to redeem all outstanding Senior Notes on a special mandatory redemption date at a special mandatory redemption price equal to 101% of the aggregate principal amount of the notes, plus accrued and unpaid interest thereon, if any, to, but excluding, the special mandatory redemption date.

The Company used the net proceeds from the issuance of Senior Notes, together with the net proceeds from the common stock offering and tangible equity unit offering noted above, as well as the proceeds from the Private Placement of common stock noted above, to (1) secure funding for the planned Peoples Gas Acquisition, (2) complete the redemption of \$313,500 aggregate principal amount of certain of the Company’s outstanding notes noted below, (3) pay related costs and expenses, and (4) for general corporate purposes. Upon consummation of the Private Placement, the permanent financing for the Peoples Gas Acquisition will be complete.

On May 18, 2019, the Company redeemed \$313,500 of the Company’s outstanding notes (the “Company Debt Refinancing”) that had maturities ranging from 2019-2037 and interest rates ranging from 3.57-5.83%. Additionally, the Company Debt Refinancing was subject to a make whole payment of \$25,237. During the second quarter of 2019, \$18,935 of this payment was expensed and is presented in the consolidated statements of operations on the line item “loss on debt extinguishment.” The balance of the payment, or \$6,302, was deferred as it represents an amount by which the Company expects to receive prospective rate recovery.

If for any reason the Peoples Gas Acquisition is not consummated, the Company intends to use the net proceeds from these financings, after the special mandatory redemption noted above, for general corporate purposes, which may include the redemption of certain of the Company’s outstanding notes, repurchases of the Company’s common stock, debt repayment, capital expenditures, and investments.

In May 2019, Aqua Pennsylvania issued \$125,000 of first mortgage bonds, of which \$75,000 is due in 2049, \$25,000 is due in 2054, and \$25,000 is due in 2059 with interest rates of 4.02%, 4.07%, and 4.12%, respectively. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes. Additionally, Aqua Pennsylvania committed to the issuance of \$175,000 of first mortgage bonds, contingent upon receiving approval from the Pennsylvania Public Utility Commission, of which \$50,000 is due in 2054, \$75,000 is due in 2058, and \$50,000 is due in 2059 with interest rates of 4.09%, 4.13%, and 4.14%, respectively, that will be issued in September 2019.

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Note 7 – Interest Rate Swap Agreements

In October 2018, the Company entered into interest rate swap agreements to mitigate interest rate risk associated with an anticipated \$850,000 of future debt issuances to fund a portion of the Peoples Gas Acquisition and refinance a portion of the Company’s borrowings. On April 24, 2019, the Company settled the interest rate swap agreements upon issuance of \$900,000 of long-term debt to be used to finance a portion of the purchase price of the Peoples Gas Acquisition and redeem \$313,500 of the Company’s existing debt. The settlement resulted in a payment by the Company of \$83,520.

The interest rate swaps did not qualify for hedge accounting and any changes in the fair value of the swaps was included in our earnings. The interest rate swaps were classified as financial derivatives used for non-trading activities. Other than the interest rate swaps, the Company had no other derivative instruments. The Company recorded the fair value of the interest rate swaps by discounting the future net cash flows associated with the debt issuance and recognized either an asset or liability at the balance sheet date.

The following table provides a summary of the amounts recognized in earnings for our interest rate swap agreements:

	Location of Gain (Loss) Recognized	Amount of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives
		Three Months Ended June 30,	Six Months Ended June 30,
		2019	2019
Derivatives not designated as hedging instrument:			
Interest rate swaps	Other income (expense)	\$ 11,040	\$ (23,742)

Note 8 – Financial Instruments

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

- Level 1: unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access;
- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted market prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in non-active markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3: inputs that are unobservable and significant to the fair value measurement.

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The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation techniques used to measure fair value, or asset or liability transfers between the levels of the fair value hierarchy for the quarter ended June 30, 2019.

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

The fair value of loans payable is determined based on its carrying amount and utilizing Level 1 methods and assumptions. As of June 30, 2019 and December 31, 2018, the carrying amount of the Company's loans payable was \$6,076 and \$15,449, respectively, which equates to their estimated fair value. The fair value of the interest rate swap agreements was determined by discounting the future net cash flows utilizing level 2 methods and assumptions. As of December 31, 2018, the fair value of the Company's interest rate swap agreements, which were settled in April 2019, represented a liability of \$59,779. The fair value of cash and cash equivalents, which is comprised of uninvested cash and the proceeds from the April 2019 issuances of common stock, tangible equity units, and long-term debt for the planned Peoples Gas Acquisition, which are held in an interest-bearing account, is determined based on Level 1 methods and assumptions. As of June 30, 2019, and December 31, 2018, the carrying amounts of the Company's cash and cash equivalents was \$1,974,076 and \$3,627, respectively, which equates to their fair value. The Company's assets underlying the deferred compensation and non-qualified pension plans are determined by the fair value of mutual funds, which are based on quoted market prices from active markets utilizing Level 1 methods and assumptions. As of June 30, 2019, and December 31, 2018, the carrying amount of these securities was \$22,671 and \$20,388, respectively, which equates to their fair value, and is reported in the consolidated balance sheet in deferred charges and other assets.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net gain (loss) recognized during the period on equity securities	\$ 60	\$ 19	\$ 193	\$ (2)
Less: net gain / loss recognized during the period on equity securities sold during the period	-	-	-	-
Unrealized gain (loss) recognized during the reporting period on equity securities still held at the reporting date	<u>\$ 60</u>	<u>\$ 19</u>	<u>\$ 193</u>	<u>\$ (2)</u>

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The net gain recognized on equity securities is presented on the consolidated statements of operations on the line item "Other."

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

	June 30, 2019	December 31, 2018
Carrying amount	\$ 3,000,467	\$ 2,563,660
Estimated fair value	3,234,787	2,588,086

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

The Company's customers' advances for construction have a carrying value of \$102,801 as of June 30, 2019, and \$93,343 as of December 31, 2018. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels, and future rates. Portions of these non-interest-bearing instruments are payable annually through 2029 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 9 – Net Income per Common Share

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

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Average common shares outstanding during the period for basic computation	219,055	177,901	198,747	177,852
Dilutive effect of tangible equity units	423	-	212	-
Dilutive effect of employee stock-based compensation	312	372	344	447
Average common shares outstanding during the period for diluted computation	<u>219,790</u>	<u>178,273</u>	<u>199,303</u>	<u>178,299</u>

For the three months ended June 30, 2019 and the six months ended June 30, 2019 and 2018, all of the Company's employee stock options were included in the calculations of diluted net income per share as the calculated cost to exercise the stock options was less than the average market price of the Company's common stock during these periods. For the three months ended June 30, 2018, employee stock options to purchase 159,244 shares of common stock were excluded from the calculation 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 this period.

For the three and six months ended June 30, 2019, the average common shares outstanding during the period for basic computation includes the impact of 12,336,745 and 6,202,452 shares, respectively, based on the minimum number of shares to be issued in April 2022 upon settlement of the stock purchase contracts issued in April 2019 under the tangible equity units.

Note 10 – Stock-based Compensation

Under the Company's 2009 Omnibus Equity Compensation Plan, as amended as of February 27, 2014 (the "2009 Plan"), as approved by the Company's shareholders to replace the 2004 Equity Compensation Plan (the "2004 Plan"), stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to employees, non-employee directors, and consultants and advisors. No further grants may be made under the 2004 Plan. The 2009 Plan authorizes 6,250,000 shares for issuance under the plan. A maximum of 3,125,000 shares under the 2009 Plan may be issued pursuant to stock awards, stock units and other stock-based awards, subject to adjustment as provided in the 2009 Plan. During any calendar year, no individual may be granted (i) stock options and stock appreciation rights under the 2009 Plan for more than 500,000 shares of Company stock in the aggregate or (ii) stock awards, stock units or other stock-based awards under the 2009 Plan for more than 500,000 shares of Company stock in the aggregate, subject to adjustment as provided in the 2009 Plan. Awards to employees and consultants under the 2009 Plan are made by a committee of the Board of Directors of the Company, except that with respect to awards to the Chief Executive Officer, the committee recommends those awards for approval by the non-employee directors of the Board of Directors. In the case of awards to non-employee directors, the Board of Directors makes such awards. At June 30, 2019, 2,628,625 shares were still available for issuance under the 2009 Plan.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Stock-based compensation within operations and maintenance expenses	\$ 853	\$ 1,339	\$ 1,850	\$ 2,198
Income tax benefit	239	373	516	614

The following table summarizes the PSU transactions for the six months ended June 30, 2019:

	Number of Share Units	Weighted Average Fair Value
Nonvested share units at beginning of period	443,410	\$ 27.20
Granted	-	-
Performance criteria adjustment	(64,259)	33.42
Forfeited	(3,964)	33.62
Share units issued	(89,324)	52.39
Nonvested share units at end of period	<u>285,863</u>	17.84

A portion of the fair value of PSUs was estimated at the grant date based on the probability of satisfying the market-based conditions using the Monte Carlo valuation method, which assesses probabilities of various outcomes of market conditions. The other portion of the fair value of the PSUs is based on the fair market value of the Company’s stock at the grant date, regardless of whether the market-based condition is satisfied. The per unit weighted-average fair value at the date of grant for PSUs granted during the six months ended June 30, 2018 was \$37.65. The Company did not grant PSUs for the six months ended June 30, 2019. The fair value of each PSU grant is amortized monthly into compensation expense on a straight-line basis over their respective vesting periods, generally 36 months. The accrual of compensation costs is based on the Company’s estimate of the final expected value of the award, and is adjusted as required for the portion based on the performance-based condition. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the PSUs includes dividend equivalents, no separate dividend yield assumption is required in calculating the fair value of the PSUs. The recording of compensation expense for PSUs has no impact on net cash flows.

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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, which is generally three years, beginning on the date of grant. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the RSUs includes dividend equivalents, no separate dividend yield assumption is required in calculating the fair value of the RSUs. The following table provides the compensation cost and income tax benefit for stock-based compensation related to RSUs:

Three Months Ended

Six Months Ended

	June 30,		June 30,	
	2019	2018	2019	2018
Stock-based compensation within operations and maintenance expenses	\$ 412	\$ 355	\$ 837	\$ 706
Income tax benefit	116	100	236	201

The following table summarizes the RSU transactions for the six months ended June 30, 2019:

	Number of Stock Units	Weighted Average Fair Value
Nonvested stock units at beginning of period	130,085	\$ 33.13
Granted	55,686	36.01
Stock units vested and issued	(40,178)	32.88
Forfeited	(2,327)	35.17
Nonvested stock units at end of period	143,266	34.29

The per unit weighted-average fair value at the date of grant for RSUs granted during the six months ended June 30, 2019 and 2018 was \$36.01 and \$34.91, respectively.

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

	Three Months Ended		Six Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Stock-based compensation within operations and maintenance expenses	\$ 661	\$ 154	\$ 988	\$ 248
Income tax benefit	186	42	278	101

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

	2019	2018
Expected term (years)	5.47	5.46
Risk-free interest rate	2.53%	2.72%
Expected volatility	17.7%	17.2%
Dividend yield	2.44%	2.37%
Grant date fair value per option	\$ 5.25	\$ 5.10

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

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The following table summarizes stock option transactions for the six months ended June 30, 2019:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Outstanding at beginning of period	422,972	\$ 25.97		
Granted	769,115	35.94		
Forfeited	(18,120)	35.45		
Expired / Cancelled	(397)	32.05		
Exercised	(98,627)	15.68		
Outstanding at end of period	1,074,943	\$ 33.89	8.8	\$ 8,044
Exercisable at end of period	186,931	\$ 25.83	5.5	\$ 2,904

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Stock-based compensation within operations and maintenance expenses	\$ 202	\$ 140	\$ 382	\$ 280
Income tax benefit	58	41	110	81

The following table summarizes stock award transactions for the six months ended June 30, 2019:

	Number of Stock Awards	Weighted Average Fair Value
Nonvested stock awards at beginning of period	-	\$ -
Granted	9,854	38.82
Vested	(9,854)	38.82
Nonvested stock awards at end of period	-	-

The per unit weighted-average fair value at the date of grant for stock awards granted during the six months ended June 30, 2019 and 2018 was \$38.82 and \$34.58, respectively.

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Note 11 – Pension Plans and Other Postretirement Benefits

The Company maintains a qualified defined benefit pension plan (the “Pension Plan”), a nonqualified pension plan, and other

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

	Pension Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Service cost	\$ 680	\$ 812	\$ 1,360	\$ 1,625
Interest cost	2,954	2,874	5,908	5,748
Expected return on plan assets	(3,818)	(4,553)	(7,636)	(9,106)
Amortization of prior service cost	155	132	310	264
Amortization of actuarial loss	1,982	1,823	3,964	3,646
Net periodic benefit cost	<u>\$ 1,953</u>	<u>\$ 1,088</u>	<u>\$ 3,906</u>	<u>\$ 2,177</u>

	Other Postretirement Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Service cost	\$ 205	\$ 262	\$ 410	\$ 525
Interest cost	750	708	1,500	1,416
Expected return on plan assets	(621)	(677)	(1,242)	(1,353)
Amortization of prior service cost	(116)	(127)	(232)	(255)
Amortization of actuarial loss	166	296	332	591
Net periodic benefit cost	<u>\$ 384</u>	<u>\$ 462</u>	<u>\$ 768</u>	<u>\$ 924</u>

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

The Company made cash contributions of \$6,479 to its Pension Plan during the first six months of 2019 and intends to make additional cash contributions of \$1,743 to the Pension Plan during the remainder of 2019.

Note 12 – Water and Wastewater Rates

In August 2018, the Company's operating subsidiary in Pennsylvania filed for a base rate increase in water and wastewater rates for its customers. In May 2019 the Company received an order from the Pennsylvania Public Utility Commission, resulting in an increase of \$47,000 in annual revenue, and new rates went into effect on May 24, 2019. The rates in effect at the time of the filing also included \$29,493

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in Distribution System Improvement Charges ("DSIC"), which was 7.5% above prior base rates. Consequently, the aggregate base rates increased by \$76,493 since the last base rate increase and the DSIC was reset to zero.

In December 2018, the Company's operating subsidiary in New Jersey filed for a base rate increase in water rates for its customers. In May 2019, the Company received an order from the New Jersey Board of Public Utilities, resulting in an increase of \$5,000 in annual revenues, and new rates went into effect on June 1, 2019.

In addition to the Pennsylvania and New Jersey rate awards noted above, during the first six months of 2019, the Company's operating divisions in Ohio were granted base rate increases designed to increase total operating revenues on an annual basis by \$974. Further, during the first six months of 2019, the Company's operating divisions in Illinois, Ohio, and Pennsylvania received approval to bill infrastructure rehabilitation surcharges designed to increase total operating revenues on an annual basis by \$3,931.

Note 13 – Taxes Other than Income Taxes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Property	\$ 6,929	\$ 6,775	\$ 13,395	\$ 13,524
Gross receipts, excise and franchise	3,538	3,789	6,757	7,053
Payroll	2,291	2,180	5,772	5,455
Regulatory assessments	748	627	1,495	1,254
Pumping fees	1,272	1,424	2,241	2,415
Other	90	34	177	95
Total taxes other than income	\$ 14,868	\$ 14,829	\$ 29,837	\$ 29,796

Note 14 – Segment Information

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

Two operating segments are included within the Other category below. These segments are not quantitatively significant and are comprised of Aqua Infrastructure and Aqua Resources. Aqua Infrastructure provides non-utility raw water supply services for firms in the natural gas drilling industry. Aqua Resources provides water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to its utility companies' service territories; and offers, through a third-party, water and sewer service line protection solutions and repair services to households.

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In addition to these segments, Other is comprised of other business activities not included in the reportable segment, including corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include general and administrative expenses, and interest expense.

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

	Three Months Ended June 30, 2019			Three Months Ended June 30, 2018		
	Regulated	Other	Consolidated	Regulated	Other	Consolidated
Operating revenues	\$ 218,006	\$ 886	\$ 218,892	\$ 210,824	\$ 1,036	\$ 211,860
Operations and maintenance expense	74,082	12,363	86,445	73,047	468	73,515
Depreciation	39,472	78	39,550	36,603	10	36,613
Amortization	(3,060)	140	(2,920)	103	46	149
Operating income (loss)	93,112	(12,163)	80,949	86,672	82	86,754
Interest expense, net	24,067	(758)	23,309	21,756	1,967	23,723
Allowance for funds used during construction	3,611	-	3,611	2,577	-	2,577
Equity earnings in joint venture	-	1,240	1,240	-	911	911
Provision for income taxes (benefit)	1,780	(3,951)	(2,171)	(147)	(220)	(367)
Net income (loss)	69,579	(14,676)	54,903	67,877	(1,287)	66,590

	Six Months Ended June 30, 2019			Six Months Ended June 30, 2018		
	Regulated	Other	Consolidated	Regulated	Other	Consolidated
Operating revenues	\$ 418,226	\$ 1,798	\$ 420,024	\$ 404,331	\$ 1,876	\$ 406,207
Operations and maintenance expense	148,420	17,339	165,759	144,350	3,111	147,461
Depreciation	78,535	89	78,624	72,561	19	72,580
Amortization	(2,864)	280	(2,584)	191	88	279
Operating income (loss)	165,765	(17,377)	148,388	158,730	(2,639)	156,091

Interest expense, net	47,725	3,434	51,159	43,464	3,730	47,194
Allowance for funds used during construction	7,667	-	7,667	5,444	-	5,444
Equity earnings in joint venture	-	1,783	1,783	-	1,293	1,293
Provision for income taxes (benefit)	2,731	(13,072)	(10,341)	(790)	(1,708)	(2,498)
Net income (loss)	121,520	(49,693)	71,827	121,904	(4,475)	117,429
Capital expenditures	269,171	-	269,171	216,614	-	216,614

	June 30, 2019		December 31, 2018	
Total assets:				
Regulated	\$	7,043,679	\$	6,807,960
Other		2,136,671		156,536
Consolidated	\$	9,180,350	\$	6,964,496

Note 15 – 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 June 30, 2019, the aggregate amount of \$17,929 is

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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 June 30, 2019, estimates that approximately \$6,526 of the amount accrued for these matters are probable of recovery through insurance, which amount is also reported in the Company's consolidated balance sheet as deferred charges and other assets, net.

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

In addition to the aforementioned loss contingencies, the Company self-insures its employee medical benefit program, and maintains stop-loss coverage to limit the exposure arising from these claims. The Company's reserve for these claims totaled \$1,515 at June 30, 2019 and represents a reserve for unpaid claim costs, including an estimate for the cost of incurred but not reported claims.

Note 16 – Income Taxes

During the six months ended June 30, 2019, the Company's Federal net operating loss ("NOL") carryforward increased by \$33,928. In addition, during the six months ended June 30, 2019, the Company's state NOL carryforward increased by \$67,583. As of June 30, 2019, the balance of the Company's Federal NOL was \$44,763. The Company believes its Federal NOL carryforward is more likely than not to be recovered and requires no valuation allowance. As of June 30, 2019, the balance of the Company's gross state NOL was \$717,868, a portion of which is offset by a valuation allowance because the Company does not believe the state NOLs are more likely than not to be realized. The Company's Federal and state NOL carryforwards begin to expire in 2032 and 2023, respectively. The Company's Federal and state NOL carryforwards are reduced by an unrecognized tax position, on a gross basis, of \$68,978 and \$85,657, respectively. The amounts of the Company's Federal and state NOL carryforwards prior to being reduced by the unrecognized tax positions were \$113,741 and \$803,525 respectively. The Company records its unrecognized tax benefit as a reduction to its deferred income tax liability.

As of June 30, 2019, the total gross unrecognized tax benefit was \$17,562. As a result of the regulatory treatment afforded for qualifying infrastructure improvements in Pennsylvania, \$28,058, if recognized, would affect the Company's effective tax rate. At December 31, 2018, the Company had unrecognized tax benefits of \$17,792.

Accounting rules for uncertain tax positions specify that tax positions for which the timing of resolution is uncertain should be classified as long-term liabilities. Judgment is required in evaluating the

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Company's uncertain tax positions and determining the provision for income taxes. Management believes that an adequate provision has been made for any adjustments that may result from tax examinations. Although the timing of income tax audit resolutions and negotiations with taxing authorities is highly uncertain, the Company does not anticipate a significant change to the total amount of unrecognized income tax benefits within the next 12 months.

As of December 31, 2017, the Company had provisionally estimated that \$175,108 of deferred income tax liabilities for our Pennsylvania subsidiary, Aqua Pennsylvania, will be a regulatory liability as a result of the accounting effect of the Tax Cuts and Jobs Acts (the "TCJA"). In May 2018, the Pennsylvania Public Utility Commission ("PA PUC") issued an order that set forth the requirements for utilities to either immediately initiate the refund or otherwise address the impacts of the TCJA in the utilities' next rate case. Aqua Pennsylvania was included in the rate filing group of utilities as the Company filed a base rate case in August 2018, during which it expected the PA PUC to address the effects of the TCJA within the base rate case filing. Additionally, the PA PUC ordered that all rates charged by utilities, including those billed by Aqua Pennsylvania since January 1, 2018, are temporary and subject to refund pending the outcome of its review of the effects of the TCJA within the next base rate case. In February 2019, Aqua Pennsylvania filed a settlement for this base rate case, and on March 11, 2019, the administrative law judges issued a recommended decision approving the settlement on March 11, 2019. In May 2019 a final order was issued from the PA PUC affirming the Company's regulatory liability of \$175,108 and authorizing the Company to implement an average rate assumption method to reduce the regulatory liability over the book lives beginning in June 2019 to reflect the fact that the benefit from the excess accumulated deferred taxes is now reflected in base rates.

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

Note 17 – Leases

The Company leases land, office facilities, office equipment, and vehicles for use in its operations, which are accounted for as operating leases. Leases with a remaining term of 12 months or less are not recorded on the balance sheet; rather, lease expense is recognized on a straight-line basis over the lease term. Our leases have remaining lives of 1 year to 76 years.

Some of the Company's leases can be extended on a month-to-month basis, which allow us to terminate the lease at any given month without penalty while others include options to extend the leases for up to 50 years. The renewal of a month-to-month lease is at our sole discretion.

The Company accounts for lease and non-lease components of lease arrangements separately. For calculating lease liabilities, we may deem lease terms to include options to extend or terminate the lease

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when it's reasonably certain that we will exercise that option. The Company's lease agreements do not contain significant residual value guarantees, restrictions or covenants.

Lease liabilities and corresponding right-of-use assets are recorded based on the present value of the lease payments over the expected lease term, including leases with variable payments that are based on a market rate or an index. All other variable

payments are expensed as incurred. Since the Company's lease agreements do not provide an implicit interest rate, we utilize our incremental borrowing rate to determine the discount rate used to present value the lease payments.

For the Company's regulated utility operations, we utilize the FASB's accounting guidance for leases for entities with regulated operations, which allows, for rate-making purposes, a lease to be accounted for as an operating lease even though the lease may be classified as a finance lease, since the amount of the lease payment is included in allowable costs as rental expense in the period it covers.

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Components of lease expense were as follows:		
Operating lease cost	\$ 530	\$ 1,105
Supplemental cash flow information related to leases was as follows:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 355	\$ 1,293
June 30, 2019		
Supplemental balance sheet information related to leases was as follows:		
Operating leases:		
Operating lease right-of-use assets	\$	13,164
Other accrued liabilities	\$	1,251
Operating lease liabilities		11,913
Total operating lease liabilities	\$	13,164
June 30, 2019		
Weighted average remaining lease term:		
Operating leases		27 years
Weighted average discount rate:		
Operating leases		4.08%

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Maturities of operating lease liabilities and a reconciliation of the operating lease liabilities reported on our Consolidated Balance Sheets as of June 30, 2019 are as follows:

	Operating Leases
2019	\$ 618
2020	1,597
2021	1,374
2022	1,145
2023	770
Thereafter	16,430
Total operating lease payments	\$ 21,934
Total operating lease payments	\$ 21,934
Less operating lease liabilities	13,164
Present value adjustment	\$ 8,770

The future annual minimum lease payments due for the Company's leases as of December 31, 2018 were as follows:

2019	\$	2,221
2020		1,682
2021		1,443
2022		1,221
2023		848
Thereafter		16,170
Total	\$	23,585

Note 18 – Recent Accounting Pronouncements

Pronouncements to be adopted upon the effective date:

In August 2018, the FASB issued updated accounting guidance on accounting for cloud computing arrangements. The updated guidance requires entities that are customers in cloud computing arrangements to defer implementation costs if they would be capitalized by the entity in software licensing arrangements under the internal-use software guidance. The guidance may be applied retrospectively or prospectively to implementation costs incurred after the date of adoption. The updated accounting guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

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In August 2018, the FASB issued updated accounting guidance, which modifies the disclosures required for defined benefit pension and other postretirement benefit plans. The modifications in this update remove disclosures that are no longer considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. The updated accounting guidance is effective for fiscal years ending after December 15, 2020, with early adoption available. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

In August 2018, the FASB issued updated accounting guidance, which modifies the disclosure requirements on fair value measurements. The modifications in this update eliminates, amends, and adds disclosure requirements for fair value measurements, which is expected to reduce costs for preparers while providing more decision-useful information for financial statement users. The updated accounting guidance is effective for fiscal years ending after December 15, 2019, with early adoption available. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

In June 2016, the FASB issued updated accounting guidance on accounting for impairments of financial instruments, including trade receivables, which requires companies to estimate expected credit losses on trade receivables over their contractual life. Historically, companies reserve for expected credit losses by applying historical loss percentages to respective aging categories. Under the updated accounting guidance, companies will use a forward-looking methodology that incorporates lifetime expected credit losses, which will result in an allowance for expected credit losses for receivables that are either current or not yet due, which historically have not been reserved for. The updated accounting guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, with early adoption available. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

Pronouncements adopted during the year:

In February 2016, the FASB issued updated accounting guidance on accounting for leases, which requires lessees to establish a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. For income statement purposes, leases will be classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. The updated accounting guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption available. On January 1, 2019, the Company adopted the updated guidance as required using the modified retrospective approach, which provides a method for recording existing leases at adoption and in comparative periods that approximates the results of a full retrospective approach. Further, we elected the package of practical expedients permitted under the transition guidance within the updated guidance, which among other things, allowed the Company to carry forward its historical lease classification. The Company also elected the practical expedient

related to land easements, allowing the Company to carry forward its accounting treatment for land easements on existing agreements. Adoption of the new guidance resulted in the recording, on the Company's consolidated balance sheet, of a right-of-use asset and lease liability of \$14,028 as of January 1, 2019, and there was no cumulative impact adjustment to retained earnings for prior periods accounted for under the previous lease guidance.

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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: 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," "estimates," "anticipates," "plans," "future," "potential," "probably," "predictions," "intends," "will," "continue," "in the event" or the negative of such terms or similar expressions. Forward-looking statements are based on a number of assumptions concerning future events, and are subject to a number of risks, uncertainties and other factors, many of which are outside our control, which could cause actual results to differ materially from those expressed or implied by such statements. These risks and uncertainties include, among others: the effects of regulation, abnormal weather, changes in capital requirements and funding, our ability to close 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, 2018 under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in such report and those included under the captions "Risk Factors" in this Quarterly Report. As a result, readers are cautioned not to place undue reliance on any forward-looking statements. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

General Information

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

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

Aqua America, Inc., which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, formerly known as Philadelphia Suburban Water Company. In the early 1990s, we embarked on a growth-through-acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of American Water Works Company, Inc.'s regulated operations in Ohio in 2012. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry, where we have more than quadrupled the number of regulated customers we serve, and has extended our regulated operations from southeastern Pennsylvania to include operations in seven other states. The Company seeks to acquire businesses in the U.S. regulated sector, which includes water and wastewater utilities and other regulated utilities, and to opportunistically pursue growth ventures in select market-based activities, such as infrastructure opportunities that are supplementary and complementary to our regulated businesses. On October 22, 2018, the Company entered into an agreement to acquire from LDC Funding LLC, the parent company of PNG Companies, a natural gas distribution company consisting of Peoples Natural Gas Company LLC, Peoples Gas Company LLC, and Delta Natural Gas Company Inc. ("Peoples"), which upon closing, will expand the Company's regulated utility business to include natural gas distribution.

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

Financial Condition

During the first six months of 2019, we incurred \$269,171 of capital expenditures, expended \$519 for the acquisition of water and wastewater utility systems, issued \$1,268,545 of common stock, \$674,170 of tangible equity units, \$1,136,000 of long-term debt, and repaid debt and made sinking fund contributions and other loan repayments, including the extinguishment of long-term debt, of \$850,879. The capital expenditures were related to new and replacement water mains, improvements to treatment plants, tanks, hydrants, and service lines, well and booster improvements, and other enhancements and improvements. The issuance of common stock, tangible equity units, and long-term debt was comprised principally of the permanent financing for our pending acquisition of Peoples and funds borrowed under our revolving credit facility.

Pursuant to the Company's growth strategy, on October 22, 2018, the Company entered into a purchase agreement (the "Acquisition Agreement") with LDC Parent LLC ("Seller"), to acquire its interests in LDC Funding LLC ("LDC"). LDC is the parent of LDC Holdings LLC ("LDC Holdings"), and LDC Holdings is the parent of five natural gas utility companies, which includes Peoples Natural Gas Company, Peoples Gas Company, and Delta Natural Gas Company as well as other operating subsidiaries. This acquisition is referred to as the "Peoples Gas Acquisition," and collectively these businesses are referred to as "Peoples." Peoples is headquartered in Pittsburgh, Pennsylvania, and serves approximately 740,000 gas utility customers in western Pennsylvania, West Virginia, and Kentucky. At the closing of the Peoples Gas Acquisition, the Company will pay \$4,275,000 in cash subject to adjustments for working capital, certain capital expenditures, transaction expenses and closing

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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)

indebtedness as set forth in the Acquisition Agreement. The Company expects to assume approximately \$1,370,000 of Peoples' indebtedness upon closing of the Peoples Gas Acquisition, which would reduce the cash purchase price by approximately \$1,370,000.

On October 22, 2018, the Company obtained a commitment (the "Bridge Commitment") from certain banks to provide senior unsecured bridge loans in an aggregate amount of up to \$5,100,000 to, among other things, backstop the Peoples Gas Acquisition purchase price and refinancing of certain debt of the Company and Peoples. On March 29, 2019, the Company entered into a Stock Purchase Agreement to issue shares of common stock in a private placement to fund a portion of the Peoples Gas Acquisition. We expect the private placement to close concurrently with the consummation of the Peoples Gas Acquisition. The gross proceeds of the Stock Purchase Agreement are expected to amount to approximately \$750,000. Further, on April 18, 2019, the Company issued \$1,293,750 of its common stock and \$690,000 of its tangible equity units, with a stated amount of \$50 per unit, and on April 26, 2019, the Company issued \$900,000 of senior notes. As of June 30, 2019, the Company has terminated \$4,350,000 of commitments under the Bridge Commitment. The remaining balance available under the Bridge Commitment is \$750,000. Refer to Note 6 – *Capitalization* to the consolidated financial statements for further information on these financings.

On May 18, 2019, the Company redeemed \$313,500 of the Company's outstanding notes that had maturities ranging from 2019-2037 and interest rates ranging from 3.57-5.83%. Additionally, the redemption of senior unsecured notes was subject to a make

whole payment of \$25,237. During the second quarter of 2019, \$18,935 of this payment was expensed and is presented in the consolidated statements of operations on the line item “loss on debt extinguishment.” The balance of the payment, or \$6,302, was deferred as it represents an amount by which the Company expects to receive prospective rate recovery.

On October 23, 2018, the Company entered into interest rate swap agreements to mitigate interest rate risk associated with an anticipated \$850,000 of future debt issuances to fund a portion of the Peoples Gas Acquisition. The interest rate swaps were settled on April 24, 2019 in conjunction with the issuance of \$900,000 of long-term debt to be used to finance a portion of the purchase price of this acquisition and redeem \$313,500 of the Company’s existing debt. Refer to Note 7 – *Interest Rate Swap Agreements* to the consolidated financial statements in this report for further information. The interest rate swaps did not qualify for hedge accounting and any changes in the fair value of the swaps was included in our earnings.

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

The Peoples Gas Acquisition is subject to certain other adjustments at closing and is subject to regulatory approval by the Pennsylvania Public Utility Commission, and other customary closing conditions set forth in the Acquisition Agreement. Approval from the United States Federal Trade Commission was obtained in December 2018, and approvals from the public utility commissions of Kentucky and West Virginia were obtained in March 2019 and April 2019, respectively. On June 11, 2019, we filed a settlement agreement with the Pennsylvania Public Utility Commission, and all but two of the intervenors to the case have entered into or chosen not to oppose the settlement agreement. The Peoples Gas Acquisition is expected to close in the fall of 2019, once all regulatory approvals are obtained and closing conditions are met, and it is anticipated that this acquisition will result in the recording of goodwill. In the event that the Acquisition Agreement is terminated due to certain breaches by the Company, a fee of \$120,000 would be payable to the Seller as a reverse termination fee.

At June 30, 2019, we had \$1,974,076 of cash and cash equivalents compared to \$3,627 at December 31, 2018. The cash and cash equivalents balance at June 30, 2019 includes \$1,968,123 of proceeds from the April 2019 financings that are being held in an interest-bearing account to fund the Peoples acquisition, which is expected to close in the fall of 2019. During the first six months of 2019, we used the proceeds from the issuance of common stock, tangible equity units, long-term debt, and internally generated funds to fund the cash requirements discussed above, deposit financing proceeds into an interest-bearing account, and to pay dividends.

At June 30, 2019, our \$550,000 unsecured revolving credit facility, which expires in December 2023, had \$531,302 available for borrowing. At June 30, 2019, we had short-term lines of credit of \$135,500, of which \$129,424 was available for borrowing. One of our short-term lines of credit is an Aqua Pennsylvania \$100,000 364-day unsecured revolving credit facility with four banks, which is used to provide working capital, and as of June 30, 2019, \$93,924 was available for borrowing.

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

As a result of the proceeds raised from the April 2019 financings that are being held for funding the Peoples acquisition, which is expected to close in the fall of 2019, the Company has a positive working capital position as of June 30, 2019. However, historically, the Company’s consolidated balance sheet has had a negative working capital position whereby our current liabilities routinely 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, common equity, and tangible equity units 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.

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AQUA AMERICA, INC. AND SUBSIDIARIES
MANAGEMENT’S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

(In thousands of dollars, except per share amounts)

Results of Operations

Analysis of Second Quarter of 2019 Compared to Second Quarter of 2018

Revenues increased by \$7,032 or 3.3%, primarily due to:

- an increase in water and wastewater rates and infrastructure rehabilitation surcharges of \$4,731; and
- additional water and wastewater revenues of \$4,039 associated with a larger customer base due to organic growth and utility acquisitions, and other growth ventures;
- offset by a decrease in water and wastewater revenues of \$764 as a result of a do not consume advisory for some of our customers served by our Illinois subsidiary. We expect this decrease in revenues to continue into the third quarter of 2019.

Operations and maintenance expenses increased by \$12,930 or 17.6%, primarily due to:

- transaction expenses of \$12,744 for our planned Peoples Gas Acquisition, primarily representing expenses associated with obtaining regulatory approvals, investment banking fees, including bridge financing, legal expenses, and integration planning;
- additional operating costs associated with acquired utility systems of \$1,131; and
- expenses of \$972 associated with remediating a do not consume advisory for some of our customers served by our Illinois subsidiary. We expect that the expenses associated with remediating the do not consumer advisory to continue in the third quarter of 2019;
- offset by a decrease in insurance expenses of \$728 due to lower claims.

Depreciation expense increased by \$2,937 or 8.0%, primarily due to the utility plant placed in service since June 30, 2018.

Amortization expense decreased by \$3,069 primarily due to the favorable effects of a one-time adjustment recorded in the second quarter of 2019 resulting from a rate order received for our Pennsylvania subsidiary.

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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)

Interest expense decreased by \$414 or 1.7%, primarily due to the following items:

- interest income of \$7,408 earned on the proceeds from our April 2019 equity offerings; and
- a decrease in our effective interest rate;
- offset by an increase in average borrowings;
- pre-acquisition interest expense, net of \$1,318 from the issuance of \$900,000 long-term debt and \$119,081 of amortizing notes in April 2019 partially for the planned Peoples Gas Acquisition; and
- overlapping interest expense of \$452 incurred in the second quarter of 2019 associated with \$313,500 of existing debt that was subsequently refinanced in May 2019 after receipt of the proceeds from the April 2019 issuance of \$900,000 of long-term debt.

Allowance for funds used during construction ("AFUDC") increased by \$1,034, due to an increase in the average balance of utility plant construction work in progress, to which AFUDC is applied, and an increase in the AFUDC rate as a result of an increase in the amount of AFUDC related to equity.

The change in fair value of interest rate swap agreements of \$11,040 represents income recognized on the mark-to-market adjustment of our interest rate swap agreements that were entered into on October 23, 2018 to mitigate interest rate risk associated with an anticipated \$850,000 of future debt issuances to fund a portion of the Peoples Gas Acquisition. The interest rate swap agreements did not qualify for hedge accounting, and any changes in the fair value of the swaps were included in earnings. On April 24, 2019, the Company settled the interest rate swap agreements upon issuance of \$900,000 of long-term debt to be used to finance a

portion of the purchase price of the Peoples Gas Acquisition and redeem \$313,500 of the Company's existing debt.

The loss on debt extinguishment of \$18,935 results from the extinguishment of \$313,500 of existing debt that was refinanced in May 2019.

Equity earnings in joint venture increased by \$329 due to an increase in the sale of raw water to firms in the natural gas drilling industry.

Other increased by \$1,475 primarily due to an increase in the non-service cost components of our net benefit cost for pension benefits.

Our effective income tax rate was -4.1% in the second quarter of 2019 and -0.6% in the second quarter of 2018. The Company's provision for income taxes represents an income tax benefit due to the effects of the loss on debt extinguishment noted above of \$18,935, tax deductions recognized for certain qualifying infrastructure improvements for Aqua Pennsylvania, and the amortization of certain tax benefits associated with the Tax Cuts and Jobs Act. Our effective income tax rate decreased due to the decrease in our income before income taxes of \$13,491, which results primarily from the loss on debt extinguishment discussed above.

Net income decreased by \$11,687 or 17.6%, primarily as a result of the factors described above.

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

Analysis of First Six Months of 2019 Compared to First Six Months of 2018

Revenues increased by \$13,817 or 3.4%, primarily due to:

- an increase in water and wastewater rates and infrastructure rehabilitation surcharges of \$9,470; and
- additional water and wastewater revenues of \$8,063 associated with a larger customer base due to organic growth and utility acquisitions, and other growth ventures;
- offset by a decrease in customer water consumption;
- and a decrease in water and wastewater revenues of \$764 as a result of a do not consume advisory for some of our customers served by our Illinois subsidiary. We expect this decrease in revenues to continue into the third quarter of 2019.

Operations and maintenance expenses increased by \$18,298 or 12.4%, primarily due to:

- transaction expenses of \$19,390 for our planned Peoples Gas Acquisition, primarily representing expenses associated with obtaining regulatory approvals, investment banking fees, including bridge financing, legal expenses, and integration planning;
- additional operating costs associated with acquired utility systems of \$2,103; and
- expenses of \$972 associated with remediating a do not consume advisory for some of our customers served by our Illinois subsidiary. We expect that the expenses associated with remediating the do not consumer advisory to continue in the third quarter of 2019;
- offset by a decrease in insurance expenses of \$1,770 due to lower claims.

Depreciation expense increased by \$6,044 or 8.3%, primarily due to the utility plant placed in service since June 30, 2018.

Amortization expense decreased by \$2,863 primarily due to the favorable effects of a one-time adjustment recorded in the second quarter of 2019 resulting from a rate order received for our Pennsylvania subsidiary.

Interest expense increased by \$3,965 or 8.4%, primarily due to the following items:

- an increase in average borrowings;
- pre-acquisition interest expense, net of \$1,318 from the issuance of \$900,000 long-term debt and \$119,081 of amortizing notes in April 2019 partially for the planned Peoples Gas Acquisition; and

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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)

- overlapping interest expense incurred in the second quarter of 2019 of \$452 associated with \$313,500 of existing debt that was subsequently refinanced in May 2019 after receipt of the proceeds from the April 2019 issuance of \$900,000 of long-term debt;
- offset by interest income of \$7,408 earned on the proceeds from our April 2019 equity offerings;
- and a decrease in our effective interest rate.

Allowance for funds used during construction ("AFUDC") increased by \$2,223, due to an increase in the average balance of utility plant construction work in progress, to which AFUDC is applied, and an increase in the AFUDC rate as a result of an increase in the amount of AFUDC related to equity.

The change in fair value of interest rate swap agreements of \$23,742 represents expense recognized on the mark-to-market adjustment of our interest rate swap agreements that were entered into on October 23, 2018 to mitigate interest rate risk associated with an anticipated \$850,000 of future debt issuances to fund a portion of the Peoples Gas Acquisition. The interest rate swap agreements did not qualify for hedge accounting, and any changes in the fair value of the swaps were included in earnings. On April 24, 2019, the Company settled the interest rate swap agreements upon issuance of \$900,000 of long-term debt to be used to finance a portion of the purchase price of the Peoples Gas Acquisition and redeem \$313,500 of the Company's existing debt.

The loss on debt extinguishment of \$18,935 results from the extinguishment of \$313,500 of existing debt that was refinanced in May 2019.

Equity earnings in joint venture increased by \$490 due to an increase in the sale of raw water to firms in the natural gas drilling industry.

Other increased by \$1,744 primarily due to an increase in the non-service cost components of our net benefit cost for pension benefits.

Our effective income tax rate was -16.8% during the first six months of 2019 and -2.2% during the first six months of 2018. The Company's provision for income taxes represents an income tax benefit due to the effects of the change in the fair value of the interest rate swap agreement noted above of \$23,742, the loss on debt extinguishment of \$18,935 noted above, tax deductions recognized for certain qualifying infrastructure improvements for Aqua Pennsylvania, and the amortization of certain tax benefits associated with the Tax Cuts and Jobs Act. Our effective income tax rate decreased due to the decrease in our income before income taxes of \$53,445, which results primarily from the change in fair value of interest rate swap agreements, transaction expenses for our planned acquisition of Peoples, and the loss on debt extinguishment discussed above.

Net income decreased by \$45,602 or 38.8%, primarily as a result of the factors described above.

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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)

Impact of Recent Accounting Pronouncements

We describe the impact of recent accounting pronouncements in Note 18, *Recent Accounting Pronouncements*, to the consolidated

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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, 2018. Refer to Item 7A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, filed February 26, 2019, for additional information.

Item 4 – Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

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

Part II. Other Information

Item 1 – Legal Proceedings

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

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Item 1A – Risk Factors

Please review the risks disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 26, 2019, under “Part 1, Item 1A – Risk Factors.” For a discussion of specific risks related to the business of the pending Peoples Gas Acquisition, please see “Risk Factors related to Peoples” in our Current Report on Form 8-K/A filed with the SEC on April 15, 2019. In addition, we provide the following risk factors:

Our water supply, including water provided to our customers, is subject to various contaminants which may result in disruption in our services, additional costs, fines, laws and/or regulations, and litigation which could harm our business, reputation, financial condition, and results of operations.

Our water supplies, including water provided to our customers, are subject to possible contaminants, including those from:

- naturally occurring compounds or man-made substances;
- chemicals and other hazardous materials;
- lead and other materials;
- pharmaceuticals and personal care products; and

- possible deliberate or terrorist attacks.

Depending on the nature of the water contamination, we may have to interrupt the use of that water supply until we are able to substitute, where feasible, the flow of water from an uncontaminated water source, including if practicable, the purchase of water from other suppliers, or continue the water supply under restrictions on use for drinking or broader restrictions against all use except for basic sanitation and essential fire protection. We may incur significant costs, including, but not limited to, costs for water quality testing and monitoring, do not consume expenses and loss of revenue, treatment of the contaminated source through modification of our current treatment facilities or development of new treatment methods, or the purchase of alternative water supplies. In addition, the costs we could incur to decontaminate a water source or our water distribution system and dispose of waste could also be significant. The costs resulting from the contamination may not be recoverable in rates we charge our customer, or may not be recoverable in a timely manner. Further, we may incur a loss of revenue in the event we elect to waive customer's water and wastewater charges. If we are unable to adequately treat the contaminated water supply or substitute a water supply from an uncontaminated water source in a timely or cost-effective manner, there may be an adverse effect on our business, financial condition, and results of operations. We could also be subject to:

- claims for consequences arising out of human exposure to contamination and/or hazardous substances in our water supplies, including toxic torts;
- claims for other environmental damage;
- claims for customers' business interruption as a result of an interruption in water service;
- claims for breach of contract;
- criminal enforcement actions;
- regulatory fines; or
- other claims.

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We incur substantial costs on an ongoing basis to comply with all laws and regulations. New or stricter laws and/or regulations could increase our costs. Although we may seek to recover these costs through customer rates, there is no guarantee that the various state regulators would approve the increase in costs.

We are devoting our attention to various emerging contaminants, including the Per- and Polyfluoroalkyl Substances (PFAS) family of chemicals and other chemicals and substances that do not have any regulatory standard in drinking water. We rely on governmental agencies to establish the standard of protection from these unregulated contaminants and we meet or exceed these standards, when established. There is no guarantee that the various state regulators would approve the costs associated with the treatment in our system of the emerging contaminants without the establishment of treatment standards by the appropriate governmental entities.

We may incur costs to defend our position and/or incur reputational damage even if we are not liable for consequences arising out of human exposure to contamination and/or hazardous substances in our water supplies or other environmental damage. Our insurance policies may not be sufficient to cover the costs of these claims, and losses incurred may make it difficult for us to secure insurance in the future at acceptable rates. Such claims or actions could harm our business, financial condition, and results of operations.

Changes in our earnings may differ from changes in our rate base.

Our business is capital intensive and requires significant capital investments for additions to or replacement of property, plant and equipment. These capital investments create assets that are used and useful in providing regulated utility service, and as a result, increase our rate base, on which we generate earnings through the regulatory process. Changes in our reported earnings, however, may differ from changes in our rate base in a given period due to several factors, including rate case timing and the terms of such rate cases; over-or under-earnings in a given period due to changes in operating costs; the effects of tax rates or tax treatment of capital investments, including the effect of repair tax; capital expenditures that are not eligible for a Distribution System Improvement Charge between rate cases; and acquisitions which have not yet been included in rate base. We anticipate that we may experience periods in which growth in earnings is less than growth in rate base; such differences may be significant and may persist over multiple reporting periods.

The Company has incurred significant additional indebtedness in connection with the pending Peoples Gas Acquisition. As a result, it may be more difficult for the Company to pay or refinance its debts or take other actions, and the Company may need to divert cash to fund debt service payments.

The Company has incurred significant additional indebtedness to finance the proposed Peoples Gas Acquisition and to fund the debt

refinancing of the Company's outstanding debt (the "Company Debt Refinancing"). Additionally, in connection with the proposed Peoples Gas Acquisition, the Company currently intends to assume approximately \$1,370 million of Peoples' indebtedness. The increase in the Company's debt service obligations resulting from additional indebtedness could have a material adverse effect on the results of operations, financial condition and prospects of the combined company.

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The Company's increased indebtedness could also:

- make it more difficult and/or costly for the Company to pay or refinance its debts as they become due, particularly during adverse economic and industry conditions, because a decrease in revenues or increase in costs could cause cash flow from operations to be insufficient to make scheduled debt service payments;
- limit the Company's flexibility to pursue other strategic opportunities or react to changes in its business and the industry sectors in which it operates and, consequently, put the Company at a competitive disadvantage to its competitors that have less debt;
- require a substantial portion of the Company's available cash to be used for debt service payments, thereby reducing the availability of its cash to fund working capital, capital expenditures, development projects, acquisitions, dividend payments and other general corporate purposes, which could harm the Company's prospects for growth;
- result in a downgrade in the credit ratings on the Company's indebtedness, which could limit the Company's ability to borrow additional funds on favorable terms or at all (including in order to refinance the Bridge Commitment (if drawn) and/or its other debt), increase the interest rates under its credit facilities and under any new indebtedness it may incur;
- make it more difficult for the Company to raise capital to fund working capital, make capital expenditures, pay dividends, pursue strategic initiatives or for other purposes;
- result in higher interest expense, which could be further increased in the event of increases in interest rates on the Company's current or future borrowings subject to variable rates of interest; and
- require that additional materially adverse terms, conditions or covenants be placed on the Company under its debt instruments, which covenants might include, for example, limitations on additional borrowings and specific restrictions on uses of its assets, as well as prohibitions or limitations on its ability to create liens, pay dividends, receive distributions from its subsidiaries, redeem or repurchase its stock or make investments, any of which could hinder its access to capital markets and limit or delay its ability to carry out its capital expenditure program or otherwise limit its flexibility in the conduct of its business and make it more vulnerable to economic downturns and adverse competitive and industry conditions.

The increased indebtedness in connection with the proposed Peoples Gas Acquisition could cause us to place more reliance on cash flow from operations to pay principal and interest on debt and to satisfy our other obligations. Based on the current and expected results of operations and financial condition of the Company and the currently anticipated financing structure for the Peoples Gas Acquisition, the Company believes that its cash flow from operations, together with the proceeds from borrowings, issuances of equity and debt securities in the capital markets, and equity sales will generate sufficient cash on a consolidated basis to make all of the principal and interest payments when such payments are due under the Company's and its current subsidiaries' existing credit facilities, indentures and other instruments governing their outstanding indebtedness, under the indebtedness incurred to fund the Peoples Gas Acquisition and the Company Debt Refinancing and under the indebtedness of Peoples anticipated to be assumed as a result of the Peoples Gas Acquisition. However, the Company's expectation is based upon numerous estimates and assumptions and is subject to numerous uncertainties. LDC and its subsidiaries will not guarantee any indebtedness of the Company or any of its other subsidiaries, nor will any of them have any obligation to provide funds (nor will we have any ability to require them to provide funds), whether in the form of dividends, loans or otherwise, to enable the Company to pay dividends on its common stock or to enable the Company and its other

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subsidiaries to make required debt service payments or meet its other cash needs. As a result, the Company may substantially increase its debt services obligations in anticipation of the Peoples Gas Acquisition without any assurance that the Company will receive any cash from LDC or any of its subsidiaries to assist the Company in servicing its indebtedness, paying dividends on its common stock or meetings its other cash needs.

The price of our common stock may be volatile. This volatility may affect the price at which you could sell our common stock, and the sale or resale of substantial amounts of our common stock could adversely affect the market price of our common stock.

The sale or issuance of substantial amounts of our common stock in the completed offerings, or the perception that additional sales

or issuances could occur, could adversely affect the market price of our common stock. In addition, the availability for sale of substantial amounts of our common stock could adversely impact its market price. Shares of our common stock will be issuable upon settlement or redemption of the purchase contracts and the number of shares may be substantial. The settlement rates for the purchase contracts will be subject to certain anti-dilution adjustments that could increase, potentially significantly, the number of shares of our common stock issuable upon such settlement. The issuance or sale of shares, or the perception that such issuances or sales could occur, could adversely affect the market price of our common stock, even if our business is doing well. Any of the foregoing may also impair our ability to raise additional capital through the sale of our equity securities.

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

The following table summarizes the Company’s purchases of its common stock for the quarter ended June 30, 2019:

<u>Issuer Purchases of Equity Securities</u>					
<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs</u>	
April 1 - 30, 2019	1	\$ 37.25	-	-	-
May 1 -31, 2019	45	\$ 39.56	-	-	-
June 1 - 30, 2019	-	\$ -	-	-	-
Total	46	\$ 39.51	-	-	-

(1) These amounts include 46 shares we acquired from employees associated with the withholding of shares to pay certain withholding taxes upon the vesting of stock-based compensation.

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Item 6 – Exhibits

<u>Exhibit No.</u>	<u>Description</u>
1.1	Common Stock Underwriting Agreement, dated April 17, 2019, among Aqua America, Inc. and Goldman Sachs & Co. LLC and RBC Capital Markets, LLC, as representatives of the several underwriters named in Schedule I thereto (incorporated by reference to Exhibit 1.1 to the Company’s Current Report on Form 8-K, filed with the SEC on April 23, 2019)
1.2	Units Underwriting Agreement, dated April 17, 2019, among Aqua America, Inc. and RBC Capital Markets LLC and Goldman Sachs & Co. LLC, as representatives of the several underwriters named in Schedule I thereto (incorporated by reference to Exhibit 1.2 to the Company’s Current Report on Form 8-K, filed with the SEC on April 23, 2019)
1.3	Underwriting Agreement, dated April 24, 2019, among Aqua America, Inc. and RBC Capital Markets, LLC and Goldman Sachs & Co. LLC, as representatives of the several underwriters named in Schedule I thereto (incorporated by reference to Exhibit 1.1 to the Company’s Current Report on Form 8-K, filed with the SEC on April 26, 2019)
4.1	Purchase Contract Agreement, dated April 23, 2019, between Aqua America, Inc. and U.S. Bank N.A. as purchase contract agent, as attorney-in-fact for the Holders from time to time as provided therein and as trustee under the indenture referred to therein (incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K, filed with the SEC on April 23, 2019)

- 4.2 [Form of Unit \(included in Exhibit 4.1 above\) \(incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed with the SEC on April 23, 2019\)](#)
- 4.3 [Form of Purchase Contract \(included with Exhibit 4.1 above\) \(incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K, filed with the SEC on April 23, 2019\)](#)
- 4.4 [Indenture, dated as of April 23, 2019, between Aqua America, Inc. and U.S. Bank N.A., as trustee \(incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K, filed with the SEC on April 23, 2019\)](#)
- 4.5 [First Supplemental Indenture, dated as of April 23, 2019, between Aqua America, Inc. and U.S. Bank N.A., as trustee \(incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K, filed with the SEC on April 23, 2019\)](#)
- 4.6 [Second Supplemental Indenture, dated as of April 23, 2019, between Aqua America, Inc. and U.S. Bank N.A., as trustee \(incorporated by reference to Exhibit 4.6 to the Company's Current Report on Form 8-K, filed with the SEC on April 23, 2019\)](#)
- 4.7 [Form of Amortizing Note \(included with Exhibit 4.6 above\) \(incorporated by reference to Exhibit 4.7 to the Company's Current Report on Form 8-K, filed with the SEC on April 23, 2019\)](#)

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- 4.8 [Third Supplemental Indenture, dated as of April 26, 2019, between Aqua America, Inc. and U.S. Bank N.A., as trustee \(incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K, filed with the SEC on April 26, 2019\)](#)
- 4.9 [Form of Global Note for the 2029 Notes \(included in Exhibit 4.8 above\) \(incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K, filed with the SEC on April 26, 2019\)](#)
- 4.10 [Form of Global Note for the 2049 Notes \(included in Exhibit 4.8 above\) \(incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K, filed with the SEC on April 26, 2019\)](#)
- 4.11 [Bond Purchase Agreement, dated May 31, 2019, by and among Aqua Pennsylvania, Inc., Athene Annuity and Life Company, Athene Annuity & Life Assurance Company, Genworth Life and Annuity Insurance Company, Genworth Life Insurance Company, John Hancock Life Insurance Company \(U.S.A.\), John Hancock Life Insurance Company of New York, John Hancock Life & Health Insurance Company, Metropolitan Life Insurance Company, Metropolitan Tower Life Insurance Company, MetLife Insurance K.K., Brighthouse Life Insurance Company, United of Omaha Life Insurance Company, New York Life Insurance Company, New York Life Insurance and Annuity Corporation, New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Accounts \(BOLI 30C, 30E, 3-2\), The Northwestern Mutual Life Insurance Company, The Northwestern Mutual Life Insurance Company, and Life Insurance Company of the Southwest](#)
- 10.1 [Stock Purchase Agreement, dated as of March 29, 2019, by and between Aqua America, Inc. and Canada Pension Plan Investment Board \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on March 29, 2019\)](#)
- 10.2 [Aqua America, Inc. Amended and Restated Omnibus Equity Compensation Plan \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on May 3, 2019\)](#)
- 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 Inline XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

101.SCH Inline XBRL Taxonomy Extension Schema Document

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101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document

101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document

101.PRES Inline XBRL Taxonomy Extension Presentation Linkbase Document

104 The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, formatted in Inline XBRL (included in Exhibit 101)

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SIGNATURES

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

August 8, 2019

Aqua America, Inc.

Registrant

/s/ Christopher H. Franklin

Christopher H. Franklin
Chairman, President and
Chief Executive Officer

/s/ Daniel J. Schuller

Daniel J. Schuller
Executive Vice President and
Chief Financial Officer

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AQUA PENNSYLVANIA, INC.

\$300,000,000

\$75,000,000 First Mortgage Bonds, 4.02% Series due May 31, 2049

\$25,000,000 First Mortgage Bonds, 4.07% Series due May 31, 2054

\$25,000,000 First Mortgage Bonds, 4.12% Series due May 31, 2059

\$50,000,000 First Mortgage Bonds, 4.09% Series due September 26, 2054

\$75,000,000 First Mortgage Bonds, 4.13% Series due September 26, 2058

\$50,000,000 First Mortgage Bonds, 4.14% Series due September 26, 2059

BOND PURCHASE AGREEMENT

Dated as of May 31, 2019

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AQUA PENNSYLVANIA, INC.
762 West Lancaster Avenue
Bryn Mawr, Pennsylvania 19010-3489

\$300,000,000

\$75,000,000 First Mortgage Bonds, 4.02% Series due May 31, 2049
\$25,000,000 First Mortgage Bonds, 4.07% Series due May 31, 2054
\$25,000,000 First Mortgage Bonds, 4.12% Series due May 31, 2059
\$50,000,000 First Mortgage Bonds, 4.09% Series due September 26, 2054
\$75,000,000 First Mortgage Bonds, 4.13% Series due September 26, 2058
\$50,000,000 First Mortgage Bonds, 4.14% Series due September 26, 2059

As of May 31, 2019

To Each of the Purchasers Listed in
Schedule A Hereto:

Ladies and Gentlemen:

Aqua Pennsylvania, Inc., a corporation organized under the laws of the Commonwealth of Pennsylvania (the "*Company*"), agrees with each of the purchasers whose names appear at the end hereof (each, a "*Purchaser*" and, collectively, the "*Purchasers*") as follows:

SECTION 1. AUTHORIZATION OF BONDS.

The Company will authorize the issue and sale of (i) First Mortgage Bonds, 4.02% Series due May 31, 2049 in an aggregate principal amount of \$75,000,000, to bear interest at the rate of 4.02% per annum, and to mature on May 31, 2049 (herein referred to as the "*4.02% Series due 2049 Bonds*"), (ii) First Mortgage Bonds, 4.07% Series due May 31, 2054 in an aggregate principal amount of \$25,000,000, to bear interest at the rate of 4.07% per annum, and to mature on May 31, 2054 (herein referred to as the "*4.07% Series due 2054 Bonds*"), (iii) First Mortgage Bonds, 4.12% Series due May 31, 2059 in an aggregate principal amount of \$25,000,000, to bear interest at the rate of 4.12% per annum, and to mature on May 31, 2059 (herein referred to as the "*4.12% Series due 2059 Bonds*"; and together with the 4.02% Series due 2049 Bonds and the 4.07% Series due 2054 Bonds, the "*First Closing Bonds*"), (iv) First Mortgage Bonds, 4.09% Series due September 26, 2054 in an aggregate principal amount of \$50,000,000, to bear interest at the rate of 4.09% per annum, and to mature on September 26, 2054 (herein referred to as the "*4.09% Series due 2054 Bonds*"), (v) First Mortgage Bonds, 4.13% Series due September 26, 2058 in an aggregate principal amount of \$75,000,000, to bear interest at the rate of 4.13% per annum, and to mature on September 26, 2058 (herein referred to as the "*4.13% Series due 2058 Bonds*"), and (vi) First Mortgage Bonds, 4.14% Series due September 26, 2059 in an aggregate principal amount of \$50,000,000, to bear interest at the rate of 4.14% per annum, and to mature on

September 26, 2059 (herein referred to as the “4.14% Series due 2059 Bonds”; and together with the 4.09% Series due 2054 Bonds and the 4.13% Series due 2058 Bonds, the “*Second Closing Bonds*”; the First Closing Bonds and the Second Closing Bonds are collectively referred to as the “*Bonds*” and such term includes any such bonds issued in substitution therefor). The Bonds will be issued under and secured by that certain Indenture of Mortgage dated as of January 1, 1941, from the Company (as successor by merger to the Philadelphia Suburban Water Company), as grantor, to The Bank of New York Mellon Trust Company, N.A., as successor trustee (the “*Trustee*”) (the “*Original Indenture*”), and (A) with respect to the First Closing Bonds, as previously amended and supplemented by fifty-four supplemental indentures and as further supplemented by the Fifty-fifth Supplemental Indenture dated as of May 1, 2019 (such Fifty-fifth Supplemental Indenture being referred to herein as the “*55th Supplement*”) which will be substantially in the form attached hereto as Exhibit A, with such changes therein, if any, as shall be approved by the Purchasers and the Company; and (B) with respect to the Second Closing Bonds, as previously amended and supplemented by fifty-five supplemental indentures and as further supplemented by the Fifty-sixth Supplemental Indenture dated as of September 1, 2019 (such Fifty-sixth Supplemental Indenture being referred to herein as the “*56th Supplement*”) which will be substantially in the form attached hereto as Exhibit B, with such changes therein, if any, as shall be approved by the Purchasers and the Company. The 56th Supplement together with the 55th Supplement are each individually referred to herein as a “*Supplement*” and, collectively, the “*Supplements*”). The Original Indenture, as supplemented and amended by the aforementioned fifty-four supplemental indentures and the Supplements, and as further supplemented or amended according to its terms, is hereinafter referred to as the “*Indenture*”. Certain capitalized and other terms used in this Agreement are defined in Schedule B; and references to a “*Schedule*” or an “*Exhibit*” are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement. Terms used herein but not defined herein shall have the meanings set forth in the Indenture.

SECTION 2. SALE AND PURCHASE OF BONDS.

Subject to the terms and conditions of this Agreement, the Company will issue and sell to each Purchaser and each Purchaser will purchase from the Company, at each Closing provided for in Section 3, Bonds in the principal amount and in the series specified opposite such Purchaser’s name in Schedule A at the purchase price of 100% of the principal amount thereof. The Purchasers’ obligations hereunder are several and not joint obligations and no Purchaser shall have any liability to any Person for the performance or non-performance of any obligation by any other Purchaser hereunder.

SECTION 3. CLOSINGS.

The execution and delivery of this Agreement will occur on the First Closing (referred to below) and the sale and purchase of the Bonds to be purchased by each Purchaser shall occur at the offices of Chapman and Cutler LLP, 111 West Monroe Street, Chicago, Illinois 60603, at 10:00 a.m., Chicago time, at two separate closings (each a “*Closing*”), the first of which the Company will issue and sell the First Closing Bonds on May 31, 2019 or on such other Business Day thereafter on or prior to June 15, 2019 as may be agreed upon by the Company and the Purchasers (the “*First Closing*”), and the second of which the Company will issue and sell the Second Closing Bonds on September 26, 2019, or on such other Business Day thereafter on or

prior to October 15, 2019 as may be agreed upon by the Company and the Purchasers (the “*Second Closing*”). At each such Closing the Company will deliver to each Purchaser the Bonds of the series to be purchased by such Purchaser in the form of one or more Bonds of such series to be purchased by such Purchaser, as applicable, in such denominations as such Purchaser may request (with a minimum denomination of \$100,000 for each Bond), dated the date of such Closing and registered in such Purchaser’s name (or in the name of its nominee), against delivery by such Purchaser to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for Account Number: 8559742757, Account Name: Aqua Pennsylvania, Inc., at PNC Bank, N.A., Philadelphia, Pennsylvania, ABA Number 031-000053. If at either Closing the Company shall fail to tender such Bonds to any Purchaser as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to such Purchaser’s satisfaction, such Purchaser shall, at its election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Purchaser may have by reason of such failure by the Company to tender such Bonds or any of the conditions specified in Section 4 not having been fulfilled to such Purchaser’s satisfaction.

SECTION 4. CONDITIONS TO CLOSING.

Each Purchaser’s obligation to execute and deliver this Agreement and to purchase and pay for the Bonds to be sold to such Purchaser at the applicable Closing is subject to the fulfillment to such Purchaser’s satisfaction prior to or at such Closing of the following conditions:

Section 4.1. Representations and Warranties. The representations and warranties of the Company in this Agreement shall be correct when made and at the time of such Closing.

Section 4.2. Performance; No Default. The Company shall have performed and complied with all agreements and conditions contained in each Financing Agreement required to be performed or complied with by the Company prior to or at such Closing, and after giving effect to the issue and sale of the Bonds (and the application of the proceeds thereof as contemplated by Section 5.14), no Default or Event of Default shall have occurred and be continuing.

Section 4.3. Compliance Certificates. The Company shall have performed and complied with all agreements and conditions contained in the Indenture which are required to be performed or complied with by the Company for the issuance of the Bonds at such Closing. In addition, the Company shall have delivered the following certificates:

(a) *Officer’s Certificate.* The Company shall have delivered to such Purchaser (i) an Officer’s Certificate, dated the date of such Closing, certifying that the conditions specified in Section 4 of this Agreement have been fulfilled, and (ii) copies of all certificates and opinions required to be delivered to the Trustee under the Indenture in connection with the issuance of the Bonds, in each case, dated the date of such Closing.

(b) *Secretary’s Certificate.* The Company shall have delivered to such Purchaser a certificate of its Secretary or Assistant Secretary, dated the date of such Closing, certifying as to the resolutions attached thereto and other corporate proceedings

relating to the authorization, execution and delivery of this Agreement, the Bonds, under the Indenture, and the Supplements.

(c) *Certification of Indenture.* Such Purchaser shall have received a composite copy of the Indenture (together with all amendments and supplements thereto), certified by the Company as of the date of such Closing, exclusive of property exhibits, recording information and the like.

Section 4.4. Opinions of Counsel. Such Purchaser shall have received opinions in form and substance satisfactory to such Purchaser, dated the date of such Closing (a) from Christopher P. Luning, counsel for the Company, covering the matters set forth in Exhibit 4.4(a) and covering such other matters incident to the transactions contemplated hereby as such Purchaser or its counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Purchasers) and (b) from Dilworth Paxson, LLP, special counsel to the Company, covering the matters set forth in Exhibit 4.4(b) and covering such other matters incident to the transactions contemplated hereby as such Purchaser or such Purchaser's counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Purchasers), and (c) from Chapman and Cutler LLP, the Purchasers' special counsel in connection with such transactions, substantially in the form set forth in Exhibit 4.4(c) and covering such other matters incident to such transactions as such Purchaser may reasonably request. The Company hereby directs its counsel to deliver the opinions required by this Section 4.4 and understands and agrees that each Purchaser will and hereby is authorized to rely on such opinions.

Section 4.5. Purchase Permitted by Applicable Law, Etc. On the date of such Closing such Purchaser's purchase of Bonds shall (a) be permitted by the laws and regulations of each jurisdiction to which such Purchaser is subject, without recourse to provisions (such as section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (b) not violate any applicable law or regulation (including, without limitation, Regulation T, U, or X of the Board of Governors of the Federal Reserve System) and (c) not subject such Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date of either Closing. If requested by such Purchaser, such Purchaser shall have received an Officer's Certificate certifying as to such matters of fact as such Purchaser may reasonably specify to enable such Purchaser to determine whether such purchase is so permitted.

Section 4.6. Sale of Bonds. Contemporaneously with such Closing, the Company shall sell to each Purchaser and each Purchaser shall purchase the Bonds of the series to be purchased by it at such Closing as specified in Schedule A. In the case of the Second Closing, the entire aggregate principal amount of the First Closing Bonds scheduled to be issued on the First Closing shall have been consummated in accordance with the terms hereof.

Section 4.7. Payment of Special Counsel Fees. Without limiting the provisions of Section 12.2, the Company shall have paid on or before each such Closing the reasonable fees, reasonable charges and reasonable disbursements of the Purchasers' special counsel referred to in Section 4.4(c) to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing.

Section 4.8. Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the SVO) shall have been obtained for each series of Bonds issued at such Closing.

Section 4.9. Changes in Corporate Structure. The Company shall not have changed its jurisdiction of incorporation or organization, as applicable, or been a party to any merger or consolidation or succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in Schedule 5.5.

Section 4.10. Funding Instructions. At least three Business Days prior to the date of such Closing, such Purchaser shall have received written instructions signed by a Responsible Officer on letterhead of the Company confirming the information specified in Section 3 including (a) the name and address of the transferee bank, (b) such transferee bank's ABA number (c) the account name and number into which the purchase price for the Bonds is to be deposited, and (d) the name and telephone number and/or email address for an appropriate contact person at such transferee bank.

Section 4.11. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be reasonably satisfactory to such Purchaser and its special counsel, and such Purchaser and its special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Purchaser or such special counsel may reasonably request.

Section 4.12. Execution and Delivery and Filing and Recording of the Supplements. (a) Prior to or at the First Closing, the 55th Supplement shall have been duly executed and delivered by the Company, and the Company shall have filed, or delivered for recordation, the 55th Supplement in all locations in Pennsylvania (and financing statements in respect thereof shall have been filed, if necessary) in such manner and in such places as is required by law (and no other instruments are required to be filed) to establish, preserve, perfect and protect the direct security interest and mortgage Lien of the Trust Estate created by the Indenture on all mortgaged and pledged property of the Company referred to in the Indenture as subject to the direct mortgage Lien thereof and the Company shall have delivered satisfactory evidence of such filings, recording or delivery for recording.

(b) Prior to or at the Second Closing, the 56th Supplement shall have been duly executed and delivered by the Company, and the Company shall have filed, or delivered for recordation, the 56th Supplement in all locations in Pennsylvania (and financing statements in respect thereof shall have been filed, if necessary) in such manner and in such places as is required by law (and no other instruments are required to be filed) to establish, preserve, perfect and protect the direct security interest and mortgage Lien of the Trust Estate created by the Indenture on all mortgaged and pledged property of the Company referred to in the Indenture as subject to the direct mortgage Lien thereof and the Company shall have delivered satisfactory evidence of such filings, recording or delivery for recording.

Section 4.13. Regulatory Approvals. (a) Prior to the First Closing, the issue and sale of the First Closing Bonds shall have been duly authorized by an order of the Pennsylvania Public Utility Commission and such order shall be in full force and effect on the date of the First Closing and all appeal periods, if any, applicable to such order shall have expired. The Company shall deliver satisfactory evidence that orders have been obtained approving the issuance of the First Closing Bonds from the Pennsylvania Public Utility Commission or that the Pennsylvania Public Utility Commission shall have waived jurisdiction thereof and such approval or waiver shall not be contested or subject to review, or that the Pennsylvania Public Utility Commission does not have jurisdiction.

(b) Prior to the Second Closing, the issue and sale of the Second Closing Bonds shall have been duly authorized by an order of the Pennsylvania Public Utility Commission and such order shall be in full force and effect on the date of the Second Closing and all appeal periods, if any, applicable to such order shall have expired. The Company shall deliver satisfactory evidence that orders have been obtained approving the issuance of the Second Closing Bonds from the Pennsylvania Public Utility Commission or that the Pennsylvania Public Utility Commission shall have waived jurisdiction thereof and such approval or waiver shall not be contested or subject to review, or that the Pennsylvania Public Utility Commission does not have jurisdiction.

SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to each Purchaser at each Closing that:

Section 5.1. Organization; Power and Authority. The Company is a corporation duly organized, validly existing and subsisting under the laws of the Commonwealth of Pennsylvania, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement, the Bonds and the Supplements (and had the corporate power and authority to execute and deliver the Indenture at the time of execution and delivery thereof) and to perform the provisions of the Financing Agreements.

Section 5.2. Authorization, Etc. At such Closing, each Financing Agreement has been duly authorized by all necessary corporate action on the part of the Company, and each Financing Agreement (other than the Supplements and the Bonds) constitutes, and when each Supplement is executed and delivered by the Company and the Trustee and when the Bonds are executed, issued and delivered by the Company, authenticated by the Trustee and paid for by the Purchasers, such Supplement and each Bond will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its respective terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure. This Agreement and the documents, certificates or other writings delivered to the Purchasers by or on behalf of the Company in connection with the transactions contemplated hereby, including the Offering Memorandum (including the documents incorporated therein by reference) dated May 2019, and the financial statements listed in Schedule 5.5 (collectively, the “*Disclosure Documents*”), taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Since March 31, 2019, there has been no change in the financial condition, operations, business or properties of the Company or any of its Subsidiaries except changes that individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect. There is no fact known to management of the Company that, in the reasonable judgment of management of the Company, could be expected to have a Material Adverse Effect that has not been set forth herein or in the other documents, certificates and other writings delivered to the Purchaser by the Company specifically for use in connection with the transactions contemplated hereby.

Section 5.4. Organization and Ownership of Shares of Subsidiaries. (a) Schedule 5.4 contains a complete and correct list of the Company’s Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien.

(c) Each Subsidiary identified in Schedule 5.4 is duly incorporated and is validly subsisting as a corporation under the laws of the Commonwealth of Pennsylvania, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

Section 5.5. Financial Statements; Material Liabilities. The Company has delivered to each Purchaser copies of the financial statements of the Company and its Subsidiaries listed on Schedule 5.5. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates specified in such financial statements and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments). The Company does not have any Material liabilities that are not disclosed on such financial statements or otherwise disclosed in the Disclosure Documents.

Section 5.6. Compliance with Laws, Other Instruments, Etc. The execution, delivery and performance by the Company of each Financing Agreement (including the prior execution and delivery of the Indenture), will not (a) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien, other than the Lien created under the Indenture, in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter, regulations or by-laws, or any other Material agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (b) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (c) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary, except for any such default, breach, contravention or violation which would not reasonably be expected to have a Material Adverse Effect.

Section 5.7. Governmental Authorizations, Etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement, the Bonds, and the Supplements, other than approval of the Pennsylvania Public Utility Commission, which has been obtained with respect to the First Closing, the 55th Supplement and the First Closing Bonds and is in full force and effect and final and is non-appealable and, with respect to the Second Closing the 56th Supplement and the Second Closing, will be obtained prior to the Second Closing and at the time of the Second Closing will be in full force and effect and final and is non-appealable.

Section 5.8. Litigation; Observance of Statutes and Orders. (a) There are no actions, suits, investigations or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is (i) in default under any term of any agreement or instrument to which it is a party or by which it is bound, (ii) in violation of any order, judgment, decree or ruling of any court, any arbitrator of any kind or any Governmental Authority naming or referring to the Company or any Subsidiary or (iii) in violation of any applicable law, or, to the knowledge of the Company, any ordinance, rule or regulation of any Governmental Authority (including, without limitation, Environmental Laws the USA Patriot Act or any of the other laws and regulations that are referred to in Section 5.16), which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

Section 5.9. Taxes. The Company and its Subsidiaries have filed all income tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments payable by them, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (i) the amount of which is not individually or in the aggregate

Material or (ii) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The charges, accruals, and reserves on the books of the Company and its Subsidiaries in respect of federal, state or other taxes for all fiscal periods are adequate. The Federal income tax liabilities of the Company and its Subsidiaries have been finally determined (whether by reason of completed audits or the statute of limitations having run) for all fiscal years up to and including the fiscal year ended December 31, 2011 and all amounts owing in respect of such audit have been paid.

Section 5.10. Title to Property; Leases. The Company and its Subsidiaries have good and sufficient title to their respective Material properties, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement or the Indenture, except for those defects in title and Liens that, individually or in the aggregate, would not have a Material Adverse Effect. All Material leases are valid and subsisting and are in full force and effect in all material respects.

Section 5.11. Licenses, Permits, Etc. The Company and its Subsidiaries own or possess all licenses, permits, franchises, certificates of convenience and necessity, authorizations, patents, copyrights, proprietary software, service marks, trademarks and trade names, or rights thereto, that are Material, without known conflict with the rights of others, except for those conflicts that, individually or in the aggregate, would not have a Material Adverse Effect.

Section 5.12. Compliance with Employee Benefit Plans. (a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in section 3 of ERISA), and no event, transaction or condition has occurred or exists that would reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to section 401(a)(29) or 412 of the Code or section 4068 of ERISA, other than such liabilities or Liens as would not be individually or in the aggregate Material.

(b) The present value of the aggregate benefit liabilities under each of the Plans subject to section 412 of the Code (other than Multiemployer Plans), determined as of January 1, 2019 based on such Plan's actuarial assumptions as of that date for funding purposes as documented in such Plan's actuarial valuation reports dated September 2018 did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities by more than \$5,000,000 in the case of any single Plan and by more than \$5,000,000 in the aggregate for all Plans. The term "*benefit liabilities*" has the meaning specified in section 4001 of ERISA and the terms "*current value*" and "*present value*" have the meaning specified in section 3 of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected postretirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 715-60, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(e) The execution and delivery of this Agreement and the issuance and sale of the Bonds hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section 4975(c)(1)(A)-(D) of the Code. The representation by the Company to each Purchaser in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of such Purchaser's representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Bonds to be purchased by such Purchaser.

(f) The Company and its Subsidiaries do not have any Non-U.S. Plans.

Section 5.13. Private Offering by the Company. Neither the Company nor anyone acting on the Company's behalf has offered the Bonds or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than the Purchasers and not more than twenty-five (25) other Institutional Investors, each of which has been offered the Bonds in connection with a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Bonds to the registration requirements of Section 5 of the Securities Act.

Section 5.14. Use of Proceeds; Margin Regulations. The Company will apply the proceeds of the sale of the Bonds to repay existing indebtedness and for general corporate purposes and in compliance with all laws referenced in Section 5.16. No part of the proceeds from the sale of the Bonds hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Margin stock does not constitute more than 2% of the value of the consolidated assets of the Company and its Subsidiaries and the Company does not have any present intention that margin stock will constitute more than 2% of the value of such assets. As used in this Section, the terms "*margin stock*" and "*purpose of buying or carrying*" shall have the meanings assigned to them in said Regulation U.

Section 5.15. Existing Debt. Except as described therein, Schedule 5.15(a) sets forth a complete and correct list of all outstanding Debt of the Company and its Subsidiaries as of March 31, 2019, since which date except as described therein there has been no Material change in the

amounts, interest rates, sinking funds, installment payments or maturities of the Debt of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Debt of the Company or any Subsidiary and no event or condition exists with respect to any Debt of the Company or any Subsidiary, the outstanding principal amount of which exceeds \$5,000,000 that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Debt to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Without limiting the representation in Section 5.6, the Company is not a party to, or otherwise subject to any provision contained in, any instrument evidencing Debt of the Company or any Subsidiary, any agreement relating thereto or any other agreement (including, but not limited to, its charter or other organizational document) which limits the amount of, or otherwise imposes restrictions on the incurring of, Debt evidenced by the Bonds, except as specifically indicated in Schedule 5.15(b).

Section 5.16. Foreign Assets Control Regulations, Etc. (a) Neither the Company nor any Controlled Entity (i) is a Blocked Person, (ii) has been notified that its name appears or may in the future appear on a State Sanctions List or (iii) is a target of sanctions that have been imposed by the United Nations or the European Union.

(b) Neither the Company nor any Controlled Entity (i) has violated, been found in violation of, or been charged or convicted under, any applicable U.S. Economic Sanctions Laws, Anti-Money Laundering Laws or Anti-Corruption Laws or (ii) to the Company's knowledge, is under investigation by any Governmental Authority for possible violation of any U.S. Economic Sanctions Laws, Anti-Money Laundering Laws or Anti-Corruption Laws.

(c) No part of the proceeds from the sale of the Bonds hereunder:

(i) constitutes or will constitute funds obtained on behalf of any Blocked Person or will otherwise be used by the Company or any Controlled Entity, directly or indirectly, (A) in connection with any investment in, or any transactions or dealings with, any Blocked Person, (B) for any purpose that would cause any Purchaser to be in violation of any U.S. Economic Sanctions Laws, or (C) otherwise in violation of any U.S. Economic Sanctions Laws;

(ii) will be used, directly or indirectly, in violation of, or cause any Purchaser to be in violation of, any applicable Anti-Money Laundering Laws; or

(iii) will be used, directly or indirectly, for the purpose of making any improper payments, including bribes, to any Governmental Official or commercial counterparty in order to obtain, retain or direct business or obtain any improper advantage, in each case which would be in violation of, or cause any Purchaser to be in violation of, any applicable Anti-Corruption Laws.

(d) The Company has established procedures and controls which it reasonably believes are adequate (and otherwise comply with applicable law) to ensure that the Company and each Controlled Entity is and will continue to be in compliance with all applicable U.S. Economic Sanctions Laws, Anti-Money Laundering Laws and Anti-Corruption Laws.

Section 5.17. Status under Certain Statutes. Neither the Company nor any Subsidiary is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 2005, as amended, the ICC Termination Act of 1995, as amended, or subject to rate regulation under the Federal Power Act, as amended.

Section 5.18. Environmental Matters. Neither the Company nor any Subsidiary has knowledge of any claim or has received any notice of any claim, and no proceeding has been instituted of which it has received notice, raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them, or other assets, alleging damage to the environment or any violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed to the Purchasers in writing:

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

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

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

Section 5.19. Lien of Indenture. The Indenture (and for avoidance of doubt including the 55th Supplement on the date hereof and the 56th Supplement on the date of the Second Closing) constitutes or will constitute a direct and valid Lien upon the Trust Estate, subject only to the exceptions referred to in the Indenture and Permitted Liens, and will create a similar Lien upon all properties and assets acquired by the Company after the date hereof which are required to be subjected to the Lien of the Indenture, when acquired by the Company, subject only to the exceptions referred to in the Indenture and Permitted Liens, and subject, further, as to real property interests, to the recordation of any supplement to the Indenture describing such after-acquired property; the descriptions of all such properties and assets contained in the granting clauses of the Indenture are correct and adequate for the purposes of the Indenture; the Indenture has been duly

recorded as a mortgage and deed of trust of real estate, and any required filings with respect to personal property and fixtures subject to the Lien of the Indenture have been duly made in each place in which such recording or filing is required to protect, preserve and perfect the Lien of the Indenture; and all taxes and recording and filing fees required to be paid with respect to the execution, recording or filing of the Indenture, the filing of financing statements related thereto and similar documents and the issuance of the Bonds have been paid.

Section 5.20. Filings. No action, including any filings, registration or notice, is necessary or advisable in Pennsylvania or any other jurisdictions to ensure the legality, validity and enforceability of the Financing Agreements, except such action as has been previously taken, which action remains in full force and effect. No action, including any filing, registration or notice, is necessary or advisable in Pennsylvania or any other jurisdiction to establish or protect for the benefit of the Trustee and the holders of Bonds, the security interest and Liens purported to be created under the Indenture and the priority and perfection thereof and the other Financing Agreements, except such action as has been previously taken, which action remains in full force and effect.

SECTION 6. REPRESENTATIONS OF THE PURCHASERS.

Section 6.1. Purchase for Investment. Each Purchaser severally represents that it is purchasing the Bonds for its own account or for one or more separate accounts maintained by such Purchaser or for the account of one or more pension or trust funds and not with a view to the distribution thereof, provided that the disposition of such Purchaser's or their property shall at all times be within such Purchaser's or their control. Each Purchaser understands that the Bonds have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Bonds.

Section 6.2. Source of Funds. Each Purchaser severally represents that at least one of the following statements is an accurate representation as to each source of funds (a "Source") to be used by such Purchaser to pay the purchase price of the Bonds to be purchased by such Purchaser hereunder:

- (a) the Source is an "insurance company general account" (as the term is defined in the United States Department of Labor's Prohibited Transaction Exemption ("PTE") 95-60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the NAIC (the "NAIC Annual Statement")) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Purchaser's state of domicile; or

(b) the Source is a separate account that is maintained solely in connection with such Purchaser's fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(c) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 and, except as disclosed by such Purchaser to the Company in writing pursuant to this clause (c), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(d) the Source constitutes assets of an "investment fund" (within the meaning of Part VI of PTE 84-14 (the "*QPAM Exemption*")) managed by a "*qualified professional asset manager*" or "*QPAM*" (within the meaning of Part VI of the QPAM Exemption), no employee benefit plan's assets that are managed by the QPAM in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Part VI(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, represent more than 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM maintains an ownership interest in the Company that would cause the QPAM and the Company to be "*related*" within the meaning of Part VI(h) of the QPAM Exemption and (i) the identity of such QPAM and (ii) the names of any employee benefit plans whose assets in the investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Part VI(c)(1) of the QPAM Exemption) of such employer or by the same employee organization, represent 10% or more of the assets of such investment fund, have been disclosed to the Company in writing pursuant to this clause (d); or

(e) the Source constitutes assets of a "*plan(s)*" (within the meaning of Part IV(h) of PTE 96-23 (the "*INHAM Exemption*")) managed by an "in-house asset manager" or "*INHAM*" (within the meaning of Part IV(a) of the INHAM Exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a person controlling or controlled by the INHAM (applying the definition of "*control*" in Part IV(d)(3) of the INHAM Exemption) owns a 10% or more interest in the Company and (i) the identity of such INHAM and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (e); or

(f) the Source is a governmental plan; or

(g) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (g); or

(h) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this Section 6.2, the terms “*employee benefit plan*,” “*governmental plan*,” and “*separate account*” shall have the respective meanings assigned to such terms in section 3 of ERISA.

SECTION 7. INFORMATION AS TO COMPANY.

Section 7.1. Financial and Business Information. The Company shall deliver to each Purchaser and each holder of Bonds that is an Institutional Investor:

(a) *Quarterly Statements* — within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of income, changes in shareholders’ equity and cash flows of the Company and its Subsidiaries, for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments, *provided* that the delivery within the time period specified above of the Company’s said financial statements, prepared in accordance with the requirements therefor and filed with the Municipal Securities Rulemaking Board on the Electronic Municipal Market Access (“EMMA”) database shall be deemed to satisfy the requirements of this Section 7.1(a);

(b) *Annual Statements* — within 120 days after the end of each fiscal year of the Company, duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by an opinion thereon (without a "going concern" or similar qualification or exception and without any qualification or exception as to the scope of the audit on which such opinion is based) of independent public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, *provided* that the delivery within the time period specified above of the Company's said financial statements, prepared in accordance with the requirements therefor and containing the above-described audit opinion and filed with the Municipal Securities Rulemaking Board on the EMMA database shall be deemed to satisfy the requirements of this Section 7.1(b);

(c) *SEC and Other Reports* — promptly upon their becoming available, one copy of (i) each financial statement, report, notice, or proxy statement sent by the Company or any Subsidiary to its public securities holders generally, and (ii) each regular or periodic report, each registration statement that shall have become effective (without exhibits except as expressly requested by such holder), and each final prospectus and all amendments thereto filed by the Company or any Subsidiary with the SEC, *provided* that the delivery within the time period specified above of the Company's said financial statements, prepared in accordance with the requirements therefor and filed with the Municipal Securities Rulemaking Board on the EMMA database shall be deemed to satisfy the requirements of this Section 7.1(c);

(d) *Notice of Default or Event of Default* — promptly, and in any event within five days after a Responsible Officer becomes aware of the existence of any Default or Event of Default, a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) *Employee Benefits Matters* — promptly, and in any event within five days after a Responsible Officer becomes aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan (other than any Multiemployer Plan) that is subject to Title IV of ERISA, any reportable event, as defined in section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof and on the date of the Second Closing; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any such Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, would reasonably be expected to have a Material Adverse Effect;

(f) *Notices from Governmental Authority* — promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary from any federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect;

(g) *Requested Information* — with reasonable promptness, following the receipt by the Company of a written request by such holder of Bonds, the names and contact information of holders of the outstanding bonds issued under the Indenture (i.e. the bonds in which the Company or a trustee is required to keep in a register and that are not publicly traded) of which the Company has knowledge and the principal amount of the outstanding bonds issued under the Indenture owed to each holder (unless disclosure of such names, contact information or holdings is prohibited by law), and such data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations under any Financing Agreement as from time to time may be reasonably requested by any such holder of Bonds; and

(h) *Deliveries to Trustee* — promptly, and in any event within five days after delivery to the Trustee, a copy of any deliveries made by the Company to the Trustee, including without limitation the annual report delivered to the Trustee pursuant to Article VIII, Section 12 of the Indenture.

Section 7.2 Officer's Certificate. Each set of financial statements delivered to a holder of Bonds pursuant to Section 7.1(a) or Section 7.1(b) shall be accompanied by a certificate of a Senior Financial Officer (which, in the case of financial statements filed with the Municipal Securities Rulemaking Board on the EMMA database, shall be by separate concurrent delivery of such certificate to each holder of Bonds) setting forth a statement that such Senior Financial Officer has reviewed the relevant terms hereof and of the Indenture and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then

being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

Section 7.3. Visitation. The Company shall permit the representatives of each Purchaser and each holder of Bonds that is an Institutional Investor:

(a) *No Default* — if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and, with the consent of the Company (which consent will not be unreasonably withheld), to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times during normal business hours and as often as may be reasonably requested in writing; and

(b) *Default* — if a Default or Event of Default then exists, at the expense of the Company to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such reasonable times and as often as may be requested.

SECTION 8. PURCHASE OF BONDS

The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Bonds except (a) upon the payment or prepayment of the Bonds in accordance with the terms of this Agreement and the Bonds or (b) pursuant to a written offer to purchase any outstanding Bonds made by the Company or an Affiliate *pro rata* to the holders of the Bonds upon the same terms and conditions. Any such offer shall provide each holder with sufficient information to enable it to make an informed decision with respect to such offer, and shall remain open for at least 15 Business Days. If the holders of more than 10% of the principal amount of the Bonds then outstanding accept such offer, the Company shall promptly notify the remaining holders of such fact and the expiration date for the acceptance by holders of Bonds of such offer shall be extended by the number of days necessary to give each such remaining holder at least 10 Business Days from its receipt of such notice to accept such offer. The Company will promptly cancel all Bonds acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Bonds pursuant to any provision of this Agreement and no Bonds may be issued in substitution or exchange for any such Bonds.

SECTION 9. AFFIRMATIVE COVENANTS.

The Company covenants that from the date of this Agreement and thereafter, so long as any of the Bonds are outstanding:

Section 9.1. Compliance with Law. Without limiting Section 10.4, the Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, ERISA, Environmental Laws, the USA Patriot Act and the other laws and regulations that are referred to in Section 5.16, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.2. Insurance. The Company will cause each of its Subsidiaries to maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

Section 9.3. Maintenance of Properties. The Company will cause each of its Subsidiaries to maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, *provided* that this Section 9.3 shall not prevent any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company and such Subsidiary have concluded that such discontinuance would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.4. Payment of Taxes. The Company will cause each of its Subsidiaries to file all income tax or similar tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies payable by any of them, to the extent the same have become due and payable and before they have become delinquent, provided that any Subsidiary does not need to pay any such tax, assessment, charge or levy if (a) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of such Subsidiary or (b) the nonpayment of all such taxes, assessments, charges and levies in the aggregate would not reasonably be expected to have a Material Adverse Effect.

Section 9.5. Corporate Existence, Etc. The Company will at all times preserve and keep in full force and effect the corporate existence of each of its Subsidiaries (unless merged into the Company or a wholly-owned Subsidiary) and all rights and franchises of its Subsidiaries unless, in the good faith judgment of the Company or such Subsidiary, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise would not, individually or in the aggregate, have a Material Adverse Effect.

Section 9.6. Books and Records. The Company will, and will cause each of its Subsidiaries to, maintain proper books of record and account in conformity with GAAP and all applicable requirements of any Governmental Authority having legal or regulatory jurisdiction over the Company or such Subsidiary.

SECTION 10. NEGATIVE COVENANTS.

The Company covenants that from the date of this Agreement and thereafter, so long as any of the Bonds are outstanding:

Section 10.1. Transactions with Affiliates. The Company will not and will not permit any Subsidiary to enter into directly or indirectly any Material transaction or Material group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or another Subsidiary), except pursuant to the reasonable requirements of the Company's or such Subsidiary's business.

Section 10.2. Merger, Consolidation, Etc. The Company will not consolidate with or merge with any other Person or convey, transfer or lease all or substantially all of its assets in a single transaction or series of transactions to any Person unless:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease all or substantially all of the assets of the Company as an entirety, as the case may be, shall be a solvent corporation or limited liability company organized and existing under the laws of the United States or any State thereof (including the District of Columbia), and, if the Company is not such corporation or limited liability company, such corporation or limited liability company shall have executed and delivered to each holder of any Bonds its assumption of the due and punctual performance and observance of each covenant and condition of the Financing Agreements (pursuant to such agreements and instruments as shall be reasonably satisfactory to the Required Holders), and the Company shall have caused to be delivered to each holder of Bonds an opinion of nationally recognized independent counsel, to the effect that all agreements or instruments effecting such assumption are enforceable in accordance with their terms and comply with the terms hereof; and

(b) immediately before and immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing.

No such conveyance, transfer or lease of substantially all of the assets of the Company shall have the effect of releasing the Company or any successor corporation or limited liability company that shall theretofore have become such in the manner prescribed in this Section 10.2 from its liability under the Financing Agreements.

Section 10.3. Line of Business. The Company will not engage in any business if, as a result, the general nature of the business in which the Company and its Subsidiaries, taken as a whole, would then be engaged would be substantially changed from the general nature of the business in which the Company and its Subsidiaries, taken as whole, is engaged on the date of this Agreement.

Section 10.4. Economic Sanctions, Etc.. The Company will not, and will not permit any Controlled Entity to (a) become (including by virtue of being owned or controlled by a Blocked Person), own or control a Blocked Person or (b) directly or indirectly have any investment in or engage in any dealing or transaction (including any investment, dealing or transaction involving the proceeds of the Bonds) with any Person if such investment, dealing or transaction (i) would cause any Purchaser or holder or any affiliate of such holder to be in violation of, or subject to sanctions under, any law or regulation applicable to such holder, or (ii) is prohibited by or subject to sanctions under any U.S. Economic Sanctions Laws.

SECTION 11. PAYMENTS ON BONDS.

Section 11.1. Payment by Wire Transfer . So long as any Purchaser or its nominee shall be the holder of any Bond, and notwithstanding anything contained in the Indenture or in such Bond to the contrary, the Company will pay, or cause to be paid by a paying agent, a trustee or other similar party, all sums becoming due on such Bond for principal, Make-Whole Amount or premium, if any, and interest by the method and at the address specified for such purpose below such Purchaser's name in Schedule A, or by such other method or at such other address as such Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Bond or the making of any notation thereon, except that upon written request of the Company or any paying agent made concurrently with or reasonably promptly after payment or prepayment in full of any Bond, such Purchaser shall surrender such Bond for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Article II of the Indenture. Prior to any sale or other disposition of any Bond held by a Purchaser or its nominee, such Purchaser will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Bond to the Company in exchange for a new Bond or Bonds pursuant to Article II of the Indenture. The Company will afford the benefits of this Section 11.1 to any Institutional Investor that is the direct or indirect transferee of any Bond purchased by a Purchaser under this Agreement and that has made the same agreement relating to such Bond as the Purchasers have made in this Section 11.1.

SECTION 12. REGISTRATION; EXCHANGE; EXPENSES, ETC.

Section 12.1. Registration of Bonds. The Company shall cause the Trustee to keep a register for the registration and registration of transfers of Bonds in accordance with Article XIII, Section 9 of the Indenture.

Section 12.2. Transaction Expenses. Whether or not the transactions contemplated hereby are consummated, the Company will pay all reasonable costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required by the Required Holders, local or other counsel) incurred by the Purchasers and each other holder of a Bond in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of any Financing Agreement (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under any Financing Agreement or in responding to any subpoena or other legal process or informal investigative demand issued in connection with any Financing Agreement, or by reason of being a Purchaser or holder of any Bond, (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated by any Financing Agreement and (c) the costs and expenses incurred in connection with the initial filing of any Financing Agreement and all related documents and financial information with the SVO, provided that such costs and expenses under this clause (c) shall not exceed \$6,000 for the Bonds. The Company will pay, and will save each Purchaser and each other holder of a Bond harmless from, all claims in respect of any fees, costs or expenses if any, of brokers and finders (other than those, if any, retained by a Purchaser or other holder in connection with its purchase of the Bonds).

Section 12.3. Survival. The obligations of the Company under this Section 12 will survive the payment or transfer of any Bond, the enforcement, amendment or waiver of any provision of any Financing Agreement, and the termination of any Financing Agreement.

Section 12.4. Tax Withholding. Except as otherwise required by applicable law, the Company agrees that it will not withhold from any applicable payment to be made to a holder of a Bond that is not a United States Person any tax so long as such holder shall have delivered to the Company (in such number of copies as shall be requested) on or about the date on which such holder becomes a holder under this Agreement (and from time to time thereafter upon the reasonable request of the Company), executed copies of IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable, as well as the applicable "U.S. Tax Compliance Certificate" substantially in the form attached as Exhibit 12.4, in both cases correctly completed and executed.

SECTION 13. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement, the purchase or transfer by any Purchaser of any Bond or portion thereof or interest therein and the payment of any Bond, and may be relied upon by any subsequent holder of a Bond, regardless of any investigation made at any time by or on behalf of such Purchaser or any other holder of a Bond. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, the Financing Agreements embody the entire agreement and understanding between each Purchaser and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

SECTION 14. AMENDMENT AND WAIVER.

Section 14.1. Requirements. This Agreement and the Bonds may be amended, and the observance of any term hereof or of the Bonds may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (i) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5, 6, or 19 hereof, or any defined term, will be effective as to any holder of Bonds unless consented to by such holder of Bonds in writing, and (ii) no such amendment or waiver may, without the written consent of all of the holders of Bonds at the time outstanding affected thereby, (A) subject to the provisions of the Indenture relating to acceleration, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest (if such change results in a decrease in the interest rate) or of the Make-Whole Amount on, the Bonds, (B) change the percentage of the principal amount of the Bonds the holders of which are required to consent to any such amendment or waiver, or (C) amend any of Sections 8, 14, or 18.

Section 14.2. Solicitation of Holders of Bonds.

(a) *Solicitation.* The Company will provide each Purchaser and each holder of Bonds (irrespective of the amount of Bonds then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such Purchaser and such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Bonds. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 14 to each Purchaser and each holder of outstanding Bonds promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite Purchasers or holders of Bonds.

(b) *Payment.* The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise (other than legal fees or other related expenses), or grant any security or provide other credit support, to any Purchaser or holder of Bonds as consideration for or as an inducement to the entering into by any Purchaser or holder of Bonds of any waiver or amendment of any of the terms and provisions hereof or of the Bonds unless such remuneration is concurrently paid, or security is concurrently granted or other credit support concurrently provided, on the same terms, ratably to each Purchaser and holder of Bonds then outstanding even if such Purchaser or such holder did not consent to such waiver or amendment.

(c) *Consent in Contemplation of Transfer.* Any consent made pursuant to this Section 14 by a holder of Bonds that has transferred or has agreed to transfer its Bonds to (i) the Company,

(ii) any Subsidiary or any other Affiliate, or (iii) any other Person in connection with, or in anticipation of, such other Person acquiring, making a tender offer for or merging with the Company and/or any of its Affiliates, and has provided or has agreed to provide such written consent as a condition to such transfer shall be void and of no force or effect except solely as to such holder, and any amendments effected or waivers granted or to be effected or granted that would not have been or would not be so effected or granted but for such consent (and the consents of all other holders of Bonds that were acquired under the same or similar conditions) shall be void and of no force or effect except solely as to such holder.

Section 14.3. Binding Effect, Etc. Any amendment or waiver consented to as provided in this Section 14 applies equally to all Purchasers and holders of Bonds and is binding upon them and upon each future holder of any Bond and upon the Company without regard to whether such Bond has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and any Purchaser or holder of any Bond nor any delay in exercising any rights hereunder or under any Bond shall operate as a waiver of any rights of any Purchaser or holder of such Bond.

Section 14.4. Bonds Held by Company, Etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Bonds then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Bonds, or have directed the taking of any action provided herein or in the Bonds to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Bonds then outstanding, Bonds directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

SECTION 15. NOTICES.

All notices and communications provided for hereunder shall be in writing and sent (a) by telecopy if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to any Purchaser or its nominee, to such Purchaser or nominee at the address specified for such communications in Schedule A, or at such other address as such Purchaser or nominee shall have specified to the Company in writing,

(ii) if to any other holder of any Bond, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010-3489, or at such other address as the Company shall have specified to the holder of each Bond in writing.

Notices under this Section 15 will be deemed given only when actually received.

SECTION 16. INDEMNIFICATION.

The Company hereby agrees to indemnify and hold the Purchasers harmless from, against and in respect of any and all loss, liability and expense (including reasonable attorneys' fees) arising from any misrepresentation or nonfulfillment of any undertaking on the part of the Company under this Agreement. The indemnification obligations of the Company under this Section 16 shall survive the execution and delivery of this Agreement, the delivery of the Bonds to the Purchasers and the consummation of the transactions contemplated herein.

SECTION 17. REPRODUCTION OF DOCUMENTS.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by any Purchaser at either Closing (except the Bonds themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to any Purchaser, may be reproduced by such Purchaser by any photographic, photostatic, electronic, digital, or other similar process and such Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Purchaser in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 17 shall not prohibit the Company or any other holder of Bonds from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

SECTION 18. CONFIDENTIAL INFORMATION.

For the purposes of this Section 18, "*Confidential Information*" means information delivered to any Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Purchaser as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any person acting on such Purchaser's behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Purchaser under Section 7.1 of this Agreement or under the Indenture that are otherwise publicly available. Each Purchaser will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser, provided that such Purchaser may deliver or disclose Confidential Information to (i) its directors, trustees, officers, employees, agents, attorneys and

affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by Bonds), (ii) its financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 18, (iii) the Trustee or any other holder of any Bond, (iv) any Institutional Investor to which it sells or offers to sell such Bond or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 18), (v) any Person from which it offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 18), (vi) any federal or state or provincial regulatory authority having jurisdiction over such Purchaser, (vii) the NAIC or the SVO or, in each case, any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser's investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Purchaser is a party, or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under any Financing Agreement. Each holder of a Bond, by its acceptance of a Bond, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 18 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Bond of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this Section 18.

In the event that as a condition to receiving access to information relating to the Company or its Subsidiaries in connection with the transactions contemplated by or otherwise pursuant to this Agreement, any Purchaser or holder of a Bond is required to agree to a confidentiality undertaking (whether through EMMA, another secure website, a secure virtual workspace or otherwise) which is different from this Section 18, this Section 18 shall not be amended thereby and, as between such Purchaser or such holder and the Company, this Section 18 shall supersede any such other confidentiality undertaking.

SECTION 19. MISCELLANEOUS.

Section 19.1. Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Bond) whether so expressed or not, except that, subject to Section 10.2, the Company may not assign or otherwise transfer any of its rights or obligations hereunder or under the Bonds without the prior written consent of each holder. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto and their respective successors and assigns permitted hereby) any legal or equitable right, remedy or claim under or by reason of this Agreement.

Section 19.2. Accounting Terms. All accounting terms used herein which are not expressly defined in this Agreement have the meanings respectively given to them in accordance with GAAP. Except as otherwise specifically provided herein, (a) all computations made pursuant to this Agreement shall be made in accordance with GAAP, and (b) all financial statements shall be prepared in accordance with GAAP. For purposes of determining compliance with the financial covenants contained in the Financing Agreements, if any, any election by the Company to measure Debt using fair value (as permitted by Financial Accounting Standards Board Accounting Standards Codification Topic No. 825-10-25 – *Fair Value Option*, International Accounting Standard 39 – *Financial Instruments: Recognition and Measurement* or any similar accounting standard) shall be disregarded and such determination shall be made as if such election had not been made and such Debt shall be valued at not less than 100% of the principal amount thereof.

Section 19.3. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 19.4. Construction, Etc. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

For the avoidance of doubt, all Schedules and Exhibits attached to this Agreement shall be deemed to be a part hereof.

Section 19.5. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

Section 19.6. Governing Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the Commonwealth of Pennsylvania excluding choice-of-law principles of the law of such State that would permit the application of the laws of a jurisdiction other than such State.

Section 19.7. Jurisdiction and Process; Waiver of Jury Trial. (a) The Company irrevocably submits to the non-exclusive jurisdiction of any Pennsylvania State or federal court sitting in Philadelphia, Pennsylvania, over any suit, action or proceeding arising out of or relating to this Agreement or the Bonds. To the fullest extent permitted by applicable law, the Company irrevocably waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the jurisdiction of any such court, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court

and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(b) The Company consents to process being served by or on behalf of any holder of Bonds in any suit, action or proceeding of the nature referred to in Section 19.7(a) by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, return receipt requested, to it at its address specified in Section 15 or at such other address of which such holder shall then have been notified pursuant to said Section. The Company agrees that such service upon receipt (i) shall be deemed in every respect effective service of process upon it in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by applicable law, be taken and held to be valid personal service upon and personal delivery to it. Notices hereunder shall be conclusively presumed received as evidenced by a delivery receipt furnished by the United States Postal Service or any reputable commercial delivery service.

(c) Nothing in this Section 19.7 shall affect the right of any holder of a Bond to serve process in any manner permitted by law, or limit any right that the holders of any of the Bonds may have to bring proceedings against the Company in the courts of any appropriate jurisdiction or to enforce in any lawful manner a judgment obtained in one jurisdiction in any other jurisdiction.

(d) The parties hereto hereby waive trial by jury in any action brought on or with respect to this Agreement, the Bonds or any other document executed in connection herewith or therewith.

Section 19.8. Payments Due on Non-Business Days. Anything in this Agreement or the Bonds to the contrary notwithstanding, any payment of principal of or Make-Whole Amount or interest on any Bond that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; provided that if the maturity date of any Bond is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day.

* * * * *

If you are in agreement with the foregoing, please sign the form of agreement on a counterpart of this Bond Purchase Agreement and return it to the Company, whereupon this Agreement shall become a binding agreement between you and the Company.

Very truly yours,

AQUA PENNSYLVANIA, INC.

By /s/ Daniel J. Schuller

Name: Daniel J. Schuller

Title: Executive Vice President and CFO

Accepted as of the date first written above.

ATHENE ANNUITY AND LIFE COMPANY

By: Athene Asset Management LLC, its investment adviser

By /s/ Roger D. Fors

Name: Roger D. Fors

Title: Senior Vice President, Fixed Income

ATHENE ANNUITY & LIFE ASSURANCE COMPANY

By: Athene Asset Management LLC, its investment adviser

By /s/ Roger D. Fors

Name: Roger D. Fors

Title: Senior Vice President, Fixed Income

Accepted as of the date first written above.

GENWORTH LIFE AND ANNUITY INSURANCE COMPANY

By /s/ Nikhil J. Jain
Name: Nikhil J. Jain
Title: Investment Officer

GENWORTH LIFE INSURANCE COMPANY

By /s/ Nikhil J. Jain
Name: Nikhil J. Jain
Title: Investment Officer

Accepted as of the date first written above.

JOHN HANCOCK LIFE INSURANCE COMPANY (U.S.A)

By /s/ Pradeep Killamsetty

Name: Pradeep Killamsetty

Title: Managing Director

JOHN HANCOCK LIFE INSURANCE COMPANY OF NEW
YORK

By /s/ Pradeep Killamsetty

Name: Pradeep Killamsetty

Title: Managing Director

JOHN HANCOCK LIFE & HEALTH INSURANCE COMPANY

By /s/ Pradeep Killamsetty

Name: Pradeep Killamsetty

Title: Managing Director

Accepted as of the date first written above.

METROPOLITAN LIFE INSURANCE COMPANY
By: MetLife Investment Advisors, LLC, Its Investment
Manager

METROPOLITAN TOWER LIFE INSURANCE COMPANY
By: MetLife Investment Advisors, LLC, Its Investment
Manager

METLIFE INSURANCE K.K.
By: MetLife Investment Advisors, LLC, Its Investment
Manager

By /s/ John A. Wills
Name: John A. Wills
Title: Managing Director

BRIGHTHOUSE LIFE INSURANCE COMPANY
By: MetLife Investment Advisors, LLC, Its Investment
Manager

By /s/ Judith A. Gulotta
Name: Judith A Gulotta
Title: Managing Director

Accepted as of the date first written above.

UNITED OF OMAHA LIFE INSURANCE COMPANY

By /s/ Lee Martin

Name: Lee Martin

Title: Vice President

Accepted as of the date first written above.

NEW YORK LIFE INSURANCE COMPANY

By /s/ Kimberly Stepanic
Name: Kimberly Stepanic
Title: Corporate Vice President

NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION
By: NYL Investors LLC, its Investment Manager

By /s/ Kimberly Stepanic
Name: Kimberly Stepanic
Title: Senior Director

NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION
INSTITUTIONALLY OWNED LIFE INSURANCE SEPARATE
ACCOUNT (BOLI 30C)
By: NYL Investors LLC, its Investment Manager

By /s/ Kimberly Stepanic
Name: Kimberly Stepanic
Title: Senior Director

NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION
INSTITUTIONALLY OWNED LIFE INSURANCE SEPARATE
ACCOUNT (BOLI 30E)
By: NYL Investors LLC, its Investment Manager

By /s/ Kimberly Stepanic
Name: Kimberly Stepanic
Title: Senior Director

Accepted as of the date first written above.

NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION
INSTITUTIONALLY OWNED LIFE INSURANCE SEPARATE
ACCOUNT (BOLI 3-2)
By: NYL Investors LLC, its Investment Manager

By /s/ Kimberly Stepanic
Name: Kimberly Stepanic
Title: Senior Director

Accepted as of the date first written above.

THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY
By: Northwestern Mutual Investment Management Company,
LLC, its Investment Adviser

By /s/ David A. Barras

Name: David A Barras

Title: Managing Director

THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY
For its Group Annuity Separate Account

By /s/ David A. Barras

Name: David A Barras

Title: Its Authorized Representative

Accepted as of the date first written above.

LIFE INSURANCE COMPANY OF THE SOUTHWEST

By /s/ Ken Weliczka
Name: Ken Weliczka
Title: Head of Private Credit Sentinel Asset Management,
Inc.

INFORMATION RELATING TO PURCHASERS

NAME OF AND ADDRESS
OF PURCHASER

SERIES
OF BONDS

PRINCIPAL AMOUNT OF BONDS
TO BE PURCHASED

SCHEDULE A
(to Bond Purchase Agreement)

DEFINED TERMS

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

“4.02% Series due 2049 Bonds” is defined in Section 1.

“4.07% Series due 2054 Bonds” is defined in Section 1.

“4.12% Series due 2059 Bonds” is defined in Section 1.

“4.09% Series due 2054 Bonds” is defined in Section 1.

“4.13% Series due 2058 Bonds” is defined in Section 1.

“4.14% Series due 2059 Bonds” is defined in Section 1.

“55th Supplement” is defined in Section 1.

“56th Supplement” is defined in Section 1.

“*Affiliate*” means, at any time, and with respect to any Person, any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person. As used in this definition, “Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an “*Affiliate*” is a reference to an Affiliate of the Company.

“*Agreement*” means this Bond Purchase Agreement, including all Schedules and Exhibits attached to this Agreement.

“*Anti-Corruption Laws*” means any law or regulation in a U.S. or any non-U.S. jurisdiction regarding bribery or any other corrupt activity, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act 2010.

“*Anti-Money Laundering Laws*” means any law or regulation in a U.S. or any non-U.S. jurisdiction regarding money laundering, drug trafficking, terrorist-related activities or other money laundering predicate crimes, including the Currency and Foreign Transactions Reporting Act of 1970 (otherwise known as the Bank Secrecy Act) and the USA Patriot Act.

“*Blocked Person*” means (a) a Person whose name appears on the list of Specially Designated Nationals and Blocked Persons published by OFAC, (b) a Person, entity, organization, country or regime that is blocked or a target of sanctions that have been imposed under U.S. Economic Sanctions Laws, or (c) a Person that is an agent, department or instrumentality of, or is otherwise beneficially owned by, controlled by or acting on behalf of, directly or indirectly, any Person, entity, organization, country or regime described in clause (a) or (b).

“*Bonds*” is defined in Section 1.

SCHEDULE B
(to Bond Purchase Agreement)

“*Business Day*” means for the purposes of any provision of this Agreement, any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York or Philadelphia, Pennsylvania are required or authorized to be closed.

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

“*Capital Lease Obligation*” means, with respect to any Person and a Capital Lease, the amount of the obligation of such Person as the lessee under such Capital Lease which would, in accordance with GAAP, appear as a liability on a balance sheet of such Person.

“*Closing*” is defined in Section 3.

“*Code*” means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

“*Company*” means Aqua Pennsylvania, Inc., a corporation existing under the laws of the Commonwealth of Pennsylvania.

“*Controlled Entity*” means any of the Subsidiaries of the Company and any of their or the Company’s respective Controlled Affiliates. As used in this definition, “*Control*” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“*Debt*” means, with respect to any Person, without duplication,

- (a) its liabilities for borrowed money;
- (b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable and other accrued liabilities arising in the ordinary course of business but including, without limitation, all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);
- (c) its Capital Lease Obligations;
- (d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);
- (e) all non-contingent liabilities in respect of reimbursement agreements or similar agreements in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions;
- (f) Swaps of such Person; and
- (g) Guaranties of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Debt of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

“*Default*” means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

“*Disclosure Documents*” is defined in Section 5.3.

“*EMMA*” is defined in Section 7.1(a).

“*Environmental Laws*” means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to Hazardous Materials.

“*ERISA*” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

“*ERISA Affiliate*” means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under section 414 of the Code.

“*Event of Default*” is an “event of default” as defined in the Indenture.

“*Financing Agreements*” means this Agreement, the Indenture (including without limitation the Supplements), and the Bonds.

“*First Closing*” is defined in Section 3.

“*First Closing Bonds*” is defined in Section 1.

“*GAAP*” means generally accepted accounting principles as in effect from time to time in the United States of America.

“*Governmental Authority*” means:

- (a) the government of
 - (i) the United States of America or any State or other political subdivision thereof, or
 - (ii) any other jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or
- (b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

“*Governmental Official*” means any governmental official or employee, employee of any government-owned or government-controlled entity, political party, any official of a political party, candidate for political office, official of any public international organization or anyone else acting in an official capacity.

“*Guaranty*” means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any Debt, dividend or other obligation of any other Person in any manner, whether directly or

indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such Debt or obligation or any property constituting security therefor primarily for the purpose of assuring the owner of such Debt or obligation of the ability of any other Person to make payment of the Debt or obligation;

(b) to advance or supply funds (i) for the purchase or payment of such Debt or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such Debt or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such Debt or obligation of the ability of any other Person to make payment of the Debt or obligation; or

(d) otherwise to assure the owner of such Debt or obligation against loss in respect thereof.

In any computation of the Debt or other liabilities of the obligor under any Guaranty, the Debt or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor, *provided* that the amount of such Debt outstanding for purposes of this Agreement shall not exceed the maximum amount of Debt that is the subject of such Guaranty.

“Hazardous Material” means any and all pollutants, toxic or hazardous wastes or other substances that might pose a hazard to health and safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage or filtration of which is or shall be restricted, prohibited or penalized by any applicable law including, but not limited to, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum, petroleum products, lead based paint, radon gas or similar restricted, prohibited or penalized substances.

“holder” is defined in the Indenture.

“Indenture” is defined in Section 1.

“Institutional Investor” means (a) any Purchaser of a Bond, (b) any holder of a Bond holding (together with one or more of its affiliates) more than 5% of the aggregate principal amount of the Bonds then outstanding, (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form, and (d) any Related Fund of any holder of any Bond.

“Lien” means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

“Make-Whole Amount” is defined in each Supplement.

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

“Material Adverse Effect” means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, (b) the ability of the Company to perform its obligations under this Agreement, the Bonds or the Indenture, or (c) the validity or enforceability of any Financing Agreement.

“Multiemployer Plan” means any Plan that is a *“multiemployer plan”* (as such term is defined in section 4001(a)(3) of ERISA).

“NAIC” means the National Association of Insurance Commissioners or any successor thereto.

“Non-U.S. Plan” means any plan, fund or other similar program that (a) is established or maintained outside the United States of America by the Company or any Subsidiary primarily for the benefit of employees of the Company or one or more Subsidiaries residing outside the United States of America, which plan, fund or other similar program provides, or results in, retirement income, a deferral of income in contemplation of retirement or payments to be made upon termination of employment, and (b) is not subject to ERISA or the Code.

“OFAC” means the Office of Foreign Assets Control of the United States Department of the Treasury.

“OFAC Sanctions Program” means any economic or trade sanction that OFAC is responsible for administering and enforcing. A list of OFAC Sanctions Programs may be found at <http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>.

“Officer’s Certificate” means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

“Original Indenture” is defined in Section 1.

“PBGC” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

“Permitted Liens” shall have the meaning assigned to such term in the Indenture.

“Person” means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, business entity or Governmental Authority.

“Plan” means an *“employee benefit plan”* (as defined in section 3(2) of ERISA) subject to Title I of ERISA that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

“property” or *“properties”* means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

“PTE” is defined in Section 6.2(a).

“Purchaser” is defined in the first paragraph of this Agreement.

“Related Fund” means, with respect to any holder of any Bond, any fund or entity that (i) invests in Securities or bank loans, and (ii) is advised or managed by such holder, the same investment advisor as such holder or by an affiliate of such holder or such investment advisor.

“Required Holders” means (i) at any time prior to the Second Closing, (x) the Purchasers of the Second Closing Bonds and (y) the holders of at least 51% in principal amount of the Bonds at the time outstanding (exclusive of Bonds then owned by the Company or any of its Affiliates); and (ii) at any time on or after the Second Closing, the holders of at least 51% in principal amount of the Bonds at the time outstanding (exclusive of Bonds then owned by the Company or any of its Affiliates).

“Responsible Officer” means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

“SEC” means the Securities and Exchange Commission of the United States, or any successor thereto.

“Second Closing” is defined in Section 3.

“Second Closing Bonds” is defined in Section 1.

“Securities” or *“Security”* shall have the meaning specified in Section 2(a)(1) of the Securities Act.

“Securities Act” means the Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

“Senior Financial Officer” means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

“Source” is defined in Section 6.2.

“State Sanctions List” means a list that is adopted by any state Governmental Authority within the United States of America pertaining to Persons that engage in investment or other commercial activities in Iran or any other country that is a target of economic sanctions imposed under U.S. Economic Sanctions Laws.

“Subsidiary” means, as to any Person, any other Person in which such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such second Person, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries (unless such partnership or joint venture can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a *“Subsidiary”* is a reference to a Subsidiary of the Company.

“Supplement” is defined in Section 1.

“SVO” means the Securities Valuation Office of the NAIC or any successor to such Office.

“Swaps” means, with respect to any Person, payment obligations with respect to interest rate swaps, currency swaps and similar obligations obligating such Person to make payments, whether periodically or upon the happening of a contingency. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended fiscal quarter of such Person, based on the assumption that such Swap had terminated at the end of such fiscal quarter, and in making such determination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

“Trust Estate” is defined in the Indenture.

“Trustee” is defined in Section 1.

“UCC” means, the Uniform Commercial Code as enacted and in effect from time to time in the state whose laws are treated as applying to the Trust Estate.

“USA Patriot Act” means United States Public Law 107-56, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

“U.S. Economic Sanctions Laws” means those laws, executive orders, enabling legislation or regulations administered and enforced by the United States pursuant to which economic sanctions have been imposed on any Person, entity, organization, country or regime, including the Trading with the Enemy Act, the International Emergency Economic Powers Act, the Iran Sanctions Act, the Sudan Accountability and Divestment Act, each as amended from time to time, and any other OFAC Sanctions Program.

**AQUA PENNSYLVANIA, INC.
SUBSIDIARIES OF THE COMPANY,
OWNERSHIP OF SUBSIDIARY STOCK**

Company Name	State of Incorporation	% of Ownership (Direct & Indirect)
Aqua Pennsylvania, Inc.	Pennsylvania	100%
1. Aqua Pennsylvania Wastewater, Inc.	Pennsylvania	100%
2. Honesdale Consolidated Water Company	Pennsylvania	100%
3. Superior Water Company	Pennsylvania	100%

SCHEDULE 5.4
(to Bond Purchase Agreement)

FINANCIAL STATEMENTS

1. Aqua Pennsylvania, Inc. Consolidated Financial Statements as of and for the years ended December 31, 2018, 2017 and 2016 (audited)
2. Aqua Pennsylvania, Inc. Report for Quarter Ended March 31, 2019

SCHEDULE 5.5
(to Bond Purchase Agreement)

SCHEDULE 5.15(a)
EXISTING DEBT
as of March 31, 2019

		Outstanding Balance
Unsecured Note	5.64%	5,466,000
Unsecured Note	5.64%	5,461,000
Unsecured Note	5.95%	10,000,000
Unsecured Note	5.95%	10,000,000
Unsecured Note	5.95%	10,000,000
Unsecured Note	5.95%	10,000,000
Bank Loan	2.48%	50,000,000
Bank Loan	3.50%	50,000,000
Total Unsecured Notes		150,927,000
Tax Exempt-Bond Premium		1,379,707
Tax Exempt-Bond Premium		229,324
Tax Exempt	5.00%	58,000,000
Tax Exempt-Bond Discount		(1,374,059)
Tax Exempt	5.00%	62,165,000
Tax Exempt-Bond Premium		425,306
Tax Exempt	4.75%	12,520,000
Tax Exempt-Bond Discount		(208,153)
Tax Exempt	5.00%	25,910,000
Tax Exempt	5.00%	19,270,000
Tax Exempt-Bond Discount		(87,064)
Tax Exempt	4.50%	15,000,000
Tax Exempt-Bond Discount		(453,600)
Tax Exempt	5.00%	81,205,000
Tax Exempt-Bond Premium		1,930,164
Total Tax Exempt Bonds		275,911,625
PennVest	2.711%	384,644
PennVest	2.547%	789,697
PennVest	2.547%	263,047
PennVest	2.690%	753,454
PennVest	2.547%	1,484,553
PennVest	2.547%	490,983
PennVest	1.510%	1,950,498
PennVest	1.000%	873,348
PennVest	4.047%	115,561
PennVest	3.631%	20,205
PennVest	4.047%	47,549
PennVest	3.552%	181,300
PennVest	1.349%	49,512
PennVest	3.631%	61,981
PennVest	4.050%	192,045
PennVest	3.030%	209,448

SCHEDULE 5.15(a)
(to Bond Purchase Agreement)

PennVest	3.460%	3,254,761
PennVest	3.468%	280,910
PennVest	2.774%	1,226,683
PennVest	4.047%	86,503
PennVest	3.790%	574,896
PennVest	3.810%	280,394
PennVest	3.430%	332,561
PennVest	2.774%	535,618
PennVest	3.470%	2,121,018
PennVest	3.468%	124,438
PennVest	3.195%	1,104,898
PennVest	2.556%	565,070
PennVest	2.554%	704,619
PennVest	2.547%	357,494
PennVest	3.046%	839,103
PennVest	2.547%	952,884
PennVest	2.547%	690,226
PennVest	2.547%	808,932
PennVest	3.143%	1,338,062
PennVest	2.547%	652,758
PennVest	1.000%	6,150,623
PennVest	3.330%	174,896
PennVest	2.730%	1,607,216
PennVest	2.668%	836,949
PennVest	2.547%	767,210
PennVest	1.000%	301,933
PennVest	2.774%	129,019
PennVest	2.774%	102,835
PennVest	3.052%	464,613
PennVest	3.468%	2,418,633
PennVest	2.774%	669,500
PennVest	1.156%	188,392
PennVest	2.774%	928,572
PennVest	3.365%	1,089,255
PennVest	2.547%	1,181,617

Total PennVest **41,710,914**

FMB	5.751%	15,000,000
FMB	5.751%	5,000,000
FMB	5.98%	3,000,000
FMB	6.06%	15,000,000
FMB	6.06%	5,000,000
FMB	7.72%	15,000,000
FMB	9.17%	1,200,000
FMB	9.29%	12,000,000
FMB	3.79%	40,000,000
FMB	3.80%	20,000,000
FMB	3.85%	20,000,000
FMB	3.94%	25,000,000
FMB	4.61%	25,000,000

FMB	4.62%	25,000,000
FMB	3.64%	25,000,000
FMB	4.01%	15,000,000
FMB	4.06%	13,000,000
FMB	4.11%	12,000,000
FMB	3.77%	65,000,000
FMB	3.82%	20,000,000
FMB	3.85%	25,000,000
FMB	4.16%	60,000,000
FMB	4.18%	20,000,000
FMB	4.20%	20,000,000
FMB	3.85%	25,000,000
FMB	3.95%	60,000,000
FMB	3.65%	10,000,000
FMB	3.69%	40,000,000
FMB	4.04%	40,000,000
FMB	4.06%	40,000,000
FMB	4.06%	35,000,000
FMB	4.07%	20,000,000
FMB	4.09%	20,000,000
FMB	3.99%	25,000,000
FMB	4.04%	10,000,000
FMB	4.09%	65,000,000
FMB	4.44%	65,000,000
FMB	4.49%	30,000,000
FMB	4.51%	30,000,000

Total First Mortgage Bonds

1,016,200,000

PennVest - Aqua PA WW	1.00%	29,529
PennVest - Aqua PA WW	1.16%	676,983
PennVest - Aqua PA WW	1.00%	538,142
PennVest - Aqua PA WW	1.00%	103,099
PennVest - Aqua PA WW	1.35%	36,573
PennVest - Aqua PA WW	2.77%	155,119

Total PennVest LWWW

1,539,445

Total Long Term Debt

\$ 1,486,288,985

PNC Revolver

32,563,367

Total Debt Aqua Pennsylvania

\$ 1,518,852,352

SCHEDULE 5.15(b)

**AQUA PENNSYLVANIA, INC. AND SUBSIDIARIES
DEBT ISSUANCE LIMITATIONS**

Indenture of Mortgage dated as of January 1, 1941 of Aqua Pennsylvania, Inc. as Supplemented and Amended

\$100 million Amended and Restated Credit Agreement among Aqua Pennsylvania, Inc. and PNC Bank, National Association as Agent dated as of November 15, 2018, as amended

Aqua Pennsylvania, Inc. \$40,000,000 5.95% Senior Notes dated March 31, 2006

Aqua Pennsylvania, Inc. \$10,927,000 5.64% Senior Notes dated September 29, 2006

\$50 million Term Loan Agreement among Aqua Pennsylvania, Inc. and PNC Bank, National Association as Agent and Dated as of September 28, 2017, as amended

\$50 million Term Loan Agreement among Aqua Pennsylvania, Inc. and PNC Bank, National Association as Agent and Dated as of May 4, 2018, as amended

SCHEDULE 5.15(b)
(to Bond Purchase Agreement)

FORM OF 55TH SUPPLEMENT

[SEE ATTACHED FIFTY-FIFTH SUPPLEMENTAL INDENTURE]

EXHIBIT A
(to Bond Purchase Agreement)

FORM OF 56TH SUPPLEMENT

[SEE ATTACHED FIFTY-SIXTH SUPPLEMENTAL INDENTURE]

EXHIBIT B
(to Bond Purchase Agreement)

**FORM OF OPINION OF GENERAL COUNSEL
TO THE COMPANY**

[SEE ATTACHED]

EXHIBIT 4.4(a)
(to Bond Purchase Agreement)

**FORM OF OPINION OF SPECIAL COUNSEL
TO THE COMPANY**

[SEE ATTACHED]

EXHIBIT 4.4(b)
(to Bond Purchase Agreement)

**FORM OF OPINION OF SPECIAL COUNSEL
TO THE PURCHASERS**

[DELIVERED TO PURCHASERS ONLY]

EXHIBIT 4.4(c)
(to Bond Purchase Agreement)

[FORM OF]

U.S. TAX COMPLIANCE CERTIFICATE

Reference is hereby made to the Bond Purchase Agreement dated as of May 31, 2019 (as amended, supplemented or otherwise modified from time to time, the "*Bond Purchase Agreement*"), among Aqua Pennsylvania, Inc., a corporation organized under the laws of the Commonwealth of Pennsylvania (the "*Company*") and the Purchasers that are signatories thereto.

Unless otherwise defined herein, capitalized terms defined in the Bond Purchase Agreement and used herein have the meanings given to them in the Bond Purchase Agreement.

Pursuant to the provisions of Section 12.4 (Tax Withholding) of the Bond Purchase Agreement, the undersigned hereby certifies that:

- (i) it is the sole record and beneficial owner of the Bonds in respect of which it is providing this certificate;
- (ii) it is not a bank within the meaning of Section 881(c)(3)(A) of the Code;
- (iii) it is not a ten percent shareholder of the Issuer within the meaning of Section 871(h)(3)(B) of the Code; and
- (iv) it is not a controlled foreign corporation related to the Issuer as described in Section 881(c)(3)(C) of the Code.

The undersigned has furnished the Issuer with a certificate of its non-U.S. Person status on IRS W-8BEN-E.

[Purchaser Name]

By: _____

Name:

Title:

Date: _____, 20[]

EXHIBIT 12.4
(to Bond Purchase Agreement)

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

I, Christopher H. Franklin, certify that:

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

/s/ Christopher H. Franklin
Christopher H. Franklin
President and Chief Executive Officer
August 8, 2019

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

I, Daniel J. Schuller, certify that:

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

/s/ Daniel J. Schuller

Daniel J. Schuller
Executive Vice President and Chief Financial Officer
August 8, 2019

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

In connection with the Quarterly Report on Form 10-Q for the period ended June 30, 2019 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher H. Franklin, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

/s/ Christopher H. Franklin
Christopher H. Franklin
President and Chief Executive Officer
August 8, 2019

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

In connection with the Quarterly Report on Form 10-Q for the period ended June 30, 2019 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel J. Schuller, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

/s/ Daniel J. Schuller
Daniel J. Schuller
Executive Vice President and Chief Financial Officer
August 8, 2019
